HEALTHY TODAY. HEALTHIER TOMORROW.

PROBIOTEC ANNUAL REPORT 2008

PROBIOTEC

WHO ARE PROBIOTEC?

Established in 1997 as a single site operation, Probiotec Limited has a reputation for innovation and rapid response to market opportunities. Its growth has been fuelled by strategic well-placed acquisitions, relationships and joint ventures with global market participants that want to conduct business with a company that maintains high levels of quality and innovation.

Since beginning operations in 1997, Probiotec has quickly emerged as a leading manufacturer, marketer and distributer of a diverse, high quality range of prescription and over-the-counter (OTC) pharmaceuticals, complementary medicines and speciality ingredients.

Now listed on the Australian Stock Exchange (ASX), our Australian owned and operated company has built an enviable reputation for developing innovative new pharmaceutical, nutritional and consumer health products which not only address researched consumer needs, but also succeed in gaining the clinical approvals necessary to respond rapidly to market opportunities, both nationally and internationally.

What separates Probiotec from other trusted contract manufacturers is not only that we invest so heavily in Research and Development; equip our five production facilities with the latest new technologies; employ chemists, microbiologists of the highest calibre; and maintain Quality Assurance standards that are second to none, but we also manufacture and market our own products. As a result, we have a full understanding of the process and dynamics of developing formulations (and brands) for the retail market that deliver margins to optimise return-on-investment.

Our proven experience and expertise extends across a wide range of healthcare goods – offering customers access to the cost efficient contract manufacturer of existing Probiotec formulations, new custom developed formulations (or formulations which the customer already possesses and wishes to produce) in any of the following categories:

- Prescription and OTC Pharmaceuticals
- Nutraceuticals and Cosmeceuticals
- Human Nutrition – including dairy based powders and sports nutrition products
- Animal Nutrition – Feed Supplements
- High Purity Functional Ingredients

AGM

5 November 2pm
Offices of Ord Minnett Limited
Level 23
120 Collins St
Melbourne VIC 3000

Probiotec Limited ABN 91 075 170 151

CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

As we continue to increase our reputation and market-share as a high quality manufacturer, distributor and developer of a wide range of pharmaceutical and consumer health products, as well as a range of nutritional and nutraceutical products, we are also delivering results for our shareholders.

RESULTS SUMMARY

	2007	2008
Revenue	53,991,931	65,820,632
EBITDA	9,768,555	12,790,564
Profit before tax	6,061,477	8,500,604
NPAT	4,977,524	6,309,098

REVENUE

EBITDA

NPAT

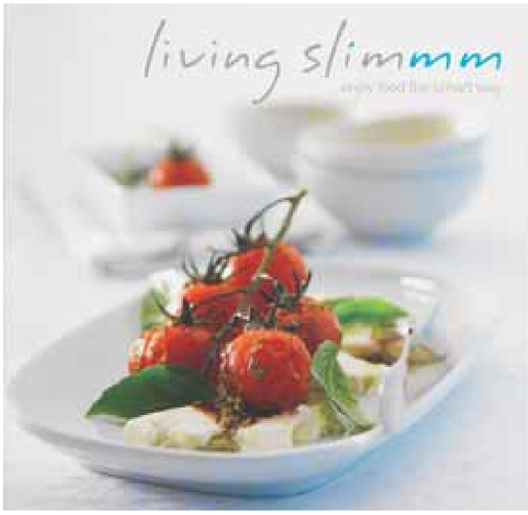
Dear Shareholders,

On behalf of the Board of Directors and the company, it is our pleasure to present to you this year's annual report. With the volatility we are currently seeing in Australian company performance and associated ASX share price performance, it is most satisfying that we can present to shareholders a strong story of financial success and business growth, coupled with a very exciting outlook for the future.

We would think that from a shareholder perspective, the expectations on the company for the 2008 year have largely been met. Strong year on year growth in revenues and profitability have coincided with the commencement of a dividend stream to shareholders with both a maiden interim, and now a final year end dividend declared, to a total of 2.5 cents per share. The commencement of a dividend stream to shareholders is a strong indicator of how well the company is going after only a relatively short time as a listed entity. The growth in the revenues and cash flows of the business are adequate to fund both an ambitious business growth plan, as well as being able to recognize shareholder loyalty with the payment of our maiden dividends. In addition to the cash flows funding business growth and the dividend stream, there was also a small reduction in net external debt over the reporting period.

Key financial statistics and divisional performances have already been reported to shareholders via the ASX announcement of our annual result on August 20th, with more detail being provided within the Directors report that follows. Suffice to say that the Board is pleased with the key headline numbers of 21.9% growth in revenues to $65.821 million and 26.8% growth in net profit after tax to $6.309 million, with earnings per share growth up 26.5% to 13.54 cps.

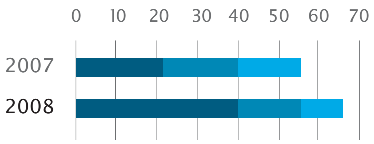
Perhaps what is most pleasing and exciting, is that the growth which the company has experienced over the last 12 months represents what we believe is just the start of a long sustainable run. The Probiotec business is in its infancy and with the multiple new business opportunities which are only just opening up, it is reasonable to expect a long period of business and earnings growth ahead.



The Probiotec business is in its infancy and with the multiple new business opportunities which are only just opening up, it is reasonable to expect a long period of business and earnings growth ahead.

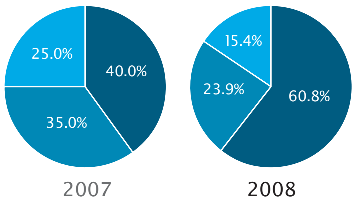
REVENUE

in millions



- Additives/nutritionals
- Contract Manufacture
- Branded Products

REVENUE



- Additives/nutritionals
- Contract Manufacture
- Branded Products

The key business opportunities that will drive the business forward include:

- A full year reflection and profits from the Lomotil and Vermox brands purchased in 2007.
- The continued expansion of business in the Group's weight loss meal replacement products, including Celebrity Slim and Slimmm.
- The recent re-launch of the company's general over the counter pharmaceutical range under the "Biosource" brand, inclusive of several new product additions.
- The success by the company in opening up strong sales platforms into multiple overseas markets. In the year ahead a large proportion of revenue growth will come from export sales.
- A continuing contraction by major Australian and international pharmaceutical companies in Australian-based manufacturing operations, which will see Probiotec Limited well placed to benefit from industry rationalisation in this country.

With this year's business growth, and that projected for the future, working capital and manufacturing asset management are a focus for the business. Whilst debtors and inventory have increased, reflecting greater volume as well as value per unit, it is pleasing that net debt over the year has in fact reduced slightly. Strong debtor and inventory management remains a priority for management and they continue to do an excellent job in this regard.

With regards to manufacturing assets, the company continues to invest, as needs be, in factory upgrades, and in particular, high speed blister packers (tablets and capsules), and portion sachet packaging lines. Manufacturing capability, along with warehouse upgrades and expansions continue at both the Laverton North and Nowra manufacturing sites, with $4.3 million spent over the last 12 months and a similar level of spend earmarked for the year ahead.

The strength of the company and its performance lies in the quality and dedication of its staff. Probiotec Limited has a top class executive team across the range of key activities including sales, marketing, operations, quality and technical, finance, and general management. The marketing team has produced a staggering array of new products, new brands, and new packaging formats over the last 12 months that will underwrite future growth.

Operations have responded beyond the normal call of duty to service the rapidly growing demand, with many parts of the business now running 24 hours (This will be relieved by new packaging lines to be installed over the next 6 months). The company has an extensive investment in quality assurance and compliance and this vital section of the business is also responding well to the challenges that the growth in the business has thrown up. On behalf of the Board and shareholders, I would acknowledge the contribution of all staff in the past, present and future success of the business, and thank them for their continuing efforts.

I would note that the company still has some litigation against it that we have previously reported to shareholders, and that we continue to defend. We are confident of our position. However whatever the outcome of that litigation, we do not see that there will be any material affect on the fortunes of the company moving forward.

With the confidence provided by the activities currently in progress, the Board of Directors has provided earnings growth guidance of a minimum 20% in profit after tax for the year ahead, and obviously the company will strive to better this guidance number, as the year unfolds.

As we have said, we believe the company is only in its relative infancy in terms of its potential and outlook. On all fronts, including stock market share price, the company has performed well in the short time since listing. As financial market conditions improve and investors become more aware of the business and financial growth of the company, we trust that our shareholders will be in for an exciting and rewarding ride in the years ahead.

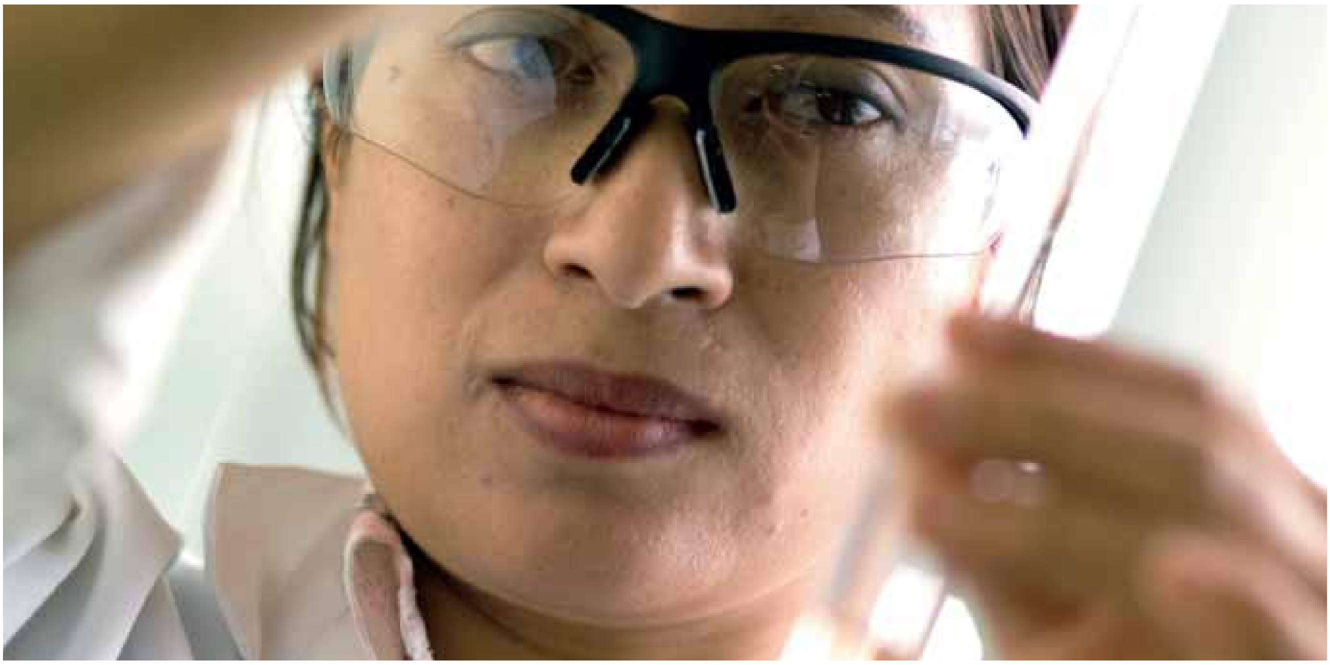
Maurice Van Ryn
Chairman
Probiotec Limited

Wayne Stringer
Managing Director
Probiotec Limited

With the confidence provided by the activities currently in progress, the Board of Directors has provided earnings growth guidance of a minimum 20% in profit after tax for the year ahead.


Golden Life
Colds & Flu
Echinacea Garlic plus Vitamin C
David Craig
Sweet Almond Oil
100 mL
medislim
weight control tablets
Olive Oil
200mL
SKIN BASICS
Aqueous Cream BP
100g
milton
Anti-bacterial Solution
Disinfectant - Hospital Grade
hygiene for baby & home
1 Litre
BIOSOURCE
the science of natural nutrition
Digestion 1-2-3
30 capsules
100% Glycomax LACTOFERRIN
Immune PLUS
60 capsules
Each capsule contains Australian Lactoferrin – Bovine 200mg
GOLD CROSS
Codeine Linctus APF
SUGARLESS CHEWABLE VITAMIN C
300 TABLETS 500mg
Calamine Lotion B.P.
200mL
PHARMACY MEDICINE
Bis-Pectin
200mL
Zinc & Castor Oil Cream
ADVANCE
Helping you look good, feel great
ARTHRO-FLEX
Daily Joint Supplement
for OSTEOARTHRITIS
Helps increase joint mobility & relieve pain
1 a day
Epsom Salts
Magnesium Sulfate
500g
CHEWABLE ECHINACEA +VITAMIN C
Soothing & Protective
Zinc & Castor Oil

Probiotec believes in the value of its brands and has invested in them heavily throughout the 2008 financial year. This investment will help to build brand recognition, improve distribution and penetrate new markets.



BRAND BUILDING & MARKETING

Probiotec believes in the value of its brands and has invested in them heavily throughout the 2008 financial year. This investment will help to build brand recognition, improve distribution and penetrate new markets. In addition, this investment assists in securing long term revenue growth and brand sustainability.

FY2008 saw a material increase in both focus and expenditure on sales and marketing across the Group.

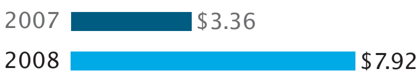
Sales and marketing expenses rose to $7.92 million for the year, an increase of 137% over the previous corresponding period. This was the result of several factors including:

- the launch of a range of new products;
- an increased focus on increasing proportion of revenue derived from owned brands; and
- the launch of a number of new and existing products into export markets.

During the year a number of new products were launched through the Group's existing distribution channels, which required significant promotion costs to be incurred to help ensure the long term success of these products. Further costs were incurred in relation to the launch of the Group's products into export markets. Details of some of the products launched and export market activity are set out further in this report.

Probiotec believes that own-branded products represent the greatest growth potential for the Group. These products help ensure longer term earnings security and provides the Group with the ability to have ownership and control over an expanding proportion of its product range. The Group's strategy is to continue to focus on increasing the strength and prosperity of its brands in the future.

MARKETING & ADVERTISING SPEND
in millions



PRODUCT RESEARCH & DEVELOPMENT

The research and development capabilities of Probiotec represent a significant competitive advantage over its competitors. Probiotec's dedicated team of new product developers is supported by the Group's:

- state-of-the-art laboratory facilities and staff;
- wide range of production equipment; and
- infrastructure and management expertise.

