

The Companies Announcements Office,
 The Australian Stock Exchange Limited,
 SYDNEY

Via: asxonline
 30th August 2007

APPENDIX 4E

The results for announcement to the market are as follows:-

1. The reporting period is twelve months from 1st July 2006 to 30th June 2007. The previous reporting period is twelve months to 30th June 2006.
2. Key information relating to the above reporting period is as follows:-

	30 June 2007	30 June 2006	% change
2.1 Revenues from ordinary activities	\$ 859,638	\$1,707,952	down 49.7 %
2.2 Loss from ordinary activities after tax attributable to members	\$1,726,026	\$1,877,981	down 8.1 %
2.3 Net loss attributable to members	\$1,726,026	\$1,877,981	down 8.1 %
2.4 Proposed dividend	Nil	Nil	
2.5 Not applicable			
2.6 Refer attached report			
2.7 Net tangible assets per issued security	\$0.0035	\$0.0029	
4. The company did not gain or lose control over any other entity during the reporting period.
5. There was no payment of dividends during the reporting period.
6. There is no dividend reinvestment plan in operation.
7. There are no associates or joint venture entities.
8. The company is not a foreign entity.
- 9 to 14 – see attached financials
15. The accounts are in the process of being audited.

COMMENTARY ON RESULTS FOR THE PERIOD

REVENUE

Revenues from ordinary activities decreased by 50% predominantly due to a decline in sales of finished product to US customers, who are now buying raw material, and also generally flat sales to Nuvanta in S.E. Asia.

The company is advancing negotiations for product distribution in Australia and overseas.

EXPENDITURE

Operational expenditure reduced by 7.64 % overall compared to the previous year due to a continued reduction in administrative and corporate expenditure.

BUSINESS STRATEGY

The company is focused on securing global licencing and distribution agreements with major companies for its probiotic products in Australia and overseas.

Income Statement

FOR THE YEAR ENDED 30 JUNE 2007

	NOTES	CONSOLIDATED		PROBIOMICS LIMITED	
		2007	2006	2007	2006
		\$	\$	\$	\$
Sale of goods	4(a)	837,092	1,684,644	837,092	1,684,644
Finance revenue	4(a)	22,546	23,308	22,546	23,308
Revenue		859,638	1,707,952	859,638	1,707,952
Cost of sales		(628,826)	(1,293,637)	(628,826)	(1,293,637)
Gross profit		230,812	414,315	230,812	414,315
Other income	4(b)	(30,565)	83,565	(30,565)	83,565
Research & development expenses		(294,347)	(606,116)	(294,347)	(606,116)
Intellectual property expenses		(73,152)	(93,094)	(73,152)	(93,094)
Marketing expenses		(176,371)	(338,484)	(176,371)	(338,484)
Administrative and corporate expenses		(1,645,240)	(1,612,968)	(1,645,240)	(1,612,968)
Finance costs	4(c)	(4,686)	(5,596)	(4,686)	(5,596)
Loss before income tax		(1,993,549)	(2,158,378)	(1,993,549)	(2,158,378)
Income tax (expense)/refund	5	267,524	280,397	267,524	280,397
Loss after tax attributable to members of the parent		(1,726,025)	(1,877,981)	(1,726,025)	(1,877,981)
Basic loss per share (cents per share)	6	(0.10)	(1.33)	(0.10)	(1.33)
Diluted loss per share (cents per share)	6	(0.10)	(1.33)	(0.10)	(1.33)

Balance Sheet

AS AT 30 JUNE 2007

	NOTES	CONSOLIDATED		PROBIOMICS LIMITED	
		2007	2006	2007	2006
		\$	\$	\$	\$
ASSETS					
Current Assets					
Cash and cash equivalents	8	298,572	209,427	298,572	209,427
Trade and other receivables	9	91,238	679,138	91,238	679,138
Inventories	10	157,869	92,188	157,869	92,188
Prepayments		3,993	3,956	3,993	3,956
Government grants		-	9,836	-	9,836
Total current assets		551,672	994,545	551,672	994,545
Non-current assets					
Other financial assets	11	-	-	-	100
Property, plant and equipment	12	58,460	78,775	58,460	78,775
Total non-current assets		58,460	78,775	58,460	78,875
TOTAL ASSETS		610,132	1,073,320	610,132	1,073,420
LIABILITIES					
Current liabilities					
Trade and other payables	15	291,013	626,130	291,013	626,230
Provisions	17	38,223	33,362	38,223	33,362
Government Grants		21,981		21,981	
Total current liabilities		351,217	659,492	351,217	659,592
Non-current liabilities					
Provisions	17	3,137	3,245	3,137	3,245
TOTAL LIABILITIES		354,354	662,737	354,354	662,837
NET ASSETS		255,778	410,583	255,778	410,583
EQUITY					
Contributed equity	18	26,444,140	24,990,320	26,444,140	24,990,320
Other reserves	18	239,920	122,520	239,920	122,520
Accumulated losses	18	(26,428,282)	(24,702,257)	(26,428,282)	(24,702,257)
TOTAL EQUITY		255,778	410,583	255,778	410,583

