Vet Biotechnology
ACN 105 577 017

Suite 7, 114 Rundle Street
Kent Town
SA 5067

13 September 2005

The Manager
Company Announcements
Newcastle Stock Exchange Limited

Dear Sir

Vet Biotechnology Limited Code VBL and VBLO - Target's Statement

In accordance with item 14 of section 633 (1) of the Corporations Act 2001, please find attached Vet Biotechnology Limited's Target's Statement dated 13 September 2005 which includes the Independent Expert's Report prepared by Deloitte Corporate Finance Pty Ltd.

The Target's Statement has been lodged with Australian Securities & Investments Commission, and will be sent to Plantcorp Limited and the company's shareholders today.

Yours faithfully

H. LeMessurier

Hugo Le Messurier
General Manager
Vet Biotechnology Ltd

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Vet Biotechnology Limited
ACN 105 577 017

Target Statement

in response to the Offer for all VBT Shares and VBT Options by

Plantcorp Limited
ACN 009 347 406

The Independent Directors of Vet Biotechnology Limited recommend that you

ACCEPT the OFFER for ALL of your VBT Shares and VBT Options

THIS IS AN IMPORTANT DOCUMENT

If you do not understand it or are in doubt as to how to act, you should consult your financial or other professional adviser.

Lawyers to Vet Biotechnology Limited
Piper Alderman
Lawyers
167 Flinders Street
Adelaide SA 5000
Australia
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Facsimile +61 8 8205 3300
www.piper-alderman.com.au
Adelaide ● Sydney ● Melbourne ● Brisbane

Contents

Key Dates

Offer opens	12 August 2005
Offer closes	7 November 2005[1]

Throughout the period up until the Offer closes, VBT Independent Directors will review their recommendation and advice in light of any developments and update Shareholders accordingly

[1] This date will be extended if Plantcorp extends its Offer in accordance with the Corporations Act 2001.

Important Notices

This is the Target's Statement dated 13 September 2005 made by Vet Biotechnology Limited under Part 6.5 of Chapter 6 of the Corporations Act 2001 (Cth) in response to the Bidder's Statement given by Plantcorp Limited dated 12 August 2005 which was served on VBT on 12 August 2005.

On 29 August 2005 ASIC gave VBT relief from items 11 and 12 of section 633(1) of the Corporations Act 2001 in that it extended the time from 30 August 2005 to 13 September 2005 for VBT to lodge with ASIC this Target Statement and to send it to shareholders.

A copy of this Statement has been lodged with ASIC. Neither ASIC nor any of its officers take any responsibility for the contents of this Statement.

No Account Taken of Your Personal Circumstances

This Target's Statement and the recommendations contained in it should not be taken as personal financial advice, as they do not take into account your individual objectives, financial and tax situation, and particular needs. You should obtain independent financial and tax advice before making a decision about the Offer.

Defined Terms

This Target's Statement uses a number of capitalised terms which are defined in the Glossary in Section 12.

Shareholder Enquiries

VBT has established a Shareholder Information Line which Shareholders should call if they have any questions in relation to the Offer.

The shareholder Information Line number is 1800 095 927 and is a free call within Australia. The line will be attended between the hours of 9:00am and 5:00pm, South Australia time on business days.

As required under the Corporations Act 2001 (Cth), all calls to this telephone number will be recorded, indexed and stored.

If you require further information regarding your shareholding, please contact:

Toll free 1800 095 927 within Australia

+61 2 8280 7214 outside Australia.

Chairman's Letter

13 September 2005

Dear Shareholder

On 12 August 2005, your Company received a takeover offer from Plantcorp Limited for seven Plantcorp Shares for every two VBT Shares and three Plantcorp Options for every two VBT Options.

The Offer is a conditional takeover offer which will only be satisfied if Plantcorp satisfies or waives its conditions, which include achieving a 90% shareholding in VBT.

By now, you should have received your copy of the Bidder's Statement.

This document is the VBT Target's Statement which sets out the response of VBT to the Offer, and in Part A of this document, provides the recommendation of the Independent Directors being Mrs Lusia Guthrie, Messrs Paul Mariani and Paul Kerr as to what you should do at this stage

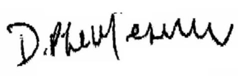
The Offer has been considered by the Independent Directors of VBT. The Independent Directors are those who have no connection or association with Plantcorp. The Independent Directors are, therefore, in a position to provide Shareholders with an objective view, having regard to the interests of **all** Shareholders.

Having considered the Offer, the Independent Directors **recommend that you accept the Offer in respect of ALL of your VBT Shares and VBT Options in the absence of a superior proposal**.

The Independent Directors stress that you can only accept the Offer <u>for all of your VBT Shares and all VBT Options</u>.

Given that background, I would encourage all Shareholders to review and consider the advice and recommendation of the Independent Directors contained in this Target's Statement and the report of Deloitte Corporate Finance Pty Ltd attached to this Statement before making your decision in relation to the Offer.

Yours sincerely



Peter Le Messurier
Chairman
Vet Biotechnology Limited

1. The Facts

On 14 June 2005, Plantcorp announced its intention to make a takeover offer of seven Plantcorp Shares for every two VBT Shares and three Plantcorp Options for every two VBT Options.

On 12 August 2005, Plantcorp lodged a Bidder's Statement with ASIC and NSX. The Bidder's Statement has been sent to VBT's Share and Option holders.

The consideration being offered to Shareholders by Plantcorp is seven Plantcorp shares for every two VBT Shares and three Plantcorp Options for every two VBT Options.

Shareholders can only accept the Offer in respect of all their VBT Securities. Shareholders cannot accept the Offer in respect of only some of their VBT Securities.

The Offer consideration will only become payable to Shareholders if all of the conditions of the Offer are satisfied or waived. These conditions are described below.

Unless extended or withdrawn, the Offer will be open for acceptance from 12 August 2005 until 5.00 pm (Perth) on 7 November 2005.

While the Offer is subject to conditions, it may be extended only before the giving of Plantcorp's notice regarding the status of the conditions. If the Offer becomes unconditional (that is, if all the conditions are satisfied or waived), it may be extended at any time before the expiry of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last seven days of the Offer Period:

- Plantcorp improves the price under the Offer; or
- Plantcorp's voting power increases to more than 50%.

If either of these two events occurs, the Offer Period will be automatically extended so that it ends 14 days after the relevant event occurs.

Plantcorp may withdraw the Offer for VBT Shares and Options with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

The Offer will lapse if the conditions to the Offer are not satisfied or waived by the end of the Offer Period. If the Offer lapses, all contracts resulting from acceptance of the Offer and all acceptances which have not yet resulted in binding contracts will become void.

The Offer is subject to a number of conditions, namely:

- Plantcorp acquiring 90% of the VBT Shares on issue;
- Plantcorp acquiring 50% of the VBT Options on issue;
- Plantcorp raising at least $3.25 million by the issue of 16.25 million Plantcorp shares at $0.20 each and a one for one Plantcorp option;
- Plantcorp securing the appropriate underwriting agreement for the capital raising;

- the existing VBT directors and officers replacing the existing Plantcorp directors and officers after the listing on ASX;
- Plantcorp's shareholders approving:

  (a) a consolidation of Plantcorp ordinary and converting preference shares to either:

    (1) if Plantcorp shareholders approve of the conversion of the new convertible loans to 18,666,666 shares and 1.5 million options – 7,438,180 shares;

    (2) if Plantcorp Shareholders do not approve of the conversion of the new convertible loans to 18,666,666 shares and 1.5 million options – 7,302,664 shares;

  (b) Plantcorp changing its name to Vet Biotechnology Limited;

  (c) the adoption of a new constitution:
- permission for admission to quotation of Plantcorp's securities being granted by ASX no later than seven days after the end of the Offer Period;

If Plantcorp acquires a relevant interest in at least 90% of the VBT Shares, Plantcorp will be entitled to compulsorily acquire any VBT Shares in respect of which it has not received an acceptance of its Offer on the same terms as the Offer. In Section F2 of the Bidder's Statement, Plantcorp has indicated that if it reaches the 90% threshold and the Offer is declared or otherwise becomes free of all other conditions, it does intend to compulsorily acquire any outstanding VBT Shares.

Plantcorp will have one month after the end of the Offer Period within which to give compulsory acquisition notices to VBT Shareholders who have not accepted the Offer. VBT Shareholders have statutory rights to challenge a compulsory acquisition of their VBT Shares but to be successful would need to satisfy a court that the terms of the Offer do not represent 'fair value' for their VBT Shares.

2. Corporate Governance

As the Non-Independent Director may be regarded as not being wholly objective as to the outcome of the Offer, the Board decided that the recommendations of the Independent Directors should be presented separate in Part A of this Statement.

To provide a recommendation to Shareholders, the Offer was considered by the Independent Directors having regard to the interests of all Shareholders.

The Independent Directors are:

Name	Position	Service
Mrs Lusia Guthrie	Non-Executive Director	21 months on the Board
Mr Paul Mariani	Non-Executive Director	21 months on the Board
Mr Paul Kerr	Non-Executive Director	12 months on the Board

The Non-Independent Director, Mr Peter Le Messurier declares that he could be regarded as non-independent by virtue of being a shareholder in Plantcorp, a former director of Plantcorp and under the Related Party Transactions detailed in section 5 of Part B of this Statement, will receive a financial benefit on the successful listing of Plantcorp on ASX.

3. Independent Directors' Recommendation and Reasons

INDEPENDENT DIRECTORS' RECOMMENDATION

Your Independent Directors recommend you accept the Offer
for all of your VBT Shares and VBT Options

The Independent Directors have carefully considered the Offer and taken into account the independent expert's opinion, the conditions, offer price and any other relevant factors. The Independent Directors recommend acceptance of the Offer for all of your VBT Shares and VBT Options.

REASONS FOR THE INDEPENDENT DIRECTOR'S RECOMMENDATIONS

The Independent Directors recommend the Offer because:

- the independent expert Deloitte Corporate Finance Pty Ltd is of the opinion that:
  - (1) the offer for the VBT Shares is fair and reasonable;
  - (2) the offer for the VBT Options is not fair but reasonable;
- admission to ASX will increase VBT's market capitalisation, liquidity in its shares and the ability to raise capital in the future for new projects;
- the proposed capital raising by Plantcorp will be used to fund company growth, ongoing research and the development of business strategies;
- management of the merged entity will remain with the Directors and management of VBT.

4. What Are Your Options and What Should You Do?

WHAT ARE YOUR OPTIONS?

Accept the Offer for all of your VBT Shares and VBT Options	**This is the course of action recommended by the Independent Directors.** If you do accept the Offer, you can only do so for all of your VBT Shares and VBT Options.
Accept the Offer for only part of your shareholding:	The Offer is for all your VBT Shares and all your VBT Options. You cannot accept for only part of your shareholding.

Sell your VBT Shares on Market:	VBT Shares are currently trading on the NSX at $0.40. VBT Options are traded at $0.10. Shareholders that do not wish to await the outcome of the Offer could elect to sell their VBT Shares and VBT Options on market and potentially achieve a higher price.
Not accept the Offer:	Shareholders run the risks referred to on section 6 Part A of this Statement, including the risk of a decline in share price.

WHAT SHOULD YOU DO?

1. Carefully read this Target's Statement including the independent expert's report.
2. Carefully consider the Independent Directors' recommendation when making your decision.
3. If you have any queries, please call the Vet Biotechnology Shareholder Information Line on Toll free 1800 095 927 within Australia or +61 2 8280 7214 outside Australia or consult your adviser.

5. Important Information

On 5 August 2005, VBT instructed its accountants MSI Tilley Murphy Hughes to instruct HLB Mann Judd Stephens (S.A.) to conduct an independent review of the Offer and provide an independent expert's report for inclusion in this Target Statement.

Because HLB Mann Judd Stephens (S.A.) was not appropriately licensed, an affiliate HLB Mann Judd Corporate (WA) Pty Ltd was requested to provide the report.

HLB Mann Judd Corporate (WA) Pty Ltd did not prepare an independent expert's report.

Neither HLB Mann Judd Stephens (S.A.) nor HLB Mann Judd Corporate (WA) Pty Ltd consents to the inclusion in this Target Statement of any statement of theirs regarding the attempted engagement of them and their not providing an independent expert's report.

Having regard to these matters, **SHAREHOLDERS ARE STRONGLY ADVISED TO OBTAIN THEIR OWN FINANCIAL OR OTHER PROFESSIONAL ADVICE BEFORE DECIDING WHETHER OR NOT TO ACCEPT THE OFFER**.

Consequently, on 22 August 2005, VBT engaged Deloitte Corporate Finance Pty Ltd to provide an independent expert's report, which report is attached to this Statement.

