PROBIOTEC LIMITED AND ITS CONTROLLED ENTITIES

Preliminary Final Report

For the Period ended 30 June 2016

PROBIOTEC

Appendix 4E
As required by ASX Listing Rule 4.3A

Probiotec Limited
Preliminary final report
For the year ended 30 June 2016

Results for announcement to market

Current Reporting Period: Year ended 30 June 2016
Previous Corresponding Period: Year ended 30 June 2015

Results from continuing operations	Movement			($'000)
Sales Revenue from ordinary activities	Up	3.6%	to	65,607
Earnings before interest, tax, depreciation & amortisation (EBITDA)	Up	31.4%	to	6,625
Earnings before interest and tax (EBIT)	Up	445.2%	to	3,766
Net profit / (loss) from ordinary activities before tax attributable to owners	Up	693.2%	to	3,089
Net profit / (loss) for the period attributable to owners	Up	2,586.0%	to	2,340
Earnings per share	Up	2,586.0%	to	4.4¢

Results from continuing & discontinued operations	Movement			($'000)
Sales Revenue from ordinary activities	Down	0.3%	to	65,930
Earnings before interest, tax, depreciation & amortisation (EBITDA)	Up	106.8%	to	8,384
Earnings before interest and tax (EBIT)	Up	122.6%	to	5,525
Net profit / (loss) from ordinary activities before tax attributable to owners	Up	118.9%	to	4,848
Net profit / (loss) for the period attributable to owners	Up	116.2%	to	4,014
Earnings per share	Up	116.2%	to	7.6¢
Net Tangible assets per share as at 30 June 2016	Up	20.4%	to	49.8¢
Net Tangible assets per share as at 30 June 2015				41.4¢

Dividends (Ordinary shares)	Record Date	Amount per Security	Franked Amount per Security
Final Dividend	5 September 2016	1.5 cents	1.5 cents

Dividends

The directors have today declared a final dividend of 1.5 cents per ordinary share, fully franked, and to be paid on 4 October 2016. The dividend will be payable to shareholders of record on 5 September 2016. This dividend is in recognition of the turnaround and continued improvement in Probiotec's earnings and cashflow. The company's Dividend Reinvestment Plan will not be operational for this dividend. This dividend does not relate to any conduit foreign income.

No dividends were paid during the 2016 financial year. No dividends were declared or paid in the prior corresponding period.

Review of Results

Overview of results

For the year ended 30 June 2016, the Group generated sales revenue from continuing operations of $65,606,999 an increase of 3.6% on the previous financial year. The Group's net profit from continuing activities attributable to members for the financial year was $2,338,958, compared to the previous financial year profit of $87,110.

The Group reported a statutory net profit of $4.0 million, which was positively impacted by the $2.0 million in profit booked on the sale of the ADP Protein Plant sale, and negatively impacted by the $0.3 million loss booked on the sale of the Group's Ireland manufacturing facility.

The result for the year is a significant positive outcome for the business as the Group looks to produce improved sales and earnings under its now streamlined business model. This streamlined business includes the consolidation of all manufacturing into the Group's Laverton pharmaceutical plant, the rationalisation of non-performing brands and the removal of our Irish manufacturing where, in the United Kingdom, the Group only maintains essential sales and marketing staff. The Group now has a clear focus on the core pillars of the business into the future, being:

- Contract manufacturing & intellectual property development;
- Branded pharmaceutical products; and
- Obesity and weight management.

Improvements and efficiencies are now being recognised as a result of the previously announced rationalisation and reorganisation activities. Pleasingly, the operations of the Group performed strongly in the second half of the year, with both earnings and cash conversion showing significant improvement over the prior corresponding period.

Divisional Update

Contract Manufacturing and intellectual property development

The Group's contract manufacturing segment generated $41.1 million in sales, an increase of 11.8% from the prior corresponding period.

The Group's capabilities continue to be well recognised in the market and the Group continues to experience increasing levels of sales inquiries, leads and contracted work. The demand for the Group's manufacturing services and innovative consumer products continues to underpin strong orders for this segment and this is expected to contribute to further growth in the coming year.

As announced in March 2016, the Group has reached agreement with several existing and new contract manufacturing customers to manufacture additional products. This new business is expected to come on line progressively over the 2017 financial year, largely skewed to the second half. This new business is expected to result in growth in both sales revenue and profit in this segment in FY2017.

The Group is also pleased to be continuing to expand its research and development relationships with Griffith University, CSIRO and Adelaide University. As announced in May 2016, the Group has recently completed and received results with respect to two separate clinical trials it has run over the past year. These trials were embarked upon by the Company to examine the effect of its specific protein fraction (Glycomax™):

- against atopic dermatitis (more commonly known as eczema); and
- to assess its wider impact on changes in gene expression to examine the effect this compound may have on various disease states.

Gene Expression Trial

The gene expression trial was designed to examine changes in molecular pathways to guide future clinical research and applications.

The trial has provided exciting results in relation to inflammatory regulation that has the potential to translate to a wide range of fields with particular application to the infant, aged and functional nutrition categories.

Atopic Dermatitis (eczema) Trial

During FY2016, a phase II clinical trial into atopic dermatitis (eczema) was conducted in collaboration with Griffith University and the St George Dermatology and Skin Cancer Centre. The trial was undertaken to determine whether the Glycomax™ had sufficient activity for use in atopic dermatitis.

The finding of the study was significant for the number of patients that had an improvement in their symptoms during supplementation, a proportion that was double the pre-specified clinical threshold and that indicates this protein fraction is a promising alternative to standard care. A reduction in symptoms indicates that this supplement may improve quality of life for those people suffering with eczema.

The directors consider that the results of the trial are exciting for the Group and the development of our Glycomax™ fraction is consistent with the Group's objective of investing in the development of new intellectual property.

The Group has lodged patent applications to protect its intellectual property position and is continuing to investigate options to commercialise these results with a suitable partner in the near future.

Branded Pharmaceuticals

The Group's branded pharmaceuticals segment generated $7.3 million in sales, a decrease of 4.8% compared to the prior corresponding period. Although headline sales declined, underlying sales on a like-for-like basis (excluding discontinued product lines) grew by 3.2%.

Under the distribution agreement with the Valeant Group, the Group's established product ranges performed acceptably in an increasingly competitive pharmacy environment with like-for-like sales growth achieved (excluding the impact of a rationalisation of the product range). Earnings from this segment during the year was negatively impacted by the clearance of these rationalised product lines (loss of $0.3 million) whilst the prior corresponding period was positively impacted by the early settlement of the Group's distribution agreement for the divested Milton brand (gain of $0.3 million).

The Group is confident that its branded pharmaceutical products will continue to perform well with both a range of new products under development and a revitalised sales and marketing focus from the Group's distributor, which is expected to contribute to growth in these products.

Obesity and weight management

Earnings from the Group's obesity and weight management segment grew by $1.0 million for the year, to a total of $1.1 million. This improvement in earnings was primarily driven by a rationalisation of product ranges together with the integration of manufacturing of these products into the Group's Laverton site and the closure of the Group's South Nowra (NSW) manufacturing site.

This segment generated $13.0 million in sales from continuing operations, a decrease of 7.8% compared to the prior corresponding period. The decline was primarily the result of the rationalisation of non-performing products. The Impromy brand (developed in conjunction with the CSIRO) continues to experience growth in both sales and distribution levels.

Europe

The Group's European segment generated $4.0 million in sales from continuing operations, a decrease of 11.9% from the prior corresponding period. The Group has now completed the sale of its manufacturing operations in Europe to focus on the sales, marketing and distribution of its established weight loss products in the United Kingdom. This segment achieved an operational profit for the year, despite the impact of foreign currency movements, most notably the devaluation of the British pound in June 2016 following the Brexit vote.

Specialty products

The Group's specialty products segment generated nominal sales for the period. As set out earlier in this report, the Group has now completed the sale of its ADP Protein Plant, which generated the majority of sales in this segment.

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 two 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

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

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

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DIRECTORS' REPORT

The directors submit the financial report of Probiotec Limited ("the Company") and its controlled entities ("the Group") for the financial year ended 30 June 2016.

Directors

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

Robert Maxwell Johnston	Chairman
Wesley Stringer	Executive Director
Graham Harry Buckeridge	Non-Executive Director
Richard David Kuo	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, consumer health 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 $4,013,465 (2015: loss $24,742,302).

Dividends

A dividend of 1.5 cents per fully paid ordinary share has been declared for the financial year ended 30 June 2016 (2015: $nil). No dividend has been paid during the financial year ended 30 June 2016 (2015: $nil).

