

# **PROBIOTEC LIMITED AND ITS CONTROLLED ENTITIES**

**Preliminary Final Report**

**For the Period ended 30 June 2014**

**Appendix 4E**

As required by ASX Listing Rule 4.3A

**Probiotec Limited**
**Preliminary final report**
**For the year ended 30 June 2014**
Results for announcement to market

Current Reporting Period: Year ended 30 June 2014

Previous Corresponding Period: Year ended 30 June 2013

<b>Gross Results</b>	<b>Movement</b>			<b>(\$'000)</b>
Sales Revenue from ordinary activities	Down	2%	to	68,215
Earnings before interest, tax, depreciation & amortisation (EBITDA)	Up	12%	to	6,552
Earnings before interest and tax (EBIT)	Down	8%	to	2,078
Net profit / (loss) from ordinary activities before tax attributable to members	Up	6%	to	705
Net profit / (loss) for the period attributable to members	Up	51%	to	904
Earnings per share	Up	51%	to	1.7¢

  

Net Tangible assets per share as at 30 June 2014	Up	15.7%	to	74.6¢
Net Tangible assets per share as at 30 June 2013				64.5¢

**Dividends**

No dividend has been declared or paid in regards to the 2014 financial year. No dividends were declared in the prior corresponding period.

## Review of Results

### Overview of results

For the year ended 30 June 2014, the Group generated sales revenue from continuing operations of \$68,214,622, an increase of 3.3% on the previous financial year. The Group's net profit attributable to members for the financial year was \$903,668, compared to the previous financial year of \$596,869.

As previously advised, the Group is looking to transition to a lower risk, more sustainable business model. During the year, the Group has made significant progress in this regard. Most notably, the Group has generated free cash flow of \$11.1 million, derived from cash flows from operating activities of \$5.3 million together with the \$10 million received for the sale of the Vermox and Lomotil brands, which was offset by \$4.2 million of investment in property, plant, equipment and intangible assets. This free cash flow has resulted in a reduction in net debt of by \$9.6 million to \$16.5 million. The remaining free cash flow of the Group was largely applied to ongoing capital expenditure required in the commissioning of the ADP plant and through further investments in the Group's intellectual property.

The full year result was positively influenced by a post-tax profit of \$3.2 million from the sale of the Vermox and Lomotil pharmaceutical brands in October 2013. This profit was offset by one-off impairment and restructuring costs of \$2.0 million.

The Group's statutory net profit attributable to members for the financial year of \$903,668 was largely impacted by three issues:

- First, while sales revenue has been maintained, the Group has been experiencing pressure on its operating margins as a result of changes in the Group's sales mix together with margin contraction in the Group's consumer health products. Several remedial actions have been implemented in this area to improve the Group's margins for the coming year.
- Secondly, a range of adjustments and transactions have been made as a result of numerous initiatives being implemented to improve the strategic focus and business operations of the Group.
- Lastly, the later than expected commissioning of the ADP Protein Plant. This delay resulted in the plant missing the peak milk flow for the year, which negatively impacted the result. Pleasingly, the plant has now been operational since February 2014 and is producing commercial quality product. An expansion of the plant to enable the acceptance of whey (the key input for production) to be accepted from our dairy partners second site is now nearing completion and once operating is forecast to further improve the performance of this plant.

The result for the year is disappointing. However, the Group continues to pursue its stated strategy of transitioning its business towards a model that the directors believe will be both more secure and better able to deliver improving returns to shareholders. The Group is continuing to focus on the three pillars of its business: Contract manufacturing, branded products and intellectual property development, details of which are set out below.

### Sale of Vermox, Lomotil and Lofenoxal brands

On 30 October 2014, the Group sold the Lomotil®, Lofenoxal® and Vermox® pharmaceutical products, including all intellectual property and business assets associated with these brands for Australia, along with New Zealand for the Vermox® product ("Assets") for \$10 million.

This sale resulted in a profit after tax of \$3.2 million from the sale of the Assets with this profit being offset by one-off impairment and restructuring costs of \$2.0 million.

The proceeds from the Assets sale was applied to the reduction of the Group's debt facilities, with the balance used to fund the Group's ongoing working capital requirements and certain capital expenditure related to the re-establishment of its ADP Protein Plant.

### Segment Results

#### *Branded Pharmaceuticals*

A component of the sale of the Vermox, Lomotil and Lofenoxal brands during the year) included the appointment of the Valeant Group to distribute the Group's Gold Cross, David Craig and Skin Basics brands (the "Distribution Brands"). The structure of the distribution arrangements results in fall in the revenue received for the products as a distribution margin is effectively transferred to Valeant Group, but this enabled the Group to substantially reduce the cost of its own internal sales and distribution infrastructure. While headline sales for this segment fell by 19.1%, once the contribution from the Vermox, Lomotil and Lofenoxal brands are excluded, the 'like for like' segmental profit from this division grew by 20.5% from the prior year (see Note 33 of the Financial Report for further details).

Following the recent Assets sale and new distribution agreement with the Valeant Group, the Group is confident of achieving earnings growth from this division moving forward (excluding the contribution of the Vermox, Lomotil and Lofenoxal brands in FY2014). Under the distribution agreement with the Valeant Group, Probiotec will continue to manufacture and supply the products being distributed whilst iNova, a member of the Valeant Group, will provide all sales, marketing and distribution services. This distribution agreement will allow the Group access to iNova's superior sales, marketing and distribution infrastructure while also enabling the Group to reduce its operating cost base as part of its ongoing strategic realignment and cost reduction program.

#### *Contract Manufacturing*

The Group's contract manufacturing segment experienced a material increase in demand, with a greater level of focus and resources allocated to this segment. Sales revenue from contract manufacturing was \$32.6 million, an increase of 32.3% over the prior corresponding period. Encouragingly, the Group is continuing to experience strong demand in contract manufacturing. The majority of contract manufacturing activity continues to be on behalf of major pharmaceutical companies.

The integration of new contract manufacturing customers during the year required significant implementation costs. However, these initial costs are expected to deliver material long term benefits and earnings to the Group.

#### *Weight Loss and Sports Nutrition*

Sales of the Group's weight management and sports nutrition ranges declined by 24.7% over the prior corresponding period. This decline was primarily driven by reduced sales of the Group's Biggest Loser and Celebrity Slim branded products together with a modest decline in the Group's Sports nutrition brands, following the decision to rationalise some of the product ranges to improve margins and production efficiencies. The decline in the Group's Celebrity Slim range followed the launch into the FMCG and open pharmacy channel in the prior corresponding period. An update of the Celebrity Slim brand and product range is currently being planned to revitalise this offering, address changes in consumer preferences in the weight loss category and attract new consumers to the brand.

As advised in the financial report for the half year ended 31 December 2013, the Group has signed a 20 year agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to collaborate in the field of weight management and related health issues. In conjunction with this agreement the Group launched a health and weight management program under the brand name "Impromy" in May 2014. This program has been developed in collaboration with the CSIRO and is a pharmacy based model, including consultation and mentoring services carried out by pharmacists and pharmacy assistants together with comprehensive point of care testing, a meal replacement program and a range of other ancillary and support services. The program utilises the Guildcare

pharmacy platform, which is the national systemised platform for the delivery of professional health services in Australian pharmacies and is owned by the Pharmacy Guild of Australia. The program is supported by clinical trials undertaken by the CSIRO. Further details can be found at [www.impromy.com](http://www.impromy.com)

The Group has entered into an agreement with the Chemmart pharmacy chain for Impromy to be the recommended weight management brand for Chemmart pharmacies along with several other chains including the Amcal ChemPro Group and Malouf Pharmacies. The program launched in approximately 200 pharmacies initially, with further pharmacies beginning to commit to the program in the 2015 financial year.

The board believes that the combination of:

- the breadth of services and support offered;
- market leading formulations;
- the resources and credibility of the CSIRO;
- the scientific support for the program; and
- the support of Impromy's pharmacy partners,

will see this program become a leading offering in the Australian health and weight management market and deliver significant returns to the Group over the coming years.

#### *Intellectual Property Development*

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

As announced on 17 July 2014, as part of the Group's ongoing research and development program with Griffith University and other research organisations, the Company has commenced a clinical trial to investigate the effectiveness of Glycomax Lactoferrin ("Lactoferrin") and bovine whey derived Ig rich fraction ("Immunoglobulin") for the treatment of atopic dermatitis, otherwise known as Eczema. The study will be undertaken in conjunction with Associate Professor Stephen Shumack and Dr Phillip Tong of the St George Dermatology and Skin Cancer Clinic. Concurrently with this trial, the Company will undertake a gene expression study utilising Lactoferrin and Immunoglobulin with Griffith University, which has the potential to provide unique indications and claims for pharmaceutical products (and subsequently provide opportunities to both develop new products and grow contract manufacturing sales) and increase the saleability of Immunoglobulins and to a lesser extent Lactoferrin.

This clinical trial aims to examine the effect of specialty milk proteins (being Lactoferrin and Immunoglobulin) on eczema. Eczema is an inflammatory skin condition that is estimated to affect approximately 10% of people worldwide and is more prevalent in children.

Ethics approval for this trial has been obtained with recruitment now nearing completion. The Company expects the trial to be completed prior to the end of the 2015 financial year. If successful, this trial would provide a major step forward in the field for the treatment of a condition that currently has no cure.

#### *Specialty Products*

Following the sale of the Group's animal nutrition brands in May 2013, the specialty products segment generated sales for the year of \$0.7 million. The majority of sales revenue came from the sale of Lactoferrin from the Group's recently commissioned ADP Protein Plant, however this plant did not contribute any earnings for the 2014 financial year due to start-up costs incurred combined with seasonal factors that deliver required milk and whey flows in the spring and summer months. This

plant is expected to produce improved sales revenue and earnings for the coming year as well as continuing to underpin the Group's research and development portfolio.

### *Europe*

Following the restructure and refocus of the Group's export activities to focus on the manufacturing and distribution businesses in the United Kingdom and Ireland, improved results are beginning to be achieved. European sales revenues grew by 12.8% to \$6.4 million while divisional earnings fell by \$0.2 million as the Group incurred a range of start-up costs associated with the commencement of contract manufacturing services from the factory located in Dundalk, Ireland.

### **Audit Status**

This report is based on accounts which have been audited. The accounts are not subject to any dispute, emphasis of matter or qualification.