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

	Issued Capital \$	Retained Earnings \$	Other Reserves \$	Total Equity \$
CONSOLIDATED				
At 1 July 2005	22,900,486	(22,824,276)	101,754	177,964
Cost of issue of shares	(120,188)	-	-	(120,188)
Total income and expense for the period recognised directly in equity	(120,188)	-	-	(120,188)
Loss for the period	-	(1,877,981)	-	(1,877,981)
Total income and expense for the period	(120,188)	(1,877,981)	-	(1,998,169)
Issue of shares	2,210,022	-	-	2,210,022
Cost of share-based payments	-	-	20,766	20,766
At 30 June 2006	24,990,320	(24,702,257)	122,520	410,583
At 1 July 2006	24,990,320	(24,702,257)	122,520	410,583
Cost of issue of shares	(71,255)	-	-	(71,255)
Total income and expense for the period recognised directly in equity	(71,255)	-	-	(71,255)
Loss for the period	-	(1,726,025)	-	(1,726,025)
Total income and expense for the period	(71,255)	(1,726,027)	-	(1,797,280)
Issue of shares	1,525,075	-	-	1,525,075
Cost of share-based payments	-	-	117,400	117,400
At 30 June 2007	26,444,140	(26,428,282)	239,920	255,778

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2007

	NOTES	CONSOLIDATED		PROBIOMICS LIMITED	
		2007	2006	2007	2006
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,424,957	1,396,586	1,424,957	1,396,586
Payments to suppliers and employees		(3,070,204)	(4,037,199)	(3,070,204)	(4,037,199)
Receipt of government grants		-	73,729	-	73,729
Receipt of tax rebate on R&D expenditure		267,524	280,397	267,524	280,397
Interest received		22,546	23,308	22,546	23,308
NET CASH FLOWS USED IN OPERATING ACTIVITIES	8	(1,355,177)	(2,263,179)	(1,355,177)	(2,263,179)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant & equipment		900	38,010	900	38,010
Acquisition of property, plant & equipment		(10,398)	(58,724)	(10,398)	(58,724)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(9,498)	(20,714)	(9,498)	(20,714)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		1,525,075	2,210,022	1,525,075	2,210,022
Payment of share issue costs		(71,255)	(120,188)	(71,255)	(120,188)
NET CASH FLOWS FROM FINANCING ACTIVITIES		1,453,820	2,089,834	1,453,820	2,089,834
NET INCREASE/(DECREASE) IN CASH HELD		89,145	(194,059)	89,145	(194,059)
ADD OPENING CASH BROUGHT FORWARD		209,427	403,486	209,427	403,486
CLOSING CASH CARRIED FORWARD	8	298,572	209,427	298,572	209,427

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

1. CORPORATE INFORMATION

The financial report of Probiomix Limited (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with the resolution of directors on 30th August 2007.

Probiomix Limited is a company limited by shares incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on an historical cost basis.

The financial report is presented in Australian dollars.

Going concern

Although the company completed a capital raising of \$ 1,525,075 to 30 June 2007, its ability to continue as a going concern is dependent on it generating sufficient income to cover costs and the completion of an additional capital raising within the coming months. The directors believe there is no reason to doubt that these sources of funds will become available. However, should losses continue and/or the future capital raising not be successful, the company may not be able to continue as a going concern. If the company is unable to obtain such funding at an amount and timing necessary to meet its future operational plans, or to successfully exploit its intellectual property, the company may be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

(b) Statement of compliance

The Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2007.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Probiomix Limited and its subsidiaries as at 30 June each year (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The subsidiaries have been dormant for the entire current year.

Investments in subsidiaries are held in Parent at cost.

(d) Significant accounting judgements, estimates and assumptions

(i) Significant accounting estimates and assumptions:

Share-based payment transactions:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Black-Scholes model, using the assumptions detailed in note 13.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(f) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit and loss.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(i) Cash and short term deposits

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried forward at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(k) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials – purchase cost on a first-in first-out basis; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(l) Foreign currency translation

Both the functional and presentation currency of Probiomics Limited and its Australian subsidiaries is Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

(m) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:-

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:-

- when the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and the taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 sheet 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.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset or the liability is settled, based on tax rates, and tax laws, that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(n) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of an asset or as part of the expense items as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financial activities, which are 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.

(o) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a diminishing-value basis over the estimated useful life of the assets as follows:-

Plant and equipment – ranging from 2 to 20 years

Office equipment – ranging from 2 to 14 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) De-recognition and disposal

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the year the asset is de-recognised.

(ii) Impairment

The carrying value of plant and equipment are reviewed for impairment at each reporting date.

