



Annual Report 2019





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REGISTERED OFFICE

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Probiotec Limited
ABN 91 075 170 151

PROBIOTEC LIMITED

AND ITS CONTROLLED ENTITIES
A.C.N. 075 170 151

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2019

Chairman's Letter to Shareholders

Dear Shareholders,

On behalf of your board of directors, it gives me great pleasure to present to you the 2019 Annual Report.

As foreshadowed last year, 2019 has seen the continuation of the execution of our strategic plan outlined in 2017. The execution of this strategy has been a credit to the management team of the Company.

2019 saw us conclude the settlement of the sale and leaseback of our primary facility in Laverton North, together with commencing construction of a new warehousing facility as flagged last year. This has been delivered without disruption to the ongoing activities of the business.

The previously advised sales of the Group's branded portfolios have been settled, and transferred to the new owners, whilst retaining the ongoing manufacturing requirements. In addition, post year end we advised the market of the successful sale of the remaining brand, Celebrity Slim, whilst again retaining manufacturing on a long-term contract.

The outcome of these structural changes saw us able to provide for a special dividend, and thereafter a share buyback, to deliver value to our shareholders.

In addition, we were delighted to announce the purchase of ABS (Aus) Pty Ltd, an attractive addition to our already successful contract packing portfolio. This transaction settled post year end but is expected to be earnings accretive from the outset.





The strong result, combined with the confidence your Board has in the year ahead, enabled us to approve the payment of a 2.5 cent per fully franked final dividend, an increase of 25% on the prior year, and this will be paid in October 2019.

The group's contract manufacturing segment goes from strength to strength, with year on year growth of 20%, and we see the year ahead as continuing this path, with further gains to be made from both existing and new customers. Our confidence in the year ahead has led to us providing guidance for the coming year, reflecting strong further growth from the now focussed business.

Conclusion

As I enter my third year as Chairman, I am delighted to say that we have delivered on our strategic plans for the year gone, and we remain excited about the year ahead.

As always, this would not have been possible without the continued effort and contribution of our CEO Wes Stringer, along with his entire executive team, and indeed all the staff at Probiotec. Their focus on excellence has been demonstrated in this year's result and the positioning of the Company for the future.

We are delighted to bring this result to you and look forward to our continuing journey.

Yours Sincerely,
Geoffrey Pearce
Chairman
Probiotec Limited



Company Overview

Probiotec at a Glance



Leading Australian pharmaceutical and consumer health manufacturer



Focus on innovation, quality systems and customer service



Driving growth both organically and via acquisition

Forecast Revenue

\$100m+

FY20 Forecast

+26%

Positive Growth

CAGR

+68%

(Past 4 Years)

Share Price Performance

5 year chart



Mission Statement

To be a leading manufacturer and provider of innovative healthcare products that improve the wellbeing of our customers

Vision Statement

We strive as a business to keep at the forefront of our minds the many stakeholders impacted by the way we conduct ourselves as an organisation.

To this end we must provide the highest quality products to our clients with exceptional customer service. We must conduct our business with the utmost respect for our staff, their safety and listen to their feedback. We must be efficient and cost-conscious, so as to provide our clients with competitive supply and at the same time realise that as a business we must make an acceptable profit for our shareholders.

We must do so in a sustainable manner, with respect for our surroundings, the environment and the communities we operate within.

We must continue to innovate, move with the times and remain effective in what we do so that we provide vision for the stakeholders in our business and remain motivated to deliver long-term on our strategy.

Strategic Plan

NOW

- High quality contracted customer base
- Capacity to grow



SHORT TERM

- Organic growth
- NPD for existing clients (strong pipeline)
- New clients



MEDIUM TERM

- New clients
- NPD for new and existing clients
- Efficiency improvements
- Acquisition and industry consolidation
- Export markets



LONG TERM

- Australia's largest pharma contract manufacturer and packer

Objectives

- Leading manufacturer of high quality prescription and over-the-counter pharmaceuticals, complementary medicines and specialty ingredients in Australia and Asia Pacific
- Largest and most efficient pharma, cosmetic, food and associated packaging business in Australia

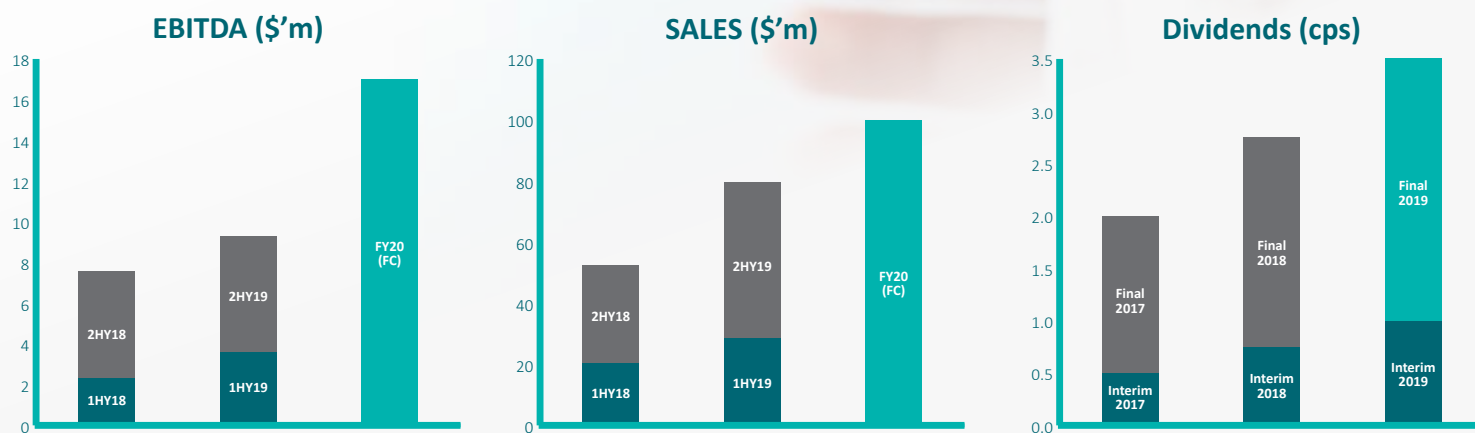
Enablers

- Three state-of-the-art, TGA and GMP approved facilities
- Portfolio of quality customers
- Experienced management team
- IP Ownership
- M&A successes

Strategy

- Accelerate contract manufacturing
- Integrate and grow Pharma Packing
- Targeted NPD for existing and new clients, with a focus on pharmaceutical and complementary products
- Penetrate client's international needs

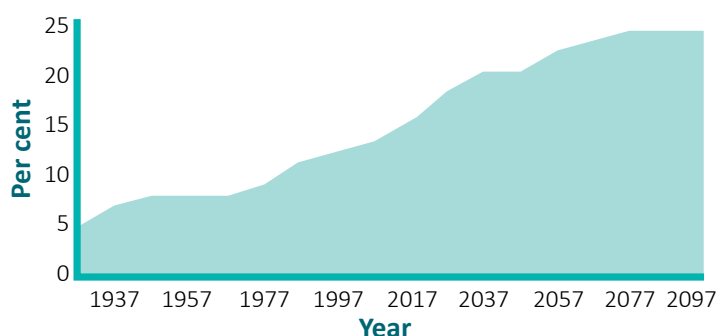
Financial Highlights



Macro Trends Supporting our Growth

Ageing Population Driving Demand for Consumer Health Products

Figure 1: Proportion of the Australian population aged 65 and over, at 30 June, over time.



Sources: ABS [1, 2]

Increasing Awareness and Desire for High Quality Australian Made Products

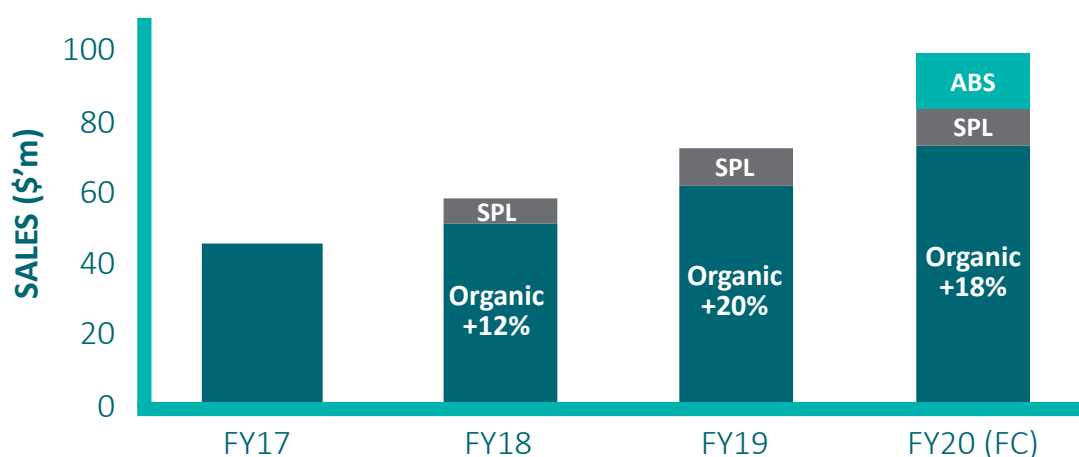


Pharmaceutical Industry Reforms Driving Hunger for New Products and Revenue Sources



Strong Organic Growth Supplemented by accretive acquisitions

- Consistent double-digit organic revenue growth achieved
- Supplemented by earnings accretive acquisitions (SPL in FY18 and ABS in July 2019)

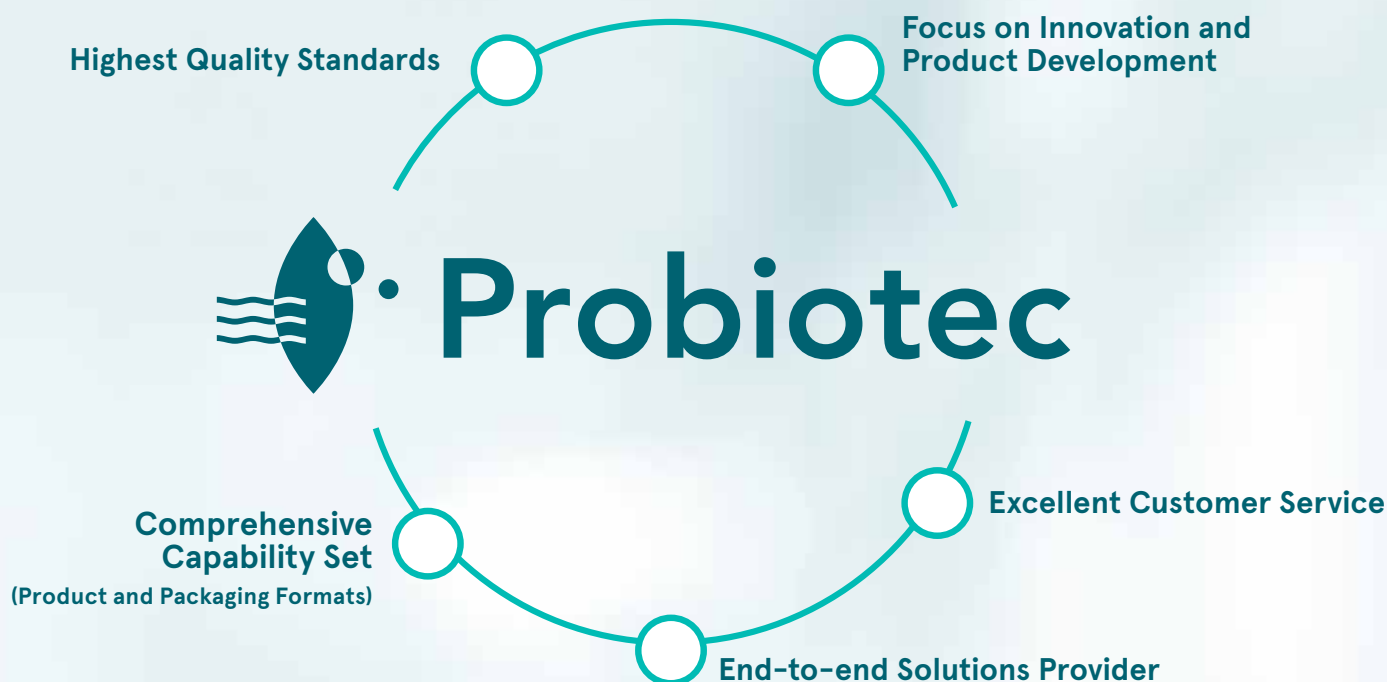


Acquisition of ABS

- Acquisition completed on 31 July 2019
- Earnings accretive from day 1
- \$23m + up to \$5m earn out based on earnings targets for first year
- **Leading pharmaceutical and consumer products contract packer for over 40 years**
- Valuation multiple of 4 to 5 times EBITDA
 - ~ 5 cents EPS accretion before any acquisition related amortization
- Funded by mix of cash and debt



What Makes Us Unique?



Our Capabilities



LOTIONS & GELS



POWDER BLENDS



POWDERS



SPRAYS



TABLET COATING



BLISTER PACKAGING



HIGH VOLUME SOLID DOSE



LIQUIDS & SUSPENSIONS



CREAMS & OINTMENTS



SACHETS



TABLETS
CAPSULES CAPLETS



TUB / JAR FILLING

Our History

1997

Company formed

2004

Acquired Probiotec Pharma Pty Limited

2006

Listed on the ASX

Our Sites



Laverton North

Probiotec Laverton

- Circa 25-30 customers
- Heavily contracted customer base & business model
- Key customer contract terms:
 - 3-5 year terms
 - Cost review process to ensure margin maintenance
 - Majority include exclusivity on products
 - IP held by PBP for a material portion of sales



Southpack

South Pack Laboratories

- Circa 15-20 customers
- Specialist Packaging Businesses
 - Bottling focus
 - Blister
 - Secondary packaging and finishing services



2017

Acquired South Pack Laboratories

2018

Acquired adjacent Site 85 Cherry Lane

Divested pharma brands to iNova and Impromy brand to Blackmores

2019

Commenced build of state of the art new warehouse and additional processing facilities

Acquired ABS



ABS

Australian Blister Sealing

- Strong management team
- Highly efficient site
- Major opportunity for Probiotec to leverage new business, customers

- Circa 20-30 customers
- Specialist Packaging Businesses
 - Cold Seal Packaging
 - Foil Blister
 - Carded Blister Packaging
 - Secondary packaging
 - Labelling

- Other services include: Printing, Thermoforming, Filling
- World Class facilities
- Strict Quality Control and refined systems have earned ABS the highest levels of accreditation with the TGA



Corporate Governance

Probiotec Limited (**Probiotec**) is committed to best practice in corporate governance, compliance and ethical behaviour. The Board's approach has been to be guided by the principles and practices that are in its stakeholders' best interests while ensuring full compliance with legal requirements.

A summary of Probiotec's corporate governance practices and compliance with the Corporate Governance Principles and Recommendations (Third Edition) is set out below. Probiotec is in compliance with all principles and recommendations.

