



**PROBIOTEC LIMITED AND ITS CONTROLLED ENTITIES**

**Preliminary Final Report**

**For the Period ended 30 June 2020**

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## Appendix 4E

As required by ASX Listing Rule 4.3A

### Probiotec Limited Preliminary final report For the year ended 30 June 2020

#### Results for announcement to market

Current Reporting Period: Year ended 30 June 2020  
Previous Corresponding Period: Year ended 30 June 2019

Reported results	Movement			(\$'000)
Sales Revenue from ordinary activities	Up	46.4%	to	107,220
Earnings before interest, tax, depreciation & amortisation (EBITDA)	Up	72.4%	to	16,349
Earnings before interest and tax (EBIT)	Up	75.5%	to	11,188
Net profit / (loss) from ordinary activities before tax attributable to owners	Up	96.8%	to	8,897
Net profit / (loss) after tax for the period attributable to owners	Up	72.3%	to	6,442
Earnings per share	Up	51.3%	to	9.14 cents

Underlying Results <sup>1</sup>	Movement			(\$'000)
Sales Revenue from ordinary activities	Up	46.4%	to	107,220
Earnings before interest, tax, depreciation & amortisation (EBITDA)	Up	78.0%	to	16,872
Earnings before interest and tax (EBIT)	Up	87.0%	to	12,577
Net profit / (loss) from ordinary activities before tax attributable to owners	Up	111.2%	to	10,287
Net profit / (loss) after for the period attributable to owners	Up	90.7%	to	7,800
Earnings per share	Up	67.5%	to	11.07 cents

Dividends (Ordinary shares)	Record Date	Amount per Security	Franked Amount per Security
Final Dividend	23 October 2020	3.0 cents	3.0 cents

## Dividends

The directors have today declared a final dividend of 3.0 cents per ordinary share, fully franked, and to be paid on 30 October 2020. The dividend will be payable to shareholders of record on 23 October 2020. The company's Dividend Reinvestment Plan will not be operational for this dividend. This dividend does not relate to any conduit foreign income.

This dividend brings the total dividends for the year to 4.5 cents per share, an increase of 29% on the prior year.

<sup>1</sup> Underlying Results exclude amortisation of acquired intangibles (\$0.9 million) and non-recurring transaction costs (\$0.5 million).

## Review of Results

### Key Highlights

#### Revenue

**\$107.2m**

+46% on FY19

#### Underlying EBITDA <sup>1</sup>

**\$16.9m**

+78% on FY19

#### Underlying EPS <sup>1</sup>

**11.1 cps**

+68% on FY19

#### Full Year Dividends

**4.5 cps**

+29% on FY19

- ✓ Record sales revenue, first time over \$100m
- ✓ EBITDA at upper end of guidance at \$16.9m (guidance \$16 to \$17m)
- ✓ Successfully completed acquisition of ABS (Aus) Pty Ltd
- ✓ Successfully completed acquisition of assets and customer relationships from CPSA
- ✓ Managed through unprecedented COVID-19 disruptions

### Key Achievements

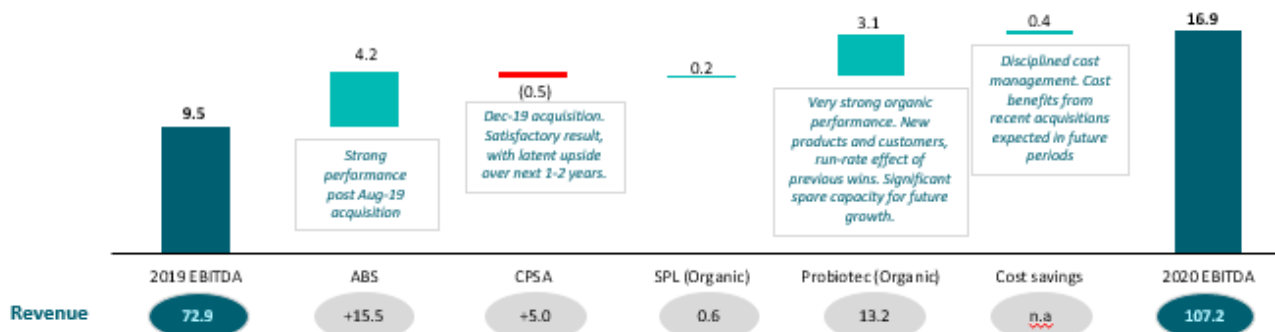
The year was one of considerable activity as the Group:

- ✓ Record sales of \$107.2 million;
- ✓ Acquired ABS (Aus) Pty Ltd for \$26.4 million, a high quality pharmaceutical and consumer product packing business;
- ✓ Acquired the assets and customer contracts of CPSA, a packer of prescription and specialty pharmaceutical products;
- ✓ Completed an on-market share placement for ~\$10.6m;
- ✓ Completed construction of a purpose-built warehouse and manufacturing facility at 85 Cherry Lane, Laverton North (adjacent to our primary manufacturing facility);
- ✓ Continued to acquire and on-board new customers and contracts.

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

### Results snapshot

In \$'m	Underlying	Adj.	Actual	Underlying vs PCP
Sales Revenue	107.2	--	107.2	+46%
EBITDA	16.9	(0.5) <sup>1</sup>	16.4	+78%
EBIT	12.6	(1.4) <sup>2</sup>	11.2	+87%
Net Profit After Tax	7.8	(1.4) <sup>2</sup>	6.4	+91%
Earnings Per Share	11.1¢	(2.0¢)	9.1¢	+68%



## PROBIOTEC LIMITED

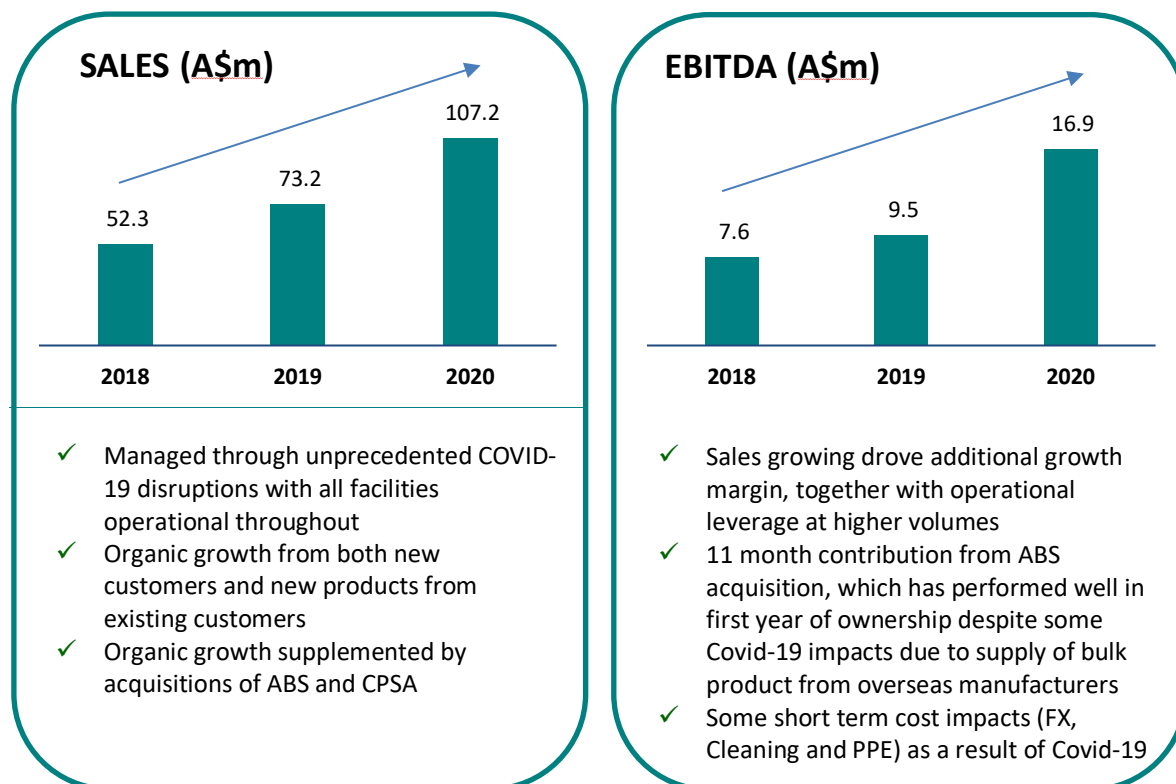
ABN 91 075 170 151

83 CHERRY LANE, LAVERTON NORTH, VIC 3026

(1) \$0.5m of non-recurring transaction costs excluded from Underlying Results at EBITDA level.

(2) \$1.4m adjustment reflects non-recurring transaction costs (\$0.5m) and amortisation of acquired intangibles (\$0.9m)

## Strong sales and earnings growth



### Acquisition of ABS (Aus) Pty Ltd

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

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

The acquisition was settled in cash for \$26.4 million, after settlement of all adjustments and earn outs. No further contingent amounts are payable.

### Acquisition of assets from CPSA

On 10 December 2019, the Company acquired the business assets, including major customer contracts and the plant and equipment required to fulfil the requirements of said contracts from Contract Pharmaceutical Services of Australia Pty Ltd CPSA ("CPSA")

CPSA is a leading high-end pharmaceutical contract packer that has been established for over 30 years. It provides a very wide range of packing services and formats including foil, carded and clamshell blister packing, bottle filling, labelling, secondary packaging and additional services for the pharmaceutical, cosmetic and food industries. CPSA has long standing relationships with many Australian and global pharmaceutical and cosmetic companies.

The acquisition was settled in cash, for a base amount of approximately \$4 million plus inventory (at cost).

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## Capital Management

On 25 September 2019, the Company raised \$10.56 million (before costs) through a placement to institutional, sophisticated and professional investors.

The issue price for the placement shares was \$1.76 per share.

The funds raised under the Placement are intended to facilitate integration and growth opportunities relating to the recent acquisition of ABS, target further bolt on acquisitions (including CPSA that was completed in December 2019) and strengthen the Company's balance sheet.

## Divestment of Celebrity Slim

The sale of Celebrity Slim represented the final divestment of the Group's branded portfolio and helped to further strengthen the balance sheet.

## Operational Highlights

Each of Probiotec's three facilities performed strongly in FY20, including the effective management and mitigation of the impacts of the Covid pandemic.

The key focus for all sites was on the safety and wellbeing of our staff and other stakeholders during this challenging period. Pleasingly, all facilities remained open and operational through the pandemic.

### Probiotec Laverton

- ✓ Record year with sales up 21%
- ✓ Strong operational performance
- ✓ Successfully integrated CPSA business
- ✓ Successful build and opening of acquired adjacent site 85 Cherry Lane adding considerably to the site footprint with extensive warehousing and processing facilities
- ✓ Cost management and operational efficiency focus
- ✓ Key focus on safety, wellbeing of staff during Covid-19

### ABS

- ✓ Exciting first year under Probiotec ownership
- ✓ Seamless integration into Probiotec operations
- ✓ Successfully integrated CPSA business
- ✓ Cost management and operational efficiency focus in line with Laverton lead
- ✓ Key focus on safety, wellbeing of staff during Covid-19

### SPL

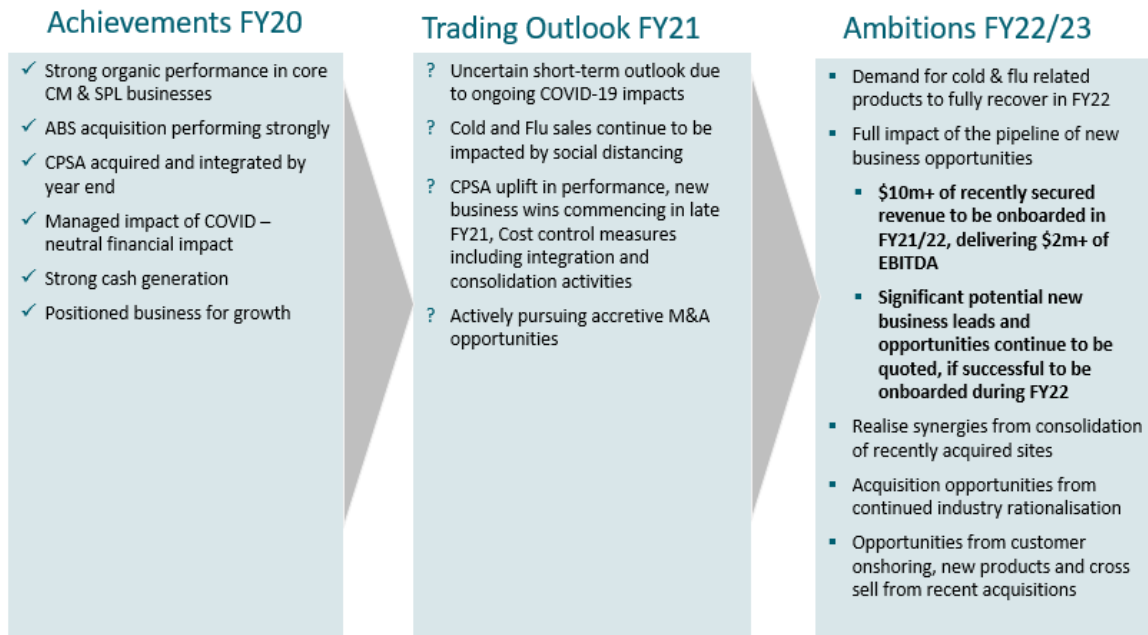
- ✓ Another strong year underpinning the success of this acquisition
- ✓ Growth in both sales and earnings
- ✓ New equipment added bolstering capacity and efficiency
- ✓ New blue chip clients added
- ✓ Cost management and operational efficiency focus in line with Laverton lead
- ✓ Key focus on safety, wellbeing of staff during Covid-19

## Achievements and Outlook

Whilst COVID-related uncertainty remains, it is difficult to forecast top line revenue for FY21.