This breadth of capabilities and expertise enables the Group to perform all aspects of the development process in-house, giving Probiotec the advantage of being able to release a range of innovative new products quickly and cost effectively.

In FY2008, the Group invested over $3.25 million in the research and development of a range of new pharmaceutical and consumer health products. This investment resulted in the release of a number of new product ranges, including:

- the Biosource preventative health range;
- the Medislim Slimmm meal replacement range; and
- the continued expansion of the Celebrity Slim meal replacement range.

The Biosource range was launched in June 2008 with 17 SKUs and the initial sales, whilst modest, have been pleasing. Both management and the Board are confident that Biosource will grow into a major pharmaceutical range in the future as more products are developed and released under this brand.

The Slimmm meal replacement range was also launched in the second half of FY2008 with strong initial distribution being obtained both domestically and into several export markets. The Celebrity Slim range was expanded through the year as new

Laverton plant

Top to bottom: Nowra, Bundaberg and Malanda plants

In FY2008, the Group invested over $3.25 million in the research and development of a range of new pharmaceutical and consumer health products.

brand extensions were added to the range. 37 new SKUs were released during the year, which have continued to increase the presence and performance of this brand.

These releases helped the Group to increase its branded products sales by 86.6% in FY2008 and increase the proportion of total revenue derived from branded products.

To support the efficacy and marketability of several of the new products under development, the Group is currently undertaking a range of clinical trials which, if successful, could add considerable value and earnings potential to selected products.

Probiotec believes that its pipeline of new products has and will continue to generate significant value to the company.

QUALITY COMMITMENT

Probiotec believes that ensuring its products are of the highest quality and safety is a key organisational objective. This commitment to quality is evidenced by the 37 staff employed in dedicated quality assurance and quality control positions.

This high level of staff resources is supported by the Group's robust quality systems and state-of-the-art facilities and equipment. During 2008, this quality commitment has seen Probiotec maintain all its Therapeutic Goods Administration (TGA) and AQIS licenses with all audits having been passed.

Probiotec now operates facilities that hold (and comply with) the following licenses and standards:

- Therapeutic Goods Administration (TGA)
- Foods Act 1984
- Good Manufacturing Practice (GMP)
- Medical Device Standards
- Australian Pesticides, Veterinary and Medicines Authority (APVMA); and
- AQIS.

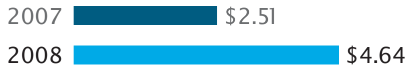
PLANT INVESTMENT PROGRAM

Probiotec has continued to invest in property, plant and equipment to build both manufacturing capacity and capabilities. In FY2008, over $4.6 million was spent to upgrade the Group's manufacturing capacity along with enhancing the manufacturing and packaging formats available for both own-branded products and contract manufactured products.

This capital expenditure has given the Group the ability to fulfil its increased demand along with enabling it to win new contract manufacturing jobs and produce new products in a wider range of formats. The investment program has also provided surplus capacity across the organisation to facilitate the expected future growth in manufacturing operations in FY2009 and beyond.

PLANT CAPITAL EXPENDITURE

in millions



Capital expenditure included the purchase of several pieces of state-of-the-art manufacturing and packaging equipment along with the upgrade and expansion of the Group's South Nowra facility. The South Nowra expansion, once complete, will add an additional 22,000 square metres to the site, to be utilised for additional manufacturing suites and warehousing facilities. The South Nowra facility will now handle the increased workload being generated by the strong sales in the Group's consumer health and food divisions.

This investment program will help ensure that Probiotec has the capacity and resources to grow and capitalise

on opportunities going forward. It underlies the belief of both management and the Board in the future of the Group.

This investment has given Probiotec the capabilities to produce a wide range of manufacturing and packaging formats, for both owned products along with contract manufacturing for third parties. The Probiotec group's key competencies and services include:

- Good Manufacturing Practice (GMP) compliant manufacture of:
  - High volume solid dose tablets, capsules and caplets;
  - Liquid manufacture;
  - Powders (including pharmaceutical, nutraceutical & functional powder blends);
  - Creams;
  - Ointments;
  - Lotions & gels; and
  - Tablet coating.
- Provision of packaging options, including:
  - Blisterpacks;
  - Bottles;
  - Sachets (both liquid and powder including effervescent);
  - Tubs;
  - Tubes; and
  - Bulk bags.
- A range of other services, including:
  - Analytical and stability testing within our fully equipped in-house laboratory; and
  - New Product formulation and development along with ongoing research and development.

INTERNATIONAL EXPANSION

As Probiotec has stated since listing on the Australian Stock Exchange, expansion into export markets is a key strategic objective of the Group. During FY2008, there has been a significant increase in the focus and exertion directed towards penetrating and growing our export sales and distribution.

This focus has resulted in increased export activities with distribution agreements being entered into in New Zealand, Europe and Asia. Exported products, along with ongoing contracted sales, continue to be made to these export markets. Export sales activities have increased, particularly in relation to company owned brands and both the Board and management believe that this represents a major opportunity for continued future sales and earnings growth.

As Probiotec has stated since listing on the Australian Stock Exchange, expansion into export markets is a key strategic objective of the Group. During FY2008, there has been a significant increase in the focus and exertion directed towards penetrating and growing our export sales and distribution.

Financial Statements

1. PROBIOTEC'S APPROACH TO CORPORATE GOVERNANCE

Overview

The Board is committed to maintaining a high standard of corporate governance.

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

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

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

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

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

Compliance with the ASX best practice recommendations

Probiotec considers its governance practices comply with all ASX best practice recommendations.

As required by the ASX best practice recommendations, Probiotec has copies of each corporate governance practice described below on its website at www.probiotec.com.au. Probiotec also publishes on its website the annual reports, profit announcements, CEO and executive briefings, economic updates, notices of meeting, media releases and meeting transcripts.

2. DATE OF THIS STATEMENT

This statement reflects our corporate governance policies and procedures as at 8 September 2008.

3. THE BOARD OF DIRECTORS

Membership and expertise of the Board

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

Board role and responsibility

The Board is accountable to shareholders for Probiotec's performance.

The Board has formalised its roles and responsibilities into a Charter, which defines the matters that are reserved for the Board and those that the Board has delegated to management.

In summary, the Board's responsibilities include:

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

The Board has delegated to management responsibility for:

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

Board size and composition

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

The selection and role of the Chairman

The Chairman is selected by the Board.

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

Directors' independence

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

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

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

It is the Board's view that each of its Non-executive Directors, Maurice Van Ryn, Graham Buckeridge and Richard Kuo is independent.

Meetings of the Board and their conduct

The Board meets formally approximately nine times a year. In addition, it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. The Chairman and the CEO establish meeting agendas to ensure adequate coverage of financial, strategic and major risk areas throughout the year. In addition to its formal meetings, the Board undertakes regular and relevant workshops. These meetings will include workshops on executive and senior management succession planning, corporate governance, Probiotec's risk/reward approach, customer experience and segmentation projects and other major strategic initiatives.

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

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

Review of Board performance

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

Retirement and re-election of Directors

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

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

Board access to information and advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties.

The Board collectively, and each Director individually, has the right to seek independent professional advice at Probiotec's expense to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld and, in its absence, Board approval may be sought.

4. BOARD COMMITTEES

Board committees and membership

There are currently two Board Committees whose powers and procedures are governed by Probiotec's Constitution and the relevant Committee's Charters, as approved by the Board. The two Board Committees and their membership are set out below:

- Audit and Risk Management Committee
- Nomination and Remuneration Committee

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

Committee Charters

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

Committee procedures

Operation of the Committees and reporting to the Board

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

Composition and independence of the Committees

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

How the Committees report to the Board

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

How Committees' performance is evaluated

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

Board Audit and Risk Management Committee

Role of the Committee

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

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

Integrity of the financial statements

ARM considers whether the accounting methods applied by management are consistent and comply with accounting standards and concepts. ARM reviews and assesses any significant estimates and judgements in financial reports and monitors the methods used to account for unusual transactions. In addition it assesses the processes used to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting of financial and non-financial information.

External audit

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

Operational Risk

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

Compliance with legal and regulatory requirements

ARM ensures conformity with applicable legal and regulatory requirements and the Code of Conduct. ARM also establishes procedures for the receipt, retention and treatment of complaints, including accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters. ARM also discusses with management and the external auditor correspondence with regulators or government agencies and published reports which raise material issues. ARM discusses with the Quality Control Manager matters that may have a material impact on product regulatory compliance and with the Company Secretary matters that have a material impact on the financial statements or the compliance with reporting and disclosure policies. The Quality Control Manager reports directly to the Chairman on matters covered by the Therapeutic Goods Administration Act (TGA) and the Australian Quarantine Inspection Service (AQIS) and forwards copies of all matters covered under either TGA or AQIS reports to the chair of ARM.

Composition of ARM

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

Board Nomination and Remuneration Committee

Role of the Committee

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

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

NRC periodically reviews our criteria for appointing Directors and considers and recommends to the Board Directors who are retiring by rotation, candidates to be nominated as Directors and reviews periodically the process for orientation and education of new Directors.

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

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

Composition of NRC

NRC membership is: Maurice Van Ryn (Chairman), Graham Buckeridge and Wayne Stringer.

Board Corporate Social Responsibility Committee

Role of the Committee

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

5. AUDIT GOVERNANCE AND INDEPENDENCE

Approach to audit governance

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

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

Engagement and rotation of external auditor

Probiotec's independent external auditor is BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd (BDO). BDO were appointed by shareholders at the 2007 Annual General Meeting in accordance with the provisions of the Corporations Act.

The Board has adopted a policy that the lead signing and review audit partners' responsibilities can be performed by the same person for no longer than 5 years. The present lead BDO partner for Probiotec's audit is Nicholas Burne. The Board also requires a minimum five-year 'cooling off' period before an audit partner is allowed back onto the audit team.

Certification and discussions with external auditor on independence

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

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

Relationship with external auditor

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

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

Restrictions on non-audit services by the external auditor

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

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

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

Attendance at Annual General Meeting

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

6. CONTROLLING AND MANAGING RISK

Approach to risk management

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

Probiotec recognises three main types of risk:

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

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

Risk management roles and responsibilities

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

CEO and CFO assurance

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

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

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

7. REMUNERATION FRAMEWORK

Overview

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

Non-executive Directors

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

Executives

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

Equity-related reward and performance plans overview

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

8. CORPORATE SOCIAL RESPONSIBILITY

Approach to corporate social responsibility

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

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

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

Probiotec's Code of Conduct and responsibility codes

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

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

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

Compliance policy and practices

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

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

Concern reporting and whistle blowing

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

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

Securities trading policy

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

The key aspects of the policy are:

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

Market disclosure policy and practices

Probiotec is committed to giving all shareholders equal access to material information about our activities, and to fulfill continuous disclosure obligations to the broader market. The Board-approved market disclosure policy governs how Probiotec communicates with shareholders and the market. This policy is designed to ensure compliance with ASX Listing Rules continuous disclosure requirements so as to ensure any information that a reasonable person would expect to have a material effect on the price of Probiotec's securities is disclosed. The CEO is responsible for making decisions on what should be disclosed publicly under the market disclosure policy, and for developing and maintaining relevant guidelines, including guidelines on information that may be price sensitive. The Company Secretary has responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules, and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The directors submit the financial report of Probiotec Limited and its controlled entities for the financial year ended 30 June 2008.

Directors

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

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

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

Company Secretaries

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

Jared Stringer

Christopher Brian Blake Resigned 07/08/2008

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

Principal Activities

The Group's principal activity in the course of the financial year was the manufacture and sale of pharmaceuticals, foods and nutraceutical products in Australian and International markets.

Operating Results

The consolidated profit of the Group attributable to the shareholders for the financial year was $6,309,098 (2007: profit of $4,977,524).

Dividends

The directors declared an interim dividend of 1 cent per fully paid ordinary share on 20 February 2008, which was paid on 19 March 2008. On 20 August 2008, the directors declared that a final dividend of 1.5 cents per fully paid ordinary share be paid.

Review of operations

The Group's sales revenue for the period was $65,820,632 representing an increase of 21.9 percent compared to the prior corresponding period's sales revenue of $53,991,931. The Group's net profit attributable to members for the financial year was $6,309,098, which represents an increase of 26.8% over the previous financial year of $4,977,524. The Group achieved strong sales growth in its pharmaceutical and consumer health segment while experiencing a modest decline in the nutritional/ nutraceutical segment. Growth in nutraceutical products was offset by a larger decline in nutritional products which were negatively impacted by the effect of drought conditions in Australia, resulting in certain product supply shortages.

The Group's pharmaceutical and consumer health segment, comprising Group owned pharmaceutical products, licensed pharmaceutical products, contract manufacturing and additive products, generated sales of $48,771,649 in the 2008 year, an increase of 43.1% from $34,078,508 in 2007. The Group's nutritional/ nutraceutical business segment generated sales of $17,048,983 in the 2008 year, a decrease of 14.4% from $19,913,423 in 2007.

For the year ended 30 June 2008, the group generated $8,527,400 in cashflow from operating activities, an increase of 91.2% over the 2007 year. This cashflow has been used to fund the ongoing growth of the Group. During the year, significant investment was made in the acquisition of property, plant and equipment and increases in working capital. The increase in working capital is primarily due to higher levels of inventory to support increased levels of business activity, including the continued introduction of new products and the expected increase in sales. During the year the Group also invested $6,183,428 in upgrading property, plant and equipment and in new product development.

Total interest bearing liabilities, net of cash, as at 30 June 2008 was $22,575,573 a decrease of 5.4% from the same date in the previous year. Along with this decrease in net debt, interest cover based on EBIT has increased from 4.9 times in the year to 30 June 2007, to 5.5 times in the year to 30 June 2008. The Group's gearing ratio (see note 24(a)) reduced as at 30 June 2008 to 51.6%, down from 54.1% at the same date in the previous year. The Directors continue to consider that, as the Group can comfortably service its debt obligations and during the year renegotiated its banking facilities on more favourable terms, shareholder value can be more effectively increased by maintaining a responsible level of gearing in the Group.