(p) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-values this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

(r) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of its time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

An assessment is made at each reporting date also as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(s) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(t) Provisions

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(u) Employee leave benefits

(i) *Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. The Group does not provide for sick leave as it has no obligation to pay accumulated sick leave not taken when employees leave the Group's employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Long service leave

The liability for long service leave is recognised in non-current provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match as closely as possible the estimated cash outflows.

(v) Pensions and other post-employment benefits

The Group provides only superannuation that is required under government legislation. The cost is expensed as it is incurred.

(w) Share –based payment transactions

(i) Equity-settled transactions

The Group provides benefits to employees, including directors, of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions')

The plan in place to provide these benefits is the Employee Share Option Plan (ESOP) which provides benefits to directors and senior executives by way of options to purchase fully paid shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial model, details of which are given in note 13.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Probiomics Limited ('market conditions') if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date, reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performances conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangements, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilutions in the computation of earnings per share (see note 6).

(x) Contributed equity

Ordinary shares are classified as equity. 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.

(y) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. SEGMENT INFORMATION

The Group operates in only one primary and business segment – the biotechnology segment.

Geographical segments

The Group's geographical segments are determined based on the location of the Group's assets.

The following tables present revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 30 June 2007 and 30 June 2006.

	Australia		USA		SE ASIA		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenue								
Sales to external customers	14,481	66,805	514,647	1,301,400	307,964	316,439	837,092	1,684,644
Other revenues from external customers	(8,019)	106,873	-	-	-	-	(8,019)	106,873
Segment revenue	6,462	173,678	514,647	1,301,400	307,964	316,439	829,073	1,791,517
Other segment information								
Segment assets	489,035	981,132	121,095	92,188	-	-	610,130	1,073,320
Capital expenditure	1,066	58,724	-	-	-	-	1,066	58,724
Segment Liabilities	354,354	662,737	-	-	-	-	354,354	662,737
Segment Depreciation	17,015	37,768	-	-	-	-	17,015	37,768

The consolidated entity does not perform an analysis of costs and expenses by segment. All costs and expenses are measured on a combined basis and are not allocated between segments.

	CONSOLIDATED		PROBIOMICS LIMITED	
	2007	2006	2007	2006
	\$	\$	\$	\$
4. REVENUES AND EXPENSES				
Revenues from continuing operations				
(a) Revenue				
Sale of goods	837,092	1,684,644	837,092	1,684,644
Finance revenue – interest received and receivable	22,546	23,308	22,546	23,308
	859,638	1,707,952	859,638	1,707,952
(b) Other income				
Government grants	(30,565)	83,565	(30,565)	83,565
Government grants have been received to partly fund research and development expenditure. There are no unfulfilled conditions or contingencies attaching to these grants.				
(c) Finance costs				
Finance charges payables under finance leases and hire purchase contracts	4,686	5,596	4,686	5,596
(d) Depreciation, foreign exchange differences included in the income statement				
Included in Administration and corporate expenses				
Depreciation	17,015	37,768	17,015	37,768
Net foreign exchange losses	(4,985)	3,024	(4,985)	3,024
Loss on disposal of property	12,798	33,172	12,948	33,172

	CONSOLIDATED		PROBIOMICS LIMITED	
	2007	2006	2007	2006
	\$	\$	\$	\$
(e) Employee benefits expense				
Included in Administration and Corporate expenses				
Wages and salaries	648,344	529,676	648,344	529,676
(e) Employee benefits expense (cont.)				
Redundancy costs				
Annual leave provision (reduction)	4,861	(33,291)	4,861	(33,291)
Long service leave provision (reduction)	(108)	(4,386)	(108)	(4,386)
Share based payment expense	117,400	20,766	117,400	20,766
(f) Research and development expense				
Wages and salaries	17,959	245,449	17,959	245,449

5. INCOME TAX

The major components of income tax expense/(benefit) for the years ended 30 June 2007 and 30 June 2006 are:

Income statement

Current income tax

Current income tax charge	-	-	-	-
Research and development rebate received in respect of the year ended 30 June 2007	267,524	280,397	267,524	280,397

Deferred income tax

Relating to origination and reversal of temporary timing differences	-	-	-	-
Income tax (benefit) reported in the income statement	267,524	280,397	267,524	280,397

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the years ended 30 June 2007 and 30 June 2006 is as follows:

Accounting loss before income tax	1,993,549	2,158,378	1,993,549	2,158,378
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At the Company's statutory income tax rate of 30% (2006: 30%)

Expenditure not allowable for income tax purposes	598,065	647,514	598,065	647,514
Losses not brought to account	4,197	11,117	4,197	11,117
Income tax benefit reported in accounts	(869,786)	(939,028)	(869,786)	(939,028)
	(267,524)	(280,397)	(267,524)	(280,397)

Effective income tax rate	(13%)	(13%)	(13%)	(13%)
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Research and Development rebate received in respect of the year ended 30 June 2006

Income tax (benefit) reported in income statement	(267,524)	(280,397)	(267,524)	(280,397)
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As at 30 June 2007 the consolidated entity has not brought to account a future income tax benefit (at 30%) of \$7,662,612 made up of tax losses of \$7,639,687 and timing differences of \$22,925 (2006: \$6,789,293 – tax losses \$6,769,901, timing differences of \$19,392) as realisation of the benefit is not probable.