6. Other Important Considerations

The Independent Directors believe that certain shareholders may also want to take into account the following further observations:

- a consequence of the takeover not being complete is that the Directors of VBT will have to find an alternative method to finance the company's growth;
- the lower liquidity of Shareholders' securities of NSX compared to ASX;
- the goals of VBT being set back by a significant amount of time because of not accepting the Offer and not raising the capital under the prospectus;
- because of the Plantcorp merger, the costs of servicing the larger shareholder base will significantly increase;
- the disposal of shares by Plantcorp shareholders on listing may impact the share price;
- the number of VBT Options that have been exercised since 14 June 2005 is 835,333.

1. Overview of VBT

VBT was incorporated in South Australia as a proprietary company on 23 July 2003 and converted to a public company on 6 February 2004. On 10 December 2004, VBT was admitted to the Official List of NSX.

VBT has entered into an exclusive agreement with VetCell BioScience Ltd (UK) to commercialise a stem cell based therapy for equine tendon and ligament injuries in Australia and New Zealand. VBT received regulatory approval from the Australian Pesticides and Veterinary Medicines Authority to market the stem cell services in Australia on 1 July 2005.

The Company will market two stem cell services. The first is a bone marrow derived stem cell service for the treatment of horses with a tendon or ligament injury. In addition a service for the cryogenic storage of umbilical cord derived stem cells will be offered to horse owners and breeders. The Company has entered into an exclusive worldwide distribution agreement with VetCell BioScience Ltd (UK) to market the cryogenic stem cell storage service to international customers.

The company conducts research to develop new veterinary products and services.

VBT is investigating the development of a diagnostic and vaccine for the long term management of *Rhodococcus equi* disease, known in the thoroughbred breeding industry as “Rattles”. In addition the company is also conducting research to develop a breath test for the diagnosis of Equine Gastric Ulcer Syndrome in horses.

2. Directors' Recommendations and Intentions

2.1 Independent Directors' recommendations and reasons

The Independent Directors unanimously recommend that you **ACCEPT** the Offer for **ALL** of your VBT Shares and VBT Options.

The Independent Directors' reasons for this recommendation are set out in Part A of this Statement.

2.2 The Position of the Non-Independent Director

Declaration of Interest

Mr Peter Le Messurier declares that he may be regarded as not being wholly objective as to the outcome of the Offer as he and associates own Plantcorp Shares and Plantcorp Options, details of which are set out in section 5.3 of Part B of this Target's Statement.

Statement by the Non-Independent Director

Mr Peter Le Messurier abstains from making a recommendation because he is not an 'independent' director of VBT.

2.3 Directors' intentions to accept or reject Offers in respect of their personal shareholdings

Shareholders should be aware that with respect to their holdings of VBT Shares and VBT Options all Directors intend to accept the Offer for all their respective VBT Securities.

The interests of Directors in VBT Securities are set out in section 5.2 of this Statement.

3. Prospects for an Improvement in either Offer or an alternative offer

As at the date of this Target Statement, the Directors are not aware of any other offer, an improved offer or potential offer for VBT Securities.

4. Information on VBT

4.1 NSX Announcements

VBT is a "disclosing entity" under the Corporations Act 2001 (Cth) and as such has continuous disclosure obligations under that act and also under the NSX Listing Rules.

Other than as set out in section 4.4 below VBT has disclosed to the market all information that a reasonable person would expect to have a material effect on the price or value of VBT's Securities. These announcements are available from NSX (see www.newsx.com.au).

The most recent financial information regarding VBT is contained in the Annual Report for the year ended 30 June 2005, released to NSX on 8 September 2005. A copy of the Annual Report was sent to Shareholders on 8 September 2005. To the knowledge of each of the Directors of VBT, the financial position of VBT has not materially changed since 8 September 2005 (the date at which the most recent financial information regarding VBT was prepared). Between that date and the date prior to the date of this Statement, VBT has made no announcement to NSX as part of its continuous disclosure obligations.

4.2 No Dividend for Year Ended 30 June 2005

No dividend will be paid on VBT Shares for the year ended 30 June 2005.

4.3 Effect of Offer on VBT's material contracts

VBT is a party to contracts which are material to the operations of VBT's business. The Offer, if successful, will not result in the other parties to those contracts exercising rights, such as the right to terminate the contract or the right to accelerate VBT's other obligations under the contract.

4.4 Additional Disclosures

(a) *Third party rights in VBT licensed intellectual property*

The stem cell technology is protected by the international patent application PCT/GB2003/003894 titled ‘Pharmaceutical kits comprising mesenchymal stem cells”, owned by the Royal Veterinary College. VetCell BioScience Ltd has been assigned the exclusive worldwide right to sub-licence the technology from the owners of the

Patent VBT has been granted an exclusive sub-licence from VetCell BioScience Ltd to commercialise the proprietary equine stem cell services for the territories of Australia and New Zealand and to market the umbilical cord service to international customers.

The 'Rattles' technology is protected by the international patent application PCT/AU01/00478 titled "Antigenic peptide fragments of VapA protein, and uses thereof". The University of South Australia, Medvet Science Pty Ltd and the Rural Industries Research and Development Corporation own this patent. The University of South Australia and the Rural Industries Research and Development Corporation have appointed Medvet Science Pty Ltd as the exclusive commercialisation entity for the technology. Medvet Science has exclusively sub-licensed the technology to VBT.

The breath test technology is protected by the international patent application PCT/AU02/01666 titled "Breath Test". The technology is co-owned by the Women's and Children's Hospital, a facility of Children Youth and Women's Health Service, and Adelaide Research and Innovation Pty Ltd. The owners have exclusively Licensed the technology to Nidor Ltd who is permitted to grant sub-licences in respect of its rights under the Licence and Nidor Ltd has appointed VBT as the exclusive Sub-Licensee for equine applications.

(b) *Effect of takeover costs on profitability and cashflow*

VBT's short-term financial performance will be adversely impacted by the costs associated with this current takeover activity which are estimated to be up to $680,000.00.

5. Directors' Interests

5.1 Directors of VBT

The Directors in office as at the date of this Statement are:

- Mr D Peter Le Messurier (Chairman and Non-Executive Director)
- Mrs Lusia H Guthrie (Non-Executive Director)
- Mr Paul A Mariani (Non-Executive Director)
- Mr Paul L Kerr (Non-Executive Director)

5.2 Directors' interests in VBT

(a) *Directors' interests in VBT Securities*

The number and description of VBT Securities in which each Director has a relevant interest are set out in the table below.

Director	VBT Shares Directly Held	VBT Shares Indirectly Held	VBT Options Directly Held	VBT Options Indirectly Held
D P Le Messurier	950,000	2,750,000	950,000	2,750,000
L H Guthrie	500,000	Nil	500,000	Nil
P A Mariani	500,000	103,333	500,000	36,667
P L Kerr	500,000	Nil	500,000	Nil

(b) *Dealings in VBT Securities by Directors and Associates*

On 1 August 2005, an associate of Mr Paul Mariani was issued 33,333 VBT Shares as a result of the exercise of VBT Options.

Other than those VBT Shares, no VBT Securities were acquired or disposed of by Directors or associates of Directors of VBT within the period of four months ended on the day immediately before the date on which the Bidder's Statement was served on VBT.

(c) *Other Interests of Directors in VBT*

The Directors are entitled to be reimbursed by VBT for travelling and other out of pocket expenses which are incurred in the course of conducting the Company's business.

Details of the nature and amount of each major element of the emoluments of each Director of the Company for the financial year ended 30 June 2005 are:

	Base Emolument	Value of Shares	Value of Options	Reimbursement of Expenses
D P Le Messurier				$889.50
L H Guthrie	$3,637.00			$4,507.48
P L Kerr		$200,000.00	$50,000.00	$3,911.01

Other than as described elsewhere in this Statement:

(1) there are no agreements between any Director and VBT; and

(2) no Director has an interest in any contract to which VBT is a party.

5.3 Directors' Interests in Plantcorp

(a) *Directors' interest in Plantcorp*

Director	Fully Paid Shares	Convertible Preference Shares	Unlisted 20 cent Options
Mr P Le Messurier	521,957	31,500	7,875

(b) *Dealings in Plantcorp securities by Directors and Associates*

No Plantcorp shares or other securities of Plantcorp were acquired or disposed of by Directors of associates of Directors within the period of four months ended on the day immediately before the day on which the Bidder's Statement was served on VBT.

(c) It is a condition of the Plantcorp Offer that the Directors will on the listing on ASX become directors of Plantcorp.

5.4 Director's Transactions with VBT

(a) On 3 June 2003, Mr Peter Le Messurier entered into an option agreement with Medvet Science Pty Ltd (**Agreement**).

The option agreement grants an exclusive worldwide option to enter into good faith negotiations with Medvet Science Pty Ltd with a view to it granting an exclusive worldwide sub-licence in respect of the intellectual property rights in the technology to an invention known as the *Rhodococcus equi* ELISA Diagnostic Assay.

On 9 September 2003, Mr Le Messurier assigned and transferred all of the rights, title and interest in the Agreement to VBT.

The consideration for the transfer of the Agreement was that VBT:

(1) granted to Mr Le Messurier and or his nominee a royalty in relation to net sales of any VBT product of 1.8%;

(2) VBT agreed to issue 500,000 shares and 500,000 share options when VBT or any of its subsidiaries list on ASX or any stock exchange in Australia or internationally other than NSX.

Mr Le Messurier has now agreed with Plantcorp and VBT to relinquish his rights and entitlements as mentioned above on the condition that after completion of the takeover by Plantcorp and the successful listing of the company on ASX, Plantcorp will pay to Mr Le Messurier or his nominee an overriding royalty of 1.8% of net sales of all products resulting from the development of the technology to the invention known as *Rhodococcus equi* ELISA Diagnostic Assay.

(b) Mr Peter Le Messurier is a consultant to Martin Place Securities Pty Ltd for which he receives a monthly fee of up to $7,500.00. Martin Place Securities Pty Ltd is the financial adviser to VBT and is the underwriter of the share offer by Plantcorp, the details of which are set out in the Bidder's Statement.

Mr Le Messurier will not receive any fees or commission because of this takeover or the proposed capital raising.

6. Restricted Securities

If a shareholder's VBT Securities are NSX Restricted Securities, NSX has agreed to the release of the holding lock over those NSX Restricted Securities to enable the Offer to be accepted on the conditions:

(a) Plantcorp is granted admission to ASX and is scheduled for commencement of quotation; and

(b) the successful completion of the takeover.

The effective date of release will be 5pm on the day before Plantcorp shares commence quotation on ASX.

Shareholders who have NSX Restricted Securities should note that ASX may require any Plantcorp securities issued as consideration for those securities to be treated as ASX Restricted Securities. This will mean that such Plantcorp securities will be subject to escrow for a specified period and a corresponding holding lock on ASX. During that period, you cannot:

(a) dispose of, or agree or offer to dispose of, the relevant Plantcorp securities;

(b) create, or agree or offer to create, any security interest in the relevant Plantcorp securities; or

(c) do, or omit to do, any act if the act or omission would have the effect of transferring effective ownership or control of the relevant Plantcorp securities.

7. Agreements Connected with or Conditional on the Offer

Other than the agreements referred to in sections 5.3 and 5.4 of Part B of this Statement there is no other agreement made between any of the Directors and any other person in connection with or conditional on the outcome of the Offer.

8. Taxation

Shareholders may incur a liability for taxation, depending on their circumstances, by selling VBT Shares and VBT Options. Shareholders are referred to the sections in the Bidder's Statements dealing with the tax consequences of acceptance of each Offer and are also urged to seek their own taxation advice.

9. No other Information Relevant to Making of a Decision

This Statement is required to contain all the information that Shareholders and their professional advisers would reasonably require to make an informed assessment as to whether to accept the Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Statement; and
- only if the information is known to any of the Directors.

The Directors are of the opinion that the information that Shareholders and their professional advisers would reasonably require to make an informed assessment as to whether to accept the Offers and which is known to Directors is:

- the information contained in the Bidder's Statements;
- the information contained in this Statement.

In deciding what information should be included in this Statement, the Directors have had regard to:

(a) the nature of the VBT Shares and VBT Options;

(b) the matters that Shareholders may reasonably be expected to know;

(c) the fact that certain matters may be reasonably be expected to be known to their professional advisers or inferred by them; and

(d) the time available for VBT to prepare this Statement.

10. Consents

Piper Alderman has given and has not withdrawn its consent to be named in this Statement as legal advisers to VBT for the preparation of this Statement. Piper Alderman does not make, or purport to make, any statement that is included in this Statement and there is no statement in this Statement which is based on any statement by Piper Alderman. To the maximum extent permitted by law, Piper Alderman expressly disclaims and takes no responsibility for any part of this Statement other than the references to its name.

Martin Place Securities Pty Ltd has given and has not withdrawn its consent to be named in this Statement as financial advisers to VBT for the preparation of this Statement. Martin Place Securities Pty Ltd does not make, or purport to make, any statement that is included in this Statement and there is no statement in this Statement which is based on any statement by Martin Place Securities Pty Ltd. To the maximum extent permitted by law Martin Place Securities Pty Ltd expressly disclaims and takes no responsibility for any part of this Statement other than the references to its name.