The Group continued its success in growing its range of owned branded products. The sales of Celebrity Slim branded range of weight loss products grew significantly in the year to 30 June 2008 as brand recognition increased and product extensions were introduced into the market. The directors expect that the weight loss segment will continue to offer a range of opportunities for the Group's product development capabilities. Towards the end of the 2008 financial year, the Group launched its Biosource preventative health range and strong initial sales have been achieved. The directors are confident that this brand will continue to grow as this range of products continues to expand.

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

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

Significant Changes in State of Affairs

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

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 2008.

Significant After Balance 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. Growth will be achieved both organically, by exploiting its existing products and through the development and exploitation of new products, and potentially by acquisitions of new products or synergistic businesses on appropriate terms. The foundation for decisions in these initiatives will be based primarily on growing both profitability and cashflow of the Group which, the directors consider, is the most appropriate way to continue to grow shareholder value.

Environmental Issues

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

Directors' Benefits

No director has received or become entitled to receive a benefit other than directors' remuneration. Full details of the level of remuneration received by Directors can be found in the Remuneration Report on page 22 in 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 2008, and the numbers of meetings attended by each director were:

	Board of Directors Meetings		Audit and Risk Management Committee meetings		Remuneration and Nominations Committee meetings	
Director	No. Held*	No. Attended**	No. Held	No. Attended	No. Held	No. Attended
Maurice Van Ryn	12	11	3	2	1	1
Charles Wayne Stringer	12	12	–	–	–	–
Graham Harry Buckeridge	12	10	–	–	1	1
Richard David Kuo	12	11	3	3	–	–

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

Information on Directors and Officers

Maurice Van Ryn

Role	–	Chairman (Non-executive)
Qualifications	–	Bachelor of Business (RMIT), CPA
Experience	–	Appointed Chairman in July 2006. Previously held the position of CEO of Bega Cheese and is currently Bega Cheese's International Business Manager. Maurice has 28 years experience in direct management of food companies in the Australian manufacturing sector.
Special Responsibilities	–	Chairman of the Remuneration and Nominations Committee
Other Directorships	–	Non-executive Director of Medical Development International Limited (since October 2003).
	–	Non-executive Director of Tassal Group Limited (resigned 2007).
	–	Non-executive Director of Freedom Nutritional Foods Limited (resigned 2006).

Graham Harry Buckeridge

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

Richard David Kuo

Role	–	Non-Executive Director
Qualifications	–	B. Com, LLB
Experience	–	Holds Commerce and Law degrees with post graduate qualifications in applied finance and investment. Brings with him 20 years experience in law, investment banking and corporate strategy. Currently jointly manages Pier Capital, a privately owned investment banking firm which provides corporate advice to a broad range of corporations and has extensive experience in mergers and acquisitions, capital markets and strategic planning.
Special Responsibilities	–	Responsibilities include Chairman of the Audit and Risk Management Committee.

Other Directorships	–	Nil
Charles Wayne Stringer		
Role	–	Chief Executive Officer (Executive Director)
Qualifications	–	Dip. Bus, ACA
Experience	–	CEO of Probiotec since it was founded in 1997. Overseen the development of a series of joint ventures and commercial opportunities and acquisition of Pharmaction in the 2004 financial year and the Biotech Milton Pharmaceutical company in 2005. Wayne also spent several years as a CEO and director of companies involved in manufacturing, retailing, finance, mining and waste management.
Special Responsibilities	–	Responsibilities include strategic management, remuneration and operational oversight.
Other Directorships	–	Nil
Christopher Brian Blake		
Role	–	Company Secretary
Qualifications	–	B. Comm, ACA
Experience	–	Brings 33 years of experience in Chartered accountancy firms and industry roles. Began employment with Probiotec Limited in 1997.
Interest in Shares and Options	–	375,000 shares, 187,503 options
Other Directorships	–	Nil
Jared Stringer		
Role	–	Company Secretary
Qualifications	–	B. Comm (Accounting, Finance), BIT
Experience	–	Began employment with Probiotec in 2002 and accepted role of Financial Accountant in May 2005.
Interest in Shares and Options	–	80,000 shares, 82,501 options
Other Directorships	–	Nil

Insurance of Officers

During the financial year the company insured its directors and officers against liabilities for all costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as directors and officers of the company, other than conduct involving a willful breach of duty in relation to the company. The total premium paid was $34,730.

REMUNERATION REPORT

This report is prepared in accordance with section 300A of the Corporations Act 2001 for the Group for the financial year ended 30 June 2008. This report is audited.

1. REMUNERATION

1.1 Remuneration and Nominations Committee

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

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

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

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

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

The Committee membership and the Chairman of the Committee will be as determined from time to time by the Board. Each of the members will be independent directors and free from any business or other relationship that, in the opinion of the Board, would materially interfere with the exercise of their independent judgement as a member of the Committee.

New Committee members will receive induction training from the Chairman of the Committee, the Chief Financial Officer's and Quality Control Manager's teams and the Company Secretary. Committee members receive continuous training.

Members of Remuneration and Nominations Committee	Position	Appointed
Maurice Van Ryn	Chairman	28 July 2006
Graham Buckeridge	Member	28 July 2006

1.2 Remuneration Policy – Non-Executive Directors

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

The current annualised total remuneration for the company's non-executive directors is $160,000. The Nomination and 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 2008 financial year are set out on page 25 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 income and "at risk" incomes to ensure that key personnel are retained, whilst still providing strong incentives to maximise the potential long-term growth of the Group.

Short-term Incentives

Executive directors and key management are eligible to receive short-term incentive payments, in the form of cash bonuses, based on the achievement of set Key Performance Indicators (KPIs). KPIs are based on financial measures targeted at maximising Group performance and returns to shareholders.

Long-term Incentives

The Group provides long-term incentives to key management personnel to reward sustained performance by the organisation as a whole. Long-term incentives are in the form of options over Probiotec Limited shares issued under the company's Exempt Share and Option Plan, which was adopted by a resolution of members on 3 May 2006. The issue of options is based on a review of the contributions and value of management personnel undertaken by the Nomination and Remuneration Committee.

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

Termination Arrangements

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

1.4 Remuneration Policy – Employees

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

2. LINKING REMUNERATION TO PROBIOTEC'S PERFORMANCE

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

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

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

Table 1: Probiotec performance history

	Half Year Ended 30 Jun 06 $'000	Half Year Ended 31 Dec 06 $'000	Half Year Ended 30 Jun 07 $'000	Half Year Ended 31 Dec 07 $'000	Half Year Ended 30 Jun 08 $'000
Revenue	22,496	23,652	30,340	32,811	33,009
EBITDA	3,878	3,950	5,764	5,524	7,095
NPAT	1,353	1,422	3,556	2,460	3,849
Share Price	1.00*	1.14	1.20	1.36	1.35

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

3. REVIEW OF REMUNERATION

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

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

4. REMUNERATION DETAILS OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

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

(a) The five executives that receive the highest remuneration within the Group and the five executives that receive the highest remuneration within the company for the year ended 30 June 2008; and

(b) Any personnel not referred to in (a) that have responsibility and authority over the management or direction of a significant component of the Group's operating expenses or one of the Group's major revenue generating divisions.

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

Table 2: Directors and Key Management Personnel Remuneration details

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

		Short-Term Benefits			Post Employment Benefits	Equity-Based		
	Position	Salary, Fees and Commissions $	Short Term Incentives $	Non-Cash Benefits $	Superannuation Contribution $	Shares and Options $	Total $	Amount of remuneration as options %
Matthew Dalton	National Sales Manager	106,983	0	21,150	11,532	4,705	144,370	3.3
		886,628	**0**	**77,834**	**103,334**	**47,726**	**1,115,522**	
2007								
Directors and Secretaries								
Maurice Van Ryn	Chairman	58,869	0	0	5,298	0	64,167	0
Charles Wayne Stringer	CEO/Managing Director	264,067	0	0	37,787	0	301,854	0
Richard David Kuo	Non-Executive Director	45,833	0	0	0	0	45,833	0
Graham Henry Buckeridge	Non-Executive Director	0	0	0	36,663	0	36,663	0
Chris Blake	Secretary	33,749	0	0	30,733	12,959	77,441	16.7
		402,518	**0**	**0**	**110,481**	**12,959**	**525,958**	
Key Management Personnel								
Alan Hong	Chief Financial Officer	115,898	0	0	17,676	6,912	140,486	4.9
Mark Chatfield	GM Sales and Marketing	128,357	0	0	9,840	10,368	148,565	7.0
Rudi Ganter	Technical/R&D Manager	124,872	0	0	0	0	124,872	0
Wes Stringer	Chief Operating Officer	112,474	0	0	7,156	12,959	132,589	9.8
Humera Ahmad	GM Quality	104,103	0	0	22,284	6,912	133,299	5.2
Matthew Dalton	National Sales Manager	116,883	0	0	12,289	3,456	132,628	2.6
		702,587	**0**	**0**	**69,245**	**40,607**	**812,439**	

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

Options issued to Chief Executive Officer (CEO)

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

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

(a) If Probiotec Limited achieves a NPAT of $4.3 million for the financial year ending 30 June 2007 then effective 1 July 2007 the CEO will be granted 400,000 options for fully paid ordinary shares.

(b) If Probiotec Limited achieves a minimum growth of 10% in EPS for the financial year ending 30 June 2008 then effective 1 July 2008 the CEO will be granted 400,000 options for fully paid ordinary shares.

(c) If Probiotec Limited achieves a minimum growth of 10% in EPS for the financial year ending 30 June 2009 over the 08 financial year then effective 1 July 2009 the CEO will be granted 400,000 options for fully paid ordinary shares.

(d) If at 30 June 2009 Probiotec Limited has achieved a NPAT of $4.3 million for the financial year 2006/2007 and has achieved EPS growth of 20% between the period 1 July 2007 and 30 June 2009 then effective 1 July 2009 the CEO will be granted 300,000 options for fully paid ordinary shares.

(e) Terms (a), (b), (c) and (d) will be measured excluding any effects related to the NSI Dental Pty Ltd legal case.

CEO Employment options

Name	Grant date	Vesting date	Exercise price ($)	Balance at start of the year number	Options granted during the year number	Fair value per option at grant Date ($)
Charles Wayne Stringer	01.07.2007	30.06.2010	1.00	–	400,000	0.13
				–	400,000	

No options were exercised, forfeited or lapsed during the year ended 30 June 2008.

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

The inputs used in the valuation of these options were:

Exercise price: as per table above.

Expected volatility of company shares: 38%

Risk-free interest rate: 5.7%

Vesting period: 3 years

Projected dividend yield: 4%

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

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

5. INTEREST IN SHARES AND OPTIONS

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

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

Name	No. of fully paid ordinary shares	Grant date	Vesting date	Exercise price	Balance at start of the year number	Options granted during the year number	Balance at end of the year number	Fair value per option at grant date
Maurice Van Ryn	352,502	–	–	–	–	–	–	–
Richard David Kuo	99,350	–	–	–	–	–	–	–
Graham Henry Buckeridge	1,818,684	–	–	–	–	–	–	–
Charles Wayne Stringer	7,945,662	01.7.2007	30.6.2010	$1.50	–	400,000	400,000	400,000
Rudi Ganter	2,481,800	–	–	–	–	–	–	–
Wesley Stringer	285,106	30.6.2006	30.6.2009	$0.80	187,503	–	187,503	$0.21
Wesley Stringer		01.7.2007	30.6.2010	$1.50	–	25,000	25,000	$0.20
Peter Foley	125,502	30.6.2006	30.6.2009	$0.80	125,002	–	125,002	$0.21
Peter Foley		01.7.2007	30.6.2010	$1.50	–	10,000	10,000	$0.20
Mark Chatfield	25,000	30.6.2006	30.6.2009	$0.80	150,003	–	150,003	$0.21
Mark Chatfield		01.7.2007	30.6.2010	$1.50	–	25,000	25,000	$0.20
Humera Ahmad	5,000	30.6.2006	30.6.2009	$0.80	100,002	–	100,002	$0.21
Humera Ahmad		01.7.2007	30.6.2010	$1.50	–	25,000	25,000	$0.20
Alan Hong	5,000	30.6.2006	30.6.2009	$0.80	100,002	–	100,002	$0.21
Alan Hong		01.7.2007	30.6.2010	$1.50	–	25,000	25,000	$0.20
Matthew Dalton	–	30.6.2006	30.6.2009	$0.80	50,001	–	50,001	$0.21
Matthew Dalton		01.7.2007	30.6.2010	$0.80	–	10,000	10,000	$0.45
Matthew Dalton		01.7.2007	30.6.2010	$1.50	–	20,000	20,000	$0.20
David Erasmus	–	01.7.2007	30.6.2010	$0.80	–	25,000	25,000	$0.45
David Erasmus		01.7.2007	30.6.2010	$1.50	–	30,000	30,000	$0.20
					712,513	**195,000**	**907,513**	

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

** 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.

6. SHARE OPTIONS EXERCISED OR LAPSED DURING THE YEAR

No share options were exercised or lapsed during the year ended 30 June 2008.

7. LOANS TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

No loans have been made to, or from, any director or employee of the Probiotec Group since the company's listing on the Australian Stock Exchange (ASX) on 14 November 2006.

8. RETIREMENT BENEFITS

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

Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings except those proceedings discussed in note 28 of the notes to the financial statements for the year ended 30 June 2008.

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 and ethical standards board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2008:

	2008 $	2007 $
Former auditor (PKF Gold Coast):		
AIFRS consultation and general advice	–	19,800
Related practice of former auditor:		
Investigating Accountants report	–	78,431
	–	98,231
Current auditor (BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd):		
General advice	3,800	–
	3,800	–

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 31 of this report.

Signed in accordance with a resolution of Board of Directors.