### **About Probiotec**

Probiotec Limited is a brand owner, manufacturer, marketer and distributor of a range of prescription and over-the-counter (OTC) pharmaceuticals, complementary medicines and specialty ingredients. The company owns four manufacturing facilities in Australia and distributes its products both domestically and internationally. Products are manufactured by Probiotec for both its own products and on behalf of others, including major international pharmaceutical companies.

Further details about Probiotec are available at [www.probiotec.com.au](http://www.probiotec.com.au).



**PROBIOTEC LIMITED  
AND ITS CONTROLLED ENTITIES  
A.C.N. 075 170 151**

**FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2014**

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## DIRECTORS' REPORT

The directors submit the financial report of Probiotec Limited and its controlled entities ("the Group") for the financial year ended 30 June 2014.

### Directors

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

Maurice Van Ryn	Non-Executive Chairman (Resigned 4 August 2014)
Charles Wayne Stringer	Executive Director
Wesley Stringer	Executive Director
Graham Harry Buckeridge	Non-Executive Director
Richard David Kuo	Non-Executive Director
Robert Maxwell Johnston	Non-Executive Director
Robin Tedder	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, foods and nutraceutical products in Australian and international markets.

### Operating Results

The consolidated profit of the Group attributable to the shareholders for the financial year was \$903,668 (2013: \$596,869).

### Dividends

No dividend has been declared or paid in regards to the financial year ended 30 June 2014 (2013: \$nil).

### Operating and financial review

#### Overview of results

For the year ended 30 June 2014, the Group generated sales revenue from continuing operations of \$68,214,622, an increase of 3.3% on the previous financial year. The Group's net profit attributable to members for the financial year was \$903,668, compared to the previous financial year of \$596,869.

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#### *Specialty Products*

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#### *Europe*

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### **Significant Changes in State of Affairs**

Significant changes in the state of affairs of the Group comprised the continued implementation of the Group's strategic review and realignment and associated activities as outlined in the review of operations. There was no other significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto and elsewhere in the financial report of the company and its controlled entities for the year ended 30 June 2014.

### **Significant After Reporting Date Events**

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

### **Future Developments**

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

### **Environmental Issues**

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

### **Occupational Health and Safety**

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

### **Directors' Benefits**

No director has received or become entitled to receive a benefit other than directors' remuneration. Full details of the level of remuneration received by Directors can be found in the Remuneration Report on page 8 of the Directors Report.

### **Meetings of Directors**

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

Director	Board of Directors Meetings		Audit & Risk Management Committee meetings		Remuneration & Nominations Committee meetings	
	No. Held <sup>1</sup>	No. Attended	No. Held <sup>2</sup>	No. Attended	No. Held <sup>2</sup>	No. Attended
Maurice Van Ryn	10	10	2	2	-	-
Charles Wayne Stringer	10	9	-	-	1	1
Graham Harry Buckeridge	10	9	2	2	1	1
Richard David Kuo	10	9	2	2	-	-
Robin Tedder	10	8	-	-	-	-
Wesley Stringer	10	8	-	-	-	-
Robert Maxwell Johnston	10	10	-	-	1	1

### Information on Directors and Officers

#### Maurice Van Ryn

- Role - Chairman (Non-executive)
- Qualifications - Bachelor of Business (RMIT)
- Experience - Appointed Chairman in July 2006. Previously held the position of CEO of Bega. Maurice has 34 years experience in direct management of food companies in the Australian manufacturing sector.
- Special Responsibilities - Member of Audit and Risk Committee.
- Other Directorships - Non-executive Director of Medical Development International Limited (resigned July 2014).

#### Graham Harry Buckeridge

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

#### Richard David Kuo

- Role - Non-Executive Director
- Qualifications - B.Com, LLB, FAICD
- Experience - Holds Commerce and Law degrees with post graduate qualifications in applied finance and investment. Brings with him 28 years experience in law, investment banking and corporate strategy. Currently manages Pier Capital, a privately owned investment banking firm which provides corporate and financial advice to corporations, investors and government and has extensive experience in mergers and acquisitions, capital markets and strategic planning.
- Special Responsibilities - Responsibilities include Chairman of the Audit and Risk Management Committee.
- Other Directorships - Non-Executive Director of Australian Arts Events Foundation

<sup>1</sup> Number of board meetings held while director eligible to attend.

<sup>2</sup> Number of meetings for members of respective board or committee only.

Robert Maxwell Johnston

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

Charles Wayne Stringer

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

Robin Tedder

- Role - Non-Executive Director
- Qualifications - FFIN, MW
- Experience - Robin has over 36 years experience in business investment and finance. He is the Chairman of Vintage Capital a private investment company and a director of several public and private companies active in property, retail and investment. Robin was a member of the ASX for over a decade and served as an executive director of two investment banks active in Australia and overseas. He is the Australian Ambassador for Singularity University (founders include Genentech and Google) of Mountain View California, which runs advanced technology healthcare education programs. Robin is a Fellow of the Financial Services Institute of Australia.
- Special Responsibilities - Nil
- Other Directorships - Blackwall Property Funds Ltd  
Pelorus Private Equity  
Kirela Pty Ltd  
Italtile Australia Pty Ltd

Jared Stringer

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

#### Wesley Stringer

Role	- Chief Operation Officer
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.
Special Responsibilities	- None
Other Directorships	- Nil

#### **Insurance of Officers**

During the financial year the company insured its directors and officers against liabilities for all costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as directors and officers of the company, other than conduct involving a willful breach of duty in relation to the company. The total premium paid was \$46,763.

#### **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 2014. This report is audited.

#### **1. REMUNERATION**

##### *1.1 Remuneration & Nominations Committee*

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

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

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

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

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

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



<b>Members of Remuneration and Nominations Committee</b>	<b>Position</b>	<b>Appointed</b>
Robert Maxwell Johnston	Chairman	29 July 2010
Graham Buckeridge	Member	28 July 2006

### *1.2 Remuneration Policy – Non-Executive Directors*

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

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

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

Remuneration levels for non-executive directors for the 2014 financial year are set out on page 13 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.

#### Short-term Incentives

Executive directors and key management are eligible to receive short-term incentive payments, in the form of cash bonuses, based on the achievement of set Key Performance Indicators (KPIs). KPIs are based on financial measures targeted at maximising Group performance and returns to shareholders. No specific performance conditions were set for the 2014 financial year and no short-term incentives were paid or payable to key management personnel.

#### Long-term Incentives

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

contributions and value of management personnel undertaken by the Nomination and Remuneration Committee.

At the date of this report, Wayne Stringer and Wesley Stringer are the only executive directors of Probiotec Limited. Both are paid a fixed annual remuneration. Along with his fixed annual remuneration, Mr. Wayne Stringer is also eligible to receive equity-based compensation, in the form of share options, based on the achievement of set milestones stipulated in his contract of employment (see page 14 for details). Mr. Wesley Stringer had previously received shares under the Probiotec Limited Employee Share Plan prior to being appointed as a director of the company and was also granted options during the 2014 financial year (see page 13 for details).

#### Termination Arrangements

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

#### *1.4 Remuneration Policy - Employees*

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

### **2. LINKING REMUNERATION TO PROBIOTEC'S PERFORMANCE**

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

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

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

### **3. REVIEW OF REMUNERATION**

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

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

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

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

## Directors

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

Maurice Van Ryn	Non-executive chairman	(Resigned 4 August 2014)
Richard David Kuo	Non-executive director	
Graham Harry Buckeridge	Non-executive director	
Robert Maxwell Johnston	Non-executive director	
Robin Tedder	Non-executive director	
Charles Wayne Stringer	Executive director	
Wesley Stringer	Executive director	

## 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:

<i>Name</i>	<i>Position</i>	<i>Employer</i>
Jared Stringer	Chief Financial Officer	Probiotec Limited
Mark Chatfield	GM – New Business	Probiotec Limited
Dustin Stringer	GM - Marketing	Probiotec Limited
Alan Hong	GM – Accounting	Probiotec Limited
Craig Lymn	Operations Manager	Probiotec Limited

The following persons who were considered Key Management Personnel during the financial year ended 30 June 2013 were no longer considered Key Management Personnel during this financial year.

<i>Name</i>	<i>Position</i>	<i>Employer</i>
Humera Ahmad	GM - Quality	Probiotec Pharma Pty Ltd
Scott Patterson	GM – Sales	Biotech Pharmaceuticals Pty Ltd

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

## 2014

		Short-Term Benefits			Post Employment Benefits		Equity-Based Benefits	Total	Proportion of Remuneration that is performance based (options) %
		Salary, Fees & Commissions	Short Term Incentives	Non-Cash Benefits	Long Service Leave <sup>3</sup>	Superannuation Contribution	Options		
Position		\$	\$	\$	\$	\$	\$	\$	%
<i>Directors &amp; Secretaries</i>									
Maurice Van Ryn <sup>2</sup>	Chairman	68,807	-	-	-	6,365	-	75,172	-
Charles Wayne Stringer	CEO / Managing Director	618,537	-	-	12,681	59,642	29,006	719,866	4.0
Wesley Stringer	COO / Executive Director	302,238	-	17,772	11,072	17,775	8,050	356,907	2.3
Richard David Kuo	Non-Executive Director	55,000	-	-	-	-	-	55,000	-
Graham Harry Buckeridge	Non-Executive Director	-	-	-	-	48,000	-	48,000	-
Robert Maxwell Johnston <sup>3</sup>	Non-Executive Director	44,036	-	-	-	4,074	-	48,110	-
Robin Tedder	Non-Executive Director	48,000	-	-	-	-	-	48,000	-
Jared Stringer	CFO / Company Secretary	217,009	-	-	8,149	19,518	-	244,676	-
		1,353,627	-	17,772	31,902	155,374	37,056	1,595,731	2.3
<i>Other Key Management Personnel</i>									
Dustin Stringer	GM - Marketing	182,068	-	20,677	6,800	16,286	-	225,831	-
Craig Lymn	Operations Manager	153,214	-	-	2,399	13,811	-	169,424	-
Mark Chatfield	GM – New Business	175,194	-	-	1,984	25,253	-	202,431	-
Alan Hong	GM - Accounting	151,476	-	-	6,815	24,909	-	183,200	-
		661,952	-	20,677	17,998	80,259	-	780,886	-

<sup>3</sup> All Long Service Leave amounts relate to accrued balances. No Long Service Leave was taken or paid out during the year

