
Probiotec Annual Report 2009



We are pleased to report that your company had a very strong year—a year of record revenue, profit, cash flow and earnings per share. The big story in 2009 is that our consumer health brands are enabling us to capture the most attractive growth and profit opportunities in an ever expanding market nationally and internationally.

Probiotec is a leading developer, manufacturer and distributor of prescription and over-the-counter (OTC) pharmaceuticals and consumer health products in Australia and emerging global markets.

Our investment proposition is...

- > we operate in national and international markets with good long-term prospects
- > we are well placed to grow volume sales and expand market share by combining innovative products with competitive quality and pricing

We're creating value...

- > in 2009, revenue grew 31.9% to \$87.13million
- > profit before tax grew 41.8% to \$12.05 million

...but there's still much to do.

In this report we give you a sense of our progress and how we could generate more value, and what we are doing to make it happen.

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Probiotec Limited ABN 91 075 170 151

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Continuing strong performance

Overall a good year with exceptional growth

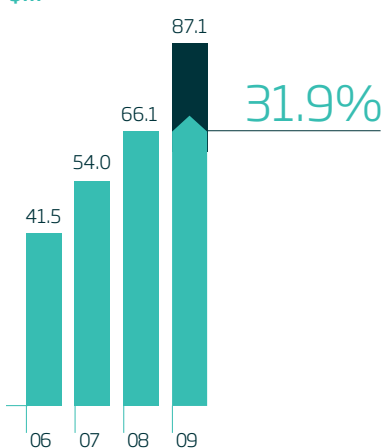
\$87.1m

up 31.9%

Revenue Year-on-year we have grown revenue with a 31.9% increase in FY2009. Over the past three years, revenue has more than doubled from \$41.5 million to \$87.1 million.

Revenue

\$m



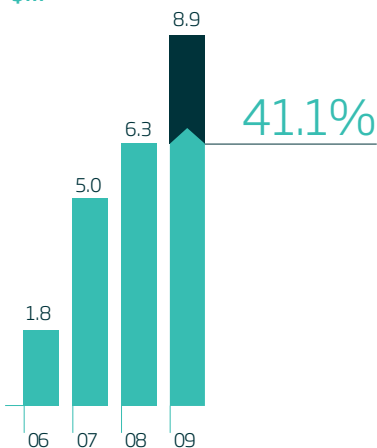
\$8.9m

up 41.1%

Net Profit After Tax Probiotec has once again achieved a record NPAT result with an increase of 41.1% on the prior corresponding period.

Net Profit After Tax

\$m



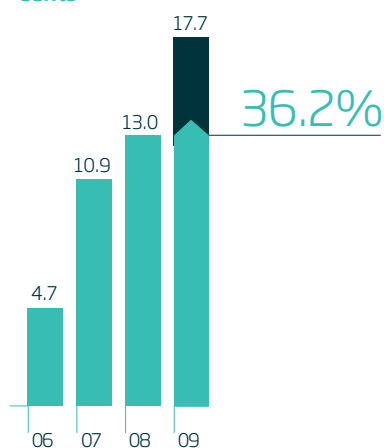
17.7¢

up 36.2%

Earnings per share In line with NPAT growth, EPS has grown by over 35% during FY2009. This growth demonstrates Probiotec's commitment to providing a strong return for its shareholders.

Earnings per share (EPS)

Cents



Probiotec is a manufacturer and distributor of prescription and over-the-counter pharmaceutical and consumer health products. We operate three divisions:

- > Main business: branded products division
- > Secondary divisions: contract manufacture and additives/nutritionals
- > Committed to research and innovation
- > Successfully developing a range of global markets

Branded products

76.7%

of 2009 revenue (2008: 60.8%)

Overview

As per its stated strategy, Probiotec continued to grow its proportion of revenue derived from its branded products during the year. Strong sales in all of the company's major brands were the key driver of the Group's revenue growth. The Group's Celebrity Slim range continued to achieve strong growth in sales as did the Slimmm and Biosource brands. This growth was supplemented by the launch of The Biggest Loser Meal Replacement range during the year, which has swiftly grown its sales and will provide a full year's contribution in FY2010. Strong contributions continue to be obtained from the Lomotil®, Lofenoxal® and Vermox® brands, which were acquired late in the 2007 financial year, in accordance with the company's expectations.

Operating Margins

As growth in the company's branded products gained momentum throughout the year, there was a marked expansion in the profitability margins earned by the company in FY2009 compared to the prior year. Gross margin improved from 42.6% in FY2008 to 50.8% in FY2009, while full year FY2009 NPAT margin was 10.2%, an increase from 9.5% in FY2008.

Along with the improvements in gross margins achieved from a growing proportion of revenue coming from branded products, the Group also improves the quality and security of its revenue and earnings streams.

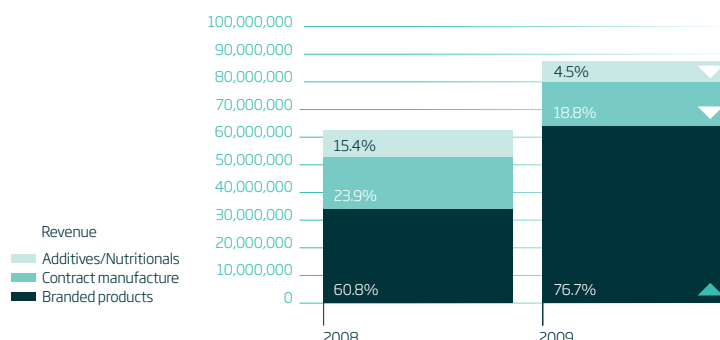
Developing export markets

Probiotec continued to materially expand its export activities during the year. In FY2009, further distribution agreements were entered into in New Zealand, Europe and Asia. Exported products, along with ongoing contracted sales continue to be made to these export markets.

Export sales activities have increased, particularly in relation to company owned and licensed brands and the Group will be continuing to aggressively pursue further distribution opportunities in the coming year as the Directors of Probiotec believe that this represents a major opportunity for continued future sales and earnings growth.

Gross Margin growth





Contract manufacture

18.8%

of 2009 revenue (2008: 23.9%)

Overview

The Group's contract manufacturing activities continued to experience strong growth throughout the year. This growth required the Group to invest in a range of additional manufacturing infrastructure and equipment to increase both capacity and capabilities. The majority of contract manufacturing activity was on behalf of major pharmaceutical companies, from which the Group continues to experience strong demand.

The testing, quality control and validation capabilities of the Group, coupled with the expansion of the pharmaceutical manufacturing plant have been major factors in expanding this business segment.

Revenue from contract manufacturing grew by 4.8% over the previous year and further growth in demand and turnover is forecast for FY2010.

Key developments in 2009

- During 2009, several new contracts commenced, which will provide a full year contribution in FY2010. Several further new contracts that were obtained during the year will come on line during FY2010.
- Upgraded facilities and equipment have resulted in improved capacity and capabilities, with excess capacity available to accommodate future growth.

Additives/Nutritionals

4.5%

of 2009 revenue (2008: 15.4%)

Overview

The nutritionals business line experienced a decline during the year. This decline was primarily caused by the drought conditions experienced in Australia, along with a worldwide shortage of materials, particularly in the dairy commodity area.

Operating margins

Operating margins were compressed due to the shortage of dairy based raw materials. If and when dairy material supply improves, Probiotec expects to achieve growth in both revenue and operating margins.

Focus for the future

The group is looking to increase the distribution of its animal nutrition products in the coming year with the forecast resultant growth to be supplemented by the development and release of a range of innovative new products. The Group is also undertaking a number of clinical trials incorporating its unique additive ingredients.

Our goal is to create shareholder value.

To achieve this we aim to:

1. Lead in the innovative development of consumer health products.
2. Grow revenues while improving margins.
3. Increase distribution levels in both domestic and international markets.

We have two strategic priorities

1.

Increase market competitiveness

Meeting customer expectations through price, quality, delivery and responsiveness of our products and service.

Developing an expanding range of next-generation products for our existing markets and leveraging our research, development, manufacturing and marketing expertise into new growth markets.

2.

Deliver operational excellence

Utilising our world-class manufacturing facilities to produce high quality products whilst continuously striving for improvements in cost and efficiency.

Capitalise on economies of scale and develop specialised manufacturing sites, both domestically and abroad, that are optimised for their purpose.

To implement our strategy successfully we need to be able to measure progress

Strategic priorities	Key performance indicators		Performance
1. Market competitiveness	Sales and marketing expenditure	We have invested in the future of our brands to ensure long term earnings growth through substantial marketing and advertising.	<div><div>06</div><div>07</div><div>08</div><div>09</div></div> <div><div>\$2.51m</div><div>\$3.36m</div><div>\$7.97m</div><div>\$15.05m</div></div>
Developing the product range	New product releases	Probiotec continues to develop and release innovative new products to improve the quality and breadth of our offering.	<div><div>06</div><div>07</div><div>08</div><div>09</div></div> <div><div>0</div><div>2</div><div>22</div><div>60</div></div>
2. Operational excellence	Operating margins	As Probiotec improves the quality of its earning streams and capitalises on economies of scale, we continue to increase our gross margins.	<div><div>06</div><div>07</div><div>08</div><div>09</div></div> <div><div>35.9%</div><div>37.4%</div><div>42.6%</div><div>50.8%</div></div>
	Cost of production	As we continue to strive towards improved manufacturing efficiency and performance our costs of goods sold continues to fall as a proportion of sales.	<div><div>06</div><div>07</div><div>08</div><div>09</div></div> <div><div>64.1%</div><div>62.6%</div><div>57.4%</div><div>49.2%</div></div>
	Employee retention	Probiotec believes that its employees are one of its most valuable assets and aims to maximise employee retention rates.	<div><div>06</div><div>07</div><div>08</div><div>09</div></div> <div><div>73.4%</div><div>76.7%</div><div>79.4%</div><div>86.6%</div></div>

Chairman and CEO's letter to shareholders

Dear fellow shareholders

On behalf of the Board of Directors and the Company, it is once again our pleasure to present to you this year's annual report. Considering all that has transpired in the commercial world through 2008-09, I think we can be most satisfied with the performance delivered by your company. We have continued the same trend that we reported on in the prior year's annual report, and the Company has delivered the growth this year, that was foreshadowed at that time.

A strong financial performance

The strong financial performance of the business has facilitated a steadily increasing dividend stream back to shareholders, whilst at the same time preserving cash within the business to assist in funding the rapid growth plans that the company is pursuing.

Key financial statistics and divisional performances have already been reported to shareholders via the ASX announcement of our annual results on 20 August 2009, and with more detail being provided within the Directors report that follows.

Suffice to say that the Board is most pleased with the headline numbers of 31.9% growth in revenues to \$87.133m and 41.1% growth in net profit after tax to \$8.901m, with earnings per share growth up 35.4% to 17.66cps.

Powerful organic growth

Pleasingly, the immediate growth projections for the business will emanate from the continued organic growth of our existing undertakings. The current and projected growth comes from both an expansion of the range of brands and products in our portfolio, as well



celebrity slim

A leading meal replacement program for people wanting to effectively manage their weight.

as an expansion in our geographic reach, achieved by introducing our range of much sought after retail products into an ever increasing number of countries.

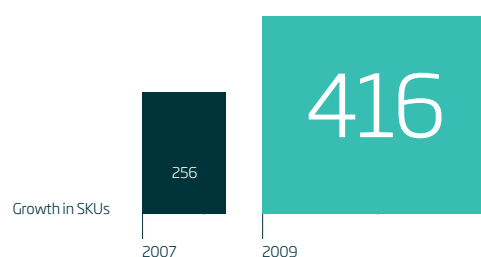
During the year under review, we achieved very successful retail market penetration into the major markets of the UK and Ireland and we have a minimum of at least two similar sized major markets where we will be launching in the year ahead. Beyond this, there is a long list of intended market roll outs which will sustain growth in the years ahead.

A diversity of business streams

The Company maintains a good diversity of business streams which ensures that it is not overly reliant on any one product or any one market. Sales of our well established Celebrity Slim range of weight loss products grew significantly in the year under review, and this business was augmented by the successful launch of the "Biggest Loser" range of weight loss products through the major Australian supermarket chains.

Much work continues in development of the "Biosource" preventative health care range, with new products added to the portfolio, and the intention to take this range to international markets in the year ahead.

Importantly the Company's pharmaceutical manufacturing activities also experienced strong business growth in the year under review, this business being for both our own branded products, as well as the contract manufacture of leading consumer brand products for major international pharmaceutical companies.



Ongoing investment in plant and equipment

Given the rapid growth in the Probiotec business in the few years since listing, it is not surprising that there has been a constant call on capital to upgrade the capabilities of our manufacturing facilities.

The rate of investment in plant and equipment is increasing as you might expect, with \$8.99m invested in the year under review making a total of \$13.3m over the last two years. This continued investment in plant and equipment will improve manufacturing efficiencies and capacity, as well as introducing several new manufacturing and packaging formats.

As important as the investment in hard assets, the Company has continued to invest significant dollars in product development and clinical research and development. Some \$2.1m was invested in the financial year 2009, with numerous new products presented to the market during the year, and with a healthy pipeline of potential new products scheduled for release in the years ahead.

To date, the Company has comfortably funded the level of investment required within the business from operating cash flows, with net debt at years end little changed from the prior year. However, after year end, the board of directors considered it prudent to complete a modest capital raising to support the intended future endeavours of the Group. Some \$12 million of new capital will support an intended program of land, building and plant acquisition, along with the investment required in expanding our international manufacturing and sales program. The capital raising that has been completed will ensure that our expansion plans for the foreseeable future will be funded whilst the Group still maintains a comfortable level of debt and gearing. All major lending covenants have improved over the course of the year.

Biosource

A premium range of vitamins, supplements and preventative health products developed by pharmacists that contain clinically researched ingredients.



The highly commendable performance of the business over the last twelve months is a testament to the intellect, passion, vision and dedication of the management team within the Company. The blend of skills and talents within the business compliment each other to produce the outcomes that the business has achieved and the outlook that sits ahead for the business. On behalf of the Board and shareholders, I would once again acknowledge the first rate contribution of all staff in the past, present and future success of the business and thank them for their efforts.

Considering the relatively few years since its initial public offering, the business has made significant strides in all facets of its performance and this has delivered shareholders significant wealth creation to date. We look forward with confidence to the years ahead for a continuation of this good corporate story.

Handwritten signature of Maurice Van Ryn in black ink.

Maurice Van Ryn
Chairman

Handwritten signature of Wayne Stringer in black ink.

Wayne Stringer
CEO

Probiotec: a growing portfolio of powerful brands in the healthcare sector

Building leadership brands

Probiotec believes in the value of its brands and invests heavily in them. We are committed to building brands that are strong, recognizable and trusted. By building these brands, we are able to attract and retain customers and build loyalty amongst our consumer base.

Probiotec is also able to leverage our product development capabilities to

release innovative new products under our recognised brands. By building brands that the consumer trusts, we are able to attract both existing loyal customers, along with new potential consumers to our ever expanding product ranges.

Probiotec believes that branded products represent the greatest growth potential for the Group. These products help

ensure longer term earnings security and provides the Group with the ability to have ownership and control over an expanding proportion of its revenue. The Group's strategy is to continue to focus on increasing the strength and prosperity of its brands in the future.

 <p>Biosource A premium range of vitamins, supplements and preventative health products developed by pharmacists that contain clinically researched ingredients.</p>	 <p>The Biggest Loser Club Meal Replacements A leading Meal Replacement range. Easy to follow, convenient program to help people to effectively manage their weight.</p>	 <p>Milton This leading antibacterial hygiene brand is the firm favourite for baby care, home and professional use.</p>
 <p>Gold Cross A range of effective traditional medicines and remedies for coughs & colds, skin care, arthritis & pain, wound management, as well as vitamin supplements and general medicines.</p>	 <p>David Craig Since 1942, the brand has been providing pharmacies galenical products (compounding materials and preparations) and skin care formulations of uncompromising quality</p>	 <p>celebrity slim The leading meal replacement program for people wanting to achieve and sustain a healthy weight level.</p>
 <p>Skin Basics This skincare brand delivers an excellent range of gentle, soap-free cleansing, moisturizing and protective formulations for everyday dry skin conditions.</p>	 <p>Lomotil Lomotil is a trusted range of anti-diarrheal products.</p>	 <p>Slimmm A nutritious, well balanced, scientifically based, effective weight management program.</p>

We are building a company of powerful, differentiated consumer health leadership brands, supported by a world-class infrastructure that is driving sustainable growth

The power of brands

Our strategy is entrenched in building our own brands. We believe it is a strategic platform to build shareholder value. Because great brands elicit an emotionally powerful response from the consumer. They are sustainable. And customers remain loyal to them.