The policies and charters referred to in this summary are accessible at Probiotec's website.

These corporate governance statements are effective as at 26 August 2019.

1 Lay solid foundations for management and oversight

1.1 Responsibilities and Evaluation of the Board and Management

The Board has adopted a Board Charter which sets out the roles and responsibilities of the Board as well as the roles and responsibilities that have been delegated to the Chief Executive Officer and other senior management.

The Board's responsibilities include:

- protecting and enhancing the value of the assets of the Company;
- setting strategies, directions and monitoring and reviewing against these strategic objectives;
- reviewing and ratifying internal controls, codes of conduct and legal compliance;
- reviewing the Company's accounts;
- approval and review of the operating budget and strategic plan for the Company;
- evaluating performance and determining the remuneration of the Chief Executive Officer and Senior Management;
- ensuring the significant risks facing the Company have been identified and adequate control monitoring and reporting mechanisms are in place;
- approval of transactions relating to acquisitions, divestments and capital expenditure above delegated authority limits;
- approval of financial and dividend policy; and
- appointment of the Chief Executive Officer.

The Board reviews the performance, composition and terms of reference of the Boards and the Board's committees using the Process for Evaluation of Performance Policy on an annual basis. The Board has evaluated the Board, the Remuneration and Nomination Committee and Audit and Risk Management Committee during the reporting period.

The Board has delegated responsibility for the day-to-day leadership and management of Probiotec to the Chief Executive Officer. The Board evaluates the performance of the Chief Executive Officer with facilitation by the Chair on an annual basis

using its Process for Evaluation of Performance Policy. The Board evaluated the performance of the Chief Executive Officer during the reporting period.

Senior management has been given certain responsibilities, which include:

- developing strategies to deliver a strong market presence and build shareholder wealth over the long term;
- recommending appropriate strategic and operating plans;
- maintaining effective control of operations;
- measuring performance against peers;
- being strong, principled and providing ethical leadership;
- assuring sound succession planning and management development; and
- providing a sound organisational structure.

The Board evaluates the performance of senior management using its Process for Evaluation of Performance Policy, with the assistance of the Chief Executive Officer, on an annual basis. The Board evaluated the performance of senior management during the reporting period.

1.2 Appointment and evaluation of directors

The Remuneration and Nomination Committee is responsible for developing criteria for Board membership and identifying suitably skilled, qualified and experienced individuals to recommend to the Board. Probiotec undertakes appropriate checks before appointing or putting forward any director for election by shareholders and provides shareholders with all information relevant to their decision whether to elect the director.

Each director and senior executive of Probiotec has in place a letter of appointment or employment agreement which sets out the terms and conditions of their appointment.

The Board has adopted a Process for Evaluation of Performance Policy. Under the Policy, the Chair, in consultation with the Board, determines the process by which the performance of individual directors is assessed. This may include mechanisms such as interviews, self-assessment and peer review.

1.3 Company Secretary

As set out in the Board Charter, the Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

1.4 Diversity Policy

The Board has adopted a Diversity Policy to promote an inclusive culture where all people are encouraged to succeed to the best of their ability. The Remuneration and Nomination Committee is responsible for developing and monitoring a long term plan to address diversity initiatives and measures.



As at 30 June 2019, the Probiotec Group had the following female participation (%) rates:

Probiotec Limited non-executive directors	0
Senior executive positions	30
Other management and professional roles	40
Total workforce	45

For the purposes of the reporting above, senior executive positions are defined as those positions whereby the executive has both multiple direct reports and control over significant decisions within their department.

The Board has set the overall objective of a 50% participation rate across all levels of the Group. However, this objective is governed by the overriding principle of merit based selection and advancement.

2 Structure the board to add value

2.1 Composition of the Board

There are currently four members on the Board, of which the majority are independent, non-executive directors. The Chair of the Board is Geoff Pearce, an independent and non-executive director. The Chief Executive Officer is Wesley Stringer. Probiotec supports the separation of the roles of Chair of the Board and Chief Executive Officer.

Profiles of each board member, including terms in office, are included in the 2019 Financial Report.

The Board has established a Remuneration and Nomination Committee and an Audit and Risk Management Committee. The responsibilities of these Committees are set out in more detail below. The number of Committee meetings held during the reporting period and attendance at those meetings, are included in the 2019 Financial Report.

2.2 Skills and competency of the Board

The Board has not adopted a Board Skills Matrix. The Board considers that it is aware of the mix of skills held by the Board and is conscious of which skills may be beneficial to add to the Board. The Remuneration and Nomination Committee assists the Board in this respect. The duties and responsibilities of the Remuneration and Nomination Committee, as set out in its Charter, include reviewing the size, structure and composition of the Board and the effectiveness of the Board as a whole, and identifying suitable candidates to fill Board vacancies. The Committee make recommendations to the Board accordingly.

The Remuneration and Nomination Committee is also responsible for establishing and overseeing induction and continuing professional development programs for directors to develop and maintain the skills and knowledge needed to perform the role effectively.

2.3 Independence of directors

In determining the independence of directors, the Board applies the definition of independent directors as contained in the Corporate Governance Principles and Recommendations (Third Edition). An independent director is a director who is independent of management and free of any interest, position, association or relationship that might materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their independent judgement.

The Board considers that each of its Non-executive directors, Sandy Beard, Geoff Pearce and Greg Lan is independent.

2.4 Remuneration and Nomination Committee

The Remuneration and Nomination Committee is made up of Geoff Pearce, Greg Lan and Wesley Stringer with Geoff Pearce holding the role of Chairman. The Board considers a majority of the committee members, including the Chair, to be independent directors. Profiles of each committee member, including their qualifications, are included in the 2019 Financial Report.

The Remuneration and Nomination Committee Charter sets out the responsibilities of the Committee as well as membership requirements and procedures for Committee meetings. The Committee is responsible for developing criteria for Board membership, to identify suitably skilled, qualified and experienced individuals for nomination and to establish processes for the review of the performance of directors. The Charter is reviewed annually.

3 Act ethically and responsibly

The Board has adopted a Code of Conduct which applies to all Probiotec employees. The Code of Conduct emphasises the fundamental principles of Probiotec, including ethical behaviour, honesty, integrity and respect.

Probiotec also has in place:

- a Whistleblowing Policy, to support employees reporting the conduct of other employees; and
- a Security Trading Policy, to ensure its Key Management Personnel (as that term is defined in the ASX Listing Rules) comply with the ASX Listing Rules and the Corporations Act 2001 (Cth).

4 Safeguard integrity in corporate reporting

4.1 Audit and Risk Management Committee

The Audit and Risk Management Committee is made up of Alexander (Sandy) Beard (Chair), and Geoff Pearce. Each of the committee members are non-executive directors and the Board considers each of the committee members to be independent directors. Profiles of each committee member, including their qualifications, are included in the 2019 Financial Report. The Audit and Risk Management Committee currently only has two

Corporate Governance (continued)

members given that the board is currently made up of only three non-executive directors. If and when the size of the board increases a further appointment may be made.

The Audit and Risk Management Committee Charter sets out the responsibilities of the Committee as well as membership requirements and procedure for Committee meetings. The Committee's responsibilities include reviewing the financial statements released to shareholders, recommending the appointment and remuneration of the external auditor and the terms of their engagement and assessing the independence of the external auditor. The Charter is reviewed annually.

4.2 Assurance from Chief Executive Officer and Chief Financial Officer

Prior to the approval of the financial statements for any financial period, the Board Charter and the *Corporations Act 2001* (Cth) requires that the Chief Executive Officer and Chief Financial Officer declare that:

- the financial records of Probiotec have been properly maintained;
- the financial statement comply with the appropriate accounting standards and give a true and fair view of Probiotec's financial position and performance; and
- that opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

4.3 Auditors attendance at general meetings

Under Probiotec's Constitution, Probiotec's auditor is entitled to attend any general meeting and has the right to be heard.

5 Make timely and balanced disclosure

The Board of Probiotec has adopted a Continuous Disclosure Policy to ensure compliance with Probiotec's obligations under the *Corporations Act 2001* (Cth) and the ASX Listing Rules. A Compliance Officer has been appointed by the Board to be primarily responsible for deciding what information will be disclosed to the market. The Continuous Disclosure Policy sets out processes for reporting and disclosure and speaking with the media, public and analysts.

6 Respect the rights of security holders

The Board of Probiotec has adopted a Shareholder Communication Policy which outlines its commitment to ensuring that shareholders, regulators and the wider investment community are informed of all major developments affecting Probiotec in a timely and effective manner.

As part of this commitment, Probiotec has available on its website its Constitution, board and committee charters, and the policies referred to in this summary. Information in relation to Probiotec's directors, copies of all media and ASX releases and the details of Probiotec's share registry are also accessible on the website.

Shareholders are encouraged to attend and participate at general meetings. To facilitate this, meetings will be held during normal business hours and at a place convenient for shareholders to attend.

The full text of notices and accompanying materials will appear on Probiotec's website.

7 Recognise and manage risk

The Board is responsible for ensuring that the significant risks facing Probiotec have been identified and adequate control monitoring and reporting mechanisms are in place.

The Audit and Risk Management Committee (whose members have been summarised above) assist the Board in executing its responsibilities in relation to risk. The majority of the Committee's members, including the Chair, are considered by the Board to be independent Directors. The Audit and Risk Committee Charter requires the Committee to oversee Probiotec's risk profile, risk policy and the effectiveness of its risk management framework and supporting risk management systems.

The Board has adopted a Risk Management Policy which identifies key risk areas, sets out policy objectives and outcomes and delineates responsibility and reporting measures across Probiotec. This policy is reviewed annually and was reviewed during the current reporting period.

Probiotec does not currently have material exposure to economic, environmental or social sustainability risks. If such risks do arise, Probiotec will manage those risks in accordance with its internal risk management framework.

8 Remunerate fairly and responsibly

The Remuneration and Nomination Committee (whose members have been summarised above) is responsible for reviewing and making recommendations to the Board on remuneration packages and policies available to senior management and directors, as set out in its Charter. The Committee may engage independent counsel or advisors with the approval of the Chairman or by resolution of the Board.

The Board has adopted a Security Trading Policy which prohibits Key Management Personnel (as that term is defined in the ASX Listing Rules) from entering into hedging arrangements in relation to Probiotec securities which would have the effect of limiting the exposure of the person to risk relating to an element of their remuneration that has not vested, or has vested but remains subject to a holding lock. Key Management Personnel may enter into margin loans or other security arrangements in relation to Probiotec shares only with the prior written approval of the Designated Officer. Details of the framework and policies in relation to remuneration is set out in the Remuneration Report section of the Directors Report, which is included in the 2019 *Financial Report*. The remuneration of each director is also set out in the Remuneration Report. Information on the structure of the remuneration of senior management is also set out in the Remuneration Report.

Index to financial report for the year ended 30 June 2019

Financials

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Directors' Report

The directors submit the financial report of Probiotec Limited ("the Company") and its controlled entities ("the Group") for the financial year ended 30 June 2019.

Directors

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

Geoffrey Ronald Pearce	Chairman
Wesley Stringer	Managing Director
Greg Lan	Non-Executive Director
Alexander Beard	Non-Executive Director

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

Company Secretary

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

Jared Stringer

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

Principal Activities

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

Operating Results

The consolidated profit of the Group attributable to the shareholders from continuing operations for the financial year was \$4,069,642 (2018: \$3,055,661).

Dividends

A final dividend of 2.5 cents per fully paid ordinary share has been declared for the financial year ended 30 June 2019 (2018: 2.0 cents). During the financial year ended 30 June 2019, a final dividend of 2.0 cents per fully paid ordinary share was paid in relation to the 2018 financial year, which amounted to \$1,274,587 (2018: \$793,940). An interim dividend of 1.0 cents per fully paid ordinary share, which amounted to \$600,759 (2018: \$456,221) was also paid during the 2019 financial year. A special dividend of 5.0 cents per fully paid ordinary share, which amounted to \$3,191,468.

Operating and financial review

Overview of results

The Group's net operating profit after tax from continuing activities attributable to members for the year was \$4.1 million compared to a profit of \$3.1 million for the prior corresponding period, continuing the growth of recent years.

For the year ended 30 June 2019, the Group's sales revenue from continuing operations increased by 19% to \$79.1 million.

The year was one of considerable activity as the Group:

- Acquired 85 Cherry Lane, Laverton North;
- Completed the sale and leaseback of 83-85 Cherry Lane;
- Sold its pharmaceutical portfolio to Inova Pharmaceuticals (Singapore) Pte Limited;

- Sold its Impromy brand to Blackmores Limited;
- Paid a fully franked special dividend of 5 cents per share; and
- Commenced an on-market share buy back.

Pleasingly, the executive team at Probiotec was able to execute the above whilst still continuing to deliver growth across all financial metrics, including significant growth in contract manufacturing revenue.

The directors of the Company were also pleased to announce the acquisition of ABS in July 2019 (see below for further details).

Sales Growth

The Group's revenue from continuing operations rose to \$79.1 million, an increase of 19% over the prior corresponding period. Revenue was driven by growth from both existing and new customers, with additional new work coming on board over the second half of the year.

The Group's capabilities continue to be increasingly well recognised in the market and the Group is continuing to experience strong levels of sales inquiries, leads and contracted work. The demand for the Group's manufacturing services and product development capabilities continues to underpin strong orders for this segment and this is expected to contribute to further growth in FY2020.

Sales & Leaseback Completed

On 27 September 2018, the Company completed the sale and leaseback of 83-85 Cherry Lane, Laverton North VIC. At settlement, Probiotec received an amount of \$21.5 million in cash with further \$3 million to be held in trust and released upon completion of development works by Probiotec on 85 Cherry Lane, which include the construction of new purpose-built warehouse and manufacturing facility. These works are estimated to cost \$3 million and are scheduled for completion by no later than the end of September 2019.

Divestment of Branded Portfolio

During the half year, the Company completed the sale of its pharmaceutical brands and Impromy weight management brand to iNova Pharmaceuticals (Singapore) Pte Limited and Blackmores Limited respectively. The Company received proceeds of \$22 million whilst also securing exclusive manufacturing rights for the both product ranges.

Capital Management

In November 2018, the directors of Probiotec advised that the Company would commence an on market buy back under the 10/12 limit. The Company will continue to buy back shares whilst the Board believes that the shares are trading below their intrinsic value and any decision to buy shares under the buyback will be effected against the backdrop of existing market conditions, the trading range of the Company's securities and capital priorities of the Company in respect of existing projects and new transactions. The directors and their associates have advised the Company that they do not intend to participate in the buy back.

During the year, the directors also and paid a fully franked special dividend of 5.0 cents per fully paid ordinary share, which was paid in November 2018.



The divestment of brands in the portfolio, together with the sale and lease back of the manufacturing facility, unlocked additional capital, which has been deployed in the recently announced acquisition of ABS (see below).

Significant Changes in State of Affairs

There was no 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 2019.

Significant After Reporting Date Events

On 31 July 2019, the Company acquired all of the issued shares of ABS (Aus) Pty Ltd, which at completion included the business and assets formerly comprising Australian Blister Sealing Incorporated ("ABS").