<sup>2</sup> Resigned as Chairman and director on 4 August 2014

<sup>3</sup> Appointed Chairman on 4 August 2014

## 2013

		Short-Term Benefits			Post Employment Benefits		Equity-Based Benefits	Total	Proportion of Remuneration that is performance based (options)
		Salary, Fees & Commissions	Short Term Incentives	Non-Cash Benefits	Long Service Leave <sup>4</sup>	Superannuation Contribution	Options		
Position		\$	\$	\$	\$	\$	\$	\$	%
<i>Directors &amp; Secretaries</i>									
Maurice Van Ryn	Chairman	68,807	-	-	-	6,193	-	75,000	-
Charles Wayne Stringer	CEO / Managing Director	558,104	-	-	3,982	50,229	29,006	641,321	4.5
Wesley Stringer	COO / Executive Director	285,891	-	14,334	5,944	15,775	8,050	329,994	2.4
Richard David Kuo	Non-Executive Director	55,000	-	-	-	-	-	55,000	-
Graham Harry Buckeridge	Non-Executive Director	24,000	-	-	-	24,000	-	48,000	-
Robert Maxwell Johnston	Non-Executive Director	44,037	-	-	-	3,983	-	48,020	-
Robin Tedder <sup>5</sup>	Non-Executive Director	36,000	-	-	-	-	-	36,000	-
Jared Stringer	CFO / Company Secretary	209,480	-	-	4,666	18,853	9,200	242,199	3.8
		1,281,319	-	14,334	14,592	119,033	46,256	1,475,534	3.1
<i>Other Key Management Personnel</i>									
Dustin Stringer	GM - Marketing	190,738	-	14,015	3,639	17,124	9,200	234,716	3.9
Humera Ahmad	GM - Quality	171,950	-	-	15,913	23,275	5,750	216,888	2.7
Mark Chatfield	GM – New Business	181,058	-	-	3,330	25,784	5,750	215,922	2.7
Scott Patterson	GM - Sales	187,952	-	-	290	16,514	5,750	210,506	2.8
		731,698	-	14,015	23,172	82,697	26,450	878,032	3.0

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.

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

<sup>5</sup> Robin Tedder was appointed on 1 October 2012

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

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

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

### **Options issued to Key Management Personnel**

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

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

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

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

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

Full Details of these options can be found on page 15.

No options were exercised during the year ended 30 June 2014.

## 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	Option Vested during the year number	Balance vested at end of the year number	Balance unvested at end of the year number	Fair Value per options <sup>1</sup> at granted date
Charles Wayne Stringer	23.11.2012	23.11.2014	23.11.2016	\$0.70	1,500,000	-	-	-	-	1,500,000	\$0.04
Wesley Stringer	24.11.2012	23.11.2014	23.11.2015	\$0.70	600,000	-	-	-	-	600,000	\$0.02
	30.6.2009	30.6.2012	30.6.2014	\$2.35	60,000	-	(60,000)	-	-	-	\$0.41
Dustin Stringer	01.07.2012	30.06.2014	30.06.2015	\$0.70	400,000	-	-	-	400,000	-	\$0.02
	30.6.2009	30.6.2012	30.6.2014	\$2.35	60,000	-	(60,000)	-	-	-	\$0.41
Mark Chatfield	01.07.2012	30.06.2014	30.06.2015	\$0.70	250,000	-	-	-	250,000	-	\$0.02
	30.6.2009	30.6.2012	30.6.2014	\$2.35	25,000	-	(25,000)	-	-	-	\$0.41
Alan Hong	01.07.2012	30.06.2014	30.06.2015	\$0.70	150,000	-	-	-	150,000	-	\$0.02
	30.6.2009	30.6.2012	30.6.2014	\$2.35	15,000	-	(15,000)	-	-	-	\$0.41
Craig Lymn	01.07.2012	30.06.2014	30.06.2015	\$0.70	175,000	-	-	-	175,000	-	\$0.02
	30.6.2009	30.6.2012	30.6.2014	\$2.35	40,000	-	(40,000)	-	-	-	\$0.41
Jared Stringer	01.07.2012	30.06.2014	30.06.2015	\$0.70	400,000	-	-	-	400,000	-	\$0.02
	30.6.2009	30.6.2012	30.6.2014	\$2.35	45,000	-	(45,000)	-	-	-	\$0.41
					3,720,000	-	(245,000)	-	1,375,000	2,100,000	

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

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

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

Name	No. of fully paid ordinary shares
Maurice Van Ryn	1,041,122
Richard David Kuo	74,726
Graham Henry Buckeridge	1,448,684
Robin Tedder	5,262,334
Robert Maxwell Johnston	307,215
Charles Wayne Stringer	8,950,786
Wesley Stringer	273,928
Dustin Stringer	70,000
Mark Chatfield	-
Alan Hong	-
Craig Lymn	-
Jared Stringer	141,646
	17,570,441

## 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 2014, other than:

Name	Grant date	Vesting date	Exercise Price (\$)	Forfeited during the year Number	Lapsed during the year Number
Mark Chatfield	01.07.2009	30.06.2012	2.35	-	25,000
Dustin Stringer	01.07.2009	30.06.2012	2.35	-	60,000
Alan Hong	01.07.2009	30.06.2012	2.35	-	15,000
Craig Lymn	01.07.2009	30.06.2012	2.35	-	40,000
Jared Stringer	01.07.2009	30.06.2012	2.35	-	45,000
Wesley Stringer	01.07.2009	30.06.2012	2.35	-	60,000

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

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

## 7. CONTRACTS OF EMPLOYMENT

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

*End of remuneration report.*

### Proceedings on Behalf of the Company

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

### Non-audit Services

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

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

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2014.



### **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 18 of this report.

Signed in accordance with a resolution of Board of Directors.



.....  
Director  
Charles Wayne Stringer

Signed at Laverton this 21<sup>st</sup> day of August 2014

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 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.

Moore Stephens

MOORE STEPHENS  
Chartered Accountants



Nick Michael  
Partner

Melbourne, 21 August 2014

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME FOR THE YEAR  
ENDED 30 JUNE 2014**

		Consolidated Group	
	Note	2014 \$	2013 \$
Sales revenue from continuing operations	2	68,214,622	67,342,884
Cost of goods sold		<u>(43,412,096)</u>	<u>(38,167,752)</u>
Gross profit		24,802,526	29,175,132
Other revenue	2	-	10,241
Other income	2	4,596,330	891,043
Warehousing & distribution expenses		(5,827,306)	(5,917,382)
Sales and marketing expenses		(7,428,328)	(10,777,436)
Impairment expenses	3(b)	(2,647,549)	-
Finance costs		(1,373,209)	(1,598,713)
Legal costs		(220,978)	(283,403)
Administration and other expenses	4	<u>(11,152,210)</u>	<u>(9,955,194)</u>
<b>Profit / (loss) from continuing activities before income tax expense</b>		749,276	1,544,289
Income tax expense relating to continuing activities	5	<u>198,392</u>	<u>(71,803)</u>
<b>Profit / (loss) from continuing activities for the period attributable to members of the parent entity</b>		<u>947,668</u>	<u>1,472,486</u>
Loss from discontinued operations	6	(44,000)	(875,617)
<b>Profit for the period attributable to members of the parent entity</b>	3	<u>903,668</u>	<u>596,869</u>
<b>Other comprehensive income</b>			
Other Comprehensive income / (loss) to be classified to profit and loss when specific conditions are met		(102,350)	448,070
Income tax on items of other comprehensive income		<u>-</u>	<u>-</u>
Other comprehensive income for the year, net of tax		<u>(102,350)</u>	<u>448,070</u>
<b>Total comprehensive income for the year</b>		<u>801,318</u>	<u>1,044,939</u>
<b>Total comprehensive income for the year attributable to members of the parent entity</b>		<u>801,318</u>	<u>1,044,939</u>
<b>Earnings per share for profit attributable to members of the parent entity</b>			
Basic earnings per share (cents)	28	1.7	1.1
Diluted earnings per share (cents)	28	1.7	1.1
<b>Earnings per share from discontinued operations</b>			
Basic earnings per share (cents)	28	(0.1)	(1.7)
Diluted earnings per share (cents)	28	(0.1)	(1.7)

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	Consolidated Group	
		2014	2013
		\$	\$
<b>Current Assets</b>			
Cash and cash equivalents	11	1,116,587	46,117
Trade and other receivables	12	9,648,442	11,228,921
Inventories	13	11,684,528	13,217,477
Other current assets	14	117,538	260,950
<b>Total Current Assets</b>		<b>22,567,095</b>	<b>24,753,465</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	15	51,827,906	52,980,191
Intangible assets	16	24,822,299	28,942,262
Deferred tax assets	17	5,273,377	3,186,649
<b>Total Non-Current Assets</b>		<b>81,923,582</b>	<b>85,109,102</b>
<b>Total Assets</b>		<b>104,490,677</b>	<b>109,862,566</b>
<b>Current Liabilities</b>			
Trade & other payables	18	14,077,406	13,767,584
Short-term interest bearing liabilities	19	15,038,972	23,631,111
Current tax liabilities	5	-	-
Short-term provisions	20	1,034,210	1,056,165
<b>Total Current Liabilities</b>		<b>30,150,588</b>	<b>38,454,860</b>
<b>Non-Current Liabilities</b>			
Long-term interest bearing liabilities	19	2,535,888	2,509,610
Deferred tax liabilities	21	6,933,512	4,945,000
Long-term provisions	20	550,282	434,006
<b>Total Non-Current Liabilities</b>		<b>10,019,682</b>	<b>7,888,617</b>
<b>Total Liabilities</b>		<b>40,170,270</b>	<b>46,343,477</b>
<b>Net Assets</b>		<b>64,320,407</b>	<b>63,519,089</b>
<b>Equity</b>			
Contributed equity	22	33,686,519	33,686,519
Equity Translation Reserve	23	(312,705)	(210,355)
Asset Revaluation Reserve	23	4,217,149	4,217,149
Retained earnings		26,729,444	25,825,776
<b>Total Equity</b>		<b>64,320,407</b>	<b>63,519,089</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	Ordinary Share Capital \$	Equity Translation Reserve \$	Asset Revaluation Reserve \$	Retained Earnings \$	Total \$
<b>Balance as at 1 July 2012</b>	33,686,519	(658,425)	4,217,149	25,228,907	62,474,150
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	596,869	596,869
Other comprehensive income	-	448,070	-	-	448,070
<b>Total comprehensive income for the year</b>	-	<b>448,070</b>	-	<b>596,869</b>	<b>1,044,939</b>
<b>Transactions with owners in their capacity as owners</b>					
Shares (cancelled) / issued during the year	-	-	-	-	-
Dividends paid or provided for	-	-	-	-	-
<b>Balance as at 30 June 2013</b>	33,686,519	(210,355)	4,217,149	25,825,776	63,519,089
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	903,668	903,668
Asset revaluations	-	-	-	-	-
Other comprehensive income	-	(102,350)	-	-	(102,350)
<b>Total comprehensive income for the year</b>	-	<b>(102,350)</b>	-	<b>903,668</b>	<b>801,318</b>
<b>Transactions with owners in their capacity as owners</b>					
Shares (cancelled) issued during the year	-	-	-	-	-
Dividends paid or provided for	-	-	-	-	-
<b>Balance as at 30 June 2014</b>	33,686,519	(312,705)	4,217,149	26,729,444	64,320,407