The future income tax benefit will be obtained only if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised,
- the condition for deductibility imposed by tax legislation continue to be complied with, and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Tax consolidation

Probiomics Limited and its 100% owned Australian subsidiaries have formed a tax consolidation group with effect from 1 July 2004. The head entity of the tax consolidated group is Probiomics Limited.

6. EARNINGS PER SHARE

The basis earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The diluted earnings per share is the same as the basic earnings per share, as the share options are anti-dilutive in nature.

The following reflects the income and share data used in the basis and diluted earnings per share computations:

	CONSOLIDATED	
	2007	2006
	\$	\$
Net loss attributable to ordinary equity holders of the parent from continuing operations	1,726,025	1,877,981
	2007	2006
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	162,893,842	132,446,078
Number of options not included in diluted EPS calculations	13,575,000	4,110,000

7. DIVIDENDS PAID AND DECLARED

No dividends have been paid or declared in the reporting period.

	CONSOLIDATED		PROBIOMICS LIMITED	
	2007	2006	2007	2006
	\$	\$	\$	\$
8. CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	298,572	209,427	298,572	209,427
Reconciliation of net loss after tax to net cash flows from operations				
Net profit/(loss)	(1,726,025)	(1,877,981)	(1,726,025)	(1,877,981)
<i>Adjustments for:</i>				
Depreciation	17,015	37,768	17,015	37,768
Net (profit)/loss on disposal of property, plant and equipment	12,798	33,172	12,798	33,172
Cost of share options	117,400	20,766	117,400	20,766
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in inventories	(65,681)	271,972	(65,681)	271,972
(Increase)/decrease in trade and other receivables	587,900	(298,094)	587,900	(298,094)
(Increase)/decrease in prepayments	(35)	19,535	(35)	19,535
(Decrease)/increase in trade and other payables	(333,867)	(413,792)	(333,867)	(413,792)
(Decrease)/increase in provisions	4,753	(37,677)	4,753	(37,677)
Decrease/(increase) in government grants	30,565	(18,848)	30,565	(18,848)
Net cash flows from operating activities	(1,355,177)	(2,263,179)	(1,355,177)	(2,263,179)

	CONSOLIDATED		PROBIOMICS LIMITED	
	2007	2006	2007	2006
	\$	\$	\$	\$
9. TRADE AND OTHER RECEIVABLES				
Trade receivables	48,964	611,203	48,964	611,203
Other receivables	42,274	67,935	42,274	67,935
	91,238	679,138	91,238	679,138

Australian dollar equivalent of amounts receivable in foreign currencies not formally hedged.

United States dollars	45,273	240,535	45,273	240,535
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10. INVENTORIES

Raw materials (at cost)	121,095	92,188	121,095	92,188
Finished goods (at cost)	36,774	-	36,774	-
	157,869	92,188	157,869	92,188

Inventory write-downs recognised as an expense totalled nil (2006: \$ 75,532) for the Group. The expense is included in the cost of sales line item in the Income Statement.

		CONSOLIDATED		PROBIOMICS LIMITED	
	Percentage of equity held by the company	2007	2006	2007	2006
		\$	\$	\$	\$
11. OTHER FINANCIAL ASSETS					
Shares in Controlled Entities at cost					
- Sphere Animal Health Ltd	100%	-	-	-	100
		-	-	-	100

During the reporting period the company deregistered Sphere Animal Health Ltd. The carrying amount of the investment in this company was expensed.

12. PROPERTY, PLANT & EQUIPMENT

Plant and equipment

At 1 July 2006 net of accumulated depreciation	78,775	129,001	78,775	129,001
Additions	10,398	58,724	10,398	58,724
Disposals	(13,698)	(71,182)	(13,698)	(71,182)
Depreciation charge for the year	(17,015)	(37,768)	(17,015)	(37,768)
At 30 June 2007 net of accumulated depreciation	58,460	78,775	58,460	78,775
At 30 June 2007				
Cost or fair value	173,799	240,983	173,799	240,983
Accumulated depreciation	(115,339)	(162,208)	(115,339)	(162,208)
Net carrying amount	58,460	78,775	58,460	78,775

13. SHARE BASED PAYMENT PLANS

Employee Share Option Plan

An employee option plan is established whereby Probiomics Limited may, at the discretion of the Directors grant options to purchase ordinary shares in the Company to certain eligible employees. The options are granted for no consideration and are generally for a term of five years with the exercise price being determined at the discretion of the Directors. Generally the options can be exercised at any time during the term of the option period but are not transferable and are not quoted on ASX. Currently there are two employees who hold valid options.