Charles Wayne Stringer

Director

Signed at Laverton this 8th day of September 2008

BDO Kendalls

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DECLARATION OF INDEPENDENCE BY NICHOLAS E. BURNE TO THE DIRECTORS OF PROBIOTEC LIMITED

As lead auditor of Probiotec Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

NICHOLAS E. BURNE
Director

BDO Kendalls

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

Melbourne, 8th day of September 2008

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated Group		Parent Entity	
	Note	2008 $	2007 $	2008 $	2007 $
Sales revenue	2	65,820,632	53,991,931	–	–
Cost of goods sold		(37,731,032)	(33,814,218)	–	–
Gross profit		28,089,600	20,177,713	–	–
Other income	2	398,192	373,722	7,806,708	5,545,237
Warehousing and distribution expenses		(3,327,622)	(2,980,203)	–	–
Sales and marketing expenses		(7,971,916)	(3,360,570)	(264,087)	(283,185)
Finance costs		(1,909,701)	(1,601,512)	(1,692,451)	(1,601,512)
Administration and other expenses	4	(6,496,904)	(6,030,721)	(3,882,661)	(3,120,378)
Share of net loss of associates and joint venture entity	14	(281,045)	(516,952)	–	–
Profit before tax	3	**8,500,604**	**6,061,477**	**1,967,509**	**540,162**
Income tax expense	5	(2,191,506)	(1,083,953)	(545,254)	(526,783)
Profit for the year		**6,309,098**	**4,977,524**	**1,422,255**	**13,379**
Profit attributable to equity holders of the parent entity		**6,309,098**	**4,977,524**	**1,422,255**	**13,379**
Basic earnings per share (cents)	34	13.55	11.15		
Diluted earnings per share (cents)	34	13.04	10.85		

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

BALANCE SHEET AS AT 30 JUNE 2008

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Current Assets					
Cash and cash equivalents	10	592,987	2,028,209	–	681,606
Trade receivables	11	9,641,336	7,541,236	19,177,094	23,121,689
Inventories	12	18,838,699	15,118,665	–	–
Other current assets	13	569,999	479,675	67,432	114,427
Total Current Assets		**29,643,021**	**25,167,785**	**19,244,526**	**23,917,722**
Non-Current Assets					
Investments accounted using equity method	14	2,824,967	2,522,756	–	–
Property, plant and equipment	16	36,557,798	34,391,709	21,561,484	20,725,054
Investments	15	–	–	9,517,146	8,933,890
Deferred tax assets	18	3,296,363	4,116,911	1,563,327	1,998,989
Intangible assets	17	13,582,994	11,714,960	250,000	250,000
Total Non-Current Assets		**56,262,122**	**52,746,336**	**32,891,957**	**31,907,933**
Total Assets		**85,905,143**	**77,914,121**	**52,136,483**	**55,825,655**
Current Liabilities					
Trade and other payables	19	12,121,631	9,010,025	634,266	538,874
Short-term borrowings	20	8,260,797	6,447,376	8,150,549	4,879,362
Current tax liabilities	19	878,255	23,668	177,302	–
Short-term provisions	21	606,792	508,225	130,544	67,409
Total Current Liabilities		**21,867,475**	**15,989,294**	**9,092,661**	**5,485,645**
Non-Current Liabilities					
Long-term borrowings	20	14,907,763	19,432,822	10,357,763	18,782,822
Deferred tax liabilities	22	4,910,478	4,417,778	4,301,306	4,369,016
Long-term provisions	21	139,583	52,025	26,716	985
Total Non-Current Liabilities		**19,957,824**	**23,902,625**	**14,685,785**	**23,152,823**
Total Liabilities		**41,825,299**	**39,891,919**	**23,778,446**	**28,638,468**
Net Assets		**44,079,844**	**38,022,202**	**28,358,037**	**27,187,187**
Equity					
Contributed equity	24	21,204,200	20,229,511	21,204,200	20,229,510
Shares held by equity compensation plan	25	(1,715,000)	(955,000)	(1,715,000)	(955,000)
Asset Revaluation Reserve	26	4,523,385	4,523,385	4,409,606	4,409,606
Retained earnings		20,067,259	14,224,306	4,459,231	3,503,071
Total Equity		**44,079,844**	**38,022,202**	**28,358,037**	**27,187,187**

The Balance Sheet is to be read in conjunction with the attached notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	Ordinary Share Capital $	Shares held by Equity Compensation Plan $	Asset Revaluation Reserve $	Retained Earnings $	Total $
Consolidated Group					
Balance as at 1 July 2006	15,541,971	(955,000)	2,711,161	9,246,782	26,544,914
Shares issued during the year	5,812,231	–	–	–	5,812,231
Equity raising expenses	(1,124,691)	–	–	–	(1,124,691)
Revaluation increment	–	–	1,812,224	–	1,812,224
Profit attributable to equity holders of parent entity	–	–	–	4,977,524	4,977,524
Total recognised income and expense for the period	20,229,511	(955,000)	4,523,385	14,224,306	38,022,202
Dividends paid or provided for	–	–	–	–	–
Balance as at 1 July 2007	**20,229,511**	**(955,000)**	**4,523,385**	**14,224,306**	**38,022,202**
Shares issued during the year (note 25)	974,689	(760,000)	–	–	214,689
Equity raising expenses	–	–	–	–	–
Revaluation increment	–	–	–	–	–
Profit attributable to equity holders of parent entity	–	–	–	6,309,098	6,309,098
Total recognised income and expense for the period	974,689	(760,000)	–	6,309,098	6,523,787
Dividends paid or provided for	–	–	–	(466,145)	(466,145)
Balance as at 30 June 2008	**21,204,200**	**(1,715,000)**	**4,523,385**	**20,067,259**	**44,079,844**
Parent Entity					
Balance as at 1 July 2006	15,541,971	(955,000)	2,556,237	3,489,692	20,632,899
Shares issued during the year	5,812,231	–	–	–	5,812,231
Equity raising expenses	(1,124,691)	–	–	–	(1,124,691)
Revaluation increment	–	–	1,853,369	–	1,853,369
Profit attributable to equity holders of parent entity	–	–	–	13,379	13,379
Balance as at 1 July 2007	**20,229,511**	**(955,000)**	**4,409,606**	**3,503,071**	**27,187,187**
Shares issued during the year	974,689	(760,000)	–	–	214,689
Profit attributable to equity holders of parent entity	–	–	–	1,422,255	1,422,255
Revaluation increment	–	–	–	–	–
Dividends paid or provided for	–	–	–	(466,095)	(466,095)
Balance as at 30 June 2008	**21,204,200**	**(1,715,000)**	**4,409,606**	**4,459,231**	**28,358,037**

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated Group		Parent Entity	
	Note	2008 $	2007 $	2008 $	2007 $
Cash Flows From Operating Activities					
Receipts from customers		67,920,732	53,681,029	11,679,038	200,953
Payments to suppliers and employees		(57,533,971)	(47,665,389)	(2,864,819)	(1,825,760)
Interest received		74,008	45,110	73,984	45,110
Interest and other costs of finance paid		(1,909,701)	(1,601,512)	(1,692,451)	(1,601,512)
Income tax paid		(23,668)	–	–	–
Net cash provided by/(used in) operating activities	33 (b)	8,527,400	4,459,238	7,195,752	(3,181,209)
Cash Flows From Investing Activities					
Payment for property, plant and equipment – net		(4,369,394)	(3,294,089)	(1,763,880)	(3,243,621)
Payments relating to investments		(583,256)	(1,008,264)	(583,256)	(1,008,264)
Purchase of other non-current asset		(1,922,034)	(6,122,337)	–	–
Net cash used in investing activities		(6,874,684)	(10,424,690)	(2,347,136)	(4,251,885)
Cash Flows From Financing Activities					
Proceeds from issues of shares		–	4,687,541	–	4,687,540
Dividends Paid		(376,301)	–	(376,350)	–
Proceeds from borrowings		178,695	4,435,178	178,695	4,535,179
Repayment of borrowings		(1,583,699)	(1,424,051)	(5,483,699)	(1,424,051)
Net cash provided by/(used in) financing activities		(1,781,305)	7,698,668	(5,681,354)	7,798,668
Net Increase/(Decrease) In Cash Held		(128,589)	1,733,217	(832,738)	365,574
Cash at beginning of financial year		560,196	(1,173,022)	681,606	316,032
Cash at end of financial year		**431,607**	**560,196**	**(151,132)**	**681,606**

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	592,987	2,028,209	–	681,606
Bank Overdraft	(161,380)	(1,468,014)	(151,132)	–
	431,607	**560,195**	**(151,132)**	**681,606**

The Cash Flow Statement is to be read in conjunction with the attached notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Preparation

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

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

Reporting Basis and Convention

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

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being Probiotec Limited (the parent entity) and its controlled entities as defined in accounting standard AASB 127 "Consolidated and Separate Financial Statements". A list of controlled entities appears in note 29 to the financial statements. Where a subsidiary either began or ceased to be controlled during the year, the results of its operations are included only from the date control commenced or ceased.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

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

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

(b) Income Tax

(i) General

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate of each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

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

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

(ii) Capital Gains Tax

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

(iii) Goods and Services Tax

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

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

(c) Foreign Currency Translation

(i) Functional and presentation currency

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

(ii) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

(d) Impairment of assets

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

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

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

In calculating the value in use, the cash flow includes projections of cash inflows and outflows from continuing use of the asset and cash flows associated with disposal of the asset. The cash flow 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 flow 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 are valued at the lower of cost and net realisable value. Costs comprise all cost of purchase and conversion, including material, labour an appropriate portion of fixed and variable overhead expenses. Costs have been assigned to inventory on hand at balance sheet date using either the first-in-first-out (F.I.F.O.) basis or the weighted average cost basis, depending on the nature of product being manufactured. Fixed overheads are allocated on the basis of normal operating capacity. Net Realisable value is the estimated selling price in the ordinary course of business, less the estimated selling cost of completion and selling expenses.

(f) Property, Plant and Equipment

Each class of property, plant and equipment is carried at 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 building. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset and the net amount is reinstated to the revalued amount of the asset. Independent valuations are carried out every three years, with internal reviews performed regularly to ensure that the carrying amounts of land and buildings does not differ materially from the fair value at the balance sheet date.

(f) Property, Plant and Equipment continued

(i) Property continued

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

(ii) Plant and Equipment

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable values.

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

Depreciation

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

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

Buildings	4%
Leased Plant Equipment and Other	5–12.5%
Plant Equipment and Other	5–20%

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

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

(g) Leases

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

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

(h) Investments in Associates

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

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

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

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

(i) Interests in Joint Venture Entities

The economic entity's interest in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. Under the equity method, the share of profits or losses of the partnerships/entities are recognized in the consolidated income statement and the share of movements in reserves are recognized in the consolidated balance sheet.

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

(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 exceeds the fair value attributed to its net assets at 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 and 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 recognised at cost. Developed Products having an indefinite life and are tested at each balance date for impairment and carried at cost less accumulated impairment losses. Those with a finite life are carried at cost and amortised over their useful life.

(iii) Research and Development – Internally generated

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

(k) Employee Benefits

(i) Wages, Salaries and Annual Leave

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

(ii) Long Service Leave

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

(iii) Superannuation

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

(iv) Employee share based Payment

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

(l) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

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

Loan and Receivables

Loan and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held to maturity Investments

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

Available for sale financial assets

Available for sale financial assets include any financial assets not included in the above categories. Available for sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have 30–90 day payment terms.

Interest bearing liabilities

All loans and borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds is recognised in the income statement over the period of the loans and borrowings 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.

Derivatives

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. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

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

(m) Government Grants

Grants from government are recognised at the fair value where there is a reasonable assurance that the grant will be received and the consolidated entity will comply with the attached 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. 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 rate method. The effective interest rate 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. Interest income is included as financial income in the income statement.

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

(o) Financing costs

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

(p) Provisions

A provision is recognised when there is a legal or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

(q) Cash

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

(r) Comparative Figures

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

(s) New Accounting Standards

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

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 123 (revised Jun 2007)	Borrowing Costs	To the extent that borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, the option of recognising borrowing costs immediately as an expense has been removed. Consequently all borrowing costs for qualifying assets will have to be capitalised.	Periods commencing on or after 1 January 2009	The transitional provisions of this standard only require capitalisation of borrowing costs on qualifying assets where commencement date for capitalisation is on or after 1 January 2009. As such, there will be no impact on prior period financial statements when this standard is adopted.

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

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 3 (reissued March 2008) (continued)	Business Combinations			Also, deferred tax assets that do not satisfy recognition criteria when a business combination is initially accounted for, but do subsequently qualify for recognition post acquisition date, will be recognised as a credit to the income statement and there will be no consequential write-down of goodwill for a similar amount, provided that the deferred tax assets are recognised outside the initial measurement period of 12 months from acquisition date.
AASB 2008-3 (issued March 2008)	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASB 1, AASB 2, AASB 4, AASB 5, AASB 7, AASB 101, AASB 107, AASB 112, AASB 114, AASB 116, AASB 121, AASB 128, AASB 131, AASB 132, AASB 133, AASB 134, AASB 136, AASB 137, AASB 138, AASB 139, Interpretation 9 and Interpretation 107]	Makes consequential amendments to 20 standards and 2 interpretations arising from the reissue of AASB 3 and AASB 127, including to AASB 128: Investments in Associates and AASB 131: Interests in Joint Ventures. When an investment ceases to be an associate or jointly controlled entity and is subsequently accounted for under AASB 139, the fair value of the investment at the date when it ceases to be an associate or jointly controlled entity is its fair value.	Periods commencing on or after 1 July 2009	As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted. However, in future, if the (group) loses significant influence over associates or joint control in jointly controlled entities which are equity accounted, at that date such investments are recognised at fair value rather than at the carrying value of the equity accounted investment. Where the fair value of such investments exceed the equity accounted carrying amounts, this could result in a significant increase in earnings in the period when significant influence or joint control is lost. There will also be a number of additional/amended disclosures.
AASB 2008-1 (issued February 2008)	Amendments to AASB 2 – Share-based Payments – Vesting Conditions and Cancellations	The definition of vesting conditions has changed and the accounting treatment clarified for cancellations to share-based payment arrangements by the counterparty. This is to ensure that conditions other than performance conditions do not result in a 'true up' of the share-based payment expense and are treated in a manner similar to market conditions.	Periods commencing on or after 1 January 2009	To date the entity has not issued any options to employees that include non-vesting conditions and as such there will be no impact on the financial statements when this revised standard is adopted for the first time.