ABS is a leading pharmaceutical and consumer products contract packer that has been established for over 40 years. It has capability to pack a very wide range of formats including foil, carded and clamshell blister, bottle filling, labelling, secondary packaging and additional services for the pharmaceutical, cosmetic and food industries. ABS has long standing relationships with many Australian and global pharmaceutical, cosmetic and food companies.

The acquisition was settled in cash, for a base amount of \$23 million, subject to normal adjustments. The vendor will also be entitled to additional cash consideration of up to \$5 million subject to achievement of earnings hurdles for the first-year post completion. As such, the total consideration for the acquisition is expected to be between \$23 million to \$28 million dependent on the achievement of the earn-out hurdles.

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

On 28 August 2019, the Company announced that it has entered into an agreement with Global Brands Australia Pty Ltd ("GBA") to sell the Celebrity Slim brand, including all intellectual property and business assets ("Assets") for \$6.75 million.

Celebrity Slim is a leading health and weight loss program that won the 2017 Canstar Blue Most Satisfied Customers Award for weight loss shakes.

GBA has paid a \$1.5 million cash deposit to Probiotec, with the balance of the sale price to be paid in cash upon completion of the sale, subject to customary working capital adjustments. This transaction is scheduled to complete at the end of September 2019.

Likely developments, business strategies and prospects

The Group will continue to operate its business consistent with its stated business strategy. The Board will continue to monitor the progress of the business improvement initiatives and the intended improvement in the Group's operating and financial performance.

Environmental Issues

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

Occupational Health and Safety

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

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 approximately six to eight times a year. 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 2019, 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 ¹	No. Attended	No. Held ²	No. Attended	No. Held ²	No. Attended
Alexander Beard	9	9	2	1	-	-
Wesley Stringer	9	9	-	-	1	1
Geoffrey Pearce	9	9	2	2	1	1
Greg Lan	9	9	-	-	1	1

¹ Number of board meetings held while director eligible to attend.

² Number of meetings for members of respective board or committee only.

Directors' Report (continued)

Information on Directors and Officers

Geoffrey Pearce Role Qualifications Experience Special Responsibilities Other Directorships	<ul style="list-style-type: none"> - Non-Executive Chairman - n/a - Mr Pearce is a Melbourne-based entrepreneur with over three decades of business experience. Mr Pearce has extensive experience in pharmaceutical and cosmetic manufacturing as well as raw material and packaging sourcing and supply. In 2002, Mr Pearce started a contract manufacturing business in the bath and beauty industry with the acquisition of a small factory. In 2010, he renamed that business as Beautiworx. In 2014, Mr Pearce sold Beautiworx into a company where he was one of the two major shareholders, CEO of the manufacturing arm and a director on the Board. This company, BWX Limited, was successfully listed on the ASX in 2015. - Member of Remuneration and Nominations Committee and Audit and Risk Committee. - Non-executive director of Cann Group Limited (ASX: CAN) – Interest in shares and options: 1,554,195 fully paid ordinary shares. - Non-executive director of McPhersons Limited (ASX: MCP) – Interest in shares and options: 570,239 fully paid ordinary shares.
Greg Lan Role Qualifications Experience Special Responsibilities Other Directorships	<ul style="list-style-type: none"> - Non-Executive Director - BSc (hons) Business Administration, MBA (International Marketing and Finance). - Mr Lan was the founding Managing Director of Sydney-based pharmaceutical company Aspen Pharmacare Australia, a subsidiary of South African listed Aspen Pharmacare Holdings. During Mr Lan's tenure, Aspen Australia experienced exponential growth, particularly after the acquisition of Sigma's branded and generics portfolio in 2011 (as well as its manufacturing facilities), and is today one of Australia's largest pharmaceutical companies, with a diverse portfolio of over 260 products covering prescription and OTC. When Mr Lan retired after 15 years with the company, Aspen's Asia Pacific operations (including Australia) had annualised sales in excess of \$1 billion. Prior to joining Aspen, Mr Lan has had extensive experience working in the pharmaceutical industry internationally, including senior roles with Ciba-Geigy (now Novartis) in Switzerland and Saudi Arabia, as well as with Sanofi-Aventis in Australia. Mr Lan holds an MBA from the University of Michigan. - Nil. - Nil.
Alexander (Sandy) Beard Role Qualifications Experience Special Responsibilities Other Directorships	<ul style="list-style-type: none"> - Non-Executive Director - B.Comm UNSW, Fellow of Institute of Chartered Accountants, Associate of the Institute of Company Directors. - Prior to retiring from the role in 2019, Alexander (Sandy) Beard was the Chief Executive Officer of CVC Limited, an ASX Listed investment company with a market capitalisation of approximately \$250 million. CVC has a wide range of investments including direct private equity, listed investments, property investments and funds management. Mr Beard has been a director of numerous public companies over the past 17 years and is currently a director of the ASX listed Eildon Capital Limited. He brings extensive experience with investee businesses, both in providing advice and in direct management roles. Mr Beard has played an important role in delivering value to shareholders over the past 20 years across a broad spectrum of industries and stages of company growth. - Chairman of Audit and Risk Management Committee. - Non-executive director of Eildon Capital Limited (ASX: EDC) – Interest in shares and options: 709,570 fully paid ordinary shares

Information on Directors and Officers

Jared Stringer

Role	- Company Secretary
Qualifications	- B.Comm (Accounting, Finance), BIT, GradDip.AppCorGov, CPA.
Experience	- Began employment with Probiotec as a Financial Accountant in 2006 before being appointed as Chief Financial Officer in 2012. Mr Stringer is a member of the society of Certified Practising Accountants of Australia and also holds a Graduate Diploma of Applied Corporate Governance.
Special Responsibilities	- None.
Other Directorships	- Nil.

Wesley Stringer

Role	- Chief Executive Officer / Managing Director
Qualifications	- B.Comm (Accounting, Finance), LLB (hons), CPA.
Experience	- Prior to joining Probiotec, Wesley was employed by KPMG in Taxation and Finance. He has also worked internationally for Deutsche Bank and BNP Paribas Investment Bank in London. From 1 July 2015, Wesley has taken the role of Chief Executive Officer of Probiotec Limited.
Special Responsibilities	- None.
Other Directorships	- Nil.

Insurance of Officers

During the financial year, the Company paid insurance premiums for a directors' & Officers' liability insurance contract that provides cover for the current and former directors, alternate directors, secretaries, executive officers and officers of the Company and its subsidiaries. The directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

Disclosure on Unissued Shares under Option

At the date of this report, the unissued ordinary shares of Probiotec Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
01.07.2017	30.06.2020	\$0.60	950,000
23.11.2017	22.11.2020	\$0.77	1,000,000
19.11.2017	18.12.2019	\$1.15	3,200,000
23.01.2018	22.01.2020	\$1.15	3,600,000
			<u>8,750,000</u>

Option holders do not have any rights to participate in any issues of shares or other interests of the company or any other entity.

For details of options issued to directors and executives as remuneration, refer to the remuneration report.

During the year ended 30 June 2019, 1,400,000 ordinary shares of Probiotec Limited were issued on the exercise of options granted. No further shares have been issued since year-end. No amounts are unpaid on any of the shares.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Remuneration Report (Audited)

This report is prepared in accordance with section 300A of the *Corporations Act 2001* for the Group for the financial year ended 30 June 2019. This report is audited.

1. REMUNERATION

1.1 Remuneration & Nominations Committee

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

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

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

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

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

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

Members of Remuneration and Nominations Committee

	Position	Appointed
Geoffrey Pearce	Chairman	29 November 2016
Greg Lan	Member	23 February 2017
Wesley Stringer	Member	19 August 2015

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 \$171,000. The Nomination & Remuneration Committee reviews non-executive remuneration annually and makes recommendations to the Board. The Committee considers current market rates of remuneration for similar sized companies and obtains advice from independent professional firms if required. Shareholders will be periodically asked to approve increases in the fee level of non-executive directors if the size, scope, complexity or demands made on the directors increases.

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

Remuneration levels for non-executive directors for the 2019 financial year are set out on page 24 of this report.

1.3 Remuneration Policy – Executive Directors and Key Management Personnel

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

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

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

Performance-based Remuneration

KPIs are set annually, with a certain level of consultation with key management personnel. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater

potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration and Nominations Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

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) as described above. For the 2019 financial year, short-term incentives were foregone by key management as part of a restructure of incentive arrangements.

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 Executive Option Plan, which was adopted by a resolution of members on 23 January 2018. 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, Wesley Stringer is the only executive director of Probiotec Limited. Mr. Wesley Stringer is paid a fixed annual remuneration. Along with his fixed annual remuneration, Mr. Wesley Stringer is also eligible to receive equity-based compensation, in the form of share options. Mr. Wesley Stringer was granted options during the 2016 and 2018 financial years (see page 26 for details).

Termination Arrangements

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

1.4 Remuneration Policy - Employees

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

2. LINKING REMUNERATION TO PROBIOTEC'S PERFORMANCE

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

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

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

3. REVIEW OF REMUNERATION

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

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

4. REMUNERATION DETAILS OF KEY MANAGEMENT PERSONNEL

For the purposes of this report, "Key Management Personnel" (KMPs) 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.

Remuneration Report (Audited) (continued)

Directors

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

Geoffrey Ronald Pearce	<i>Chairman</i>
Wesley Stringer	<i>Managing Director</i>
Greg Lan	<i>Non-Executive Director</i>
Alexander Beard	<i>Non-Executive Director</i>

Other key management personnel

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

Name	Position	Employer
Jared Stringer	<i>Chief Financial Officer</i>	Probiotec Limited
Alan Hong	<i>GM - Accounting</i>	Probiotec Limited
Julie McIntosh	<i>Chief Operating Officer</i>	Probiotec Limited

No persons who were considered Key Management Personnel during the financial year ended 30 June 2018 were no longer considered Key Management Personnel during this financial year other than:

Dusty Stringer



Remuneration Report (Audited) (continued)

The Directors and identified KMPs received the following compensation for their services during the year:

2019	Position	Short-Term Benefits			Post Employment Benefits			Equity-Based Benefits	Total \$	Proportion of Remuneration that is performance based %
		Salary, Fees & Commissions \$	Short Term Incentives \$	Non-Cash Benefits \$	Annual Leave \$	Long Service Leave ¹ \$	Superannuation Contribution \$	Options \$		
Directors & Secretaries										
Wesley Stringer	CEO / Executive Director	342,710	-	40,000	-	8,898	21,250	27,000	439,858	6.1
Geoffrey Ronald Pearce	Non-Executive Director	68,493	-	-	-	-	6,507	-	75,000	-
Greg Lan	Non-Executive Director	43,836	-	-	-	-	4,164	-	48,000	-
Alexander Beard ²	Non-Executive Director	48,000	-	-	-	-	-	-	48,000	-
Jared Stringer	CFO / Company Secretary	234,018	-	-	-	6,499	22,232	-	262,749	-
		737,057	-	40,000	-	15,397	54,153	27,000	873,607	-
Other Key Management Personnel										
Julie McIntosh	COO	209,521	-	-	-	3,726	19,904	-	233,151	-
Alan Hong	GM - Accounting	166,667	-	-	-	4,311	15,833	-	186,811	-
		376,188	-	-	-	8,037	35,737	-	419,962	-
		1,113,245	-	40,000	-	23,434	89,890	27,000	1,293,569	-

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

¹ All Long Service Leave amounts relate to accrued balances. No Long Service Leave was taken or paid out during the year.

² Appointed 23 November 2017, an amount of \$48,000 was paid to CVC Managers Pty Ltd in relation to Mr Beard's service.

The Directors and identified KMPs received the following compensation for their services during the year:

2018	Position	Short-Term Benefits			Post Employment Benefits			Equity-Based Benefits	Total	Proportion of Remuneration that is performance based %
		Salary, Fees & Commissions \$	Short Term Incentives ¹ \$	Non-Cash Benefits \$	Annual Leave \$	Long Service Leave ² \$	Superannuation Contribution \$	Options \$		
Directors & Secretaries										
Wesley Stringer	CEO / Executive Director	353,228	-	71,219	-	13,611	21,250	332,934	792,242	42.0
Geoffrey Ronald Pearce	Non-Executive Director	68,493	-	-	-	-	6,507	-	75,000	-
Graham Morton ³	Non-Executive Director	12,785	-	-	-	-	1,215	-	14,000	-
Greg Lan	Non-Executive Director	23,436	-	-	-	-	24,564	-	48,000	-
Alexander Beard ⁴	Non-Executive Director	-	-	-	-	-	-	-	-	-
Jared Stringer	CFO / Company Secretary	266,003	-	-	-	9,943	23,087	66,719	365,742	18.2
		723,945	-	71,219	-	23,554	76,623	399,653	1,294,994	30.9
Other Key Management Personnel										
Dustin Stringer	GM - Marketing	152,562	4,500	12,479	-	7,760	13,881	1,620	192,802	3.2
Julie McIntosh	COO	210,300	-	-	-	2,739	27,027	39,856	279,922	14.2
Alan Hong	GM - Accounting	145,593	4,500	11,820	-	7,793	24,233	1,620	195,559	3.1
		508,455	9,000	24,299	-	18,292	65,141	43,096	668,283	7.8
		1,232,400	9,000	95,518	-	41,846	141,764	442,749	1,963,277	23.0

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

¹ Short term incentives were accrued during the year but will be paid during the 2019 financial year.

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

³ Resigned 13 October 2017.

⁴ Appointed 23 November 2017, an amount of \$29,173 was paid to CVC Managers Pty Ltd in relation to Mr Beard's service.

Remuneration Report (Audited) (continued)

Options issued to Chief Executive Officer (CEO)

On 23 November 2017, the issue of 1,000,000 options to the CEO was approved at a general meeting on the terms set forth below -

- (a) Each option has an exercise price of \$0.72 per fully paid ordinary share
- (b) The options will lapse 36 months after their date of grant
- (c) The options do not vest until 12 months after their date of grant
- (d) Each option entitles the holder to 1 fully paid ordinary share
- (e) Shares issued upon exercise of option will rank equally with all existing ordinary shares of the company

On 23 January 2018, the issue of 3,600,000 options to the CEO was approved at a general meeting on the terms set forth below -

- (f) Each option has an exercise price of \$1.15 per fully paid ordinary share
- (g) The options will lapse 24 months after their date of grant
- (h) The options vest on the grant date
- (i) Each option entitles the holder to 1 fully paid ordinary share
- (j) Shares issued upon exercise of option will rank equally with all existing ordinary shares of the company

Full Details of these options can be found on page 27.

1,000,000 issued to the CEO were exercised during the year ended 30 June 2019, at an exercise price of \$0.50 per fully paid ordinary share.