HLB Mann Judd Stephens (S.A.) has given and has not withdrawn its consent to be named in this Statement as VBT's auditor. HLB Mann Judd Stephens (S.A.) does not make, or purport to make, any statement that is included in this Statement other than the statement included in Part A.5 and there is no statement in this Statement which is based on any statement by HLB Mann Judd Stephens (S.A.). To the maximum extent permitted by law HLB Mann Judd Stephens (S.A.) expressly disclaims and takes no responsibility for any part of this Statement.

Deloitte Corporate Finance Pty Ltd has given and not withdrawn its consent to be named in this Statement as an independent expert. Deloitte Corporate Finance Pty Ltd consents to the inclusion of its report and references to its report in the form and context in which they are included in this Statement. Otherwise Deloitte Corporate Finance Pty Ltd does not make, or proposes to make, any statement in this Statement. To the maximum extent permitted by law Deloitte Corporate Finance Pty Ltd expressly disclaims and takes no responsibility for any part of this Statement other than described above with its consent.

Acuity Technology Management Pty Ltd has given and not withdrawn its consent to be named in this Statement. Acuity Technology Management Pty Ltd consents to the inclusion of its report in the report of Deloitte Corporate Finance Pty Ltd and references to its report in the form and context in which they are included in this Statement. Otherwise, Acuity Technology Management Pty Ltd does not make, or purport to make, any statement in this Statement. To the maximum extent permitted by law Acuity Technology Management Pty Ltd expressly disclaims and takes no responsibility for any part of this Statement other than described above with its consent.

11. Date and approval of this Statement

This Statement is dated 13 September 2005 which is the date it was lodged with ASIC. This Statement was approved by a resolution of the Directors.

12. Glossary

ASIC means the Australian Securities & Investments Commission;

ASX means the Australian Stock Exchange Limited;

Bidder's Statement means the statement dated 12 August 2005 issued by Plantcorp containing the Plantcorp Offer;

Board means the board of directors of VBT;

Company or **VBT** means Vet Biotechnology Limited ACN 105 577 017;

Director means a director of VBT;

Independent Directors means each of Mrs Lusia Guthrie and Messrs Paul Mariani and Paul Kerr;

Non-Independent Directors means Mr Peter Le Messurier;

NSX means The Stock Exchange of Newcastle Limited;

Offer means the Plantcorp Offer;

Offer Period means from 12 August 2005 to 7 November 2005 as may be extended;

Optionholders means holders of VBT Options;

Plantcorp means Plantcorp Limited ACN 009 347 406;

Plantcorp Offer means the conditional off-market takeover offer for all of your VBT Securities made by Plantcorp under a Bidder's Statement dated 12 August 2005.

Related Body Corporate has the meaning given to that term in section 9 of the Corporations Act 2001;

Shareholders means holders of VBT Shares;

Statement means this Target's Statement;

VBT Options means an option over VBT Shares that entitles the holder to acquire one or more VBT Shares on exercise of the option;

VBT Securities means VBT Shares and VBT Options; and

VBT Shares means fully paid ordinary shares in the capital of VBT.

13. Corporate Directory

Vet Biotechnology Limited	253 Sturt Street Adelaide SA 5000
Directors	Mr D Peter Le Messurier Mrs Lusia H Guthrie Mr Paul A Mariani Mr Paul L Kerr
Company Secretary	Paul J Mansfield
Auditors	HLB Mann Judd Stephens (S.A.)
Lawyers	Piper Alderman
Financial Adviser	Martin Place Securities Pty Ltd ACN 094 927 947

Deloitte.

Independent expert's report – 13 September 2005

Vet Biotechnology Limited

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide ("FSG") is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided by Deloitte Corporate Finance Pty Limited (ABN 19 003 833 127). The use of "we", "us" or "our" is a reference to Deloitte Corporate Finance Pty Limited as the holder of Australian Financial Services Licence ("AFSL") No. 241457. **The contents of this FSG include:**

- **who we are and how we can be contacted**
- **what services we are authorised to provide under our AFSL**
- **how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide**
- **details of any potential conflicts of interest**
- **details of our internal and external dispute resolution systems and how you can access them.**

Information about us

We have been engaged by Vet Biotechnology Limited to give general financial product advice in the form of a report to be provided to you in connection with Plantcorp Limited's Takeover Offer for the shares and options of Vet Biotechnology Limited. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us using the details located above.

Deloitte Corporate Finance Pty Limited is ultimately owned by the Australian partnership of Deloitte Touche Tohmatsu. The Australian partnership of Deloitte Touche Tohmatsu and its related entities provide services primarily in the areas of audit, tax, consulting, and financial advisory services. Our directors may be partners in the Australian partnership of Deloitte Touche Tohmatsu.

The Australian partnership of Deloitte Touche Tohmatsu is a member firm of the Deloitte Touche Tohmatsu Verein. As the Deloitte Touche Tohmatsu Verein is a Swiss Verein (association), neither it nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names.

The financial product advice in our report is provided by Deloitte Corporate Finance Pty Limited and not by the Australian partnership of Deloitte Touche Tohmatsu, its related entities, or the Deloitte Touche Tohmatsu Verein.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Australian partnership of Deloitte Touche Tohmatsu (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

What financial services are we licenced to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide financial product advice in respect of:
  - debentures, stocks or bonds to be issued or proposed to be issued by a government
  - interests in managed investment schemes including investor directed portfolio services
  - securities.
- to deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of:
  - debentures, stocks or bonds issued or to be issued by a government
  - interests in managed investment schemes including investor directed portfolio services
  - securities.

Information about the general financial product advice we provide

The financial product advice provided in our report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued another party, we recommend you obtain and read carefully the relevant Product Disclosure Statement ("PDS") or offer document provided by the issuer of the financial product. The purpose of the PDS is to help you make an informed decision about the acquisition of a financial product. The contents of the PDS will include details such as the risks, benefits and costs of acquiring the particular financial product.

How are we and our employees remunerated?

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Deloitte Corporate Finance Pty Limited nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us. Our fee is $75,000 and will also be disclosed in the relevant PDS or offer document prepared by the issuer of the financial product.

All of our employees receive a salary. Our employees are eligible for annual salary increases and bonuses based on overall performance but do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits in connection with our advice.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

What should you do if you have a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Complaints Officer
Practice Protection Group
PO Box N250
Grosvenor Place
Sydney NSW 1220

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service (“FICS”). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry.

Complaints may be submitted to FICS at:

Financial Industry Complaints Service
PO Box 579
Collins Street West
Melbourne VIC 8007
Telephone: 1300 780 808
Fax: +61 3 9621 2291
Internet: http://www.fics.asn.au

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia (“ICAA”). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants and can be contacted at:

The Institute of Chartered Accountants
GPO Box 3921
Sydney NSW 2001
Telephone: +61 2 9290 1344
Fax: +61 2 9262 1512

Specific contact details for lodging a compliant with the ICAA can be obtained from their website at http://www.icaa.org.au/about/index.cfm.

The Australian Securities and Investments Commission (“ASIC”) regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630

Email: infoline@asic.gov.au

Internet: http://www.asic.gov.au/asic/asic.nsf

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13 September 2005

The Independent Directors
Vet Biotechnology Limited
Suite 7, 114 Rundle Street
Kent Town SA 5067

Dear Independent Directors

Independent expert's report

1. Introduction

On 12 August 2005 Plantcorp Limited (Plantcorp or the Bidder) announced a conditional offer to acquire all of the shares in Vet Biotechnology Limited (VBL or the Company) that it does not already own (the Share Offer) and all of the options in VBL that it does not already own (the Option Offer) (together the Proposed Transaction or the Takeover Offer). The consideration offered by Plantcorp to holders of VBL shares other than Plantcorp (VBL Shareholders) is seven Plantcorp shares for every two VBL shares and to the holders of VBL options other than Plantcorp (VBL Optionholders) is three Plantcorp options for every two VBL options. The Takeover Offer is conditional upon Plantcorp raising at least $3.25 million (the Proposed Capital Raising) and obtaining permission for admission to the Australian Stock Exchange (ASX).

Full details of the Takeover Offer are included in a Bidder's Statement, which was issued by Plantcorp on 12 August 2005. An overview of the Takeover Offer is provided in Section 1 of this report.

The directors of VBL are to issue a Target's Statement, in response to the Bidder's Statement, which will include their recommendation as to whether VBL Shareholders and VBL Optionholders should accept or reject the Takeover Offer.

2. Purpose of the report

The independent directors of VBL (the Independent Directors) have requested that Deloitte Corporate Finance Pty Ltd (Deloitte Corporate Finance) provide an independent expert's report advising whether, in our opinion, the Takeover Offer is fair and reasonable.

This independent expert's report is not required pursuant to Section 640 of the Corporations Act 2001 (Section 640), however we have been requested to prepare an independent expert's report as if one was required pursuant to Section 640 to assist VBL Shareholders and VBL Optionholders in their decision whether to accept or reject the Takeover Offer. We have prepared this report having regard to Section 640 and the relevant Australian Securities and Investments Commission (ASIC) Policy Statements and Practice Notes.

This report is to be included in a Target's Statement to be sent to VBL Shareholders and VBL Optionholders and has been prepared exclusively for the purpose of assisting VBL Shareholders and VBL Optionholders in their consideration of the Takeover Offer. The report should not be used for any other purpose.

3. Basis of evaluation

In order to assess whether the Share Offer and the Option Offer are fair and reasonable we have:

- assessed whether the Share Offer is fair by estimating the fair market value of an ordinary VBL share and comparing that value to the estimated fair market value of the consideration to be received by VBL Shareholders pursuant to the Share Offer
- assessed whether the Option Offer is fair by estimating the fair market value of an ordinary VBL option and comparing that value to the estimated fair market value of the consideration to be received by VBL Optionholders pursuant to the Option Offer
- assessed the reasonableness of the Proposed Transaction by considering other significant factors, including advantages and disadvantages of the Takeover Offer to the VBL Shareholders and VBL Optionholders.

For the purposes of this report we have used the term "VBL share" to describe the ordinary shares on issue by VBL and the term "VBL option" to describe the options on issue by VBL.

4. Summary and conclusion

In our opinion the Share Offer is fair and reasonable and the Option Offer is not fair but reasonable. In arriving at this opinion, we have had regard to the following factors:

The Share Offer is fair

Set out in the table below is a comparison of our assessment of the fair market value of a VBL share with our estimate of the fair market value of the consideration offered by Plantcorp.

Evaluation of fairness – Share Offer

	Ref	Low ($)	High ($)
Estimated fair market value of a VBL share	Section 9	0.30	0.35
Estimated fair market value of consideration offered	Section 11.2	0.70	0.70

The consideration offered by Plantcorp is above the range of our estimate of the fair market value of a VBL share. Accordingly it is our opinion that the Share Offer is fair.

The Option Offer is not fair

Set out in the table below is a comparison of our assessment of the fair market value of a VBL option with our estimate of the fair market value of the consideration offered by Plantcorp.

Evaluation of fairness – Option Offer

	Ref	Low ($)	High ($)
Estimated fair market value of a VBL option	Section 10.3	0.08	0.12
Estimated fair market value of consideration offered	Section 10.4	0.05	0.07

The consideration offered by Plantcorp is below the range of our estimate of the fair market value of a VBL option. Accordingly it is our opinion that the Option Offer is not fair.

Valuation of a VBL share

We have estimated the fair market value of a VBL share using the discounted cash flow method, which estimates the value of VBL by discounting the Company's estimated future cash flows to their present value.

The discounted cash flow method requires the determination of an appropriate discount rate and the projection of future cash flows. We selected a nominal after tax discount rate of between 30% and 35% to discount the estimated future cash flows of VBL's bone marrow and cord storage business to their present value and a nominal after tax discount rate of between 35% and 40% to discount the estimated future cash flows of VBL's stem cell USA business to their present value. A financial model prepared by the management of VBL formed the basis of the projected future cash flows. Further, we have appointed a biotechnology industry expert, Acuity Technology Management Pty Ltd (Acuity), to assess whether the projected future cash flows and underlying assumptions are suitable for the purposes of assessing the fairness and reasonableness of the Takeover Offer, and to examine some of the key assumptions underlying the cash flow projections.

Valuation of a VBL option

We have estimated the fair market value of a VBL option using the Black Scholes methodology.

The Share Offer and the Option Offer are reasonable

In accordance with ASIC Policy Statement 75 an offer is reasonable if it is fair. On this basis, in our opinion the Share Offer is reasonable.

ASIC Policy Statement 75 also considers an offer to be reasonable if despite not being fair, but considering other significant factors, optionholders should accept the offer in the absence of any higher bid before the close of the offer. On this basis, in our opinion the Option Offer is reasonable.

We have considered the following factors in assessing the reasonableness of the Share Offer and the Option Offer:

Advantages of the Proposed Transaction

Underwriting agreement

Raising funds in the biotechnology industry, whether in the form of equity or debt, has traditionally been difficult due to the complex and rapidly evolving nature of the industry where access to the latest technology is critical to remain competitive and material uncertainty surrounds the commercialisation of the research outcomes. Extensive research and development is at the core of the industry, where risks and rewards vary greatly.