The following table sets out the number (No.) and the weighted average exercise prices (WAEP) of and movements in share options issued during the year:

The following table sets out the number (No.) and the weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	<i>2007 No.</i>	<i>2007 WAEP</i>	<i>2006 No.</i>	<i>2006 WAEP</i>
Outstanding at the beginning of the year	4,110,000	\$0.39	3,500,000	\$0.60
Granted during the year	9,950,000	\$0.04	3,500,000	\$0.25
Expired during the year	(1,110,000)	\$0.06	(2,890,000)	\$0.25
Outstanding at the end of the year	12,950,000	\$0.04	4,110,000	\$0.39
Exercisable at the end of the year	12,825,000		4,110,000	

The outstanding balance as at 30 June 2007 is represented by:

- 3,000,000 options over ordinary shares with an exercise price of \$0.25 each, exercisable by 31 July 2007
- 500,000 options over ordinary shares with an exercise price of \$0.10 each, exercisable by 14 September 2008, and
- 9,450,000 options over ordinary shares with an exercise price of \$0.10 each, exercisable by 28 November 2008.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 1 to 17 months (2006: 1 and 2 years).

The range of exercisable prices for options outstanding at the end of the year was \$0.10 to \$0.25 (2006: \$0.25 to \$0.75)

The weighted average fair value of options granted during the year was \$0.04 (2006: \$0.39)

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the years ended 30 June 2007 and 30 June 2006.

	2007	2006
Expected volatility %	60	60
Risk-free interest rate %	6	6
Expected life of options (years)	2	2
Option exercise price	\$0.10	\$0.25
Weighted average share price at grant date (\$c)	\$0.054	\$0.078

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The fair value of the cash-settled options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss.

The carrying amount of the liability relating to the cash-settled share-based payments at 30 June 2007 is \$239,920 (2006: \$122,520)

14 PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The Group provides only that superannuation that is legally enforceable in Australia. The current rate is 9% of wages and salaries. (2006: 9%).

15. TRADE AND OTHER PAYABLES

	CONSOLIDATED		PROBIOMICS LIMITED	
	2007	2006	2007	2006
	\$	\$	\$	\$
Trade payables (i)	261,129	551,375	261,129	551,375
Accrued expenses	13,077	28,034	13,077	28,034
GST liability	(16,825)	3	(16,825)	3
Employee superannuation payable	13,813	22,498	13,813	22,498
PAYG payable	19,819	24,220	19,819	24,220
Other payables	-	-	-	100
	291,013	626,130	291,013	626,230
(i) Trade payables are non-interest bearing and are generally settled on 60 day terms.				
Australian dollar equivalents of amounts payable in foreign currencies not formally hedged:				
United States Dollars	126,513	169,249	126,513	169,249

16 INTEREST-BEARING LOANS AND BORROWINGS

The Group has no interest-bearing loans or borrowings.

17 PROVISIONS

Current

Employee annual leave				
At 1 July	33,363	66,653	33,363	66,653
Arising during year	10,722	29,852	10,722	29,852
Utilised	(5,862)	(63,143)	(5,862)	(63,143)
At 30 June	38,223	33,362	38,223	33,362

Non-current

Employee long service leave				
At 1 July	3,245	7,631	3,245	7,631
Arising during the year	1,712	-	1,712	-
Utilised	-	-	-	-
Unused amounts reversed	(1,820)	(4,386)	(1,820)	(4,386)
At 30 June	3,137	3,245	3,137	3,245

18 CONTRIBUTED EQUITY AND RESERVES

Ordinary shares – issued and fully paid	26,444,140	24,990,320	26,444,140	24,990,320
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Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value of shares. Accordingly the Parent does not have authorised capital nor par value in respect of its issued shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Number of shares	\$	Number of shares	\$
<i>Movement in ordinary shares on issue</i>				
1 July 2005	113,044,377	22,900,486	113,044,377	22,900,486
Issued 26 August 2005 for cash	12,588,000	1,007,040	12,588,000	1,007,040
Issued 13 December 2005 for cash	16,039,843	1,202,982	16,039,843	1,202,982
Transaction costs on share issue	-	(120,188)	-	(120,188)
30 June 2006	141,672,220	24,990,320	141,672,220	24,990,320
Issued 14 August 2006 for cash	20,500,000	1,025,000	20,500,000	1,025,000
Issued 8 April 2007 for cash	14,287,857	500,075	14,287,857	500,075
Transaction costs on share issues	-	(71,255)	-	(71,255)
At 30 June 2007	176,460,077	26,444,140	176,460,077	26,441,140

18. CONTRIBUTED EQUITY AND RESERVES (continued)

Share options

The company has an Employee Share Option Plan (ESOP) under which options to subscribe for the company's shares have been granted to certain executives and other employees (refer note 24)

Retained earnings

Movements in retained earnings were as follows:

	CONSOLIDATED		PROBIOMICS LIMITED	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance 1 July	(24,702,257)	(22,824,276)	(24,702,257)	(22,824,276)
Loss for the year	(1,726,025)	(1,877,981)	(1,726,025)	(1,877,981)
Balance 30 June	(26,428,282)	(24,702,257)	(26,428,282)	(24,702,257)

Reserves

Movements in reserves were as follows:

Balance 1 July	122,520	101,754	122,520	101,754
Share-based payment	117,400	20,766	117,400	20,766
Balance 30 June	239,920	122,520	239,920	122,520

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases by the Parent company in currencies other than the Group's functional currency which is Australian dollars (A\$).