5. INTEREST IN SHARES & OPTIONS

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

Name	Grant Date	Vesting Date	Expiry Date	Exercise Price	Balance at start of the year number	Option Granted during the year number	Options lapsed/ forfeited during the year number	Options exercised during the year number	Option Vested during the year number	Balance vested at end of the year number	Balance unvested at end of the year number	Fair Value per options at grated date
Wesley Stringer	06.10.2015	06.10.2016	05.10.2018	\$0.50	1,000,000	-	-	(1,000,000)	-	-	-	\$0.01
Wesley Stringer	23.11.2017	22.11.2018	22.11.2020	\$0.72	1,000,000	-	-	-	1,000,000	1,000,000	-	\$0.02
Wesley Stringer	23.01.2018	23.01.2018	22.01.2020	\$1.15	3,600,000	-	-	-	-	3,600,000	-	\$0.10
Alan Hong	01.07.2017	01.07.2018	30.06.2020	\$0.60	100,000	-	-	(100,000)	100,000	-	-	\$0.02
Julie McIntosh	01.07.2017	01.07.2018	30.06.2020	\$0.60	250,000	-	-	-	250,000	250,000	-	\$0.02
Julie McIntosh	19.12.2017	19.12.2017	18.12.2019	\$1.15	1,000,000	-	-	-	-	1,000,000	-	\$0.03
Jared Stringer	01.07.2017	01.07.2018	30.06.2020	\$0.60	500,000	-	-	-	500,000	500,000	-	\$0.02
Jared Stringer	19.12.2017	19.12.2017	18.12.2019	\$1.15	1,800,000	-	-	-	-	1,800,000	-	\$0.03
					9,250,000	-	-	(1,100,000)	1,850,000	8,150,000	-	

*All options are forfeited if the grantee resigns from the company prior to the exercise or expiry of the options.

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

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

Directors	Balance at 1/07/2017	Share acquisitions through exercise of share options	Other purchases during the year*	Sold during the year	Balance at 30/06/18	Share acquisitions through exercise of share options	Other purchases during the year*	Sold during the year	Balance at 30/06/19
Wes Stringer	867,646	-	175,227	-	1,042,873	1,000,000	-	-	2,042,873
Geoffrey Pearce	2,527,900	-	677,152	-	3,205,052	-	-	-	3,205,052
Alexander Beard	-	-	179,547	-	179,547	-	-	-	179,547
Greg Lan	100,135	-	-	-	100,135	-	-	-	100,135
Total for Directors	3,495,681	-	1,031,926	-	4,527,607	1,000,000	-	-	5,527,607
Alan Hong	-	200,000	-	-	200,000	100,000	-	-	300,000
Jared Stringer	517,131	500,000	-	(27,131)	990,000	-	-	(7,000)	983,000
Julie McIntosh	-	200,000	-	-	200,000	-	-	-	200,000
Total for KMPs	412,573	900,000	-	(27,131)	1,390,000	100,000	-	(7,000)	1,483,000

Remuneration Report (Audited) (continued)

6. SHARE OPTIONS EXERCISED OR LAPSED DURING THE YEAR

No share options issued to directors or Key Management Personnel were exercised, lapsed or forfeited during the year ended 30 June 2019, other than those set out on page 27.

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

7. CONTRACTS OF EMPLOYMENT

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

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

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

Non-audit Services

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

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

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2019.

Auditor's Independence Declaration

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

Signed in accordance with a resolution of Board of Directors.



Director

Wesley Stringer

Signed at Laverton this 28th day of August 2019

Auditor's Independence Declaration



ShineWing Australia
Accountants and Advisors
Level 10, 530 Collins Street
Melbourne VIC 3000
T +61 3 8635 1800
F +61 3 8102 3400
shinewing.com.au

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of the Directors of Probiotec Limited and Controlled Entities

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been:

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

ShineWing Australia
Chartered Accountants

Rami Eltchelebi
Partner

Melbourne, 28 August 2019

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PROBIOTEC LIMITED AND CONTROLLED ENTITIES
(ACN: 075 170 151)

Consolidated Statement of Profit or Loss and Comprehensive Income for the year ended 30 June 2019

	Note	Consolidated Group 2019 \$	2018 \$
Sales revenue from continuing operations	2	79,091,862	66,437,258
Cost of goods sold		(53,346,842)	(43,587,822)
Gross profit		25,745,020	22,849,436
Other income	2	349,909	715,636
Warehousing & distribution expenses		(6,025,132)	(4,090,117)
Sales and marketing expenses		(3,203,683)	(2,457,587)
Finance costs		(1,853,602)	(671,765)
Administration and other expenses	4	(10,020,473)	(12,345,277)
Profit / (loss) from continuing activities before income tax expense		4,992,039	4,000,326
Income tax expense relating to continuing activities	5	(922,397)	(944,665)
Profit / (loss) from continuing activities for the period attributable to owners of the parent entity		4,069,642	3,055,661
Profit / (loss) from discontinued operations	6	7,261,243	520,914
Profit / (loss) for the period attributable to owners of the parent entity	3	11,330,885	3,576,575
Other comprehensive income			
Other comprehensive income / (loss) to be classified to profit and loss when specific conditions are met			
Exchange differences on translating foreign operations		(92,262)	84,394
Total comprehensive income for the year attributable to owners of the parent entity		11,238,622	3,660,969
Earnings per share for profit attributable to owners of the parent entity			
Basic earnings per share (cents)	30	18.3	5.7
Diluted earnings per share (cents)	30	17.5	5.6
Earnings / (loss) per share from discontinued operations			
Basic earnings per share (cents)	30	11.7	0.8
Diluted earnings per share (cents)	30	11.2	0.8

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

PROBIOTEC LIMITED AND CONTROLLED ENTITIES
(ACN: 075 170 151)

Consolidated Statement of Financial Position as at 30 June 2019

	Note	Consolidated Group 2019 \$	2018 \$
Current Assets			
Cash and cash equivalents	13	8,843,997	1,816,089
Trade and other receivables	14	18,764,262	16,472,056
Inventories	15	13,254,813	11,560,368
Assets held for sale	18	5,775,000	12,437,889
Other current assets	16	430,141	339,450
Total Current Assets		47,068,213	42,625,852
Non-Current Assets			
Property, plant and equipment	17	17,827,679	29,620,819
Right of use assets	35	16,402,707	-
Intangible assets	18	17,419,937	18,323,959
Deferred tax assets	19	7,649,257	3,086,835
Total Non-Current Assets		59,299,580	51,031,613
Total Assets		106,367,793	93,657,465
Current Liabilities			
Trade & other payables	20	12,144,158	13,994,010
Short-term interest bearing liabilities	21	1,840,000	5,570,999
Short-term lease liabilities	21	2,627,083	638,061
Current tax liabilities		136,048	546,269
Short-term provisions	22	2,430,223	3,127,497
Total Current Liabilities		19,177,512	23,876,836
Non-Current Liabilities			
Long-term interest bearing liabilities	21	3,228,902	7,540,000
Long-term lease liabilities	21	23,019,109	1,173,164
Deferred tax liabilities	23	10,842,945	7,844,208
Long-term provisions	22	250,353	876,911
Total Non-Current Liabilities		37,341,309	17,434,283
Total Liabilities		56,518,821	41,311,119
Net Assets		49,848,972	52,346,346
Equity			
Contributed equity	24	33,608,259	38,596,329
Foreign Currency Translation Reserve	25	(379,516)	(287,254)
Share Based Payments Reserve	25	477,952	477,952
Asset Revaluation Reserve	25	488,797	4,026,722
Retained earnings		15,653,481	9,532,597
Total Equity		49,848,972	52,346,346

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

PROBIOTEC LIMITED AND CONTROLLED ENTITIES
(ACN: 075 170 151)

Consolidated Statement of Changes in Equity for the year ended 30 June 2019

	Ordinary Share Capital \$	Foreign Currency Translation Reserve \$	Asset Revaluation Reserve \$	Share Based Payments Reserve \$	Retained Earnings \$	Total \$
Balance as at 1 July 2017	33,686,519	(371,648)	4,026,722	18,931	7,206,185	44,566,709
Total comprehensive income for the year						
Profit for the year	-	-	-	-	3,576,575	3,576,575
Asset revaluations (net of tax)	-	-	-	-	-	-
Other comprehensive income	-	84,394	-	-	-	84,394
Total comprehensive income for the year	-	84,394	-	-	3,576,575	3,660,969
Transactions with owners in their capacity as owners						
Shares (cancelled) / issued during the year	4,909,810	-	-	459,021	-	5,368,831
Dividends paid or provided for	-	-	-	-	(1,250,163)	(1,250,163)
Balance as at 30 June 2018	38,596,329	(287,254)	4,026,722	477,952	9,532,597	52,346,346
Retrospective adjustment on change of policy (AASB 9)	-	-	-	-	(143,186)	(143,186)
Balance as at 1 July 2018 (restated)	38,596,329	(287,254)	4,026,722	477,952	9,389,411	52,203,160
Total comprehensive income for the year						
Profit for the year	-	-	-	-	11,330,885	11,330,885
Divestments	-	-	(3,537,925)	-	-	(3,537,925)
Other comprehensive income	-	(92,262)	-	-	-	(92,262)
Total comprehensive income for the year	-	(92,262)	(3,537,925)	-	11,330,885	7,700,698
Transactions with owners in their capacity as owners						
Shares / options (cancelled) issued during the year	(4,988,070)	-	-	-	-	(4,988,070)
Dividends paid or provided for	-	-	-	-	(5,066,814)	(5,066,814)
Balance as at 30 June 2019	33,608,259	(379,516)	488,797	477,952	15,653,481	49,848,972

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

PROBIOTEC LIMITED AND CONTROLLED ENTITIES
(ACN: 075 170 151)

Consolidated Statement of Cash Flows for the year ended 30 June 2019

	Note	Consolidated Group 2019 \$	2018 \$
Cash Flows From Operating Activities			
Receipts from customers		76,650,036	72,033,523
Payments to suppliers and employees		(78,510,232)	(64,375,578)
Interest received		146,487	-
Interest and other costs of finance paid		(1,853,602)	(671,765)
Income tax paid		(818,011)	(763,302)
Net cash provided by operating activities	29 (b)	(4,385,322)	6,222,878
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(11,296,132)	(4,598,544)
Proceeds from sale of property, plant and equipment		21,500,000	-
Proceeds from sale of intangible assets		22,073,000	-
Payment for investment in subsidiaries, net of cash received		(1,000,000)	(4,202,408)
Purchase of intangible assets		(1,215,810)	(914,273)
Net cash provided by / (used in) investing activities		30,061,058	(9,715,225)
Cash Flows From Financing Activities			
Proceeds from issues of shares		755,000	850,000
Share buy back		(5,743,070)	-
Dividends Paid		(5,066,814)	(1,250,163)
Proceeds from borrowings		-	7,061,059
Repayment of borrowings		(8,592,943)	(1,674,084)
Net cash used in financing activities		(18,647,827)	4,986,812
Net Increase / (decrease) in cash held		7,027,909	1,494,465
Cash at beginning of financial year		1,816,089	321,624
Cash at end of financial year	13	8,843,997	1,816,089

RECONCILIATION OF CASH AND CASH EQUIVALENT

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

Cash	8,843,997	1,816,089
	8,843,997	1,816,089

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

Notes to the Financial Statements for the year ended 30 June 2019

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers Probiotec Limited ("company") and controlled entities ("group"). Probiotec Limited is a for-profit listed public company, incorporated and domiciled in Australia. The financial report is for the financial year ended 30 June 2019 and is presented in Australian dollars.

Basis of Preparation

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

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

Reporting Basis and Convention

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

Compliance with IFRS

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

Authorisation for issue

This financial report was authorized for issue by the board of directors of Probiotec Limited on 26 August 2019.

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Probiotec Limited (Listed Public Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases.

Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

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

(b) Income Tax

(i) General

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

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

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

Deferred tax assets will be recognised only to the extent that it is probable that future income tax profits will be available against which the assets can be utilised. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation



legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and to comply with the conditions of the deductibility imposed by law.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised.

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

(iii) Goods and Services Tax

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

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(c) Foreign Currency Translation

(i) Functional and presentation currency

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

(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 British and Irish subsidiaries are translated into Australian dollars as at the date of the transactions. Assets and liabilities are translated at exchange rates prevailing at balance date.

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

(d) Impairment

The Company recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost or fair value through other comprehensive income.

Loss allowance is not recognised for:

- financial assets measured at fair value through profit or loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Company uses the simplified approach to impairment, as applicable under AASB 9: Financial Instruments:

Simplified approach

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

This approach is applicable to:

- trade receivables or contract assets that result from transactions that are within the scope of AASB 15: Revenue from Contracts with Customers, and which do not contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables is used, taking into consideration various data to get to an expected credit loss (ie diversity of its customer base, appropriate groupings of its historical loss experience, etc).

Recognition of expected credit losses in financial statements

At each reporting date, the Company recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Impairment of Assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the

Notes to the Financial Statements (continued)

asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(e) Inventories

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

(f) Property, Plant and Equipment

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

(i) Property

Freehold land and buildings are stated at fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic valuations by external valuers, less subsequent depreciation for the building. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of

the asset and the net amount is reinstated to the revalued amount of the asset. Independent valuations are carried out every three to five years, with internal reviews performed regularly to ensure that the carrying amounts of land and buildings do not differ materially from the fair value at the reporting date.

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

(ii) Plant and Equipment

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

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

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

Depreciation

The depreciable amount of property, plant and equipment, including capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the group commencing from the

time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.



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

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

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

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

(g) Leases

Leases where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities within the group are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in the current and non-current interest bearing liabilities. Each lease payment is allocated between the liability and the finance charges. The interest element of the lease payment is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life or the lease term, unless it is reasonably certain that ownership will be obtained by the end of the lease term where it is depreciated over the period of the expected use which is the useful life of the asset.

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

(h) Investments in Associates

Associates comprise entities over which the parent entity or the Group have significant influence and hold an ownership interest. Investments in associated companies are recognised in the financial statements by applying the equity method of accounting. Under the equity method of accounting the carrying amounts of investments in associates are increased or decreased to recognise the Group's share of the post-acquisition profits or losses and other changes in net assets of the associates. The Group's share of the post-acquisition profits or losses of associates is included in the consolidated profit and loss.

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

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

(i) Interests in Joint Venture Entities

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint venture entities providing joint venturers with an interest in net assets are classified as a joint venture and accounted for using the equity method. Refer to Note 1(n) for a description of the equity method of accounting.

Joint operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the consolidated financial statements.

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other parties' interests. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells those goods/assets to a third party.

(j) Intangibles

i) Goodwill

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity plus the amount of any non-controlling interests in the acquiree exceeds the fair value attributed to the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to these units or groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units, to which the goodwill relates. Impairment losses recognised for goodwill are not subsequently reversed. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Trademarks, licenses, product development costs and product dossiers ("Developed Products") are initially recognised at cost. Intangible assets with an indefinite life are tested at each reporting date for impairment and carried at cost less accumulated impairment losses. Those with a finite life are carried at cost less any accumulated amortisation and accumulated impairment losses. Developed products with finite lives are amortised on a straight line basis over a useful life of between 5 and 20 years. Amortisation is included within administration and other expenses in the statement of comprehensive income.