Operating and financial review

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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 2016.

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 2016, and the numbers of meetings attended by each director were:

Director	Board of Directors Meetings		Audit & Risk Management Committee meetings		Remuneration & Nominations Committee meetings	
	No. Held[1]	No. Attended	No. Held[2]	No. Attended	No. Held[2]	No. Attended
Graham Harry Buckeridge	8	8	2	2	1	1
Richard David Kuo	8	8	2	2	-	-
Robin Tedder	8	8	-	-	-	-
Wesley Stringer	8	8	-	-	1	1
Robert Maxwell Johnston	8	8	2	2	1	1

Information on Directors and Officers

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 30 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	-	Chairman of the Audit and Risk Management Committee.
Other Directorships	-	Non-Executive Director of Animoca Brands Limited SCEGGS Darlinghurst Limited Juwai Holdings Limited

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

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

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

		Diageo and Unilever.
Special Responsibilities	-	Chairman of Remuneration and Nominations Committee.
Other Directorships	-	Non-Executive Director of Medical Development International Limited

<u>Robin Tedder</u>

Role	-	Non-Executive Director
Qualifications	-	FFIN, MW
Experience	-	Robin has over 38 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

<u>Jared Stringer</u>

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

<u>Wesley Stringer</u>

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

Insurance of Officers

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

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 2016. This report is audited.

1. REMUNERATION

1.1 Remuneration & Nominations Committee

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

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

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

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

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

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

Members of Remuneration and Nominations Committee	**Position**	**Appointed**
Robert Maxwell Johnston	Chairman	29 July 2010
Graham Buckeridge	Member	28 July 2006
Wesley Stringer	Member	19 August 2015

1.2 Remuneration Policy – Non-Executive Directors

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

The current annualised total remuneration for the company's non-executive directors is $226,000. 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 2016 financial year are set out on page 10 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. Specific performance conditions were set for the 2016 financial year and short-term incentives payable to key management personnel have been accrued for the 2016 financial year. No short-term incentives were paid during the 2016 financial year.

Long-term Incentives

The Group provides long-term incentives to key management personnel to reward sustained performance by the organisation as a whole. Long-term incentives are in the form of options over Probiotec Limited shares issued under the company's Executive Option Plan, which was adopted by a resolution of members on 27 November 2014. The issue of shares and/or options is based on a review of the contributions and value of management personnel undertaken by the Nomination and Remuneration Committee.

At the date of this report, Wesley Stringer is the only executive director of Probiotec Limited. Mr. Wesley Stringer is paid a fixed annual remuneration. Along with his fixed annual remuneration, Mr. Wesley Stringer is also eligible to receive equity-based compensation, in the form of share options, based on the achievement of set milestones stipulated in his contract of employment. Mr. Wesley Stringer was granted options during the 2016 financial year (see page 12 for details).

Termination Arrangements

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

1.4 Remuneration Policy - Employees

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

2. LINKING REMUNERATION TO PROBIOTEC'S PERFORMANCE

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

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

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

3. REVIEW OF REMUNERATION

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

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

4. REMUNERATION DETAILS OF KEY MANAGEMENT PERSONNEL

For the purposes of this report, "Key Management Personnel" 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:

Richard David Kuo	Non-executive director
Graham Harry Buckeridge	Non-executive director
Robert Maxwell Johnston	Non-executive director
Robin Tedder	Non-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:

Name	*Position*	*Employer*
Jared Stringer	Chief Financial Officer	Probiotec Limited
Dustin Stringer	GM - Marketing	Probiotec Limited
Alan Hong	GM – Accounting	Probiotec Limited
Craig Lymn	Operations Manager	Probiotec Limited
Julie McIntosh	GM – Supply Chain	Probiotec Limited
Labrini Nassis	GM – Quality	Probiotec Limited

No persons who were considered Key Management Personnel during the financial year ended 30 June 2015 were no longer considered Key Management Personnel during this financial year other than:

Maurice Van Ryn	Resigned 4 August 2014
Charles Wayne Stringer	Resigned 30 June 2015

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:

2016

		Short-Term Benefits				Post Employment Benefits		Equity-Based Benefits		
	Position	Salary, Fees & Commissions $	Short Term Incentives[1] $	Non-Cash Benefits $	Annual Leave[2] $	Long Service Leave[3] $	Superannuation Contribution $	Options $	Total $	Proportion of Remuneration that is performance based %
Directors & Secretaries										
Wesley Stringer	COO / Executive Director	293,360	249,280	43,698	-	10,366	18,783	6,600	622,087	41.1
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[3]	Non-Executive Director	68,493	-	-	-	-	6,507	-	75,000	-
Robin Tedder	Non-Executive Director	48,000	-	-	-	-	-	-	48,000	-
Jared Stringer	CFO / Company Secretary	228,270	84,000	-	-	8,443	21,690	3,520	345,923	25.3
		717,123	333,280	43,698	-	18,809	70,980	10,120	1,194,010	28.8
Other Key Management Personnel										
Dustin Stringer	GM - Marketing	143,845	18,000	16,721	-	5,394	13,664	1,760	199,384	9.9
Craig Lymn	Operations Manager	158,851	28,140	-	-	5,095	15,091	1,760	208,937	14.3
Julie McIntosh	GM - Supply Chain	149,855	30,960	-	-	491	22,456	1,760	205,522	15.9
Labrini Nassis	GM - Quality	157,785	-	-	-	-	14,495	-	172,280	-
Alan Hong	GM - Accounting	148,265	26,640	5,884	-	4,446	24,016	1,760	211,011	13.5
		758,601	103,740	22,605	-	15,426	89,722	7,040	997,134	11.1
Total		**1,475,724**	**437,020**	**66,303**	**-**	**34,235**	**160,702**	**17,160**	**2,191,144**	

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

[1] Short term incentives were accrued during the year but will be paid during the 2017 financial year.

[2] Annual leave amounts relate to the pay out of accrued balances.

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

2015

	Position	Short-Term Benefits Salary, Fees & Commissions $	Short Term Incentives $	Non-Cash Benefits $	Annual Leave[1] $	Post Employment Benefits Long Service Leave[1] $	Superannuation Contribution $	Equity-Based Benefits Options $	Total $	Proportion of Remuneration that is performance based %
Directors & Secretaries										
Maurice Van Ryn[2]	Chairman	6,263	-	-	-	-	595	-	6,858	-
Charles Wayne Stringer[5]	CEO / Managing Director	616,342	-	-	105,379	178,167	61,114	-	961,002	-
Wesley Stringer	COO / Executive Director	280,772	-	21,436	-	4,831	18,783	-	325,822	-
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[3]	Non-Executive Director	66,204	-	-	-	-	6,289	-	72,493	-
Robin Tedder	Non-Executive Director	48,000	-	-	-	-	-	-	48,000	-
Jared Stringer	CFO / Company Secretary	210,608	-	-	-	3,506	20,008	-	234,122	-
		1,307,189	-	21,436	105,379	186,504	130,789	-	1,751,297	-
Other Key Management Personnel										
Dustin Stringer	GM - Marketing	177,777	-	14,526	-	3,175	16,889	-	212,367	-
Craig Lymn	Operations Manager	155,651	-	-	-	4,228	14,787	-	174,666	-
Julie McIntosh	GM - Supply Chain	136,488	-	-	-	353	20,943	-	157,784	-
Alan Hong	GM - Accounting	145,887	-	4,064	-	875	23,791	-	174,617	-
		615,803	-	18,590	-	8,631	76,410	-	719,434	-
Total		**1,922,992**	**-**	**40,026**	**105,379**	**195,135**	**207,199**	**-**	**2,470,731**	

[1] All Long Service Leave amounts relate to accrued balances. No Long Service Leave was taken or paid out during the year other than to Charles Wayne Stringer as part of his termination payment on 30 June 2015.
[2] Resigned as Chairman and director on 4 August 2014.
[3] Appointed Chairman on 4 August 2014.
[4] Annual leave amounts relate to the pay out of accrued balances.
[5] Resigned 30 June 2015.

Options issued to Chief Executive Officer (CEO)

On 6 October 2015, the issue of 1,000,000 options to the CEO was approved at a general meeting on the terms set forth below -

(a) Each option has an exercise price of $0.50 per fully paid ordinary share

(b) The options will lapse 36 months after their date of grant

(c) The options do not vest until 12 months after their date of grant

(d) Each option entitles the holder to 1 fully paid ordinary share

(e) Shares issued upon exercise of option will rank equally with all existing ordinary shares of the company

Full Details of these options can be found on page 13.