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

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

		Consolidated Group	
	Note	2014	2013
		\$	\$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		69,795,101	64,560,878
Payments to suppliers and employees		(63,115,945)	(57,530,458)
Interest received		-	10,241
Interest and other costs of finance paid		(1,373,209)	(1,598,713)
Income tax paid		-	-
Net cash provided by operating activities	27 (b)	5,305,947	5,441,948
<b>Cash Flows From Investing Activities</b>			
Payment for property, plant and equipment		(2,604,467)	(8,034,247)
Proceeds from sale of property, plant and equipment		45,364	32,094
Proceeds from sale of intangible assets		10,000,000	900,000
Receipts relating to loans receivable		-	511,496
Purchase of intangible assets		(1,682,928)	(1,309,880)
Net cash used in investing activities		5,757,969	(7,900,537)
<b>Cash Flows From Financing Activities</b>			
Proceeds from issues of shares		-	-
Dividends Paid		-	-
Proceeds from borrowings		4,866,009	6,187,666
Repayment of borrowings		(13,431,870)	(5,303,931)
Net cash provided by / (used in) financing activities		(8,565,861)	883,735
Net Increase in cash held		2,498,055	(1,574,856)
<b>Cash at beginning of financial year</b>		(1,381,468)	193,388
<b>Cash at end of financial year</b>	11	1,116,587	(1,381,468)

### 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	1,116,587	46,117
Bank Overdraft	-	(1,427,584)
	<u>1,116,587</u>	<u>(1,381,468)</u>

*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 2014

### 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 2014 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 21 August 2014.

#### Working Capital Deficiency

As presented in the statement of financial position, the group has a net working capital deficiency of \$7,583,490 (30 June 2013: \$13,701,395). This is caused by \$14,163,294 worth of liabilities which exist under a facility due to expire on dates subsequent to 30 June 2015 being classified as current due to an annual review clause included in the finance facility which would require the group to repay the debt if the bank was not satisfied with the financial condition of the group. The group has complied with all financial covenants within the finance facility and there have been no indications given by the financier that they intend to recall any portion of the debt prior to the expiry date of the finance facility. Excluding these loans, the group has a net working capital balance of \$6,579,804 and believes that it will continue as a going concern for a period of 12 months from the date of the director's declaration.

#### Accounting Policies

##### (a) Principles of Consolidation

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

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

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

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

## **(b) Income Tax**

### **(i) General**

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

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

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

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

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

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

### **(ii) 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 New Zealand, British, Chinese, German and Irish subsidiaries are translated into Australian dollars as at the date of the transactions. Assets and liabilities are translated at exchange rates prevailing at balance date.

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

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

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

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

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

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

**(e) Inventories**

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

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

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

**(i) Property**

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

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

**(ii) Plant and Equipment**

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

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

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

## Depreciation

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

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

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

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

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

### **(g) Leases**

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

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

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

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

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

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

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

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

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

## **(j) Intangibles**

### *i) Goodwill*

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

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

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

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

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

## **(k) Employee Benefits**

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

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

### *ii) Long Service Leave*

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

### *iii) Superannuation*

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

### *iv) Employee share based payments*

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

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

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

## **(I) Financial Instruments**

### *Recognition*

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

### *Loans and Receivables*

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

### *Trade and other payables*

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

### *Interest bearing liabilities*

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

### *Fair Value*

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

### *Impairment*

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

### *Derivative financial instruments*

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

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

### **(m) Government Grants**

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

### **(n) Revenue Recognition**

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

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

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

### **(o) Financing costs**

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

**(p) Provisions**

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

**(q) Cash**

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

**(r) Comparative Figures**

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

**(s) Earnings per share**

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

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

**(t) Contributed equity**

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

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

**(u) Business combinations**

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

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

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

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

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

## **(v) New Accounting Standards**

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

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

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

The key changes made to accounting requirements include:

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

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

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



## 2: REVENUE AND OTHER INCOME

	2014 \$	2013 \$
(a) Revenue from:		
Interest received	-	10,241
Sale of goods	68,214,622	67,342,884
Total Revenue	<u>68,214,622</u>	<u>67,353,125</u>
Government subsidies received	4,032	57,757
Profit on disposal of intangible assets*	4,489,793	814,044
Sundry income	102,505	19,242
Total other income	<u>4,596,330</u>	<u>891,043</u>
Total revenue and other income from continuing operations	<u>72,810,952</u>	<u>68,244,168</u>

- (b) As announced on 30 October 2013, the Company completed the sale of the Lomotil, Lofenoxal and Vermox brands, including all intellectual property and business assets associated with these brands for all the countries it has the rights for, comprising Australia and New Zealand (for Vermox only). The sale price of \$10 million resulted in a one-off item of other income (see Note 2(a) for details) and a reduction in intangible assets of \$5,120,641 (being the intangible asset balance applicable to the Lomotil, Lofenoxal and Vermox brands). This sale completed on 31 October 2013.

## 3: PROFIT FOR THE YEAR

- (a) Net profit has been arrived at after including:

Finance cost - non related parties	1,373,209	1,598,713
Foreign currency translation losses / (gains)	(50,785)	40,029
Bad and doubtful debts expense - trade receivables	76,250	42,249
Rental on operating lease expenses - minimum lease payments	637,222	919,794
Inventory write-offs	30,434	305,535
Professional and consulting expenses	416,128	374,368
Employee benefits expenses	20,499,953	20,343,473
Repairs and maintenance expenses	1,179,521	1,021,445
Research and development cost	3,186,661	2,127,247
Depreciation of property, plant and equipment	3,791,388	2,960,424
Amortisation of intangibles	682,250	600,450
Impairment costs - intangibles	-	-
Impairment costs - current assets	2,567,549	617,639
Impairment - investments	-	-
Impairment costs - property, plant and equipment	80,000	-
Defined contribution superannuation expense	1,361,573	1,220,734

- (b) During the 2014 financial year, the Group incurred impairment expenses related to assets associated with discontinued and/or divested business units and brands. The breakdown of these impairment costs is as follows:

Impairment Costs - Inventory	1,790,281
Impairment Costs - Prepayments	25,190
Impairment Costs - Trade & other receivables	752,078
Impairment Costs - Plant & Equipment	80,000
	<u>2,647,549</u>

## 4: ADMINISTRATION & OTHER EXPENSES

Administration & other expenses comprises:

Insurance	613,359	747,793
Office expenses	486,280	606,661
Compliance costs	212,889	626,379
Other expenses	9,839,682	7,974,360
	<u>11,152,210</u>	<u>9,955,194</u>

## 5: INCOME TAX EXPENSE

- (a) Components of Tax Expense:

Current income tax	-	-
Deferred income tax	(198,392)	71,803
Over provision for income tax in prior years	-	-
	<u>(198,392)</u>	<u>71,803</u>

Income tax is attributable to:

(Loss) / profit from continuing operations	(198,392)	71,803
(Loss) / profit from discontinued operations	-	-
	<u>(198,392)</u>	<u>71,803</u>

- (b) Reconciliation of income tax expense to prima facie tax payable on profit / (loss)

Profit from continuing operations	749,276	1,544,289
Profit / (loss) from discontinued operations	(44,000)	(875,617)
	<u>705,276</u>	<u>668,672</u>

	2014 \$	2013 \$
Prima facie tax expense on profit/(loss) before income tax at 30% (2013: 30%)	211,583	200,602
Add Tax effect of:		
Impairment of intangibles	-	-
Impairment of fixed assets	-	-
Recoupment of prior losses not yet booked	(115,898)	-
Tax losses not recognised	-	-
Research and development tax concession	(390,731)	(135,000)
Other non allowable or assessable items	96,654	6,201
Income tax expense / (benefit)	<u>(198,392)</u>	<u>71,803</u>
Current tax payable	<u>-</u>	<u>-</u>

## 6: DISCONTINUED OPERATIONS

As set out in Note 6 of the financial report of Probiotec Limited for the years ended 30 June 2011, 30 June 2012 and 30 June 2013, Probiotec Limited undertook a comprehensive strategic and operational review of its business operations, assets and financial position. Full details of each of the operations classified as discontinued can be found in Note 6 of the 2011, 2012 and 2013 Financial Reports.

The Comprehensive income of the discontinued operations was:

	2014 \$	2013 \$
Revenue	-	2,239,077
Impairment costs	-	(617,639)
Expenses	<u>(44,000)</u>	<u>(2,497,055)</u>
Loss from discontinued operations before income tax	<u>(44,000)</u>	<u>(875,617)</u>
Income tax benefit / (expense)	-	-
Loss from discontinued operations after income tax	<u>(44,000)</u>	<u>(875,617)</u>

The cash flow of the discontinued operations was:

Net cash flow used in operating activities	(44,000)	(257,978)
Net cash flow used in investing activities	-	-
Net cash flow used in financing activities	-	-
Net decrease in cash held	<u>(44,000)</u>	<u>(257,978)</u>

## 7: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### (i) Value in use calculation assumptions

The recoverable amount of each cash-generating unit used for impairment testing is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period (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 10.1% 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 2014 financial year were the same as 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 WACC			Change in Gross Profit forecasts		
	+2%	+4%	+6%	(5%)	(10%)	(12.5%)
Impairment expense that would be recognised	-	372,627	685,151	-	-	976,225

### (ii) Amortisation of intangibles

As detailed in Note 1 (j), the group has a policy of amortising intangible assets with a finite useful life over a period of 10 to 40 years (other than those which are subject to a fixed term license) and the remainder have been determined to have an indefinite useful life. The carrying value of those assets with a finite useful life and those with an indefinite useful life is set out in Note 18. The determination of the useful life of each intangible asset, which comprises capitalised product development costs, is based on the group's knowledge of each major category of intangible assets and the future economic benefits expected to be received from each. The group reassesses the useful life of intangible assets at each reporting date and at any future period may change the useful life of an intangible asset based on information available at that date. The group recognised amortisation of \$682,250 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.