However, the scale of the business has grown significantly following the three successful acquisitions in defensive sectors, creating greater resilience for the business. In addition, management has demonstrated multiple pathways to deliver strong earnings despite volatile economic conditions and has many levers to pull to continue its trajectory including cost out, acquisitions and site consolidation.

In spite of the sales headwinds relating to cough, cold and flu, management still expects to deliver earnings growth in FY21.



### Significant Changes in State of Affairs

There was no significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto and elsewhere in the financial report of the company and its controlled entities for the year ended 30 June 2020, other than the ongoing Covid-19 global pandemic, which continues to present higher levels of uncertainty and challenges than usual.

### Audit Status

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

### About Probiotec

Probiotec Limited is a manufacturer, packer and distributor of a range of prescription and over-the-counter (OTC) pharmaceuticals, complementary medicines and consumer health products. The company owns three manufacturing facilities in Australia and distributes its products both domestically and internationally. Products are manufactured by Probiotec on behalf of a range of clients, including major international pharmaceutical companies.

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

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**Authorised for release to the ASX by the board of directors of Probiotec Limited**

**For further information, contact:**

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

**FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2020**



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## DIRECTORS' REPORT

The directors submit the financial report of Probiotec Limited ("the Company") and its controlled entities ("the Group") for the financial year ended 30 June 2020.

### Directors

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

Alexander Beard	Non-Executive Director and Chairman
Wesley Stringer	Managing Director
Greg Lan	Non-Executive Director
Jonathan Wenig	Non-Executive Director (appointed 1 June 2020)
Geoffrey Ronald Pearce	Non-Executive Director and Chairman (Resigned 30 June 2020)

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

### Company Secretary

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

Jared Stringer

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

### Principal Activities

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

### Operating Results

The consolidated profit of the Group attributable to the shareholders from continuing operations for the financial year was \$6,442,077 (2019: \$3,739,888).

### Dividends

A final dividend of 3.0 cents per fully paid ordinary share has been declared on 26 August 2020 in relation to the financial year ended 30 June 2020 (2019: 2.5 cents). The final dividend will be paid on 30 October 2020, to shareholders of record on 23 October 2020. During the financial year ended 30 June 2020, a final dividend of 2.5 cents per fully paid ordinary share was paid in relation to the 2019 financial year, which amounted to \$1,650,723 (2019: \$1,274,587). An interim dividend of 1.5 cents per fully paid ordinary share, which amounted to \$1,121,683 (2019: \$600,759) was also paid during the 2020 financial year.

### Operating and financial review

#### Overview of results

The Group's underlying<sup>1</sup> net operating profit after tax from continuing activities attributable to members for the year was \$7.0 million compared to a profit of \$3.8 million for the prior corresponding period, representing growth of 85%.

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<sup>1</sup> Excluding non-recurring transaction costs associated primarily with the acquisitions of ABS (Aus) Pty Ltd and the assets of CPSA

For the year ended 30 June 2020, the Group's sales revenue from continuing operations increased by 46% to \$107.2 million, breaking the \$100m mark for the first time in the Group's history.

The year was one of considerable activity as the Group:

- ✓ Acquired ABS (Aus) Pty Ltd, a high quality pharmaceutical and consumer product packing business;
- ✓ Acquired the assets and customer contracts of CPSA, a packer of prescription and specialty pharmaceutical products;
- ✓ Completed an on-market share placement for ~\$10m;
- ✓ Completed construction of a purpose-built warehouse and manufacturing facility at 85 Cherry Lane, Laverton North (adjacent to our primary manufacturing facility);
- ✓ Continued to acquire and on-board new customers and contracts.

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

### Sales Growth

The Group's revenue from continuing operations rose to \$107.2 million, an increase of 46% over the prior corresponding period. Revenue was driven by the acquisitions of ABS and CPSA together with growth from both existing and new customers.

### Acquisition of ABS (Aus) Pty Ltd

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

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

The acquisition was settled in cash, for a base amount of \$23.7 million, subject to normal adjustments.

### Acquisition of assets from CPSA

On 10 December 2019, the Company acquired the business assets, including major customer contracts and the plant and equipment required to fulfil the requirements of said contract from Contract Pharmaceutical Services of Australia Pty Ltd CPSA ("CPSA")

CPSA is a leading high-end pharmaceutical contract packer that has been established for over 30 years. It provides a very wide range of packing services and formats including foil, carded and clamshell blister packing, bottle filling, labelling, secondary packaging and additional services for the pharmaceutical, cosmetic and food industries. CPSA has long standing relationships with many Australian and global pharmaceutical and cosmetic companies.

The acquisition was settled in cash, for a base amount of approximately \$4 million plus inventory (at cost).

### Capital Management

On 25 September 2019, the Company raised \$10.56 million (before costs) through a placement to institutional, sophisticated and professional investors. The issue price for the placement shares was \$1.76 per share.

The funds raised under the Placement are intended to facilitate integration and growth opportunities relating to the recent acquisition of ABS, target further bolt on acquisitions (including CPSA that was completed in December 2019) and strengthen the Company's balance sheet.

#### *Divestment of Celebrity Slim*

The sale of Celebrity Slim represented the final divestment of the Group's branded portfolio. Full details of the divestment can be found in Note 9.

#### *Covid 19 Impacts*

In totality, the Group's business was not materially impacted (on a net basis) from the Covid-19 pandemic during the 2020 financial year.

A slight increase in demand for Cough, Cold and immunity products at the beginning of lockdown restrictions was offset by increased costs of operating driven by:

- employee costs due to government restrictions
- increased cleaning and sanitation
- increased personal protective equipment increased global freight costs
- Increased input costs due to foreign currency fluctuations.

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

There was no significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto and elsewhere in the financial report of the company and its controlled entities for the year ended 30 June 2020.

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

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years other than the ongoing Covid 19 global pandemic and the sale of the Group's facility in Bomaderry, New South Wales.

The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments during 2020 have caused disruption to businesses and economic activity.

The Group considers the commencement of the Stage 4 quarantine measured imposed within Melbourne during August 2020 to be a non-adjusting post balance sheet event and accordingly the financial effects of COVID-19 have not been reflected in the Group's financial statements at 30 June 2020. Whilst the outbreak of COVID-19 has not had a material impact on the current year consolidated results, the directors will continue to monitor the situation due to continuing changes in government policy, consumer activity and evolving business and customer reactions thereto as it is possible this could have a material impact on the consolidated results of the Group in 2021.

On 14 August 2020, the Company signed an agreement for the sale of its facility in Bomaderry (see note 19 for details on this asset), New South Wales for an amount of \$750,000. This sale will complete on 25 September 2020.

#### **Likely developments, business strategies and prospects**

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

## Environmental Issues

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

## Occupational Health and Safety

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

## Meetings of Directors

Probiotec Limited became a public company on 17th February 2006 and listed on the Australian Stock Exchange on the 14th November 2006. Directors hold meetings approximately six to eight times a year. The board also comprises the Audit and Risk Management and Remuneration and Nominations Sub-Committees. The number of meetings of the company's board of directors held during the year ended 30 June 2020, and the numbers of meetings attended by each director were:

Director	Board of Directors Meetings		Audit & Risk Management Committee meetings		Remuneration & Nominations Committee meetings	
	No. Held <sup>2</sup>	No. Attended	No. Held <sup>3</sup>	No. Attended	No. Held <sup>2</sup>	No. Attended
Alexander Beard	10	9	2	2	-	-
Wesley Stringer	10	10	-	-	1	1
Jonathan Wenig	1	1	-	-	-	-
Geoffrey Pearce	10	10	2	2	1	0
Greg Lan	10	10	2	1	1	1

## Information on Directors and Officers

### Greg Lan

Role	-	Non-Executive Director
Qualifications	-	BSc (hons) Business Administration, MBA (International Marketing and Finance)
Experience	-	Mr Lan was the founding Managing Director of Sydney-based pharmaceutical company Aspen Pharmacare Australia, a subsidiary of South African listed Aspen Pharmacare Holdings. During Mr Lan's tenure, Aspen Australia experienced exponential growth, particularly after the acquisition of Sigma's branded and generics portfolio in 2011 (as well as its manufacturing facilities), and is today one of Australia's largest pharmaceutical companies. When Mr Lan retired after 15 years with the company, Aspen's Asia Pacific operations (including Australia) had annualised sales in excess of \$1 billion. Prior to joining Aspen, Mr Lan has had extensive experience working in the pharmaceutical industry internationally, including senior roles with Ciba-Geigy (now Novartis) in Switzerland and Saudi Arabia, as well as with Sanofi-Aventis in Australia. Mr Lan holds an MBA from the University of Michigan.
Special Responsibilities	-	Nil.
Other Directorships	-	Nil.

<sup>2</sup> Number of board meetings held while director eligible to attend.

<sup>3</sup> Number of meetings for members of respective board or committee only.

Alexander (Sandy) Beard

- Role - Non-Executive Director / Chairman (appointed 1 July 2020)
- Qualifications - B.Comm UNSW, Fellow of Institute of Chartered Accountants, Associate of the Institute of Company Directors.
- Experience - Prior to retiring from the role in 2019, Alexander (Sandy) Beard was the Chief Executive Officer of CVC Limited, an ASX Listed investment company with a market capitalisation of approximately \$250 million. CVC has a wide range of investments including direct private equity, listed investments, property investments and funds management.

Mr Beard has been a director of numerous public companies over the past 17 years. He brings extensive experience with investee businesses, both in providing advice and in direct management roles. Mr Beard has played an important roles in delivering value to shareholders over the past 20 years across a broad spectrum of industries and stages of company growth.

- Special Responsibilities - Chairman of Audit and Risk Management Committee (until 26 August 2020).
- Other Directorships - Non-executive director of Centrepoint Alliance (ASX: CAF) – Interest in shares and options: 10,998,296 fully paid ordinary shares
- Non-executive director of Pure Foods Tas Ltd (ASX: PFT) – Interest in shares and options: 1,000,000 fully paid ordinary shares
- Non-executive director of Tasfoods Ltd (ASX: TFL) – Interest in shares and options: 500,000 fully paid ordinary shares

Jonathan Wenig

- Role - Non-Executive Director (Appointed 1 June 2020)
- Qualifications - LLB (Hons) (Melb)
- Experience - Mr Wenig is currently a partner at Arnold Bloch Leibler, a leading Australian commercial law firm. Mr Wenig’s practice and expertise spans the breadth of commercial and corporate law, including mergers and acquisitions, corporate work, technology and financing. He is a trusted advisor to numerous active and innovative public companies – bringing his intellect and experience to bear not only in their corporate matters and acquisition activities, but across their legal affairs and strategic challenges and opportunities.

Mr Wenig is ranked as one of Australia’s leading Corporate and M&A lawyers in Chambers Asia Pacific and The Legal 500 Asia Pacific. He is also recognised by Best Lawyers® International in the area of corporate and M&A law and has been ranked by Doyle’s Guide in the categories of private equity and corporate law.

- Special Responsibilities - Member of Audit and Risk Management Committee (appointed Chairman on 26 August 2020).

Jared Stringer

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

### Wesley Stringer

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

### Geoffrey Pearce

Role	- Non-Executive Chairman (Resigned 30 June 2020)
Qualifications	- n/a
Experience	- Mr Pearce is a Melbourne-based entrepreneur with over three decades of business experience. Mr Pearce has extensive experience in pharmaceutical and cosmetic manufacturing as well as raw material and packaging sourcing and supply. In 2002, Mr Pearce started a contract manufacturing business in the bath and beauty industry with the acquisition of a small factory. In 2010, he renamed that business as Beautiworx. In 2014, Mr Pearce sold Beautiworx into a company where he was one of the two major shareholders, CEO of the manufacturing arm and a director on the Board. This company, BWX Limited, was successfully listed on the ASX in 2015.
Special Responsibilities	- Member of Remuneration and Nominations Committee and Audit and Risk Committee.
Other Directorships	- Non-executive director of Cann Group Limited (ASX: CAN) – Interest in shares and options: 1,554,195 fully paid ordinary shares - Non-executive director of McPhersons Limited (ASX: MCP) – Interest in shares and options: 570,239 fully paid ordinary shares

### **Insurance of Officers**

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

### **Disclosure on Unissued Shares under Option**

At the date of this report, there were no unissued ordinary shares of Probiotec Limited under option.