No options were exercised during the year ended 30 June 2016.

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[1] at grated date
Labrini Nassis	01.07.2015	01.07.2016	30.06.2018	$0.50	-	100,000	(100,000)	-	-	-	$0.01
Wesley Stringer	24.11.2012	23.11.2014	23.11.2015	$0.70	600,000	-	-	(600,000)	-	-	$0.02
Wesley Stringer	06.10.2015	06.10.2016	05.10.2018	$0.50	-	1,000,000	-	-		1,000,000	$0.01
Dustin Stringer	01.07.2015	01.07.2016	30.06.2018	$0.50	-	200,000	-	-	-	200,000	$0.01
Alan Hong	01.07.2015	01.07.2016	30.06.2018	$0.50	-	200,000	-	-	-	200,000	$0.01
Julie McIntosh	01.07.2015	01.07.2016	30.06.2018	$0.50	-	200,000	-	-		200,000	$0.01
Craig Lymn	01.07.2015	01.07.2016	30.06.2018	$0.50	-	200,000	-	-	-	200,000	$0.01
Jared Stringer	01.07.2015	01.07.2016	30.06.2018	$0.50	-	400,000	-	-	-	400,000	$0.01
					600,000	2,300,000	(100,000)	(600,000)	-	2,200,000	

*The executives have no access to exercise the options until expiry of 12 months of their employment with the company or an Associated Body Corporate from the date of grant of the shares. All options are forfeited if the grantee resigns from the company prior to the exercise or expiry of the options.

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

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

Name	No. of fully paid ordinary shares
Richard David Kuo	74,726
Graham Henry Buckeridge	1,448,684
Robin Tedder	5,373,292
Robert Maxwell Johnston	506,198
Wesley Stringer	867,646
Dustin Stringer	97,000
Julie McIntosh	-
Alan Hong	-
Craig Lymn	-
Jared Stringer	315,573
	8,656,119

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 2016, other than:

Name	Grant date	Vesting date	Exercise Price ($)	Forfeited during the year Number	Lapsed during the year Number
Labrini Nassis	01.07.2015	01.07.2016	0.50	100,000	-

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 2016.

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 16 of this report.

Signed in accordance with a resolution of Board of Directors.

…………………………………………………………………..
Director
Wesley Stringer

Signed at Laverton this 23rd day of August 2016

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shinewing.com.au

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there has been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Rami Eltchelebi
Partner

Melbourne, 23 August 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated Group 2016 $	Consolidated Group 2015 $
Sales revenue from continuing operations	2	65,606,999	63,310,199
Cost of goods sold		(41,630,586)	(39,912,926)
Gross profit		23,976,413	23,397,273
Other income	2	183,199	159,136
Warehousing & distribution expenses		(4,706,993)	(5,100,993)
Sales and marketing expenses		(6,633,948)	(7,050,228)
Finance costs		(677,161)	(1,211,463)
Administration and other expenses	4	(9,053,641)	(10,714,430)
Profit / (loss) from continuing activities before income tax expense		3,087,869	(520,705)
Income tax expense relating to continuing activities	5	(748,911)	607,814
Profit / (loss) from continuing activities for the period attributable to owners of the parent entity		2,338,958	87,109
Profit / (loss) from discontinued operations	6	1,674,507	(24,829,411)
Profit / (loss) for the period attributable to owners of the parent entity	3	4,013,465	(24,742,302)
Other comprehensive income			
Other comprehensive income / (loss) to be classified to profit and loss when specific conditions are met			
Exchange differences on translating foreign operations		(28,867)	(50,396)
Other comprehensive income that will not be reclassified to profit and loss			
Revaluation gains on land and buildings		-	103,446
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the year, net of tax		(28,867)	53,050
Total comprehensive income for the year		3,984,598	(24,689,252)
Total comprehensive income for the year attributable to owners of the parent entity		3,984,598	(24,689,252)
Earnings per share for profit attributable to owners of the parent entity			
Basic earnings per share (cents)	29	7.6	(46.7)
Diluted earnings per share (cents)	29	7.6	(46.7)
Earnings per share from discontinued operations			
Basic earnings per share (cents)	29	3.2	(46.9)
Diluted earnings per share (cents)	29	3.2	(46.9)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Note	Consolidated Group 2016 $	2015 $
Current Assets			
Cash and cash equivalents	12	505,622	120,296
Trade and other receivables	13	8,695,008	8,339,440
Inventories	14	9,118,207	9,881,550
Assets held for sale	16	-	3,074,173
Other current assets	15	290,618	246,570
Total Current Assets		18,609,455	21,662,029
Non-Current Assets			
Property, plant and equipment	16	26,726,419	27,220,861
Intangible assets	17	18,816,609	18,436,431
Deferred tax assets	18	5,020,844	5,688,083
Total Non-Current Assets		50,563,872	51,345,375
Total Assets		69,173,327	73,007,404
Current Liabilities			
Trade & other payables	19	10,099,892	10,672,682
Short-term interest bearing liabilities	20	6,444,552	12,788,766
Short-term provisions	21	865,586	797,519
Total Current Liabilities		17,410,030	24,258,967
Non-Current Liabilities			
Long-term interest bearing liabilities	20	1,013,141	2,274,746
Deferred tax liabilities	22	6,555,700	6,390,007
Long-term provisions	21	559,770	452,529
Total Non-Current Liabilities		8,128,611	9,117,282
Total Liabilities		25,538,641	33,376,249
Net Assets		43,634,686	39,631,155
Equity			
Contributed equity	23	33,686,519	33,686,519
Foreign Currency Translation Reserve	24	(391,968)	(363,101)
Share Based Payments Reserve	24	18,933	-
Asset Revaluation Reserve	24	4,320,595	4,320,595
Retained earnings		6,000,607	1,987,142
Total Equity		43,634,686	39,631,155

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 2016

	Ordinary Share Capital $	Foreign Currency Translation Reserve $	Asset Revaluation Reserve $	Share Based Payments Reserve $	Retained Earnings $	Total $
Balance as at 1 July 2014	33,686,519	(312,705)	4,217,149	-	26,729,444	64,320,407
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(24,742,302)	(24,742,302)
Asset revaluations	-	-	103,446	-	-	103,446
Other comprehensive income	-	(50,396)	-	-	-	(50,396)
Total comprehensive income for the year	**-**	**(50,396)**	**103,446**	**-**	**(24,742,302)**	**(24,689,252)**
Transactions with owners in their capacity as owners						
Shares (cancelled) / issued during the year	-	-	-	-	-	-
Dividends paid or provided for	-	-	-	-	-	-
Balance as at 30 June 2015	33,686,519	(363,101)	4,320,595	-	1,987,142	39,631,155
Total comprehensive income for the year						
Profit for the year	-	-	-	-	4,013,465	4,013,465
Other comprehensive income	-	(28,867)	-	-	-	(28,867)
Total comprehensive income for the year	-	(28,867)	-	-	4,013,465	3,984,598
Transactions with owners in their capacity as owners						
Shares / options (cancelled) issued during the year	-	-	-	18,933	-	18,933
Dividends paid or provided for	-	-	-	-	-	-
Balance as at 30 June 2016	33,686,519	(391,968)	4,320,595	18,933	6,000,607	43,634,686

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 2016

	Note	Consolidated Group 2016	2015
		$	$
Cash Flows From Operating Activities			
Receipts from customers		65,389,879	66,980,714
Payments to suppliers and employees		(59,670,514)	(63,445,009)
Interest and other costs of finance paid		(677,161)	(1,211,463)
Income tax paid		-	-
Net cash provided by operating activities	28 (b)	5,042,204	2,324,242
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(2,594,493)	(1,803,419)
Proceeds from sale of property, plant and equipment		6,523,611	1,923,294
Purchase of intangible assets		(980,179)	(929,059)
Net cash provided by / (used in) investing activities		2,948,939	(809,184)
Cash Flows From Financing Activities			
Proceeds from borrowings		175,043	2,129,093
Repayment of borrowings		(7,780,861)	(4,640,442)
Net cash used in financing activities		(7,605,818)	(2,511,349)
Net Increase / (decrease) in cash held		385,325	(996,291)
Cash at beginning of financial year		120,296	1,116,587
Cash at end of financial year	12	505,622	120,296

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	505,622	120,296
	505,622	120,296

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 2016

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 2016 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 23 August 2016.