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2008-6 (issued July 2008)	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 and AASB 5]	If a parent entity is committed to a sale plan involving loss of control of a subsidiary that meets the criteria for classification as held-for-sale under AASB 5, all the assets and liabilities of that subsidiary must be classified as held for sale.	Periods commencing on or after 1 July 2009	There will be no impact as these requirements are only required to be applied prospectively to situations where there is a plan involving loss of control in annual periods commencing on or after 1 January 2009.
AASB 2008-7 (issued July 2008)	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 and AASB 136]	Removal of the definition of the "cost method" in AASB 127, meaning that pre and post-acquisition dividends no longer need to be differentiated and all dividends are to be recognised as revenue. However, whenever a dividend is received from a subsidiary, associate or jointly controlled entity, an impairment test will be required under AASB 136 where there is an indicator for impairment, i.e. where: ▪ the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the net assets (including goodwill) of the investee in the consolidated financial statements; or ▪ the dividend exceeds the total comprehensive income of the subsidiary, associate or jointly controlled entity in the period that the dividend is declared.	Periods commencing on or after 1 January 2009	There will be no impact as these requirements are only required to be applied prospectively for periods commencing on or after 1 January 2009. However, any pre-acquisition dividends received after this date may result in additional impairment charges on investments in subsidiaries, associates and jointly controlled entities. This is because such amounts would previously have been written off directly against the cost of the investment, whereas in future they will be recognised as revenue which may result in the investment being stated at an amount exceeding recoverable amount.
AASB 8 (Issued Feb 2007)	Operating Segments	Replaces the disclosure requirements of AASB 114: Segment Reporting.	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, disclosures required for the operating segments will be significantly different to what is currently reported (business and geographical segment).

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 101 (Revised Sep 2007)	Presentation of Financial Statements	Amendments to presentation and naming of the financial statements.	Annual reporting periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.
AASB 127	Consolidated and Separate Financial Statements	Previously, all investments in subsidiaries, associates or jointly controlled entities in the separate financial statements of the investor, that were classified as held for sale were to be measured under AASB 5, i.e. at the lower of carrying amount and fair value less costs to sell. The change now only permits such investments measured using the "cost" method under AASB 127 to be measured under AASB 5. Investments measured using the "fair value" method continue to be measured under AASB 139, even if they become classified as held for sale.	Periods commencing on or after 1 January 2009	This amendment will have no impact when this amendment is first adopted because the entity uses the cost method under AASB 127 to account for its investments in subsidiaries, associates and jointly controlled entities which will continue to be measured under AASB 5.
AASB 123	Borrowing Costs	Borrowing costs are now defined to include the interest expense calculated using the effective interest method. As such, various components of the definition have been deleted as these are included in the effective interest calculation.	Periods commencing on or after 1 January 2009	There will be no impact as these amendments merely clarify existing practice.

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 128	Investments in Associates	Impairment losses recognised on equity accounted investments that include goodwill are not allocated to specific assets making up the investment. Accordingly, any reversals of impairment losses are recognised in the profit and loss, rather than being prohibited (as is the case for goodwill) or being credited to equity (as is the case for available-for-sale investments).	Periods commencing on or after 1 January 2009	There will be no impact as these requirements are only required to be applied prospectively to impairment reversals occurring in periods commencing on or after 1 January 2009.
AASB 136	Impairment of Assets	Additional disclosure requirements about discounted cash flow assumptions used for the fair value less costs to sell method.	Periods commencing on or after 1 January 2009	There will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only.
AASB 138	Intangible Assets	Where expenditure is incurred to provide future economic benefits to an entity but no intangible asset is created, such amounts must be expensed as follows: ▪ For the supply of goods – when entity has right to access those goods; and ▪ For the supply of services – when entity receives the services. Expenditure incurred on mail order catalogues is also to be expensed when incurred, not when used.	Periods commencing on or after 1 January 2009	Initial adoption of this amendment will have no impact on the entity as the entity expenses all advertising brochures/mail order catalogues when printing is complete.
AASB 138	Intangible Assets	Clarifies that the amortisation method for intangible assets could result in a lower amount of accumulated amortisation than under the straight line method.	Periods commencing on or after 1 January 2009	Initial adoption of this amendment will have no impact on the entity as the entity will continue to use the straight line basis as the most appropriate amortisation method for intangibles.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
2. REVENUE				
Operating activities				
Sale of goods	**65,820,632**	**53,991,931**	**–**	**–**
Management fees and other charges	–	–	7,734,443	5,299,174
Government subsidies received	6,000	115,191	–	–
Other revenue	318,184	213,421	(1,719)	200,953
Interest received	74,008	45,110	73,984	45,110
Total other income	398,192	373,722	7,806,708	5,545,237
Total revenue	**66,218,824**	**54,365,653**	**7,806,708**	**5,545,237**
3. PROFIT FOR THE YEAR				
Net profit has been arrived at after including:				
Finance cost – non related parties	1,909,701	1,601,512	(1,692,451)	1,601,512
Foreign currency translation losses	103,499	126,433	–	55,089
Bad and doubtful debts expense – trade receivables	40,255	103,352	–	–
Rental on operating lease expenses – minimum lease payments	141,280	134,640	–	–
Inventory write-offs	236,193	313,318	–	–
Professional and consulting expenses	312,838	920,790	91,733	673,302
Employee benefits expenses	13,197,295	9,886,955	2,091,440	1,343,185
Repairs and maintenance expenses	891,445	604,443	–	–
Research and development cost	3,237,629	2,242,230	–	–
Depreciation and amortisation expense	2,380,259	2,105,566	1,050,653	839,896
Impairment costs: – in relation to investment	–	–	–	–
4. ADMINISTRATION AND OTHER EXPENSES				
Administration and other expenses comprises:				
Accounting and legal fees	473,629	391,884	455,133	275,547
Office expenses	533,485	523,539	87,591	30,122
Other expenses	5,489,790	5,115,298	3,339,937	2,814,709
	6,496,904	**6,030,721**	**3,882,661**	**3,120,378**

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
5. INCOME TAX EXPENSE				
Deferred income tax revenue (expense) included in the income tax expense comprises:				
Current tax	878,255	23,668	177,302	–
Deferred tax	1,313,251	1,060,285	367,952	526,783
	2,191,506	**1,083,953**	**545,254**	**526,783**
Prima facie tax on profit from ordinary activities before income tax at 30%	2,550,181	1,818,443	590,253	162,049
Add Tax effect of:				
Non allowable expenses, recoupment of prior losses not yet booked and other differences	(358,675)	(734,490)	(44,999)	364,734
Income tax expense	**2,191,506**	**1,083,953**	**545,254**	**526,783**
The weighted average effective tax rates are as follows:	25.8%	17.9%	27.7%	97.5%

The primary reason for the variance between the prima facie tax rate and the effective tax rate for the year ended 30 June 2007, was due to the recoupment of taxation losses of prior years not previously brought to account.

6. DISCONTINUED OPERATIONS

No operations were discontinued during the year.

7. KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES DISCLOSURES

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

(a) Directors

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

Maurice Van Ryn	Non-executive chairman
Richard David Kuo	Non-executive director
Graham Harry Buckeridge	Non-executive director
Charles Wayne Stringer	Executive director

(b) Key management personnel

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

Name	Position	Employer
Alan Hong	Chief Financial Officer	Probiotec Limited
Mark Chatfield	GM – Sales and Marketing	Probiotec Limited
Rudi Ganter	GM – Research and Technical	Probiotec Limited
Wes Stringer	Chief Operating Officer	Probiotec Limited
David Erasmus	Engineering manager	Biotech Pharmaceuticals Pty Ltd
Peter Foley	Sales manager – Animal nutrition	Probiotec Limited
Matthew Dalton	National sales manager	Biotech Pharmaceuticals Pty Ltd
Humera Ahmad	GM – Quality	Probiotec Pharma Pty Ltd

7. KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES DISCLOSURES continued

(c) The number of shares and options held by directors and key management personnel is as follows:

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

	No. of fully paid ordinary shares	No. of options	Grant Date	Exercise Date*	Exercise price	Value of options granted**
Maurice Van Ryn	352,502	–	–	–	–	–
Charles Wayne Stringer	7,945,662	400,000	1/07/2007	30/06/2010	$1.00	38,349
Graham Harry Buckeridge	1,818,684	–	–	–	–	–
Richard David Kuo	99,350	–	–	–	–	–
Alan Hong	5,000	100,002	30/06/2006	30/06/2009	$0.80	15,551
		25,000	1/07/2007	30/06/2010	$1.50	3,711
Mark Chatfield	25,000	150,003	30/06/2006	30/06/2009	$0.80	23,327
		25,000	1/07/2007	30/06/2010	$1.50	3,711
Rudi Ganter	2,481,800	–	–	–	–	–
Wes Stringer	285,106	187,503	30/06/2006	30/06/2009	$0.80	29,159
		25,000	1/07/2007	30/06/2010	$1.50	3,711
David Erasmus	0	20,000	1/07/2007	30/06/2010	$0.80	6,741
		20,000	1/07/2007	30/06/2010	$1.50	2,969
Peter Foley	125,502	125,002	30/06/2006	30/06/2009	$0.80	19,439
		10,000	1/07/2007	30/06/2010	$1.50	1,484
Matthew Dalton	0	50,001	30/06/2006	30/06/2009	$0.80	7,776
		10,000	1/07/2007	30/06/2010	$0.80	3,371
		20,000	1/07/2007	30/06/2010	$1.50	2,969
Humera Ahmad	5,000	100,002	30/06/2006	30/06/2009	$0.80	15,551
		25,000	1/07/2007	30/06/2010	$1.50	3,711
	13,143,606	1,292,513				181,530

* The executives have no access to the shares until expiry of 36 months of their employment with the company or an Associated Body Corporate from the date of grant of the shares.

All options are forfeited if the grantee resigns from the company prior to the expiry of 36 months from the date of grant of the shares.

** All options 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.

7. KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES DISCLOSURES continued

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
(d) Key management personnel compensation				
Short-term employee benefits	964,462	702,587	583,141	481,601
Post-employment benefits	103,334	69,245	54,960	34,672
Long-term benefits	–	–	–	–
Termination benefits	–	–	–	–
Share-based payments	47,726	40,607	33,363	30,239
	1,115,522	**812,439**	**671,464**	**546,512**

SHARE OPTIONS EXERCISED OR LAPSED DURING THE YEAR

No share options were exercised or lapsed during the year ended 30 June 2008.

LOANS TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

No loans have been made to, or from, any director or employee of the Probiotec Group since the company's listing on the Australian Stock Exchange (ASX) on 14 November 2006.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
8. REMUNERATION OF AUDITORS				
(a) Remuneration of auditor of the parent entity:				
Auditing or reviewing the financial report	75,000	134,851	75,000	134,851
AIFRS consultation and other advice	3,800	19,800	3,800	19,800
	78,800	**154,651**	**78,800**	**154,651**
(b) Related practice of the auditor for non audit services:				
Investigating Accountants Report	–	78,431	–	78,431

For the year ended 30 June 2008, the auditor of Probiotec Limited is BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd. For the year ended 30 June 2007, the auditor of Probiotec Limited was PKF Gold Coast.

9. DIVIDENDS

The directors declared a maiden interim dividend of 1 cent per fully paid ordinary share on 20 February 2008, which was paid on 19 March 2008. The directors have declared a final dividend for the year ended 30 June 2008 on 20 August 2008 of 1.5 cents per fully paid ordinary share. As this final dividend was declared after 30 June 2008, it has not been included as a recognised amount in this financial report.

	2008		2007	
	Cents per Share	Total $	Cents per Share	Total $
Recognised Amounts				
Fully paid ordinary shares				
Interim dividend for half year ended 31 December 2007	1	466,145	–	–
Unrecognised Amounts				
Fully paid ordinary shares				
Final dividend for year ended 30 June 2008, fully franked at 30% corporate tax rate	1.5	699,655	–	–

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
10. CASH AND CASH EQUIVALENTS				
Cash on hand and at bank	**592,987**	**2,028,209**	**–**	**681,606**

See Cash Flow Statement for reconciliation of cash.

Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 37.

11. TRADE RECEIVABLES

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT				
Trade accounts receivable – third parties	9,698,447	7,711,141	–	117,123
Trade accounts receivable – subsidiaries	–	–	19,177,094	23,004,566
Less: allowance for impairment of receivables	(57,111)	(169,905)	–	–
Total current trade receivables	**9,641,336**	**7,541,236**	**19,177,094**	**23,121,689**

11. TRADE RECEIVABLES continued

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

	2008		2007	
	Gross $	Allowance $	Gross $	Allowance $
Consolidated Group				
Not past due 30 days	9,618,183	–	4,410,464	–
Past due 31–60 days	13,032	–	2,837,075	–
Past due 61–90 days	19,251	11,039	396,740	103,043
Past due 91–120 days	–	–	66,862	66,862
Past 120 days	47,981	46,072	–	–
	9,698,447	**57,111**	**7,711,141**	**169,905**
Parent Entity				
Not past due 30 days	–	–	117,123	–
Past due 31–60 days	–	–	–	–
Past due 61–90 days	–	–	–	–
Past due 91–120 days	–	–	–	–
Past 120 days	–	–	–	–
	–	**–**	**117,123**	**–**

(b) Impaired trade receivables

Trade debtors are generally extended on credit terms of between 14 days to 60 days. As at 30 June 2008 current trade receivables of the Group with a nominal value of $83,769 (2007 – $169,905) were impaired. The amount of the provision was $57,111 (2007 – $169,905). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. There were no impaired trade receivables for the parent in 2008 or 2007.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Movements in the provision for impairment of receivables are as follows:				
At 1 July	169,905	368,380	–	12,598
Provision for impairment recognised during the year	57,111	169,905	–	–
Receivables written off during the year as uncollectible	(169,905)	(368,380)	–	(12,598)
At 30 June	57,111	169,905	–	–

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

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

11. TRADE RECEIVABLES continued

(c) Fair value and credit risk

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

(d) Foreign exchange and interest rate risk

Information about the Group's and the parent entity's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 37.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
12. INVENTORIES				
CURRENT				
Raw material – at cost	9,055,188	8,488,212	–	–
Work in progress – at cost	2,310,813	1,471,120	–	–
Finished goods – at cost	7,472,698	5,159,333	–	–
	18,838,699	**15,118,665**	**–**	**–**
13. OTHER CURRENT ASSETS				
Prepayments	84,423	122,978	27,737	31,613
GST receivable	436,261	332,150	–	–
Other receivables	49,315	24,547	39,695	82,814
	569,999	**479,675**	**67,432**	**114,427**

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Interests are held in the following associated company and joint venture company:

Name	Domicile	Ownership Interest		Carrying Amounts of Investment	
		2008 %	2007 %	2008 %	2007 %
Australian Dairy Proteins Pty Ltd	Australia	50	50	50	50
Phoscal Holdings Ltd (unlisted)	Australia	26	26	–	–

Australian Dairy Proteins Pty Ltd ("ADP") is a joint venture entity between Probiotec Limited and Australian Co-Operative Foods Limited and is involved in the manufacture of a range of specialty protein fractions extracted from cheese whey for sale into the nutraceutical, pharmaceutical, specialty food and cosmetic markets. The reporting date is 30 June 2008. The voting power of Probiotec Ltd is 50.001%. The entity is accounted for as a jointly controlled entity as the shareholders agreement specifies that all significant financial and operating decisions require unanimous approval.