Once we recognise a market opportunity, and develop a brand to fill it, we put the full force of the business behind it: research, clinical trials, manufacturing, marketing, merchandising, finance and distribution skills. And, once the concept has been tested, refined, and its potential proven, we move. In fact, no one moves faster.

A time-tested pipeline driving future earnings

Research

Our own laboratory and chemists

The combination of 40 qualified research, development and quality staff, along with a fully equipped TGA standard laboratory and state-of-the-art equipment provide the Group with the ideal platform for the research and development of innovative new products.

The existence of this sizeable full-time quality assurance and control resource means that Probiotec's incremental cost of development is minimised. On top of this, by utilizing 'in-house' resources and equipment, we are able to increase our speed to market.

Consistent quality is a must

Probiotec's commitment to quality is evident in the level of resources and expertise it devotes to this area. Our stringent quality procedures ensure that we do things right the first time, every time. This not only ensures that we produce products of the highest quality, but that we also do it efficiently and cost effectively.

Clinical trials

Clinical trials to drive differentiation

By conducting and completing successful clinical trials, Probiotec is able to prove the efficacy and safety of its products. This in turn enables the Group to make strong claims relating to the benefits of its products, which drives differentiation and enables our products to 'stand out from the crowd'.

Probiotec has, and continues to, invest heavily in clinical trials. The Group currently has six significant clinical trials in progress with several of these likely to be completed during FY2010. These trials are targeting a range of prevalent viruses, diseases and health issues, including:

- Cholesterol and high blood pressure;
- Colds and influenza;
- Weakened immune system;
- Cardiovascular issues, including heart disease.

\$3.63_m

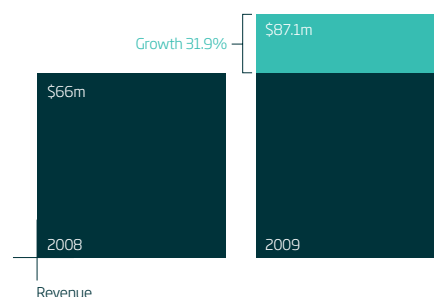
Investment in Research & Development in 2009

40

Research, development & quality staff

6 trials

Clinical trials being conducted for our own brands & products



Manufacture ► Market & distribute

World-class manufacturing facilities

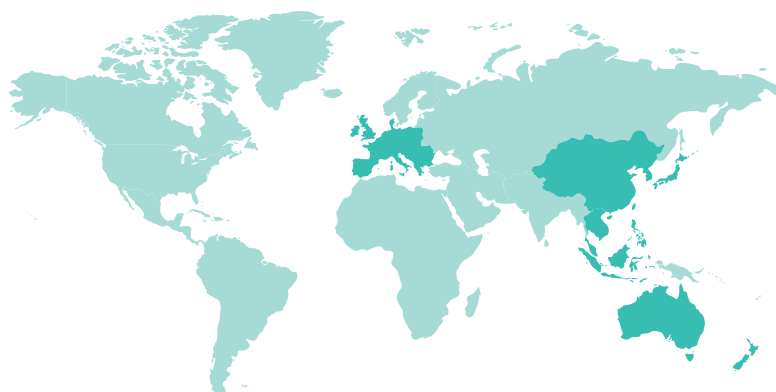
Probiotec has the infrastructure and expertise to cost effectively produce our wide range of products whilst still maintaining the highest standard of quality.

Multiple manufacturing locations

Probiotec has five specialised manufacturing facilities around Australia:

- Laverton, Victoria: A TGA licensed plant with the capability to produce pharmaceutical products up to and including schedule 8 drugs.
- South Nowra, NSW: An AQIS registered high volume blending and packaging plant for the production of the Group's weight management, human and animal nutrition products.
- Bomaderry NSW & Bundaberg QLD: AQIS registered plants for the production of additive and nutritional products for use in functional food applications.
- Malanda, QLD: 50% joint venture for the extraction of high purity dairy proteins.

Selling into AUSTRALIA, NEW ZEALAND, ASIA, EUROPE



New Opportunities, driving existing brands and developing new brands

By increasing our domestic and international distribution channels, Probiotec is able to:

- increase sales of our existing product ranges by utilizing this increased distribution;
- grow brand equity and awareness; and
- Leverage this increased distribution via the expansion of our product ranges.

Meeting growing export demand

Our quality, regulatory and product development expertise allow Probiotec to quickly respond to the needs and requirements of our export customers. Our manufacturing capabilities and capacities have the Group ideally placed to meet the growing demand from our export customers.

5 plants

Manufacturing plants located in Australia

416 SKUs

An increase of 63% in past two years

185%

Growth in export sales in 2009

We operate in markets that offer excellent growth opportunities.

The key points are:

1. The health care sector is growing.
2. Expanding export market opportunities.

Why our markets are attractive?

More and more people are concerned about their health

The combination of an ageing population combined with the government's focus on decreasing the public health spend has resulted in people becoming more and more conscious of their health.

Australia's population, like that of most developed countries, is ageing. In the decade ended 30 June 2008, the median age of Australia's population increased by 16.8% with the proportion of people aged over 65 increasing to 13.3% of the total population¹. The result of this ageing population is a greater demand for healthcare services and products, which results in a greater funding requirement from the government.

Probiotec is well placed to take advantage of this increase in demand and we believe that our weight management and preventative health ranges are the two key growth categories for the future.

As health specialists we can dominate specific categories

We believe we are ideally placed to dominate specific categories with a specific focus on the weight management and preventative health markets.

Most traditional pharmaceuticals focus on waiting until your health is compromised and then attempting to relieve the symptoms and then correct or manage the underlying issue. In contrast, our newly developed Biosource range, along with our unique manufactured active ingredients, focus on preventing illness by strengthening the body's immune system. We believe that this is a critical growth category as it not only improves the overall health and wellness of the consumer but also has the potential to dramatically reduce the government health spend.

Our other key focus is the weight management category. As a leader in the Meal Replacement market with a number of strong brands and product ranges, Probiotec is well placed to combat the

current obesity crisis facing Australia and the rest of the world. In 2008, the total annual cost of obesity in Australia was estimated to be around \$58 billion². Probiotec's current weight loss ranges, combined with a number of new products under development and the subject of clinical trials, give the Group the opportunity to become a market leader in the weight management category.

We're focused on what we can do to build our brands

By continuously striving to improve the quality, efficacy and range of our offering, Probiotec is building a reputation as a reputable and trusted provider of pharmaceutical and consumer health products.

The significant level of resources which are devoted to quality, research and development, operating in conjunction with our experienced marketing team, give the group the ability to rapidly increase our brand awareness, presence and equity.



Milton

This leading antibacterial hygiene brand is the firm favourite for baby care, home and professional use.

¹ Source: Australian Bureau of Statistic, Population by Age and Sex 2008. Available online: <http://www.abs.gov.au/Ausstats/abs@.nsf/mf/3201.0>

² Source: Australian Bureau of Statistic, Australian Social Trends, 2008. Available online: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features20Sep+2009>

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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 'Corporate Governance Principles and Recommendations' published in August 2007 by the Australian Securities Exchange's Corporate Governance Council, 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. 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 2009.

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 and 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

Corporate Governance (continued)

- making recommendations for the appointment of senior management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles.

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 three Non-executive Directors and one 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 each of the Board Committees.

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 Buckridge and Richard Kuo is independent.

Meetings of the Board and their conduct

The Board meets formally approximately nine 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 undertakes regular and 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 includes 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.

Corporate Governance (continued)

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

Corporate Governance (continued)

of management with ARM members being able to contact the external auditor directly at any time.

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 Quality Control Manager 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 two Non-executive, independent Directors who possess an understanding of the industry in which Probiotec operates: Richard Kuo (Chairman) (who is financially literate) 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: Maurice Van Ryn (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.

Corporate Governance (continued)

Engagement and rotation of external auditor

Probiotec's independent external auditor is BDO Kendalls Audit and Assurance (NSW-VIC) Pty Ltd (BDO). BDO were appointed by shareholders at the 2007 Annual General Meeting 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 no longer than 5 years. The present lead BDO partner for Probiotec's audit is Nicholas Burne. 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;

Corporate Governance (continued)

- 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 Quality Assurance Manager to the Chairman.

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 explicitly 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; and
- Corporate Social Responsibility policy.

Corporate Governance (continued)

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 Quality Control Manager 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 Quality Assurance Manager 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.

Market disclosure policy and practices

Probiotec is committed to giving all shareholders equal access to material information about our activities, and to fulfill 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.

Directors' Report

The directors submit the financial report of Probiotec Limited and its controlled entities for the financial year ended 30 June 2009.

Directors

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

Maurice Van Ryn	Chairman
Charles Wayne Stringer	Executive Director
Graham Harry Buckeridge	Non-Executive Director
Richard David Kuo	Non-Executive Director

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

Company Secretary

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

Jared Stringer

The Company Secretary has been in office to the date of this report unless otherwise stated.

Principal Activities

The Group's principal activity in the course of the financial year was 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 \$8,900,922 (2008: profit of \$6,309,098).

Dividends

The directors declared an interim dividend of 1.25 cents per fully paid ordinary share on 18 February 2009, which was paid on 27 March 2009. On 20 August 2009, the directors declared that a final dividend of 2.0 cents per fully paid ordinary share, fully franked and payable on 1 October 2009. The dividend will be payable to shareholders of record on 3 September 2009.

Review of operations

The Group's sales revenue for the period was \$87,133,035 representing an increase of 31.9 percent compared to the prior corresponding period's sales revenue of \$66,068,479. The Group's net profit attributable to members for the financial year was \$8,900,922, which represents an increase of 41.1% over the previous financial year of \$6,309,098. The Group achieved strong sales growth in its pharmaceutical and

consumer health segment while experiencing a decline in the nutritional/nutraceutical segment. Growth in animal nutrition products was offset by a larger decline in ingredient product sales, which were negatively impacted by the effect of drought conditions in Australia, resulting in certain product supply shortages.

The Group's pharmaceutical and consumer health segment, comprising Group owned pharmaceutical products, licensed pharmaceutical products, contract manufacturing and additive products, generated sales of \$78,310,417 in the 2009 year, an increase of 60.6% from \$48,771,649 in 2008. The Group's nutritional/nutraceutical business segment generated sales of \$8,822,619 in the 2009 year, a decrease of 49.0% from \$17,296,830 in 2008.

For the year ended 30 June 2009, the group generated \$9,010,295 in cash flow from operating activities, an increase of 9.8% over the 2008 year. This cashflow has been used to fund the ongoing growth of the Group. During the year, significant investment was made in the acquisition of property, plant and equipment and increases in working capital. The increase in working capital is primarily due to higher levels of inventory to support increased levels of business activity, including the continued introduction of new products and the expected increase in sales. During the year the Group invested \$8,991,257 in upgrading property, plant and equipment and in new product development.

Total interest bearing liabilities, net of cash, as at 30 June 2009 was \$27,335,125 a modest increase of 2.75% from the same date in the previous year. Interest cover based on EBIT has increased from 4.96 times in the year to 30 June 2008, to 6.80 times in the year to 30 June 2009. The Group's gearing ratio reduced as at 30 June 2009 to 54.1%, down from 55.6% at the same date in the previous year (see Note 24(a) for further details). The Directors continue to consider that, as the Group can comfortably service its debt obligations and during the year renegotiated its banking facilities on more favourable terms, shareholder value can be more effectively increased by maintaining a responsible level of gearing in the Group.

The Group continued its success in growing its range of owned branded products. The sales of Celebrity Slim branded range of weight loss products grew significantly in the year to 30 June 2009 as brand recognition increased and further product extensions were introduced into the market. The directors believe that the prospects for the weight loss segment will continue to offer a range of opportunities for the Group's product development capabilities. The Biosource preventative health range, which was launched late in the

Directors' Report (continued)

2008 financial year, has continued to expand its product offering with the release of several new products during the 2009 financial year. The directors are confident that this brand will continue to grow as both the range and distribution channels of these products continues to expand.

The Group's pharmaceutical manufacturing activities, both in respect of its own products and products of other pharmaceutical companies, continued to experience strong growth throughout the year. This growth required the Group to invest in a range of additional manufacturing infrastructure and equipment to increase both capacity and capabilities. The majority of contract manufacturing activity was on behalf of major pharmaceutical companies, from which the Group continues to experience strong demand. The testing, quality control and validation capabilities of the Group, coupled with the expansion of the pharmaceutical manufacturing plant have been major factors in expanding this business segment.

The nutritionals business line experienced a decline during the year. This decline was primarily caused by the drought conditions experienced in Australia, along with a worldwide shortage of materials, particularly in the dairy commodity area.

Significant Changes in State of Affairs

Significant changes in the state of affairs of the Group comprised the growth in the scale of the Group's activities, as described in the Review of Operations.

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 2009.

Significant After Balance Date Events

On 23 September 2009, the Group completed a fully underwritten capital raising of \$11.985 million to provide it with greater balance sheet flexibility as it continues to expand its international distribution capacity.

Under the capital raising 4,700,000 million new fully paid ordinary shares were issued to institutional investors at \$2.55 per share

Funds raised from the capital raising will be used to reduce the Group's pro-forma net debt at 30 June 2009, after costs associated with the capital raising from \$27.3m to \$15.7m, resulting in a reduction of Probiotec's pro-forma gearing falling from 54% to 43%.

This increased balance sheet flexibility will allow the Group to continue its expansion of own-branded products internationally and domestically as well as take advantage of other strategic opportunities that may arise.

There has not been any other 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. Growth will be achieved both organically, by exploiting its existing products, particularly in international markets, and through the development and exploitation of new products, and potentially by acquisitions of new products or synergistic businesses on appropriate terms. The foundation for decisions in these initiatives will be based primarily on growing both profitability and cashflow of the Group which, the directors consider, is the most appropriate way to continue to grow shareholder value.

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 monitor 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 6 of the Directors Report.

Directors' Report (continued)

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 2009, 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	11	10	2	2	1	1
Charles Wayne Stringer	11	10	–	–	–	–
Graham Harry Buckeridge	11	11	–	–	1	1
Richard David Kuo	11	11	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	– Chairman (Non-executive)
Qualifications	– Bachelor of Business (RMIT), CPA
Experience	– Appointed Chairman in July 2006. Previously held the position of CEO of Bega Cheese and is currently Bega Cheese's General Manager – Sales and Marketing. Maurice has 29 years experience in direct management of food companies in the Australian manufacturing sector.
Special Responsibilities	– Chairman of the Remuneration and Nominations Committee
Other Directorships	– Non-executive Director of Medical Development International Limited (since October 2003).

Graham Harry Buckeridge

Role	– Non-Executive Director
Qualifications	– Dip Bus, ASA, FFIN
Experience	– 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.
Special Responsibilities	– Member of Remuneration and Nominations Committee
Other Directorships	– Executive Director of BG Capital Corp Limited – Executive Chairman of Abacus Film Fund

Directors' Report (continued)

Richard David Kuo

Role	– Non-Executive Director
Qualifications	– B.Com, LLB, MAICD
Experience	– Holds Commerce and Law degrees with post graduate qualifications in applied finance and investment. Brings with him 23 years experience in law, investment banking and corporate strategy. Currently jointly manages Pier Capital, a privately owned investment banking firm which provides corporate advice to a broad range of corporations and has extensive experience in mergers and acquisitions, capital markets and strategic planning.
Special Responsibilities	– Responsibilities include Chairman of the Audit and Risk Management Committee.
Other Directorships	– Nil

Charles Wayne Stringer

Role	– Chief Executive Officer (Executive Director)
Qualifications	– Dip. Bus, ACA
Experience	– 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.
Special Responsibilities	– Responsibilities include strategic management, remuneration and operational oversight.
Other Directorships	– Nil

Jared Stringer

Role	– Company Secretary
Qualifications	– B.Comm (Accounting, Finance), BIT, CPA
Experience	– Began employment with Probiotec in 2002 and accepted role of Financial Accountant in May 2005.
Special Responsibilities	– None
Other Directorships	– Nil

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 \$34,000.

Remuneration Report

This report is prepared in accordance with section 300A of the *Corporations Act 2001* for the Group for the financial year ended 30 June 2009. 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 fulfil 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 Quality Control Manager's teams and the Company Secretary. Committee members receive continuous training.

Members of Remuneration and Nominations Committee

	Position	Appointed
Maurice Van Ryn	Chairman	28 July 2006
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 \$176,083. 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 2009 financial year are set out on page 22 of this report.

Remuneration Report (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 income 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.

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.

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 5 November 2008, or by the issue of shares under the company's Employee Share Plan, which was also adopted by members on 5 November 2008. 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 is the only executive director of Probiotec Limited. Mr. Stringer is paid a fixed annual remuneration. Along with his fixed annual remuneration, Mr. 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.