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent Probiotec Limited (Listed Public Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

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

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

(b) Income Tax

(i) General

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

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

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

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

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

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

(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's assets excluding deferred tax assets and goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset is tested for impairment by comparing 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 leases are capitalised at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in the current and non-current interest bearing liabilities. Each lease payment is allocated between the liability and the finance charges. The interest element of the lease payment is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life or the lease term, unless it is reasonably certain that ownership will be obtained by the end of the lease term where it is depreciated over the period of the expected use which is the useful life of the asset.

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

(h) Investments in Associates

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

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

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

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

(i) Interests in Joint Venture Entities

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

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

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

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

(j) Intangibles

i) Goodwill

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

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

Trademarks, licenses, product development costs and product dossiers ("Developed Products") are initially recognised at cost. Intangible assets with an indefinite life are tested at each reporting date for impairment and carried at cost less accumulated impairment losses. Those with a finite life are carried at cost less any accumulated amortisation and accumulated impairment losses. Developed products with finite lives are amortised on a straight line basis over a useful life of between 5 and 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. Capitalised expenditure comprises costs of materials, services, direct labour and directly attributable overheads. Other development costs are expensed when they are incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses and amortised over the period of expected future sales from the related projects. The carrying value of development costs is reviewed annually when the asset is not yet available for use, or when events or circumstances indicate that the carrying value may be impaired.

(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.

(l) Financial Instruments

Recognition

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

Loans and Receivables

Loan and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest method. Loans and receivables are initially measured at fair value and are subsequently measured at amortised cost less any allowance for impairment. Trading terms are between 7 days to 60 days. An allowance for impairment is recognised when it becomes probable that 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.

Non-financial assets

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

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

(p) Provisions

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

(q) Cash

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

(r) Comparative Figures

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

(s) Earnings per share

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

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

(t) Contributed equity

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

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

(u) Business combinations

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

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

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

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

(v) Fair Value Measurements

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

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

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

Fair Value Hierarchy

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

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

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

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

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

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

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

(w) New Accounting Standards

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

– AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

– AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2018).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue. Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019)

When effective, this standard will replace the current accounting requirements applicable to leases in AASB 117 and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new standard include:

- Recognition of a right-to-use asset and liability for all leases (excluding short term leases with less than 12 months of tenure an leases relating to low value assets);
- Deprecation of right-to-use assets in-line with AASB 116 Property, plant and equipment in profit or loss and unwinding of the liability in principal and interest components;
- Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- By applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account all components as a lease; and
- Additional disclosure requirements.

The transitional provisions of this standard allows a lessee to either retrospectively apply the standard to comparatives in line with AASB 108: Accounting Policies, Changes in Accounting Estimates and Error; or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 may have an 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

(a) Revenue from:

	2016 $	2015 $
Sale of goods	65,606,999	63,310,199
Total Revenue	65,606,999	63,310,199
Government subsidies received / (refunded)	103,769	(11,840)
Profit on disposal of intangible assets	-	-
Sundry income	79,430	170,976
Total other income	183,199	159,136
Total revenue and other income from continuing operations	65,790,198	63,469,335

3: PROFIT FOR THE YEAR

Net profit has been arrived at after including:

	2016 $	2015 $
Finance cost - non related parties	677,161	1,211,463
Foreign currency translation losses / (gains)	(91,497)	(50,396)
Bad and doubtful debts expense - trade receivables	(46,102)	6,171
Rental on operating lease expenses - minimum lease payments	555,241	518,024
Inventory write-offs / (write backs)	(128,412)	402,588
Professional and consulting expenses	823,999	567,826
Employee benefits expenses	15,923,503	17,443,592
Repairs and maintenance expenses	1,010,148	1,146,274
Depreciation of property, plant and equipment	2,258,933	3,570,774
Amortisation of intangibles	600,000	780,000
Impairment costs - intangibles	-	6,534,926
Impairment costs - current assets	291,378	1,114,966
Impairment costs - property, plant and equipment	-	16,504,839
Defined contribution superannuation expense	1,120,155	1,222,317

4: ADMINISTRATION & OTHER EXPENSES

Administration & other expenses comprises:

	2016 $	2015 $
Insurance	402,308	565,075
Office expenses	446,456	446,603
Compliance costs	158,918	167,708
Other expenses	8,045,959	9,212,839
	9,053,641	10,392,225

5: INCOME TAX EXPENSE

(a) Components of Tax Expense:

	2016 $	2015 $
Current income tax	-	-
Deferred income tax	833,256	(920,096)
Over provision for income tax in prior years	-	-
	833,256	(920,096)
Income tax is attributable to:		
Profit / (loss) from continuing operations	748,911	(607,814)
Profit / (loss) from discontinued operations	84,345	(312,282)
	833,256	(920,096)

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

	2016 $	2015 $
Profit from continuing operations	3,087,869	(5,377,806)
Profit / (loss) from discontinued operations	1,758,852	(19,972,310)
	4,846,721	(25,350,116)

	2016 $	2015 $
Prima facie tax expense on profit/(loss) before income tax at 30% (2015: 30%)	1,454,016	(7,605,035)
Add Tax effect of:		
Impairment of assets	-	5,445,417
Recoupment of prior losses not yet booked	(824,843)	-
Tax losses not recognised	-	471,902
Research and development tax concession	(30,000)	(30,000)
Other non allowable or assessable items	234,082	797,620
Income tax expense / (benefit)	833,256	(920,096)

6: DISCONTINUED OPERATIONS

As set out in Note 6 of the financial report of Probiotec Limited for the years ended 30 June 2011 - 2015, Probiotec Limited undertook a comprehensive strategic and operational review of its business operations, assets and financial position. Full details of each of the operations classifed as discontinued can be found in Note 6 of the 2011, 2012,2013, 2014 and 2015 Financial Reports.

The Comprehensive income of the discontinued operations was:	2016 $	2015 $
Revenue	323,205	2,369,486
Impairment costs	(291,378)	(24,215,121)
Profit on sale of fixed assets	2,040,003	-
Expenses	(312,978)	(3,296,058)
Profit / (loss) from discontinued operations before income tax	1,758,852	(25,141,693)
Income tax benefit / (expense)	(84,345)	312,282
Profit / (loss) from discontinued operations after income tax	1,674,507	(24,829,411)

The cash flow of the discontinued operations was:

Net cash flow provided by / (used in) operating actvities	10,227	462,608
Net cash flow provided by / (used in) investing actvities	6,523,611	(522,697)
Net cash flow provided by financing activities	-	392,317
Net increase in cash held	6,533,838	332,228

7: SALE OF DISCONTINUED OPERATIONS

(i) ADP Plant

On 28 September 2015 Australian Dairy Proteins Pty Ltd ("ADP"), a wholly owned subsidiary of Probiotec Limited, ("Probiotec" or "the Company") completed the sale of its ADP Protein Plant ("the Assets") located in Jervois, South Australia to Beston Pure Dairies Pty Ltd ("BPD") following the conditional agreement announced on 24 June 2015.

Further agreements have been entered into between ADP and BPD relating to technical assistance and the future supply of dairy protein products over the coming years.

This sale resulted in a net gain on sale of $2,040,003 before tax and resulted in a reduction in assets held for sale of $3,074,174 and Property, Plant and Equipment of $830,003.

(iii) European manufacturing assets

During the half year, the Group completed the transition of its Irish manufacturing assets, following the sale completed in June 2015. This transition resulted in a non-recurring loss of $291,378 being incurred during the year ended 30 June 2016.

(iv) Breakdown of profit from discontinued operations

Net gain on sale of ADP Protein Plant	2,040,003
Loss on transition of European manufacturing assets	(291,378)
Profit from discontinued brands	10,227
Income tax expense	(84,345)
	1,674,507

8: 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 7.5% 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 2016 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 discount rate			**Change in earnings forecasts**		
	+2%	**+4%**	**+6%**	**(5%)**	**(10%)**	**(20%)**
Impairment expense that would be recognised	-	224,268	1,986,414	-	-	-

(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 3 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 17. The determination of the useful life of each intangible asset, which comprises capitalised product development costs, is based on the group's knowledge of each major category of intangible assets and the future economic benefits expected to be received from each. The group reassesses the useful life of intangible assets at each reporting date and at any future period may change the useful life of an intangible asset based on information available at that date. The group recognised amortisation of $600,000 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 technically 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.

9: 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.