## 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.

	2014	2013
	\$	\$
(a) Key management personnel compensation:		
Short-term employee benefits	2,054,028	2,017,366
Post-employment benefits	235,633	225,710
Other long term benefits	49,900	37,764
Termination benefits	-	-
Share-based payments	37,056	72,706
Total compensation	<u>2,376,617</u>	<u>2,353,546</u>

(b) The number of options<sup>1</sup> held by directors and key management personnel for the year ended 30 June 2014 is as follows:

	Balance at start of the year number	Granted as compensation during the year number	Exercised during the year number	Forfeited / Lapsed during the year number	Balance at end of the year number	Balance vested and exercisable at end of the year number	Balance vested and unexercisable at end of the year number	Balance unvested and exercisable at end of the year number	Balance unvested and unexercisable at end of the year number
Maurice Van Ryn	-	-	-	-	-	-	-	-	-
Richard David Kuo	-	-	-	-	-	-	-	-	-
Graham Henry Buckeridge	-	-	-	-	-	-	-	-	-
Robert Maxwell Johnston	-	-	-	-	-	-	-	-	-
Charles Wayne Stringer	1,500,000	-	-	-	1,500,000	-	-	-	1,500,000
Wesley Stringer	660,000	-	-	(60,000)	600,000	-	-	-	600,000
Dustin Stringer	460,000	-	-	(60,000)	400,000	-	400,000	-	-
Mark Chatfield	275,000	-	-	(25,000)	250,000	-	250,000	-	-
Alan Hong	165,000	-	-	(15,000)	150,000	-	150,000	-	-
Craig Lymn	225,000	-	-	(50,000)	175,000	-	175,000	-	-
Jared Stringer	445,000	-	-	(45,000)	400,000	-	400,000	-	-
	<u>3,730,000</u>	<u>-</u>	<u>-</u>	<u>(255,000)</u>	<u>3,475,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,100,000</u>

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

Option<sup>1</sup> Holdings of Key Management Personnel for the year ended 30 June 2013:

	Balance at start of the year number	Granted as compensation during the year number	Exercised during the year number	Forfeited/Lapsed during the year number	Balance at end of the year number	Balance vested and exercisable at end of the year number	Balance vested and unexercisable at end of the year number	Balance unvested and exercisable at end of the year number	Balance unvested and unexercisable at end of the year number
Maurice Van Ryn	-	-	-	-	-	-	-	-	-
Richard David Kuo	-	-	-	-	-	-	-	-	-
Graham Henry Buckeridge	-	-	-	-	-	-	-	-	-
Robert Maxwell Johnston	-	-	-	-	-	-	-	-	-
Charles Wayne Stringer	32,942	1,500,000	-	(1,500,000)	380	33,323	-	-	1,500,000
Wesley Stringer	110,000	600,000	-	(50,000)	660,000	1,320,001	-	-	660,000
Dustin Stringer	100,000	400,000	-	(20,000)	480,000	-	-	-	480,000
Mark Chatfield	50,000	250,000	-	(25,000)	275,000	-	-	-	275,000
Humera Ahmad	35,000	250,000	-	(20,000)	265,000	-	-	-	265,000
Scott Patterson	-	250,000	-	(141)	249,859	-	-	-	250,000
Jared Stringer	75,000	400,000	-	(25,141)	449,859	-	-	-	445,000
	<u>402,942</u>	<u>3,650,000</u>	<u>-</u>	<u>(1,640,282)</u>	<u>2,380,098</u>	<u>1,353,324</u>	<u>-</u>	<u>-</u>	<u>3,875,000</u>

### Ordinary share holdings of Key Management Personnel

-6724

	Balance at 1/07/2012	Share acquisitions through exercise of share options	CEO Options Exercised	Other purchases during the year*	Sold during the year	Balance at 30/06/13	Share acquisitions through exercise of share options	CEO Options Exercised	Other purchases during the year*	Sold during the year	Balance at 30/06/14
<i>Directors</i>											
Maurice Van Ryn <sup>2</sup>	806,101	-	-	185,021	-	991,122	-	-	50,000	-	1,041,122
Charles Wayne Stringer	8,357,852	-	-	317,934	-	8,675,786	-	-	275,000	-	8,950,786
Wes Stringer	560,745	-	-	64,878	(287,934)	337,689	-	-	1,117	(64,878)	273,928
Graham Harry Buckeridge	1,348,684	-	-	100,000	-	1,448,684	-	-	-	-	1,448,684
Robert Maxwell Johnston	234,000	-	-	73,215	-	307,215	-	-	-	-	307,215
Robin Tedder	5,262,334	-	-	-	-	5,262,334	-	-	-	-	5,262,334
Richard David Kuo	74,726	-	-	-	-	74,726	-	-	-	-	74,726
Total for Directors	<u>16,644,442</u>	<u>-</u>	<u>-</u>	<u>741,048</u>	<u>(287,934)</u>	<u>17,097,556</u>	<u>-</u>	<u>-</u>	<u>326,117</u>	<u>(64,878)</u>	<u>17,358,795</u>
<i>Key Executive Personnel</i>											
Alan Hong	-	-	-	-	-	-	-	-	-	-	-
Jared Stringer	138,717	-	-	2,929	-	141,646	-	-	-	-	141,646
Mark Chatfield	-	-	-	-	-	-	-	-	-	-	-
Dustin Stringer	77,000	-	-	-	-	77,000	-	-	-	(7,000)	70,000
Craig Lymn	-	-	-	-	-	-	-	-	-	-	-
Total for Key Executive Personnel	<u>215,717</u>	<u>-</u>	<u>-</u>	<u>2,929</u>	<u>-</u>	<u>218,646</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,000)</u>	<u>211,646</u>

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

No equity instruments other than options were granted to key management personnel during the 2013 or 2014 financial years as compensation.

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

<sup>2</sup> Maurice Van Ryn resigned as a director on 4 August 2014.

## 9: REMUNERATION OF AUDITORS

	2014 \$	2013 \$
Amounts paid/payable to Moore Stephens Melbourne for:		
<i>Audit services</i>		
Auditing or reviewing the financial report	95,500	90,000
	<u>95,500</u>	<u>90,000</u>
Amounts paid/payable to related practices of Moore Stephens Melbourne for:		
Audit and taxation services from Moore Stephens Nathan	24,439	21,160
General advice and services from Moore Stephens Nathan	6,792	-
	<u>31,231</u>	<u>21,160</u>

## 10: DIVIDENDS

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

	2014 Cents per Share	Total \$	2013 Cents per Share	Total \$
<b>Recognised Amounts</b>				
Fully Paid Ordinary Shares				
Interim dividend for half year ended 31 December fully franked at 30% corporate tax rate	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Unrecognised Amounts</b>				
Fully paid ordinary shares				
Final dividend for year ended 30 June, fully franked at 30% corporate tax rate	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Dividend franking account</b>	2014 \$	2013 \$		
Amount of franking credits available for subsequent years	<u>1,157,405</u>	<u>1,157,405</u>		

## 11: CASH AND CASH EQUIVALENTS

Cash on hand and at bank	<u>1,116,587</u>	<u>46,117</u>
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*Interest rate risk exposure*

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

## 12: TRADE AND OTHER RECEIVABLES

<b>CURRENT</b>		
Trade accounts receivable - third parties	9,181,417	11,121,432
Trade accounts receivable - subsidiaries		
Less: allowance for impairment of receivables	(246,929)	(132,647)
Total current trade receivables	<u>8,934,488</u>	<u>10,988,785</u>
GST receivable	279,376	240,136
Other receivables	434,578	-
Total current trade and other receivables	<u>9,648,442</u>	<u>11,228,921</u>

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

	9,648,442 Gross \$	2014 Allowance \$	2013 Gross \$	2013 Allowance \$
Not past due	8,260,089	-	10,206,362	-
Past due 1 - 30 days	486,476	-	738,588	-
Past due 31 - 60 days	34,849	-	43,412	-
Past 61 days	400,003	(246,929)	133,070	(132,647)
	<u>9,181,417</u>	<u>(246,929)</u>	<u>11,121,432</u>	<u>(132,647)</u>

(b) Impaired trade receivables

Trade debtors are generally extended on credit terms of between 14 days to 60 days. As at 30 June 2014, current trade receivables of the Group with a nominal value of \$246,929 (2013 - \$133,070) were impaired. The amount of the allowance was \$246,929 (2013 - \$132,647). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

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

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

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

	2014 \$	2013 \$
At 1 July	132,647	221,538
Provision for impairment recognised / (reversed) during the year	190,532	(46,642)
Receivables written off during the year as uncollectible	(76,250)	(42,249)
At 30 June	<u>246,929</u>	<u>132,647</u>

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

(c) Fair value and credit risk

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

(d) Foreign exchange and interest rate risk

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

**13: INVENTORIES**

	2014 \$	2013 \$
CURRENT		
Raw material - at cost	7,144,115	6,910,808
Work in progress - at cost	1,169,947	1,186,786
Finished goods - at cost	<u>3,370,466</u>	<u>5,119,883</u>
	<u>11,684,528</u>	<u>13,217,477</u>

**14: OTHER CURRENT ASSETS**

Prepayments	<u>117,538</u>	<u>260,950</u>
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**15: PROPERTY, PLANT AND EQUIPMENT**

Freehold land - at valuation	<u>3,910,000</u>	<u>3,910,000</u>
Building - at independent valuation	12,390,000	12,390,000
Less: Accumulated depreciation	<u>(961,190)</u>	<u>(467,600)</u>
	<u>11,428,810</u>	<u>11,922,400</u>
Plant & equipment - at cost (i)	46,529,705	43,131,084
Less: Accumulated depreciation	<u>(15,065,184)</u>	<u>(12,656,288)</u>
	<u>31,464,521</u>	<u>30,474,796</u>
Leased plant & equipment	6,688,930	8,958,151
Less: Accumulated depreciation	<u>(1,664,355)</u>	<u>(2,285,155)</u>
	<u>5,024,575</u>	<u>6,672,995</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>51,827,906</u>	<u>52,980,191</u>

All of the Group's freehold land and buildings were revalued by an independent valuer in June 2012 and resulted in a net revaluation decrease of \$109,213. Valuations were made on the basis of weighted depreciated values and open market values. The revaluation deficit net of applicable deferred income taxes was credited to an asset revaluation reserve in shareholders' equity. As at 30 June 2014, if the cost model had been applied, the carrying value of the Group's freehold land and buildings would have been \$3,106,480 and \$8,015,181 respectively.