Notes to the Financial Statements (continued)

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. Capitalised expenditure 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.

iv) Customer relationships

Customer relationships are initially recognised at cost. They are tested at each reporting date for impairment and are carried at cost less any accumulated amortisation and accumulated impairment losses. Customer relationships with finite lives are amortised on a straight line basis over a useful life of 10 years. Amortisation is included within administration and other expenses in the statement of comprehensive income.

(k) Employee Benefits**i) Wages, Salaries & Annual Leave**

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

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 corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

iii) Superannuation

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

iv) Employee share based payments

Shares issued pursuant to an employee share plan, which are facilitated by means of a loan with recourse only to the shares, are treated as an option grant. The loan is shown as a reduction in equity until the shares are either cancelled or settled in accordance with the terms of the plan. The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in the share-based payments reserve in equity. The fair

value of options granted is measured using the Black Scholes model. The amount recognised as an expense is adjusted to reflect the actual number of options that vest, except where forfeiture is due to market related conditions.

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

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

(l) Financial Instruments**Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or the sale of the asset (ie trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in paragraph 63 of AASB 15: Revenue from Contracts with Customers.

Classification and subsequent measurement**Financial liabilities**

Financial liabilities are subsequently measured at:

- amortised cost; or
- fair value through profit and loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:

- held for trading

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense to profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability is held for trading if it is:

- a derivative financial instrument (except for a derivative that is in a financial guarantee contract or a derivative that is in an effective hedging relationship).



Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and is not subsequently reclassified to profit or loss. Instead, it is transferred to retained earnings upon derecognition of the financial liability.

If taking the change in credit risk to other comprehensive income enlarges or creates an accounting mismatch, these gains or losses should be taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

Financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through profit or loss.

Measurement is on the basis of two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The initial measurement of financial instruments at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All the following criteria need to be satisfied for the derecognition of a financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Company no longer controls the asset (ie it has no practical ability to make unilateral decisions to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

(m) Government Grants

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

(n) Revenue Recognition

The Company has applied AASB 15: Revenue from Contracts with Customers using the cumulative effective method and therefore the comparative information has not been restated and continues to be presented under AASB 118: Revenue and AASB 111: Construction Contracts. The details of accounting policies under AASB 118 and AASB 111 are disclosed separately if they are different from those under AASB 15, and the impact of changes is disclosed in Note 3.

In the comparative period, 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

Notes to the Financial Statements (continued)

carrying amount of the financial asset. Interest income is included as financial income in profit or loss. Dividends are recognised when the group's right to receive payment is established.

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

(o) Financing costs

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

(p) Provisions

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

(q) Cash

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

(r) Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation for the current year. The fair value measurement of the freehold buildings was reclassified from level 2 to level 3 of the fair value hierarchy in the prior year. This arose due to the valuation technique applied by the independent valuer where the depreciated replacement cost method was adopted. For details of the reclassification refer to Note 34.

(s) Earnings per share

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

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

(t) Contributed equity

Issued and paid up capital is recognised based on the consideration received by the Company.

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

(u) Business combinations

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

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

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

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

(v) Fair Value Measurements

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

- cash and receivables;
- freehold land and building;
- trade payables, borrowings and provisions.

The Group subsequently measures some items of freehold land and buildings at fair value on a non-recurring basis. The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

Fair Value Hierarchy

AASB 13: *Fair Value Measurement* requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent



possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- *Market approach*: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- *Income approach*: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- *Cost approach*: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Further details on fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy can be found in note 33.

(w) New Accounting Standards

The Group has adopted all of the new and revised Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations. The new and revised Standards and interpretations effective for the current reporting period that are relevant to the Group include:

• AASB 16

The Group has elected to early adopt AASB 16. Given the material nature of the lease entered into in regards to 83-85 Cherry Lane, Laverton North (see note 10) during the year, it was considered prudent to early adopt this standard. The Group has not restated comparative amounts. The lease liability has been calculated as the present value of the future rental payments, discounted using the incremental borrowing rate as at the date of transition (being 1 July 2018).

The adoption of AASB results in a lease liability of \$1,003,531 being recognised on transition.

As at 30 June 2019, the total lease liability related to the recognition of operating leases was \$23,841,642.

Leases relate to the rental of operating premises, forklifts and office equipment.

	1 year or less \$	Over 1 to 5 years \$	Over 5 years \$	Total \$
Lease liability profile	551,733	2,433,130	20,856,779	23,841,642

• AASB 9 - Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities.

AASB 9 changes the calculation of impairment losses in financial assets. It impacts the way the Group calculates the doubtful debt provision, now termed the credit loss allowance. The Group applies the simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all receivables.

To measure expected credit losses, a matrix approach based on historical losses for aged debtors and this is adjusted for expected future changes to credit risk.

The adoption resulted in an additional provision for ECL of \$167,630 being recognised against the opening balance of trade receivables (and adjusted against opening retained earnings). Apart from the impact above, AASB 9 does not have a material impact on the Group's financial statements.

• AASB 15 - Revenue from contracts with customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. Probiotec has adopted AASB 15 using the cumulative effect method and as such prior period comparatives have not been restated. The impact of initial application is not material and as a result no opening balance adjustment has been recorded.

The Group recognises revenue from the sale of goods when legal title passes to the customer, which takes place when the Group fulfils its delivery obligations.

There was no material impact on the 2019 financial report of the Group from implementing AASB 15.

Notes to the Financial Statements (continued)

	2019 \$	2018 \$
2. REVENUE AND OTHER INCOME		
The Group has recognised the following amounts relating to revenue in the statement of profit or loss.		
Continuing operations		
Revenue from contracts with customers	79,091,862	-
Revenue based on AASB 118 and AASB 111	-	66,437,258
	79,091,862	66,437,258
Discontinued operations		
Revenue from contracts with customers	1,235,923	-
Revenue from contracts with customers	-	10,261,695
	1,235,923	10,261,695
	80,327,785	76,698,953
Other income	349,909	715,636

3. PROFIT FOR THE YEAR

Net profit has been arrived at after including:

Finance cost - non related parties	1,853,602	671,765
Foreign currency translation losses / (gains)	49,980	(35,061)
Bad and doubtful debts expense - trade receivables	10,282	283,613
Rental expenses	440,813	711,936
Inventory write-offs / (write backs)	-	225,569
Professional and consulting expenses	561,529	679,065
Employee benefits expenses	25,712,465	21,323,724
Repairs and maintenance expenses	1,249,591	1,041,955
Depreciation of property, plant and equipment	2,634,034	2,031,212
Amortisation of intangibles	661,596	977,335
Impairment costs - property, plant and equipment	-	-
Defined contribution superannuation expense	1,875,244	1,430,587

4. ADMINISTRATION & OTHER EXPENSES

Administration & other expenses comprises:

Insurance	510,347	407,034
Office expenses	482,098	656,054
Compliance costs	179,617	223,861
Other expenses	8,848,411	11,058,328
	10,020,473	12,345,277

	2019 \$	2018 \$
5. INCOME TAX EXPENSE		
(a) Components of Tax Expense:		
Current income tax	1,030,305	585,355
Deferred income tax	(1,583,239)	1,281,642
Over provision for income tax in prior years	-	-
	(552,934)	1,866,997
Income tax is attributable to:		
Profit / (loss) from continuing operations	922,397	944,665
Profit / (loss) from discontinued operations	(1,475,331)	922,332
	(552,934)	1,866,997
(b) Reconciliation of income tax expense to prima facie tax payable on profit / (loss)		
Profit from continuing operations	4,992,039	4,000,326
Profit / (loss) from discontinued operations	7,261,243	520,914
	12,253,282	4,521,240
Prima facie tax expense on profit/(loss) before income tax at 30% (2018: 30%)	3,675,985	1,356,372
Add Tax effect of:		
Recoupment of prior losses not yet booked	(3,714,119)	(210,000)
Tax losses not recognised	-	397,438
Research and development tax concession	-	(60,000)
Other non allowable or assessable items	(514,799)	383,187
Income tax expense / (benefit)	(552,934)	1,866,997

6: DISCONTINUED OPERATIONS

During the year, the Group divested several assets and businesses (see notes 9 and 10 below) and continued with the wind down of its operations in the United Kingdom and Ireland. As such, these operations are considered discontinued operations as at the balance date.

The Comprehensive income of the discontinued operations was:

	2019 \$	2018 \$
Revenue	1,235,923	10,261,695
Impairment costs	(3,304,176)	-
Profit on sale of fixed assets	14,007,858	-
Expenses	(6,153,693)	(8,818,450)
Profit / (loss) from discontinued operations before income tax	5,785,912	1,443,246
Income tax benefit / (expense)	1,475,331	(922,332)
Profit / (loss) from discontinued operations after income tax	7,261,243	520,913
The cash flow of the discontinued operations was:		
Net cash flow provided by / (used in) operating activities	(6,600,590)	(1,276,897)
Net cash flow provided by / (used in) investing activities	43,573,000	-
Net cash flow provided by financing activities	-	-
Net (decrease) / increase in cash held	36,972,410	(1,276,897)

Notes to the Financial Statements (continued)

7: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Value in use calculation assumptions

The recoverable amount of each cash-generating unit used for impairment testing is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period (including a terminal value at the end of the 5 year period) except in cases where the useful life is less than 5 years, in which case this period is used.

The discounted cash flows for each cash-generating unit is calculated based on management forecasts for sales, gross profit and resultant earnings. The assumed growth rate beyond the forecast cash flow period and discount rate used in the determination of value in use were 0% and 8.3% respectively. The discount rate used is the Weighted Average Cost of Capital (WACC) of the Group at the reporting date.

The assumptions used for the current financial year were similar to those used from the prior year, other than the discount rate, which was re-calculated as at balance date. These value-in-use calculations are sensitive to changes in the key assumptions used. Changes in the nature or quantum of key assumptions would alter the value-in-use calculations and could potentially result in certain cash-generating units being subject to impairment. The value in use calculations are most sensitive to changes in the discount rate and/or changes to the forecast gross profits. See an analysis of the sensitivity of these value-in-use calculations (based on all other assumptions remaining constant):

	Change in discount rate			Change in EBITDA (base year)		
	+2%	+4%	+6%	(5%)	(10%)	(20%)
Impairment expense that would be recognised	-	1,946,199	3,027,181	-	-	427,161

Impairment Testing for CGUs containing Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to the Group's cash generating units as follows:

	2019 \$	2018 \$
Contract Manufacturing ¹	8,165,041	-

¹ Goodwill allocated from the acquisition of South Pack Laboratories (Aust) Pty Ltd.

The key assumptions used in the estimation of the recoverable amount relating to the Contract Manufacturing CGU are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the industry and have been based on historical data from both external and internal sources.

	2019 %
Assumptions	
Budgeted EBITDA growth rate	Nil
Discount rate	8.3
Terminal growth rate	Nil

The Group performed impairment testing at 30 June 2019 and there was no impairment of goodwill allocated to the Contract Manufacturing CGU.

(ii) Amortisation of intangibles

As detailed in Note 1 (j), the group has a policy of amortising intangible assets with a finite useful life over a period of 10 to 20 years (other than those which are subject to a fixed term license) and the remainder have been determined to have an indefinite useful life. The carrying value of those assets with a finite useful life and those with an indefinite useful life is set out in Note 18. The determination of the useful life of each intangible asset, which comprises capitalised product development costs, is based on the group's knowledge of each major category of intangible assets and the future economic benefits expected to be received from each. The group reassesses the useful life of intangible assets at each reporting date and at any future period may change the useful life of an intangible asset based on information available at that date. The group recognised amortisation of \$661,596 relating to assets with a finite useful life during the current year.

(ii) Capitalised Development Costs

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

(iii) Share based payments

As per note 26, the Group issues share based payments in the form of options to acquire fully paid ordinary shares.

The Black Scholes valuation model is used to determine the fair value of equity settled options. Key assumptions applied in the valuation may require judgement and estimates, which includes the estimated number of options that will ultimately vest, the expected dividend yield and volatility.

The inputs used in the valuation of these options were:

Exercise price: see note 26

Expected volatility of company shares: 34% - 48%

Risk-free interest rate: 1.92% - 2.57%

Vesting period: As per above

Projected dividend yield: 3%

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

8: KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES DISCLOSURES

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

(a) Key management personnel compensation:

	2019 \$	2018 \$
Short-term employee benefits	1,153,245	1,336,918
Post-employment benefits	113,324	183,610
Other long term benefits	-	-
Share-based payments	27,000	442,749
Total compensation	1,293,569	1,963,277

Short-term employee benefits

These amounts include fees and benefits paid to the non-executive Chair and non-executive directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

Post-employment benefits

These amounts are the current-year's estimated costs of providing for the Group's defined benefits scheme post-retirement, superannuation contributions made during the year and post-employment life insurance benefits.

Other long term benefits

These amounts represent long service leave benefits accruing during the year, long-term disability benefits and deferred bonus payments.

Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

Notes to the Financial Statements (continued)

9: BRAND SALES

On 27 September 2018, the Group completed the sale of the Gold Cross, David Craig and Skin Basics brands, including all intellectual property and business assets associated with the brands ("Pharma Brands") to iNova Pharmaceuticals (Singapore) Pte Limited.

Prior to the sale, the Pharma Brands were subject to an agreement whereby iNova Pharmaceuticals (Australia) Pty Ltd acted as the distributor of the products, which will terminated upon completion of this transaction.

Probiotec to continue to manufacture the Gold Cross, David Craig and Skin Basics products on an exclusive, long term basis and terms similar to those prior to the sale of the brands.

The sale of the Pharma Brands delivered gross proceeds of \$13.50 million and resulted in a gain on sale of \$10.28 million, before transaction costs.

On 26 November 2018, the Group completed the sale of the Impromy, including all intellectual property and business assets associated with the brand ("Impromy") to Blackmores Limited. Probiotec will continue to manufacture the IMPROMY brand on an exclusive basis for a three year term.

The sale of Impromy delivered gross proceeds of \$8.57 million (after adjusting for working capital) and resulted in a gain on sale of \$6.44 million.

Transaction costs of \$1.39 million were incurred as a result of the sale of the Pharma Brands and Impromy.

10: LAND & BUILDINGS

On 2 July 2018, Probiotec completed the purchase of 85 Cherry Lane, Laverton North, Victoria for an amount of \$3.6 million. 85 Cherry Lane is adjacent to Probiotec's pharmaceutical production facility in Laverton North, Victoria.

On 27 September 2018, the Company completed the sale and leaseback of 83-85 Cherry lane, Laverton North VIC. At settlement, Probiotec received an amount of \$21.5 million in cash with further \$3 million to be held in trust and released upon completion of development works by Probiotec on 85 Cherry Lane, which include the construction of new purpose-built warehouse and manufacturing facility. These works are estimated to cost \$3 million and are scheduled for completion by 30 September 2019.