		2016	2015
(a)	Key management personnel compensation:	$	$
	Short-term employee benefits	1,979,047	2,068,397
	Post-employment benefits	160,702	207,199
	Other long term benefits	34,235	195,135
	Share-based payments	17,160	-
	Total compensation	2,191,144	2,470,731

(b) The number of options held by directors and key management personnel for the year ended 30 June 2016 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
Richard David Kuo	-	-	-	-	-	-	-	-	-
Graham Henry Buckeridge	-	-	-	-	-	-	-	-	-
Robert Maxwell Johnston	-	-	-	-	-	-	-	-	-
Wesley Stringer	600,000	1,000,000	-	-	1,600,000	-	(600,000)	1,000,000	-
Dustin Stringer	-	200,000	-	-	200,000	-	-	200,000	-
Alan Hong	-	200,000	-	-	200,000	-	-	200,000	-
Craig Lymn	-	200,000	-	-	200,000	-	-	200,000	-
Labrini Nassis	-	100,000	-	(100,000)	-	-	-	-	-
Jared Stringer	-	400,000	-	-	400,000	-	-	400,000	-
Julie McIntosh	-	200,000	-	-	200,000	-	-	200,000	-
	600,000	2,300,000	-	(100,000)	2,800,000	-	(600,000)	2,200,000	-

Option Holdings of Key Management Personnel for the year ended 30 June 2015:

	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	600,000	-	-	-	600,000	-	600,000	-	-
Dustin Stringer	400,000	-	-	(400,000)	-	-	-	-	-
Alan Hong	150,000	-	-	(150,000)	-	-	-	-	-
Craig Lymn	175,000	-	-	(175,000)	-	-	-	-	-
Jared Stringer	400,000	-	-	(400,000)	-	-	-	-	-
	3,225,000	-	-	(1,125,000)	2,100,000	-	2,100,000	-	-

Ordinary share holdings of Key Management Personnel

Directors	Balance at 1/07/2014	Share acquisitions through exercise of share options	CEO Options Exercised	Other purchases during the year*	Sold during the year	Balance at 30/06/15	Share acquisitions through exercise of share options	CEO Options Exercised	Other purchases during the year*	Sold during the year	Balance at 30/06/16
Wes Stringer	273,928	-	-	122,932	-	396,860	-	-	470,786	-	867,646
Graham Harry Buckeridge	1,448,684	-	-	-	-	1,448,684	-	-	-	-	1,448,684
Robert Maxwell Johnston	307,215	-	-	198,983	-	506,198	-	-	-	-	506,198
Robin Tedder	5,262,334	-	-	110,958	-	5,373,292	-	-	-	-	5,373,292
Richard David Kuo	74,726	-	-	-	-	74,726	-	-	-	-	74,726
Total for Directors	7,366,887	-	-	432,873	-	7,799,760	-	-	470,786	-	8,270,546
Key Executive Personnel											
Alan Hong	-	-	-	-	-	-	-	-	-	-	-
Jared Stringer	141,646	-	-	50,000	-	191,646	-	-	123,927	-	315,573
Julie McIntosh	-	-	-	-	-	-	-	-	-	-	-
Dustin Stringer	70,000	-	-	-	-	70,000	-	-	27,000	-	97,000
Labrini Nassis	-	-	-	-	-	-	-	-	-	-	-
Craig Lymn	-	-	-	-	-	-	-	-	-	-	-
Total for Key Executive Personnel	211,646	-	-	50,000	-	261,646	-	-	150,927	-	412,573

* Includes on market purchases and dividend reinvestment plan allotments.

No equity instruments other than options were granted to key management personnel during the 2015 or 2016 financial years as compensation.

10: REMUNERATION OF AUDITORS

	2016	2015
	$	$
Amounts paid/payable to ShineWing Australia for:		
Audit services		
Auditing or reviewing the financial report	115,920	89,100
	115,920	89,100

11: DIVIDENDS

No dividend was declared or paid in relation to the financial year ended 30 June 2015. A dividend has been declared for the year ended 30 June 2016 as per below.

	2016		2015	
	Cents per Share	Total $	Cents per Share	Total $
Recognised Amounts				
Fully Paid Ordinary Shares				
Interim dividend for half year ended 31 December fully franked at 30% corporate tax rate	-	-	-	-
Unrecognised Amounts				
Fully paid ordinary shares				
Final dividend for year ended 30 June, fully franked at 30% corporate tax rate	1.50	793,940	-	-

Dividend franking account	2016 $	2015 $
Amount of franking credits available for subsequent years	1,157,405	1,157,405

12: CASH AND CASH EQUIVALENTS

Cash on hand and at bank	505,622	120,296

Interest rate risk exposure

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

13: TRADE AND OTHER RECEIVABLES

CURRENT		
Trade accounts receivable - third parties	8,600,789	8,233,055
Less: allowance for impairment of receivables	(104,625)	(220,925)
Total current trade receivables	8,496,164	8,012,130
GST receivable	66,016	-
Other receivables	132,828	327,310
Total current trade and other receivables	8,695,008	8,339,440

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

	2016 Gross $	2016 Allowance $	2015 Gross $	2015 Allowance $
Not past due	6,775,959	-	7,725,190	-
Past due 1 - 30 days	999,842	-	33,028	-
Past due 31 - 60 days	551,257	-	92,127	-
Past 61 days	273,731	(104,625)	382,710	(220,925)
	8,600,789	(104,625)	8,233,055	(220,925)

(b) Impaired trade receivables

Trade debtors are generally extended on credit terms of between 14 days to 60 days. As at 30 June 2016, current trade receivables of the Group with a nominal value of $184,296 (2015 - $382,710) were impaired. The amount of the allowance was $104,625 (2015 - $220,925). 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:

	2016 $	2015 $
At 1 July	220,925	246,929
Provision for impairment recognised / (reversed) during the year	(70,483)	138,317
Receivables written off during the year as uncollectible	(45,817)	(164,321)
At 30 June	104,625	220,925

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 31.

14: INVENTORIES

	2016 $	2015 $
CURRENT		
Raw materials - at cost	7,025,523	6,673,385
Work in progress - at cost	746,757	866,308
Finished goods - at cost	1,738,083	3,008,294
Provision for obsolescence	(392,156)	(666,437)
	9,118,207	9,881,550

15: OTHER CURRENT ASSETS

Prepayments	290,618	246,570

16: PROPERTY, PLANT AND EQUIPMENT

Freehold land - at independent valuation	3,800,000	3,800,000
Building - at independent valuation	9,500,000	9,500,000
Less: Accumulated depreciation	(441,000)	(61,000)
	9,059,000	9,439,000
Plant & equipment - at cost (i)	19,052,460	19,987,875
Less: Accumulated depreciation	(8,569,727)	(9,745,232)
	10,482,733	10,242,643
Leased plant & equipment	5,191,628	5,257,021
Less: Accumulated depreciation	(1,806,942)	(1,517,803)
	3,384,686	3,739,218
TOTAL PROPERTY, PLANT AND EQUIPMENT	26,726,419	27,220,861

All of the Group's freehold land and buildings were revalued by an independent valuer in June 2015 and resulted in a net revaluation increase of $231,445. Refer to Note 33 for detailed disclosures regarding the fair value measurement of the Group's freehold land and buildings.

(a) Movements in Carrying Amounts

Consolidated Group	Freehold land	Buildings	Plant, Equipment & Other	Leased Plant, Equipment & Other	Total
	$	$	$	$	$
Carrying amount at 1 July 2014	3,910,000	11,428,810	31,464,521	5,024,575	51,827,906
Additions	-	889,517	319,038	814,973	2,023,528
Impairment	-	-	(14,910,220)	(1,594,619)	(16,504,839)
Revaluation	250,000	(146,554)	-	-	103,446
Reclassification	-	-	-	-	-
Disposals *	(360,000)	(2,294,467)	(929,766)	-	(3,584,233)
Transfer to property held for resale	-	-	(3,074,173)	-	(3,074,173)
Depreciation and amortisation	-	(438,306)	(2,626,757)	(505,711)	(3,570,774)
Carrying amount at 30 June 2015	3,800,000	9,439,000	10,242,643	3,739,218	27,220,861
Carrying amount at 1 July 2015	3,800,000	9,439,000	10,242,643	3,739,218	27,220,861
Additions	-	-	2,419,450	175,043	2,594,493
Impairment	-	-	-	-	-
Revaluation	-	-	-	-	-
Reclassification	-	-	251,390	(251,390)	-
Disposals	-	-	(830,003)	-	(830,003)
Transfer to property held for resale	-	-	-	-	-
Depreciation and amortisation	-	(380,000)	(1,600,748)	(278,185)	(2,258,933)
Carrying amount at 30 June 2016	3,800,000	9,059,000	10,482,733	3,384,686	26,726,419

* on 25 June 2015, the Group sold its european manufacturing assets for $305,188, which resulted in a gain on sale of $43,260. These assets were identified as not being aligned with the Group's future strategic direction and as such the decision to divest them was made.