VBL is currently researching a number of products for application in the equine industry and a high level of research and development is required to further progress the development of the majority of these products. The requirement for financing is therefore critical to the ongoing success of VBL, particularly given that the Company has experienced difficulty raising the funding levels required whilst listed on the NSX.

The Takeover Offer is conditional upon the Proposed Capital Raising. Martin Place Securities Pty Limited (MPS) has provided a letter of undertaking, subject to contract, to support VBL's ASX capital raising process and compliance listing to raise $3.25 million. A draft underwriting agreement has been agreed between Plantcorp and MPS. The underwriting agreement contemplates the issue of 16.25 million Plantcorp shares at $0.20 each and a one for one Plantcorp option.

In the absence of a comparable alternative financing solution secured in the near term, VBL will be unable to continue the research required in relation to many of the Company's current projects and will be unable to achieve future growth through commercialising the outcomes of the Company's research.

Means of listing on the ASX

By accepting the Proposed Transaction, VBL Shareholders and VBL Optionholders will hold shares and options respectively in a company listed on the ASX. A long term goal of the Directors of VBL has been to list VBL on the ASX and the Proposed Transaction provides this opportunity. In the absence of the Proposed Transaction VBL would need to pursue an alternative mechanism to seek quotation of its securities on the ASX.

The ASX should provide greater liquidity than the NSX. Hence, by listing on the ASX, VBL Shareholders and VBL Optionholders should be able to buy or sell their shares and options more quickly than at present.

In addition, companies listed on the ASX are generally able to raise further funding more easily and quickly than companies not listed on the ASX. The VBL Directors believe this will provide VBL with an enhanced ability to raise funds required to continue the Company's current projects and to support new projects.

By listing on the ASX, VBL's profile will also be increased, which will enhance the awareness of VBL's products and services.

Wider shareholder base

The ASX Listing Rules state that a company must have a minimum of 500 shareholders each with shares to the value of $2,000 to list on the ASX. VBL had 72 shareholders as at 12 August 2005. MPS was reluctant to underwrite a listing of VBL on the ASX as it believed that finding an additional 428 shareholders to meet the ASX Listing Rules would be difficult. Plantcorp was proposed as the vehicle for an ASX listing as it already has a large shareholder base of 19,232 ordinary shareholders, 661 convertible preference shareholders and 661 optionholders. If successful, the Proposed Transaction will increase the number of investors in VBL and, in addition, the Proposed Capital Raising will also introduce new shareholders to VBL. Access to a larger shareholder base should improve liquidity and the Proposed Merged Entity's ability to raise additional equity in the future.

Timing and availability of funding

VBL currently has no bank facilities or overdraft and had approximately $181,000 cash remaining in the bank at 22 August 2005, which represents the cash required to fund approximately two months trading. The time required to source other comparable funding is likely to take in excess of two months. In addition, VBL has sold just eight of the Company's bone marrow products since the product launch on 1 July 2005. Without prompt recourse to additional funding VBL will be unable to continue its operations.

Disadvantages of the Proposed Transaction

Dilution

VBL Shareholders will suffer a dilution of their interests in VBL as a result of the Proposed Transaction. Under the Proposed Transaction, VBL Shareholders' interest will reduce from 100% of VBL to 63% of the Proposed Merged Entity, on an undiluted basis, or 57% on a fully diluted basis. The remaining 37% interest in the Proposed Merged Entity on an undiluted basis will be held by investors in the Proposed Capital Raising (25%) and existing Plantcorp shareholders (12%). VBL Shareholders will collectively retain a controlling interest in the Proposed Merged Entity.

The investors in the Proposed Capital Raising will contribute $3.25 million to the Proposed Merged Entity, however, the existing Plantcorp shareholders will hold a 12% interest in the Proposed Merged Entity in exchange for relinquishing control of a company that is otherwise dormant, with net liabilities and that has been delisted from the ASX.

Plantcorp also intends to introduce a Director and Executive Option Plan that will provide for the granting of options to directors and executives at an exercise price to be determined by the directors at the time of granting the options. In addition, MPS will be paid a success fee of 380,000 fully paid shares in the Proposed Merged Entity each with a free attaching option upon completion of the Takeover Offer. These two initiatives have the potential to further dilute existing VBL Shareholders' interests in the Proposed Merged Entity.

Cost of funding

The MPS letter of undertaking to underwrite the $3.25 million Proposed Capital Raising represents an expensive source of funding. The proposed fee structure consists of a non refundable engagement fee of $5,000, an underwriting fee of 7%, a management fee of 1.5% and a success fee of 380,000 fully paid shares in the Proposed Merged Entity each with a free attaching option. It has not been demonstrated to us that this is the best source of funding available to VBL.

Tax considerations

Some VBL Shareholders may suffer an adverse cash flow impact through any capital gains tax or income tax payable on disposal of VBL shares, in the event that the Proposed Transaction is approved and implemented. However, VBL Shareholders may be entitled to 'scrip for scrip' rollover relief. VBL Shareholders should consult their tax adviser regarding their personal tax circumstances.

Alternative ASX listing approaches

By accepting the Proposed Transaction, and provided that all the conditions are met, VBL will be committed to listing on the ASX by way of a backdoor listing through Plantcorp. There are alternative options to list VBL on the ASX, which may provide a superior outcome to existing VBL Shareholders and VBL Optionholders. The Independent Directors have advised that alternative approaches to listing VBL on the ASX have not been examined. While MPS have stated its preference for a listing of VBL through Plantcorp due to Plantcorp's large shareholder base, its letter of undertaking to underwrite the Proposed Capital Raising is not dependent on specifically using Plantcorp as the vehicle.

Sharing upside

The Takeover Offer may not be attractive to VBL Shareholders and VBL Optionholders who believe that VBL has a higher intrinsic value due to the prospects of the projects the Company currently has in the commercialisation and development phases.

Costs of ASX listing

The Proposed Merged Entity will incur higher costs as a consequence of listing on the ASX. These costs will comprise costs of admission to the ASX, ongoing costs to maintain its quotation on the ASX and increased compliance costs associated with being listed on the ASX. In addition, the Proposed Merged Entity will have increased disclosure and corporate governance obligations due to its requirement to comply with the ASX Listing Rules.

Other considerations

The VBL Directors are not aware of any other parties that are likely to make an offer to acquire the shares and options in VBL. The Proposed Transaction provides VBL Shareholders and VBL Optionholders with a means to dispose of their shares and options in a biotechnology company listed on the NSX in exchange for shares and options in a biotechnology company listed on the ASX. In the absence of the current offer, VBL shares are likely to continue to trade at prices comparable to the trading price prior to the announcement of the Proposed Transaction, however, the shares will continue to be illiquid.

While VBL Shareholders and VBL Optionholders will have their interests diluted, the alternative, being owning 100% of a company listed on the NSX with illiquid shares, does not enable the VBL Shareholders and VBL Optionholders to realise a full return on their investment as, without funding, the Company cannot continue to finance commercialisation and research of its products.

An individual shareholders and optionholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. We have considered the Proposed Transaction for VBL Shareholders and VBL Optionholders as a whole. We have not considered the effect of the Proposed Transaction on the particular circumstances of individual shareholders or optionholders nor have we considered their individual objectives, financial situation or needs. Due to their particular circumstances, individual shareholders or optionholders may place different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach different conclusions as to whether the Proposed Transaction is in their best interest. If in doubt VBL Shareholders and VBL Optionholders should consult an independent adviser.

5. Opinion

In our opinion, the Share Offer is fair and reasonable to VBL Shareholders and the Option Offer is not fair but reasonable to VBL Optionholders. An individual shareholder's or optionholder's decision in relation to the Takeover Offer may be influenced by his or her particular circumstances. Individuals that own a similar number of shares and options in VBL should note that the aggregate value of the consideration being offered for one share and one option significantly exceeds the aggregate estimated fair market value of one share and one option. If in doubt, the shareholder or optionholder should consult an independent adviser. This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Note: all amounts stated in this report are in Australian dollars unless otherwise stated.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

R Foley-Lewis

David Hill

Director

Rachel Foley-Lewis

Director

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Contents

Deloitte.

Appendices

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1 Terms of the Takeover Offer

1.1 Summary

On 12 August 2005 Plantcorp served a Bidder's Statement on VBL and lodged copies of the Bidder's Statement with ASIC and the NSX on the same day. A description of the Takeover Offer is presented in Section I of the Bidder's Statement.

The Share Offer is to acquire all of the shares in VBL to which Plantcorp is not already entitled. Shareholders are offered seven Plantcorp shares for every two VBL shares held. The Option Offer is to acquire all of the options in VBL to which Plantcorp is not already entitled. Optionholders are offered three Plantcorp options for every two VBL options held. The Plantcorp options have an exercise price of $0.30 and expire on 30 June 2011. The offer is conditional on Plantcorp raising at least $3.25 million in the Proposed Capital Raising and receiving permission for admission to quotation of Plantcorp's securities on the ASX. Ultimately, if the Proposed Transaction is successful, VBL will be delisted from the NSX, Plantcorp will be re-listed on the ASX and Plantcorp will change its name to VBL.

The Proposed Transaction is subject to the following conditions:

- Plantcorp procuring an appropriate underwriting commitment in respect of the Proposed Capital Raising
- Plantcorp acquiring at least 90% of the VBL shares and becoming able to proceed to compulsory acquisition of the remainder under the Corporations Act 2001 (Cth) (the Corporations Act)
- Plantcorp acquiring at least 50% of the VBL options
- Existing Plantcorp shareholders before the Proposed Transaction (Plantcorp Shareholders) approving at a meeting to be held no later than when the offer under the Prospectus closes:
  - (i) a consolidation of Plantcorp shares and convertible preference shares to either:
    - 7,438,180 Plantcorp shares if Plantcorp Shareholders approve the conversion of the new convertible loans to 18,666,666 Plantcorp shares and 1.5 million Plantcorp options at the meeting (during the financial year to 30 June 2005, $103,500 was advanced to Plantcorp in the form of an issue of unsecured convertible loans, convertible to Plantcorp shares at $0.003. Of this, $56,000 was directors' monies requiring shareholder approval for conversion into 18,666,666 shares)
    - 7,302,664 Plantcorp shares if Plantcorp Shareholders do not approve the conversion of the new convertible loans to 18,666,666 Plantcorp shares and 1.5 million Plantcorp options at the meeting
  - (ii) the change of name of Plantcorp to VBL or similar
  - (iii) the adoption of a new constitution, to be tabled at the meeting
- Plantcorp raising $3.25 million by the issue of 16.25 million Plantcorp shares at 20 cents each and a one for one Plantcorp option issue pursuant to a Prospectus
- permission for admission to quotation of Plantcorp's shares and options being granted by the ASX no later than seven days after the closure of the Share Offer and Option Offer
- existing VBL directors replacing existing Plantcorp officers following the commencement of trading of the Proposed Merged Entity's shares on the ASX.

The detailed terms of the Proposed Transaction are provided in the Bidder's Statement.

1.2 Plantcorp's intentions

If Plantcorp receives acceptances for 90% or more of the VBL shares on issue and all other conditions of the Share Offer and Option Offer are met, Plantcorp intends to:

- proceed with the compulsory acquisition of any outstanding VBL shares in accordance with the Corporations Act
- operate VBL's business in conjunction with its own but otherwise not make any major changes to VBL's business or redeploy any of VBL's fixed assets except in terms of meeting the objectives of the Proposed Merged Entity, which are presented in Section F of the Bidder's Statement
- procure the de-listing of VBL from the NSX.

2 Scope of the report

2.1 Purpose of the report

Under Section 640 a target's statement given in response to a takeover offer must include, or be accompanied by, an independent expert's report if either the bidder's voting power in the target is 30% or more, or the bidder and target have one or more common directors. The independent expert's report is required for the purpose of providing shareholders of the target company with an objective and disinterested view as to whether the offer is fair and reasonable and to provide them with sufficient information to make an effective, informed decision as to whether to accept or reject the offer.

As Plantcorp does not have any directors in common with VBL, and it does not have more than 30% of the voting shares in VBL, there is no legal requirement for an independent expert's report in respect of the Takeover Offer. However, Mr Peter LeMessurier, Chairman of VBL, has declared that he could be regarded as a non-independent director of VBL as he is a shareholder of Plantcorp, is a former director of Plantcorp, is involved with transactions with VBL and will receive a financial benefit on the successful listing of Plantcorp on the ASX. On this basis, the Independent Directors of VBL have requested us to prepare an independent expert's report in respect of the Proposed Transaction, as if it was required under Section 640, in order to assist VBL Shareholders and VBL Optionholders in their consideration of the Proposed Transaction.

2.2 Basis of evaluation

In our determination as to whether the Takeover Offer is fair and reasonable, we have had regard to common market practice and to Policy Statement 75 and Practice Note 43 issued by ASIC in relation to independent expert's reports. The Policy Statement and Practice Note prescribe standards of best practice in the preparation of independent expert's reports pursuant to Section 640.