### **REMUNERATION REPORT (Audited)**

This report is prepared in accordance with section 300A of the *Corporations Act 2001* for the Group for the financial year ended 30 June 2020. This report is audited.

#### **1. REMUNERATION**

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

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

- the Board comprises individuals best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance; and

- the Group has coherent remuneration policies and practices that fairly and responsibly reward executives having regard to performance, the law and the highest standards of governance.

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

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

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

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

<b>Members of Remuneration and Nominations Committee</b>	<b>Position</b>	<b>Appointed</b>
Geoffrey Pearce (Resigned 30 June 2020)	Chairman	29 November 2016
Greg Lan	Member	23 February 2017
Wesley Stringer	Member	19 August 2015

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

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

The current annualised total remuneration for the company's non-executive directors is \$290,000. The Nomination & Remuneration Committee reviews non-executive remuneration annually and makes recommendations to the Board. The Committee considers current market rates of remuneration for similar sized companies and obtains advice from independent professional firms if required. Shareholders will be periodically asked to approve increases in the fee level of non-executive directors if the size, scope, complexity or demands made on the directors increases.

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

Remuneration levels for non-executive directors for the 2020 financial year are set out on page 10 of this report.

### *1.3 Remuneration Policy – Executive Directors and Key Management Personnel*

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

- the policy motivates executives to pursue the long term growth and success of Probiotec within an appropriate control framework;



- the policy demonstrates a clear relationship between individual performance and remuneration; and
- the policy involves an appropriate balance between fixed and variable remuneration, reflecting the short and long term performance objectives appropriate to Probiotec's circumstances and goals.

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

### **Performance-based Remuneration**

KPIs are set annually, with a certain level of consultation with key management personnel. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

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

#### Short-term Incentives

Executive directors and key management are eligible to receive short-term incentive payments, in the form of cash bonuses, based on the achievement of set Key Performance Indicators (KPIs) as described above.

#### Long-term Incentives

The Group provides long-term incentives to key management personnel to reward sustained performance by the organisation as a whole. Long-term incentives are in the form of options over Probiotec Limited shares issued under the company's Executive Option Plan, which was adopted by a resolution of members on 23 January 2018. The issue of shares and/or options is based on a review of the contributions and value of management personnel undertaken by the Nomination and Remuneration Committee.

At the date of this report, Wesley Stringer is the only executive director of Probiotec Limited. Mr. Wesley Stringer is paid a fixed annual remuneration. Along with his fixed annual remuneration, Mr. Wesley Stringer is also eligible to receive equity-based compensation, in the form of share options. Mr. Wesley Stringer was not granted any options during the 2020 financial year.

Loans to executives to enable the exercise of options were approved at the Company's Annual General Meeting on 24 October 2019 and subsequently provided to five executives. The aggregate value of these loans was \$9.11 million.

#### Termination Arrangements

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

#### *1.4 Remuneration Policy - Employees*

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

## 2. LINKING REMUNERATION TO PROBIOTEC'S PERFORMANCE

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

The company is committed to innovation and growth, whilst continuing to focus on maximising profitability and long-term shareholder value. Whilst there is no formal policy linking remuneration policy and company performance, the board strongly believes in the linking of remuneration to Probiotec's performance and has structured executive remuneration packages to include a significant portion 'at risk'. At present, 'at risk' remuneration includes options issued under the Probiotec Executive Option Plan along with short-term cash bonuses payable upon the achievement of agreed Key Performance Indicators.

## 3. REVIEW OF REMUNERATION

The Remuneration and Nominations Committee meets one to two times per year in conjunction with the release of the financial results or more frequently as circumstances dictate to review the total remuneration paid to the CEO and senior executives of the company. In addition to the members of the Committee, such Executives and/or external parties as the Chairman and members of that Committee think fit may be invited to attend meetings. All Directors may attend Committee meetings; however, the Chief Executive Officer will have no voting rights and must not be present during discussions on their own remuneration.

## 4. CONTRACTS OF EMPLOYMENT

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

## 5. REMUNERATION DETAILS OF KEY MANAGEMENT PERSONNEL

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

### Directors

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

Geoffrey Ronald Pearce	Non-Executive Director and Chairman (Resigned 30 June 2020)
Wesley Stringer	Managing Director
Greg Lan	Non-Executive Director
Jonathan Wenig	Non-Executive Director (Appointed 1 June 2020)
Alexander Beard	Non-Executive Director

### Other key management personnel

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

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

No persons who were considered Key Management Personnel during the financial year ended 30 June 2019 were no longer considered Key Management Personnel during this financial year.

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

2020	Position	Short-Term Benefits			Post Employment Benefits			Equity-Based	Total	Proportion of Remuneration that is performance based %
		Salary, Fees & Commissions	Short Term Incentives <sup>4</sup>	Non-Cash Benefits	Annual Leave	Long Service Leave <sup>5</sup>	Superannuation Contribution	Options		
		\$	\$	\$	\$	\$	\$	\$	\$	%
<i>Directors &amp; Secretaries</i>										
Wesley Stringer	CEO / Executive Director	352,336	90,000	47,313	-	26,023	19,616	-	535,288	16.8
Geoffrey Ronald Pearce	Non-Executive Director	83,713	-	-	-	-	5,475	-	89,188	-
Greg Lan	Non-Executive Director	54,667	-	-	-	-	-	-	54,667	-
Alexander Beard	Non-Executive Director	48,706	-	-	-	-	4,627	-	53,333	-
Jonathan Wenig <sup>6</sup>	Non-Executive Director	4,833	-	-	-	-	-	-	4,833	-
Jared Stringer	CFO / Company Secretary	251,142	60,000	-	-	8,224	23,859	-	343,225	17.5
		795,397	150,000	47,313	-	34,247	53,577	-	1,080,534	13.9
<i>Other Key Management Personnel</i>										
Julie McIntosh	GM - Supply Chain	215,097	50,000	-	-	7,510	20,828	-	293,435	17.0
Alan Hong	GM - Accounting	151,351	5,000	-	-	3,528	24,523	-	184,402	2.7
		366,448	55,000	-	-	11,038	45,351	-	477,837	11.5
<b>Total</b>		<b>1,161,845</b>	<b>205,000</b>	<b>47,313</b>	<b>-</b>	<b>45,285</b>	<b>98,928</b>	<b>-</b>	<b>1,558,371</b>	<b>13.2</b>

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

<sup>4</sup> Short Term incentives related to FY2020 were paid in August 2020.

<sup>5</sup> All Long Service Leave amounts relate to accrued balances. No Long Service Leave was taken or paid out during the year.

<sup>6</sup> Mr Wenig appointed 1 June 2020

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

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

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

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

<sup>2</sup> Appointed 23 November 2017, an amount of \$29,173 was paid to CVC Managers Pty Ltd in relation to Mr Beard's service.

## 6. INTEREST IN SHARES & OPTIONS

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

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

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

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

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

Directors	Balance at 1/07/2018	Share acquisitions through exercise of share options	Other purchases during the year*	Sold during the year	Balance at 30/06/19	Share acquisitions through exercise of share options	Other purchases during the year*	Sold during the year	Balance at 30/06/20
Wes Stringer	1,042,873	1,000,000	-	-	2,042,873	4,600,000	-	(1,715,000)	4,927,873
Geoffrey Pearce	3,205,052	-	-	-	3,205,052	-	70,000	-	3,275,052
Alexander Beard	179,547	-	-	-	179,547	-	-	-	179,547
Jonathan Wenig	-	-	-	-	-	-	47,500	-	47,500
Greg Lan	113,735	-	-	-	113,735	-	-	-	113,735
<b>Total for Directors</b>	<b>4,541,207</b>	<b>1,000,000</b>	-	-	<b>5,541,207</b>	<b>4,600,000</b>	<b>117,500</b>	<b>(1,715,500)</b>	<b>8,543,707</b>
Alan Hong	200,000	100,000	-	-	300,000	-	-	(100,000)	200,000
Jared Stringer	990,000	-	-	(7,000)	983,000	2,300,000	-	(483,000)	2,800,000
Julie McIntosh	200,000	-	-	-	200,000	1,250,000	-	(100,000)	1,350,000
<b>Total for KMPs</b>	<b>1,390,000</b>	<b>1,100,000</b>	-	<b>(7,000)</b>	<b>1,483,000</b>	<b>3,550,000</b>	-	<b>(683,000)</b>	<b>4,350,000</b>

## 7. SHARE OPTIONS EXERCISED OR LAPSED DURING THE YEAR

No share options issued to directors or Key Management Personnel were exercised, lapsed or forfeited during the year ended 30 June 2020, other than those set out on the prior page.

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

*End of audited remuneration report.*

### Proceedings on Behalf of the Company

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

### Non-audit Services

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

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

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2020.

### Auditor Extension

On 26 August 2020, the Directors approved the extension of the appointment of the Company's Lead Audit Partner, Mr Rami Eltchelebi of ShineWing Australia for a further period of two years (pursuant to section 324DAA of the Corporations Act 2001). The Director's approval followed an Audit and Risk Committee recommendation to extend the appointment, including a statement by the Committee members that they were satisfied that the extension:

- Would be consistent with maintain the quality of the audit provided to the Company; and
- Would not give rise to a conflict of interest situation as defined in section 324CD of the Corporations Act 2001.

### 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 14 of this report.

Signed in accordance with a resolution of Board of Directors.



.....  
Director  
Wesley Stringer

Signed at Laverton this 26<sup>th</sup> day of August 2020

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001 TO THE DIRECTORS OF PROBIOTEC LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020 there have been:

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

*ShineWing Australia*

**ShineWing Australia**  
Chartered Accountants

*Rami Eltchelebi*

Rami Eltchelebi  
Partner

Melbourne, 26 August 2020

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020**

	Note	Consolidated Group	
		2020	2019
		\$	\$
Sales revenue from continuing operations	2	107,219,983	73,236,585
Cost of goods sold		<u>(75,438,444)</u>	<u>(50,561,113)</u>
Gross profit		31,781,539	22,675,472
Other income	2	359,979	349,909
Warehousing & distribution expenses		(6,473,020)	(5,857,356)
Sales and marketing expenses		(1,489,995)	(930,263)
Finance costs		(2,290,106)	(1,853,602)
Administration and other expenses	4	<u>(12,990,997)</u>	<u>(9,863,198)</u>
<b>Profit from continuing activities before income tax expense</b>		8,897,400	4,520,962
Income tax expense relating to continuing activities	5	<u>(2,455,323)</u>	<u>(781,074)</u>
<b>Net profit from continuing activities</b>		<u>6,442,077</u>	<u>3,739,888</u>
<b>Profit from continuing activities for the period attributable to owners of the parent entity</b>		<u>6,442,077</u>	<u>3,739,888</u>
Profit / (loss) from discontinued operations	6	(2,935,880)	7,590,997
<b>Profit for the period attributable to owners of the parent entity</b>	3	<u>3,506,197</u>	<u>11,330,885</u>
<b>Other comprehensive income</b>			
<b>Other comprehensive loss to be classified to profit and loss when specific conditions are met</b>			
Exchange differences on translating foreign operations		<u>(363,209)</u>	<u>(92,262)</u>
<b>Other comprehensive income that will not be reclassified to profit and loss</b>			
Transfer to assets held for sale		<u>488,797</u>	<u>-</u>
Income tax on items of other comprehensive income		<u>-</u>	<u>-</u>
Other comprehensive income for the year, net of tax		<u>125,588</u>	<u>(92,262)</u>
<b>Total comprehensive income for the year</b>		<u>3,631,785</u>	<u>11,238,622</u>
<b>the parent entity</b>		<u>3,631,785</u>	<u>11,238,622</u>
<b>Earnings per share for profit attributable to owners of the parent entity</b>			
Basic earnings per share (cents)	33	5.0	18.3
Diluted earnings per share (cents)	33	5.0	17.5
<b>Earnings / (loss) per share from discontinued operations</b>			
Basic earnings per share (cents)	33	(4.2)	12.3
Diluted earnings per share (cents)	33	(4.2)	11.7