Approximately 96% of the Group's sales were denominated in currencies other than A\$, whilst approximately 24% of cost of sales are denominated in A\$.

The Group does not hedge its foreign currency transactions as both sales and cost of sales are in the same currency (US\$), hence there is a natural US\$ to A\$ hedge in place.

Credit risk

The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There is considerable concentration of credit risk within the Group since the Group has only a few major customers at this stage of its development.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral security.

Liquidity risk

The Group's policy is to maintain a comfortable level of liquidity through the continual monitoring of cash reserves and the raising of additional capital as required. The Group has no borrowings.

20 FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of the carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

	Carrying amount		Fair value	
	2007	2006	2007	2006
	\$	\$	\$	\$
CONSOLIDATED				
<i>Financial assets</i>				
Cash	298,572	209,427	298,572	209,427
Trade receivables	48,964	611,203	48,964	611,203
Other financial assets (current)	42,274	67,935	42,274	67,935
<i>Financial liabilities</i>				
Trade payables	261,129	551,375	261,129	551,375
Other financial liabilities (current)	29,884	74,755	29,884	74,755
	Carrying amount		Fair value	
	2007	2006	2007	2006

PARENT

<i>Financial assets</i>				
Cash	298,572	209,427	298,572	209,427
Trade receivables	48,964	611,203	48,964	611,203
Other financial assets (current)	42,274	67,935	42,274	67,935
<i>Financial liabilities</i>				
Trade payables	261,129	551,375	261,129	551,375
Other financial liabilities (current)	29,884	74,855	29,884	74,855

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

	CONSOLIDATED				PARENT			
	Less than one year	Two to five years	Greater than five years	Weighted average effective interest rate	Less than one year	Two to five years	Greater than five years	Weighted average effective interest rate
YEAR ENDED 30 JUNE 2007		\$'00	\$'000	%		\$'00	\$'000	%
Floating rate								
Cash and cash equivalents	298,572	-	-	5.04%	298,572	-	-	5.04%
Interest-bearing liabilities								
	CONSOLIDATED				PARENT			
	Less than one year	Two to five years	Greater than five years	Weighted average effective interest rate	Less than one year	Two to five years	Greater than five years	Weighted average effective interest rate
YEAR ENDED 30 JUNE 2006	\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000	%
Floating rate								
Cash and cash equivalents	209,42				209,42			
Interest-bearing liabilities								

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Group and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

21 COMMITMENTS AND CONTINGENCIES

The Group has no lease or other financial commitments.

Legal claims

- (i) The ex-distributor of proTract against whom legal proceedings were commenced, has now been placed in liquidation. The debts owing to the company have been ranked as unsecured with a possibility of a very small recovery. The Directors are of the opinion that the probability of collecting the debt is remote so no provision has been made in the financial statements at 30 June 2007.
- (ii) At the date of this report, the company is in disagreement with Nuvanta – a distributor of company's product in Singapore and Malaysia. The disagreement revolves around the alleged claim by the distributor of that the company has breached its obligation to supply product that can be stored at temperatures not exceeding 25 degrees centigrade. The directors of the company are of the opinion that the alleged claim is untenable and have instructed company's lawyers to refute the allegation. Accordingly, no provision has been recognised in the financial statements at 30 June 2007.

22 EVENTS AFTER BALANCE SHEET DATE

- (i) The company is in the process of raising \$ 800,000 through debenture notes secured by first charge over the assets of the company. The term of debenture note is 3 years or earlier at the company's discretion with 8% coupon.

23 AUDITORS REMUNERATION

The auditor of Probiomix Limited is Ernst & Young.

	Consolidated		Probiomix Limited	
	2007	2006	2007	2006
	\$	\$	\$	\$
<i>Amounts received and receivable by Ernst & Young (Australia) for:</i>				
- an audit or review of the financial reports of the entity and any other entity in the consolidated entity	66,200	66,950	66,200	66,950
- other services in relation to the entity and any other entity in the consolidated entity				
- Tax compliance	-	8,000	-	8,000
- Special audits required by regulators	2,575	-	2,575	
	68,775	74,950	68,775	74,950

24 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

B M Gardiner	Chairman
P D Ford	Non-executive director
R Penny	Non-executive director

(ii) Executives

K R Slatyer	Chief Executive Officer
P B Magoffin	Chief Financial Officer & Company Secretary
P W French*	Manager – Innovation & Business Development

*Dr French resigned on 28th February 2007.