2.2.1 Fairness

ASIC Policy Statement 75 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities being the subject of the offer. The comparison must be made assuming 100% ownership of the target company.

Accordingly we have assessed whether the Proposed Transaction is fair by comparing the estimated fair market value of the consideration to be received pursuant to the Share Offer and Option Offer with the estimated fair market value of each VBL share and VBL option respectively. We assessed the value of each VBL share by determining the current value of VBL on a control basis and dividing this value by the number of shares on issue. We have assessed the value of each VBL option based on our valuation of each VBL share.

The VBL shares and VBL options have been valued at fair market value, which we have defined as the amount at which the shares and options would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices, to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of VBL has not been premised on the existence of a special purchaser.

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2.2.2 Reasonableness

ASIC Policy Statement 75 considers an offer to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Proposed Transaction we have considered the following factors in addition to determining whether the Proposed Transaction is fair:

- the dilution of control of VBL post the Proposed Transaction
- the risk profile of VBL
- the ability of VBL to raise capital
- the ability of VBL to continue as a going concern
- existence of significant shareholding blocks in VBL
- the likely price and market liquidity of VBL shares in the absence of the Proposed Transaction
- the likelihood of an alternative takeover offer
- any special value to Plantcorp
- the value of VBL to an alternative bidder
- other implications for VBL Shareholders and VBL Optionholders of rejecting the Proposed Transaction
- conditions associated with the Proposed Transaction.

2.2.3 Shareholders and optionholders as a whole

We have evaluated the Proposed Transaction for VBL Securityholders as a whole and have not considered the effect of the Proposed Transaction on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from that adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Transaction is fair and reasonable. If in doubt, investors should consult an independent adviser.

2.3 Limitations and reliance on information

The opinion of Deloitte Corporate Finance is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 6.

Our procedures and enquiries do not include verification work nor constitute an audit in accordance with Australian Auditing Standards (AUS), nor do they constitute a review in accordance with AUS 902 applicable to review engagements.

3 Biotechnology industry

VBL is a biotechnology company focused on the equine industry. An overview of the biotechnology industry is provided in this section and an overview of the equine industry is provided in Section 4.

3.1 Structure of the industry

Biotechnology is broadly defined as the application of biological science and living organisms to develop products or processes. The key sectors in the market include healthcare, agriculture, food production and industrial and environmental applications. The industry can be divided into the following sub-sectors:

Table 1: Biotechnology industry sub-sectors

Healthcare	Agriculture	Food	Industrial / environmental
• diagnostics	• veterinary diagnostics	• processing	• biocatalysts
• therapeutics	• veterinary products	• safety testing	• renewable energy
• regenerative medicines	• crops	• improving raw materials	• green plastics
• vaccines	• forestry		• nanotechnology
• genomics	• aquaculture		• industrial sustainability
• proteomics			
• bio-informatics			

The biotechnology industry is often considered to be a sub-sector of the more broadly defined pharmaceutical industry. The pharmaceutical industry is dominated by several large scale companies who have significant market share and operate globally. The high costs of researching and developing new products and establishing manufacturing plants make it difficult for new players to enter the pharmaceutical market.

Biotechnology companies focus on the early stages of drug or product development and then frequently partner with larger pharmaceutical companies to take promising products through the final stages of development and on to commercialisation. This allows the biotechnology company to focus on development of new ideas and to leverage the extensive marketing and distribution networks of pharmaceutical companies to bring products to the market. Consequently there is much less industry concentration in the biotechnology industry compared to the highly concentrated pharmaceutical production and distribution sectors.

The information provided in the rest of this section is focussed on the industry sub-sectors in which VBL operates. These industry sub-sectors comprise veterinary diagnostics and veterinary products in the agricultural sector.

3.2 Process to commercialisation

3.2.1 New drugs

It is estimated that it can take between two and six years to test and approve a new drug in the agricultural sector. This is significantly less than the healthcare sub-sector in which it can take up to twelve years to test and approve a new drug. In addition, the technology available in the biotechnology industry is continually improving, thereby reducing the time taken to develop new drugs. It is therefore essential that biotechnology companies have access to the latest research technology in order to remain competitive. There are four stages that a new drug must go through before becoming a viable commercial product.

Initial discovery

This phase involves the identification of a valid target associated with the incidence of a particular disease. Once a target has been isolated the next step is discovery of a suitable compound that has a positive pharmacological effect on the target.

Preclinical testing

Preclinical testing involves laboratory evaluation and small animal testing of the compound. The purpose of preclinical tests is to determine the specific impact of the compound on the target, its toxicity and the process by which the drug is absorbed, distributed, metabolized and eliminated by the body.

Clinical trials

This is the stage where a potential new drug is trialled on large animals to determine safety and efficiency. These trials commonly take one to four years to complete.

Regulatory approval

New drugs need to obtain regulatory approval in the countries within which they are to be distributed. The information obtained during the steps mentioned above provides the basis upon which the regulator makes its assessment as to whether to grant an approval for the new drug to be marketed and distributed.

3.2.2 New diagnostics

The commercialisation process for new diagnostics is similar to new drugs except that safety trials are usually not necessary. Moreover, once a new diagnostic is developed, the regulatory requirements for its use are usually not as extensive as for new drugs or products.

Initial discovery

This phase involves the identification of a valid target associated with the incidence of a particular disease. Once a target has been isolated the next step is discovery of a suitable diagnostic that has a positive result on the target and can therefore be used to identify or diagnose the disease.

Preclinical testing

Preclinical testing involves laboratory evaluation and small animal testing. The purpose of preclinical tests is to develop an efficient diagnostic.

Clinical trials

A potential new diagnostic is trialled on large animals to determine the sensitivity and specificity of the diagnostic.

Regulatory approval

New diagnostics need to obtain regulatory approval in major markets outside Australia. The information obtained during the steps mentioned above provides the basis upon which the regulator makes its assessment as to whether to grant an approval for the marketing and distribution of the new diagnostic.

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3.3 Critical success factors

3.3.1 Safe, efficient and cost effective products

Products developed in the biotechnology industry must be shown to be safe in order for regulators to approve their marketing and distribution. End users need to have the effectiveness of the product demonstrated to them in order to convince them to purchase the product. In addition, in the agricultural sector, end users have a particular focus on the cost effectiveness of the product.

3.3.2 Distribution

Products developed by the biotechnology industry require effective distribution networks in order to enter target markets. For this reason, small companies often partner with larger pharmaceutical companies who have well established distribution networks. However, in the agricultural sector, markets are often small and fragmented, hence some small biotechnology companies manufacture and distribute products directly to end users.

3.4 Barriers to entry

3.4.1 Patent protection

Once a successful product has been developed, long patent lives prevent competitors from producing the product or utilising the same process for several years. However, when the patent expires, other companies are able to manufacture the same product.

3.4.2 Regulatory approval

Biotechnology products require regulatory approvals so that they can be distributed in particular markets. The greater the claims being made by companies regarding the product, the more extensive the regulatory approvals required. The regulatory approval process itself creates barriers to entry as competing products must complete the regulatory approval process before they can enter a market.

3.4.3 Biotechnology product development risk

Biotechnology products require an element of invention in their development. New invention development is risky and creates a barrier to entry as the potential products of new entrants may fail during the development phase of their commercialisation.

3.5 Regulation

The biotechnology industry is heavily regulated, which has a significant impact upon profitability. The agriculture sub-sector is also significantly regulated, however, the level of regulation is less than in the healthcare sub-sector of the biotechnology industry. Notwithstanding this, before any therapeutic good can be released to the market, clinical trials on animals must be performed to determine whether the therapeutic good is safe and effective. In all major markets clinical trials must be approved by the appropriate regulatory authority.

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4 Equine industry

4.1 Introduction

The Australian equine or horse industry includes approximately 1.2 million horses, with approximately 77,800 foals and young horses up to two years old[1].

The use of horses in Australia can be broken down into the following five major categories:

- breeding – thoroughbred, standardbred, pony and other breeds
- racing – thoroughbred and harness
- events and recreation – recreational events, recreation, retired horses
- equestrian events – dressage, showjumping, endurance, rodeo, polo and pony club, including Arabian and Quarter horses
- horse businesses – stock work, riding schools, holiday riding, police and army.

It is estimated that there are approximately 2,900 breeding farms[2] and 230 thoroughbred studs[3] in Australia with the major concentration in New South Wales, Victoria and Queensland.

4.2 Common equine injuries and diseases

Common injuries and diseases affecting the equine industry include the following:

- tendon and ligament injury
- gastric ulcers
- rattles.

An overview of each of these is provided below.

4.2.1 Tendon and ligament injury

Orthopaedic injuries are a major cause of wastage in thoroughbred horses in Australia and New Zealand. It is estimated that each year, up to 35% of horses in training will suffer an injury. Tendon and ligament damage accounts for up to 2% of all horse injuries. The damaged tissues are repaired by scar tissue which causes a loss of elasticity and thereby reduces the performance of the horse. There are a number of treatment therapies available, however, only 25% to 50% of horses return to racing and even then there is a high incidence of injury recurrence. In many cases, tendon and ligament injuries end a horse's racing career.

There are a number of treatments available for tendon and ligament injury, however, many are ineffective and some are deleterious.

4.2.2 Equine Gastric Ulcer Syndrome

A common problem faced by trainers and thoroughbred horses worldwide is Equine Gastric Ulcer Syndrome (EGUS), which causes eating disorders. A symptom of eating disorders is appetite suppression, which leads to reduced performance and wasted training costs. EGUS affects approximately 90% of racehorses, up to 60% of performance horses and 25% - 57% of foals. In addition to poor feeding, weight loss and reduced performance,

[1] J. Gordon, 'The Horse Industry: Contributing to the Australian economy', Rural Industry Research & Development Corporation (RIRDC) report No 01/083, June 2001
[2] ibid
[3] Thoroughbred Breeders Australia, www.tbaus.com/studfarms.htm

EGUS can cause deaths in foals aged one to four months. There is currently no simple diagnostic test available for EGUS.

4.2.3 Rattles

One of the most common diseases in newborn foals is a condition colloquially known as Rattles, which is caused by Rhodococcus equi organisms. Rattles can be fatal. Foals are affected by Rattles as a result of eating infected faeces or by inhaling infected material swept up in dry and dusty paddocks. Rattles is most common during hot and dry conditions which are present nearing the end of the foaling season. Infection is less common in countries with continuous green pastures, such as New Zealand and the UK.

5 Profile of VBL

VBL was incorporated in South Australia on 23 July 2003 to focus on the development of a vaccine and diagnostic for the long term management of Rattles. In addition, VBL has also entered into an exclusive agreement with VetCell Biosciences (UK) Ltd (VetCell) to commercialise stem cell based services for equine tendon and ligament injuries. VBL was converted into a public company on 6 February 2004 before listing on the NSX on 10 December 2004.

5.1 Company history

A summary of VBL's company history is presented below:

Figure 1: VBL company history

2003	• incorporated on 23 July 2003 • entered into an exclusive commercialisation agreement with Medvet Science Pty Ltd ("Medvet") on 23 December 2003 to develop manufacture, use, promote and sell the VapA technology for diagnosing Rattles disease
2004	• converted into a public company on 6 February 2004 • entered into an exclusive sub-licensing agreement with VetCell on 10 November 2004 to commercialise two product services in Australia and New Zealand that are currently marketed in the UK by VetCell • listed on the NSX on 10 December 2004
2005	• received regulatory approval from the Australian Pesticides and Veterinary Medicines Authority (APVMA) on 1 July 2005 for the Company's horse stem cell treatment • entered into an exclusive sub-licence with Nidor Pty Ltd (Nidor) on 11 August 2005 to commercialise breath testing technology for use with horses

Source: VBL management

5.2 Principal activities

VBL is involved in researching, developing and marketing the following equine-related products:

- horse stem cell technology that may regenerate the tendon and ligament tissue of injured horses (Section 5.2.1)
- Rattles disease technology that may be a diagnostic for Rattles. VBL is also investigating the possibility of creating a vaccine for Rattles (Section 5.2.2)
- equine breath testing technology that may provide a diagnostic for EGUS (Section 5.2.3).

5.2.1 Horse stem cell technology

Use of the technology

Many competition horses, thoroughbreds and other breeds suffer tendon and ligament injuries as a result of the demands of high performance racing. In many cases these injuries are career limiting for the horse, causing wastage in the industry in the form of wasted training costs, hospitalisation and rehabilitation costs, costs associated with the low success rate of existing therapies and the loss of potential earnings from racing and breeding.

Current therapies for repair of these injuries have a poor prognosis for recovery with success rates of 20% to 50% in Australia. Moreover, as the tendon is repaired with scar tissue, horses that do recover have a high risk of re-injury when they return to training and racing.