The company has invested in ADP in the form of an initial investment and subsequently by way of an investment loan. The directors expect to recover both the initial investment and the investment loan once the entity begins to generate sufficient cashflows in future. The generation of cashflows in ADP is dependent on regulatory approval for the sale of a critical ingredient being obtained. The directors believe that this regulatory approval is highly probable and based on the normal timeframes for the completion of this process, would expect this approval to be obtained within six (6) months from the date of this report. Such confidence is evident given the directors decision to invest a further $583,256 this year. Once approval is obtained, the ingredient in question will be incorporated into a range of products, both within the Probiotec group and for external third parties.

The principal activity of Phoscal Holdings Ltd is dairy product derivatives. The company has been dormant and has not been trading for the 12 months ending 30 June 2008.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued

(b) Interest in investments accounted for using the equity method are comprised as follows:

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Interest in joint venture entity – ADP:				
Shares in joint venture entity – at cost	50,000	50,000	–	–
Investment Loan	4,157,899	3,574,643	–	–
Share of Retained profits (accumulated losses)	(1,382,932)	(1,101,887)	–	–
	2,824,967	**2,522,756**	**–**	**–**
Interests in associates				
Share in associates – at cost	280,047	280,047	–	–
Loan to associates	712,234	712,234	–	–
	992,281	992,281	–	–
Less: Impairment provision	(992,281)	(992,281)	–	–
Total investments accounted for using the equity method	**2,824,967**	**2,522,756**	**–**	**–**
(c) Movements in the carrying amount of equity accounted investments in associated company:				
Beginning of financial year	2,522,756	2,031,444	–	–
Additional investments	583,256	1,008,264	–	–
Share of results	(281,045)	(516,952)	–	–
Dividends	–	–	–	–
End of financial year	**2,824,967**	**2,522,756**	**–**	**–**
Share of ADP's financial position and financial results:				
Financial Position				
Current Assets				
Cash at bank	–	14,170	–	–
Trade debtors	90,111	4,882	–	–
Inventory	211,459	310,595	–	–
Total Current Assets	301,570	329,647	–	–
Non-Current Assets				
Property, plant and equipment	5,701,622	5,593,758		
Other non-current assets	11,432	11,432		
Total Non-Current Assets	5,713,054	5,605,190	–	–
Total Assets	**6,014,624**	**5,934,837**	**–**	**–**

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued

(c) Movements in the carrying amount of equity accounted investments in associated company continued:

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Current Liabilities				
Trade and other payables	523,094	629,266	–	–
Borrowings	253,551	–	–	–
Total Current Liabilities	776,645	629,266	–	–
Non-Current Liabilities				
Long term loans and borrowings	6,087,990	5,805,491	–	–
Deferred grant income	561,473	630,519	–	–
Total Non-Current Liabilities	6,649,463	6,436,010	–	–
Total Liabilities	**7,426,108**	**7,065,276**	**–**	**–**
Net Assets	**(1,411,484)**	**(1,130,439)**	**–**	**–**
Financial Results				
Revenues	247,847	330,139	–	–
Cost of goods sold	(216,823)	(483,035)	–	–
Finance costs	(236,437)	(198,921)	–	–
Other expenses	(75,632)	(165,134)	–	–
Loss from Ordinary Activities before Income Tax	(281,045)	(516,952)	–	–
Income tax expense	–	–	–	–
Loss from ordinary activities after income tax	(281,045)	(516,952)	–	–
Aggregate contingent liabilities arising from interest in joint venture	**–**	**–**	**–**	**–**
Aggregate capital commitments arising from interest in joint venture	**–**	**–**	**–**	**–**
(Accumulated loss) attributable to interest in joint venture:				
Balance at beginning of year	(1,101,886)	(584,934)		
Share of joint venture's loss after income tax	(281,045)	(516,952)		
Balance at the end of the financial year	**(1,382,931)**	**(1,101,886)**		

15. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Shares in subsidiaries – at cost	–	–	5,309,247	5,309,247
Associated entities – at cost (note 14)	–	–	4,207,899	3,624,643
	–	**–**	**9,517,146**	**8,933,890**

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
16. PROPERTY, PLANT AND EQUIPMENT				
Freehold land – at valuation	4,337,775	4,337,775	3,993,375	3,993,375
Building – at independent valuation	13,269,481	12,207,475	12,713,753	11,651,875
Less: Accumulated depreciation	(507,873)	–	(485,648)	–
	12,761,608	12,207,475	12,228,105	11,651,875
Plant and equipment – at cost *	22,420,201	19,153,998	2,009,772	1,282,545
Less: Accumulated depreciation	(7,423,516)	(6,068,691)	(1,131,498)	(963,893)
	14,996,685	13,085,307	878,274	318,652
Leased plant and equipment	5,592,220	5,453,104	5,592,220	5,453,104
Less: Accumulated depreciation	(1,130,490)	(691,952)	(1,130,490)	(691,952)
	4,461,730	4,761,152	4,461,730	4,761,152
Total Property, Plant And Equipment	**36,557,798**	**34,391,709**	**21,561,484**	**20,725,054**

* Within the carrying amount of plant and equipment at cost is a new Blisterpacker unit, which is currently under construction and at balance date had a carrying amount of $377,643.

All of the Group's freehold land and buildings were revalued by an independent valuer in June 2007 and resulted in a net revaluation increase of $2,588,608. Valuations were made on the basis of weighted depreciated values and open market values. The revaluation surplus net of applicable deferred income taxes was credited to an asset revaluation reserve in shareholders' equity. As at 30 June 2008, if the cost model had been applied, the carrying value of the Group's freehold land and buildings would have been $3,290,199 and $6,010,374 respectively. If the cost model had been adopted the buildings at cost and the accumulated depreciation at balance date would have been $7,475,335 and $1,464,961 respectively.

16. PROPERTY, PLANT AND EQUIPMENT continued

Movements during the year

	Freehold land $	Buildings $	Plant, Equipment and Other $	Leased Plant, Equipment and Other $	Total $
Consolidated Group					
Carrying amount at 1 July 2006	3,476,601	8,267,400	14,425,152	5,221,809	31,390,962
Additions	–	708,140	1,505,434	294,568	2,508,142
Reclassification	–	1,981,596	(1,585,138)	(396,458)	–
Disposals	–	–	(2,329)	–	(2,329)
Revaluation	861,174	1,727,434	–	–	2,588,608
Depreciation and amortisation	–	(477,095)	(1,257,812)	(358,767)	(2,093,674)
Carrying amount at 30 June 2007	4,337,775	12,207,475	13,085,307	4,761,152	34,391,709
Carrying amount at 1 July 2007	4,337,775	12,207,475	13,085,307	4,761,152	34,391,709
Additions	–	1,062,006	3,370,796	208,289	4,641,091
Disposals	–	–	(8,978)	(140,950)	(149,928)
Revaluation	–	–	–	–	–
Depreciation and amortisation	–	(507,873)	(1,450,440)	(366,761)	(2,325,074)
Carrying amount at 30 June 2008	4,337,775	12,761,608	14,996,685	4,461,730	36,557,798
Parent Entity					
Carrying amount at 1 July 2006	2,955,000	7,829,952	461,200	5,221,809	16,467,961
Additions	–	644,032	1,513,049	294,568	2,451,649
Reclassification	–	1,897,193	(1,500,735)	(396,458)	–
Disposals	–	–	(2,329)	–	(2,329)
Revaluation	1,038,375	1,609,293	–	–	2,647,668
Depreciation and amortisation	–	(328,595)	(152,533)	(358,767)	(839,895)
Carrying amount at 30 June 2007	3,993,375	11,651,875	318,652	4,761,152	20,725,054
Carrying Amount at 1 July 2007	3,993,375	11,651,875	318,652	4,761,152	20,725,054
Additions	–	1,061,878	736,205	208,289	2,006,372
Disposals	–	–	(8,978)	(140,950)	(149,928)
Revaluation	–	–	–	–	–
Depreciation and amortisation	–	(485,648)	(167,605)	(366,761)	(1,020,014)
Carrying amount at 30 June 2008	3,993,375	12,228,105	878,274	4,461,730	21,561,484

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
17. INTANGIBLE ASSETS				
Acquired intangible assets – Indefinite life:				
Goodwill – at cost	250,000	250,000	250,000	250,000
Developed products – at cost	8,353,476	8,267,647	–	–
	8,603,476	8,517,647	250,000	250,000
Investments in:				
Capitalised development costs – Indefinite life:				
Developed products – at cost	3,657,211	2,278,449	–	–
Products under development – at cost	504,287	598,214	–	–
	4,161,498	2,876,663	–	–
Capitalised development costs – Finite life:				
Developed products – at cost	884,335	332,965	–	–
Accumulated amortisation	(66,315)	(12,315)	–	–
	818,020	320,650	–	–
Total intangible assets	**13,582,994**	**11,714,960**	**250,000**	**250,000**

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

Reconciliation of Intangible Assets:

	Goodwill	Developed Products	Products under Development
Opening balance as at 1 July 2006	250,000	5,214,868	127,755
Additions	–	4,722,560	1,412,092
Disposals	–	–	–
Transfer of commercialised product	–	941,633	(941,633)
Amortisation	–	(12,315)	–
Closing balance as at 30 June 2007	250,000	10,866,746	598,214
Opening balance as at 1 July 2007	250,000	10,866,746	598,214
Additions	–	1,295,870	626,164
Disposals	–	–	–
Transfer of commercialised product	–	720,091	(720,091)
Amortisation	–	(54,000)	–
Closing balance as at 30 June 2008	250,000	12,828,707	504,287

17. INTANGIBLE ASSETS continued

Estimated useful life of intangible assets

Intangible assets, comprising Developed Products and goodwill, have indefinite useful lives apart from Developed Products which are subject to a license with a specified term. Developed Products with a finite life have a term of 14 years, of which 12 years and 9 months remains in this estimated useful life. Developed Products with indefinite lives comprise trademarks and product dossiers. Developed Products with finite useful lives are amortised on a straight line basis over their effective life. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the income statement. The directors consider intangibles to have an indefinite life when there is no defined period within which the benefits of the amounts will be received.

Impairment Disclosures

Goodwill of $250,000 is allocated to the Golden Life cash-generating unit. Goodwill is tested annually for impairment, based on value-in-use calculations conducted using the assumptions outlined in note 38. For the carrying amount to be equal to the value-in-use, the discount rate of 43% would need to be used.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
18. DEFERRED TAX ASSETS				
Deferred tax assets is comprised as follows:				
Temporary differences – provisions	552,216	682,477	87,177	137,444
Temporary differences – property, plant and equipment	266,427	209,291	264,027	209,291
Temporary differences – leases	1,142,442	1,308,944	1,142,442	1,308,944
Temporary differences – other	134,581	34,624	69,681	–
Tax losses	1,200,697	1,881,575	–	343,310
	3,296,363	**4,116,911**	**1,563,327**	**1,998,989**
19. TRADE AND OTHER PAYABLES				
CURRENT				
Trade accounts payable	9,600,816	7,066,041	13,929	48,962
Sundry creditors and accruals	1,977,627	1,566,962	278,102	178,197
GST payable	543,188	377,022	342,235	311,715
	12,121,631	**9,010,025**	**634,266**	**538,874**
Current tax payable	878,255	23,668	177,302	–

(a) Fair value

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

(b) Foreign exchange risk

Amounts payable in foreign currencies

Current				
Euro	–	51,955	–	–
US Dollars	737,898	63,100	–	–
	737,898	**115,055**	**–**	**–**

Detailed information about the Group's and the parent entity's exposure to foreign currency risk in relation to trade and other payables is provided in note 37.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
20. INTEREST-BEARING LIABILITIES				
CURRENT				
Secured borrowings				
Bank overdrafts	161,380	1,468,014	151,132	–
Bank loans	7,282,000	4,200,000	7,182,000	4,100,000
Lease liabilities	817,417	779,362	817,417	779,362
	8,260,797	6,447,376	8,150,549	4,879,362
NON-CURRENT				
Secured borrowings				
Bank loans	11,917,039	15,849,039	7,367,039	15,199,039
Lease liabilities	2,990,724	3,583,783	2,990,724	3,583,783
	14,907,763	19,432,822	10,357,763	18,782,822
(a) Total current and non-current secured liabilities				
Bank overdrafts	161,380	1,468,014	151,132	–
Bank loans	19,199,039	20,049,039	14,549,039	19,299,039
Lease liabilities	3,808,141	4,363,145	3,808,141	4,363,145
	23,168,560	**25,880,198**	**18,508,312**	**23,662,184**
(b) The carrying amount of the non-current assets pledged as security are:				
First mortgage				
Freehold land and building (note 16)	17,099,383	16,545,250	16,221,480	15,645,250
	17,099,383	**16,545,250**	**16,221,480**	**15,645,250**

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

(d) The bank loans are provided by Rabo Australia Limited and are secured by a registered first mortgage over certain freehold property of the parent entity and the subsidiaries which has a carrying amount of $17,099,383 at 30 June 2008.

The bank covenants require tangible net worth to exceed $20 million, an equity ratio of greater than 35%, debt service to EBITDA to exceed 2 and the ratio of financial indebtedness to EBITDA of less than 4. The Group is in compliance with the bank covenants.