There have been no changes of the CEO. Mr P B Magoffin retired on 6th July 2007 and the current CFO and Company Secretary is Mr A K Jairath.

(b) Compensation of Key Management Personnel

(i) Compensation policy

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives.

To this end, the Group provides competitive rewards to attract high calibre executives.

(A) Remuneration Committee

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Salaries are reviewed periodically by the Committee but there is no specific link to company performance as the company has, until recently, been engaged mainly in research and development and linking remuneration to R&D outcomes would be inappropriate in the company's view.

(B) Compensation Structure

In accordance with best practice corporate governance, the structure of non-executive directors and executive compensation is separate and distinct.

(C) Non-executive director remuneration

Objective

The Board of Directors recognises that the success of the company will depend, largely, upon the quality of its directors and its senior management. For this reason the Remuneration Committee reviews the remuneration arrangements for all senior employees to ensure that it attracts and keeps motivated highly skilled and appropriately qualified directors and executives.

Structure

The Company's Constitution and the ASX listing rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined by shareholders in general meeting is then available to be split between the Directors as agreed between themselves. The latest determination was at the Annual General Meeting held on 28th November 2003 when shareholders approved an aggregate remuneration amount of \$250,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned between Directors is reviewed annually. The Board takes into account the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. The Chairman receives a higher fee in recognition of the additional time commitment required of a Chairman.

(D) Executive remuneration

Objective

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to reward executives with compensation that is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee seeks to ensure that the levels being offered to the Group's executives are competitive with the market place.

None of the named directors and officers' remuneration contains a component 'at risk'.

(ii) Remuneration of Key Management personnel of the parent and consolidated entity

Details of the nature and amount of each element of the emolument of each Director of the Company and each of the four executive officers of the Company and the consolidated entity receiving the highest emolument for the financial year are as follows:

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)*(iii) Remuneration of Specified Directors and Specified Executives*

		Short-term		Post - employment	Share-based payments	Other	TOTAL
		Directors fees	Salary	Superannuation	Options		
Directors							
B M Gardiner	2007	55,000	-	4,950	12,000	1,966	73,916
	2006	55,000	-	4,950	-	1,978	61,928
R Penny	2007	45,000	-	4,050	13,000	1,966	64,016
	2006	45,000	-	4,050	-	1,978	51,028
P D Ford	2007	45,000	-	4,050	12,000	1,966	63,016
	2006	48,750	-	4,388	-	1,978	55,116
	2007	145,000	-	13,050	37,000	5,898	200,948
	2006	148,750	-	13,388	-	5,934	168,072
		Short-term		Post- employment	Share-based payments	Other	TOTAL
		Directors fees	Salary	Superannuation	Options		
Executives							
K R Slatyer	2007	-	200,000	18,000	60,000	1,966	279,966
	2006	-	150,000	13,500	-	1,978	165,478
P B Magoffin	2007	-	135,000	12,150	12,000	1,966	161,116
	2006	-	135,000	12,150	-	1,978	149,128
P W French	2007	-	37,500	3,375	-	1,966	42,841
	2006	-	143,846	12,946	-	1,978	158,770
P L Conway	2007	-	15,490	-	-	-	15,490
	2006	-	91,667	8,250	18,000	7,978	125,895
	2007	-	387,990	33,525	72,000	5,898	499,413
	2006	-	520,513	46,846	18,000	13,912	599,271

(c) Compensation options: Granted and vested during the year (Consolidated)

During the financial year options were granted as equity compensation benefits under the Employee Share Option Plan (ESOP) to Directors and Key Executives as disclosed below. The options were issued free of charge. Each option entitled the holder to subscribe for one fully paid ordinary share in the entity at an exercise price of \$0.10. For further details relating to the options, refer to note 13.

	Vested		Granted		Terms and conditions of each grant			
	Number	Number	Grant date	Fair Value per option at grant date (note 12)	Exercise price per option (note 12)	Expiry date	First exercise date	Last exercise date
30 June 2007								
Directors								
B M Gardiner	1,000,000	1,000,000	29 Nov 06	\$0.012	\$0.10	28 Nov 08	29 Nov 06	28 Nov 08
R Penny	750,000	750,000	29 Nov 06	\$0.012	\$0.10	28 Nov 08	29 Nov 06	28 Nov 08
	375,000	500,000	21 Sep 06	\$0.008	\$0.10	14 Sep 08	21 Sep 06	14 Sep 08
P Ford	1,000,000	1,000,000	29 Nov 06	\$0.012	\$0.10	28 Nov 08	29 Nov 06	28 Nov 08
Executives								
K R Slatyer	5,000,000	5,000,000	29 Nov 06	\$0.012	\$0.10	28 Nov 08	29 Nov 06	28 Nov 08
P B Magoffin	1,000,000	1,000,000	29 Nov 06	\$0.012	\$0.10	28 Nov 08	29 Nov 06	28 Nov 08
	Vested		Granted		Terms and conditions of each grant			
	Number	Number	Grant date	Fair Value per option at grant date (note 18)	Exercise price per option (note 18)	Expiry date	First exercise date	Last exercise date
30 June 2006								
Directors								
B M Gardiner	250,000	250,000	20 Jan 06	-	\$0.25	30 June 06	20 Jan 06	30 June 06
R Penny	250,000	250,000	20 Jan 06	-	\$0.25	30 June 06	20 Jan 06	30 June 06
Executives								
P L Conway	3,000,000	3,000,000	1 Aug 05	\$0.006	\$0.25	31 July 07	1 Aug 06	31 July 07