Stem cells have the unique ability to generate a range of specialised cell types to regenerate tissue. Equine mesenchymal stem cells may be able to regenerate tendon and ligament cells, offering an opportunity to return to a fully functional tendon or ligament as opposed to one compromised by the presence of scar tissue. Mesenchymal stem cells are found in small numbers in the bone marrow of adult horses and in the umbilical cord blood of foals.

Stem cell services

The technology includes a proprietary technique for multiplying mesenchymal stem cells, a method of cryogenic storage of stem cells and a training program for collection and implantation of stem cells. VBL propose to offer the following services:

- tendon treatment: a mesenchymal stem cell service for regeneration of equine tendons and ligaments
- stem cell storage: cryostorage of umbilical cord derived stem cells collected from the umbilical cord at foaling, providing an insurance policy in case of future injury to the horse.

Regulation

Equine stem cell services have been determined to be services regulated by the APVMA. The stem cells must be manufactured under the Minor Use Permit issued by the APVMA. A condition of this permit is that the manufacturing must be conducted under Good Manufacturing Procedures (GMP). VBL received approval from the APVMA to market the stem cell services from 1 July 2005 under Minor use Permit PER8275.

Intellectual property

The horse stem cell technology is protected by an international patent covering Australia, Europe and the USA, PCT GB2003003894 titled “Pharmaceutical kits comprising mesenchymal stem cells”. The patent covers the laboratory process and clinical application of the technology. International patent applications have also been made in Australia, Europe and the United States.

VetCell licence

VetCell holds the exclusive world-wide rights to sub-licence the horse stem cell product as described in the patent.

On 26 May 2004 VBL entered an exclusive Heads of Agreement with VetCell for the commercialisation of proprietary mesenchymal stem cell based technologies. The Heads of Agreement was converted into an exclusive licence agreement on 10 November 2004. The licence gives VBL the right to commercialise the two proprietary product services described above, in Australia and New Zealand. These products are currently marketed in the UK by VetCell.

Under the terms of the licence, VBL can sub-licence rights to a contract manufacturer for the production of the product and to veterinary surgeons for the use of the product. The licence is for three years with three options to extend for a further period of three years each.

VBL paid a fee of £74,000 to VetCell for the exclusive licence. The licence requires minimum sales quantities to be achieved as follows:

Table 2: Minimum sales quantities (units)

Product	Year 1	Year 2	Year 3
Tendon / ligament	125	250	450
Cord blood	125	350	500

Source: VBL annual financial report for the year ended 30 June 2005

VBL will pay a royalty to VetCell equal to 15% of net sales of the product reducing to 5% as VBL's sales increase and the requirement for technical support from VetCell reduces.

Medvet licence

Medvet, a wholly owned subsidiary of the Institute of Medical and Veterinary Science (IMVS), together with the Therapeutic Products facility of the Department of Haematology, submitted a GMP licence application to the APVMA on behalf of VBL as a contract manufacturing partner for the stem cell services in Australia. On 23 June 2005, VBL announced that the APVMA had approved the Minor Use Permit, valid from 1 July 2005.

The licence agreement between VBL and Medvet is for one year with an option to extend for an additional year. Medvet will maintain GMP facilities and support VBL in maintaining the APVMA permits. In return, VBL will pay Medvet $25,000 for validation of the GMP process.

Development stage of the technology

The horse stem cell technology has been used in 121 horses in the UK since 2002. The technology was given regulatory approval for use in Australia on 1 July 2005. VBL has received eight orders for the service since its approval on 1 July 2005. The technology is a regulatory approved service that has generated revenue of $13,200 to date with a further $8,000 due shortly.

Cord storage

On 10 August 2005, VBL entered into an exclusive licence agreement with VetCell for the commercialisation of the proprietary umbilical cord derived mesenchymal stem cell based technologies. This licence grants VBL an exclusive right to market and sell the service internationally. The licence is for three years with three options to extend for a further period of three years each. A royalty of 5% of net sales is payable to VetCell, with prescribed minimum sales targets. VBL may also sub-licence the performance of the service to VetCell approved laboratories.

The licence requires minimum sales quantities to be achieved as follows:

Table 3: Minimum sales quantities (units)

Product	Year 1	Year 2	Year 3
Cord storage	750	1,500	2,500

Source: Licence, Distribution and Supply Agreement between VBL and VetCell for "Equine Umbilical Stem Cell Storage Technology"

New Zealand

VBL aims to expand the licenced stem cell services into the New Zealand market. In order to do this, VBL will be required to secure local manufacturing and distribution and obtain the necessary regulatory approvals.

USA

VBL signed a Heads of Agreement with VetCell on 24 January 2005 with VetCell to negotiate the terms and conditions of a joint venture agreement to commercialise and distribute VetCell's proprietary equine stem cell services in the USA. The Heads of Agreement aimed to complete all negotiations within three months to support the launch of the technology in the USA before 31 December 2005.

VBL commenced enquiries in April 2005 as to whether any aspect of its mesenchymal stem cell therapy will require Food and Drug Administration (FDA) Centre for Veterinary Medicine (CVM) regulatory approval before it is made available to equine veterinary practitioners in the USA. At the valuation date the outcome of these enquiries was still unknown.

5.2.2 Rattles disease technology

Use of the technology

Rattles is a common respiratory tract infection of the lower airways of horses, affecting, in particular, thoroughbred foals. It is a major cause of wastage in thoroughbred foals in Australia and is one of the top four diseases affecting the horse industry. Rattles is manifested as a serious pneumonia affecting foals less than six months old, with infections often being fatal if left untreated. The disease impacts the foal's welfare and imposes significant costs on the thoroughbred breeding industry including costs to constantly monitor foals from birth for signs of the illness, costs of hospitalisation, costs of antibiotic treatment and potential loss of the foal.

Rattles is currently diagnosed via clinical observation. The disease can be treated by antibiotics if it is diagnosed early enough, however, there are no symptoms until the disease is well advanced.

Rattles diagnostic and vaccine

As discussed above, Rattles is typically diagnosed by observation. When symptoms are recognised, the foal is then tested. In contrast the VapA based diagnostic technology licenced by VBL from Medvet specifically detects virtually all disease-causing virulent strains of the Rattles bacteria. While a prototype diagnostic test has been developed by VBL, it needs further research before it is marketable as a product to detect Rattles in thoroughbred foals.

Rattles could ultimately be managed with the development of a vaccine. To date, a number of vaccine candidates have been developed using the VapA technology. However, further research and development into the potential vaccines needs to be conducted in animal models before safety and efficacy studies can begin in horses.

Medvet licence

VBL entered into a licence agreement with Medvet on 23 December 2003, whereby VBL was appointed as the commercialising agent to develop, manufacture, use, promote and sell the products of the Antigenic Peptide Fragments of VapA Protein (Rattles Disease Technology). The intended products culminating from further research and development and the subject of the licence agreement are a serological diagnostic test and a vaccine for the treatment of Rattles. The licence agreement is for a period of 15 years or expiration of the patents.

Under the sub-licence agreement with Medvet, VBL must make commercially reasonable efforts to meet development milestones that include:

- conclusion of clinical trials
- finalisation of product development
- commercial sale of the product in Australia
- application for FDA marketing approval
- commercial sale of the product in the USA.

VBL will pay Medvet a licence fee comprising:

- $40,000 on the first anniversary of the commencement date
- patent issuance fee of $75,000 (exclusive of GST) within 30 days after the grant of the patent in the USA
- a royalty of 5% of net sales of the product.

VBL will also pay Medvet an IP fee of 2% of the previous year's net sales of the product, a research fee of 3% of the previous year's net sales of the product and reimburse costs relating to the patent.

Intellectual property

Rattles Disease Technology is protected by Australian Patent Application No. 2001252038 'Antigenic Peptide Fragments of VapA Protein & Uses Thereof'. In addition, international patent applications have been made in Canada, New Zealand, Europe and the USA.

Other intellectual property such as know how, trade secrets and copyright material also support the technology.

Development stage of the technology

The Rattles Disease Technology needs additional development. VBL has obtained approximately 1,000 samples which will form the basis of a clinical trial of the technology. The technology is not currently a marketable product but is reaching the end of its development phase. The vaccine is still in the discovery phase of development.

5.2.3 Horse breath test

Use of the technology

A problem facing trainers of thoroughbred horses is eating disorders in horses. Loss of appetite leads to reduced performance and wasted training costs. In many cases these eating disorders are caused by gastrointestinal dysfunction, notably gastric ulcers, which is endemic in thoroughbred horses. Up to 60-90% of horses in training will be affected by ulcers.

Currently, eating disorders are diagnosed via clinical signs such as observation of colic or poor appetite. These diagnosis methods are non-specific and ulcers can therefore remain undiagnosed. Currently, the only reliable method of diagnosis is using a 3.5 metre endoscope, which can require the hospitalisation of the horse.

The horse breath test technology offers a potentially non-invasive method for the diagnosing of ulcers in horses.

Diagnostic

VBL is investigating a potential diagnostic test for the detection and management of equine gastrointestinal ulceration. The product will be a non-invasive method based on sucrose breath test technology. The technology includes a method of assessing the state of the lining of a horse's small intestine by taking a series of breath tests and calculating the change in labelled carbon dioxide after ingestion of the test substrate of an indicator enzyme expressed by the lining of the small intestine.

Nidor licence and VRS agreement

VBL entered into an exclusive sub-licence with Nidor on 11 August 2005 for the right to commercialise a proprietary sucrose breath test technology for horses in all jurisdictions that the patents are valid, which include Australia, Europe, Hong Kong, New Zealand, Japan and the USA.

VBL will pay Nidor an annual royalty of the higher of 4% of net sales of the product or $5,000 and 15% of any other costs relating to the patent.

On 11 August 2005, VBL also signed a research and development agreement with Veterinary Research Synergies Pty Ltd (VRS) to carry out clinical trials and develop a commercial breath test for the diagnosis and management of equine gastrointestinal ulceration. After VRS carries out a pre-clinical trial on the sucrose breath test, VBL will decide whether or not to continue with the study.

Intellectual property

The breath test technology is protected by international patent application, PCT AU02/01666 titled "Breath Test". The international application has been converted into separate national phase applications in Australia, Europe, New Zealand and the USA.

The technology is co-owned by the Women's and Children's Hospital and Adelaide Research and Innovation Pty Ltd. The owners have exclusively licensed the technology to Nidor who is permitted to grant sub-licences in respect of its rights under the licences. Nidor has appointed VBL as the exclusive sub-licensee for equine application.

Development stage of the technology

Nidor is currently performing clinical trials on a human-equivalent breath test technology. The technology is yet to undergo clinical trials for use in horses. The technology is at the clinical trial stage of development and is not currently a marketable product.

5.3 Management and personnel

5.3.1 Directors

Douglas Peter LeMessurier SIA(Aff) ADA1 (ASX) MSDIA MBA

Peter is currently a Commissioner of the South Australian Lotteries Commission (Chair of the Audit Committee) and a former board member of the Royal Adelaide Hospital Inc. Peter was also a Director of the South Australian Asset Management Corporation (Chair of the Super Fund and a member of its Audit and Insurance Committee). Peter is a stockbroker by profession and was formerly State Manager of D&D-Tolhurst Ltd - South Australia, a national share broking firm and a corporate member of ASX.

Lusia Halina Guthrie B App Sc, MSc STC

Lusia Guthrie holds a Masters degree in Science and Technology Commercialisation from the University of Adelaide and a Bachelor of Applied Science in Medical Technology from the University of South Australia. She has executive level operations and manufacturing management experience. Lusia's areas of expertise include product development, production and supply chain management, project management and regulatory compliance. Lusia has completed the Australian Institute of Company Directors programme and has held several non-executive Board appointments, currently serving on the Manufacturing Consultative Committee for the State Government of South Australia. Recently, Lusia has worked in intellectual property management and commercialisation for a leading Adelaide research institute. With a successful track record in management and business development, Lusia is currently involved in the development of biotechnology start-up enterprises.

Paul Andrew Mariani BSc

Paul has a Bachelor of Science Degree from the University of California and was a commissioned officer in the US Army from 1968-1970. Paul was CEO and Chairman of dried fruit processor, Angas Park Fruit Company. He has vast experience in the USA and South Pacific market in food processing, agriculture and dried meat processing. Paul also has experience in community hospitals and various charitable organisations.

Paul Lawrence Kerr

Paul is a Melbourne based consultant with strong links to the thoroughbred industry. Paul was a business and sporting reporter for the Melbourne Age newspaper and a principal of Australia's largest public relations company, International Public Relations (then IPR Shandwick) for over 26 years before starting his own boutique consulting form, Paul Kerr & Associates, in 1999.

5.3.2 Management

Hugo Le Messurier BSc, General Manager

After receiving a Bachelor of Science from the University of Adelaide (majors in Genetics, Microbiology and Immunology) Hugo joined Genzyme Corporation, one of the world's largest and most profitable biotechnology companies. For eight years Hugo was based in the United Kingdom and the United States in a number of key Sales and Marketing positions, including the position of International Marketing Manager for the Diagnostics Division. On his return to Australia, Hugo founded a beverage company, before joining VBL as General Manager in January 2004.