Termination Arrangements

All key management personnel are employed subject to employment contracts. 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.

Given the performance of the company and its share price since listing on the Australian Stock Exchange (ASX) on 14 November 2006, the board is satisfied that the remuneration policies have been effective in increasing shareholder wealth. The table below illustrates the consistent growth achieved by Probiotec over the past several years.

Remuneration Report (continued)

Table 1: Probiotec performance history

	Half Year Ended 30 Jun 06 \$'000	Half Year Ended 31 Dec 06 \$'000	Half Year Ended 30 Jun 07 \$'000	Half Year Ended 31 Dec 07 \$'000	Half Year Ended 30 Jun 08 \$'000	Half Year Ended 31 Dec 08 \$'000	Half Year Ended 30 Jun 09 \$'000
Revenue	22,496	23,652	30,340	32,811	33,009	46,462	40,671
EBITDA	3,878	3,950	5,764	5,524	7,095	8,230	8,737
NPAT	1,353	1,422	3,556	2,460	3,849	4,268	4,633
Share Price	1.00*	1.14	1.20	1.36	1.35	1.49	2.10

* No share price was available as at 30 June 2006, share price shown illustrates price at which the company listed at the time of its Initial Public Offering (IPO) on 14 November 2006.

3. Review of Remuneration

The Remuneration and Nominations Committee meets twice yearly 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 will have no voting rights and must not be present during discussions on his own remuneration.

4. Remuneration details of Directors & 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	Non-executive chairman
Richard David Kuo	Non-executive director
Graham Harry Buckeridge	Non-executive director
Charles Wayne Stringer	Executive director

Remuneration Report (continued)

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:

Name	Position	Employer
Alan Hong	Chief Financial Officer	Probiotec Limited
Mark Chatfield	GM – Sales & Marketing	Probiotec Limited
Wes Stringer	Chief Operating Officer	Probiotec Limited
Matthew Dalton	National sales manager	Biotech Pharmaceuticals Pty Ltd
Dusty Stringer	GM – Europe	Probiotec Limited
David McClure	GM – Supply Chain	Probiotec Limited
Humera Ahmad	GM – Quality	Probiotec Pharma Pty Ltd

The following persons, who were considered Key Management Personnel during the financial year ended 30 June 2008, were not considered Key Management Personnel during this financial year:

Name	Position	Employer
Rudi Ganter	GM – Research & Technical	Probiotec Limited

The following persons, who were not considered Key Management Personnel during the financial year ended 30 June 2008, were considered Key Management Personnel during this financial year:

Name	Position	Employer
Dusty Stringer	GM – Europe	Probiotec Limited
David McClure	GM – Supply Chain	Probiotec Limited

Remuneration Report (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:

Table 2: Directors & Key Management Personnel Remuneration details

		Short-Term Benefits			Post Employment Benefits	Equity-Based Benefits	Total \$	Proportion of Remuneration that is performance based %
Position		Salary, Fees & Commissions \$	Short Term Incentives \$	Non-Cash Benefits \$	Super-annuation Contribution	Shares & Options \$		
2009 Directors & Secretaries								
Maurice Van Ryn	Chairman	68,425	0	0	6,158	0	74,583	0
Charles Wayne Stringer	CEO/Managing Director	448,084	0	0	51,915	72,743	572,742	12.7
Richard David Kuo	Non-Executive Director	54,167	0	0	0	0	54,167	0
Graham Henry Buckeridge	Non-Executive Director	47,333	0	0	0	0	47,333	0
Jared Stringer	Secretary	112,767	0	0	10,149	4,229	127,145	3.3
		730,776	0	0	68,222	76,972	875,970	
Key Management Personnel								
Alan Hong	Chief Financial Officer	103,261	0	0	22,374	7,940	133,575	5.9
Mark Chatfield	GM – Sales & Marketing	89,866	0	12,505	9,040	10,912	122,323	8.9
David McClure	GM – Supply Chain	132,716	0	0	11,944	7,635	152,295	5.0
Dustin Stringer	GM – Europe	149,883	0	0	13,490	7,917	171,290	4.6
Wes Stringer	Chief Operating Officer	146,644	0	11,108	13,198	14,756	185,706	7.9
Humera Ahmad	GM – Quality	115,245	0	8,841	30,788	7,940	162,814	4.9
Matthew Dalton	GM – Brands	135,791	0	6,401	12,624	7,744	162,560	4.8
		873,406	0	38,855	113,458	64,844	1,090,563	

Remuneration Report (continued)

		Short-Term Benefits			Post Employment Benefits	Equity-Based Benefits		
		Salary, Fees & Commissions \$	Short Term Incentives \$	Non-Cash Benefits \$	Super-annuation Contribution	Shares & Options \$	Total \$	Proportion of Remuneration that is performance based %
Position								
2008								
Directors & Secretaries								
Maurice Van Ryn	Chairman	58,921	0	0	5,303	0	64,224	0
Charles Wayne Stringer	CEO/Managing Director	438,568	0	0	61,430	12,783	512,781	2.5
Richard David Kuo	Non-Executive Director	50,000	0	0	0	0	50,000	0
Graham Henry Buckeridge	Non-Executive Director	0	0	0	39,998	0	39,998	0
Jared Stringer	Secretary	85,314	0	0	7,956	4,229	97,499	4.34
Chris Blake	Secretary	0	0	0	29,232	9,720	38,952	25.0
		632,803	0	0	143,919	26,732	803,454	
Key Management Personnel								
Alan Hong	Chief Financial Officer	99,306	0	0	22,147	6,421	127,874	5.0
Mark Chatfield	GM Sales & Marketing	78,363	0	19,184	11,389	9,012	117,948	7.6
Rudi Ganter	Technical/ R&D Manager	148,247	0	0	0	0	148,247	0
David Erasmus	Engineering Manager	111,232	0	19,500	11,766	3,237	145,735	2.2
Wes Stringer	Chief Operating Officer	141,329	0	0	12,720	10,956	165,005	6.6
Humera Ahmad	GM Quality	104,456	0	18,000	25,076	6,421	153,953	4.2
Peter Foley	Nutritionals Sales Manager	96,712	0	0	8,704	6,974	112,390	6.2
Matthew Dalton	National Sales Manager	106,983	0	21,150	11,532	4,705	144,370	3.3
		886,628	0	77,834	103,334	47,726	1,115,522	

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

Remuneration Report (continued)

Options issued to Chief Executive Officer (CEO)

The CEO was appointed in the year 1997. As part of the CEO's remuneration package, options are granted upon the achievement of certain performance targets as set out below. These options are either governed by the Probiotec Limited Exempt Share and Option Plan and vest at the completion of three years of employment from the grant date or are on terms and conditions approved by members in a general meeting. If the CEO resigns prior to the vesting date of the options then the options will be forfeited.

The CEO's contract of employment entitles him to share options in accordance with the Exempt Share and Option Plan and such options shall be exercisable at \$1.00 for each fully paid ordinary share during the applicable Exercise Period on the terms set forth below

- (a) If Probiotec Limited achieves a NPAT of \$4.3 million for the financial year ending 30 June 2007 then effective 1 July 2007 the CEO will be granted 400,000 options for fully paid ordinary shares.
- (b) If Probiotec Limited achieves a minimum growth of 10% in EPS for the financial year ending 30 June 2008 then effective 1 July 2008 the CEO will be granted 400,000 options for fully paid ordinary shares.
- (c) If Probiotec Limited achieves a minimum growth of 10% in EPS for the financial year ending 30 June 2009 over the 08 financial year then effective 1 July 2009 the CEO will be granted 400,000 options for fully paid ordinary shares.
- (d) If at 30 June 2009 Probiotec Limited has achieved a NPAT of \$4.3 million for the financial year 2006/2007 and has achieved EPS growth of 20% between the period 1 July 2007 and 30 June 2009 then effective 1 July 2009 the CEO will be granted 300,000 options for fully paid ordinary shares.
- (e) Terms (a), (b), (c) and (d) will be measured excluding any effects related to the NSI Dental Pty Ltd legal case.

On 5 November 2008, the issue of 1,500,00 options to the CEO was approved at a general meeting on the terms set forth below

The 1,500,000 options vest as follows:

- (a) 500,000 options with an exercise price of \$1.50 per share, if the Company's earnings per share (EPS) increases by at least 10% during the financial year ending 30 June 2010 (**2010 Options**);
- (b) 500,000 options with an exercise price of \$1.75 per share, if the Company's EPS increases by at least 10% during the financial year ending 30 June 2011 (**2011 Options**);
- (c) 500,000 options with an exercise price of \$2.00 per share, if the Company's EPS increases by at least 10% during the financial year ending 30 June 2012 (**2012 Options**);
- (d) Options not vesting as 2010 Options, 2011 Options or 2012 Options do not lapse, but may still vest in 2012 with an exercise price of \$2.00 per share if in the 3 year period from 1 July 2009 to 30 June 2012, the Company's EPS has increased by at least 30% (**First Shortfall Options**),
- (e) Options not vesting as 2010 Option, 2011 Options, 2012 Options or First Shortfall Options do not lapse, but may still vest in 2012 with an exercise price of \$2.00 per share if in the 4 year period from 1 July 2008 to 30 June 2012, the Company's EPS has increased by at least 65% (**Second Shortfall Options**),

Regardless of when they vest, the options must be exercised by no later than 30 June 2013.

Remuneration Report (continued)

CEO Employment options

Name	Grant date	Vesting date	Exercise price (\$)	Balance at start of the year number	Options granted during the year number	Fair value per option at grant Date (\$)
Charles Wayne Stringer	01.07.2007	30.06.2010	1.00	400,000	–	0.13
	01.07.2008	30.06.2011	1.00	–	400,000	0.14
	05.11.2008	30.06.2010	1.50	–	500,000	0.31
	05.11.2008	30.06.2011	1.75	–	500,000	0.26
	05.11.2008	30.06.2012	2.00	–	500,000	0.22
				400,000	1,900,000	

No options were exercised, forfeited or lapsed during the year ended 30 June 2009.

The fair value at grant date of the options issued to the CEO 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: 38%

Risk-free interest rate: 5.7% for options granted on 01.07.2007 and 01.07.2008, 7.9% for options granted on 05.11.2008.

Vesting period: 3 years

Projected dividend yield: 4%

Share price: weighted average share price for 5 trading days preceding grant date.

The expected volatility during the term of the options was based around assessments of the volatility of similar-sized listed entities and entities in similar industries. The value of the options has been expensed to remuneration on a proportionate basis over the period from the grant date to the vesting date.

Remuneration Report (continued)

5. Interest in shares & options¹

The number of shares and options¹ held by directors and key management personnel is as follows:

Table 3: Interest in Shares & options¹ of Directors and Key Management Personnel

Name	No. of fully paid ordinary shares	Grant date	Vesting date	Exercise price	Balance at start of the year number	Options ¹ granted during the year number	Options ¹ vested during the year number	Balance vested at end of the year number	Balance unvested at end of the year number*	Fair value per option ¹ at grant date
Maurice Van Ryn	377,502	–	–	–	–	–	–	–	–	–
Richard David Kuo	101,423	–	–	–	–	–	–	–	–	–
Graham Henry Buckeridge	1,818,684	–	–	–	–	–	–	–	–	–
Charles Wayne Stringer	8,035,954	01.7.2007	30.6.2010	\$1.00	400,000	–	–	–	400,000	\$0.13
		01.7.2008	30.6.2011	\$1.00	–	400,000	–	–	400,000	\$0.14
		05.11.2008	30.6.2010	\$1.50	–	500,000	–	–	500,000	\$0.31
		05.11.2008	30.6.2011	\$1.75	–	500,000	–	–	500,000	\$0.26
		05.11.2008	30.6.2012	\$2.00	–	500,000	–	–	500,000	\$0.22
Wesley Stringer	312,811	30.6.2006	30.6.2009	\$0.80	187,503	–	187,503	187,503	–	\$0.21
		01.7.2007	30.6.2010	\$1.50	25,000	25,000	–	–	25,000	\$0.20
		01.7.2008	30.6.2011	\$1.50	–	50,000	–	–	50,000	\$0.30
		30.6.2009	30.6.2012	\$2.35	–	60,000	–	–	60,000	\$0.54
Dustin Stringer	77,000	30.6.2006	30.6.2009	\$0.80	75,001	–	75,001	75,001	–	\$0.21
		01.7.2007	30.6.2010	\$1.50	20,000	–	–	–	20,000	\$0.20
		01.7.2008	30.6.2011	\$1.50	–	40,000	–	–	40,000	\$0.30
		30.6.2009	30.6.2012	\$2.35	–	60,000	–	–	60,000	\$0.54
Mark Chatfield	–	30.6.2006	30.6.2009	\$0.80	150,003	–	150,003	150,003	–	\$0.21
		01.7.2007	30.6.2010	\$1.50	25,000	–	–	–	25,000	\$0.20
		01.7.2008	30.6.2011	\$1.50	–	25,000	–	–	25,000	\$0.30
		30.6.2009	30.6.2012	\$2.35	–	25,000	–	–	25,000	\$0.54
Humera Ahmad	5,128	30.6.2006	30.6.2009	\$0.80	100,002	–	100,002	100,002	–	\$0.21
		01.7.2007	30.6.2010	\$1.50	25,000	–	–	–	25,000	\$0.20
		01.7.2008	30.6.2011	\$1.50	–	20,000	–	–	20,000	\$0.30
		30.6.2009	30.6.2012	\$2.35	–	15,000	–	–	15,000	\$0.54

¹ The term Option in this table 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.

Remuneration Report (continued)

Name	No. of fully paid ordinary shares	Grant date	Vesting date	Exercise price	Balance at start of the year number	Options ¹ granted during the year number	Options ¹ vested during the year number	Balance vested at end of the year number	Balance unvested at end of the year number*	Fair value per option ¹ at grant date
Alan Hong	1,000	30.6.2006	30.6.2009	\$0.80	100,002	–	100,002	100,002	–	\$0.21
		01.7.2007	30.6.2010	\$1.50	25,000	25,000	–	–	25,000	\$0.20
		01.7.2008	30.6.2011	\$1.50	–	20,000	–	–	20,000	\$0.30
		30.6.2009	30.6.2012	\$2.35	–	15,000	–	–	15,000	\$0.54
Matthew Dalton	–	30.6.2006	30.6.2009	\$0.80	50,001	–	50,001	50,001	–	\$0.21
		01.7.2007	30.6.2010	\$0.80	10,000	10,000	–	–	10,000	\$0.45
		01.7.2007	30.6.2010	\$1.50	20,000	20,000	–	–	20,000	\$0.20
		01.7.2008	30.6.2011	\$1.50	–	40,000	–	–	40,000	\$0.30
		30.6.2009	30.6.2012	\$2.35	–	60,000	–	–	60,000	\$0.54
David McClure	–	05.8.2008	06.5.2011	\$1.50	–	100,000	–	–	100,000	\$0.23
					1,212,025	2,430,000	662,512	662,512	3,480,000	

* 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 from the date of grant of the shares.

** All options¹ have been valued using the Black-Scholes option model. The values of the options¹ calculated under this method are allocated evenly over the vesting period.

6. Share options¹ exercised or lapsed during the year

No share options² issued to directors or Key Management Personnel were exercised or forfeited during the year ended 30 June 2009.

7. Loans to Directors & Key Management Personnel

No loans have been made to, or from, any director or employee of the Probiotec Group since the company's listing on the Australian Stock Exchange (ASX) on 14 November 2006, except those made under the Probiotec Limited Employee Share Plan for the purchase of unvested shares in Probiotec Limited.

8. Retirement benefits

The Group provides retirement benefits by way of participation in a number of superannuation funds, which also provide optional insurance arrangements. The Group contributes to its default superannuation fund, unless required to provide a choice of fund under the superannuation legislation, in which case the Group contributes to the employees' designated fund. Contributions are required to be at least equal to the minimums set down in the superannuation guarantee legislation.

¹ The term Option in this table 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.

Remuneration Report (continued)

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 except those proceedings discussed in Note 28 of the notes to the financial statements for the year ended 30 June 2009.

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.

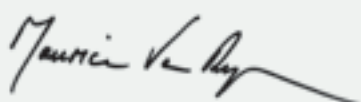
The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2009:

	2009 \$	2008 \$
BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd:		
General advice	3,283	3,800

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 36 of this report.

Signed in accordance with a resolution of Board of Directors.



Director

Maurice Van Ryn

Signed at Laverton this 24th day of September 2009

Audit Independence Declaration



BDO Kendalls

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ABN 17 114 673 540

DECLARATION OF INDEPENDENCE BY NICK MICHAEL TO THE DIRECTORS OF PROBIOTEC LIMITED

As lead auditor of Probiotec Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Probiotec Limited and the entities it controlled during the year.