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

(e) Finance lease liabilities:

Weighed average interest rate of 7.66%
Secured by leased plant/assets

(f) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 37.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
21. PROVISIONS				
CURRENT				
Sundry provisions	–	81,061	–	–
Leave entitlements	606,792	427,164	130,544	67,409
Total current provisions	606,792	508,225	130,544	67,409
NON-CURRENT				
Leave entitlements	139,583	52,025	26,716	985
Total non-current provisions	139,583	52,025	26,716	985
Total provisions	746,375	560,250	157,260	68,394

Reconciliation	Leave entitlements $	Sundry Provisions $	Total $
Consolidated Group			
Opening balance as at 1 July 2007	479,189	81,061	560,250
Additional provisions	267,186	–	267,186
Amount Used	–	(81,061)	(81,061)
Balance as at 30 June 2008	746,375	–	746,375
Parent Entity			
Opening balance as at 1 July 2007	68,394	–	68,394
Additional provisions	88,866	–	88,866
Amount Used	–	–	–
Balance as at 30 June 2008	157,260	–	157,260

(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.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
22. DEFERRED TAXES				
Deferred taxes is comprised as follows:				
Deferred tax assets (note 18)	3,296,363	4,116,911	1,563,327	1,998,989
Deferred tax liabilities – temporary differences	4,910,478	4,417,778	4,301,306	4,369,016
Net deferred tax liabilities	(1,614,115)	(300,867)	(2,737,979)	(2,370,027)
Deferred tax expense credit to income	(1,313,249)	(1,060,285)	(367,952)	(526,783)
Deferred tax expense charged to equity	–	(776,382)	–	(794,300)

	Consolidated Group	Parent Entity
	$	$
Reconciliation of net deferred tax liabilities:		
Opening as at 1 July 2006	1,535,801	(1,048,944)
Less: deferred tax expense charge (credit) to income	(1,060,285)	(526,783)
Less: deferred tax expense charged to equity	(776,382)	(794,300)
Closing as at 30 June 2007	(300,866)	(2,370,027)
Less: deferred tax expense charge (credit) to income	(1,313,249)	(367,952)
Less: deferred tax expense charged to equity	–	–
Closing as at 30 June 2008	(1,614,115)	(2,737,979)

23. RETIREMENT BENEFIT OBLIGATIONS

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

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
24. CONTRIBUTED EQUITY				
46,602,449 (2007: 46,525,000) fully paid ordinary shares	21,204,200	20,229,511	21,204,200	20,229,511
Reconciliation of fully paid ordinary shares				
Balance at beginning of the financial year	20,229,511	15,541,971	20,229,511	15,541,971
Issue of shares	974,689	5,812,231	974,689	5,812,231
Equity raising expenses	–	(1,124,691)	–	(1,124,691)
Balance at end of financial year	21,204,200	20,229,511	21,204,200	20,229,511
	No.	No.	No.	No.
Reconciliation of ordinary shares				
Balance at the beginning of reporting period	46,525,000	41,882,506	46,525,000	41,882,506
Shares issued during the year	77,449	4,642,494	77,449	4,642,494
Balance at end of the report date	46,602,449	46,525,000	46,602,449	46,525,000

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

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

(a) Capital management

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

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. The Group is not subject to externally imposed capital requirements.

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 2008 and 30 June 2007 were as follows:

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Total borrowings	23,168,560	25,880,198	18,508,312	23,662,184
Less cash and cash equivalents	(592,987)	(2,028,209)	–	(681,606)
Net debt	22,575,573	23,851,989	18,508,312	22,980,578
Total contributed equity	21,204,200	20,229,511	21,204,200	20,229,511
Total capital employed	43,779,773	44,081,500	39,712,512	43,210,089
Gearing ratio	52%	54%	47%	53%

There were no changes to the Group's approach to capital management from 2007.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
25. SHARE HELD BY EQUITY COMPENSATION PLAN				
Balance at beginning of report period	(955,000)	(955,000)	(955,000)	(955,000)
Employee share plan issue	(760,000)	–	(760,000)	–
Balance at the end of the reporting period	(1,715,000)	(955,000)	(1,715,000)	(955,000)

The shares held in the "Equity Compensation " account is used to record the balance of Probiotec Limited ordinary shares which as at the end of the financial period have not vested to Group employees, and therefore controlled by the Group. In total 1,433,770 shares have been issued and are held by the Probiotec Limited Employee Share Plan (ESP).

26. ASSET REVALUATION RESERVE

Reconciliation				
Balance at beginning of financial year	4,523,385	2,711,161	4,409,606	2,556,238
Revaluation of non-current assets	–	1,812,224	–	1,853,368
Balance at end of financial year	4,523,385	4,523,385	4,409,606	4,409,606

The asset revaluation reserve arises on the revaluation of non-current assets.

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

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
27. COMMITMENTS				
Capital commitments				
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	1,445,432	220,397	1,445,432	–
	1,445,432	220,397	1,445,432	–
Lease commitments				
Operating leases				
Non-cancellable operating leases contracted for but not capitalised in the financial statement.				
Payable – minimum lease payments:				
Within one year	138,680	138,680	–	–
Later than one year but not later than 5 years	201,487	340,167	–	–
More than 5 years	–	–	–	–
Commitments not recognised in the financial statements	340,167	478,847	–	–

27. COMMITMENTS continued

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Finance leases commitments				
Payable – minimum lease payments:				
Within one year	1,462,227	1,108,634	1,462,227	1,108,634
Later than one year but not later than 5 years	2,822,032	3,919,569	2,822,032	3,919,569
More than 5 years	–	–	–	–
Minimum lease payments	4,284,259	5,028,203	4,284,259	5,028,203
Less: Future finance charges	(476,118)	(665,058)	(476,118)	(665,058)
	3,808,141	4,363,145	3,808,141	4,363,145
Representing lease liabilities:				
Current	817,417	779,362	817,417	779,362
Non-current	2,990,724	3,583,783	2,990,724	3,583,783
	3,808,141	**4,363,145**	**3,808,141**	**4,363,145**

The weighted average interest rate implicit in the leases is 7.66%.

28. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

NSI Case Update

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

The judgment in Probiotec’s appeal was delivered on 8 February 2008. Probiotec was successful in the vast majority of its claims.The effect of the appeal judgment is that it has reduced Probiotec’s liability from 100% of the claimant’s legal costs to 10% of those legal costs.The claimant has also been ordered to pay Probiotec’s legal costs of the appeal.The deadline for the claimant to appeal this decision has now passed.

Probiotec’s preliminary assessment is that its liability (which is yet to be quantified) under the appeal judgment will be for an amount estimated to be in the range of $50,000–$350,000. This is a substantial reduction from previous estimates of legal costs under the original order of $2.1 million–$5 million.

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

28. CONTINGENT LIABILITIES AND CONTINGENT ASSETS continued

Pfizer Case

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

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

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

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

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

29. CONTROLLED ENTITIES/SUBSIDIARIES

			Ownership Interest	
Name of entity	Country of Incorporation	Class of Shares	2008 %	2007 %
Parent Entity				
Probiotec Limited	Australia	ORD	100	100
Controlled Entities				
Probiotec Nutritionals Pty Ltd	Australia	ORD	100	100
Probiotec (QLD) Pty Ltd	Australia	ORD	100	100
Probiotec (NSW) Pty Ltd	Australia	ORD	100	100
Probiotec Pharma Pty Ltd	Australia	ORD	100	100
Biotech Pharmaceuticals Pty Ltd	Australia	ORD	100	100
Southern Dairy Ingredients Pty Ltd	Australia	ORD	100	100
Probiotec Pharmaceuticals Pty Ltd	Australia	ORD	100	100
Milton Australia Pty Ltd	Australia	ORD	100	100
Biotech Pharmaceuticals Australia Pty Ltd	Australia	ORD	100	100
Willie Labs Generic Pty Ltd	Australia	ORD	100	100
Milton Pharmaceuticals Pty Ltd	Australia	ORD	100	100
Golden Life Australia Pty Ltd	Australia	ORD	100	100
Probiotec International Pty Ltd	Australia	ORD	100	0
Biotech Pharmaceuticals (NZ) Pty Limited	New Zealand	ORD	100	0

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

Controlled entities acquired

No entity became controlled by the group during the 2008 financial year except Probiotec International Pty Ltd and Biotech Pharmaceuticals (NZ) Pty Limited, which was newly incorporated during the year.

30. SHARE BASED PAYMENTS

(a) Incentive Option Scheme

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

Employee incentive scheme options

Issued to	Grant date	Vesting date	Exercise price	Balance at start of the year number	Options granted during the year number	Fair value per option at grant date
Eligible employees	30.6.2006	30.6.2009	$0.80	431,256	–	$0.21
Eligible employees	01.7.2007	30.6.2010	$0.80	–	15,000	$0.45
Eligible employees	01.7.2007	30.6.2010	$1.50	–	80,000	$0.20
				431,256	95,000	

No options were exercised, forfeited or lapsed during the year ended 30 June 2008.

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

The inputs used in the valuation of these options were:

Exercise price: as per table above.

Expected volatility of company shares: 42% for options granted on 30.06.2006, 38% for options granted on 01.07.2007

Risk-free interest rate: 5.7%
Vesting period: 3 years
Projected dividend yield: 4%
Share price: weighted average share price for 5 trading days preceding grant date.

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

(b) Shares issued to employees

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

Date shares issued	Shares issued Number	Share Price*	Fair Value at issue date
21.12.2006	44,173	$1.12	49,474
31.05.2007	41,250	$1.17	48,368
12.05.2008	33,261	$1.06	35,281
	118,684		133,123

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

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

30. SHARE BASED PAYMENTS continued

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
(c) Expenses arising from share-based payments				
Options issued under incentive option scheme	76,781	59,288	76,781	59,288
Options issued to CEO	12,783	–	12,783	–
Shares issued to employees	35,281	97,942	35,281	97,942
	124,845	157,230	124,845	157,230

31. 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.

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

Ultimate parent company

There were no payments to the ultimate parent company.

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Associated companies				
Sales of lactoferrin to Probiotec Limited and it subsidiaries	284,779	410,809	–	–
Key Management personnel				
Payments were made to Inston Pty Ltd, an entity associated with Charles Wayne Stringer (CEO)	–	207,053	–	207,053
Repayment of loan provided by Inston	–	470,731	–	470,731
Repayment of loan provided by Rudi Ganter	–	107,338	–	107,338

Identification of Related parties Ultimate Parent Entity

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

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
33. NOTES TO THE CASH FLOW STATEMENT				
(a) Financing facilities with banks				
Secured bank overdraft facility:				
Facility balance	500,000	1,500,000	500,000	1,500,000
Amount used	(161,380)	(1,468,014)	(151,132)	–
Amount unused	338,620	31,986	348,868	1,500,000
Facility balance	22,549,039	19,799,039	18,549,039	19,799,039
Amount used	(18,549,039)	(19,299,039)	(14,549,039)	(19,299,039)
Amount unused	4,000,000	500,000	4,000,000	500,000
Bank bill acceptance facility, reviewed annually:				
Facility balance	650,000	750,000	–	–
Amount used	(650,000)	(750,000)	–	–
Amount unused	–	–	–	–
(b) Reconciliation of Profit from Ordinary Activities After Related Income Tax to Net Cash Flows From Operating Activities:				
Profit from ordinary activities after related income tax	6,309,098	4,977,524	1,422,255	13,379
Depreciation and amortisation	2,380,259	2,105,566	1,050,653	839,896
Share in (profit) loss of associate	281,045	516,952	–	–
Loss (profit) on sale of plant and equipment	1,741	–	1,741	–
(Decrease)/increase in net deferred taxes	1,313,249	1,836,667	367,953	1,321,083
(Increase)/decrease in inventories	(3,720,034)	(6,299,116)	–	–
(Increase)/decrease in trade receivables	(2,100,100)	(310,902)	3,944,595	(4,903,208)
(Increase)/decrease in other receivables and prepayments	(90,324)	745,094	46,995	304,168
Increase/(decrease) in trade creditors	3,111,754	789,774	95,392	(637,677)
Increase/(decrease) in other creditors and provisions	1,040,712	97,679	266,168	(118,851)
Net cash from operating activities	8,527,400	4,459,238	7,195,752	(3,181,210)

Non-cash financing and investing activities

During the year the economic entity acquired plant and equipment with an aggregate value of $208,289 (2007:$294,568) by means of finance leases. These acquisitions are not reflected in the cash flow statement.

	Consolidated Group	
	2008 $	2007 $
34. EARNINGS PER SHARE		
Profit	6,309,098	4,977,524
Earnings used in the calculation of basic EPS	6,309,098	4,977,524
Dividends on converting preference shares	–	–
Earnings used in the calculation of dilutive EPS	6,309,098	4,977,524
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	46,546,855	44,643,985
Weighted average number of options outstanding	1,833,770	1,216,065
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	48,380,625	45,860,050
Earnings per share:		
Basic earnings per share (cents)	13.55	11.15
Diluted earnings per share (cents)	13.04	10.85

35. BUSINESS COMBINATIONS

No acquisition of any going concern was undertaken by Probiotec Limited in the year ended 30 June 2008.

36. COMPANY DETAILS

The registered office of the company is:

Probiotec Limited
83 Cherry Lane
Laverton VIC 3026

The principal places of businesses are:

83 Cherry Lane, Laverton VIC

36 Bolong Road, Bomaderry NSW

35 Norfolk Avenue, South Nowra NSW

47 Production Street, Bundaberg QLD

37. FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

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

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

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

The Audit and Risk Committee 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.

37. FINANCIAL INSTRUMENTS continued

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, New Zealand dollar and US dollar. The Group seeks to mitigate the effect of its foreign currency exposure by maintaining foreign currency bank accounts that match the cash flows generated from and used by the underlying foreign currency transactions.

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

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

	Consolidated Group			Parent Entity		
	GBP $	NZD $	USD $	GBP $	NZD $	USD $
2008						
Financial Assets						
Trade and other receivables	732,127	371,254	348,170	–	–	–
Financial Liabilities						
Trade and other payables	–	–	737,898	–	–	–
Net exposure	**732,127**	**371,254**	**(389,728)**	**–**	**–**	**–**
2007						
Financial Assets						
Trade and other receivables	–	67,702	1,282,003	–	–	–
Financial Liabilities						
Trade and other payables	–	–	167,224	–	–	–
Net exposure	**–**	**67,702**	**1,114,779**	**–**	**–**	**–**

37. FINANCIAL INSTRUMENTS continued

Sensitivity analysis

Based on the financial instruments held as at 30 June 2008, a 10% strengthening of Australian dollar against GBP, 15% strengthening of Australian dollar against the New Zealand dollar (NZD) and 10% strengthening of Australian dollar against US dollar at 30 June would have increased/(decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

	Consolidated Group		Parent Entity	
	Profit $	Equity $	Profit $	Equity $
2008				
GBP	(66,557)	–	–	–
NZD	(45,464)	–	–	–
US dollars	35,430	–	–	–
2007				
NZD	(8,832)	–	–	–
US dollars	(98,616)	–	–	–

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

(ii) Interest rate risk

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

The Group constantly analyses its interest rate exposure. The Group's current approach is to maintain approximately 25–50% of its borrowings at fixed rate using floating-to-fixed interest rate swaps to achieve this. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts. These swaps are designated to hedge the underlying debt obligations. During 2008 and 2007, the Group's borrowings at variable rates were denominated in Australian Dollars.