(b) **Non-current Assets Held for Sale**

	2016	2015
	$	$
Plant and equipment	-	3,074,173

As set out in Note 7, the sale of the ADP plant and equipment in Jervois, South Australia was completed on 28 September 2015.

17: INTANGIBLE ASSETS

(a) *Intangible summary and reconciliation*

	2016	2015
	$	$
Developed Products		
Acquired products - at cost	12,759,747	12,933,290
Accumulated amortisation	(3,105,525)	(2,847,092)
	9,654,222	10,086,198
Developed products - at cost	9,640,492	7,552,230
Accumulated amortisation	(1,964,571)	(1,623,003)
	7,675,921	5,929,227
	17,330,143	16,015,425
Products under development - at cost	1,486,466	2,421,006
	1,486,466	2,421,006
Total intangible assets	18,816,609	18,436,431

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 2014	2,079,000	20,170,181	2,573,118	24,822,299
Acquisitions	-	-	-	-
Additions	-	929,058	-	929,058
Transfer of commercialised product	-	152,112	(152,112)	-
Disposals	-	-	-	-
Impairment	(2,079,000)	(4,455,926)	-	(6,534,926)
Amortisation	-	(780,000)	-	(780,000)
Closing balance as at 30 June 2015	-	16,015,425	2,421,006	18,436,431
Opening balance as at 1 July 2015	-	16,015,425	2,421,006	18,436,431
Acquisitions	-	-	-	-
Additions	-	980,178	-	980,178
Transfer of commercialised product	-	934,540	(934,540)	-
Disposals	-	-	-	-
Impairment	-	-	-	-
Amortisation	-	(600,000)	-	(600,000)
Closing balance as at 30 June 2016	-	17,330,143	1,486,466	18,816,609

Estimated useful life of intangible assets

Intangible assets, comprising products under development and goodwill, have indefinite useful lives. Developed Products subject to a license with a specified term have a finite life of 10 to 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 administration and other expenses in the income statement. The directors consider intangibles to have an indefinite life when, based on an analysis of all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cashflows for the group.

18: DEFERRED TAX ASSETS

	2016 $	2015 $
Deferred tax assets is comprised as follows:		
Temporary differences - provisions	427,607	375,066
Temporary differences - Property, plant & equipment	-	-
Temporary differences - leases	516,270	998,230
Temporary differences - other	405,454	532,140
Offset against deferred tax liabilities	-	-
Tax losses	3,671,514	3,782,647
	5,020,844	5,688,083

19: TRADE AND OTHER PAYABLES

	2016	2015
	$	$
Trade accounts payable	7,283,871	8,266,065
Sundry creditors & accruals	2,339,881	1,997,666
GST payable	476,140	408,951
	10,099,892	10,672,682

(a) Fair value

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

(b) Foreign exchange risk

Amounts payable in foreign currencies	2016	2015
Current	$	$
Euro	541,109	506,421
Great British Pounds	227,422	51,586
US Dollars	40,005	171,490
	808,536	729,497

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 31.

20: INTEREST-BEARING LIABILITIES

	2016	2015
CURRENT	$	$
Secured borrowings		
Bank loans	5,736,794	11,736,077
Lease liabilities	707,758	1,052,689
	6,444,552	12,788,766
NON-CURRENT		
Secured borrowings		
Lease liabilities	1,013,141	2,274,746
	1,013,141	2,274,746
(a) Total current and non-current secured liabilities:		
Bank loans	5,736,794	11,736,076
Lease liabilities	1,720,899	3,327,435
	7,457,693	15,063,511

(b) The carrying amount of the assets secured by a first registered mortgage:

Freehold land and building (Note 16)	12,859,000	13,239,000

(c) The bank loans are provided by Rabo Australia Limited and are secured by a registered first mortgage over all freehold property of the parent entity and the subsidiaries which in total have a carrying amount of $12,859,000 at 30 June 2016.

The bank covenants require tangible net worth to exceed $23 million, an equity ratio of greater than 50%, debt service to EBITDA to exceed 2.25 and the ratio of financial indebtedness to EBITDA of less than 3.25 as at 30 June 2016, where EBITDA excludes extraordinary and/or non-cash events. The Group is in compliance with the bank convenants.

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 6.17%
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 31.

21: PROVISIONS

CURRENT		
Leave entitlements (a)	865,586	797,519
NON-CURRENT		
Leave entitlements (a)	559,770	452,529
Total provisions	1,425,356	1,250,048

(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.

Reconciliation of provisions:

	Annual leave	Long Service leave
Opening balance at 1 July 2015	797,519	452,529
Amounts used	(152,400)	(49,002)
Additional provisions	220,467	156,243
Amounts unused and reversed	-	-
Balance at 30 June 2016	865,586	559,770

22: DEFERRED TAXES

	2016	2015
	$	$
Deferred taxes is comprised as follows:		
Deferred tax assets (note 18)	5,020,844	5,688,083
Deferred tax liabilities - temporary differences (a)	(6,555,700)	(6,390,007)
Net deferred tax liabilities	(1,534,856)	(701,924)
Deferred tax expense debit / (credit) to income tax expense	833,256	(920,096)
Deferred tax expense charged to equity	324	38,115
(a) Deferred tax liabilities comprises:		
Temporary differences - property, plant & equipment	(1,015,406)	(1,121,765)
Temporary differences - capitalised development costs	(3,692,296)	(3,420,244)
Temporary differences - other	(1,847,998)	(1,847,998)
	(6,555,700)	(6,390,007)

Reconciliation of net deferred tax liabilities:	$
Opening balance as at 1 July 2014	(1,660,135)
Add : deferred tax expense	920,096
Less : deferred tax expense charged to equity	38,115
Closing as at 30 June 2015	(701,924)
Less : deferred tax expense	(833,256)
Less : deferred tax expense charged to equity	324
Closing balance as at 30 June 2016	(1,534,856)

23: CONTRIBUTED EQUITY

	2016	2015
	$	$
52,929,356 (2015: 52,929,356) fully paid ordinary shares	33,686,519	33,686,519

Reconciliation of fully paid ordinary shares

Balance at beginning of the financial year	33,686,519	33,686,519
Issue of shares	-	-
Cancellation of shares held under Equity Compensation Plan	-	-
Equity raising expenses	-	-
Balance at end of financial year	33,686,519	33,686,519

	2016	2015
Reconciliation of ordinary shares	No.	No.
Balance at the beginning of reporting period	52,929,356	52,929,356
Shares issued during the year	-	-
Balance at end of the report date	52,929,356	52,929,356

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

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

(a) Capital management

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

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. The Group is not subject to externally imposed capital requirements other than those set out in Note 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 2015 and 30 June 2016 were as follows:

	2016	2015
	$	$
Total borrowings	7,457,693	15,063,511
Less cash and cash equivalents	(505,622)	(120,296)
Net debt	6,952,071	14,943,215
Total contributed equity	33,686,519	33,686,519
Total capital employed	40,638,590	48,629,734
Gearing ratio	17.1%	30.7%

There were no changes to the Group's approach to capital management from 2015.

24: RESERVES

	2016	2015
	$	$
Asset revaluation reserve	4,320,595	4,320,595
Foreign currency translation reserve	(391,968)	(363,101)
Share based payments reserve	18,933	-

Reconciliation of asset revaluation reserve

	2016	2015
Balance at beginning of financial year	4,320,595	4,217,149
Revaluation of assets	-	103,446
Balance at end of financial year	4,320,595	4,320,595

Reconciliation of foreign currency translation reserve	2016	2015
	$	$
Balance at beginning of financial year	(363,101)	(312,705)
translation of net investment in foreign entities	(28,867)	(50,396)
Balance at end of financial year	(391,968)	(363,101)

Reconciliation of share based payments reserve	2016	2015
	$	$
Balance at beginning of financial year	-	-
Issue of Options	18,933	-
Balance at end of financial year	18,933	-

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.

25: COMMITMENTS

Lease commitments
Operating leases

Non-cancellable operating leases		
Payable - minimum lease		
Within one year	485,919	510,239
Later than one year but not later than 5 years	581,729	937,955
Commitments not recognised in the statement of financial position	1,067,648	1,448,194
Finance leases commitments		
Payable - minimum lease		
Within one year	723,601	972,297
Later than one year but not later than 5 years	1,160,381	2,776,196
Minimum lease payments	1,883,982	3,748,493
Less: Future finance charges	(163,083)	(421,059)
	1,720,899	3,327,434
Representing lease liabilities (Note 20):		
Current	707,758	1,052,688
Non-current	1,013,141	2,274,746
	1,720,899	3,327,434

The weighted average interest rate implicit in the leases is 6.17%. The carrying value of assets purchased via leases is $3,384,686 (2015: $3,739,218).