Movements during the year	Freehold land	Buildings	Plant, Equipment & Other	Leased Plant, Equipment & Other	Total
<b>Consolidated Group</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Carrying amount at 1 July 2012	3,910,000	12,390,000	26,657,100	4,981,362	47,938,462
Additions	-	-	5,811,311	2,309,338	8,120,649
Impairment	-	-	-	-	-
Revaluation	-	-	-	-	-
Reclassification	-	-	-	-	-
Disposals	-	-	(118,496)	-	(118,496)
Depreciation and amortisation	-	(467,600)	(1,875,119)	(617,705)	(2,960,424)
Carrying amount at 30 June 2013	3,910,000	11,922,400	30,474,796	6,672,995	52,980,191
Carrying amount at 1 July 2013	3,910,000	11,922,400	30,474,796	6,672,995	52,980,191
Additions	-	-	1,818,238	946,229	2,764,467
Impairment	-	-	(80,000)	-	(80,000)
Revaluation	-	-	-	-	-
Reclassification	-	-	1,583,590	(1,583,590)	-
Disposals	-	-	-	(45,364)	(45,364)
Depreciation and amortisation	-	(493,590)	(2,332,103)	(965,695)	(3,791,388)
Carrying amount at 30 June 2014	3,910,000	11,428,810	31,464,521	5,024,575	51,827,906

## 16: INTANGIBLE ASSETS

(a) <i>Intangible summary and reconciliation</i>	2014 \$	2013 \$
Acquired intangible assets - indefinite life:		
Goodwill - at cost	2,079,000	2,079,000
Developed products - at cost	-	5,120,641
	<u>2,079,000</u>	<u>7,199,641</u>
Acquired intangible assets - finite life:		
Developed products - at cost	14,959,019	14,519,212
Accumulated amortisation	(1,221,534)	(632,109)
	<u>13,737,485</u>	<u>13,887,103</u>
Capitalised development costs - indefinite life:		
Developed products - at cost	-	-
Products under development - at cost	2,573,118	2,849,652
	<u>2,573,118</u>	<u>2,849,652</u>
Capitalised development costs - finite life:		
Developed products - at cost	7,698,465	6,178,810
Accumulated amortisation	(1,265,769)	(1,172,944)
	<u>6,432,696</u>	<u>5,005,866</u>
Total intangible assets	<u>24,822,299</u>	<u>28,942,262</u>

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

### Reconciliation of Intangible Assets:

	Goodwill	Developed Products	Products under Development	Total
Opening balance as at 1 July 2012	2,079,000	25,164,549	1,089,412	28,332,961
Acquisitions	-	-	-	-
Additions	-	628,142	681,739	1,309,881
Transfer of commercialised product	-	-	-	-
Disposals	-	(100,130)	-	(100,130)
Impairment	-	-	-	-
Amortisation	-	(600,450)	-	(600,450)
<b>Closing balance as at 30 June 2013</b>	<u>2,079,000</u>	<u>25,092,111</u>	<u>1,771,151</u>	<u>28,942,262</u>
Opening balance as at 1 July 2013	2,079,000	25,092,111	1,771,151	28,942,262
Acquisitions	-	441,519	1,241,409	1,682,928
Additions	-	439,442	(439,442)	-
Transfer of commercialised product	-	-	-	-
Disposals *	-	(5,120,641)	-	(5,120,641)
Impairment	-	-	-	-
Amortisation	-	(682,250)	-	(682,250)
<b>Closing balance as at 30 June 2014</b>	<u>2,079,000</u>	<u>20,170,181</u>	<u>2,573,118</u>	<u>24,822,299</u>

\* On 31 October 2013, the Company completed the sale of its Lomotil, Lofenoxal and Vermox brands, including all intellectual property and business assets associated with these brands. The sale price of \$10,000,000 resulted in an item of other income (see Note 2 for details) and a reduction in intangible assets of \$5,120,641 (being the intangible asset balance applicable to these brands).

## Estimated useful life of intangible assets

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

<b>Goodwill</b>	2014	2013
Breakdown of goodwill at year end:	\$	\$
Australian Dairy Proteins Pty Ltd	2,079,000	2,079,000
	<u>2,079,000</u>	<u>2,079,000</u>

## Impairment of Intangibles

### Developed products

As at 30 June 2014, no impairment charges were incurred in relation to developed products which no longer generate future cash flows sufficient to justify their carrying value.

## Impairment Disclosures

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

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

	Pharmaceuticals and consumer health	Contract manufacturing	Nutritional products	Export sales	Research and development	Total
<b>Year ended 30 June 2014</b>						
Goodwill	2,079,000	-	-	-	-	2,079,000
Intangibles with indefinite useful lives	2,573,118	-	-	-	-	2,573,118

  

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

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

	2014	2013
Probiotec BLC Pty Ltd	10.1%	12.4%
Australian Dairy Proteins Pty Ltd	10.1%	12.4%
Intangibles with indefinite useful lives	<u>10.1%</u>	<u>12.4%</u>

## 17: DEFERRED TAX ASSETS

	2014	2013
	\$	\$
Deferred tax assets is comprised as follows:		
Temporary differences - provisions	475,466	447,051
Temporary differences - Property, plant & equipment	144,548	474,564
Temporary differences - leases	1,008,470	1,140,633
Temporary differences - other	1,169,630	815,843
Offset against deferred tax liabilities	-	(2,139,538)
Tax losses	2,475,264	2,448,097
	<u>5,273,378</u>	<u>3,186,649</u>

## 18: TRADE AND OTHER PAYABLES

Trade accounts payable	11,298,666	9,390,223
Sundry creditors & accruals	1,885,735	3,297,147
GST payable	893,005	1,080,214
	<u>14,077,406</u>	<u>13,767,584</u>

### (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

<i>Amounts payable in foreign currencies</i>	2014	2013
Current	\$	\$
Euro	480,744	59,480
Great British Pounds	65,051	61,257
US Dollars	61,561	387,263
NZD	-	-
	<u>607,357</u>	<u>508,000</u>

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

## 19: INTEREST-BEARING LIABILITIES

	2014	2013
	\$	\$
<b>CURRENT</b>		
Secured borrowings		
Bank loans	14,213,294	22,288,610
Lease liabilities	<u>825,678</u>	<u>1,342,501</u>
	<u>15,038,972</u>	<u>23,631,111</u>
<b>NON-CURRENT</b>		
Secured borrowings		
Bank loans	-	50,000
Lease liabilities	<u>2,535,888</u>	<u>2,459,610</u>
	<u>2,535,888</u>	<u>2,509,610</u>
(a) Total current and non-current secured liabilities:		
Bank loans	14,213,294	22,338,610
Lease liabilities	<u>3,361,566</u>	<u>3,802,111</u>
	<u>17,574,860</u>	<u>26,140,721</u>
(b) The carrying amount of the assets secured by a first registered mortgage:		
Freehold land and building (Note 15)	<u>15,338,810</u>	<u>15,832,400</u>

(c) The bank loans are provided by Rabo Australia Limited and are secured by a registered first mortgage over all freehold property of the parent entity and the subsidiaries which in total have a carrying amount of \$15,338,810 at 30 June 2014.

The bank covenants require tangible net worth to exceed \$40 million, an equity ratio of greater than 50%, debt service to EBITDA to exceed 2.0 and the ratio of financial indebtedness to EBITDA of less than 4 as at 30 June 2014, where EBITDA excludes extraordinary and/or non-cash events. The Group is in compliance with the bank covenants.

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

(d) Finance lease liabilities:

Weighed average interest rate of 7.22%  
Secured by leased plant / assets

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

(e) Interest rate risk exposure

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

## 20: PROVISIONS

<b>CURRENT</b>		
Leave entitlements (a)	<u>1,034,210</u>	<u>1,056,165</u>
<b>NON-CURRENT</b>		
Leave entitlements (a)	<u>550,282</u>	<u>434,007</u>
Total provisions	<u>1,584,492</u>	<u>1,490,172</u>

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

## 21: DEFERRED TAXES

Deferred taxes is comprised as follows:

Deferred tax assets (note 17)	5,273,377	3,186,649
Deferred tax liabilities - temporary differences (a)	<u>(6,933,512)</u>	<u>(4,945,000)</u>
Net deferred tax liabilities	<u>(1,660,135)</u>	<u>(1,758,351)</u>
Deferred tax expense debit / (credit) to income tax expense	<u>(198,392)</u>	<u>71,803</u>
Deferred tax expense charged to equity	<u>296,428</u>	<u>(9,351)</u>
(a) Deferred tax liabilities comprises:		
Temporary differences - property, plant & equipment	(1,847,998)	(2,001,899)
Temporary differences - capitalised development costs	(3,578,141)	(3,219,745)
Temporary differences - other	<u>(1,507,373)</u>	<u>276,644</u>
	<u>(6,933,512)</u>	<u>(4,945,000)</u>



Reconciliation of net deferred tax liabilities:	\$
Opening as at 1 July 2012	(1,820,623)
Less : deferred tax expense	71,803
Less : deferred tax expense charged to equity	<u>(9,351)</u>
Closing as at 30 June 2013	(1,758,171)
Less : deferred tax expense	(198,392)
Less : deferred tax expense charged to equity	296,428
Closing as at 30 June 2014	<u><u>(1,660,135)</u></u>

## 22: CONTRIBUTED EQUITY

	2014 \$	2013 \$
52,929,356 (2013: 52,929,356) fully paid ordinary shares	<u>33,686,519</u>	<u>33,686,519</u>
<b>Reconciliation of fully paid ordinary shares</b>		
Balance at beginning of the financial year	33,563,021	33,563,021
Issue of shares	-	-
Cancellation of shares held under Equity Compensation Plan	-	-
Equity raising expenses	<u>-</u>	<u>-</u>
Balance at end of financial year	<u><u>33,563,021</u></u>	<u><u>33,563,021</u></u>
	2014 No.	2013 No.
Balance at the beginning of reporting period	52,929,356	52,929,356
Shares issued during the year	<u>-</u>	<u>-</u>
Balance at end of the report date	<u><u>52,929,356</u></u>	<u><u>52,929,356</u></u>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the numbers of shares.