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

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

	Note	Consolidated Group	
		2020	2019
		\$	\$
<b>Current Assets</b>			
Cash and cash equivalents	15	6,305,680	8,843,997
Trade and other receivables	16	22,939,155	18,764,262
Inventories	17	15,700,277	13,254,813
Assets held for sale	18	730,000	5,775,000
Other current assets		515,089	430,141
<b>Total Current Assets</b>		<b>46,190,201</b>	<b>47,068,213</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	19	17,110,977	15,827,061
Right of use assets	25	19,482,337	18,403,325
Intangible assets	20	42,948,070	17,419,937
Deferred tax assets	21	8,326,377	7,649,257
<b>Total Non-Current Assets</b>		<b>87,867,761</b>	<b>59,299,580</b>
<b>Total Assets</b>		<b>134,057,962</b>	<b>106,367,793</b>
<b>Current Liabilities</b>			
Trade & other payables	22	18,043,083	12,144,158
Short-term interest bearing liabilities	23	1,640,000	1,840,000
Short-term lease liabilities	24	2,260,285	2,627,083
Current tax liabilities		568,957	136,048
Short-term provisions	26	3,139,537	2,430,223
<b>Total Current Liabilities</b>		<b>25,651,862</b>	<b>19,177,512</b>
<b>Non-Current Liabilities</b>			
Long-term interest bearing liabilities	23	9,660,000	3,228,902
Long-term lease liabilities	24	24,462,581	23,019,109
Deferred tax liabilities	27	13,229,361	10,842,945
Long-term provisions	26	545,170	250,353
<b>Total Non-Current Liabilities</b>		<b>47,897,112</b>	<b>37,341,309</b>
<b>Total Liabilities</b>		<b>73,548,974</b>	<b>56,518,821</b>
<b>Net Assets</b>		<b>60,508,988</b>	<b>49,848,973</b>
<b>Equity</b>			
Contributed equity	28	43,737,151	33,608,259
Foreign Currency Translation Reserve	29	-	(379,516)
Share Based Payments Reserve	29	477,952	477,952
Asset Revaluation Reserve	29	-	488,797
Retained earnings		16,293,884	15,653,481
<b>Total Equity</b>		<b>60,508,988</b>	<b>49,848,973</b>

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020**

	Ordinary Share Capital \$	Foreign Currency Translation Reserve \$	Asset Revaluation Reserve \$	Share Based Payments Reserve \$	Retained Earnings \$	Total \$
<b>Balance as at 1 July 2018</b>	38,596,329	(287,254)	4,026,722	477,952	9,389,411	52,203,160
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	11,330,885	11,330,885
Divestments	-	-	(3,537,925)	-	-	(3,537,925)
Other comprehensive income	-	(92,262)	-	-	-	(92,262)
<b>Total comprehensive income for the year</b>	-	(92,262)	(3,537,925)	-	11,330,885	7,700,698
<b>Transactions with owners in their capacity as owners</b>						
Shares (cancelled) / issued during the year	(4,988,070)	-	-	-	-	(4,988,070)
Dividends paid or provided for	-	-	-	-	(5,066,813)	(5,066,813)
<b>Balance as at 30 June 2019</b>	33,608,259	(379,516)	488,797	477,952	15,653,483	49,848,973
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	3,506,197	3,506,197
Deregistration of overseas entities	-	379,516	-	-	(363,209)	16,307
Recognition of asset held for sale	-	-	(488,797)	-	488,797	-
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	379,516	(488,797)	-	3,631,785	3,522,504
<b>Transactions with owners in their capacity as owners</b>						
Shares / options (cancelled) issued during the year	10,128,892	-	-	-	-	10,128,892
Dividends paid or provided for	-	-	-	-	(2,991,383)	(2,991,383)
<b>Balance as at 30 June 2020</b>	43,737,151	-	-	477,952	16,293,885	60,508,988

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

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

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020**

	Note	Consolidated Group	
		2020	2019
		\$	\$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		106,008,161	76,650,036
Payments to suppliers and employees		(92,937,918)	(78,510,232)
Interest received		-	146,487
Interest and other costs of finance paid		(2,290,106)	(1,853,602)
Income tax paid		(605,558)	(818,011)
Net cash provided by / (used in) operating activities	32 (b)	10,174,579	(4,385,322)
<b>Cash Flows From Investing Activities</b>			
Payment for property, plant and equipment		(1,989,009)	(11,296,132)
Proceeds from sale of property, plant and equipment		89,250	21,500,000
Proceeds from sale of intangible assets		5,207,788	22,073,000
Payment for investment in subsidiaries, net of cash received		(24,617,123)	(1,000,000)
Purchase of intangible assets		(3,641,526)	(1,215,810)
Net cash provided by / (used in) investing activities		(24,950,620)	30,061,058
<b>Cash Flows From Financing Activities</b>			
Proceeds from issues of shares		10,137,600	755,000
Share buy back		(8,708)	(5,743,070)
Dividends Paid		(2,991,384)	(5,066,814)
Proceeds from borrowings		8,519,659	-
Repayment of borrowings		(3,419,443)	(8,592,943)
Net cash provided by / (used in) financing activities		12,237,724	(18,647,827)
Net Increase / (decrease) in cash held		(2,538,317)	7,027,909
<b>Cash at beginning of financial year</b>		8,843,997	1,816,089
<b>Cash at end of financial year</b>	16	6,305,680	8,843,997

**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	6,305,680	8,843,997
	<u>6,305,680</u>	<u>8,843,997</u>

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers Probiotec Limited ("company") and controlled entities ("group"). Probiotec Limited is a for-profit listed public company, incorporated and domiciled in Australia. The financial report is for the financial year ended 30 June 2020 and is presented in Australian dollars.

#### Basis of Preparation

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

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

#### Reporting Basis and Convention

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

#### Compliance with IFRS

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

#### Authorisation for issue

This financial report was authorized for issue by the board of directors of Probiotec Limited on 26 August 2020.

#### Accounting Policies

##### (a) Principles of Consolidation

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

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

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

component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

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

## **(b) Income Tax**

### **(i) General**

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

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

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

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

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

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

### **(ii) Goods and Services Tax**

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

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

## **(c) Foreign Currency Translation**

### **(i) Functional and presentation currency**

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

### **(ii) Foreign Currency Transactions**

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the date when the fair value was determined.

### **(iii) Translation of group companies' functional currency to presentation currency**

The results of foreign controlled subsidiaries are translated into Australian dollars as at the date of the transactions. Assets and liabilities are translated at exchange rates prevailing at balance date.

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

## **(d) Impairment**

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

Loss allowance is not recognised for:

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

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

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

### *Simplified approach*

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

This approach is applicable to:

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

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

### *Recognition of expected credit losses in financial statements*

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

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

### Impairment of Assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

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

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

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

### **(e) Inventories**

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

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

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

#### **(i) Property**

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value

reserves directly in equity; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings. When revalued assets are sold, amounts included in the revaluation reserve relating to the asset are transferred to retained earnings.

#### (ii) Plant and Equipment

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

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

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

#### Depreciation

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

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

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

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

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

#### **(g) Leases**

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (i.e. a lease with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expenses on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.



Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- The lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy (as outlined in the financial report for the annual reporting period).

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

As a practical expedient, AASB 16 Leases permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or

non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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

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

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

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

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

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

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

Separate joint venture entities providing joint venturers with an interest in net assets are classified as a joint venture and accounted for using the equity method.

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

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

#### **(j) Intangibles**

##### *i) Goodwill*

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

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

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

*iii) Research and Development – Internally generated*

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

*ii) Customer relationships*

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

**(k) Employee Benefits**

*i) Wages, Salaries & Annual Leave*

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

*ii) Long Service Leave*

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

*iii) Superannuation*

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

*iv) Employee share based payments*

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

recognised as an expense is adjusted to reflect the actual number of options that vest, except where forfeiture is due to market related conditions.

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

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

## **(l) Financial Instruments**

### *Initial recognition and measurement*

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

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

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

### Classification and subsequent measurement

#### *Financial liabilities*

Financial liabilities are subsequently measured at:

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

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

- held for trading;
- A contingent consideration of an acquirer in a business combination to which AASB 3: *Business Combinations* applies; or
- Initially designated as at fair value through profit or loss.
- 

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

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

A financial liability is held for trading if it is:

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

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The change in fair value of the financial liability attributable to

changes in the issuer's credit risk is taken to other comprehensive income and is not subsequently reclassified to profit or loss. Instead, it is transferred to retained earnings upon derecognition of the financial liability.

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

A financial liability cannot be reclassified.

#### *Financial assets*

Financial assets are subsequently measured at:

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

Measurement is on the basis of two primary criteria:

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

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

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

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

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

#### *Equity instruments*

At initial recognition, as long as the equity instrument is not held for trading and not a contingent consideration recognised by an acquirer in a business combination to which AASB 3:Business Combinations applies, the Group made an irrevocable election to measure any subsequent changes in fair value of the equity instruments in other comprehensive income, while the dividend revenue received on underlying equity instruments investment will still be recognised in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised at settlement date in accordance with the Group's accounting policy.

#### Derecognition

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

#### *Derecognition of financial liabilities*

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

#### *Derecognition of financial assets*

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

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

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

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

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

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

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

##### *Revenue from Contracts with Customers*

Revenue from contracts with customers is recognised so as to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the Group expects to be entitled, in exchange for those goods or services.

Revenue is recognised in accordance with the following five-step process:

1. Identifying the contract with the customer;
2. Identifying the performance obligations in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations in the contract; and
5. Recognising revenue as and when the performance obligations are satisfied.

Variable consideration in contracts such as performance incentives, penalties and bonuses (including those which are contingent) are estimated using either the expected value method or most likely amount method, as appropriate to the circumstances and recognised as revenue at the each reporting period until the contracts are settled.

Any difference between the stand-alone selling prices of the promised goods or services and the promised consideration on the contract is treated as a discount and allocated proportionately to performance obligations on contracts.

All non-cash considerations are measured at their fair value.

##### *Interest revenue*

Interest revenue is recognised using the effective interest method, which for floating rate financial assets is the rate inherent in the instrument.

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

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

**(p) Provisions**

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

**(q) Cash**

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

**(r) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

**(s) Earnings per share**

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

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

**(t) Contributed equity**

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

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

**(u) Business combinations**

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

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

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

#### (v) Fair Value Measurements

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

- Intangibles;
- freehold land and building;
- trade payables.

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

##### *Fair Value Hierarchy*

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

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

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

##### Valuation techniques

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

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

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of



unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Further details on fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy can be found in note 37.

#### **(w) New Accounting Standards**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of these new and amended pronouncements. These new and amended pronouncements are considered to have a limited impact on the Group's reporting:

- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business.
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework.
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform.
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia.
- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current
- AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.
- AASB 2020-3: Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments.

#### **(x) Covid 19**

As noted in the Review of Operations in the Directors' Report, the Board and management have considered the impact of COVID-19 on the consolidated entity's operations and financial performance, and have noted:

- A slight increase in demand for Cough, Cold and immunity products at the beginning of lockdown restrictions;
- Increased costs of operating driven by employee costs due to government restrictions, increased cleaning and sanitation, increased personal protective equipment and increased global freight costs;
- Increased input costs due to foreign currency fluctuations.

In totality, the Group's business was not materially impacted (on a net basis) from the Covid-19 pandemic during the 2020 financial year.

In preparing the consolidated financial report, management has considered the impact of COVID-19 on the various balances in the financial report, including the carrying values of trade receivables, as well as balances and accounting estimates for which cash flow forecasts are required to be prepared, impairment assessments of goodwill and intangible assets and forecast compliance with borrowing financial covenants.

<b>2: REVENUE AND OTHER INCOME</b>	Note	2020 \$	2019 \$
<b>Continuing operations</b>			
Revenue from contracts with customers	2(a)	<u>107,219,983</u>	<u>73,236,585</u>
		<u>107,219,983</u>	<u>73,236,585</u>
<b>Discontinued operations</b>			
Revenue from contracts with customers	2(a)	<u>1,596,767</u>	<u>7,091,200</u>
		<u>1,596,767</u>	<u>7,091,200</u>
Other income		<u>359,979</u>	<u>349,909</u>

2(a) *Disaggregation of Revenue*

<b>Continued operations</b>			
Contract manufacturing		<u>107,219,983</u>	<u>73,236,585</u>
		<u>107,219,983</u>	<u>73,236,585</u>
<b>Discontinued operations</b>			
Branded products		<u>1,596,767</u>	<u>7,091,200</u>
		<u>1,596,767</u>	<u>7,091,200</u>
<b>Timing of revenue recognition</b>			
At a point in time		-	-
Over time		<u>108,816,750</u>	<u>80,327,785</u>
		<u>108,816,750</u>	<u>80,327,785</u>

**3: PROFIT FOR THE YEAR**

Net profit has been arrived at after including:

Finance cost - non related parties	2,290,106	1,853,602
Foreign currency translation losses / (gains)	(44,463)	49,980
Bad and doubtful debts expense - trade receivables	19,874	10,282
Short term lease expenses	282,715	440,813
Professional and consulting expenses	526,955	561,529
Employee benefits expenses	33,386,179	25,712,465
Repairs and maintenance expenses	1,435,282	1,249,591
Depreciation of property, plant and equipment	2,336,891	1,906,982
Depreciation - right of use assets	1,805,359	727,052
Amortisation of intangibles	1,168,317	661,596
Impairment costs - current assets	1,000,000	-
Defined contribution superannuation expense	2,269,231	1,875,244

**4: ADMINISTRATION & OTHER EXPENSES**

Administration & other expenses comprises:

Insurance	646,322	510,347
Office expenses	525,135	482,098
Compliance costs	159,386	179,617
Other expenses	<u>11,660,154</u>	<u>8,848,411</u>
	<u>12,990,997</u>	<u>10,020,473</u>

**5: INCOME TAX EXPENSE**

(a) Components of Tax Expense:

Current income tax	1,174,515	1,030,305
Deferred income tax	690,051	(1,583,239)
Over provision for income tax in prior years	-	-
	<u>1,864,566</u>	<u>(552,934)</u>

Income tax is attributable to:

Profit / (loss) from continuing operations	2,455,323	781,074
Profit / (loss) from discontinued operations	<u>(590,757)</u>	<u>(1,334,008)</u>
	<u>1,864,566</u>	<u>(552,934)</u>

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

Profit from continuing operations	8,897,400	4,992,039
Profit / (loss) from discontinued operations	<u>(2,935,880)</u>	<u>7,261,243</u>
	<u>5,961,520</u>	<u>12,253,282</u>

Prima facie tax expense on profit before income tax at 30% (2019: 30%)

1,788,456	3,675,985
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Add Tax effect of:

Impairment of assets	300,000	-
Recoupment of prior losses not yet booked	-	(3,714,119)
Tax losses not recognised	-	-
Other non allowable or assessable items	<u>(223,890)</u>	<u>(514,800)</u>
Income tax expense / (benefit)	<u>1,864,566</u>	<u>(552,934)</u>

## 6: DISCONTINUED OPERATIONS

During the year, the Group divested its Celebrity Slim brand (see note 9 below), completed the wind down of the Group's UK and Ireland operations and closed its satellite warehouse facility. As such, these operations are considered discontinued operations as at the balance date. Please see the 2019 financial report for details of discontinued operations in the comparative period.