5.4 Competitive position of VBL (SWOT analysis)

Table 4 below sets out the strengths, weaknesses, opportunities and threats for VBL.

Table 4: SWOT analysis

Strengths	Weaknesses
• focus on market driven, innovative technologies for the growing veterinary market. • strong product pipeline utilising exclusive licences to patented technologies, developed from internally and externally funded research and development programs, to commercialise value added products and services for Australian and international markets. • business orientated board and management team with diverse experience and a proven scientific, regulatory and commercialisation track record. • strong contacts in the equine industry and with prominent thought leaders. • strong links with international biotechnology companies.	• new company with limited track record. • fewer resources than more established companies. • potential for research and development projects to not lead to marketable products and services. • biotechnology is considered a high risk industry sector. • patents are exclusively licensed not directly owned by the Company.
Opportunities	**Threats**
• commercialisation of human-based technologies applicable to the veterinary market. • potential for diversification into additional animal markets including small (companion) animals and livestock. • Australian and international product and service marketing and distribution. • development of value added niche products and services for multinational veterinary companies.	• competitive products developed from new, improved technologies. • changes in the regulatory guidelines relating to veterinary medicines. • actions of competitors in response to the Company's entry into new markets. • variable attitude of the investment community toward the biotechnology industry.

Source: VBL management

5.5 Capital structure and shareholders

As at the date of this report VBL had the following securities on issue:

- 11,513,092 fully paid ordinary shares
- 10,346,426 options with an exercise price of $0.30 and expiry date of 30 June 2011

The following table presents the Directors' interests in VBL shares and options at 12 August 2005:

Table 5: Directors' shares and options

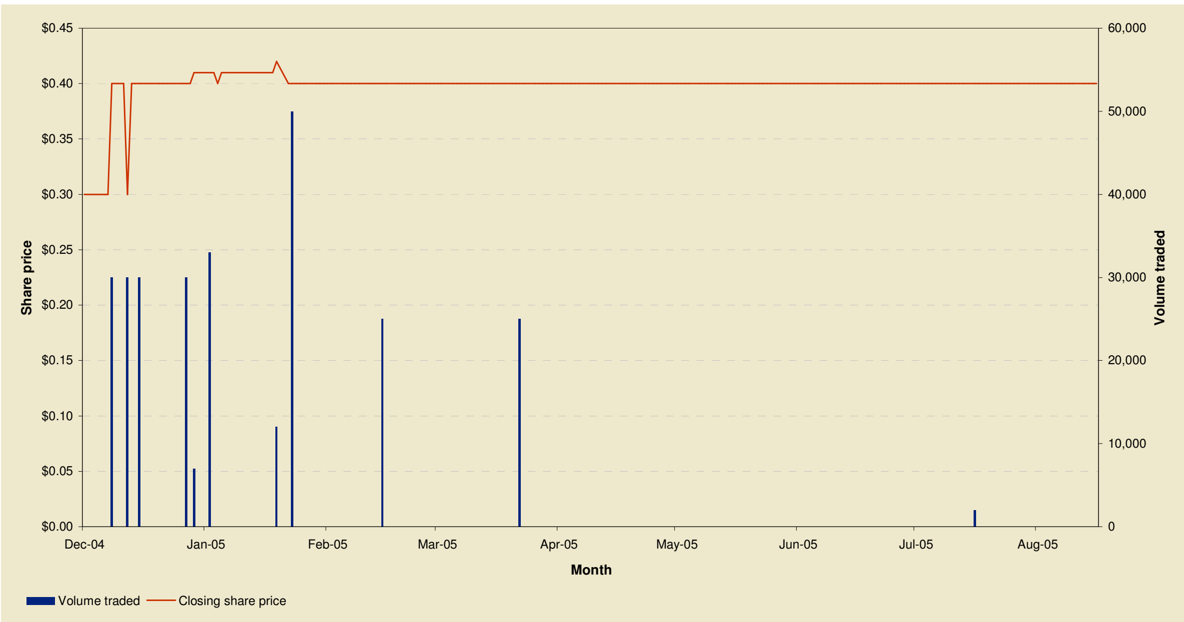
	Ordinary shares	Ownership %	Options	Ownership %
D P LeMessurier	3,700,000	32.1%	3,700,000	35.8%
L H Guthrie	500,000	4.3%	500,000	4.8%
P A Mariani	570,000	5.0%	570,000	5.5%
P L Kerr	500,000	4.3%	500,000	4.8%

Source: VBL annual financial report for the year ended 30 June 2005
Note: Assumes number of ordinary shares is on an undiluted basis

5.6 Share price performance

VBL shares are very illiquid. Only 207,000 shares, or 2% of the issued share capital, has been traded since VBL listed on the NSX on 10 December 2004. These share price movements and trading volumes are presented graphically in the figure below.

Figure 2: VBL stock activity on NSX



Source: NSX

VBL's options are exchange traded, however, no options have been traded since the date of listing.

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5.7 Financial performance

The unaudited financial results of VBL for the year ended 30 June 2005 and the audited results for the year ended 30 June 2004 are summarised in the table below.

Table 6: Financial results

	Actual Audited 2004 ($)	Actual Unaudited 2005 ($)
Revenue from ordinary activities	32,318	32,309
Expenses from ordinary activities	(108,506)	(358,992)
Profit (loss) from ordinary activities	**(76,188)**	**(326,683)**

Source: VBL annual financial report for the year ended 30 June 2005

Revenues for the year ended 30 June 2005 comprised fees from training courses and interest received. Expenses for the year ended 30 June 2005 consisted primarily of salaries and wages, accounting, administration and consulting fees incurred in the ordinary course of business.

5.8 Financial position

The unaudited statement of financial position of VBL as at 30 June 2005 and the audited statement of financial position as at 30 June 2004 are summarised in the table below.

Table 7: Financial position

	30 June 2004 Audited ($)	30 June 2005 Unaudited ($)
Cash	107,388	145,540
Receivables	8,306	13,032
Total current assets	**115,694**	**158,572**
Property, plant and equipment	4,319	8,959
Intangibles	64,174	315,143
Other	37,485	781
Total non-current assets	**105,978**	**324,883**
Total assets	**221,672**	**483,455**
Payables	52,938	141,255
Total current liabilities	**52,938**	**141,255**
Total liabilities	**52,938**	**141,255**
Net assets	**168,734**	**342,200**

Source: VBL annual financial report for the year ended 30 June 2005

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Intangible assets as at 30 June 2005 comprised an option fee ($23k), the Medvet licence fee ($38k), VetCell licence fee ($185k) and capitalised research costs for the sucrose breath test ($24k) and VapA diagnostic ($45k). Payables as at 30 June 2005 included trade creditors of $115k, Medvet licence fee of $22k and employee entitlements of $4k.

VBL's cash balance has increased from $145k at 30 June 2005 to $181k as at 22 August 2005 due to the conversion of a number of options.

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6 Profile of Plantcorp

Plantcorp is an unlisted public company registered under the Corporations Act.

6.1 Company history

Plantcorp's history is presented below:

Figure 3: Company history

2001	• delisted from the ASX on 16 March 2001
2003	• placed in voluntary administration on 30 June 2003 • Deed of Company Arrangement executed on 15 August 2003
2004	• administrator retired on 5 February 2004 and handed control of Plantcorp back to the directors of Plantcorp • Plantcorp issued a prospectus on 11 May 2004 offering up to 540 million new shares at a price of $0.005 per share to raise up to $2.7 million before costs • capital raising fails

Source: Bidder's Statement

Prior to being delisted from the ASX, Plantcorp was involved in the forestry business. Plantcorp does not currently carry on an operating business. After the retirement of the administrator, Plantcorp's activities have included investing cash assets in interest bearing accounts, identifying and conducting due diligence on potential investment opportunities and the general administration of the company.

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6.2 Capital structure and shareholders

The following table presents the securities that Plantcorp has on issue at the date of this report:

Table 8: Plantcorp capital structure

	Number issued
Ordinary shares	49,986,279
Convertible preference shares	4,771,902[1]
Success fee options	500,000[2]
Kennedy options	2,000,000[3]
Other options	1,192,779[4]

Source: Bidder's Statement

Notes:

1. *The convertible preference shares were issued by Plantcorp pursuant to a prospectus dated 28 September 2000 for the issue of 30 million convertible preference shares at 20 cents per share with an option for one Plantcorp share for every convertible preference share issued. The convertible preference shareholders are entitled to receive dividends of 7% per annum, based on the 20 cent issue price, provided that there are sufficient profits. Dividends are payable half yearly on 31 December and 30 June and are non-cumulative. Convertible preference shares convert, at the option of the holder, to ordinary shares on the earlier of 30 June 2010 and the date Plantcorp is admitted onto the ASX or NSX Official list*
2. *The success fee options are Plantcorp options issued to South Pacific Securities Pty Ltd in lieu of payment of corporate advisory fees on 21 July 2004 with an exercise price of $0.20 and expiry date of 31 December 2006*
3. *The Kennedy options are Plantcorp options issued to RM Kennedy on 28 May 2004 with an exercise price of $0.005 and an expiry date of 28 May 2008*
4. *Other options are Plantcorp options issued to persons applying for convertible preference shares with an exercise price of $0.20 and an expiry date of 31 December 2006*

Under the Proposed Transaction, the capital structure of Plantcorp will change materially. A discussion of the capital structure of Plantcorp if the Proposed Transaction is successful is provided in section 7.

Plantcorp has the following registered security holders:

- 19,232 ordinary shareholders
- 661 convertible preference shareholders
- 659 20 cent Optionholders
- two 0.5 cent Optionholders.

6.3 Financial performance

The unaudited financial results of Plantcorp for the year ended 30 June 2005 and the audited results for the year ended 30 June 2004 are summarised in the table below.

Table 9: Financial results

	Actual 2004 ($)	Actual 2005 ($)
Trading revenue	85	678
Total costs	(51,214)	(83,687)
Profit (loss) before income tax expense	**(51,129)**	**(83,009)**
Income tax expense	-	-
Net profit (loss)	**(51,129)**	**(83,009)**
Share issue costs	(12,010)	-
Total changes in equity	**(63,139)**	**(83,009)**

Source: Plantcorp financial report for the year ended 30 June 2005

Plantcorp revenue relates to interest earned on its cash deposits. All costs relate to the general administration of the company and costs incidental to the Proposed Transaction incurred prior to 30 June 2005.

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6.4 Financial position

The unaudited statement of financial position of Plantcorp as at 30 June 2005 and the audited statement of financial position as at 30 June 2004 are summarised in the table below.

Table 10: Financial position

	June 2004 Audited ($)	June 2005 Unaudited ($)
Cash	66,128	81,413
Receivables	1,474	337
Total current assets	**67,602**	**81,750**
Total assets	**67,602**	**81,750**
Payables	37,327	13,695
Unsecured convertible loans	85,010	103,500
Total current liabilities	**122,337**	**117,195**
Total liabilities	**122,337**	**117,195**
Net assets	**(54,735)**	**(35,445)**

Source: Plantcorp annual financial report for the year ended 30 June 2005

Payables include trade creditors and accrued expenses.

The principal terms of the unsecured convertible loans include:

- interest is accrued at 18% per annum
- repayable on demand
- convertible at the discretion of the holders, but subject to shareholder approval, to Plantcorp shares at any time at a price of $0.003 for each Plantcorp share to be issued.

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7 Profile of Proposed Merged Entity

7.1 Operations

If the Proposed Transaction is successful, VBL's operations will be incorporated into Plantcorp. Successful completion of the Proposed Transaction will mean that all of the conditions have been met including:

- successful completion of the $3.25 million Proposed Capital Raising
- acceptances of at least 90% of the VBL shares on issue and 50% of the VBL options
- compulsory acquisition of any outstanding VBL shares in accordance with the Corporations Act
- existing VBL directors being appointed as directors of Plantcorp.

According to the Bidder's Statement, the Proposed Merged Entity's objectives will include:

- funding a Joint Venture with VetCell to establish the stem cell services in the USA as soon as practicable
- continuing to fund further research to improve the prototype diagnostic test for Rattles
- continuing to fund further research, development and clinical trials for a vaccine for Rattles
- funding research and clinical trials for development of the sucrose breath test diagnostic for the detection and management of equine gastrointestinal ulcers
- implementing the stem cell services in New Zealand as soon as practicable
- identifying, sourcing and securing national and or international distributors and/or licencees or other commercial agreements
- re-enforcing current patent applications and seeking new patents from current or new research groups
- raising working capital for the Proposed Merged Entity and employing appropriate people for any required function in the organisation
- funding patent, licence and option fees over current or new products
- identifying other veterinary products to research, produce and market
- addressing Government regulations and compliance for current and possible new products
- obtaining both Australian and any overseas government approval for current or new products
- paying the costs of the Capital Raising.

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7.2 Capital structure

The following table presents the capital structure of Plantcorp after completion of the Proposed Transaction.