BDO Kendalls

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd

Nick Michael
Director

Melbourne, Victoria

Dated this *24th* day of *September* 2009

BDO Kendalls is a national provider of
company secretaries and company advisory
services to a wide range of clients
National Business Legislation

Income statement for the year ended 30 June 2009

	NOTE	CONSOLIDATED GROUP		PARENT ENTITY	
		2009 \$	2008 \$	2009 \$	2008 \$
Sales revenue	2	87,133,035	66,068,479	–	–
Cost of goods sold		(42,856,066)	(37,947,856)	–	–
Gross profit		44,276,969	28,120,623	–	–
Other income	2	103,263	398,610	10,454,208	7,806,708
Warehousing & distribution expenses		(6,540,614)	(3,327,622)	–	–
Sales and marketing expenses		(15,045,426)	(7,972,724)	(334,441)	(264,087)
Finance costs		(2,075,918)	(2,146,139)	(1,648,768)	(1,692,451)
Administration and other expenses	4	(8,667,794)	(6,572,144)	(5,606,475)	(3,882,661)
Profit before tax		12,050,480	8,500,604	2,864,523	1,967,509
Income tax expense	5	(3,149,558)	(2,191,506)	(211,012)	(545,254)
Profit for the year		8,900,922	6,309,098	2,653,511	1,422,255
Profit attributable to equity holders of the parent entity		8,900,922	6,309,098	2,653,511	1,422,255
Basic earnings per share (cents)	32	19.03	13.55		
Diluted earnings per share (cents)	32	17.66	13.04		

THE INCOME STATEMENT IS TO BE READ IN CONJUNCTION WITH THE ATTACHED NOTES.

Balance sheet as at 30 June 2009

	NOTE	CONSOLIDATED GROUP		PARENT ENTITY	
		2009 \$	2008 \$	2009 \$	2008 \$
Current Assets					
Cash and cash equivalents	9	1,673,396	539,435	–	–
Trade and other receivables	10	9,720,351	9,731,447	18,810,943	19,177,094
Inventories	11	22,120,924	19,050,159	–	–
Other current assets	12	1,385,000	569,998	144,890	67,432
Total Current Assets		34,899,671	29,891,039	18,955,833	19,244,526
Non-Current Assets					
Property, plant and equipment	14	46,312,639	42,259,421	25,866,679	21,561,484
Other financial assets	13	2,133,499	2,078,792	11,195,140	9,517,146
Deferred tax assets	16	3,256,168	3,296,363	2,078,087	1,563,327
Intangible assets	15	15,656,436	13,594,426	250,000	250,000
Total Non-Current Assets		67,358,742	61,229,002	39,389,906	32,891,957
Total Assets		102,258,413	91,120,041	58,345,739	52,136,483
Current Liabilities					
Trade & other payables	17	11,188,921	12,512,739	1,025,105	634,266
Short-term borrowings	18	7,298,310	8,460,797	7,890,002	8,150,549
Current tax liabilities	17	1,968,603	878,255	221,614	177,302
Short-term provisions	19	830,670	606,792	208,713	130,544
Total Current Liabilities		21,286,504	22,458,583	9,345,434	9,092,661
Non-Current Liabilities					
Long-term borrowings	18	21,710,211	18,681,507	13,690,005	10,357,763
Deferred tax liabilities	20	6,051,238	4,910,477	4,805,463	4,301,306
Long-term provisions	19	926,281	989,630	111,554	26,716
Total Non-Current Liabilities		28,687,730	24,581,614	18,607,022	14,685,785
Total Liabilities		49,974,234	47,040,197	27,952,456	23,778,446
Net Assets		52,284,179	44,079,844	30,393,283	28,358,037
Equity					
Contributed equity	22	23,159,728	21,204,200	23,159,728	21,204,200
Shares held by equity compensation plan	23	(3,004,500)	(1,715,000)	(3,004,500)	(1,715,000)
Asset Revaluation Reserve	24	4,523,385	4,523,385	4,409,606	4,409,606
Retained earnings		27,605,566	20,067,259	5,828,450	4,459,231
Total Equity		52,284,179	44,079,844	30,393,283	28,358,037

THE BALANCE SHEET IS TO BE READ IN CONJUNCTION WITH THE ATTACHED NOTES.

Statement of changes in equity for the year ended 30 June 2009

	ORDINARY SHARE CAPITAL \$	SHARES HELD BY EQUITY COMPENSATION PLAN \$	ASSET REVALUATION RESERVE \$	RETAINED EARNINGS \$	TOTAL \$
Consolidated Group					
Balance as at 1 July 2007	20,229,511	(955,000)	4,523,385	14,224,306	38,022,202
Profit attributable to equity holders of parent entity	–	–	–	6,309,098	6,309,098
Total recognised income and expense for the period	–	–	–	6,309,098	6,309,098
Shares issued during the year	974,689	(760,000)	–	–	214,689
Dividends paid or provided for	–	–	–	(466,145)	(466,145)
Balance as at 1 July 2008	21,204,200	(1,715,000)	4,523,385	20,067,259	44,079,844
Profit attributable to equity holders of parent entity	–	–	–	8,900,922	8,900,922
Total recognised income and expense for the period	–	–	–	8,900,922	8,900,922
Shares issued during the year	1,955,528	(1,289,500)	–	–	666,028
Dividends paid or provided for	–	–	–	(1,362,615)	(1,362,615)
Balance as at 30 June 2009	23,159,728	(3,004,500)	4,523,385	27,605,566	52,284,179
Parent Entity					
Balance as at 1 July 2007	20,229,511	(955,000)	4,409,606	3,503,071	27,187,188
Profit attributable to equity holders of parent entity	–	–	–	(466,095)	(466,095)
Total recognised income and expense for the period	–	–	–	(466,095)	(466,095)
Shares issued during the year	974,689	(760,000)	–	–	214,689
Equity raising expenses	–	–	–	1,422,255	1,422,255
Balance as at 1 July 2008	21,204,200	(1,715,000)	4,409,606	4,459,231	28,358,037
Profit attributable to equity holders of parent entity	–	–	–	2,653,511	2,653,511
Total recognised income and expense for the period	–	–	–	2,653,511	2,653,511
Shares issued during the year	1,955,528	(1,289,500)	–	–	666,028
Dividends paid or provided for	–	–	–	(1,284,293)	(1,284,293)
Balance as at 30 June 2009	23,159,728	(3,004,500)	4,409,606	5,828,449	30,393,283

THE STATEMENT OF CHANGES IN EQUITY IS TO BE READ IN CONJUNCTION WITH THE ATTACHED NOTES.

Cash flow statement for the year ended 30 June 2009

	NOTE	CONSOLIDATED GROUP		PARENT ENTITY	
		2009 \$	2008 \$	2009 \$	2008 \$
Cash Flows From Operating Activities					
Receipts from customers		87,144,131	68,265,137	10,820,359	11,679,038
Payments to suppliers and employees		(75,238,926)	(57,958,979)	(4,291,408)	(2,864,819)
Interest received		59,263	74,426	33,971	73,984
Interest and other costs of finance paid		(2,075,918)	(2,146,138)	(1,648,768)	(1,692,451)
Income tax paid		(878,255)	(24,891)	(177,302)	–
Net cash flows provided by operating activities	31 (b)	9,010,295	8,209,555	4,736,852	7,195,752
Cash Flows From Investing Activities					
Payment for property, plant and equipment – net		(6,869,249)	(4,477,259)	(5,442,220)	(1,763,880)
Payments relating to investments		(54,707)	(583,256)	(1,596,929)	(583,256)
Purchase of other non-current asset		(2,122,010)	(1,922,034)	–	–
Net cash flows used in investing activities		(9,045,966)	(6,982,549)	(7,039,149)	(2,347,136)
Cash Flows From Financing Activities					
Proceeds from issues of shares		666,028	–	666,028	–
Dividends Paid		(1,362,615)	(376,301)	(1,284,293)	(376,350)
Proceeds from borrowings		6,613,825	702,335	6,315,097	178,695
Repayment of borrowings		(4,586,226)	(1,749,353)	(4,135,094)	(5,483,699)
Net cash flows provided by/(used in) financing activities		1,331,012	(1,423,319)	1,561,738	(5,681,354)
Net Increase/(Decrease) In Cash Held		1,295,341	(196,312)	(740,560)	(832,738)
Cash at beginning of financial year		378,055	574,366	(151,132)	681,606
Cash at end of financial year		1,673,396	378,055	(891,692)	(151,132)

Reconciliation of cash and cash equivalent

For the purposes of the cash flow statement, cash includes cash on hand, 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	1,673,396	539,435	–	–
Bank Overdraft	–	(161,380)	(891,692)	(151,132)
	1,673,396	378,055	(891,692)	(151,132)

THE CASH FLOW STATEMENT IS TO BE READ IN CONJUNCTION WITH THE ATTACHED NOTES.

Notes to the financial statements for the year ended 30 June 2009

1. Statement of significant accounting policies

The principal accounting policies adopted by Probiotec Limited and its subsidiaries are stated in order to assist in a general understanding of the financial report.

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

Basis of Preparation

Probiotec Limited and controlled entities, and Probiotec Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2004.

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.

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". A list of controlled entities appears in Note 27 to the 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 economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Subsidiaries are accounted for in the parent entity financial statements 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 the income statement 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 economic entity 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 utilized.

Unrecognised deferred income tax assets are reassessed at each balance sheet 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.

Notes to the financial statements for the year ended 30 June 2009 (continued)

(ii) Capital Gains Tax

Capital gains tax, expected to be paid, is provided in the period in which an asset is sold.

(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 balance sheet are shown inclusive of GST.

Cash flows are included in the cash flow statement 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.

(ii) 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, 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 equity.

(d) Impairment of assets

The recoverable amount of the consolidated entity's 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 its recoverable amount 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. Recoverable amount is determined as the higher of the fair value less costs to sell and value in use. 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 for the year ended 30 June 2009 (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 balance sheet 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 years, with internal reviews performed regularly to ensure that the carrying amounts of land and buildings does not differ materially from the fair value at the balance sheet 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 the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement 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.

The cost of fixed assets constructed within the economic entity 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 income statement 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 economic entity 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 20%

The assets' residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying value amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

Notes to the financial statements for the year ended 30 June 2009 (continued)

(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 economic entity are classified as finance leases. Finance lease are capitalised at the lower of the fair value of the leased property and 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 the income statement 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 consolidated entity 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 consolidated entity's share of the post-acquisition profits or losses and other changes in net assets of the associates. The consolidated entity'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) Change in Accounting Policy

This change in accounting policy provides more reliable and relevant information as the group is actively involved in the operation of the joint ventures and this approach more appropriately reflects the results of the group. Furthermore, this approach is in line with the internal reporting practices of the group.

This change in accounting policy does not result in any net adjustment in the Income Statement for this period, or for any prior period and hence does not result in any adjustment to retained earnings. This change in accounting policy has no impact on earnings per share for this period, or for any prior period.

Comparative figures in this financial report have been restated to reflect this change in accounting policy.

Joint venture entities are accounted for in the parent entity financial statements at cost.

Notes to the financial statements for the year ended 30 June 2009 (continued)

The table below sets out the line items in the financial statements that have been effected by the change in accounting policy.

CONSOLIDATED INCOME STATEMENT	BALANCE UNDER PREVIOUS POLICY	ADJUSTMENT	BALANCE UNDER CURRENT POLICY
For the year ended 30 June 2008:			
Revenue from continuing operations	65,820,632	247,847	66,068,479
Cost of goods sold	(37,731,032)	(216,824)	(37,947,856)
Other income	398,192	418	398,610
Sales and marketing expenses	(7,971,916)	(808)	(7,972,724)
Finance costs	(1,909,701)	(236,438)	(2,146,139)
Administration and other expenses	(6,496,904)	(75,240)	(6,572,144)
Share of net loss of associates and joint venture entity	(281,045)	281,045	–
Net Adjustment		–	

CONSOLIDATED BALANCE SHEET	BALANCE UNDER PREVIOUS POLICY	ADJUSTMENT	BALANCE UNDER CURRENT POLICY
As at 30 June 2008:			
Current Assets			
Cash and cash equivalents	592,987	(53,552)	539,435
Trade receivables	9,641,336	90,111	9,731,447
Inventories	18,838,699	211,460	19,050,159
Non-Current Assets			
Investments accounted for using the equity method	2,824,967	(2,824,967)	–
Property, plant and equipment	36,557,798	5,701,623	42,259,421
Loans Receivable	–	2,078,792	2,078,792
Intangible assets	13,582,994	11,432	13,594,426
Current Liabilities			
Trade and other payables	12,121,631	391,108	12,512,739
Short-term borrowings	8,260,797	200,000	8,460,797
Non-Current Liabilities			
Long-term borrowings	14,907,763	3,773,744	18,681,507
Long-term provisions	139,583	850,047	989,630

Notes to the financial statements for the year ended 30 June 2009 (continued)

CONSOLIDATED CASH FLOW STATEMENT	BALANCE UNDER PREVIOUS POLICY	ADJUSTMENT	BALANCE UNDER CURRENT POLICY
For the year ended 30 June 2008:			
Cash Flows From Operating Activities			
Receipts from customers	67,920,732	344,405	68,265,137
Payments to suppliers and employees	(57,533,971)	(425,007)	(57,958,978)
Interest received	74,008	418	74,426
Interest and other costs of finance paid	(1,909,701)	(236,437)	(2,146,138)
Income tax paid	(23,668)	(1,223)	(24,891)
Cash Flows From Investing Activities			
Payment for property, plant & equipment	(4,369,394)	(107,865)	(4,477,259)
Cash Flows From Financing Activities			
Proceeds from borrowings	178,695	523,640	702,335
Repayment of borrowings	(1,583,699)	(165,654)	(1,749,353)
Net decrease in cash and cash equivalents	(128,589)	(67,723)	(196,311)
Cash and cash equivalents at the beginning of the period	560,196	(182,141)	378,055

Notes to the financial statements for the year ended 30 June 2009 (continued)

(k) 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 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 having an indefinite life and are tested at each balance date for impairment and carried at cost less accumulated impairment losses. Those with a finite life are carried at cost less any accumulated amortization and accumulated impairment losses. The useful life is 14 years.

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.

(l) 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.

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 payment

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.

Notes to the financial statements for the year ended 30 June 2009 (continued)

At each subsequent reporting date until vesting, the cumulative change to the income statement 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.

(m) Financial Instruments**Recognition**

Financial instruments are initially measured at fair value plus directly attributable transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term with the intention of making a profit or if so designated by management and within the requirements of AASB 139: Financial Instruments: Recognition and Measurement. Derivatives are also categorized as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from derivatives and changes in the fair value of these assets are included in the income statement in the period they arise.

Loan 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 improbable that the all or part of the loan or receivable will be recoverable. Gains and losses are recognised in profit or loss when the loans and receivables are derecognized or impaired.

Held to maturity Investments

These investments have fixed or determinable payments and fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest method.

Available for sale financial assets

Available for sale financial assets include any non-derivative financial assets that are designated as available for sale or that are not included in the above categories. Available for sale financial assets are reflected at fair value. After initial recognition available-for-sale assets are measured at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

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.

Interest bearing liabilities

All loans and borrowings are initially recognized at fair value, net of directly attributable transaction costs incurred. 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.

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.

Notes to the financial statements for the year ended 30 June 2009 (continued)

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.

(n) 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.

(o) 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 the income statement. 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).

(p) 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.

(q) 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 not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology.

(r) 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.

(s) Comparative Figures

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

(t) 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.

(u) 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.