At the shareholders meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

### (a) Capital management

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

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

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

The level of gearing in the Group is periodically reviewed by the Board to ensure that a responsible level of gearing is maintained. The directors consider that the Group is currently operating at a responsible gearing level. The gearing ratios at 30 June 2014 and 30 June 2013 were as follows:

	2014 \$	2013 \$
Total borrowings	17,574,860	26,140,721
Less cash and cash equivalents	<u>(1,116,587)</u>	<u>(46,117)</u>
Net debt	16,458,273	26,094,604
Total contributed equity	<u>33,686,519</u>	<u>33,686,519</u>
Total capital employed	<u><u>50,144,792</u></u>	<u><u>59,781,123</u></u>
Gearing ratio	32.8%	43.7%

There were no changes to the Group's approach to capital management from 2013.

## 23: RESERVES

	2014 \$	2013 \$
Asset revaluation reserve	<u>4,217,149</u>	<u>4,217,149</u>
Equity translation reserve	<u><u>(312,705)</u></u>	<u><u>(210,355)</u></u>
<b>Reconciliation of asset revaluation reserve</b>		
Balance at beginning of financial year	4,217,149	4,217,149
Revaluation of assets	<u>-</u>	<u>-</u>
Balance at end of financial year	<u><u>4,217,149</u></u>	<u><u>4,217,149</u></u>
<b>Reconciliation of foreign currency translation reserve</b>		
Balance at beginning of financial year	(210,355)	(658,425)
translation of net investment in foreign entities	(102,350)	448,070
Impairment of net investment in foreign entities	<u>-</u>	<u>-</u>
Balance at end of financial year	<u><u>(312,705)</u></u>	<u><u>(210,355)</u></u>

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.

## 24: COMMITMENTS

Lease commitments

*Operating leases*

Non-cancellable operating

Payable - minimum lease

Within one year

544,902 340,933

Later than one year but not later than 5 years

1,014,054 392,797

Commitments not recognised in the statement of financial position

1,558,956 733,730

Finance leases commitments

Payable - minimum lease

Within one year

1,152,088 1,469,812

Later than one year but not later than 5 years

2,843,298 2,584,332

Minimum lease payments

3,995,386 4,054,144

Less: Future finance charges

(633,820) (252,033)

3,361,566 3,802,111

Representing lease liabilities (Note 19):

Current

1,342,501

Non-current

2,459,610

- 3,802,111

The weighted average interest rate implicit in the leases is 7.22%. The carrying value of assets purchased via leases is \$4,906,869 (2013: \$6,672,995).

Leases are entered into with terms between 3 to 5 years. Operating leases are entered into for rental of sites, plant, equipment and vehicles. Finance leases are entered into for the purchase of various items of property, plant and equipment. Leased property is held at all of the group's Australian based manufacturing sites. Leases may be renewed by negotiation. No contingent rents are payable under any lease contract entered into. The group also entered into an operating lease for the rental of its manufacturing site in Dundalk, Ireland. This is a 20 year lease with a right for the group to terminate at any time with 12 months notice without penalty.

## 25: SHARE BASED PAYMENTS

### (a) Incentive Option Scheme

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

### CEO Employment Options for the year ended 30 June 2014

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted number	Options forfeited/ exercised number	Balance at end of year number	Vested and exercisable at end of year
23.11.2012	23.11.2014	23.11.2016	0.70	1,500,000	-	-	1,500,000	-
Weighted average exercise price			\$	0.70	\$	-	\$	0.70

The weighted average contractual life remaining on CEO options outstanding is 876 days as at balance date.

CEO Employment Options for the year ended 30 June 2013

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted during the year number	Options forfeited/ exercised number	Balance at end of year number	Vested and exercisable at end of year
23.11.2012	23.11.2014	23.11.2016	0.70	-	1,500,000	-	1,500,000	-
05.08.2008	30.06.2010	30.06.2013	1.50	500,000	-	(500,000)	-	-
05.08.2008	30.06.2011	30.06.2013	1.75	500,000	-	(500,000)	-	-
05.08.2008	30.06.2012	30.06.2013	2.00	500,000	-	(500,000)	-	-
				1,500,000	1,500,000	(1,500,000)	1,500,000	-
Weighted average exercise price				\$ 1.75	\$ 0.70	\$ 1.75	\$ 0.70	\$ -

Employee incentive scheme options for the year ended 30 June 2014

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

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted during the year number	Options exercised/lapsed during the year number	Balance at end of year number	Vested and exercisable at end of year
01.07.2009	30.06.2012	30.06.2014	2.35	385,000	-	(385,000)	-	-
01.07.2009	30.06.2012	30.06.2014	2.35	10,000	-	(10,000)	-	-
01.07.2009	30.06.2012	30.06.2014	2.35	600,000	-	(600,000)	-	-
01.07.2012	30.06.2014	30.06.2015	0.70	2,275,000	-	(75,000)	2,200,000	-
				3,270,000	-	(1,070,000)	2,200,000	-
Weighted average exercise price				\$ 1.22	\$ -	\$ 2.23	\$ 0.70	\$ -

Employee incentive scheme options for the year ended 30 June 2013

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

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

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

The weighted average contractual life remaining on employee incentive scheme options outstanding is 365 days as at balance date.

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

The inputs used in the valuation of these options were:

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

(b) Expenses arising from share-based payments	2014	2013
	\$	\$
Options issued under incentive option scheme	8,050	32,700
Options issued to CEO	29,006	29,006
	<u>37,056</u>	<u>61,706</u>

## 26: RELATED PARTY TRANSACTIONS AND BALANCES

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

<i>Associated companies</i>	2014 \$	2013 \$
Payments were made to BG Capital Corp Ltd, an entity associated with Mr Graham Buckeridge (director). These payments were for the provision of financial services and consultancy.	<u>22,673</u>	<u>-</u>

### *Key Management personnel*

There were no transactions between Key Management Personell and Probiotec Limited or any of its subsidiaries during the year ended 30 June 2014 other than as disclosed in note 8.

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

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

## 27: NOTES TO THE STATEMENT OF CASH FLOWS

### (a) Financing facilities with banks

Secured bank overdraft facility:

Facility balance	1,500,000	1,500,000
Amount used	-	(1,427,584)
Amount unused	<u>1,500,000</u>	<u>72,416</u>

Secured term loan and working capital facilities with banks:

Facility balance	14,713,294	23,340,000
Amount used	(14,213,294)	(22,338,610)
Amount unused	<u>500,000</u>	<u>1,001,390</u>

Lease finance facilities:

Facility balance	12,000,000	12,000,000
Amount used	(3,361,566)	(3,802,111)
Amount unused	<u>8,638,434</u>	<u>8,197,889</u>

Bank bill acceptance facility, reviewed annually:

Facility balance	50,000	250,000
Amount used	(50,000)	(250,000)
Amount unused	<u>-</u>	<u>-</u>

### (b) Reconciliation of Profit from Ordinary Activities After Related Income Tax to Net Cash Flows From Operating Activities:

Profit after related income tax	903,668	596,869
Depreciation and amortisation	4,473,638	3,560,874
Loss / (profit) on sale of plant and equipment	(1,417)	(155,375)
Loss / (profit) on sale of intangible assets	(4,487,132)	(690,607)
Impairment and reclassification costs	2,567,549	617,639
Equity translation	102,350	(634,951)
(Decrease)/increase in net deferred taxes	(98,216)	(62,272)
(Increase)/decrease in inventories	(257,332)	1,036,140
(Increase)/decrease in trade and other receivables	1,580,479	(2,782,006)
(Increase)/decrease in other current assets	118,222	228,820
Increase/(decrease) in trade and other payables	309,822	3,553,862
Increase/(decrease) in tax liabilities	-	-
Increase/(decrease) in provisions	94,321	172,955
Net cash from operating activities	<u>5,305,948</u>	<u>5,441,948</u>

Non-cash financing and investing activities:

During the year the economic entity acquired plant and equipment with an aggregate value of \$946,229 (2013: \$1,827,446) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

**28: EARNINGS PER SHARE**

	2014 \$	2013 \$
Profit	903,668	596,869
Earnings used in the calculation of basic EPS	903,668	596,869
Earnings used in the calculation of dilutive EPS	903,668	596,869
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	52,929,356	52,929,356
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	52,929,356	52,929,356
Earnings per share:		
Basic earnings per share (cents)	1.7	1.1
Diluted earnings per share (cents)	1.7	1.1
Earnings per share from discontinued operations:		
Basic earnings per share (cents)	(0.1)	(1.7)
Diluted earnings per share (cents)	(0.1)	(1.7)

**29: COMPANY DETAILS**

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

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

### 30: FINANCIAL INSTRUMENTS

#### FINANCIAL RISK MANAGEMENT

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

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

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

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

#### Financial Risks

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

#### (a) Market risk

##### (i) Foreign exchange risk

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

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

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

2014	Consolidated Group			
	GBP \$	NZD \$	USD \$	EUR \$
<b>Financial Assets</b>				
Trade and other receivables	1,197,069	-	55,589	195,868
<b>Financial Liabilities</b>				
Trade and other payables	65,051	-	61,561	480,744
		32,942		
Net exposure	<u>1,132,018</u>	<u>-</u>	<u>(5,972)</u>	<u>(284,876)</u>

2013				
	GBP \$	NZD \$	USD \$	EUR \$
<b>Financial Assets</b>				
Trade and other receivables	855,014	93,065	23,118	51,574
<b>Financial Liabilities</b>				
Trade and other payables	61,257	-	387,263	59,480
Net exposure	<u>793,757</u>	<u>93,065</u>	<u>(364,145)</u>	<u>(7,906)</u>

#### Sensitivity analysis

Based on the financial instruments held as at 30 June 2014, 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 2013.