The sale of 83-85 Cherry Lane, Laverton North resulted in a loss on sale and leaseback of \$2.29 million. Transaction costs of \$0.64 million were incurred as a result of the acquisition of 85 Cherry Lane and subsequent sale and leaseback of 83-85 Cherry Lane, Laverton North

Probiotec has entered into a triple net lease with the acquirer of 83-85 Cherry Lane for a 20 year term at an initial yield of 6.4%. At the commencement of the lease, Probiotec has recognised a lease liability in the amount of \$23,174,129 together with a right of use asset of \$15,898,337.

11: REMUNERATION OF AUDITORS

2019
\$

2018
\$

Amounts paid/payable to ShineWing Australia for:

Audit services

Auditing or reviewing the financial report	147,000	137,000
	147,000	137,000

12: DIVIDENDS

A dividend of 2.0 cents per fully paid ordinary share was paid in relation to the financial year ended 30 June 2018. An interim dividend of 1.0 cents per fully paid ordinary share was paid on 19 March 2019. A dividend has been declared for the year ended 30 June 2019 as per below.

	2019		2018	
	Cents per Share	Total \$	Cents per Share	Total \$
Recognised Amounts				
Fully Paid Ordinary Shares				
Interim dividend for half year ended 31 December fully franked at 30% corporate tax rate	1.00	600,759	0.75	456,220
Final dividend for year ended 30 June, fully franked at 30% corporate tax rate	2.00	1,274,587	1.50	793,943
Special dividend, fully franked at 30% corporate tax rate	5.00	3,191,468	-	-
Unrecognised Amounts				
Fully paid ordinary shares				
Final dividend for year ended 30 June, fully franked at 30% corporate tax rate	2.50	1,500,721	1.50	793,940

2019
\$

2018
\$

Dividend franking account

Amount of franking credits available for subsequent years	3,422	611,007
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13: CASH AND CASH EQUIVALENTS

Cash on hand and at bank	8,843,997	1,816,089
<i>Interest rate risk exposure</i>		

The Group's and the parent entity's exposure to interest rate risk is discussed in Note 31.

Notes to the Financial Statements (continued)

14: TRADE AND OTHER RECEIVABLES

	2019 \$	2018 \$
CURRENT		
Trade accounts receivable - third parties	19,483,741	16,404,995
Less: allowance for impairment of receivables	(719,479)	(80,918)
Total current trade receivables	18,764,262	16,324,077
GST receivable	-	34,958
Other receivables	-	113,021
Total current trade and other receivables	18,764,262	16,472,056

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

	2019 Gross \$	2019 Allowance \$	2018 Gross \$	2018 Allowance \$
Not past due	16,538,131	(690,023)	15,855,373	-
Past due 1 - 30 days	2,929,062	(29,291)	252,827	-
Past due 31 - 60 days	16,548	(165)	222,444	(6,567)
Past 61 days	-	-	74,351	(74,351)
	19,483,741	(719,479)	16,404,995	(80,918)

(b) Impaired trade receivables

Trade debtors are generally extended on credit terms of between 14 days to 60 days. As at 30 June 2019, current trade receivables of the Group with a nominal value of \$0 (2018 - \$80,918) were impaired. The amount of the allowance was \$184,481 (2018 - \$80,918). Any individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

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

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

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

	2019 \$	2018 \$
At 1 July	80,918	130,722
Provision for impairment recognised / (reversed) during the year	143,186	(49,804)
Receivables written off during the year as uncollectible	(39,623)	-
At 30 June	184,481	80,918

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 32.

	2019 \$	2018 \$
15: INVENTORIES		
CURRENT		
Raw materials - at cost	9,837,597	9,277,549
Work in progress - at cost	2,199,458	1,356,761
Finished goods - at cost	1,473,880	1,200,043
Provision for obsolescence	(256,122)	(273,985)
	13,254,813	11,560,367
16: OTHER CURRENT ASSETS		
Prepayments	430,141	339,450
17: PROPERTY, PLANT AND EQUIPMENT		
	2019 \$	2018 \$
Freehold land - at independent valuation	300,000	4,030,000
Building - at independent valuation	800,000	11,641,280
Less: Accumulated depreciation	(72,767)	(585,952)
	727,233	11,055,328
Plant & equipment - at cost (i)	24,348,669	21,821,389
Less: Accumulated depreciation	(9,548,841)	(9,802,894)
	14,799,828	12,018,495
Leased plant & equipment	2,863,836	3,357,847
Less: Accumulated depreciation	(863,218)	(840,851)
	2,000,618	2,516,996
TOTAL PROPERTY, PLANT AND EQUIPMENT	17,827,679	29,620,819

All of the Group's freehold land and buildings were revalued by an independent valuer in March 2017 and resulted in a net revaluation decrease of \$419,818. Refer to Note 34 for detailed disclosures regarding the fair value measurement of the Group's freehold land and buildings.

Notes to the Financial Statements (continued)

(a) Movements in Carrying Amounts	Freehold land \$	Buildings \$	Plant, Equipment & Other \$	Leased Plant, Equipment & Other \$	Total \$
Consolidated Group					
Carrying amount at 1 July 2017	4,030,000	10,833,540	9,287,268	2,491,092	26,641,900
Additions	-	671,280	2,866,205	1,061,059	4,598,544
Acquisitions	-	-	411,587	-	411,587
Impairment	-	-	-	-	-
Revaluation	-	-	-	-	-
Reclassification	-	-	834,510	(834,510)	-
Disposals	-	-	-	-	-
Transfer to property held for resale	-	-	-	-	-
Depreciation and amortisation	-	(449,492)	(1,381,076)	(200,645)	(2,031,212)
Carrying amount at 30 June 2018	4,030,000	11,055,329	12,018,495	2,516,996	29,620,819
Carrying amount at 1 July 2018	4,030,000	11,055,329	12,018,495	2,516,996	29,620,818
Additions	2,600,000	4,079,248	4,616,884	-	11,296,132
Acquisition	-	-	-	-	-
Impairment	-	-	-	-	-
Revaluation	-	-	-	-	-
Reclassification	-	-	305,592	(305,592)	-
Disposals	(6,330,000)	(14,125,238)	-	-	(20,455,238)
Transfer to property held for resale	-	-	-	-	-
Depreciation and amortisation	-	(282,106)	(2,141,142)	(210,786)	(2,634,034)
Carrying amount at 30 June 2019	300,000	727,233	14,799,828	2,000,618	17,827,680

18: INTANGIBLE ASSETS

	2019 \$	2018 \$
(a) Intangible summary and reconciliation		
Goodwill at cost	8,165,041	8,165,041
Accumulated impairment	-	-
	8,165,041	8,165,041
Non-contractual customer relationships	3,500,000	3,500,000
Accumulated impairment	-	-
Accumulated amortisation	(606,667)	(256,667)
	2,893,333	3,243,333
Developed products at cost	12,392,792	11,699,557
Accumulated amortisation	(6,842,509)	(6,530,913)
	5,550,283	5,168,644
Products under development at cost	811,280	1,746,941
Accumulated amortisation	-	-
	811,280	1,746,941
Total intangible assets	17,419,937	18,323,959

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	Non-contractual customer relationships	Developed Products	Products under Development	Total
Opening balance as at 1 July 2017	-	-	17,232,895	1,578,658	18,811,554
Acquisitions	8,165,041	3,500,000	-	-	11,665,041
Additions	-	-	745,990	168,283	-
Reclassification	-	-	348,316	-	-
Transfer of commercialised product	-	-	-	-	-
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Transfer to assets held for sale (a)	-	-	(12,437,889)	-	(12,437,889)
Amortisation	-	(256,667)	(720,668)	-	(977,335)
Closing balance as at 30 June 2018	8,165,041	3,243,333	5,168,644	1,746,941	18,323,959
Opening balance as at 1 July 2018	8,165,041	3,243,333	5,168,644	1,746,941	18,323,960
Acquisitions	-	-	-	-	-
Additions	-	-	-	1,215,810	1,215,810
Reclassification	-	-	1,215,810	(1,215,810)	-
Transfer of commercialised product	-	-	935,661	(935,661)	-
Disposals	-	-	(1,458,236)	-	(1,458,236)
Impairment	-	-	-	-	-
Transfer to assets held for sale (a)	-	-	-	-	-
Amortisation	-	(350,000)	(311,596)	-	(661,596)
Closing balance as at 30 June 2019	8,165,041	2,893,333	5,550,283	811,280	17,419,937

Notes to the Financial Statements (continued)

Estimated useful life of intangible assets

Intangible assets, comprising products under development and goodwill, have indefinite useful lives. Developed Products subject to a license with a specified term have a finite life of 10 to 20 years. Developed Products with indefinite lives comprise trademarks and product dossiers. Developed Products with finite useful lives are amortised on a straight line basis over their effective life. The current amortisation charges for intangible assets are included under administration and other expenses in the income statement. The directors consider intangibles to have an indefinite life when, based on an analysis of all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cashflows for the group.

	2019 \$	2018 \$
(a) Assets Held for Sale		
Developed products	5,775,000	12,437,889

As announced on 28 February 2019, the Company has entered into an agreement with Global Brands Australia Pty Ltd ("GBA") to sell the Celebrity Slim brand, including all intellectual property and business assets ("Assets") for \$6.75 million, subject to adjustment for working capital. The carrying value of the asset has been reduced to align with the agreed sale price less expected costs to sell. This has resulted in a fair value adjustment of \$2,769,178 being recognised for the 2019 financial year.

	2019 \$	2018 \$
19: DEFERRED TAX ASSETS		
Deferred tax assets is comprised as follows:		
Temporary differences - provisions	850,332	665,675
Temporary differences - Property, plant & equipment	15,429	-
Temporary differences - leases	5,168,571	539,790
Temporary differences - other	1,614,925	189,327
Tax losses	-	1,692,043
	7,649,257	3,086,835

20: TRADE AND OTHER PAYABLES

Trade accounts payable	9,381,624	10,939,010
Sundry creditors & accruals	2,160,550	2,435,011
GST payable	601,984	619,989
	12,144,158	13,994,010

(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

	2019 \$	2018 \$
Amounts payable in foreign currencies		
Current		
Euro	343,738	258,959
Great British Pounds	-	3,220
US Dollars	242,146	164,579
	585,884	426,758

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 32.

	2019 \$	2018 \$
21: INTEREST-BEARING LIABILITIES		
Current		
Secured borrowings		
Bank loans	840,000	4,570,999
Non-bank loans	1,000,000	1,000,000
Lease liabilities	2,627,083	638,061
	4,467,083	6,209,060
Non-Current		
Secured borrowings		
Bank loans	3,228,902	6,540,000
Non-bank loans	-	1,000,000
Lease liabilities	23,019,109	1,173,164
	26,248,011	8,713,164
(a) Total current and non-current secured liabilities:		
Bank loans	4,068,902	11,110,999
Non-bank loans (see note 9)	1,000,000	2,000,000
Lease liabilities	25,646,192	1,811,225
	30,715,094	14,922,224
(b) The carrying amount of the assets secured by a first registered mortgage:		
Freehold land and building (Note 17)	1,027,233	15,085,328

(c) The bank loans are provided by Commonwealth Bank of Australia and are secured by a registered first mortgage over all freehold property of the parent entity and the subsidiaries which in total have a carrying amount as set out above.

The bank covenants require debt service to EBITDA to exceed 2.25 times and the ratio of financial indebtedness to EBITDA of less than 2.5 time, where EBITDA excludes extraordinary items. The Group is in compliance with the bank covenants.

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

(d) Finance lease liabilities:

Weighed average interest rate of 6.37%

Secured by leased plant / assets

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

(e) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in Note 32.

Notes to the Financial Statements (continued)

	2019 \$	2018 \$
22: PROVISIONS		
Current		
Employee benefits (a)	2,180,223	2,155,407
Contingent consideration	250,000	972,090
	2,430,223	3,127,497
Non-Current		
Employee benefits (a)	250,353	150,091
Contingent consideration	-	726,820
	250,353	876,911
Total provisions	2,680,576	4,004,408

(a) Provision for employee benefits 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.

Reconciliation of provisions:

	Annual leave	Long Service leave
Opening balance at 1 July 2018	1,338,386	967,112
Acquired	-	-
Amounts used	(1,173,464)	(121,783)
Additional provisions	1,379,854	40,471
Amounts unused and reversed	-	-
Balance at 30 June 2019	1,544,776	885,800

	2019 \$	2018 \$
23: DEFERRED TAXES		
Deferred taxes is comprised as follows:		
Deferred tax assets (note 19)	7,649,257	3,086,835
Deferred tax liabilities - temporary differences (a)	(10,842,945)	(7,844,208)
Net deferred tax liabilities	(3,193,688)	(4,757,373)
Deferred tax expense debit / (credit) to income tax expense	(1,583,239)	1,281,642
Deferred tax expense charged to equity	-	-
(a) Deferred tax liabilities comprises:		
Temporary differences - property, plant & equipment	-	(1,214,024)
Temporary differences - capitalised development costs	(4,272,426)	(3,936,881)
Temporary differences - other	(6,570,519)	(2,693,303)
	(10,842,945)	(7,844,208)
Reconciliation of net deferred tax liabilities:	\$	
Opening as at 1 July 2017	(2,445,058)	
Less : deferred tax expense charge	(1,281,642)	
Less: current tax expense	(585,355)	
Less : deferred tax expense charged to equity	(445,318)	
Closing as at 30 June 2018	(4,757,373)	
Less : deferred tax expense	1,583,239	
Less : current tax expense	(1,030,305)	
Less : deferred tax expense charged to equity	1,010,751	
Closing balance as at 30 June 2019	(3,193,688)	

	2019 \$	2018 \$
24: CONTRIBUTED EQUITY		
60,034,675 (2018: 62,529,356) fully paid ordinary shares	33,608,259	38,596,329
Reconciliation of fully paid ordinary shares		
Balance at beginning of the financial year	38,596,329	33,686,519
Issue of shares	755,001	4,909,810
Buy back of shares	(5,743,071)	-
Cancellation of shares held under Equity Compensation Plan	-	-
Equity raising expenses	-	-
Balance at end of financial year	33,608,259	38,596,329

	2019 No.	2018 No.
Reconciliation of ordinary shares		
Balance at the beginning of reporting period	62,529,356	52,929,356
Buy back of shares	(3,894,681)	-
Shares issued during the year	1,400,000	9,600,000
Balance at end of the report date	60,034,675	62,529,356

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

(a) Capital management

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

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. The Group is not subject to externally imposed capital requirements other than those set out in Note 21.