(v) Segments

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segments), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

Notes to the financial statements for the year ended 30 June 2009 (continued)

(w) New Accounting Standards

The following Standards and Amendments were available for early adoption but have not been applied by the consolidated entity in its financial statements:

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 3 (reissued March 2008)	Business Combinations	Released as part of long term international convergence project between IASB and FASB. The revised standard introduces more detailed guidance on accounting for step acquisitions, adjustments to contingent consideration, assets acquired that the purchaser does not intend to use, reacquired rights and share-based payments as part of purchase consideration. Also, all acquisition costs will have to be expensed instead of being recognised as part of goodwill.	Business combinations where the acquisition date is on or after the beginning of the first reporting period that commences 1 July 2009 or later	<p>As there is no requirement to retrospectively restate comparative amounts for business combinations undertaken before this date, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.</p> <p>However, due to the nature of some of the changes in the revised standard, business combinations that the entity undertakes after this date may in future impact negatively on the results of the entity. For example, acquisition costs will have to be expensed instead of being recognised as part of goodwill.</p> <p>Specific changes in respect of step acquisitions and sell downs may introduce situations whereby adopting the revised standard may improve profitability.</p> <p>Also, deferred tax assets that do not satisfy recognition criteria when a business combination is initially accounted for, but do subsequently qualify for recognition post acquisition date, will be recognised as a credit to the income statement and there will be no consequential write-down of goodwill for a similar amount, provided that the deferred tax assets are recognised outside the initial measurement period of 12 months from acquisition date.</p>

Notes to the financial statements for the year ended 30 June 2009 (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2008-3 (issued March 2008)	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASB 1, AASB 2, AASB 4, AASB 5, AASB 7, AASB 101, AASB 107, AASB 112, AASB 114, AASB 116, AASB 121, AASB 128, AASB 131, AASB 132, AASB 133, AASB 134, AASB 136, AASB 137, AASB 138, AASB 139, Interpretation 9 and Interpretation 107]	Makes consequential amendments to 20 standards and 2 interpretations arising from the reissue of AASB 3 and AASB 127, including to AASB 128: Investments in Associates and AASB 131: Interests in Joint Ventures. When an investment ceases to be an associate or jointly controlled entity and is subsequently accounted for under AASB 139, the fair value of the investment at the date when it ceases to be an associate or jointly controlled entity is its fair value.	Periods commencing on or after 1 July 2009	As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted. However, in future, if the group loses significant influence over associates or joint control in jointly controlled entities which are equity accounted, at that date such investments are recognised at fair value rather than at the carrying value of the equity accounted investment. Where the fair value of such investments exceed the equity accounted carrying amounts, this could result in a significant increase in earnings in the period when significant influence or joint control is lost. There will also be a number of additional/amended disclosures.
AASB 8 (Issued Feb 2007)	Operating Segments	Replaces the disclosure requirements of AASB 114: Segment Reporting.	Periods commencing on or after January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, disclosures required for the operating segments will be significantly different to what is currently reported (business and geographical segment).

Notes to the financial statements for the year ended 30 June 2009 (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 101 (Revised Sep 2007)	Presentation of Financial Statements	Amendments to presentation and naming of the financial statements.	Annual reporting periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.
AASB 2009-2 (Issued April 2009)	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments	Requires additional disclosures about financial instrument fair values and liquidity risk.	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, various additional disclosures will be required about fair values of financial instruments and the entity's liquidity risk. No comparative disclosures are required in the first year that these amendments are applied.
AASB 136	Impairment of Assets	Additional disclosure requirements about discounted cash flow assumptions used for the fair value less costs to sell method.	Periods commencing on or after 1 January 2009	There will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only.

Notes to the financial statements for the year ended 30 June 2009 (continued)

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
2. Revenue and other income				
Operating activities				
Sale of goods	87,133,035	66,068,479	–	–
Management fees & other charges	–	–	8,589,825	7,734,443
Other	44,000	324,602	30,412	(1,719)
Dividends received	–	–	1,800,000	–
Interest received	59,263	74,008	33,971	73,984
Total other income	103,263	398,610	10,454,208	7,806,708
Total revenue	87,236,298	66,467,089	10,454,208	7,806,708
3. Profit for the year				
Net profit has been arrived at after including:				
Finance cost – non related parties	2,075,918	2,146,139	1,648,768	1,692,451
Foreign currency translation losses	63,598	103,499	–	–
Bad and doubtful debts expense				
– trade receivables	20,690	40,255	–	–
Rental on operating lease expenses				
– minimum lease payments	144,240	141,280	–	–
Inventory write-offs	360,850	236,193	–	–
Professional and consulting expenses	86,066	312,838	79,811	91,733
Employee benefits expenses	13,923,137	13,197,295	2,747,549	2,091,440
Repairs and maintenance expenses	–	891,445	–	–
Research and development cost	3,629,629	3,237,629	–	–
Depreciation and amortisation expense	2,840,996	2,380,259	1,172,059	1,050,653
4. Administration & other expenses				
Administration & other expenses comprises:				
Accounting & legal fees	845,132	487,995	821,664	455,133
Office expenses	643,893	533,554	157,075	87,591
Other expenses	7,178,769	5,550,595	4,627,736	3,339,937
	8,667,794	6,572,144	5,606,475	3,882,661

Notes to the financial statements for the year ended 30 June 2009 (continued)

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
5. Income tax expense				
Income tax expense comprises:				
Current tax	1,968,602	878,255	221,615	177,302
Deferred tax	1,180,956	1,313,251	(10,603)	367,952
	3,149,558	2,191,506	211,012	545,254
Numerical reconciliation of aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate:				
Prima facie tax on profit from ordinary activities before income tax at 30%	3,615,144	2,550,181	859,357	590,253
Add Tax effect of:				
Non allowable expenses, recoupment of prior losses not yet booked and other differences	(465,586)	(358,675)	(648,345)	(44,999)
Income tax expense	3,149,558	2,191,506	211,012	545,254
The weighted average effective tax rates are as follows:	26.1%	25.8%	7.4%	27.7%

Notes to the financial statements for the year ended 30 June 2009 (continued)

6. 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) The number of shares and options¹ held by directors and key management personnel is as follows:

Option¹ Holdings of Key Management Personnel

	GRANT DATE	VESTING DATE	EXERCISE DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	VESTED DURING THE YEAR NUMBER	BALANCE VESTED AT END OF THE YEAR NUMBER	BALANCE UNVESTED AT END OF THE YEAR NUMBER	VALUE OF OPTIONS ¹ GRANTED**
Maurice Van Ryn	–	–	–	–	–	–	–	–	–	\$0
Richard David Kuo	–	–	–	–	–	–	–	–	–	\$0
Graham Henry Buckeridge	–	–	–	–	–	–	–	–	–	\$0
Charles Wayne Stringer	01.7.2007	30.6.2010	30.6.2010	\$1.00	400,000	–	–	–	400,000	\$52,000
	01.7.2008	30.6.2011	30.6.2011	\$1.00	–	400,000	–	–	400,000	\$56,000
	05.11.2008	30.6.2010	30.6.2014	\$1.50	–	500,000	–	–	500,000	\$155,000
	05.11.2008	30.6.2011	30.6.2014	\$1.75	–	500,000	–	–	500,000	\$130,000
	05.11.2008	30.6.2012	30.6.2014	\$2.00	–	500,000	–	–	500,000	\$110,000
Wesley Stringer	30.6.2006	30.6.2009	30.6.2011	\$0.80	187,503	–	187,503	187,503	–	\$39,376
	01.7.2007	30.6.2010	30.6.2012	\$1.50	25,000	–	–	–	25,000	\$5,000
	01.7.2008	30.6.2011	30.6.2013	\$1.50	–	50,000	–	–	50,000	\$15,000
	30.6.2009	30.6.2012	30.6.2014	\$2.35	–	60,000	–	–	60,000	\$32,400
Dustin Stringer	30.6.2006	30.6.2009	30.6.2011	\$0.80	75,001	–	75,001	75,001	–	\$15,750
	01.7.2007	30.6.2010	30.6.2012	\$1.50	20,000	–	–	–	20,000	\$4,000
	01.7.2008	30.6.2011	30.6.2013	\$1.50	–	40,000	–	–	40,000	\$12,000
	30.6.2009	30.6.2012	30.6.2014	\$2.35	–	60,000	–	–	60,000	\$32,400
Mark Chatfield	30.6.2006	30.6.2009	30.6.2011	\$0.80	150,003	–	150,003	150,003	–	\$31,501
	01.7.2007	30.6.2010	30.6.2012	\$1.50	25,000	–	–	–	25,000	\$5,000
	01.7.2008	30.6.2011	30.6.2013	\$1.50	–	25,000	–	–	25,000	\$7,500
	30.6.2009	30.6.2012	30.6.2014	\$2.35	–	25,000	–	–	25,000	\$13,500

Notes to the financial statements for the year ended 30 June 2009 (continued)

	GRANT DATE	VESTING DATE	EXERCISE DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	VESTED DURING THE YEAR NUMBER	BALANCE VESTED AT END OF THE YEAR NUMBER	BALANCE UNVESTED AT END OF THE YEAR NUMBER	VALUE OF OPTIONS ¹ GRANTED**
Humera Ahmad	30.6.2006	30.6.2009	30.6.2011	\$0.80	100,002	–	100,002	100,002	–	\$21,000
	01.7.2007	30.6.2010	30.6.2012	\$1.50	25,000	–	–	–	25,000	\$5,000
	01.7.2008	30.6.2011	30.6.2013	\$1.50	–	20,000	–	–	20,000	\$6,000
	30.6.2009	30.6.2012	30.6.2014	\$2.35	–	15,000	–	–	15,000	\$8,100
Alan Hong	30.6.2006	30.6.2009	30.6.2011	\$0.80	100,002	–	100,002	100,002	–	\$21,000
	01.7.2007	30.6.2010	30.6.2012	\$1.50	25,000	–	25,000	25,000	–	\$5,000
	01.7.2008	30.6.2011	30.6.2013	\$1.50	–	20,000	–	–	20,000	\$6,000
	30.6.2009	30.6.2012	30.6.2014	\$2.35	–	15,000	–	–	15,000	\$8,100
Matthew Dalton	30.6.2006	30.6.2009	30.6.2011	\$0.80	50,001	–	50,001	50,001	–	\$10,500
	01.7.2007	30.6.2010	30.6.2012	\$0.80	10,000	–	–	–	10,000	\$4,500
	01.7.2007	30.6.2010	30.6.2012	\$1.50	20,000	–	–	–	20,000	\$4,000
	01.7.2008	30.6.2011	30.6.2013	\$1.50	–	40,000	–	–	40,000	\$12,000
	30.6.2009	30.6.2012	30.6.2014	\$2.35	–	60,000	–	–	60,000	\$32,400
David McClure	05.8.2008	06.5.2011	05.5.2013	\$1.50	–	100,000	–	–	100,000	\$23,000
					1,212,512	2,430,000	662,512	662,512	3,480,000	\$883,028

Table 3: Interest in Shares & options¹ of Directors and Key Management Personnel

* 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 from the date of grant of the shares.

** All options¹ have been valued using the Black-Scholes option model. The values of the options¹ calculated under this method are allocated evenly over the vesting period.

¹ The term Option in this table 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 for the year ended 30 June 2009 (continued)

Equity Holdings of Key Management Personnel

DIRECTORS	BALANCE AT 1/07/2008	SHARE PLAN ACQUISITIONS DURING THE YEAR	OTHER PURCHASES DURING THE YEAR*	SOLD DURING THE YEAR	BALANCE AT 30/06/09
Maurice Van Ryn	352,502	–	25,000	–	377,502
Charles Wayne Stringer	7,945,662	–	90,292	–	8,035,954
Graham Harry Buckeridge	1,818,684	–	–	–	1,818,684
Richard David Kuo	99,350	–	2,073	–	101,423
Total for Directors	10,216,198	–	117,365	–	10,333,563
Key Executive Personnel					
Alan Hong	5,000	–	–	(4,000)	1,000
Mark Chatfield	25,000	–	–	(25,000)	–
Wes Stringer	285,106	–	27,705	–	312,811
Matthew Dalton	–	–	–	–	–
Dustin Stringer	77,000	–	–	77,000	77,000
David McClure	–	–	–	–	–
Humera Ahmad	5,000	–	–	–	–
Total for Key Executive Personnel	397,106	–	27,705	48,000	390,811
Total for Key Management Personnel	10,613,304	–	145,070	48,000	10,724,374

* Includes on market purchases and dividend reinvestment plan allotments.

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
(b) Key management personnel compensation				
Short-term employee benefits	943,880	964,462	659,603	583,141
Post-employment benefits	81,837	103,334	56,426	54,960
Long-term benefits	–	–	–	–
Termination benefits	–	–	–	–
Share-based payments	64,844	47,726	49,159	33,363
Total compensation	1,090,561	1,115,522	765,188	671,464

Share options¹ exercised or lapsed during the year

No share options¹ issued to directors or Key Management Personnel were exercised or lapsed during the year ended 30 June 2009.

Loans to Directors & Key management personnel

No loans have been made to, or from, any director or employee of the Probiotec Group since the company's listing on the Australian Stock Exchange (ASX) on 14 November 2006, except those made under the Probiotec Limited Employee Share Plan for the purchase of unvested shares in Probiotec Limited.

¹ The term Option in this table 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 for the year ended 30 June 2009 (continued)

7. Remuneration of auditors

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
(a) Remuneration of auditor of the parent entity:				
Auditing or reviewing the financial report	102,942	75,000	102,942	75,000
AIFRS consultation and other advice	3,283	3,800	–	3,800
	106,225	78,800	102,942	78,800
(b) Related practice of the auditor for non audit services:				
General advice from BDO Stoy Hayward*	4,588	–	4,588	–

For the year ended 30 June 2009, the auditor of Probiotec Limited is BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd.

* BDO Stoy Hayward is a United Kingdom based practice affiliated with the auditor.

8. Dividends

The directors declared an interim dividend of 1.25 cent per fully paid ordinary share on 18 February 2009, which was paid on 27 March 2009. The directors declared a final dividend for the year ended 30 June 2009 on 20 August 2008 of 2 cents per fully paid ordinary share. As this final dividend was declared after 30 June 2009, it has not been included as a recognised amount in this financial report.

	2009		2008	
	CENTS PER SHARE	TOTAL \$	CENTS PER SHARE	TOTAL \$
Recognised Amounts				
Fully Paid Ordinary Shares				
Interim dividend for half year ended 31 December 2008 fully franked at 30% corporate tax rate	1.25	512,756	1.00	466,145
Unrecognised Amounts				
Fully paid ordinary shares				
Final dividend for year ended 30 June 2009, fully franked at 30% corporate tax rate	2.00	941,825	1.50	699,655

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Dividend franking account				
Amount of franking credits available for subsequent years	484,277	86,123	484,277	86,123

9. Cash and cash equivalents

Cash on hand and at bank	1,673,396	539,435	–	–
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See Cash Flow Statement for reconciliation of cash.

Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 36.

Notes to the financial statements for the year ended 30 June 2009 (continued)

10. Trade and other receivables

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
CURRENT				
Trade accounts receivable – third parties	9,998,955	9,788,558	56,540	–
Trade accounts receivable – subsidiaries	–	–	18,754,403	19,177,094
Less: allowance for impairment of receivables	(278,604)	(57,111)	–	–
Total current trade receivables	9,720,351	9,731,447	18,810,943	19,177,094

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

	2009		2008	
	GROSS \$	ALLOWANCE \$	GROSS \$	ALLOWANCE \$
Consolidated Group				
Not past due 30 days	8,896,380	–	9,708,294	–
Past due 31 – 60 days	321,715	–	13,032	–
Past due 61 – 90 days	73,308	–	19,251	11,039
Past due 91 – 120 days	97,102	–	–	–
Past 120 days	610,450	278,604	47,981	46,072
	9,998,955	278,604	9,788,558	57,111
Parent Entity				
Not past due 30 days	18,754,403	–	19,177,094	–
Past due 31 – 60 days	–	–	–	–
Past due 61 – 90 days	–	–	–	–
Past due 91 – 120 days	–	–	–	–
Past 120 days	–	–	–	–
	18,754,403	–	19,177,094	–

(b) Impaired trade receivables

Trade receivables are generally extended on credit terms of between 14 days to 60 days. As at 30 June 2009 current trade receivables of the group with a nominal value of \$ 278,604 (2008 – \$57,111) were impaired. The amount of the impairment allowance was \$278,604 (2007 – \$57,111). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. There were no impaired trade receivables for the parent in 2009 or 2008.

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

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
At 1 July	57,111	169,905	–	–
Allowance for impairment recognised during the year	278,604	57,111	–	–
Receivables written off during the year as uncollectible	(57,111)	(169,905)	–	–
At 30 June	278,604	57,111	–	–

Notes to the financial statements for the year ended 30 June 2009 (continued)

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

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 37.

11. Inventories

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
CURRENT				
Raw material – at cost	9,301,907	9,055,188	–	–
Work in progress – at cost	3,524,555	2,310,813	–	–
Finished goods – at cost	9,294,462	7,684,158	–	–
	22,120,924	19,050,159	–	–

12. Other current assets

Prepayments	593,904	84,422	65,163	27,737
GST receivable	661,627	436,261	–	–
Other receivables	129,469	49,315	79,727	39,695
	1,385,000	569,998	144,890	67,432

13. Other financial assets

Shares in subsidiaries – at cost	–	–	5,309,247	5,309,247
Joint venture entities – at cost	2,133,499	2,078,792	5,885,893	4,207,899
	2,133,499	2,078,792	11,195,140	9,517,146

Interests are held in the following joint venture companies:

NAME	DOMICILE	OWNERSHIP INTEREST	CARRYING AMOUNT OF INVESTMENT	2009	2008
		2009	2008		
Australian Dairy Proteins Pty Ltd	Australia	50%	50%	50%	50%
Probiotec BLC Pty Limited	Australia	50%	0%	50%	0%

Australian Dairy Proteins Pty Ltd ("ADP") is a joint venture entity between Probiotec Limited and Australian Co-Operative Foods Limited and is involved in the manufacture of a range of specialty protein fractions extracted from cheese whey for sale into the nutraceutical, pharmaceutical, specialty food and cosmetic markets. The reporting date is 30 June 2009. The voting power of Probiotec Ltd is 50.001%. The entity is accounted for as a jointly controlled entity as the shareholders agreement specifies that all significant financial and operating decisions require unanimous approval by the parties sharing joint control.