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)**(d) Option holdings of Key Management Personnel**

30 June 2007	<i>Balance at beginning of period 1 Jul 06</i>	<i>Granted as remuneration</i>	<i>Options exercised</i>	<i>Options lapsed</i>	<i>Balance at end of period 30 Jun 07</i>	<i>Vested at 30 June 2007</i>		
						<i>Total</i>	<i>Exercisable</i>	<i>Not-exercisable</i>
Directors								
B M Gardiner	-	1,000,000	Nil	-	1,000,000	1,000,000	1,000,000	-
R Penny	-	1,250,000	Nil	-	1,250,000	1,250,000	1,125,000	125,000
P D Ford	-	1,000,000	Nil	-	1,000,000	1,000,000	1,000,000	-
Executives								
K R Slatyer	-	5,000,000	Nil	-	5,000,000	5,000,000	5,000,000	-
P B Magoffin	-	1,000,000	Nil	-	1,000,000	1,000,000	1,000,000	-
P W French	750,000	-	Nil	750,000	-	-	-	-
P L Conway	3,360,000	-	Nil	360,000	3,000,000	3,000,000	3,000,000	-
TOTAL	4,110,000	9,250,000	-	1,110,000	12,250,000	12,250,000	12,125,000	125,000

30 June 2006	<i>Balance at beginning of period 1 Jul 05</i>	<i>Granted as remuneration</i>	<i>Options exercised</i>	<i>Options lapsed</i>	<i>Balance at end of period 30 Jun 06</i>	<i>Vested at 30 June 2006</i>		
						<i>Total</i>	<i>Exercisable</i>	<i>Not-exercisable</i>
Directors								
B M Gardiner	500,000	250,000	Nil	750,000	Nil	-	-	-
R Penny	500,000	250,000	Nil	750,000	Nil	-	-	-
P D Ford	-	-	-	-	-	-	-	-
Executives								
K R Slatyer	-	-	-	-	-	-	-	-
P B Magoffin	-	-	-	-	-	-	-	-
P W French	750,000	-	Nil	-	750,000	750,000	750,000	-
P L Conway	500,000	3,000,000	Nil	140,000	3,360,000	3,360,000	3,360,000	-
TOTAL	2,250,000	3,500,000	-	1,640,000	4,110,000	4,110,000	4,110,000	

(e) Shareholdings of Key Management Personnel (consolidated)*Shares held in Probiomics Limited*

30 June 2007	Balance 1 July 2006	Class	Granted as Remuneration	Net change - Other	Balance 30 June 2007
Directors					
Bryan Martin Gardiner	nil	n/a	nil	nil	nil
Patrick Douglas Ford (i)	3,435,999	Ordinary	nil	nil	3,435,999
Ronald Penny	nil	n/a	nil	nil	nil

30 June 2006	Balance 1 July 2005	Class	Granted as Remuneration	Net change - Other	Balance 30 June 2006
Directors					
Bryan Martin Gardiner	nil	n/a	nil	nil	nil
Patrick Douglas Ford (i)	3,435,999	Ordinary	nil	nil	3,435,999
Ronald Penny	nil	n/a	nil	nil	nil

(e) Shareholdings of Key Management Personnel (consolidated)

Ford has a beneficial interest in Diskdew Pty Limited which owned 3,269,333 shares at balance date.

(f) Loans to Key Management Personnel (consolidated)

No loans have been made to any Director or Key Management Personnel.

(g) Other transactions and balances with Key Management Personnel

There were no other transactions with Key Management personnel during the year.

25. RELATED PARTY DISCLOSURES

Probiomix Limited is the ultimate Australian parent company.

Transactions with Directors.

- (i) During the year Probiomix Limited was provided services, on normal commercial terms and conditions, by Taylor Collison Pty Limited, totalling \$7,500. Mr Patrick Ford is an employee of Taylor Collison Limited.
- (ii) During the year Probiomix Limited was provided services, on normal terms and conditions, by Good Health Solutions Pty Ltd totalling \$ 7,435. Prof Ron Penny is a director of Good Health Solutions Pty Ltd.
- (iii) During the year Probiomix Limited was provided services, on normal terms and conditions, by Diskdew Pty Ltd totalling \$ 8,229. Mr Patrick Ford is a director of Diskdew Pty Ltd.