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 2018 and 30 June 2019 were as follows:

	2019 \$	2018 \$
Total borrowings	30,715,094	14,922,224
Less cash and cash equivalents	(8,843,997)	(1,816,089)
Net debt / (cash)	21,871,097	13,106,135
Total contributed equity	33,608,259	38,596,329
Total capital employed	55,479,356	51,702,464
Gearing ratio	39.4%	25.3%

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

Notes to the Financial Statements (continued)

	2019 \$	2018 \$
25: RESERVES		
Asset revaluation reserve	488,797	4,026,722
Foreign currency translation reserve	(379,516)	(287,254)
Share based payments reserve	477,952	477,952
Reconciliation of asset revaluation reserve		
Balance at beginning of financial year	4,026,722	4,026,722
Revaluation of assets	(3,537,925)	-
Balance at end of financial year	488,797	4,026,722
Reconciliation of foreign currency translation reserve		
Balance at beginning of financial year	(287,254)	(371,648)
Translation of net investment in foreign entities	(92,262)	84,394
Balance at end of financial year	(379,516)	(287,254)
Reconciliation of share based payments reserve		
Balance at beginning of financial year	477,952	18,931
Issue / (cancellation) of options	-	459,021
Balance at end of financial year	477,952	477,952

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

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

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

	2019 \$	2018 \$
26: COMMITMENTS		
Lease commitments		
Non-cancellable operating leases		
Payable - minimum lease		
Within one year	100,879	629,724
Later than one year but not later than 5 years	-	487,879
Commitments not recognised in the statement of financial position	100,879	1,117,603
Finance leases commitments (including operating leases recognised under AASB 16)		
Payable - minimum lease payments:		
Within one year	2,632,481	679,116
Later than one year but not later than 5 years	8,976,834	1,274,238
Later than 5 years but less than 20 years	34,581,528	-
Minimum lease payments	46,190,843	1,953,354
Less: Future finance charges	(21,215,749)	(142,129)
	24,975,094	1,811,225
Representing lease liabilities:		
Current	2,627,083	507,697
Non-current	23,019,109	657,292
	25,646,192	1,164,989

The weighted average interest rate implicit in the leases is 6.38%. The carrying value of assets purchased via leases during the year is \$0 (2018: \$2,516,996).

Leases are entered into with terms between 3 to 5 years. Finance leases are entered into for the purchase of various items of property, plant and equipment. Leased property is held at all of the group's Australian based manufacturing sites. Leases may be renewed by negotiation. No contingent rents are payable under any lease contract entered into.

Notes to the Financial Statements (continued)

27: 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 Executive Option 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 greater than one year from the grant date. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed amount of options. For details of options issued to key management personnel refer to the remuneration report.

Employee incentive scheme options for the year ended 30 June 2019

The following incentive scheme options were issued to eligible employees, including key management personnel:

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted during the year number	Options exercised/lapsed during the year number	Balance at end of year number	Vested and exercisable at end of year
06.10.2015	06.10.2016	05.10.2018	0.50	1,000,000	-	(1,000,000)	-	-
01.07.2017	01.07.2018	30.06.2020	0.60	1,350,000	-	(400,000)	950,000	950,000
23.11.2017	22.11.2018	22.11.2020	0.72	1,000,000	-	-	1,000,000	1,000,000
19.12.2017	19.12.2017	18.12.2019	1.15	3,200,000	-	-	3,200,000	3,200,000
23.01.2018	23.01.2018	22.01.2020	1.15	3,600,000	-	-	3,600,000	3,600,000
Weighted average exercise price				\$1.02	\$-	\$0.53	\$1.09	\$1.09

Employee incentive scheme options for the year ended 30 June 2018

The following incentive scheme options were issued to eligible employees, including key management personnel:

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted during the year number	Options exercised/lapsed during the year number	Balance at end of year number	Vested and exercisable at end of year
06.10.2015	06.10.2016	05.10.2018	0.50	1,000,000	-	-	1,000,000	1,000,000
01.07.2015	01.07.2016	30.06.2018	0.50	1,700,000	-	(1,700,000)	-	-
01.07.2017	01.07.2018	30.06.2020	0.65	-	1,350,000	-	1,350,000	-
23.11.2017	22.11.2018	22.11.2020	0.77	-	1,000,000	-	1,000,000	-
19.12.2017	19.12.2017	18.12.2019	1.20	-	3,200,000	-	3,200,000	-
23.01.2018	23.01.2018	22.01.2020	1.20	-	3,600,000	-	3,600,000	-
Weighted average exercise price				\$0.50	\$1.07	\$0.50	\$1.02	\$0.50

The weighted average contractual life remaining on employee incentive scheme options outstanding is 245 days as at balance date.

(b) Expenses arising from share-based payments

	2019 \$	2018 \$
Options issued under executive option plan	-	459,021
	-	459,021

28: RELATED PARTY TRANSACTIONS AND BALANCES

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

Associated companies

	2019 \$	2018 \$
Payments were made to The Continental Group Pty Ltd, an entity associated with Mr Geoffrey Pearce (director). These payments were for the supply of raw materials and packaging items.	3,858,617	3,057,359
Amounts payable to Continental Group Pty Ltd at year end	754,669	969,931

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 2019 other than as disclosed above and in note 8.

Identification of Related Parties - Ultimate Parent Entity

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

Notes to the Financial Statements (continued)

	2019 \$	2018 \$
29: NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Financing facilities with banks		
Secured bank overdraft facility:		
Facility balance	1,000,000	1,000,000
Amount used	-	-
Amount unused	1,000,000	1,000,000
Secured term loan and working capital facilities with banks:		
Facility balance	28,577,290	14,980,000
Amount used	21,577,290	(11,110,999)
Amount unused	7,000,000	3,869,001
Lease finance facilities:		
Facility balance	27,512,740	3,500,000
Amount used	(25,646,192)	(1,811,225)
Amount unused	1,866,548	1,688,775
Unsecured term loan with non-banks:		
Facility balance	1,000,000	2,000,000
Amount used	(1,000,000)	(2,000,000)
Amount unused	-	-
(b) Reconciliation of Profit from Ordinary Activities After Related Income Tax to Net Cash Flows From Operating Activities:		
Profit after related income tax	11,330,885	3,576,575
Fair value adjustments	3,419,445	26,160
Depreciation and amortisation	3,295,630	3,008,549
Loss / (profit) on sale of plant and equipment	(14,030,601)	-
Impairment and reclassification costs	-	-
Foreign currency translation	92,262	(84,394)
Employee share plan expenses	-	459,021
(Decrease)/increase in net deferred taxes	(1,563,685)	2,312,315
(Increase)/decrease in inventories	(1,694,445)	(1,668,529)
(Increase)/decrease in trade and other receivables	(2,310,216)	(3,691,239)
(Increase)/decrease in other current assets	(90,691)	129,988
Increase/(decrease) in trade and other payables	(1,849,852)	1,631,714
Increase/(decrease) in tax liabilities	(410,221)	(184,494)
Increase/(decrease) in provisions	(573,833)	707,212
Net cash from operating activities	(4,385,322)	6,222,878

Non-cash financing and investing activities:

During the year the Group acquired plant and equipment with an aggregate value of \$0 (2018: \$1,061,059) by means of finance leases.

(c) Reconciliation of liabilities from financing activities

	2018	Cash flows	Non-cash changes			2019
			Acquisitions	Foreign exchange movement	Fair Value changes	
Long-term borrowings	7,540,000	(4,311,098)	-	-	-	3,228,902
Short-term borrowings	4,544,839	(3,167,193)	-	-	-	1,377,646
Lease liabilities	1,811,225	(677,773)	-	-	-	1,133,452
Other financial liability	26,160	-	-	-	26,554	52,714
	13,922,224	(8,156,064)	-	-	26,554	5,792,714

	2019 \$	2018 \$
30: EARNINGS PER SHARE		
Profit	11,330,885	3,576,575
Earnings used in the calculation of basic EPS	11,330,885	3,576,575
Earnings used in the calculation of dilutive EPS	11,330,885	3,576,575
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	61,904,727	62,529,356
Weighted average number of options outstanding	2,947,452	1,000,000
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	64,852,179	63,529,356
Earnings per share:		
Basic earnings per share (cents)	18.3	5.7
Diluted earnings per share (cents)	17.5	5.6
Earnings per share from discontinued operations:		
Basic earnings per share (cents)	11.7	0.8
Diluted earnings per share (cents)	11.2	0.8

31: SUBSIDIARY INFORMATION

Information about principal subsidiaries

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

Name of subsidiary	Principal Place of Business	Ownership Interest Held by the Group	
		2019 %	2018 %
Probiotec Pharmaceuticals Pty Ltd	Australia	100	100
Probiotec Pharma Pty Ltd	Australia	100	100
Biotech Pharmaceuticals Australia Pty Ltd	Australia	100	100
Biotech Pharmaceuticals Pty Ltd	Australia	100	100
Probiotec (NSW) Pty Ltd	Australia	100	100
Australian Dairy Proteins Pty Ltd	Australia	100	100
Milton Pharmaceuticals Pty Ltd	Australia	100	100
Willie Labs Generics Pty Ltd	Australia	100	100
South Pack Laboratories (Aust) Pty Ltd	Australia	100	100
Probiotec (UK) Limited	United Kingdom	100	100
Probiotec (Ireland) Limited	Ireland	100	100

Subsidiary financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

Notes to the Financial Statements (continued)

32: FINANCIAL INSTRUMENTS

Financial Risk Management

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

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

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

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

Financial Risks

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

	Consolidated Group			
2019	GBP \$	NZD \$	USD \$	EUR \$
Financial Assets				
Trade and other receivables	18,592	20,057	-	-
Financial Liabilities				
Trade and other payables	-	-	242,146	343,738
Net exposure	18,592	20,057	(242,146)	(343,738)
2018	GBP \$	NZD \$	USD \$	EUR \$
Financial Assets				
Trade and other receivables	110,343	11,382	-	670,619
Financial Liabilities				
Trade and other payables	3,220	-	-	-
Net exposure	107,123	11,382	-	670,619



Sensitivity analysis

Based on the financial instruments held as at 30 June 2018, a 10% strengthening of Australian dollar against GBP, 15% strengthening of Australian dollar against the New Zealand dollar (NZD), 10% strengthening of Australian dollar against US dollar and a 10% strengthening of Australian Dollar against EUR at 30 June would have increased / (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2017.

	Profit \$	Equity \$
2019		
GBP	(1,690)	-
NZD	(2,616)	-
US dollars	22,013	-
EUR	31,249	-
2018		
GBP	(9,738)	-
NZD	(1,485)	-
US dollars	14,962	-
EUR	(37,424)	-

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

(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 and/or fixed rate leasing to achieve this (where applicable). Occasionally, 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. If interest rate swaps are used, 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 2018 and 2019, the Group's borrowings at variable rates were denominated in Australian Dollars.

Notes to the Financial Statements (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 \$	
2019					
Financial assets:					
Cash	-	8,843,997	-	-	8,843,997
Total financial assets		8,843,997	-	-	8,843,997
Financial Liabilities:					
Loans and overdraft	4.50	840,000	3,228,902	-	4,068,902
Total financial liabilities		840,000	3,228,902	-	4,068,902
Net exposure		8,003,997	(3,228,902)	-	4,775,095

	Weighted average interest rate %	Floating interest rate maturing			Total \$
		1 year or less \$	Over 1 to 5 years \$	More than 5 years \$	
2018					
Financial assets:					
Cash	-	1,816,089	-	-	1,816,089
Total financial assets		1,816,089	-	-	1,816,089
Financial Liabilities:					
Loans and overdraft	4.50	4,570,999	6,540,000	-	11,110,999
Total financial liabilities		4,570,999	6,540,000	-	11,110,999
Net exposure		(2,754,910)	(6,540,000)	-	(9,294,910)

Sensitivity analysis

Based on the financial assets and liabilities held as at 30 June 2019, an increase in interest rates would have the following financial impact on the Group. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2018.

	Profit \$
2019	
1%	47,751
2%	95,502
2018	
1%	(92,949)
2%	(185,898)

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

(b) Liquidity risk

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

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

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

In addition, the Group had access to undrawn credit facilities available for use at the reporting date which would further reduce the liquidity risk. For further details see Note 29(a).

Maturities of financial liabilities**Consolidated Group**

	Carrying amount \$	Total contractual cash flows \$	Less than 6 months \$	6 - 12 months \$	1 - 5 years \$
2019					
Non-derivatives financial liabilities					
Trade and other payables	12,144,158	12,144,158	12,144,158	-	-
Fixed borrowings (including finance leases)	25,646,192	46,190,843	1,316,241	1,316,241	43,558,362
Variable borrowings	3,606,548	3,606,548	420,000	420,000	2,766,548
	41,396,898	61,941,549	13,880,399	1,736,241	46,324,910
2018					
Non-derivatives financial liabilities					
Trade and other payables	11,558,999	11,558,999	11,558,999	-	-
Fixed borrowings (including finance leases)	1,811,225	1,953,354	339,558	339,558	1,274,238
Variable borrowings	11,110,999	11,110,999	720,000	720,000	9,670,999
	24,481,223	24,623,352	12,618,557	1,059,558	10,945,237

(c) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents as well as credit exposures to customers, including outstanding receivables from subsidiaries and financial guarantees given to entities within the Group. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date is addressed in Note 14.

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.

(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 including the local milk powder industry and the Group does not actively trade in equity investments.

(e) Fair values

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

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

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

Notes to the Financial Statements (continued)

	2019		2018	
	Carrying Amount \$	Net Fair Value \$	Carrying Amount \$	Net Fair Value \$
Financial Assets				
Trade & other current receivables	18,764,262	18,764,262	16,472,056	16,472,056
Cash	8,843,997	8,843,997	1,816,089	1,816,089
	27,608,259	27,608,259	18,288,145	18,288,145
Financial Liabilities				
Trade & others payables	12,144,158	12,144,158	11,558,999	11,558,999
Short term borrowings	(20,577,290)	(20,577,290)	13,110,999	13,110,999
Lease liability	25,646,192	25,646,192	1,811,225	1,811,225
	17,213,060	17,213,060	26,481,223	26,481,223

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

33: PARENT ENTITY INFORMATION

The following details information related to the parent entity, Probiotec Limited, at 30 June 2019.

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

	2019 \$	2018 \$
Current assets	38,179,908	42,218,892
Non-current assets	12,393,221	30,967,025
Total Assets	50,573,129	73,185,917
Current Liabilities	10,286,699	16,709,604
Non-current liabilities	7,511,935	14,326,061
Total Liabilities	17,798,634	31,035,665
Contributed equity	33,849,888	38,596,329
Retained earnings	(1,075,393)	(277,927)
Other reserve	-	3,831,850
Total equity	32,774,495	42,150,252
Profit / (loss) for the year	1,712,436	2,060,113
Other Comprehensive income for the year	-	-
Total comprehensive income for the year	1,712,436	2,060,113

The parent company has not guaranteed any loans held by its subsidiaries other than as part of the cross guarantees set out in Note 21(c).

The parent entity is subject to contractual obligations in regards to the group's interest bearing liabilities as detailed in Note 20. All finance leases held by the group (see Note 21) are held by the parent entity.