Notes to the financial statements for the year ended 30 June 2009 (continued)

The company has invested in ADP in the form of an initial investment and subsequently by way of an investment loan. The directors expect to recover both the initial investment and the investment loan once the entity begins to generate sufficient cashflows in future.

Probiotec BLC Pty Limited ("PBLC") is a joint venture entity between Probiotec Limited and SP Health Co Pty Ltd and is involved in the marketing and distribution of a range of health products. The reporting date is 30 June 2009. The voting power of Probiotec Ltd is 50.0%. The entity is accounted for as a jointly controlled entity as the shareholders agreement specifies that all significant financial and operating decisions require unanimous approval by the parties sharing joint control.

(b) Interest in joint venture entities accounted for using the proportionate consolidation method are comprised as follows:

	PARENT ENTITY	
	2009 \$	2008 \$
ADP		
Shares in joint venture entity – at cost	50,000	50,000
Investment Loan	4,785,892	4,157,899
	4,835,892	4,207,899
PBLC		
Shares in joint venture entity – at cost	1	–
Loan	1,050,000	–
	1,050,001	–
Total investments accounted for using the proportionate consolidation method	5,885,893	4,207,899

Share of ADP's financial position and financial results:

	CONSOLIDATED GROUP	
	2009 \$	2008 \$
FINANCIAL POSITION		
Current Assets	216,609	301,570
Non-Current Assets	5,713,054	5,713,054
Total Assets	5,929,663	6,014,624
Current Liabilities	728,143	776,645
Non-Current Liabilities	6,680,288	6,649,463
Total Liabilities	7,408,431	7,426,108
Net Assets	(1,478,768)	(1,411,484)
Financial Results		
Revenues	187,881	247,847
Expenses	(255,164)	(528,892)
Loss from Ordinary Activities before Income Tax	(67,283)	(281,045)
Income tax expense	–	–
Loss from ordinary activities after income tax	67,283	(281,045)

Notes to the financial statements for the year ended 30 June 2009 (continued)

Share of PBLC's financial position and financial results:

FINANCIAL POSITION	CONSOLIDATED GROUP	
	2009 \$	2008 \$
Current Assets		
Cash at bank	429,977	–
Inventory	1,702,572	–
Other current assets	28,055	–
Total Current Assets	2,160,604	–
Non-Current Assets		
Property, plant and equipment	10,043	–
Total Non-Current Assets	10,043	–
Total Assets	2,170,647	–
Current Liabilities		
Trade and other payables	834,652	–
Total Current Liabilities	834,652	–
Non-Current Liabilities		
Long term loans and borrowings	869,629	–
Total Non-Current Liabilities	869,629	–
Total Liabilities	1,704,281	–
Net Assets	466,366	–
Financial Results		
Revenues	6,008,581	–
Expenses	(5,542,216)	–
Profit from Ordinary Activities before Income Tax	466,365	–
Income tax expense	(143,664)	–
Profit from ordinary activities after income tax	322,701	–

Notes to the financial statements for the year ended 30 June 2009 (continued)

14. Property, plant and equipment

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Freehold land – at valuation	4,337,775	4,337,775	3,993,375	3,993,375
Building – at independent valuation	15,524,070	13,269,481	14,968,470	12,713,753
Less: Accumulated depreciation	(1,094,494)	(507,873)	(1,050,046)	(485,648)
	14,429,576	12,761,608	13,918,424	12,228,105
Plant & equipment – at cost	31,556,596	29,191,345	3,021,134	2,009,772
Less: Accumulated depreciation	(10,354,640)	(8,493,037)	(1,409,585)	(1,131,498)
	21,201,956	20,698,308	1,611,549	878,274
Leased plant & equipment	7,797,166	5,592,220	7,797,165	5,592,220
Less: Accumulated depreciation	(1,453,834)	(1,130,490)	(1,453,834)	(1,130,490)
	6,343,332	4,461,730	6,343,331	4,461,730
Total property, plant and equipment	46,312,639	42,259,421	25,866,679	21,561,484

All of the Group's freehold land and buildings were revalued by an independent valuer in June 2007 and resulted in a net revaluation increase of \$2,588,608. Valuations were made on the basis of weighted depreciated values and open market values. The revaluation surplus net of applicable deferred income taxes was credited to an asset revaluation reserve in shareholders' equity. As at 30 June 2009, if the cost model had been applied, the carrying value of the Group's freehold land and buildings would have been \$3,290,199 and \$7,918,832 respectively. If the cost model had been adopted the buildings at cost and the accumulated depreciation at balance date would have been \$9,711,924 and \$1,793,092 respectively.

Notes to the financial statements for the year ended 30 June 2009 (continued)

Movements during the year

	FREEHOLD LAND \$	BUILDINGS \$	PLANT, EQUIPMENT & OTHER \$	LEASED PLANT, EQUIPMENT & OTHER \$	TOTAL \$
Consolidated Group					
Carrying amount at 1 July 2007	4,337,775	12,207,475	18,786,929	4,761,152	40,093,331
Additions	–	1,062,006	3,370,797	208,289	4,641,092
Disposals	–	–	(8,978)	(140,950)	(149,928)
Depreciation	–	(507,873)	(1,450,440)	(366,761)	(2,325,074)
Carrying amount at 30 June 2008	4,337,775	12,761,608	20,698,308	4,461,730	42,259,420
Carrying amount at 1 July 2008	4,337,775	12,761,608	20,698,308	4,461,730	42,259,421
Additions	–	2,254,589	2,305,251	2,315,038	6,874,878
Disposals	–	–	(19,102)	(21,563)	(40,665)
Depreciation	–	(586,621)	(1,782,501)	(411,873)	(2,780,995)
Carrying amount at 30 June 2009	4,337,775	14,429,576	21,201,956	6,343,332	46,312,639
Parent Entity					
Carrying amount at 1 July 2007	3,993,375	11,651,875	318,652	4,761,152	20,725,054
Additions	–	1,061,878	766,844	208,289	2,037,011
Disposals	–	–	(8,978)	(140,950)	(149,928)
Depreciation	–	(485,648)	(198,244)	(366,761)	(1,050,653)
Carrying amount at 30 June 2008	3,993,375	12,228,105	878,274	4,461,730	21,561,484
Carrying Amount at 1 July 2008	3,993,375	12,228,105	878,274	4,461,730	21,561,484
Additions	–	2,254,717	929,062	2,315,038	5,498,817
Disposals	–	–	–	(21,563)	(21,563)
Depreciation	–	(564,398)	(195,787)	(411,874)	(1,172,059)
Carrying amount at 30 June 2009	3,993,375	13,918,424	1,611,549	6,343,333	25,866,679

Notes to the financial statements for the year ended 30 June 2009 (continued)

15. Intangible assets

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Acquired intangible assets – Indefinite life:				
Goodwill – at cost	250,000	250,000	250,000	250,000
Developed products – at cost	8,353,476	8,353,476	–	–
	8,603,476	8,603,476	250,000	250,000
Capitalised development costs – Indefinite life:				
Developed products – at cost	4,577,187	3,657,211	–	–
Products under development – at cost	1,375,371	504,287	–	–
	5,952,558	4,161,498	–	–
Capitalised development costs – Finite life:				
Developed products – at cost	1,226,294	895,767	–	–
Accumulated amortisation	(125,892)	(66,315)	–	–
	1,100,402	829,452	–	–
Total intangible assets	15,656,436	13,594,426	250,000	250,000

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 2007	250,000	10,878,178	598,214	11,726,392
Additions	–	1,295,870	626,164	1,922,034
Transfer of commercialised product	–	720,091	(720,091)	–
Amortisation	–	(54,000)	–	(54,000)
Closing balance as at 30 June 2008	250,000	12,840,139	504,287	13,594,426
Opening balance as at 1 July 2008	250,000	12,840,139	504,287	13,594,426
Additions	–	880,769	1,241,241	2,122,010
Transfer of commercialised product	–	370,157	(370,157)	–
Amortisation	–	(60,000)	–	(60,000)
Closing balance as at 30 June 2009	250,000	14,031,065	1,375,371	15,656,436

Estimated useful life of intangible assets

Intangible assets, comprising developed products and goodwill, are carried at cost less accumulated impairment losses and 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 14 years, of which 11 years and 9 months remains in this estimated useful life. Developed products with indefinite lives comprise trademarks and product dossiers. Developed Products with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses and are amortised on a straight line basis over their effective useful life. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in

Notes to the financial statements for the year ended 30 June 2009 (continued)

the income statement. The directors consider intangibles to have an indefinite life when there is no defined period within which the benefits of the amounts will be received.

Impairment Disclosures

Goodwill of \$250,000 is allocated to the Golden Life cash-generating unit. Goodwill is tested annually for impairment or whenever there is an indication of impairment, based on value-in-use calculations conducted using the assumptions outlined in note 36. For the carrying amount to be equal to the value-in-use, the discount rate of 43% (2008: 43%) would need to be used.

16. Deferred tax assets

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Deferred tax assets is comprised as follows:				
Temporary differences – provisions	594,974	552,216	137,299	87,177
Temporary differences – Property, plant & equipment	543,973	266,427	361,431	264,027
Temporary differences – leases	1,469,385	1,142,442	1,469,385	1,142,442
Temporary differences – other	247,348	134,581	109,972	69,681
Tax losses	400,488	1,200,697	–	–
	3,256,168	3,296,363	2,078,087	1,563,327

17. Trade and other payables**CURRENT**

Trade accounts payable	7,746,703	9,600,816	237,573	13,929
Derivative financial instrument	291,007	–	291,007	–
Sundry creditors & accruals	2,116,596	2,368,735	(45,552)	278,102
GST payable	1,034,615	543,188	542,075	342,235
	11,188,921	12,512,739	1,025,102	634,266
Current tax payable	1,968,603	878,255	221,614	177,302

(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

Amounts payable in foreign currencies

Current				
Great British Pounds	112,199	–	–	–
US Dollars	108,785	737,898	–	–
	220,984	737,898	–	–

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 37.

Notes to the financial statements for the year ended 30 June 2009 (continued)

18. Interest-bearing liabilities

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
CURRENT				
Secured borrowings				
Bank overdrafts	–	161,380	891,692	151,132
Bank loans	6,318,322	7,482,000	6,018,322	7,182,000
Lease liabilities	979,988	817,417	979,988	817,417
	7,298,310	8,460,797	7,890,002	8,150,549
NON-CURRENT				
Secured borrowings				
Bank loans	16,322,045	14,217,039	9,772,045	7,367,039
Other loans	1,470,206	1,473,744	–	–
Lease liabilities	3,917,960	2,990,724	3,917,960	2,990,724
	21,710,211	18,681,507	13,690,005	10,357,763
(a) Total current and non-current secured liabilities				
Bank overdrafts	–	161,380	891,692	151,132
Bank loans	22,640,367	21,699,039	15,790,367	14,549,039
Other loans	1,470,206	1,473,744	–	–
Lease liabilities	4,897,948	3,808,141	4,897,948	3,808,141
	29,008,521	27,142,304	21,490,007	18,508,312
(b) Items pledged as security				
First mortgage				
Freehold land and building (Note 14)	18,767,351	17,099,383	17,911,799	16,221,480

(c) The bank overdrafts of the parent entity and subsidiaries are provided by the Commonwealth Bank. The bank covenants require interest coverage not less than 4 times, current ratio of not less than 1.5 times and net worth of 40% of total tangible assets.

(d) The bank loans are provided by Rabo Australia Limited and are secured by a registered first mortgage over certain freehold property of the parent entity and the subsidiaries which has a carrying amount of \$18,767,351 at 30 June 2009 (see Note 14).

The bank covenants require tangible net worth to exceed \$20 million, an equity ratio of greater than 45%, debt service to EBITDA to exceed 2 and the ratio of financial indebtedness to EBITDA of less than 3. The Group is in compliance with the bank covenants.

Term loan facilities will mature 7 years after the initial draw down date.

There have been no defaults or breaches of loan conditions during the financial year.

(e) Finance lease liabilities:

Weighted average interest rate of 7.56%

Secured by leased plant/assets

(f) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 35.

Notes to the financial statements for the year ended 30 June 2009 (continued)

19. Provisions

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
CURRENT				
Leave entitlements	830,670	606,792	208,713	130,544
Total current provisions	830,670	606,792	208,713	130,544
NON-CURRENT				
Leave entitlements	160,259	139,583	11,554	26,716
Deferred grant income	766,022	850,047	100,000	–
Total non-current provisions	926,281	989,630	111,554	26,716
Total provisions	1,756,951	1,596,422	320,267	157,260
RECONCILIATION				
		LEAVE ENTITLEMENTS \$	DEFERRED GRANT INCOME \$	TOTAL \$
Consolidated Group				
Opening balance as at 1 July 2008		746,375	850,047	1,596,422
Additional provisions		244,554	100,000	344,554
Amount Used		–	(184,025)	(184,025)
Balance as at 30 June 2009		990,929	766,022	1,756,951
Parent Entity				
Opening balance as at 1 July 2008		157,260	–	157,260
Additional provisions		63,007	100,000	163,007
Amount Used		–	–	–
Balance as at 30 June 2009		220,267	100,000	320,267

- (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.
- (b) Deferred grant income represents grant funds received that are directly attributable to the acquisition of specific assets. This deferred grant income is recognised over the estimated useful life of the asset acquired with the grant funds received.

Notes to the financial statements for the year ended 30 June 2009 (continued)

20. Deferred taxes

Deferred taxes is comprised as follows:

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Deferred tax assets (note 16)	3,256,168	3,296,363	2,078,087	1,563,327
Deferred tax liabilities – temporary differences	(6,051,238)	(4,910,477)	(4,805,463)	(4,301,306)
Net deferred tax liabilities	(2,795,070)	(1,614,115)	(2,727,376)	(2,737,979)
Deferred tax expense debit/(credit) to income	(1,180,955)	(1,313,249)	10,603	(367,952)
Deferred tax liabilities – temporary differences is comprised as follows:				
Temporary differences – Property, plant & equipment	2,118,735	2,157,524	2,069,973	2,108,764
Temporary differences – Intangibles	1,197,013	560,411	–	–
Temporary differences – leases	1,903,000	1,360,052	1,903,000	1,360,052
Temporary differences – other	832,490	832,490	832,490	832,490
	6,051,238	4,910,477	4,805,463	4,301,306

Reconciliation of net deferred tax liabilities:

	CONSOLIDATED GROUP \$	PARENT ENTITY \$
Opening as at 1 July 2007	(300,865)	(2,370,027)
Less: deferred tax expense charge (credit) to income	(1,313,249)	(367,952)
Closing as at 30 June 2008	(1,614,114)	(2,737,979)
Less: deferred tax expense charge (credit) to income	(1,180,956)	10,603
Closing as at 30 June 2009	(2,795,070)	(2,727,376)

21. Retirement benefit obligations

The consolidated entity does not participate in plans that provide retirement benefits for its employees and their dependants. The company contributes its minimum legal superannuation obligations to the employees nominated superannuation funds on a monthly basis.

Notes to the financial statements for the year ended 30 June 2009 (continued)

22. Contributed equity

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
47,091,229 (2008: 46,602,449) issued and fully paid ordinary shares	23,159,728	21,204,200	23,159,728	21,204,200
Reconciliation of fully paid ordinary shares				
Balance at beginning of the financial year	21,204,200	20,229,511	21,204,200	20,229,511
Issue of shares	1,955,528	974,689	1,955,528	974,689
Balance at end of financial year	23,159,728	21,204,200	23,159,728	21,204,200
	NO.	NO.	NO.	NO.
Reconciliation of ordinary shares				
Balance at the beginning of reporting period	46,602,449	46,525,000	46,602,449	46,525,000
Shares issued during the year	488,780	77,449	488,780	77,449
Balance at end of the report date	47,091,229	46,602,449	47,091,229	46,602,449

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 shareholder 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.