The Comprehensive income of the discontinued operations was:

	2020	2019
	\$	\$
Revenue	1,596,767	7,091,200
Impairment costs	(1,000,000)	(3,304,176)
Profit on sale of fixed assets	499,228	14,007,858
Expenses	(4,622,632)	(11,537,893)
Profit / (loss) from discontinued operations before income tax	(3,526,637)	6,256,989
Income tax benefit / (expense)	590,757	1,334,008
Profit / (loss) from discontinued operations after income tax	(2,935,880)	7,590,997

The cash flow of the discontinued operations was:

Net cash flow provided by / (used in) operating activities	(3,526,637)	(3,112,685)
Net cash flow provided by / (used in) investing activities	5,207,788	22,073,000
Net cash flow provided by financing activities	-	-
Net (decrease) / increase in cash held	1,681,151	18,960,315

## 7: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### (i) Value in use calculation assumptions

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

The discounted cash flows for each cash-generating unit is calculated based on management forecasts for sales, gross profit and resultant earnings. The assumed growth rate beyond the forecast cash flow period and discount rate used in the determination of value in use were 0% and 12.0% respectively. The discount rate used is the Weighted Average Cost of Capital (WACC) of the Group at the reporting date.

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

Based on the recoverable amounts of the Group's CGUs exceeding their aggregate carrying amounts as at 30 June 2020 there was no impairment charge. Management's sensitivity analysis has determined that no impairment charge would arise as a result of any reasonably possible change in key assumptions.

### Impairment Testing for CGUs containing Goodwill

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

	2020	2019
	\$	\$
ABS (Aus) Pty Ltd	17,376,052	-
South Pack Laboratories	8,165,041	8,165,041

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

Assumptions	2020
	%
Budgeted EBITDA growth rate	Nil
Discount rate	12.0%
Terminal growth rate	Nil

The Group performed impairment testing at 30 June 2020 and there was no impairment of goodwill allocated to the Contract Manufacturing CGU.

(ii) Amortisation of intangibles

As detailed in Note 1 (j), the group has a policy of amortising intangible assets with a finite useful life over a period of 10 to 20 years (other than those which are subject to a fixed term license) and the remainder have been determined to have an indefinite useful life. The carrying value of those assets with a finite useful life and those with an indefinite useful life is set out in Note 21. The determination of the useful life of each intangible asset, which comprises capitalised product development costs, is based on the group's knowledge of each major category of intangible assets and the future economic benefits expected to be received from each. The group reassesses the useful life of intangible assets at each reporting date and at any future period may change the useful life of an intangible asset based on information available at that date. The group recognised amortisation of \$1,168,316 relating to assets with a finite useful life during the current year.

(ii) Capitalised Development Costs

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

(ii) Covid 19 Impacts

As noted in the Review of Operations in the Directors' Report, the Board and management have considered the impact of COVID-19 on the consolidated entity's operations and financial performance, and have noted:

- A slight increase in demand for Cough, Cold and immunity products at the beginning of lockdown restrictions;
- Increased costs of operating driven by employee costs due to government restrictions, increased cleaning and sanitation, increased personal protective equipment and increased global freight costs;
- Increased input costs due to foreign currency fluctuations.

In totality, the Group's business was not materially impacted (on a net basis) from the Covid-19 pandemic during the 2020 financial year.

In preparing the consolidated financial report, management has considered the impact of COVID-19 on the various balances in the financial report, including the carrying values of trade receivables, as well as balances and accounting estimates for which cash flow forecasts are required to be prepared, impairment assessments of goodwill and intangible assets and forecast compliance with borrowing financial covenants.

(ii) Lease term and option to extend under AASB 16

The lease term is defined as the non-cancellable period of a lease together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and also periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The decision on whether or not the options to extend are reasonably going to be exercised is a key management judgement that the Group will make. The Group determines the likelihood to exercise on a lease-by-lease basis, looking at various factors such as which assets are strategic and which are key to the future strategy of the Group.

**8: KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES DISCLOSURES**

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

	2020	2019
(a) Key management personnel compensation:	\$	\$
Short-term employee benefits	1,414,158	1,153,245
Post-employment benefits	144,213	113,324
Share-based payments	-	27,000
Total compensation	<u>1,558,371</u>	<u>1,293,569</u>

**Short-term employee benefits**

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

**Post-employment benefits**

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

**Other long term benefits**

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

**9: BRAND SALE**

On 3 October 2019, the Group completed the sale of the Celebrity Slim brand, including all intellectual property and business assets associated with the brand ("CS") to Global Brands Australia.

The sale of Celebrity Slim delivered gross proceeds of \$6.75 million (after adjusting for working capital) and resulted in a profit before tax of \$0.50 million. The gross proceeds included \$1 million of deferred capital, which has not been received as at the date of this report. Whilst the Group continues to pursue the unpaid amount, a provision was made for this amount as at 30 June 2020.

Transaction costs of \$462,106 million were incurred as a result of the sale of CS. Transaction costs included advisor and legal fees.

## 10: ACQUISITION OF ABS (AUS) PTY LTD

On 31 July 2019 Probiotec Limited ("Probiotec") acquired 100% of the issued share capital of ABS (Aus) Pty Ltd ("ABS"), a pharmaceutical and consumer product contract packaging company. The acquisition of ABS increases the manufacturing capability and scale of Probiotec.

The fair value of the purchase consideration as at the date of acquisition are as follows:

<b>Purchase Consideration</b>	<b>\$</b>
Cash	23,766,342
Working capital adjustment	850,781
Contingent cash consideration	1,810,274
<b>Total Purchase Consideration</b>	<b>26,427,397</b>

Contingent consideration was subject to the achievement of EBITDA targets during the first year post completion resulting in up to \$5,000,000 earn out if the maximum target are met. The fair value of the contingent consideration of \$1,810,274 has been estimated by calculating the present value of the future expected cash outflows based on a discount rate of 8.3% and a probability factor applied to the likelihood of the relevant earn-out being achieved. The contingent consideration was settled with the vendors for a final amount of \$1,579,238.

The fair values of the assets and liabilities recognised as at the date of the acquisition are as follows:

Cash assets	238,408
Other financial assets	261,592
Current receivables	2,722,769
Inventories	2,061,103
Property, plant and equipment	1,101,575
Non-contractual customer relationships	5,627,000
Payables	(581,856)
Deferred tax liability	(1,688,100)
Provisions	(691,146)
<b>Net Assets</b>	<b>9,051,345</b>
<b>Goodwill</b>	<b>17,376,052</b>

The fair value of acquired current receivables is \$2,722,769, being the gross contractual amount of which none is expected to be uncollectable.

The goodwill is attributable to (amongst other things) the potential synergies Probiotec expects to derive from the integration of the ABS business into its existing business and an increased presence in the packaging segment of the pharmaceutical supply chain. It will not be deductible for tax purposes.

Acquisition related costs of \$214,361 are included in profit or loss and in operating cash flows in the statement of cash flows.

The purchase consideration cash out flow is as follows:

Cash consideration	23,766,342
Cash acquired	238,408
<b>Net outflow of cash - investing activities</b>	<b>23,527,934</b>

The acquired business contributed revenues of \$14.6 million and net profit of \$2.2 million (or \$2.0 million after transaction costs) to the Group between 1 July 2019 and 30 June 2020.

## 11: ACQUISITION OF ASSETS AND CUSTOMER RELATIONSHIPS

On 10 December 2019, the Group acquired business assets from Contract Pharmaceutical Services of Australia Pty Ltd ("CPSA"). These assets incorporated plant and equipment together with major customer contracts. Total consideration of approximately \$4 million was paid at completion together with a payment for inventory of \$0.6 million. The allocation of the purchase consideration was as follows:

	<b>\$</b>
Inventory	642,052
Plant and equipment	1,347,451
Customer relationships	2,732,529
<b>Total Purchase Consideration</b>	<b>4,722,032</b>

## 12: BORROWINGS

During the half-year, the Group obtained a new bank loan to the amount of \$8,000,000. The loan bears interest at variable market rates and is repayable within three years. The proceeds from the loan have been used to assist with the acquisition of ABS (Aus) Pty Ltd. Repayments of other borrowings amounting to \$3,419,443 (2019: \$8,592,943) were made in line with previously disclosed repayment terms.

**13: REMUNERATION OF AUDITORS**

	2020	2019
	\$	\$
Amounts paid/payable to ShineWing Australia for:		
<i>Audit services</i>		
Auditing or reviewing the financial report	174,000	147,000
	<u>174,000</u>	<u>147,000</u>

**14: DIVIDENDS**

A dividend of 2.5 cents per fully paid ordinary share was paid in relation to the financial year ended 30 June 2019. An interim dividend of 1.5 cents per fully paid ordinary share was paid on 19 March 2020. A dividend has been declared for the year ended 30 June 2020 as per below.

	2020		2019	
	Cents per Share	Total \$	Cents per Share	Total \$
<b>Recognised Amounts</b>				
Fully Paid Ordinary Shares				
Interim dividend for half year ended 31 December fully franked at 30% corporate tax rate	1.50	1,121,683	1.00	600,759
Final dividend for year ended 30 June, fully franked at 30% corporate tax rate	2.50	1,869,700	2.00	1,274,587
Special dividend, fully franked at 30% corporate tax rate	-	-	5.00	3,191,468
<b>Unrecognised Amounts</b>				
Fully paid ordinary shares				
Final dividend for year ended 30 June, fully franked at 30% corporate tax rate	3.00	2,243,366	2.50	1,500,721
<b>Dividend franking account</b>	2020	2019		
	\$	\$		
Amount of franking credits available for subsequent years	555	3,422		

**15: CASH AND CASH EQUIVALENTS**

Cash on hand and at bank	6,305,680	8,843,997
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*Interest rate risk exposure*

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

**16: TRADE AND OTHER RECEIVABLES****CURRENT**

Trade accounts receivable - third parties	23,185,627	18,948,743
Less: allowance for impairment of receivables	(246,472)	(184,481)
Total current trade receivables	22,939,155	18,764,262
Total current trade and other receivables	22,939,155	18,764,262

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

	2020	2020	2019	2019
	Gross	Allowance	Gross	Allowance
Not past due	\$ 22,854,269	\$ (243,158)	\$ 16,003,133	\$ (155,025)
Past due 1 - 30 days	331,358	(3,314)	2,929,062	(29,291)
Past due 31 - 60 days	-	-	16,548	(165)
Past 61 days	-	-	-	-
	<u>23,185,627</u>	<u>(246,472)</u>	<u>18,948,743</u>	<u>(184,481)</u>

(b) Impaired trade receivables

Trade debtors are generally extended on credit terms of between 14 days to 60 days. As at 30 June 2020, current trade receivables of the Group with a nominal value of \$0 (2019 - \$0) were impaired. The amount of the allowance was \$246,472 (2019 - \$184,481). Any individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

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

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

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

	2020	2019
	\$	\$
At 1 July	184,481	80,918
Provision for impairment recognised / (reversed) during the year	61,991	143,186
Receivables written off during the year as uncollectible	-	(39,623)
At 30 June	<u>246,472</u>	<u>184,481</u>

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

(c) Fair value and credit risk

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

(d) Foreign exchange and interest rate risk

Information about the Group's and the parent entity's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 35.