34: FAIR VALUE MEASUREMENTS

(a) The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

		30 June 2019			
	Note	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Recurring fair value measurements					
<i>Non-financial assets</i>					
Freehold land	17	-	300,000	-	300,000
Freehold buildings	17	-	-	727,233	727,233
Total non-financial assets recognised at fair value on a recurring basis		-	300,000	727,233	1,027,233
<i>Financial Liability</i>					
Contingent cash consideration		-	-	250,000	250,000
Total financial liabilities recognised at fair value		-	-	250,000	250,000
Non-recurring fair value measurements					
Total non-financial assets recognised at fair value on a non-recurring basis		-	-	-	-
Total non-financial assets recognised at fair value		-	300,000	727,233	1,027,233
Recurring fair value measurements					
<i>Financial liabilities</i>					
Interest rate swap		-	52,714	-	52,714
Total financial liabilities recognised at fair value on a recurring basis		-	52,714	-	52,714

		30 June 2018			
	Note	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Recurring fair value measurements					
<i>Non-financial assets</i>					
Freehold land	17	-	4,030,000	-	4,030,000
Freehold buildings	17	-	-	11,055,328	11,055,328
Total non-financial assets recognised at fair value on a recurring basis		-	4,030,000	11,055,328	15,085,328
<i>Financial Liability</i>					
Contingent cash consideration		-	-	1,698,910	1,698,910
Total financial liabilities recognised at fair value		-	-	1,698,910	1,698,910
Non-recurring fair value measurements					
Total non-financial assets recognised at fair value on a non-recurring basis		-	-	-	-
Total non-financial assets recognised at fair value		-	4,030,000	11,055,328	15,085,328
Recurring fair value measurements					
<i>Financial liabilities</i>					
Interest rate swap		-	26,160	-	26,160
Total financial liabilities recognised at fair value on a recurring basis		-	26,160	-	26,160

Notes to the Financial Statements (continued)

(b) Valuation techniques and inputs used to measure Level 2 fair values

Description	Fair Value at 30 June 2019	Valuation technique(s)	Inputs used
<i>Non-financial assets</i>			
Freehold land *	300,000	Market approach using recent observable market data for similar properties;	Price per square metre (\$100 - \$340 psm);
	300,000		
<i>Financial liabilities</i>			
Interest rate swap	52,714	Income approach using discounted cash flow methodology and swap models	Interest rate
	52,714		

* The fair value of freehold land and buildings is determined at least every three years based on valuations by an independent valuer. At the end of each intervening period, the directors review the independent valuation and, when appropriate, update the fair value measurement to reflect current market conditions using a range of valuation techniques, including recent observable market data.

(c) Valuation techniques and unobservable inputs used to measure Level 3 fair values

Description	Fair Value at 30 June 2019	Valuation technique(s)	Significant Inputs Used
<i>Non-financial assets</i>			
Freehold Buildings	727,233	Depreciated Replacement Cost	Useful life (20-22 years) Cost per square metre (\$600 - \$700 psm)
<i>Non financial liabilities</i>			
Contingent liabilities	-	Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined based on a probability factor on the earn out being achieved.	- Forecast annual revenue - Forecast EBITDA; - Risk adjusted discount rate (14.5%)

The depreciated replacement cost method had been applied in the valuation of the Freehold Building as the independent valuer had determined that the buildings are specialised in nature. Specialised buildings are valued using the depreciated replacement cost method, adjusting for the associated depreciations. As depreciation adjustments are unobservable in nature, specialised buildings are classified as Level 3 fair value measurements.

(d) Reconciliation of recurring level 3 fair value measurements

	Specialised Building	Contingent Consideration
Balance at the beginning of the year	11,055,328	1,698,910
Additions	4,079,248	-
Disposals	(14,125,238)	-
Transfers	-	-
Depreciation	(282,106)	-
Revaluation	-	(1,698,910)
Balance at the end of the year	727,232	-

35: LEASES

The Group's lease portfolio consists primarily of buildings, together with items of plant and equipment. These leases have terms between 2 to 20 years.

AASB 15 related amounts recognised in the balance sheet:

Right of use assets

	2019 \$	2018 \$
Leased buildings:		
Opening balance	-	-
Amounts recognised during the year	16,559,793	-
Depreciation expense for the year	(643,027)	-
Net carrying amount	15,916,766	-
Leased equipment:		
Opening balance	-	-
Amounts recognised during the year	569,966	-
Depreciation expense for the year	(84,025)	-
Net carrying amount	485,941	-
Current	-	-
Non-current	16,402,707	-
Total	16,402,707	-
Depreciation charge related to right-of-use assets	727,052	-
Interest expense on lease liabilities (under finance cost)	1,247,650	-
Short-term leases expense	440,813	-
Total cash outflows for leases	1,829,941	-

36: SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in financial years after the financial year other than acquisition of ABS (Aus) Pty Ltd and the sale of the Celebrity Slim brand as set out below.

- (a) On 31 July 2019, the Company acquired all of the issued shares of ABS (Aus) Pty Ltd, which at completion included the business and assets formerly comprising Australian Blister Sealing Incorporated ("ABS").

ABS is a leading pharmaceutical and consumer products contract packer that has been established for over 40 years. It has capability to pack a very wide range of formats including foil, carded and clamshell blister, bottle filling, labelling, secondary packaging and additional services for the pharmaceutical, cosmetic and food industries. ABS has long standing relationships with many Australian and global pharmaceutical, cosmetic and food companies.

The acquisition was settled in cash, for a base amount of \$23 million, subject to normal adjustments. The vendor will also be entitled to additional cash consideration of up to \$5 million subject to achievement of earnings hurdles for the first-year post completion. As such, the total consideration for the acquisition is expected to be between \$23 million to \$28 million dependent on the achievement of the earn-out hurdles.

The acquisition of ABS represents the continuation of the company's strategy of increasing its manufacturing capabilities, scale and reach within local and export markets.

At the time of the issuance of this financial report, the Company has not yet finalised its initial accounting for this acquisition as it is still in the process of finalising valuations of intangibles, contingent consideration and property, plant & equipment. See below for summarised financial information relating to ABS as at the completion date (31 July 2019). These figures are provisional as at the date of this report and are expected to change based on a post completion adjustment mechanism, which is yet to occur.

Notes to the Financial Statements (continued)

Assets	\$
Cash and cash equivalents	108,533
Other current assets	5,913,774
Non-current assets	908,145
	<u>6,930,452</u>
Liabilities	
Current Liabilities	3,104,176
	<u>3,104,176</u>
Net Assets	<u>3,826,276</u>

- (b) On 26 August 2019, the Company announced that it has entered into an agreement with Global Brands Australia Pty Ltd ("GBA") to sell the Celebrity Slim brand, including all intellectual property and business assets ("Assets") for \$6.75 million.

Celebrity Slim is a leading health and weight loss program that won the 2017 Canstar Blue Most Satisfied Customers Award for weight loss shakes.

GBA has paid a \$1.5 million cash deposit to Probiotec, with the balance of the sale price to be paid in cash upon completion of the sale, subject to customary working capital adjustments. This transaction is scheduled to complete at the end of September 2019.

See note 18 for further details.

37: SEGMENT INFORMATION

Following the Group's divestment of its pharmaceutical brand portfolio and Impromy brand, the directors long longer consider it to be relevant or useful to provide segmental information as the Group's operations are now substantially within the contract manufacturing segment.

Directors' Declaration

PROBIOTEC LIMITED AND ITS CONTROLLED ENTITIES

ACN 075 170 151

DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (b) give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of the consolidated entity.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The 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:



Wesley Stringer
Director

Dated at Laverton this 28th day of August 2019

Independent Auditor's Report to the members of Probiotec Limited



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROBIOTEC LIMITED AND CONTROLLED ENTITIES

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Probiotec Limited (the Company) and its subsidiaries (The Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Sale and leaseback of the manufacturing facility

Area of Focus

Refer to Note 1 (Accounting Policies), Note 10 (Land & Buildings)

During the year, Probiotec Limited (PBP) entered into a sale and leaseback transaction for its manufacturing facility with a sale price of \$24.5 million and a lease period of 20 years. This transaction was completed on 1 October 2018.

At settlement, Probiotec Limited received an amount of \$21.5 million cash with a further \$3 million to be held in trust and released upon completion of development works by Probiotec Limited on the property. These works are estimated to cost \$3 million and are scheduled for completion within 12 months.

The directors resolved to early adopt the requirements of AASB 16 Leases as there are differences in sale and lease back accounting between AASB 16 and its predecessor standard.

As part of accounting for this transaction the directors had to make:

- an initial assessment of the likely period that Probiotec would operate from the property;
- the net current value of the lease liability;
- impacts the deferred taxation balances; and
- the amortisation period for the ROU asset.

Due to the significance of the event and the impact of the early adoption of AASB 16 Leases, we have determined that this is a key judgemental area that our audit has focussed on.

How the audit addressed the area of focus

Our procedures included:

- Obtaining and reviewing the relevant agreements to identify the key terms and conditions of the sale and leaseback arrangement;
- Reviewing the relevant documentation to assess whether the director's recognition of a ROU asset and liability is appropriate including;
 - Evaluating whether the contract meets the definition of a sale and lease back;
 - Identifying the full extent of the ROU asset based on the director's assessment of the likely lease term;
 - Identifying whether there are separate lease components in the contract;
 - Calculating the lease liability in light of the period of time the ROU asset has been recognised for;
 - Evaluating the net current value based on the director's estimates;
- Reviewing the changes to deferred taxation balances; and;
- Reviewing the amortisation period.

We also considered the adequacy of the group's disclosures in relation to the sale and leaseback and the early adoption of AASB 16.

Sale of Intangible Assets (Brands)

Area of Focus

Refer to Note 9 (Brand Sales)

Sale of the Gold Cross, David Craig and Skin Basics brands were sold for \$13.5 million. The sale was completed on 9 October 2018.

The IMPROMY brand and business assets were also sold for \$9 million. The sale was completed on 26 November 2018.

Prior to sale, the respective brands represented significant assets of the Group. The sale has occurred in line with a shift for the Group to increase its focus on contract manufacturing which is the Group's largest cash generating unit.

How the audit addressed the area of focus

Our procedures included:

- Reviewing documents relevant to the sale to check that amounts have been disposed of appropriately.
- Reviewing the relevant documentation to assess that the correct accounting treatment has been applied; and
- Reviewing the resultant profit on sale calculation and recognition.

Independent Auditor's Report to the members of Probiotec Limited



Impairment of Goodwill

Areas of Focus

Refer to Note 7 (Critical Accounting Estimates and Judgements)

In prior years, the group expanded its activities through acquisition of a business. As a result, the group's net assets include a significant amount of goodwill. The most recent acquisition is still within the earn out period and, as such, there is a risk that it may not trade in line with initial expectations and forecasts, resulting in the carrying amount of goodwill exceeding the recoverable amount and therefore requiring impairment.

The directors have determined in the current year that they have two cash generating units (CGUs) and one operating segment.

The recoverable amount of the CGUs has been calculated based on value-in-use models. These recoverable amounts use discounted cash flow forecasts in which directors make judgements about certain key inputs. For example, but not limited to revenue, growth rates and inflation rates are estimated.

Overall, due to the high level of judgement involved, and the significant carrying amounts involved, we have determined that the recoverable amount is a key judgmental area that our audit concentrated on.

How the audit addressed the area of focus

Our procedures included:

- Assessing the appropriateness of the director's assessment of two CGUs;
 - Evaluating the group's budgeting procedures upon which the forecasts are based and testing the principles and integrity of the discounted future cash flow models;
 - Testing the accuracy of the calculation derived from each forecast model and assessing key inputs to the calculation such as revenue growth, discount rates, and working capital assumptions. This is carried out in reference to the board approved forecasts, data external to the group and using our own assessments;
 - Engaging our own valuation specialists when considering the appropriateness of discount rates, terminal values and long-term growth rates; and
 - Reviewing the historical accuracy of original forecasts made by comparing them with actual results.
- We also reviewed the adequacy of the Group's disclosures in relation to Goodwill.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them, all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report to the members of Probiotec Limited



From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 14 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Probiotec Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

ShineWing Australia
Chartered Accountants

Rami Eltchelebi
Partner

Melbourne, 28 August 2019

Other information required by ASX Listing Rules

The information in this section is current as at 23 August 2019.

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

Charles Wayne Stringer	9,998,405 fully paid ordinary shares
Geoffrey Ronald Pearce	3,063,628 fully paid ordinary shares
CVC Limited	4,772,515 fully paid ordinary shares
Bath Road Pty Ltd	3,950,000 fully paid ordinary shares

Holders of each class of equity securities

Security Classes	Holders	Total Units
Fully Paid Ordinary	1,077	60,028,870

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	258	131,128	0.218
	1,001-5,000	379	918,757	1.531
	5,001-10,000	148	1,166,723	1.944
	10,001-100,000	220	7,276,732	12.122
	100,001-99,999,999,999	72	50,535,530	84.185
	Totals	1,077	60,028,870	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 321 or more shares.

Security Classes	Holdings Ranges	Holders	Total Units	%
Fully Paid Ordinary	0 - 321	76	6,807	0.0113
	322 - 99,999,999,999	1,001	60,022,063	99.989
	Totals	1,077	60,028,870	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	Holding	%
CVC LIMITED	5,502,806	9.167%
INSTON PTY LTD (STRINGER SUPER FUND A/C)	4,152,359	6.917%
BATH ROAD PTY LTD (THE BATH ROAD A/C)	3,950,000	6.580%
INSTON PTY LTD (STRINGER FAMILY A/C)	3,051,121	5.083%
BOND STREET CUSTODIANS LIMITED (SALTER - D64848 A/C)	2,535,304	4.223%
MR CHARLES WAYNE STRINGER	2,438,574	4.062%
NATIONAL NOMINEES LIMITED	2,381,707	3.968%
GANTER CORPORATION PTY LTD (GANTER FAMILY A/C)	1,993,015	3.320%
GR PEARCE INVESTMENTS PTY LTD (PEARCE INVESTMENTS A/C)	1,900,000	3.165%
CGP PTY LTD	1,600,000	2.665%
BNP PARIBAS NOMS (NZ) LTD (DRP)	1,475,811	2.459%
MR WESLEY STRINGER	1,296,095	2.159%
CGP PTY LTD	1,173,292	1.955%
S & B SUPER FD PTY LTD (JOHNSTON FAMILY SUPER/F A/C)	1,018,255	1.696%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	818,547	1.364%
MT SMITH GROUP PTY LTD (MT SMITH FAMILY A/C)	802,180	1.336%
MR JARED STRINGER	745,000	1.241%
SORF INVESTMENTS PTY LTD	627,900	1.046%
TAYLOR CO PTY LTD (PETER TAYLOR SUPER FUND A/C)>	586,423	0.977%
BNP PARIBAS NOMINEES PTY LTD (IOOF INSMT MGMT LTD DRP)	556,894	0.928%
	38,605,283	64.311%

Registered Office and principal administrative office

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

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

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

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

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



Other 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, there were no securities subject to escrow.

Unquoted Equity Securities

Security Classes	Holders	Total Units
Unquoted options – issued under Probiotec Executive Option Plan	5	8,750,000

On market buy-back

As at the date of this report, there is an on market buy-back operating under the “10/12” limit as defined in the *Corporations Act 2001* (Cth). A total of 3,900,516 fully paid ordinary shares have been bought back in the past 12 months.

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Probiotec
Annual Report 2019

Head office

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

www.probiotec.com.au