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 2009 and 30 June 2008 were as follows:

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Total borrowings	29,008,521	27,142,304	21,490,007	18,508,312
Less cash and cash equivalents	(1,673,396)	(539,435)	–	–
Net debt	27,335,125	26,602,869	21,490,007	18,508,312
Total contributed equity	23,159,728	21,204,200	23,159,728	21,204,200
Total capital employed	50,494,852	47,807,069	44,649,735	39,712,512
Gearing ratio	54%	56%	48%	47%

There were no changes to the Group's approach to capital management from 2008.

Notes to the financial statements for the year ended 30 June 2009 (continued)

23. Share held by equity compensation plan

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Balance at beginning of report period	(1,715,000)	(955,000)	(1,715,000)	(955,000)
Employee share plan issue	(1,289,500)	(760,000)	(1,289,500)	(760,000)
Balance at the end of the reporting period	(3,004,500)	(1,715,000)	(3,004,500)	(1,715,000)

The shares held in the "Equity Compensation" account is used to record the balance of Probiotec Limited ordinary shares which as at the end of the financial period have not vested to Group employees, and therefore controlled by the Group. In total 2,298,769 shares have been issued and are held by the Probiotec Limited Employee Share Plan (ESP).

24. Asset revaluation reserve

Balance at end of financial year	4,523,385	4,523,385	4,409,606	4,409,606
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The asset revaluation reserve arises on the revaluation of non-current assets. There has been no movement during the financial year.

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

25. Commitments

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Capital commitments				
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	–	1,445,432	–	1,445,432
	–	1,445,432	–	1,445,432
Lease commitments				
Operating leases				
Non-cancellable operating leases contracted for but not capitalised in the financial statement.				
Payable – minimum lease payments:				
Within one year	144,240	138,680	–	–
Later than one year but not later than 5 years	57,247	201,487	–	–
Commitments not recognised in the financial statements	201,487	340,167	–	–

The operating lease above provides the lessee with the option to extend the lease on the same terms for a further period of five (5) years from the expiry of the lease term. The lease does not have any other significant terms or restrictions.

Notes to the financial statements for the year ended 30 June 2009 (continued)

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Finance leases commitments				
Payable – minimum lease payments:				
Within one year	2,056,102	1,462,227	2,056,102	1,462,227
Later than one year but not later than 5 years	3,451,081	2,822,032	3,451,081	2,822,032
More than 5 years	–	–	–	–
Minimum lease payments	5,507,183	4,284,259	5,507,183	4,284,259
Less: Future finance charges	(609,234)	(476,118)	(609,234)	(476,118)
Present value of minimum lease payments	4,897,949	3,808,141	4,897,949	3,808,141
Representing lease liabilities:				
Current	979,988	817,417	979,988	817,417
Non-current	3,917,960	2,990,724	3,917,960	2,990,724
	4,897,949	3,808,141	4,897,949	3,808,141

The weighted average interest rate implicit in the leases is 7.56%.

The significant leasing arrangements associated with the finance lease commitments outlined above are that the lease is secured against the asset acquired until still time as the finance lease has been repaid in full and that appropriate insurance must be held to cover the asset acquired under the finance leases arrangement. There is no restriction on dividend levels, debt levels or further leasing.

26. Contingent liabilities and contingent assets

At balance date, the group is subject to several legal precedings, being:

- The case of NSI Dental Pty Ltd v University of Melbourne [2007] FTA 523 (“the NSI Case”), as outlined in the financial reports for the year ended 30 June 2007 and the year ended 30 June 2008; and
- Precedings against Probiotec Pharma Pty Ltd by Pfizer Australia Limited (“the Pfizer Case”), as outlined in the financial report for the year ended 30 June 2008.

NSI Case Update

In April 2007 three Probiotec group companies were ordered to pay the legal costs of the claimant in the proceedings. As outlined in the financial report for the year ended 30 June 2007, the company appealed the decision and also commenced proceedings against its former legal representatives to recover all moneys payable as a result of that judgment.

As outlined in the financial report for the year ended 30 June 2008, on appeal the company was successful in the vast majority of its claims. The effect of the appeal judgment is that it has reduced the company's liability from 100% of the claimant's legal costs to 10% of those legal costs. The claimant has also been ordered to pay the company's legal costs of the appeal. The deadline for the claimant to appeal this decision has passed.

As stated in the financial report for the year ended 30 June 2008, the company's assessment is that its liability (which is yet to be quantified) under the appeal judgment will be for an amount estimated to be in the range of \$50,000 – \$350,000. This is a substantial reduction from previous estimates of legal costs under the original order of \$2.1m – \$5m.

The company is continuing with its proceedings against its former legal advisers. It considers that it is likely to recover the majority (if not all) of the amount it pays under the revised judgment through this action. As a result, no provision has been made relating to this piece of litigation. Furthermore information on this case is available via the company's announcements previously lodged with the Australian Stock Exchange.

Notes to the financial statements for the year ended 30 June 2009 (continued)

Pfizer Case Update

In February 2008, a subsidiary of the company received a claim ("the claim") from one of its customers, Pfizer Australia Pty Limited ("Pfizer").

The claim arose from a recall of product manufactured by the subsidiary using a raw material which the subsidiary subsequently found to be counterfeit and the subject of a forged certificate of compliance. The subsidiary informed Pfizer of those circumstances when it learned of them. The presence of the raw material did not give rise to any health or safety issues. The subsidiary acquired the raw material from a reputable Australian third party supplier specifically approved by Pfizer to supply the material. It was this approved third party supplier who provided the certificate of compliance in question.

Pfizer has commenced proceeding against the subsidiary along with the third party supplier who supplied the counterfeit material to the subsidiary. At balance date no hearing had been conducted.

The company has also brought a cross claim against the third party supplier to recover from that supplier any amount for which the subsidiary might be held liable to Pfizer, along with its legal costs. The Company is confident that the subsidiary will be held entitled to fully recover those amounts from the supplier.

The claim does not quantify the damages sought. As outlined in the financial report for the year ended 30 June 2008, the Company's assessment is that the limit of any exposure the subsidiary could be found to have is \$3 million. The Company believes that any such amount will be held payable by the third party supplier. Having considered all relevant information presently available, the Company's board considers that, in their final outcome, these proceedings will not result in a material payment by the subsidiary, or by any other group company. Further details on this case are available via the company's announcements previously lodged with the Australian Stock Exchange.

Notes to the financial statements for the year ended 30 June 2009 (continued)

27. Controlled entities/subsidiaries

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	OWNERSHIP INTEREST	
			2009 %	2008 %
Parent Entity				
Probiotec Limited	Australia	ORD	100	100
Controlled Entities				
Probiotec Nutritionals Pty Ltd	Australia	ORD	100	100
Probiotec (QLD) Pty Ltd	Australia	ORD	100	100
Probiotec (NSW) Pty Ltd	Australia	ORD	100	100
Probiotec Pharma Pty Ltd	Australia	ORD	100	100
Biotech Pharmaceuticals Pty Ltd	Australia	ORD	100	100
Southern Dairy Ingredients Pty Ltd	Australia	ORD	100	100
Probiotec Pharmaceuticals Pty Ltd	Australia	ORD	100	100
Milton Australia Pty Ltd	Australia	ORD	100	100
Biotech Pharmaceuticals Australia Pty Ltd	Australia	ORD	100	100
Willie Labs Generic Pty Ltd	Australia	ORD	100	100
Milton Pharmaceuticals Pty Ltd	Australia	ORD	100	100
Golden Life Australia Pty Ltd	Australia	ORD	100	100
Probiotec International Pty Ltd	Australia	ORD	100	100
Biotech Pharmaceuticals (NZ) Pty Limited	New Zealand	ORD	100	100
Probiotec (UK) Limited	United Kingdom	ORD	100	0
Probiotec Pharma GmbH	Germany	ORD	100	0
Probiotec (Ireland) Limited	Ireland	ORD	100	0

The proportion of ownership interest is equal to the proportion of voting power held.

Controlled entities acquired

No entity was acquired by the group during the 2009 financial year except for Probiotec (UK) Limited, Probiotec Pharma GmbH and Probiotec (Ireland) Limited, which were newly incorporated during the year.

Notes to the financial statements for the year ended 30 June 2009 (continued)

28. 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 of options issued to key management personnel refer to the remuneration report.

Employee incentive scheme options issued to eligible employees

GRANT DATE	VESTING DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	OPTIONS GRANTED (LAPSED) DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER	FAIR VALUE PER OPTION AT GRANT DATE
30.6.2006	30.6.2009	\$0.80	1,143,769	(50,000)	1,093,769	\$0.21
01.7.2007	30.6.2010	\$0.80	50,000	–	50,000	\$0.45
01.7.2007	30.6.2010	\$1.50	410,000	–	410,000	\$0.20
01.7.2008	30.6.2011	\$1.50	–	325,000	325,000	\$0.23
30.6.2009	30.6.2012	\$2.35	–	420,000	420,000	\$0.52
			1,603,769	695,000	2,298,769	

No options were exercised during the year ended 30 June 2009. A total of 50,000 options were forfeited during the year ended 30 June 2009. The forfeited options were granted on 30 June 2006 at an exercise price of \$0.80 per share.

When a participant ceases employment prior to vesting their options, the share options are forfeited.

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: 42% for options granted on 30.06.2006,
38% for options granted on 01.07.2007 and 01.07.2008,
48% for options granted on 30.06.2009.

Risk-free interest rate: 5.7% for options issued on 30.06.2006, 01.07.2007 and 01.07.2008,
5% for options issued on 30.06.2009. Vesting period: 3 years

Projected dividend yield: 4%

Share price: weighted average share price for 5 trading days preceding grant date.

For options issued prior to 30 June 2008, the expected volatility during the term of the options was based around assessments of the volatility of similar-sized listed entities and entities in similar industries. For options issued after 30 June 2008, the volatility during the term of the options was calculated from the standard deviation of day to day logarithmic historical price changes. The value of the options has been expensed to remuneration on a proportionate basis over the period from the grant date to the vesting date.

Notes to the financial statements for the year ended 30 June 2009 (continued)

(b) Shares issued to employees

Eligible employees of the Group (other than directors and management staff who participate in the Probiotec Limited Employee Share Plan) received a gift of shares in recognition of their contribution to date. The shares were issued in accordance with a resolution of the Board for nil consideration.

DATE SHARES ISSUED	SHARES ISSUED NUMBER	SHARE PRICE*	FAIR VALUE AT ISSUE DATE
21.12.2006	44,173	\$1.12	49,474
31.05.2007	41,250	\$1.17	48,263
12.05.2008	33,261	\$1.06	35,257
	118,684		132,994

* The share price used in calculating the fair value of the shares at issue date was the closing market price of the shares at issue date.

The total value of the shares was expensed to remuneration and accounted for in contributed equity in the period in which they were issued.

(c) Expenses arising from share-based payments

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Options issued under incentive option scheme	95,630	76,781	95,630	76,781
Options issued to CEO	72,743	12,783	72,743	12,783
Shares issued to employees	–	35,281	–	35,281
	168,373	124,845	168,373	124,845

29. Subsequent events

On 23 September 2009, the company completed a fully underwritten capital raising of \$11.985 million to provide it with greater balance sheet flexibility as it continues to expand its international distribution capacity.

Under the Placement 4.7 million new fully paid ordinary shares were issued to institutional investors at \$2.55 per share.

Funds raised from the placement will be used to reduce Probiotec's pro-forma net debt at 30 June from \$27.3m to \$15.3m, resulting in a reduction of Probiotec's pro-forma gearing falling from 54% to 43.6%.

There has not been any other matters or circumstances that have arisen since the end of the financial year that have 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.

Notes to the financial statements for the year ended 30 June 2009 (continued)

30. Elated 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. Save for the matter disclosed in note 7 and 14, no balances have been written off and no provision for doubtful debts has been made against any balances with related parties.

Ultimate parent company

There were no payments to the ultimate parent company.

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
Associated companies				
Sales of lactoferrin to Probiotec Limited and it subsidiaries	212,848	28,478	–	–

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 2009.

Identification of Related parties Ultimate Parent Entity

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

Transactions within the group

The following transactions occurred between the ultimate parent entity and its related entities:

	PARENT ENTITY	
	2009 \$	2008 \$
Supply of management, finance and other services to:		
Probiotec Nutritionals Pty Ltd	125,320	940,410
Probiotec (NSW) Pty Ltd	200,000	935,280
Probiotec (QLD) Pty Ltd	150,000	607,188
Biotech Pharmaceuticals Pty Ltd	6,073,893	2,282,650
Milton Australia Pty Ltd	160,475	134,377
Probiotec Pharma Pty Ltd	1,674,877	2,834,538
Probiotec (UK) Limited	182,356	–
Probiotec Pharma GmbH	22,903	–
	8,599,825	7,734,443
The following balances between the ultimate parent entity and its related parties are outstanding at reporting date:		
Probiotec Nutritionals Pty Ltd	(9,716,524)	(8,521,862)
Probiotec (NSW) Pty Ltd	12,050,995	11,892,981
Probiotec (QLD) Pty Ltd	5,712,935	5,299,101
Biotech Pharmaceuticals Pty Ltd	2,040,452	6,457,763
Probiotec Pharma Pty Ltd	9,232,498	4,722,475
Golden Life (Australia) Pty Ltd	(565,953)	(673,363)
	18,754,403	19,177,094

Notes to the financial statements for the year ended 30 June 2009 (continued)

No guarantees have been given or received in respect of any amounts receivable from or payable to any of the related parties above. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

31. Notes to the cash flow statement

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 \$	2008 \$	2009 \$	2008 \$
(a) Financing facilities with banks				
Secured bank overdraft facility:				
Facility balance	500,000	1,500,000	500,000	500,000
Amount used	–	(161,380)	(891,692)	(151,132)
Amount unused	500,000	1,338,620	(391,692)	348,868
Secured loan facility:				
Facility balance	39,172,045	19,799,039	20,380,367	18,549,039
Amount used	(22,090,366)	(19,299,039)	(16,682,059)	(14,549,039)
Amount unused	17,081,679	500,000	3,698,308	4,000,000
Bank bill acceptance facility, reviewed annually:				
Facility balance	550,000	650,000	–	–
Amount used	(550,000)	(650,000)	–	–
Amount unused	–	–	–	–
(b) Reconciliation of Profit from Ordinary Activities After Related Income Tax to Net Cash Flows From Operating Activities:				
Profit from ordinary activities after related income tax	8,900,922	6,309,098	2,653,511	1,422,255
Depreciation and amortisation	2,840,996	2,380,259	1,172,059	1,050,653
Loss on sale of plant and equipment	35,032	1,741	35,034	1,741
(Decrease)/increase in net deferred taxes	1,180,956	1,313,249	(10,603)	367,953
(Increase) in inventories	(3,070,765)	(3,521,789)	–	–
(Increase)/decrease in trade receivables	11,096	(2,280,323)	366,151	3,944,595
(Increase)/decrease in other receivables and prepayments	(815,002)	(127,123)	(77,458)	46,995
Increase/(decrease) in trade and other payables	(1,323,817)	3,410,168	390,839	95,392
Increase in provisions	1,250,877	724,275	207,319	266,168
Net cash from operating activities	9,010,295	8,209,555	4,736,852	7,195,752

Non-cash financing and investing activities

During the year the economic entity acquired plant and equipment with an aggregate value of \$2,315,038 (2008: \$208,289) by means of finance leases. These acquisitions are not reflected in the cash flow statement.

Notes to the financial statements for the year ended 30 June 2009 (continued)

32. Earnings per share

	CONSOLIDATED GROUP	
	2009 \$	2008 \$
Profit	8,900,922	6,309,098
Earnings used in the calculation of basic EPS	8,900,922	6,309,098
Earnings used in the calculation of dilutive EPS	8,900,922	6,309,098
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	46,770,815	46,546,855
Weighted average number of options outstanding	3,632,723	1,833,770
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	50,403,538	48,380,625
Earnings per share:		
Basic earnings per share (cents)	19.03	13.55
Diluted earnings per share (cents)	17.66	13.04

There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for either of the periods presented.

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

Options as described in note 28 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive. These options have not been included in the determination of basic earnings per share.

33. Business combinations

No acquisition of any going concern was undertaken by Probiotec Limited in the year ended 30 June 2009.