**17: INVENTORIES**

	2020	2019
	\$	\$
CURRENT		
Raw materials - at cost	13,516,303	9,837,597
Work in progress - at cost	1,917,043	2,199,458
Finished goods - at cost	737,128	1,473,880
Provision for obsolescence	(470,197)	(256,122)
	<u>15,700,277</u>	<u>13,254,812</u>

**18: ASSETS HELD FOR SALE**

Land and buildings held for sale	730,000	-
Products held for sale	-	5,775,000
	<u>730,000</u>	<u>5,775,000</u>

On 14 August 2020, the Company signed an agreement for the sale of its facility in Bomaderry, New South Wales for an amount of \$750,000. This sale will complete on 25 September 2020. As a result of this, loss on fair value adjustment of \$265,233 has been recorded as a 30 June 2020.

**19: PROPERTY, PLANT AND EQUIPMENT**

Freehold land - at independent valuation	-	300,000
Building - at independent valuation	-	800,000
Less: Accumulated depreciation	-	(72,767)
	<u>-</u>	<u>727,233</u>
Plant & equipment - at cost (i)	28,898,685	24,348,669
Less: Accumulated depreciation	(11,787,708)	(9,548,841)
	<u>17,110,977</u>	<u>14,799,828</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>17,110,977</u>	<u>15,827,061</u>

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

(a) Movements in Carrying Amounts

	Freehold land	Buildings	Plant, Equipment & Other	Total
	\$	\$	\$	\$
<b>Consolidated Group</b>				
Carrying amount at 1 July 2018	4,030,000	11,055,329	12,018,495	27,103,823
Additions	2,600,000	4,079,248	4,616,884	11,296,132
Acquisitions	-	-	-	-
Impairment	-	-	-	-
Revaluation	-	-	-	-
Reclassification	-	-	305,591	305,591
Disposals	(6,330,000)	(14,125,238)	-	(20,455,238)
Depreciation and amortisation	-	(282,106)	(2,141,142)	(2,423,248)
Transfer to assets held for sale	-	-	-	-
Carrying amount at 30 June 2019	<u>300,000</u>	<u>727,233</u>	<u>14,799,828</u>	<u>15,827,061</u>
Carrying amount at 1 July 2019	300,000	727,233	14,799,828	15,827,061
Additions	-	-	759,823	759,823
Acquisition	-	-	3,856,218	3,856,218
Impairment	-	-	-	-
Revaluation	-	-	-	-
Reclassification	-	-	-	-
Disposals	-	-	-	-
Depreciation and amortisation	-	(32,000)	(2,304,892)	(2,336,892)
Transfer to assets held for sale	(300,000)	(695,233)	-	(995,233)
Carrying amount at 30 June 2020	<u>-</u>	<u>-</u>	<u>17,110,977</u>	<u>17,110,977</u>

**20: INTANGIBLE ASSETS**

	2020	2019
	\$	\$
(a) <i>Intangible summary and reconciliation</i>		
Goodwill at cost	25,541,093	8,165,041
Accumulated impairment	-	-
	<u>25,541,093</u>	<u>8,165,041</u>
Non-contractual customer relationships	11,779,549	3,500,000
Accumulated impairment	-	-
Accumulated amortisation	(1,472,475)	(606,667)
	<u>10,307,074</u>	<u>2,893,333</u>
Developed products at cost	12,392,792	12,392,792
Accumulated amortisation	(7,145,017)	(6,842,509)
	<u>5,247,775</u>	<u>5,550,283</u>
Products under development at cost	1,852,128	811,280
Accumulated amortisation	-	-
	<u>1,852,128</u>	<u>811,280</u>
Total intangible assets	<u>42,948,070</u>	<u>17,419,937</u>

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

**Reconciliation of Intangible Assets:**

	Goodwill	Non-contractual customer relationships	Developed Products	Products under Development	Total
Opening balance as at 1 July 2018	8,165,041	3,243,333	5,168,644	1,746,941	18,323,959
Acquisitions	-	-	-	-	-
Additions	-	-	-	1,215,810	-
Reclassification	-	-	1,215,810	(1,215,810)	-
Transfer of commercialised product	-	-	935,661	(935,661)	-
Disposals	-	-	(1,458,236)	-	(1,458,236)
Impairment	-	-	-	-	-
Amortisation	-	(350,000)	(311,596)	-	(661,596)
<b>Closing balance as at 30 June 2019</b>	<u>8,165,041</u>	<u>2,893,333</u>	<u>5,550,283</u>	<u>811,280</u>	<u>17,419,937</u>
Opening balance as at 1 July 2019	8,165,041	2,893,333	5,550,283	811,280	17,419,937
Acquisitions	17,376,052	8,279,550	-	-	25,655,602
Additions	-	-	-	1,040,848	1,040,848
Reclassification	-	-	-	-	-
Transfer of commercialised product	-	-	-	-	-
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Amortisation	-	(865,808)	(302,508)	-	(1,168,316)
<b>Closing balance as at 30 June 2020</b>	<u>25,541,093</u>	<u>10,307,075</u>	<u>5,247,775</u>	<u>1,852,128</u>	<u>42,948,070</u>

**Estimated useful life of intangible assets**

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

**21: DEFERRED TAX ASSETS**

	2020	2019
	\$	\$
Deferred tax assets is comprised as follows:		
Temporary differences - provisions	1,105,412	850,332
Temporary differences - Property, plant & equipment	162,645	15,429
Temporary differences - leases	5,866,264	5,168,571
Temporary differences - other	1,192,056	1,614,925
Tax losses	-	-
	<u>8,326,377</u>	<u>7,649,257</u>



**22: TRADE AND OTHER PAYABLES**

	2020	2019
	\$	\$
Trade accounts payable	14,315,788	9,381,624
Sundry creditors & accruals	2,753,578	2,160,550
GST payable	973,717	601,984
	<u>18,043,083</u>	<u>12,144,158</u>

(a) Fair value

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

(b) Foreign exchange risk

*Amounts payable in foreign currencies*

Current

Euro	76,588	343,738
US Dollars	1,086,329	242,146
	<u>1,162,917</u>	<u>585,884</u>

Detailed information about the Group's and the parent entity's exposure to foreign currency risk in relation to trade and other payables is provided in Note 35.

**23: INTEREST-BEARING LIABILITIES**

CURRENT

Secured borrowings

Bank loans	1,640,000	840,000
Non-bank loans	-	1,000,000
	<u>1,640,000</u>	<u>1,840,000</u>

NON-CURRENT

Secured borrowings

Bank loans	9,660,000	3,228,902
Non-bank loans	-	-
	<u>9,660,000</u>	<u>3,228,902</u>

(a) Total current and non-current secured liabilities:

Bank loans	11,300,000	4,068,902
Non-bank loans	-	1,000,000
	<u>11,300,000</u>	<u>5,068,902</u>

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

Freehold land and building (Note 18)	<u>730,000</u>	<u>1,027,233</u>
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(c) The bank loans are provided by Commonwealth Bank of Australia and are secured by a registered first mortgage over all freehold property of the parent entity and the subsidiaries which in total have a carrying amount as set out above.

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

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

(d) Interest rate risk exposure

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

**24: LEASE LIABILITY****Maturity Analysis:**

Year 1	3,326,642
Year 2 to 5	10,174,212
Year 5+	<u>32,560,775</u>
	<u>46,061,629</u>
Less: Unearned interest	<u>(19,338,763)</u>
	<u>26,722,866</u>

**Analysed as:**

Current	2,260,285
Non-current	<u>24,462,581</u>
	<u>26,722,866</u>

The Group does not face a significant liquidity risk with regard to lease liabilities. Lease liabilities are monitored within the Group's finance team.

<b>25: RIGHT OF USE ASSETS</b>	2020	2019
	\$	\$
<b>Leased buildings</b>		
Right-of-use asset	19,662,014	16,559,793
Accumulated amortisation	<u>(2,119,734)</u>	<u>(643,027)</u>
	<u>17,542,280</u>	<u>15,916,766</u>
<b>Leased plant and equipment (P&amp;E)</b>		
Right-of-use asset	3,294,705	3,512,555
Accumulated amortisation	<u>(1,354,648)</u>	<u>(1,025,996)</u>
	<u>1,940,057</u>	<u>2,486,559</u>
Total right-of-use assets	<u>19,482,337</u>	<u>18,403,325</u>

**(a) Movements in carrying amounts of right of use assets**

	Leased buildings	Leased	P&E
	\$		\$
<b>2020</b>			
Opening Balance	15,916,766	2,486,559	
Additions	3,102,221	136,632	
Transfers from / (to) plant and equipment	-	(354,482)	
Amortisation	<u>(1,476,707)</u>	<u>(328,652)</u>	
Closing balance	<u>17,542,280</u>	<u>1,940,057</u>	
<b>2019</b>			
Opening Balance	-	2,306,210	
Additions	16,559,793	569,966	
Transfers from / (to) plant and equipment	-	(305,592)	
Amortisation	<u>(643,027)</u>	<u>(84,025)</u>	
Closing balance	<u>15,916,766</u>	<u>2,486,559</u>	

The Group leases several buildings. The average lease term 7.6 years, with a remaining average lease term of 5.5 years. Right-of-use asset additions for the 2020 financial year amounted to \$1,229,186

The Group does not have any leases which contain variable lease payments.

**AASB 16 related amounts recognised in the statement of profit and loss**

Depreciation charge related to right-of-use assets	1,810,788
interest expense on lease liabilities	1,761,662
short-term lease expenses	282,715
Total AASB 16 related expenses	<u>3,855,165</u>
total cash outflows for leases	<u>3,587,227</u>

<b>26: PROVISIONS</b>	2020	2019
	\$	\$
<b>CURRENT</b>		
Employee benefits (a)	3,139,537	2,180,223
Contingent consideration	-	250,000
	<u>3,139,537</u>	<u>2,430,223</u>
<b>NON-CURRENT</b>		
Employee benefits (a)	545,170	250,353
Contingent consideration	-	-
	<u>545,170</u>	<u>250,353</u>
Total provisions	<u>3,684,707</u>	<u>2,680,576</u>

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

**Reconciliation of provisions:**

	Annual leave	Long Service leave
Opening balance at 1 July 2019	1,544,776	885,800
Acquired	286,985	404,161
Amounts used	1,382,567	222,405
Additional provisions	(1,669,552)	(626,566)
Amounts unused and reversed	-	-
Balance at 30 June 2020	<u>1,544,776</u>	<u>885,800</u>

**27: DEFERRED TAXES**

	2020	2019
	\$	\$
Deferred taxes is comprised as follows:		
Deferred tax assets (Note 21)	8,326,377	7,649,257
Deferred tax liabilities - temporary differences (a)	(13,229,361)	(10,842,945)
Net deferred tax liabilities	<u>(4,902,984)</u>	<u>(3,193,688)</u>
Deferred tax expense debit / (credit) to income tax expense	<u>690,051</u>	<u>(1,583,239)</u>
Deferred tax expense charged to equity	<u>-</u>	<u>-</u>
(a) Deferred tax liabilities comprises:		
Temporary differences - capitalised development costs	(4,584,680)	(4,272,426)
Temporary differences - other	(8,644,681)	(6,570,519)
	<u>(13,229,361)</u>	<u>(10,842,945)</u>
Reconciliation of net deferred tax liabilities:	\$	
Opening balance as at 1 July 2018	(4,757,373)	
Less: deferred tax expense charge (credit) to income	1,583,239	
Less: current tax expense	(1,030,305)	
Less : deferred tax expense charged to equity	<u>1,010,751</u>	
Closing as at 30 June 2019	<u>(3,193,688)</u>	
Less : deferred tax expense	(690,051)	
Less : current tax expense	(1,174,515)	
Less : deferred tax expense charged to equity	155,270	
Closing balance as at 30 June 2020	<u>(4,902,984)</u>	

**28: CONTRIBUTED EQUITY**

	2020	2019
	\$	\$
74,778,870 (2019: 60,034,675) fully paid ordinary shares	<u>43,737,151</u>	<u>33,608,259</u>

**Reconciliation of fully paid ordinary shares**

Balance at beginning of the financial year	33,608,259	38,596,329
Issue of shares	10,137,600	755,001
Buy back of shares	(8,708)	(5,743,071)
Cancellation of shares held under Equity Compensation Plan	-	-
Equity raising expenses	-	-
Balance at end of financial year	<u>43,737,151</u>	<u>33,608,259</u>

	2020	2019
	No.	No.
Balance at the beginning of reporting period	60,034,675	62,529,356
Buy back of shares	(5,805)	(3,894,681)
Shares issued on exercise of options	8,750,000	1,400,000
Shares issued during the year	<u>6,000,000</u>	<u>-</u>
Balance at end of the report date	<u>74,778,870</u>	<u>60,034,675</u>

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

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

**(a) Capital management**

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

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. The Group is not subject to externally imposed capital requirements other than those set out in Note 23.