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 lease has been terminated with an exit date of 31 August 2016.

26: SHARE BASED PAYMENTS

(a) Incentive Option Scheme

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

CEO Employment Options (issued to former CEO-resigned 30 June 2015) as at 30 June 2016

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 146 days as at balance date.

Employee incentive scheme options for the year ended 30 June 2016

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

Grant Date	Vesting date	Expiry date	Exercise price ($)	Balance at start of year number	Options granted during the year number	Options exercised/lapsed during the year number	Balance at end of year number	Vested and exercisable at end of year
06.10.2015	06.10.2016	05.10.2018	0.50	-	1,000,000	-	1,000,000	-
01.07.2015	01.07.2016	30.06.2018	0.50	-	1,700,000	(100,000)	1,600,000	-
Weighted average exercise price				$ -	$ 0.50	$ 0.50	$ 0.50	$ -

Employee incentive scheme options for the year ended 30 June 2015

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

Grant Date	Vesting date	Expiry date	Exercise price ($)	Balance at start of year number	Options granted during the year number	Options exercised/lapsed during the year number	Balance at end of year number	Vested and exercisable at end of year
01.07.2012	30.06.2014	30.06.2015	0.70	2,200,000	-	(2,200,000)	-	-
Weighted average exercise price				$ 0.70	$ -	$ 1.22	$ -	$ -

The weighted average contractual life remaining on employee incentive scheme options outstanding is 735 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: 1.92%
Vesting period: 1 year
Projected dividend yield: 3%
Share price: weighted average share price for 5 trading days preceeding grant date.

(b) Expenses arising from share-based payments

	2016	2015
	$	$
Options issued under executive option plan	18,933	8,050
Options issued to CEO	-	29,006
	18,933	37,056

27: 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.

Key Management personnel

There were no transactions between Key Management Personnel and Probiotec Limited or any of its subsidiaries during the year ended 30 June 2016 other than as disclosed in note 9.

Identification of Related Parties - Ultimate Parent Entity

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

28: 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	-	(560,283)
Amount unused	1,500,000	939,717

Secured term loan and working capital facilities with banks:

Facility balance	8,746,000	12,675,794
Amount used	(5,736,794)	(11,175,794)
Amount unused	3,009,206	1,500,000

Lease finance facilities:

Facility balance	3,500,000	12,000,000
Amount used	(1,720,899)	(3,327,434)
Amount unused	1,779,101	8,672,566

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

Profit after related income tax	4,013,465	(24,742,302)
Depreciation and amortisation	2,858,933	4,350,774
Loss / (profit) on sale of plant and equipment	(2,181,850)	1,059,024
Impairment and reclassification costs	291,378	23,320,784
Foreign currency translation	28,867	50,396
(Decrease)/increase in net deferred taxes	832,933	(958,211)
(Increase)/decrease in inventories	471,964	1,802,978
(Increase)/decrease in trade and other receivables	(355,568)	1,309,002
(Increase)/decrease in other current assets	(44,048)	(129,032)
Increase/(decrease) in trade and other payables	(1,049,179)	(3,404,728)
Increase/(decrease) in tax liabilities	-	-
Increase/(decrease) in provisions	175,308	(334,445)
Net cash from operating activities	5,042,203	2,324,242

Non-cash financing and investing activities:

During the year the economic entity acquired plant and equipment with an aggregate value of $175,043 (2015: $879,046) by means of finance leases.

29: EARNINGS PER SHARE

	2016 $	2015 $
Profit	4,013,465	(24,742,302)
Earnings used in the calculation of basic EPS	4,013,465	(24,742,302)
Earnings used in the calculation of dilutive EPS	4,013,465	(24,742,302)
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)	7.6	(46.7)
Diluted earnings per share (cents)	7.6	(46.7)
Earnings per share from discontinued operations:		
Basic earnings per share (cents)	3.2	(46.9)
Diluted earnings per share (cents)	3.2	(46.9)

30: SUBSIDIARY INFORMATION

Information about principal subsidiaries

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

		Ownership Interest Held by the Group	
Name of subsidiary	**Principal Place of Business**	**2016 %**	**2015 %**
Probiotec Pharmaceuticals Pty Ltd	Australia	100	100
Biotech Pharmaceuticals Australia Pty Ltd	Australia	100	100
Probiotec (QLD) Pty Ltd	Australia	100	100
Probiotec (NSW) Pty Ltd	Australia	100	100
Australian Dairy Proteins Pty Ltd	Australia	100	100
Milton Pharmaceuticals Pty Ltd	Australia	100	100
Probiotec Nutritionals Pty Ltd	Australia	100	100
Probiotec BLC Pty Ltd	Australia	100	100
Golden Life Australia Pty Ltd	Australia	100	100
Probiotec International Pty Ltd	Australia	100	100
Southern Dairy Ingredients Pty Ltd	Australia	100	100
Willie Labs Generics Pty Ltd	Australia	100	100
Probiotec (UK) Limited	United Kingdom	100	100
Probiotec (Ireland) Limited	Ireland	100	100
Biotech Pharmaceuticals (NZ) Pty Ltd	New Zealand	100	100

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

31: 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 responsiblity 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 overseas how management monitors compliance with the Group's risk management policies and procedures including the review of the adequacy of the risk management framework with respect to the risks faced by the Group.

Financial Risks

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

(a) **Market risk**

(i) Foreign exchange risk

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

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

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

			Consolidated Group	
2016	GBP $	NZD $	USD $	EUR $
Financial Assets				
Trade and other receivables	996,274	79,607	50,020	257,798
Financial Liabilities				
Trade and other payables	227,422	-	40,005	541,109
Net exposure	768,852	79,607	10,015	(283,311)
2015	GBP $	NZD $	USD $	EUR $
Financial Assets				
Trade and other receivables	1,710,271	75,012	63,460	345,549
Financial Liabilities				
Trade and other payables	51,586	-	171,490	506,421
Net exposure	1,658,685	75,012	(108,030)	(160,872)

Sensitivity analysis

Based on the financial instruments held as at 30 June 2016, 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 2015.

	Profit $	Equity $
2016		
GBP	(69,896)	-
NZD	(10,384)	-
US dollars	(910)	-
EUR	25,756	-
2015		
GBP	(150,790)	-
NZD	(9,784)	-
US dollars	9,821	-
EUR	14,625	-

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

(ii) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 20. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group constantly analyses its interest rate exposure. The Group's current approach is to maintain approximately 10% - 50% of its borrowings at fixed rate using floating-to-fixed interest rate swaps and/or fixed rate leasing to achieve this (where applicable). Occasionally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. If interest rate swaps are used, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts. These swaps are designated to hedge the underlying debt obligations. During 2015 and 2016, 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:

		Floating interest rate maturing			
2016	Weighted average interest rate %	1 year or less	Over 1 to 5 years	More than 5 years	Total
		$	$	$	$
Financial assets:					
Cash	-	505,622	-	-	505,622
Total financial assets		505,622	-	-	505,622
Financial Liabilities:					
Loans and overdraft	5.40	5,736,794	-	-	5,736,794
Total financial liabilities		5,736,794	-	-	5,736,794
Net exposure		(5,231,173)	-	-	(5,231,173)

		Floating interest rate maturing			
2015	Weighted average interest rate %	1 year or less	Over 1 to 5 years	More than 5 years	Total
		$	$	$	$
Financial assets:					
Cash	2.15	120,296	-	-	120,296
Total financial assets		120,296	-	-	120,296
Financial Liabilities:					
Loans and overdraft	7.40	11,736,077	-	-	11,736,077
Total financial liabilities		11,736,077	-	-	11,736,077
Net exposure		(11,615,781)	-	-	(11,615,781)

Sensitivity analysis

Based on the financial assets and liabilities held as at 30 June 2016, 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 2015.

	Profit $
2016	
1%	(52,312)
2%	(104,624)
2015	
1%	(116,158)
2%	(232,316)

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 rasing funds to meet commitments associated with financial instruments such as borrowing repayments.

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

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

In addition, the Group had access to undrawn credit facilities available for use at the reporting date which would further reduce the liquidity risk. For further details see note 28(a).