34. Company details

The registered office of the company is:

Probiotec Limited
83 Cherry Lane
Laverton VIC 3026

The principal places of businesses are

83 Cherry Lane, Laverton VIC
36 Bolong Road, Bomaderry NSW
35 Norfolk Avenue, South Nowra NSW
47 Production Street, Bundaberg QLD

Notes to the financial statements for the year ended 30 June 2009 (continued)

35. Financial instruments**Financial risk management**

The Group's financial instruments consist mainly of trade and other receivables, trade and other 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 functional currency, primarily with respect to the British Pound, New Zealand dollar and US dollar. 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		
	GBP \$	NZD \$	USD \$
2009			
Financial Assets			
Trade and other receivables	693,911	263,304	829,951
Financial Liabilities			
Trade and other payables	112,199	5,755	108,785
Net exposure	581,712	257,549	721,166
The parent entity is not exposed to any significant foreign currency risk.			
2008			
Financial Assets			
Trade and other receivables	732,127	371,254	348,170
Financial Liabilities			
Trade and other payables	–	–	737,898
Net exposure	732,127	371,254	(389,728)

Notes to the financial statements for the year ended 30 June 2009 (continued)

Sensitivity analysis

Based on the financial instruments held as at 30 June 2009, a 10% strengthening of Australian dollar against the British Pound, 15% strengthening of Australian dollar against the New Zealand dollar (NZD) and 10% strengthening of Australian dollar against US dollar 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 2008.

	CONSOLIDATED GROUP		PARENT ENTITY	
	PROFIT \$	EQUITY \$	PROFIT \$	EQUITY \$
2009				
GBP	(52,883)	–	–	–
NZD	(33,593)	–	–	–
US dollars	(65,561)	–	–	–
2008				
GBP	(66,557)	–	–	–
NZD	(45,464)	–	–	–
US dollars	35,430	–	–	–

A 10% weakening of Australian dollar against GBP, 15% weakening of Australian dollar against NZD and 10% weakening of Australian dollar against US dollar 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.

(ii) 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 20. 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 25% – 50% of its borrowings at fixed rate using floating-to-fixed interest rate swaps 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 2008 and 2009, the Group's borrowings at variable rates were denominated in Australian Dollars.

Notes to the financial statements for the year ended 30 June 2009 (continued)

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 \$	
2009					
Financial assets:					
Cash and cash equivalents	2.90	1,673,396	–	–	1,673,396
Trade and other receivable	–	9,720,351	–	–	9,720,351
Total financial assets		11,393,747	–	–	11,393,747
Financial Liabilities:					
Accounts payable	–	11,188,921	–	–	11,188,921
Loans and overdraft	4.40	6,318,322	17,792,251	–	24,110,573
Lease liability	7.56	979,988	3,917,900	–	4,897,888
Total financial liabilities		18,487,232	21,710,151	–	40,197,382
2008					
Financial assets:					
Cash and cash equivalents	6.45	539,435	–	–	539,435
Trade and other receivable	–	9,731,447	–	–	9,731,447
Total financial assets		10,270,882	–	–	10,270,882
Financial Liabilities:					
Accounts payable	–	12,512,739	–	–	12,512,739
Loans and overdraft	8.24	7,643,380	15,690,783	–	23,334,163
Lease liability	7.66	817,417	2,990,724	–	3,808,141
Total financial liabilities		20,973,536	18,681,507	–	39,655,043

The notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

OUTSTANDING FLOATING TO FIXED CONTRACTS	AVERAGE CONTRACTED FIXED INTEREST RATE		NOTIONAL PRINCIPAL AMOUNT		FAIR VALUE	
	2009 %	2008 %	2009 \$	2008 \$	2009 \$	2008 \$
Consolidated Group						
Less than 1 year	6.00	6.00	8,000,000	–		
1 to 2 years	6.00	6.00	–	8,000,000		
			8,000,000	8,000,000	–	–
Parent Entity						
Less than 1 year	6.00	6.00	8,000,000	–		
1 to 2 years	6.00	6.00	–	8,000,000		
			8,000,000	8,000,000	–	–

Notes to the financial statements for the year ended 30 June 2009 (continued)

The interest rate swap settles on a quarterly basis with the floating interest rate on the swap at 6.00%. The swap and interest payments on the loan occurs simultaneously with the settlement of difference between fixed and floating interest rate on a net basis.

Sensitivity analysis**Fair value sensitivity analysis for fixed rate instruments**

The Group accounts for any fixed rate financial instruments at fair value through profit or loss and does not designate derivatives as hedging instruments under fair value hedge accounting.

Cash flow sensitivity analysis for variable rate instruments

Based on the financial instruments held as at 30 June 2009, a change of 100 and 50 basis points in interest rates 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 2008.

	CONSOLIDATED GROUP		PARENT ENTITY	
	PROFIT \$	EQUITY \$	PROFIT \$	EQUITY \$
2009				
+ 1% (100 basis points)	161,106	161,106	86,821	86,821
– 0.5% (50 basis points)	(80,553)	(80,553)	(43,410)	(43,410)
2008				
+ 1% (100 basis points)	113,604	113,604	67,002	67,002
– 0.5% (50 basis points)	(56,802)	(56,802)	(33,501)	(33,501)

Cash flow sensitivity analysis for derivative instruments

Based on the derivative financial instruments held as at 30 June 2009, a change of 50 basis points in interest rates would have increased/ (decreased) the value of the derivative by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008.

	DERIVATIVE VALUE	
	CONSOLIDATED GROUP \$	PARENT ENTITY \$
2009		
+ 0.5% (50 basis points)	52,337	52,337
– 0.5% (50 basis points)	(52,337)	(52,337)
2008		
+ 0.5% (50 basis points)	71,389	71,389
– 0.5% (50 basis points)	(71,389)	(71,389)

(b) Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments as and when they fall due 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 forecasts and actual cash flows and to maintain sufficient liquidity to meet its liabilities when due.

In addition, the Group had access to approximately \$17.5 million undrawn credit facilities available for immediate use at the reporting date which would further reduce the liquidity risk. For further details see note 31(a).

Notes to the financial statements for the year ended 30 June 2009 (continued)

Maturities of financial liabilities

	CARRYING AMOUNT \$	TOTAL CONTRACTUAL CASH FLOWS \$	LESS THAN 6 MONTHS \$	6 – 12 MONTHS \$	1 – 5 MONTHS \$
Consolidated Group					
2009					
Non-derivatives financial liabilities					
Trade and other payables	11,188,921	11,188,921	11,188,921	–	–
Fixed borrowings	4,897,888	5,507,183	1,028,051	1,028,051	3,451,081
Variable borrowings	24,110,573	24,110,573	875,000	875,000	22,360,573
	40,197,383	40,806,677	13,091,972	1,903,051	25,811,654
2008					
Non-derivatives financial liabilities					
Trade and other payables	12,512,739	12,512,739	12,512,739	–	–
Fixed borrowings	3,808,141	4,284,259	408,709	408,709	3,466,841
Variable borrowings	23,334,163	23,334,163	425,000	425,000	22,484,163
	39,655,043	40,131,161	13,346,448	833,709	25,951,004
Parent Entity					
2009					
Non-derivatives financial liabilities					
Trade and other payables	1,025,105	1,025,105	1,025,105	–	–
Fixed borrowings	3,808,141	4,284,259	408,709	408,709	3,466,841
Variable borrowings	15,790,367	15,790,367	825,000	825,000	14,140,367
	20,623,613	21,099,731	2,258,814	1,233,709	17,607,208
2008					
Non-derivatives financial liabilities					
Trade and other payables	634,266	634,266	634,266	–	–
Fixed borrowings	3,808,141	4,284,259	408,709	408,709	3,466,841
Variable borrowings	14,700,171	14,700,171	375,000	375,000	13,950,171
	19,142,578	19,618,696	1,417,975	783,709	17,417,012

(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 balance date is addressed in Note 10 and 11.

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 85% of the invoiced value outstanding based on pre-defining maximum credit limits agreed between the group and the insurer.

The Group does not have a material concentration of risk with any one of its customers.

Notes to the financial statements for the year ended 30 June 2009 (continued)

(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) Net fair values

The net 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 net fair value is the recognised unrealised gain or loss at balance sheet date determined from the current forward exchange rates for contracts with similar maturities.

For other assets and other liabilities the net 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 net fair values have not been written down as the economic entity intends to hold these assets to maturity.

	2009		2008	
	CARRYING AMOUNT \$	NET FAIR VALUE \$	CARRYING AMOUNT \$	NET FAIR VALUE \$
Financial Assets				
Trade & other current receivables	9,720,351	9,720,351	9,731,447	9,731,447
Cash and cash equivalents	1,673,396	1,673,396	539,435	539,435
	11,393,747	11,393,747	10,270,882	10,270,882
Financial Liabilities				
Trade & others payables	11,188,921	11,188,921	12,512,739	12,512,739
Short term borrowings	6,318,322	6,318,322	7,643,380	7,643,380
Long term borrowings	17,792,251	17,792,251	15,690,783	15,690,783
Lease liability	4,897,948	4,897,948	3,808,141	3,808,141
	40,197,442	40,197,442	39,655,043	39,655,043

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

36. 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 – Intangible assets

The recoverable amount of each cash-generating unit used for impairment testing has been 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 assumed growth rate and discount rate used in the determination of value in use were 5% and 13% respectively. The discounted rate used is the Weighted Average Cost of Capital (WACC) of the Group at the reporting date. See note 15 for further details on the impact of changes to these assumptions.

(ii) Assumptions relating to carrying value of Joint Venture

Notwithstanding the net asset deficiency position of Australian Dairy Proteins Pty Ltd, the director's of the company believe that the entity will earn sufficient future cash flows that support the carrying value of the investment held by the parent entity.

Notes to the financial statements for the year ended 30 June 2009 (continued)

37. Segment information

Business Segments	Types of products and services
Business Segment 1	Pharmaceuticals & Consumer Health
Business Segment 2	Nutritional/Nutraceutical Foods

All inter-segment transactions are at arms length.

(a) Primary reporting format

	BUSINESS SEGMENT 1		BUSINESS SEGMENT 2		UNALLOCATED		CONSOLIDATED	
	2009 (\$ '000)	2008 (\$ '000)	2009 (\$ '000)	2008 (\$ '000)	2009 (\$ '000)	2008 (\$ '000)	2009 (\$ '000)	2008 (\$ '000)
Revenue								
External sales	78,310	48,772	8,823	17,296	–	–	87,133	66,068
Inter-segment sales	–	–	–	–	–	–	–	–
Other revenue	30	209	9	116	64	73	103	398
Total segment revenue	78,340	48,981	8,832	17,412	64	73	87,236	66,466
Result								
Segment result	18,710	10,529	596	3,474	(7,256)	(5,502)	12,050	8,501
Profit from ordinary activities before income tax							12,050	8,501
Income tax expenses							3,150	2,192
Net profit after income tax							8,901	6,309
Assets								
Segment assets	75,954	59,169	17,482	15,907	8,822	10,829	102,258	91,120
Consolidated total assets							102,258	91,120
Acquisition of property, plant, equipment and intangible assets	6,325	5,477	319	935	231	151	6,875	6,563
Liabilities								
Segment liabilities	16,211	14,711	3,626	1,628	30,137	25,486	49,974	41,825
Consolidated total liabilities							49,974	41,825
Other information								
Depreciation and amortisation	1,621	1,337	891	838	328	205	2,841	2,380

Notes to the financial statements for the year ended 30 June 2009 (continued)

(b) Secondary reporting format

The economic entity's business segments are located in Australia. Exports are made to a number of regions across the world.

The gross revenue, segment assets and liabilities in each region where significant export revenue is achieved for the year was:

	AUSTRALIA (\$'000)	NEW ZEALAND (\$'000)	EUROPEAN UNION (\$'000)	UNITED STATES OF AMERICA (\$'000)	OTHER (\$'000)
Gross Revenue for year ended 30 June 2009	66,265	990	16,129	2,155	707
Gross Revenue for year ended 30 June 2008	58,459	3,201	1,824	884	1,108
Segment assets as at 30 June 2009	101,719	–	539	–	–
Segment assets as at 30 June 2008	91,120	–	–	–	–
Segment liabilities as at 30 June 2009	49,679	–	295	–	–
Segment liabilities as at 30 June 2008	41,825	–	–	–	–

Declaration by Directors

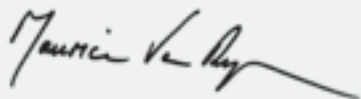
Probiotec limited and its controlled entities

ACN 075 170 151

The directors of the company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, 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 2009 and of the performance for the year ended on that date of the company and the consolidated entity.
2. 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.
3. The remuneration disclosures included in pages 6 to 13 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2009, comply with section 300A of the Corporations Act 2001.
4. 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:



Director

Maurice Van Ryn

Dated at Laverton this 24th day of September 2009

Independent Auditor's Report



BDO Keadalla

BDO Keadalla Audit & Assurance (NSW/NTC) Pty Ltd
The Rialto, 525 Collins St
Melbourne VIC 3000
GPO Box 4736 Melbourne VIC 3001
Phone: 61 3 8329 2222
Fax: 61 3 8329 2308
aa.melbourne@bdo.com.au
www.bdo.com.au

ABN 27 114 673 740

INDEPENDENT AUDITOR'S REPORT

To the members of Probiotec Limited

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Probiotec Limited for the year ended 30 June 2009 included on Probiotec Limited's web site. The company's directors are responsible for the integrity of Probiotec Limited's web site. We have not been engaged to report on the integrity of Probiotec Limited's web site. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Report on the Financial Report

We have audited the accompanying financial report of Probiotec Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

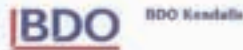
Auditor's Responsibility

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

BDO Keadalla is a national association of
member partnerships and entities. Liability
limited by a scheme approved under
Professional Standards Legislation.

Independent Auditor's Report (continued)



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 would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

- (a) the 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 and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; 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 on pages 6 to 13 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Probiotec Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

BDO Kendall's

BDO Kendall's Audit & Assurance (NSW-VIC) Pty Ltd


Nick Michael
Director

Melbourne, Victoria

Dated this 24th day of September 2009

Other information required by ASX Listing Rules

The information in this section is current as at the 1st October 2009.

Substantial Holders in the entity

Wayne Stringer	7,135,954 fully paid ordinary shares
Caledonia (Private) Investments Pty Limited	3,698,980 fully paid ordinary shares
Vintage Capital Pty Ltd (ACN 116 337 592)	3,232,161 fully paid ordinary shares

Holders of each class of equity securities

SECURITY CLASSES	HOLDERS	TOTAL UNITS
Fully Paid Ordinary	1,317	52,260,836

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	200	118,206	0.226
	1,001-5,000	537	1,441,593	2.758
	5,001-10,000	234	1,808,706	3.461
	10,001-100,000	300	8,033,170	15.371
	100,001-99,999,999,999	46	40,859,161	78.183
Totals		1,317	52,260,836	100.000

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 196 or more shares.

SECURITY CLASSES	HOLDINGS RANGES	HOLDERS	TOTAL UNITS	%
Fully Paid Ordinary	1-195	27	1,260	0.002
	401-99,999,999,999	1,290	52,259,576	99.998
Totals		1,317	52,260,836	100.000

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.

Other information required by ASX Listing Rules (continued)

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	BALANCE	%
INSTON PTY LTD	3,830,651	7.330
UBS NOMINEES PTY LTD <PB SEG A/C>	3,537,930	6.770
VINTAGE CAPITAL PTY LTD	3,232,161	6.185
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,950,584	5.646
COGENT NOMINEES PTY LIMITED	2,262,152	4.329
MR CHARLES WAYNE STRINGER	2,237,531	4.281
ANZ NOMINEES LIMITED <INCOME REINVEST PLAN A/C>	1,997,857	3.823
GANTER CORPORATION PTY LTD <GANTER FAMILY A/C>	1,940,981	3.714
NATIONAL NOMINEES LIMITED	1,870,790	3.580
TRIFERN PTY LTD	1,563,150	2.991
VBS INVESTMENTS PTY LTD	1,554,260	2.974
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	1,252,178	2.396
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,150,777	2.202
INSTON PTY LTD	1,067,772	2.043
MR SCOTT JOHNSTON <JOHNSTON FAMILY S/F A/C>	1,008,768	1.930
ANZ NOMINEES LIMITED <CASH INCOME A/C>	875,092	1.674
HOLTEX PTY LIMITED <BUCKERIDGE SUPER FUND A/C>	724,924	1.387
TAYLOR CO PTY LTD <PETER TAYLOR SUPER FUND A/C>	636,883	1.219
HOLTEX PTY LTD <BUCKERIDGE S/F A/C>	593,761	1.136
TRUST COMPANY SUPERANNUATION SERVICES LIMITED <SPARXX S/F A/C>	569,458	1.090

Registered Office and principal administrative office

The registered office and principal administrative office for Probiotec is:

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

Other information required by ASX Listing Rules (continued)

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:

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

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	27	4,544,063

On market buy-back

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

Use of cash and assets in a form readily convertible to cash

Probiotec Limited has used the cash and assets in a form readily convertible to cash that it had at the time of admission to the Australian Stock Exchange (ASX) in a way that is consistent with its business objectives. This statement is applicable to the period from admission until the end of the reporting period.

Probiotec Annual Report 2009

Head office

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

www.probiotec.com.au