37. FINANCIAL INSTRUMENTS continued

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

	Weighted average interest rate %	Floating interest rate maturing 1 year or less $	Over 1 to 5 years $	More than 5 years $	Total $
2008					
Financial assets:					
Cash	6.45	592,987	–	–	592,987
Receivable	–	9,641,336	–	–	9,641,336
Investments	–	–	–	–	–
Total financial assets		**10,234,323**	**–**	**–**	**10,234,323**
Financial liabilities:					
Accounts payable	–	12,121,631	–	–	12,121,631
Loans and overdraft	8.24	7,443,380	11,917,039	–	19,360,419
Lease liability	7.66	817,417	2,990,724	–	3,808,141
Total financial liabilities		**20,382,428**	**14,907,763**	**–**	**35,290,191**
2007					
Financial assets:					
Cash	6.00	2,028,209	–	–	2,028,209
Receivable	–	7,541,236	–	–	7,541,236
Total financial assets		**9,569,445**	**–**	**–**	**9,569,445**
Financial Liabilities:					
Accounts payable	–	9,010,025	–	–	9,010,025
Loans and overdraft	7.66	5,668,014	15,849,039	–	21,517,053
Lease liability	7.66	779,362	3,583,783	–	4,363,145
Total financial liabilities		**15,457,401**	**19,432,822**	**–**	**34,890,223**

37. FINANCIAL INSTRUMENTS continued

Net exposure

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

Outstanding floating to fixed contracts	Average contracted fixed interest rate 2008 %	2007 %	Notional principal amount 2008 $	2007 $	Fair value 2008 $	2007 $
Consolidated Group						
Less than 1 year	–	–	–	–		
1 to 2 years	6.00	6.00	8,000,000	–		
2 to 5 years	6.00	6.00	–	8,000,000		
5 years +	–	–	–	–		
			8,000,000	**8,000,000**		
Parent Entity						
Less than 1 year	–	–	–	–		
1 to 2 years	6.00	6.00	8,000,000	–		
2 to 5 years	6.00	6.00	–	8,000,000		
5 years +	–	–	–	–		
			8,000,000	**8,000,000**		

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

Sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments at fair value through profit or loss and does not designate derivatives as hedging instruments under the fair value hedge. Therefore a change in interest rates at reporting dates would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

Based on the financial instruments held as at 30 June 2008, a change of 100 and 50 basis points in interest rates would have increased/(decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
2008				
+ 1% (100 basis points)	113,604	113,604	67,002	67,002
– 0.5% (50 basis points)	(56,802)	(56,802)	(33,501)	(33,501)
2007				
+ 1% (100 basis points)	135,171	135,171	112,990	112,990
– 0.5% (50 basis points)	(67,585)	(67,585)	(56,495)	(56,495)

37. FINANCIAL INSTRUMENTS continued

Cash flow sensitivity analysis for derivative instruments

Based on the derivative financial instruments held as at 30 June 2008, a change of 50 basis points in interest rates would have increased/(decreased) the value of the derivative by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

	Derivative Value	
	Consolidated Group $	Parent Entity $
2008		
+ 0.5% (50 basis points)	71,389	71,389
– 0.5% (50 basis points)	(71,389)	(71,389)
2007		
+ 0.5% (50 basis points)	44,592	44,592
– 0.5% (50 basis points)	(44,592)	(44,592)

(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 approximately $4 million undrawn credit facilities available for immediate use at the reporting date which would further reduce the liquidity risk. For further details see note 33(a).

Maturities of financial liabilities

	Carrying amount $	Total contractual cash flows $	Less than 6 months $	6–12 months $	1–5 years $
Consolidated Group					
2008					
Non-derivatives financial liabilities					
Trade and other payables	12,121,631	12,121,631	12,121,631	–	–
Fixed borrowings	3,808,141	4,284,259	408,709	408,709	3,466,841
Variable borrowings	19,360,419	19,360,419	425,000	425,000	18,510,419
	35,290,191	**35,766,309**	**12,955,340**	**833,709**	**21,977,260**
2007					
Non-derivatives financial liabilities					
Trade and other payables	9,010,025	9,010,025	9,010,025	–	–
Fixed borrowings	4,363,145	5,028,203	554,317	554,317	3,919,569
Variable borrowings	21,517,053	21,517,053	425,000	425,000	20,667,053
	34,890,223	**35,555,281**	**9,989,342**	**979,317**	**24,586,622**

37. FINANCIAL INSTRUMENTS continued

Maturities of financial liabilities (continued)

	Carrying amount $	Total contractual cash flows $	Less than 6 months $	6–12 months $	1–5 years $
Parent Entity					
2008					
Non-derivatives financial liabilities					
Trade and other payables	634,266	634,266	634,266	–	–
Fixed borrowings	3,808,141	4,284,259	408,709	408,709	3,466,841
Variable borrowings	14,700,171	14,700,171	375,000	375,000	13,950,171
	19,142,578	**19,618,696**	**1,417,975**	**783,709**	**17,417,012**
2007					
Non-derivatives financial liabilities					
Trade and other payables	538,874	538,874	538,874	–	–
Fixed borrowings	4,363,145	4,363,145	389,681	389,681	3,583,783
Variable borrowings	19,299,039	19,299,039	375,000	375,000	18,549,039
	24,201,058	**24,201,058**	**1,303,555**	**764,681**	**22,132,822**

(c) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents as well as credit exposures to customers, including outstanding receivables from subsidiaries and financial guarantees given to entities within the Group. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in notes 10 and 11.

The Group's policy is to trade with recognised and credit-worthy third parties and as such no collateral is required. The Group manages its credit risk by assessing the credit quality and financial position of its customers including past experience and other factors. In addition, receivable balances are monitored on an ongoing basis minimising the exposure to bad debts. The Group has also taken out a credit insurance policy that applies to all approved debtors. This policy provides insurance for 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) Net fair values

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

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

37. FINANCIAL INSTRUMENTS continued

	2008		2007	
	Carrying Amount $	Net Fair Value $	Carrying Amount $	Net Fair Value $
Financial Assets				
Trade and other current receivables	9,641,336	9,641,336	7,541,236	7,541,236
Cash	592,987	592,987	2,028,209	2,028,209
	10,234,323	**10,234,323**	**9,569,445**	**9,569,445**
Financial Liabilities				
Trade and others payables	12,121,631	12,121,631	9,010,025	9,010,025
Short term borrowings	7,443,380	7,443,380	5,668,014	5,668,014
Long term borrowings	11,917,039	11,917,039	15,849,039	15,849,039
Lease liability	3,808,141	3,808,141	4,363,145	4,363,145
	35,290,191	**35,290,191**	**34,890,223**	**34,890,223**

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

38. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Value in use calculation assumptions

The recoverable amount of each cash-generating unit used for impairment testing is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period. The assumed growth rate and discount rate used in the determination of value in use were 5% and 13% respectively. The discounted rate used is the Weighted Average Cost of Capital (WACC) of the Group at the reporting date. See note 17 for further details on the impact of changes to these assumptions.

(ii) Assumptions relating to carrying value of Joint Venture

The carrying value of ADP, a joint venture entity (for further details see note 14) is dependant on regulatory approval for the sale of a critical ingredient being obtained. The carrying value is based on the judgement that this regulatory approval will be received. Once approval is obtained, the ingredient in question will be incorporated into a range of products, both within the Probiotec group and for external third parties. See note 14 for further details.

39. SEGMENT INFORMATION

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

All inter-segment transactions are at arms length.

(a) Business Segments

	Business Segment 1		Business Segment 2		Unallocated		Consolidated	
	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)
Revenue								
External sales	48,772	34,079	17,049	19,913	–	–	65,821	53,992
Inter-segment sales	–	–	–	–	–	–	–	–
Other revenue	209	82	116	32	73	260	398	374
Total sales revenue	48,981	34,161	17,165	19,945	73	260	66,219	54,366
Share of net profit of associates	–	–	(281)	(517)	–	–	(281)	(517)
Total segment revenue	**48,981**	**34,161**	**16,884**	**19,428**	**73**	**260**	**65,938**	**53,849**
Result								
Segment result	**10,529**	**6,557**	**3,474**	**4,009**	**(5,502)**	**(4,505)**	**8,501**	**6,061**
Profit from ordinary activities before income tax							8,501	6,061
Income tax expenses							2,192	1,084
Net profit after income tax							6,309	4,977

	Business Segment 1		Business Segment 2		Unallocated		Consolidated	
	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)
Assets								
Segment assets	**59,169**	**36,174**	**15,907**	**16,884**	**10,829**	**24,856**	**85,905**	**77,914**
Consolidated total assets							**85,905**	**77,914**
Acquisition of property, plant, equipment and intangible assets	**5,477**	**8,288**	**935**	**355**	**151**	**–**	**6,563**	**8,643**
Liabilities								
Segment liabilities	**14,711**	**6,663**	**1,628**	**2,126**	**25,486**	**31,058**	**41,825**	**39,847**
Consolidated total liabilities							**41,825**	**39,892**
Other information								
Depreciation and amortisation	**1,337**	**1,133**	**838**	**866**	**205**	**107**	**2,380**	**2,106**
Non-cash expenses other than depreciation and amortisation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

(b) Geographic Segments

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

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

	New Zealand ($'000)	European Union ($'000)	United States of America ($'000)
Gross Revenue for year ended 30 June 2008	3,201	1,824	884

DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and the consolidated entity.
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The remuneration disclosures included in pages 22 to 29 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2008, comply with section 300A of the Corporations Act 2001.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

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

Charles Wayne Stringer
Director

Dated at Laverton this 8th day of September 2008

BDO Kendalls

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ABN 17 114 673 540

INDEPENDENT AUDITOR'S REPORT

To the members of Probiotec Limited

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Probiotec Limited for the year ended 30 June 2008 included on Probiotec Limited's web site. The company's directors are responsible for the integrity of Probiotec Limited's web site. We have not been engaged to report on the integrity of Probiotec Limited's web site. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Report on the Financial Report

We have audited the accompanying financial report of Probiotec Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

BDO Kendalls

Independence

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

Auditor's Opinion

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

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Probiotec Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

BDO Kendalls

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

Nicholas E. Burne
Director

Melbourne, 8th day of September 2008

OTHER INFORMATION REQUIRED BY ASX LISTING RULES

The information in this section is current as at the 28th August 2008.

Substantial Holders in the entity

Wayne Stringer	7,945,662 fully paid ordinary shares
Rudi Ganter	2,523,300 fully paid ordinary shares
Vintage Capital Pty Ltd (ACN 116 337 592)	3,174,023 fully paid ordinary shares
National Australia Bank Limited (ACN 004 044 937)	3,471,113 fully paid ordinary shares

Holders of each class of equity securities

Security Classes	Holders	Total Units
Fully Paid Ordinary	910	48,724,126

Voting rights attached to each class of equity securities

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

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

Security Classes	Holdings Ranges	Holders	Total Units	%
Fully Paid Ordinary	1–1,000	113	78,863	0.162
	1,001–5,000	354	967,295	1.985
	5,001–10,000	178	1,465,976	3.009
	10,001–100,000	218	7,057,932	14.485
	100,001–99,999,999,999	47	39,154,060	80.359
	Totals	**910**	**48,724,126**	**100.000**

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

At the date of this report, a marketable parcel of fully paid ordinary shares was 401 or more shares.

Security Classes	Holdings Ranges	Holders	Total Units	%
Fully Paid Ordinary	1–400	10	871	0.002
	401–99,999,999,999	900	48,723,255	99.998
	Totals	**910**	**48,724,126**	**100.000**

Company secretary

The secretary of Probiotec Limited is:

Mr Jared Stringer

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

20 largest holders of each class of quoted equity securities

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

Holder Name	Balance	%
INSTON PTY LTD	5,733,272	12.303
COGENT NOMINEES PTY LIMITED	3,471,112	7.448
VINTAGE CAPITAL PTY LTD	3,174,023	6.811
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,663,675	5.716
ANZ NOMINEES LIMITED <CASH INCOME A/C>	2,572,910	5.521
GANTER CORPORATION PTY LTD <GANTER FAMILY A/C>	2,523,300	5.415
MR CHARLES WAYNE STRINGER	2,212,390	4.747
HOLTEX PTY LIMITED <BUCKERIDGE SUPER FUND A/C>	1,818,685	3.903
TRIFERN PTY LTD	1,697,286	3.642
VBS INVESTMENTS PTY LTD	1,671,069	3.586
MR SCOTT JOHNSTON <JOHNSTON FAMILY S/F A/C>	979,516	2.102
TAYLOR CO PTY LTD <PETER TAYLOR SUPER FUND A/C>	725,018	1.556
CITICORP NOMINEES PTY LIMITED <CWLTH SMALL CO FD 2 A/C>	711,656	1.527
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	676,643	1.452
MOGGS CREEK PTY LTD <SUPERANNUATION FUND A/C>	640,080	1.373
T H C PTY LTD	605,184	1.299
CVC LIMITED	579,423	1.243
CHARANDA NOMINEE COMPANY PTY LTD <THE AMCHAR A/C>	550,024	1.180
MR HENRY ATHOLL ROBERTSON	506,277	1.086
DIJON NOMINEES PTY LTD <MAGOWAN FAMILY S/FUND A/C>	488,259	1.048

OTHER INFORMATION REQUIRED BY ASX LISTING RULES

Registered Office and principal administrative office

The registered office and principal administrative office for Probiotec is:

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

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

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

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

Other stock Exchanges on which entity's securities are quoted

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

Restricted and Escrowed Securities

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

Unquoted Equity Securities

Security Classes	Holders	Total Units
Fully Paid Ordinary – issued under Employee incentive schemes	138	2,121,674

On market buy-back

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

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

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

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