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 2019 and 30 June 2020 were as follows:

	2020	2019
	\$	\$
Total borrowings	12,455,902	30,715,094
Less cash and cash equivalents	<u>(6,305,680)</u>	<u>(8,843,997)</u>
Net debt / (cash)	6,150,222	21,871,097
Total contributed equity	43,737,151	33,608,259
Total capital employed	<u>49,887,373</u>	<u>55,479,356</u>
Gearing ratio	12.3%	39.4%

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

## 29: RESERVES

Asset revaluation reserve	-	488,797
Foreign currency translation reserve	-	(379,516)
Share based payments reserve	477,952	477,952

### Reconciliation of asset revaluation reserve

Balance at beginning of financial year	488,797	4,026,722
Revaluation of assets	-	-
transfer to assets held for sale	(488,797)	-
Disposal of assets	-	(3,537,925)
Balance at end of financial year	-	488,797

### Reconciliation of foreign currency translation reserve

Balance at beginning of financial year	(379,516)	(287,254)
translation of net investment in foreign entities	-	(92,262)
Derecognition of net investment in foreign entities	379,516	-
Balance at end of financial year	-	(379,516)

### Reconciliation of share based payments reserve

Balance at beginning of financial year	477,952	477,952
Issue / (cancellation) of options	-	-
Balance at end of financial year	477,952	477,952

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

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

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

## 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 Executive Option Plan ("the plan"). Under the plan, participants may be granted options which vest if the participant remains in the employment of the group for a period of greater than one year from the grant date. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed amount of options. For details of options issued to key management personnel refer to the remuneration report.

#### Employee incentive scheme options for the year ended 30 June 2020

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

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted during the year number	Options exercised/lapsed during the year number	Balance at end of year number	Vested and exercisable at end of year
01.07.2017	01.07.2018	30.06.2020	0.60	950,000	-	(950,000)	-	-
23.11.2017	22.11.2018	22.11.2020	0.72	1,000,000	-	(1,000,000)	-	-
19.12.2017	19.12.2017	18.12.2019	1.15	3,200,000	-	(3,200,000)	-	-
23.01.2018	23.01.2018	22.01.2020	1.15	3,600,000	-	(3,600,000)	-	-
Weighted average exercise price				\$ 1.09	\$ -	\$ 1.04	\$ -	\$ -

As part of the Executive Option Plan, the company issued 8.75m shares, which were subject to a limited recourse borrowing arrangement.

#### Employee incentive scheme options for the year ended 30 June 2019

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

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

### 31: RELATED PARTY TRANSACTIONS AND BALANCES

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

<i>Associated companies</i>	2020 \$	2019 \$
Payments were made to Arnold Bloch Leibler, an entity associated with Mr Jonathan Wenig (director). These payments were for the provision of legal services. Arnold Bloch Leibler became a related entity on 1 June 2020.	20,078	-
Payments were made to The Continental Group Pty Ltd, an entity associated with Mr Geoffrey Pearce (director). These payments were for the supply of raw materials and packaging items.	2,831,821	3,858,617
Amounts payable to Arnold Bloch Leibler at year end	77,918	-
Amounts payable to Continental Group Pty Ltd at year end	884,204	754,669

#### *Key Management personnel*

There were no transactions between Key Management Personnel and Probiotec Limited or any of its subsidiaries during the year ended 30 June 2020 other than as disclosed above and in note 8.

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

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

### 32: NOTES TO THE STATEMENT OF CASH FLOWS

#### (a) Financing facilities with banks

Secured bank overdraft facility:

Facility balance	1,000,000	1,000,000
Amount used	-	-
Amount unused	1,000,000	1,000,000

Secured term loan and working capital facilities with banks:

Facility balance	18,300,000	21,577,290
Amount used	(11,300,000)	(14,577,290)
Amount unused	7,000,000	7,000,000

Lease finance facilities:

Facility balance	3,000,000	3,000,000
Amount used	(1,155,902)	(1,133,452)
Amount unused	1,844,098	1,866,548

Unsecured term loan with non-banks:

Facility balance	-	1,000,000
Amount used	-	(1,000,000)
Amount unused	-	-

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

Profit after related income tax	3,506,197	11,330,885
Fair value adjustments	(54,068)	3,419,445
Depreciation and amortisation	5,310,567	3,295,630
Loss / (profit) on sale of plant and equipment	-	(14,030,601)
Loss / (profit) on sale of intangible assets	(483,817)	-
Foreign currency translation	-	92,262
(Decrease)/increase in net deferred taxes	(1,709,296)	(1,563,685)
(Increase)/decrease in inventories	(384,361)	(1,694,445)
(Increase)/decrease in trade and other receivables	(1,211,822)	(2,310,216)
(Increase)/decrease in other current assets	176,644	(90,691)
Increase/(decrease) in trade and other payables	5,317,109	(1,849,852)
Increase/(decrease) in tax liabilities	(605,558)	(410,221)
Increase/(decrease) in provisions	312,984	(573,833)
Net cash from / (used in) operating activities	10,174,579	(4,385,322)

Non-cash financing and investing activities:

During the year the Group acquired plant and equipment with an aggregate value of \$1,229,186 (2019: \$0) by means of finance leases.

(c) Reconciliation of liabilities from financing activities:

	2019	Cash flows	Acquisitions	Non-cash changes		2020
				Foreign exchange movement	Fair Value changes	
Long-term borrowings	3,228,902	6,431,098	-	-	-	9,660,000
Short-term borrowings	1,840,000	(200,000)	-	-	-	1,640,000
Lease liabilities	25,646,192	(1,130,882)	2,207,556	-	-	26,722,866
Other financial liability	52,714	-	-	-	(15,325)	37,389
	<u>30,767,808</u>	<u>5,100,216</u>	<u>2,207,556</u>	<u>-</u>	<u>(15,325)</u>	<u>38,060,255</u>

**33: EARNINGS PER SHARE**

	2020 \$	2019 \$
Profit	<u>3,506,197</u>	<u>11,330,885</u>
Earnings used in the calculation of basic EPS	<u>3,506,197</u>	<u>11,330,885</u>
Earnings used in the calculation of dilutive EPS	<u>3,506,197</u>	<u>11,330,885</u>
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	70,486,308	61,904,727
Weighted average number of options outstanding	-	2,947,452
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	<u>70,486,308</u>	<u>64,852,179</u>
Earnings per share:		
Basic earnings per share (cents)	5.0	18.3
Diluted earnings per share (cents)	<u>5.0</u>	<u>17.5</u>
Earnings / (loss) per share from discontinued operations:		
Basic earnings per share (cents)	(4.2)	12.3
Diluted earnings per share (cents)	<u>(4.2)</u>	<u>11.7</u>

**34: SUBSIDIARY INFORMATION**

**Information about principal subsidiaries**

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

Name of subsidiary	Principal Place of Business	Ownership Interest Held by the Group	
		2020 %	2019 %
Probiotec Pharmaceuticals Pty Ltd	Australia	100	100
Probiotec Pharma Pty Ltd	Australia	100	100
Biotech Pharmaceuticals Australia Pty Ltd	Australia	100	100
Biotech Pharmaceuticals Pty Ltd	Australia	100	100
Probiotec (NSW) Pty Ltd	Australia	100	100
Australian Dairy Proteins Pty Ltd	Australia	100	100
Milton Pharmaceuticals Pty Ltd	Australia	100	100
Willie Labs Generics Pty Ltd	Australia	100	100
South Pack Laboratories (Aust) Pty Ltd	Australia	100	100

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

### 35: FINANCIAL INSTRUMENTS

#### FINANCIAL RISK MANAGEMENT

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

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

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

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

#### Financial Risks

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

#### (a) Market risk

##### (i) Foreign exchange risk

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

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

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

2020	GBP	NZD	Consolidated Group	
	\$	\$	USD	EUR
			\$	\$
<b>Financial Assets</b>				
Trade and other receivables	-	-	-	-
<b>Financial Liabilities</b>				
Trade and other payables	-	-	1,086,329	76,588
Net exposure	<u>-</u>	<u>-</u>	<u>(1,086,329)</u>	<u>(76,588)</u>
2019	GBP	NZD	USD	EUR
	\$	\$	\$	\$
<b>Financial Assets</b>				
Trade and other receivables	18,592	20,057	-	-
<b>Financial Liabilities</b>				
Trade and other payables	-	-	242,146	343,738
Net exposure	<u>18,592</u>	<u>20,057</u>	<u>(242,146)</u>	<u>(343,738)</u>

##### Sensitivity analysis

Based on the financial instruments held as at 30 June 2020, a 10% strengthening of Australian dollar against GBP, 15% strengthening of Australian dollar against the New Zealand dollar (NZD), 10% strengthening of Australian dollar against US dollar and a 10% strengthening of Australian Dollar against EUR at 30 June would have increased / (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2019.

	Profit	Equity
	\$	\$
<b>2020</b>		
GBP	-	-
NZD	-	-
US dollars	98,757	-
EUR	6,963	-
<b>2019</b>		
GBP	(1,690)	-
NZD	(2,616)	-
US dollars	22,013	-
EUR	31,249	-

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

##### (ii) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 23. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group constantly analyses its interest rate exposure. The Group's current approach is to maintain approximately 25% - 50% of its borrowings at fixed rate using floating-to-fixed interest rate swaps and/or fixed rate leasing to achieve this (where applicable). Occasionally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. If interest rate swaps are used, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts. These swaps are designated to hedge the underlying debt obligations. During 2019 and 2020, the Group's borrowings at variable rates were denominated in Australian Dollars.

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

2020	Weighted average interest rate %	Floating interest rate maturing			Total
		1 year or less	Over 1 to 5 years	More than 5 years	
		\$	\$	\$	\$
Financial assets:					
Cash	-	6,305,680	-	-	6,305,680
Total financial assets		6,305,680	-	-	6,305,680
Financial Liabilities:					
Loans and overdraft	3.75	1,640,000	9,660,000	-	11,300,000
Total financial liabilities		1,640,000	9,660,000	-	11,300,000
Net exposure		4,665,680	(9,660,000)	-	(4,994,320)

2019	Weighted average interest rate %	Floating interest rate maturing			Total
		1 year or less	Over 1 to 5 years	More than 5 years	
		\$	\$	\$	\$
Financial assets:					
Cash	-	8,843,997	-	-	8,843,997
Total financial assets		8,843,997	-	-	8,843,997
Financial Liabilities:					
Loans and overdraft	4.50	840,000	3,228,902	-	4,068,902
Total financial liabilities		840,000	3,228,902	-	4,068,902
Net exposure		8,003,997	(3,228,902)	-	4,775,095

*Sensitivity analysis*

Based on the financial assets and liabilities held as at 30 June 2020, an increase in interest rates would have the following financial impact on the Group. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2019.

	Profit \$
2020	
1%	(49,943)
2%	(99,886)
2019	
1%	47,751
2%	95,502

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

(b) **Liquidity risk**

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

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

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

In addition, the Group had access to undrawn credit facilities available for use at the reporting date which would further reduce the liquidity risk. For further details see Note 32(a).

**Maturities of financial liabilities**

**Consolidated Group**

2020	Carrying amount \$	Total contractual cash flows \$	Less than 6 months \$	6 - 12 months \$	1 - 5 years \$
<b>Non-derivatives financial liabilities</b>					
Trade and other payables	18,043,083	18,043,083	18,043,083	-	-
Lease Liabilities	26,722,866	46,061,629	1,663,321	1,663,321	42,734,987
Variable borrowings	11,300,000	11,300,000	820,000	820,000	9,660,000
	56,065,949	75,404,712	20,526,404	2,483,321	52,394,987
2019					
<b>Non-derivatives financial liabilities</b>					
Trade and other payables	12,144,158	12,144,158	12,144,158	-	-
Lease Liabilities	25,646,192	46,190,843	1,316,241	1,316,241	43,558,362
Variable borrowings	5,068,902	5,068,902	420,000	420,000	4,228,902
	42,859,252	63,403,903	13,880,399	1,736,241	47,787,264

(c) **Credit risk**

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents as well as credit exposures to customers, including outstanding receivables from subsidiaries and financial guarantees given to entities within the Group. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date is addressed in Note 16.

The Group's policy is to trade with recognised and credit-worthy third parties and as such no collateral is required. The Group manages its credit risk by assessing the credit quality and financial position of its customers including past experience and other factors. In addition, receivable balances are monitored on an ongoing basis minimising the exposure to bad debts.