	Profit \$	Equity \$		
<b>2014</b>				
GBP	(102,911)	-		
NZD	-	-		
US dollars	543	-	-7000	70,000
EUR	25,898	-		
<b>2013</b>				
GBP	(72,160)	-		
NZD	(12,139)	-		
US dollars	33,104	-		
EUR	719	-		

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 19. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group constantly analyses its interest rate exposure. The Group's current approach is to maintain approximately 10% - 50% of its borrowings at fixed rate using floating-to-fixed interest rate swaps and/or fixed rate leasing to achieve this. 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. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts. These swaps are designated to hedge the underlying debt obligations. During 2013 and 2014, the Group's borrowings at variable rates were denominated in Australian Dollars.

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

2014	Floating interest rate maturing			
	Weighted average interest rate %	1 year or less	Over 1 to 5 years	More than 5 years
Financial assets:		\$	\$	\$
Cash	2.65	1,116,587	-	-
Total financial assets		1,116,587	-	-
Financial Liabilities:				
Loans and overdraft	6.74	14,213,294	-	-
Total financial liabilities		14,213,294	-	-
Net exposure		(13,096,707)	-	-

2013	Floating interest rate maturing			
	Weighted average interest rate %	1 year or less	Over 1 to 5 years	More than 5 years
Financial assets:		\$	\$	\$
Cash	2.90	46,117	-	-
Total financial assets		46,117	-	-
Financial Liabilities:				
Loans and overdraft	7.49	22,288,610	-	-
Total financial liabilities		22,288,610	-	-
Net exposure		(22,242,493)	-	-

Sensitivity analysis

Based on the financial assets and liabilities held as at 30 June 2014, 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 2013.

	Profit \$
2014	
1%	(130,967)
2%	(261,934)
2013	
1%	(222,425)
2%	(444,850)

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 approximately \$10.6 million undrawn credit facilities available for use at the reporting date which would further reduce the liquidity risk. For further details see note 27(a).

## Maturities of financial liabilities

### Consolidated Group

2014	Carrying amount \$	Total contractual cash flows \$	Less than 6 months \$	6 - 12 months \$	1 - 5 years \$
<b>Non-derivatives financial liabilities</b>					
Trade and other payables	14,077,406	14,077,406	14,077,406	-	-
Fixed borrowings (including finance leases)	3,361,566	3,995,386	576,044	576,044	2,843,298
Variable borrowings	14,213,294	14,213,294	675,000	675,000	12,863,294
	<u>31,652,266</u>	<u>32,286,086</u>	<u>15,328,450</u>	<u>1,251,044</u>	<u>15,706,592</u>
<b>2013</b>					
<b>Non-derivatives financial liabilities</b>					
Trade and other payables	13,767,584	13,767,584	13,446,584	321,000	-
Fixed borrowings (including finance leases)	3,802,111	4,054,144	734,906	734,906	2,584,332
Variable borrowings	22,338,610	22,338,610	675,000	675,000	20,988,610
	<u>39,908,305</u>	<u>40,160,339</u>	<u>14,856,491</u>	<u>1,730,906</u>	<u>23,572,942</u>

### (c) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents as well as credit exposures to customers, including outstanding receivables from subsidiaries and financial guarantees given to entities within the Group. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date is addressed in Note 12.

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

### (d) Price risk

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

### (e) Fair values

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

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

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

	2014 Carrying Amount \$	Net Fair Value \$	2013 Carrying Amount \$	Net Fair Value \$
<b>Financial Assets</b>				
Trade & other current receivables	9,648,442	9,648,442	11,228,921	11,228,921
Cash	1,116,587	1,116,587	46,117	46,117
	<u>10,765,029</u>	<u>10,765,029</u>	<u>11,275,038</u>	<u>11,275,038</u>
	2014 Carrying Amount \$	Net Fair Value \$	2013 Carrying Amount \$	Net Fair Value \$
<b>Financial Liabilities</b>				
Trade & others payables	14,077,406	14,077,406	13,767,584	13,767,584
Short term borrowings	14,213,294	14,213,294	22,288,610	22,288,610
Long term borrowings	-	-	50,000	50,000
Lease liability	3,361,566	3,361,566	3,802,111	3,802,111
	<u>31,652,266</u>	<u>31,652,266</u>	<u>39,908,305</u>	<u>39,908,305</u>

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

## 31: PARENT ENTITY INFORMATION

The following details information related to the parent entity, Probiotec Limited, at 30 June 2014.

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

	2014 \$	2013 \$
Current assets	51,955,891	55,705,484
Non-current assets	18,774,092	22,143,159
<b>Total Assets</b>	<u>70,729,983</u>	<u>77,848,643</u>
Current Liabilities	26,059,493	34,000,313
Non-current liabilities	5,891,259	6,598,178
<b>Total Liabilities</b>	<u>31,950,752</u>	<u>40,598,491</u>
Contributed equity	35,072,269	35,072,269
Retained earnings	1,163,085	(365,993)
Equity Compensation Plan	(1,385,750)	(1,385,750)
Other reserve	3,929,626	3,929,626
<b>Total equity</b>	<u>38,779,231</u>	<u>37,250,152</u>
Profit / (loss) for the year	1,529,284	(1,939,929)
Other Comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	<u>1,529,284</u>	<u>(1,939,929)</u>

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

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

## 32: SUBSEQUENT EVENTS

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



### 33: SEGMENT INFORMATION

#### (a) Description of segments

Management has determined the operating segments based on reports reviewed by the executive management committee for making strategic decision. The executive management committee comprises the chief executive officer, chief financial officer and divisional managers. The committee monitors the business based on product and geographic factors and have identified 5 reportable segments. A recent review of internal reporting has resulted in a change in the identified segments of the Group and as such the segments have been changed from prior periods. Prior year figures have been restated using the new segments for ease of comparison.

##### *Branded Pharmaceuticals*

The branded pharmaceuticals segment involves the sale of branded pharmaceutical products (both owned and licensed brands) predominantly throughout Australia and also to selected South East Asian countries.

##### *Contract manufacture*

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

##### *Weight Loss and Sports Nutrition*

The weight loss and sports nutrition segment is involved in the manufacture and sale of a range of products across a number of channels including FMCG, pharmacy, health food stores and online. The majority of sales of this segment are made domestically with a small portion being sold to New Zealand and several other countries. This segment includes the Celebrity Slim brand along with the Impropy program, which was launched in May 2014.

##### *Europe*

The Europe segment is involved in the manufacture and sale of products within Europe. This segment produces products at the Group's Ireland manufacturing facility with the majority of sales revenue generated from the United Kingdom and Ireland.

##### *Specialty products*

The specialty products segment is involved in the sale of human and animal nutrition products, incorporating the sale of ingredients and additives for use in the pharmaceutical and food industries. This segment also incorporates the Group's newly relocated and upgraded ADP Protein Plant, which produces several specialty dairy proteins, being Lactoferrin and Immunoglobulins.

#### **Business Segments**

Segment 1	Segment name
Segment 1	Branded Pharmaceuticals
Segment 2	Contract manufacturing
Segment 3	Weight Loss and Sports Nutrition
Segment 4	Europe
Segment 5	Specialty products

Year ended 30 June 2014	Segment 1 \$	Segment 2 \$	Segment 3 \$	Segment 4 \$	Segment 5 \$	Consolidated \$
Revenue from discontinued operations	-	-	-	-	-	-
Revenue from external customers	12,119	32,942	15,788	6,425	380	67,655
Total segmental revenue	12,119	32,942	15,788	6,425	380	67,655
Loss from discontinued operations	-	-	-	-	(44)	(44)
Impairment costs - continuing operations	-	-	-	-	-	-
Segmental profit from continuing operations	1,456	1,524	1,128	(140)	(33)	3,935
Total segmental profit	1,456	1,524	1,128	(140)	(77)	3,891
Interest						(1,373)
Unallocated other income						4,912
Unallocated corporate expenses						(6,681)
Total unallocated income / (expense)						(3,142)
Profit from continuing activities before income tax						749
Loss from discontinued operations before income tax						(44)
						705
Year ended 30 June 2013	Segment 1 \$0	Segment 2 \$	Segment 3 \$	Segment 4 \$	Segment 5 \$	Consolidated \$
Revenue from external customers	14,972	24,666	20,972	5,696	3,275	69,581
Total segmental revenue	14,972	24,666	20,972	5,696	3,275	69,581
Segmental profit	2,511	1,554	1,557	92	142	5,856
Total segmental profit	2,511	1,554	1,557	92	142	5,856
Interest						(1,599)
Unallocated other income						(4,560)
Unallocated corporate expenses						971
Total unallocated income / (expense)						(5,188)
Loss from continuing activities before income tax						1,544
Loss from discontinued operations before income tax						(876)
						668

#### (b) Reconciliation of segmental revenue to total revenue

	2014 \$	2013 \$
Segmental revenue	68,214,622	69,581,960
Interest received	-	10,241
Total revenue	68,214,622	69,592,201

#### (c) Segment revenue

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

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

**(d) Segment profit**

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

**(e) Entity wide information**

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

	Australia \$	New Zealand \$	European Union \$	United States of America \$	Other \$
Gross Revenue for year ended 30 June 2014	60,564,836	627,960	6,376,485	-	645,341
Gross Revenue for year ended 30 June 2013	61,634,728	1,396,592	5,696,227	68,454	785,960

Revenue of approximately \$7,825,327 (2013: \$9,305,372) were derived from a major external customer included in the contract manufacturing segment.

**(f) Segment assets**

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

**PROBIOTEC LIMITED AND ITS CONTROLLED ENTITIES**  
**ACN 075 170 151**

**DECLARATION BY DIRECTORS**

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - (b) give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the consolidated entity.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in pages 8 to 16 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2014, comply with section 300A of the *Corporations Act 2001*.
5. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

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



.....  
Charles Wayne Stringer  
Director

Dated at Laverton this 21<sup>st</sup> day of August 2014

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

### **Report on the Financial Report**

We have audited the accompanying financial report of Probiotec Limited and Controlled Entities, which comprises the consolidated statement of financial position as at 30 June 2014, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Probiotec Limited would be the same terms if given to the directors as at the time of this auditor's report.

*Opinion*

In our opinion:

- a) the consolidated financial report of Probiotec Limited and Controlled Entities 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 2014 and of its performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

*Report on the Remuneration Report*

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion, the Remuneration Report of Probiotec Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

Moore Stephens

MOORE STEPHENS  
Chartered Accountants



Nick Michael  
Partner

Melbourne, 21 August 2014