Maturities of financial liabilities

Consolidated Group

2016	**Carrying amount**	**Total contractual cash flows**	**Less than 6 months**	**6 - 12 months**	**1 - 5 years**
	$	**$**	**$**	**$**	**$**
Non-derivatives financial liabilities					
Trade and other payables	10,099,892	10,099,892	10,099,892	-	-
Fixed borrowings (including finance leases)	1,720,899	2,056,072	395,826	486,836	1,173,410
Variable borrowings	5,736,794	5,736,794	300,000	300,000	5,136,794
	17,557,585	17,892,758	10,795,718	786,836	6,310,204
2015					
Non-derivatives financial liabilities					
Trade and other payables	10,672,682	10,672,682	10,672,682	-	-
Fixed borrowings (including finance leases)	3,327,434	3,748,494	463,649	463,649	2,821,196
Variable borrowings	11,175,794	11,175,794	214,000	214,000	10,747,794
	25,175,910	25,596,970	11,350,331	677,649	13,568,990

(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 13 .

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.

	2016		**2015**	
	Carrying Amount	**Net Fair Value**	**Carrying Amount**	**Net Fair Value**
Financial Assets	$	$	$	$
Trade & other current receivables	8,695,008	8,695,008	8,339,441	8,339,441
Cash	505,622	505,622	120,296	120,296
	9,200,630	9,200,630	8,459,737	8,459,737

	2016		**2015**	
	Carrying Amount	**Net Fair Value**	**Carrying Amount**	**Net Fair Value**
Financial Liabilities	$	$	$	$
Trade & others payables	10,099,892	10,099,892	10,672,682	10,672,682
Short term borrowings	5,736,794	5,736,794	11,736,077	11,736,077
Lease liability	1,720,899	1,720,899	3,327,434	3,327,434
	17,557,585	17,557,585	25,736,193	25,736,193

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

32: PARENT ENTITY INFORMATION

The following details information related to the parent entity, Probiotec Limited, at 30 June 2016.

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

	2016	2015
	$	$
Current assets	36,015,559	39,709,936
Non-current assets	17,928,071	20,866,557
Total Assets	53,943,630	60,576,493
Current Liabilities	14,760,307	21,066,796
Non-current liabilities	3,876,545	5,747,757
Total Liabilities	18,636,852	26,814,553
Contributed equity	35,072,269	35,072,269
Retained earnings	(2,412,814)	(3,957,652)
Equity Compensation Plan	(1,385,750)	(1,385,750)
Other reserve	4,033,072	4,033,072
Total equity	35,306,777	33,761,939
Profit / (loss) for the year	(63,785)	5,120,738
Other Comprehensive income for the year	-	-
Total comprehensive income for the year	(63,785)	5,120,738

The parent company has not guaranteed any loans held by its subsidiaries other than as part of the cross guarantees set out in Note 20(c).

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

33: FAIR VALUE MEASUREMENTS

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

	Note	Level 1	Level 2	Level 3	Total
		30 June 2016			
Recurring fair value measurements		**$**	**$**	**$**	**$**
Non-financial assets					
Freehold land	16	-	3,800,000	-	3,800,000
Freehold buildings	16	-	9,059,000	-	9,059,000
Total non-financial assets recognised at fair value on a recurring basis		-	12,859,000	-	12,859,000
Non-recurring fair value measurements					
Total non-financial assets recognised at fair value on a non-recurring basis		-	-	-	-
Total non-financial assets recognised at fair value		-	12,859,000	-	12,859,000

	Note	Level 1	Level 2	Level 3	Total
		30 June 2015			
Recurring fair value measurements		**$**	**$**	**$**	**$**
Non-financial assets					
Freehold land	16	-	3,800,000	-	3,800,000
Freehold buildings	16	-	9,500,000	-	9,500,000
Total non-financial assets recognised at fair value on a recurring basis		-	13,300,000	-	13,300,000
Non-recurring fair value measurements					
ADP Plant held for sale	16	-	-	3,074,173	3,074,173
Total non-financial assets recognised at fair value on a non-recurring basis		-	-	3,074,173	3,074,173
Total non-financial assets recognised at fair value		-	13,300,000	3,074,173	16,374,173

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

Description	**Fair Value at 30 June 2016**	**Valuation technique(s)**	**Inputs used**
Non-financial assets			
Freehold land *	3,800,000	Market approach using recent observable market data for similar properties;	Price per square metre ($140 - $160 psm);
Freehold buildings	9,059,000	Market approach using recent observable market data for similar properties;	Price per square metre ($140 - $160 psm);
	12,859,000		

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

(c) **Reconciliation of recurring Level 3 fair value measurements**

	ADP Plant held for sale
	$
Balance at the beginning of the year	3,074,173
Disposals during the year	(3,074,173)
Balance at the end of the year	-

34: 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.

35: 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.

Branded Pharmaceuticals

The branded pharmaceuticals segment involves the sale of branded pharmaceutical products (both owned and licensed brands) predominantly throughout Australia and also to slected 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.

Obesity and weight management

The obesity and weight management 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 Impromy program.

Europe

The Europe segment is involved in the manufacture and sale of products within Europe. The majority of sales revenue in this segment is 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 previously incorporates the Group's ADP Protein Plant, which was sold in September 2015.

Business Segments	**Segment name**
Segment 1	Branded Pharmaceuticals
Segment 2	Contract manufacturing
Segment 3	Obesity and weight management
Segment 4	Europe
Segment 5	Specialty products

Year ended 30 June 2016	**Segment 1 $'000**	**Segment 2 $'000**	**Segment 3 $'000**	**Segment 4 $'000**	**Segment 5 $'000**	**Consolidated $'000**
Revenue from discontinued operations	-	-	323	-	-	323
Revenue from external customers	7,324	41,102	13,000	4,007	174	65,606
Total segmental revenue	7,324	41,102	13,323	4,007	174	65,930
Profit / (loss) from discontinued operations	-	-	10	(291)	2,040	1,759
Segmental profit / (loss) from continuing operations	826	4,512	1,143	264	74	6,819
Total segmental profit / (loss)	826	4,512	1,153	(27)	2,114	8,578
Interest						(677)
Unallocated other income						8
Unallocated corporate expenses						(3,063)
Total unallocated income / (expense)						(3,732)
Profit from continuing activities before income tax						3,088
Profit from discontinued operations before income tax						1,758
						4,846

Year ended 30 June 2015	**Segment 1 $'000**	**Segment 2 $'000**	**Segment 3 $'000**	**Segment 4 $'000**	**Segment 5 $'000**	**Consolidated $'000**
Revenue from discontinued operations	-	-	2,213	156	426	2,795
Revenue from external customers	7,694	36,756	14,099	4,547	214	63,310
Total segmental revenue	7,694	36,756	16,312	4,703	640	66,105
Loss from discontinued operations	-	-	(276)	(129)	(269)	(674)
Impairment costs - discontinued operations	-	-	(4,553)	(834)	(18,768)	(24,155)
Segmental profit	1,355	3,623	115	(175)	60	4,978
Total segmental profit	1,355	3,623	(4,714)	(1,138)	(18,977)	(19,851)
Interest						(1,211)
Unallocated other income						394
Unallocated corporate expenses						(4,994)
Total unallocated income / (expense)						(5,811)
Loss from continuing activities before income tax						(521)
Loss from discontinued operations before income tax						(25,141)
						(25,662)

(b) Reconciliation of segmental revenue to total revenue

	2016	2015
	$	$
Segmental revenue	65,930,204	66,105,469
Interest received	-	-
Total revenue	65,930,204	66,105,469

(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 exlcudes 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 2016	61,390,982	361,497	4,007,189	-	170,536
Gross Revenue for year ended 30 June 2015	60,478,558	225,589	4,702,698	-	698,624

Revenue of approximately $10,873,067 (2015: $10,620,352) 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.

35: COMPANY DETAILS

The registered office of the company is:

Probiotec Limited, 83 Cherry Lane, Laverton North VIC 3026

The principal place of business is:
83 Cherry Lane, Laverton VIC 3026

The ultimate parent company is Probiotec Limited, a company incorporated in Australia.

PROBIOTEC LIMITED AND ITS CONTROLLED ENTITIES
ACN 075 170 151

DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:

   (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and

   (b) give a true and fair view of the financial position as at 30 June 2016 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 6 to 14 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2016, 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:

....
Wesley Stringer
Director

Dated at Laverton this 23rd day of August 2016

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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 2016, 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 2016 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 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Rami Eltchelebi
Partner

Melbourne, 23 August 2016