(d) **Price risk**

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



(e) **Fair values**

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

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

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

	2020		2019	
	Carrying Amount \$	Net Fair Value \$	Carrying Amount \$	Net Fair Value \$
<b>Financial Assets</b>				
Trade & other current receivables	22,939,155	22,939,155	18,764,262	18,764,262
Cash	6,305,680	6,305,680	8,843,997	8,843,997
	<u>29,244,835</u>	<u>29,244,835</u>	<u>27,608,259</u>	<u>27,608,259</u>
<b>Financial Liabilities</b>				
Trade & others payables	18,043,083	18,043,083	12,144,158	12,144,158
Interest bearing liabilities	11,300,000	11,300,000	5,068,902	5,068,902
Lease liability	26,722,866	26,722,866	25,646,192	25,646,192
	<u>56,065,949</u>	<u>56,065,949</u>	<u>42,859,252</u>	<u>42,859,252</u>

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

**36: PARENT ENTITY INFORMATION**

The following details information related to the parent entity, Probiotec Limited, at 30 June 2020.

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

	2020	2019
	\$	\$
Current assets	25,829,556	38,179,908
Non-current assets	<u>42,944,732</u>	<u>12,393,221</u>
<b>Total Assets</b>	<u>68,774,288</u>	<u>50,573,129</u>
Current Liabilities	14,404,873	10,286,699
Non-current liabilities	<u>14,244,104</u>	<u>7,511,935</u>
<b>Total Liabilities</b>	<u>28,648,977</u>	<u>17,798,634</u>
Contributed equity	43,978,780	33,849,888
Retained earnings	(3,853,470)	(1,075,393)
Other reserve	-	-
<b>Total equity</b>	<u>40,125,310</u>	<u>32,774,495</u>
Profit / (loss) for the year	(2,003,228)	1,712,436
Other Comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	<u>(2,003,228)</u>	<u>1,712,436</u>

The parent company has not guaranteed any loans held by its subsidiaries other than as part of the cross guarantees set out in Note 24(c).

The parent entity is subject to contractual obligations in regards to the group's interest bearing liabilities as detailed in Note 23.

**37: FAIR VALUE MEASUREMENTS**

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

	Note	30 June 2020			Total \$
		Level 1 \$	Level 2 \$	Level 3 \$	
<b>Recurring fair value measurements</b>					
<i>Non-financial assets</i>					
Freehold land	18	-	-	-	-
Freehold buildings	18	-	-	730,000	730,000
Total non-financial assets recognised at fair value on a recurring basis		<u>-</u>	<u>-</u>	<u>730,000</u>	<u>730,000</u>
<i>Financial Liability</i>					
Contingent cash consideration		-	-	-	-
Total financial liabilities recognised at fair value		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Non-recurring fair value measurements</b>					
Total non-financial assets recognised at fair value on a non-recurring basis		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-financial assets recognised at fair value		<u>-</u>	<u>-</u>	<u>730,000</u>	<u>730,000</u>
<b>Recurring fair value measurements</b>					
<i>Financial liabilities</i>					
Interest rate swap		-	37,389	-	37,389
Total financial liabilities recognised at fair value on a recurring basis		<u>-</u>	<u>37,389</u>	<u>-</u>	<u>37,389</u>

	Note	30 June 2019			Total \$
		Level 1 \$	Level 2 \$	Level 3 \$	
<b>Recurring fair value measurements</b>					
<i>Non-financial assets</i>					
Freehold land	19	-	300,000	-	300,000
Freehold buildings	19	-	-	727,233	727,233
Total non-financial assets recognised at fair value on a recurring basis		-	300,000	727,233	1,027,233
<i>Financial Liability</i>					
Contingent cash consideration		-	-	250,000	250,000
Total financial liabilities recognised at fair value		-	-	250,000	250,000
<b>Non-recurring fair value measurements</b>					
Total non-financial assets recognised at fair value on a non-recurring basis		-	-	-	-
Total non-financial assets recognised at fair value		-	300,000	727,233	1,027,233
<b>Recurring fair value measurements</b>					
<i>Financial liabilities</i>					
Interest rate swap		-	52,714	-	52,714
Total financial liabilities recognised at fair value on a recurring basis		-	52,714	-	52,714

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

Description	Fair Value at 30 June 2020	Valuation technique(s)	Inputs used
<i>Non-financial assets</i>			
Freehold land *	-	Market approach using recent observable market data for similar properties;	Price per square metre (\$100 - \$340 psm);
<i>Financial liabilities</i>			
Interest rate swap	37,389	Income approach using discounted cash flow methodology and swap models	Interest rate
	<u>37,389</u>		

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

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

Description	Fair Value at 30 June 2020	Valuation technique (s)	Significant Inputs Used
<i>Non financial assets</i>			
Freehold Buildings	430,000	Depreciated Replacement Cost	Useful life (20-22 years) Cost per square metre (\$600 - \$700 psm)
<i>Non financial liabilities</i>			
Contingent liabilities	-	Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined based on a probability factor on the earn out being achieved.	- Forecast annual revenue - Forecast EBITDA; - Risk adjusted discount rate (14.5%)

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

(d) Reconciliation of recurring level 3 fair value measurements

	Specialised Building	Contingent Consideration
Balance at the beginning of the year	727,233	250,000
Additions	-	-
Disposals	-	-
Transfers	(265,232)	-
Depreciation	(32,000)	-
Revaluation	-	(250,000)
Balance at the end of the year	<u>430,000</u>	<u>-</u>

**38: SUBSEQUENT EVENTS**

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in financial years after the financial year other than the ongoing Covid 19 pandemic.

The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments during 2020 have caused disruption to businesses and economic activity.

The Group considers the commencement of the Stage 4 quarantine measure imposed within Melbourne during August 2020 to be a non-adjusting post balance sheet event and accordingly the financial effects of COVID-19 have not been reflected in the Group's financial statements at 30 June 2020.

Whilst the outbreak of COVID-19 has not had a material impact on the current year consolidated results, the directors will continue to monitor the situation due to continuing changes in government policy, consumer activity and evolving business and customer reactions thereto as it is possible this could have a material impact on the consolidated results of the Group in 2021.

On 14 August 2020, the Company signed an agreement for the sale of its facility in Bomaderry (see note 18 for details on this asset), New South Wales for an amount of \$750,000. This sale will complete on 25 September 2020. This asset has been reclassified as held for sale and a fair value loss of \$265,233 has been recorded as at 30 June 2020.

**39: SEGMENT INFORMATION**

The Group operates three facilities in Australia and for the purposes of this note these have been considered as separate segments.

**(a) Segment Performance****Segment**

Laverton	Located in Laverton North, Victoria. Manufacture and packing plant producing predominantly pharmaceutical products along with cosmetics and consumer health products.
ABS	Located in Seven Hills, New South Wales. Packing plant specialising in pharmaceuticals together with cosmetics and consumer goods.
SPL	Located in Kirrawee, New South Wales. Packing plant specialising in pharmaceuticals and complimentary medicines along with cosmetics and consumer goods.

2020	Laverton \$'000	ABS \$'000	SPL \$'000	Other \$'000	Total \$'000
Sales Revenue	75,662	15,456	11,107	4,995	107,220
Segmental EBITDA	12,744	4,169	3,233	(468)	19,678
				Corporate expenses	(3,412)
				Other Income	231
				Depreciation expenses	(4,142)
				Amortisation expenses	(1,168)
				Interest expenses	(2,290)
				Income tax expense	(2,455)
				Profit / (loss) from discontinued operations	(2,936)
				Profit for the period attributable to owners of the parent entity	3,506
<b>2019</b>	<b>Laverton \$'000</b>	<b>ABS \$'000</b>	<b>SPL \$'000</b>	<b>Other \$'000</b>	<b>Total \$'000</b>
Sales Revenue	62,758	–	10,479	–	73,237
Segmental EBITDA	8,962	–	3,056	–	12,018
				Corporate expenses	(3,024)
				Other Income	677
				Depreciation expenses	(2,634)
				Amortisation expenses	(662)
				Interest expenses	(1,854)
				Income tax expense	(781)
				Profit / (loss) from discontinued operations	7,591
				Profit for the period attributable to owners of the parent entity	11,331

**(a) Customer Concentration**

There are two customers who contributed more than 10% of the Group's revenue for the 2020 financial year.

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

**DECLARATION BY DIRECTORS**

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Australian Accounting Standards and the *Corporations Regulations 2001*; and
  - (b) give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date of the consolidated entity.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

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



.....  
Wesley Stringer  
Director

Dated at Laverton this 26<sup>th</sup> day of August 2020

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## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF PROBIOTEC LIMITED AND CONTROLLED ENTITIES

#### Report on the Audit of the Financial Report

##### Opinion

We have audited the financial report of Probiotec Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- i. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

##### Basis for Opinion

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

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

##### Key Audit Matters

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

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## 1. Accounting for Business Combinations

### Key Audit Matter

Refer also to Note 1 (Accounting Policy), Note 10 (Financial Disclosures)

The group acquired Australian Blister Sealing Incorporated Pty Ltd for \$23.7m, which was considered a significant acquisition for the Group.

Accounting for this transaction is complex and required significant judgements and estimates by management:

- to determine the date of acquisition;
- to determine the fair value of assets and liabilities acquired;
- to determine the tax bases for deferred tax assets and liabilities;
- to determine the fair value of contingent consideration; and
- to allocate the purchase consideration to goodwill and separately identifiable intangible assets.

### How the matter was addressed during the audit

Our audit procedures included:

- Reviewing the sale and purchase agreement to understand the key terms and conditions of the acquisition;
- Assessing the intangible assets identified by management for their separability/contractual basis to allow recognition;
- Assessed whether the measurement basis and assumptions underlying the estimate of fair values were appropriate;
- Testing the Group's determination of fair values of assets and liabilities acquired with reference to a purchase price allocation valuation prepared by management's expert and review by our own valuation experts; and
- Testing the appropriateness of the contingent consideration.

We assessed the adequacy of the Group's disclosures in respect of the acquisition.

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## 2. Assessment of the Carrying Value of Goodwill \$25,541,093

Key Audit Matter	How the matter was addressed during the audit
<p><b>Refer also to Note 1 (Accounting Policy), Note 7 (Financial Disclosures)</b></p> <p>In prior and current years the Group has expanded its activities through acquisition of businesses. As a result, the group's net assets include a significant amount of goodwill.</p> <p>The Directors have determined in the current year that they have three cash generating units (CGU).</p> <p>The recoverable amount of the cash generating unit (CGU) has been calculated based on the value-in-use model. These recoverable amounts use discounted cash flow forecasts in which Directors make judgements about certain key inputs. For example, but not limited to revenue, growth rates and inflation rates are estimated.</p> <p>Overall, due to the high level of judgement involved, and the significant carrying amounts involved, we have determined that the recoverable amount is a key judgment area that our audit concentrated on.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• A detailed analysis of the key changes to the Group to determine the appropriateness of each relevant CGU;</li> <li>• A detailed evaluation of the Group's budgeting procedures upon which the forecasts are based and testing the principles and integrity of the discounted future cash flow models;</li> <li>• Testing the accuracy of the calculation derived from each forecast model and assessing key inputs to the calculations such as revenue growth, discount rates and working capital assumptions. This is carried out with reference to the Board approved forecasts, data external to the Group and using our own assessments;</li> <li>• Engaging our own valuation specialists when considering the appropriateness of the discount rates and long-term growth rates; and</li> <li>• Reviewing historical accuracy of original forecasts made by comparing them with actual results.</li> </ul> <p>We assessed the adequacy of the Group's disclosures in relation to Goodwill and impairment testing.</p>

### 3. Valuation of Inventory

Area of focus	How our audit addressed the area of focus
<p><b>Refer also to Note 1 (Accounting Policy), Note 17 (Financial Disclosures)</b></p> <p>The Group inventory of \$15.7m is significant to the financial statements and has increased by \$2.4m from the prior year.</p> <p>Inventory is required to be carried at the lower of its cost and net realisable value and determination on a first in first out basis.</p> <p>The valuation of inventory involves judgement by management depending on the age and types of inventory.</p> <p>The Group's accounting for inventories is complex, as the nature of products being produced and the strict quality and efficacy requirements it is required to comply with leads to a risk that inventories maybe valued at greater than their recoverable amount.</p> <p>Provisions can be recognised for all component of inventories, including raw materials, work in progress and finished goods. The Group considers a number of factors when determining the appropriate level of inventory provisions including regulatory approvals and future demand.</p> <p>Overall, due to the level of judgment and significance of the carrying value we have determined that this is a key judgement area that our audit concentrated on.</p>	<p>Our Audit procedures included:</p> <ul style="list-style-type: none"> <li>• A review of subsequent inventory sales to ensure inventory was valued at the lower of cost and net realisable value.</li> <li>• Evaluating the aging of inventory and ensuring costs assigned to inventory were reasonable.</li> <li>• Evaluating management's judgement and assumptions used in determining the needs for an inventory provision.</li> </ul> <p>We assessed the adequacy of the Group disclosures in respect of Inventory.</p>

#### Information other than the Financial Report and Auditor's Report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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



## Responsibilities of the Directors for the Financial Report

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

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

## Auditor's Responsibilities for the audit of the Financial Report

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

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

We identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

We conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 12 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Probiotec Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**ShineWing Australia**  
Chartered Accountants



Rami Eltchelebi  
Partner

Melbourne, 26 August 2020