Table 11: Plantcorp capital structure

	Original VBL	Original Plantcorp	Merged Entity			
			VBL Shareholders	Plantcorp shareholders	Prospectus shareholders	Total
Shares						
Ordinary shares	11,513,092[1]	49,986,279[2]	40,295,822[1]	7,438,180[2]	16,250,000[3]	63,984,004
Convertible preference shares	-	4,771,902[2]	-	-	-	-
New Convertible Loans	-	34,500,000[2]	-	-	-	-
Total shares (undiluted)	**11,513,092**	**89,258,181**	**40,295,822**	**7,438,180**	**16,250,000**	**63,984,004**
% of shares			*63.0%*	*11.6%*	*25.4%*	*100%*
Success fee options[4]	-	500,000	-	500,000	-	500,000
Kennedy options[5]	-	2,000,000	-	166,667	-	166,666
Other options[5]	-	1,192,779	-	99,398	-	99,398
Officer options[7]	-	-	-	-	2,000,000	2,000,000
Prospectus options	-	-	-	-	16,250,000[3]	16,250,000
Bid options issued to VBL[6]	10,346,426	-	15,519,639	-	-	15,519,639
Total options	**10,346,426**	**3,692,779**	**15,519,639**	**766,065**	**18,250,000**	**34,535,703**
Total shares (diluted)	**21,859,518**	**92,950,960**	**55,815,461**	**8,204,245**	**34,500,000**	**98,519,707**
% of fully diluted share capital			*56.7%*	*8.3%*	*35.0%*	*100%*

Source: Bidder's Statement

Notes:

1 *Under the Proposed Transaction, VBL Shareholders will receive seven Plantcorp shares for every two VBL shares. Therefore, the 11,513,092 VBL shares will be exchanged for 40,295,822 Plantcorp shares.*

2 *Assumes Plantcorp shareholders approve the conversion of the new convertible loans into shares at $0.003 to give 34,500,000 shares. These shares, Plantcorp's ordinary shares and the convertible preference shares will be consolidated on a one for 12 basis to give 7,438,182 Plantcorp shares.*

3 *Under the Proposed Capital Raising 16,250,000 shares and options will be issued*

4 *Success fee options will be converted on a one for one basis.*

5 *Kennedy options and other options will be consolidated on a one for 12 basis if approved by the Plantcorp Shareholders*

6 *Under the Proposed Transaction, VBL Optionholders will receive three Plantcorp options for every two VBL options. Therefore, the 10,346,426 VBL options will be exchanged for 15,519,639 Plantcorp options*

7 *Officer Options will be issued to the existing Plantcorp officers under the proposed Executive and Director Share Option Scheme*

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8 Valuation methodology

8.1 Share valuation methodologies

To estimate the fair market value of the shares in VBL and Plantcorp we have considered common market practice and the valuation methodologies recommended by ASIC Practice Note 43 regarding valuation reports of independent experts. These are discussed below.

8.1.1 Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- market evidence
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Market evidence estimates fair market value by reference to comparable market transactions. Transactions occurring in a free and open market can be utilised to determine benchmark metrics against which the characteristics of the asset being valued can be compared.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

8.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

8.1.3 Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

8.2 Selection of valuation methodologies

8.2.1 VBL

We are of the opinion that the most appropriate methodology to value VBL is the discounted cash flow method due to the following factors:

- VBL's management has prepared five year cash flow projections
- VBL is at an early stage in its development and has yet to record positive earnings
- significant expenditure on research and development will be required by VBL in the near future.

In addition, we have also considered an analysis of VBL's share price trading and the price implied by the Proposed Capital Raising to provide an indication of the fair market value of a share in VBL.

8.2.2 Plantcorp

Given Plantcorp does not undertake any trading activities we are of the opinion that the most appropriate methodology to value Plantcorp prior to the transaction is the net assets on a going concern basis.

8.2.3 Proposed merged entity

We are of the opinion that the most appropriate methodology to value the Proposed Merged Entity is using a market based method, namely the implied price under the Proposed Capital Raising. We have also estimated the value of the Proposed Merged Entity based on our discounted cash flow analysis of the fair market value of VBL.

8.3 Option valuation methodologies

To estimate the fair market value of the options in VBL and Plantcorp we have considered common market practice, namely the Black Scholes method.

9 Valuation of VBL

9.1 Valuation of VBL before the Takeover Offer

Deloitte Corporate Finance has estimated the fair market value of a VBL share before the Takeover Offer to be in the range of $0.30 to $0.35 each on a fully diluted basis.

For the purpose of our opinion, fair market value is defined as the amount at which the shares would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

In determining this amount, we estimated the fair market value of VBL before the Takeover Offer using the discounted cash flow method (Section 9.2). We also considered an analysis of recent share trading as an indication of the fair market value of VBL (Section 9.6).

We classified VBL's business into the following categories:

(1) products at/close to commercialisation or awaiting regulatory approval, namely the stem cells and umbilical cord storage products, hereafter referred to as the bone marrow, cord storage and stem cell USA products (Section 9.2)

(2) products in pre-clinical trials or product development phase, namely the Rattles diagnostic, Rattles vaccine and breath test technology (Section 9.3).

9.2 Discounted cash flow method

The discounted cash flow method estimates market value by discounting a company's future cash flows to their net present value. To value VBL or the projects using the discounted cash flow method requires the determination of the following:

- future cash flows
- an appropriate discount rate to be applied to the cash flows
- an estimate of the terminal value
- the value of any surplus assets
- the level of net debt outstanding.

Our considerations on each of these factors are presented below.

9.2.1 Future cash flows

VBL has prepared detailed business plans for its three main products, market estimates for each product and a one year budget to 30 June 2006. In addition, high level five year projections for the business out to 30 June 2010 were prepared for the purposes of our report.

The business plans relate to:

- Equine Stem Cell Therapies for Tendons & Ligaments
- Rattles Diagnostic & Vaccine
- breath test.

The business plans include detailed descriptions of the research done, products being developed, stage of development, potential market, distribution arrangements, marketing strategy and customers. The market estimates prepared for each product contain estimates of total market size and market penetration.

The business plans and market estimates were used as the basis for the preparation of five year projections containing nominal after tax cash flows up to and including the year ending 30 June 2010. The five year projections included revenue projections for the bone marrow, cord storage, Rattles diagnostic, Rattles vaccine, breath test and stem cell USA products. Due to the early stage of development of the Rattles diagnostic, Rattles vaccine and breath test products, we have not considered any cash flows relating to these products for the purpose of our valuation. The following analysis, therefore, relates to the projected cash flows for the bone marrow, cord storage and stem cell USA products only.

The key assumptions adopted by VBL in the preparation of the five year projections were:

- sales of bone marrow products commenced at the launch on 1 July 2005. All sales represent direct sales to veterinarians and are priced based on actual sales prices achieved to date
- world-wide sales of cord storage products commencing in the year ended 30 June 2006. All sales represent direct sales to veterinarians and are priced based on estimated average sales prices
- stem cell USA sales commencing in the year ending 30 June 2006 following regulatory approval
- sales volumes are a function of the total available market and market penetration estimates. Total available market estimates are based on VBL management's estimates of the numbers of horses in training world-wide and the number of foals born each year world-wide. Market penetration estimates are based on VBL management's market analysis and research including discussions with potential users of the products
- cost of sales for the bone marrow and cord storage products are based on contract prices with Medvet to process the bone marrow and cord storage products
- royalties are based on agreements with VetCell and Medvet
- the operating expense projections assume annual escalation at rates varying between 5% to 25%
- investments relate to estimated costs for additional payments to manufacturers of stem cell products (existing and new), investments in stem cell licences in New Zealand, investments in potential licence improvements developed at the IMVS and a licence fee relating to existing products.

We have undertaken an analysis of VBL's projections that has included:

- analysing the financial model provided by VBL management, including limited procedures regarding the mathematical accuracy of the model (but neither a review nor an audit of the model)
- appointing a biotechnology industry expert, Acuity, to review the reasonableness of the financial projections prepared by VBL relating to the bone marrow, cord storage and stem cell USA products. In particular, Acuity has assessed the route to market, time to market, size of the markets, market penetration estimates, costs, sales prices and the probabilities of success for the various products. Acuity's report is included in Appendix 4
- holding discussions with VBL's management concerning the preparation of the projections, and their views regarding the assumptions on which they are based.

We have not undertaken a review of the projections in accordance with AUS 804 – The Audit of Prospective Financial Information and do not express an opinion on the reasonableness of the assumptions or their achievability. However, nothing has come to our attention as a result of our limited work that suggests that the assumptions on which the projections are based have not been prepared on a reasonable basis.

Acuity has highlighted a number of uncertainties in relation to the assumptions underlying the financial projections. However, given the nature of the biotechnology industry and the products concerned, we have accounted for these risks in selection of the discount rate rather than adjusting the projections. On this basis, we are satisfied that it is reasonable to rely on the financial projections for the purposes of our valuation.

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9.2.2 Discount rates

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a nominal after tax discount rate of between 30% and 35% to discount the future cash flows of VBL's bone marrow and cord storage business and 35% to 40% to discount the future cash flows of VBL's stem cell USA business to their present value.

In selecting this range we considered the following:

- the subjective nature of the cash flows and the underlying assumptions
- the required rates of returns on listed companies in a similar business
- the specific business and financing risks of VBL
- the indicative rates of returns required by suppliers of venture capital
- standard financial gearing prevalent in the biotechnology industry and VBL's current level of financial gearing.

A detailed consideration of these matters is provided in Appendix 2.

The application of the selected discount rates to the projected cash flows gives a net present value of $1.2 million to $1.4 million for the bone marrow and cord storage business, and $0.2 million to $0.3 million for the stem cell USA business.

9.2.3 Terminal value

The terminal value estimates the value of the ongoing cash flows after the forecast period. We have estimated the terminal value based on the forecast cash flows in the 2010 financial year, the discount rate and an estimate of the long-term cash flow growth rate.

We have estimated a nominal long-term growth rate of 2%. In selecting this amount we had regard to:

- the forecast market penetration rates achieved
- the likelihood of potential product substitutes and competitors
- growth in the equine market.

A discount rate of between 30% and 35% and a terminal growth rate of 2% gives a terminal value of between $1.6 million and $2.2 million for VBL's bone marrow and cord storage business. A discount rate of between 35% and 40% and a terminal growth rate of 2% gives a terminal value of between $0.2 million and $0.3 million for VBL's stem cell USA business.

9.2.4 Surplus assets

VBL tax losses have not been included in its forecast cash flows. For this reason they have been treated as surplus assets and have been valued separately.

VBL had tax losses of $402,871 at 30 June 2005. This position has not changed significantly since 30 June 2005. The value of these tax losses is dependent on a potential purchaser's ability to utilise the tax losses. Applying the current corporate tax rate of 30% values these tax losses at $120,861. We have adopted a value of between $nil and $121,000, to reflect a potential purchaser's ability to utilise the tax losses.

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Table 12: Surplus assets

	Low value ($'000)	High value ($'000)
Tax losses	-	121
Total	-	121

Source: Deloitte Corporate Finance analysis

9.2.5 Net debt

VBL had net cash of $181k at 22 August 2005.

9.2.6 Valuation: discounted cash flow method

The value of VBL derived from the discounted cash flow method is summarised below.

Table 13: Summary – discounted cash flow method

	Section	Low value ($'000)	High value ($'000)
Bone marrow and cord storage business			
Value of forecast cash flows	9.2.2	1,226	1,434
Terminal value	9.2.3	1,594	2,226
Stem cell USA business			
Value of forecast cash flows	9.2.2	233	263
Terminal value	9.2.3	199	270
Enterprise value		**3,252**	**4,193**
Surplus assets – Tax losses	9.2.4	-	121
Net (debt)/cash	9.2.5	181	181
Equity value (on a control basis)		**3,433**	**4,495**

Source: Deloitte Corporate Finance analysis

The terminal value accounts for a significant portion of the business value of VBL which is therefore based on cash flows after the explicit forecast period. This is consistent with the short term cash flow projection period, the relative maturity of VBL's technology portfolio at the end of the 2010 financial year and the fact that the projection period captures development and commercialisation costs.

The above values are also highly sensitive to the discount rate, long-term growth rate and the market penetration rates assumed in the discounted cash flow valuation of VBL. This sensitivity arises because the cash flow model assumes significant cash out flows in the beginning of the forecast period and significant cash inflows at the end of the forecast period, which are given less weight due to the high discount rate adopted.

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The enterprise value applying higher and lower discount rates and long term growth rates to VBL is summarised in the table below.

Table 14: Sensitivity of equity value to changes in assumptions ($'000)

	Terminal growth rate			
Change in discount rate	1.0%	2.0%	3.0%	4.0%
-10.0%	6,698	6,956	7,242	7,560
-5.0%	4,988	5,133	5,291	5,461
+5.0%	3,102	3,160	3,221	3,286
+10.0%	2,541	2,581	2,622	2,665

Source: Deloitte Corporate Finance analysis

Notes: Sensitivity based on mid-point equity value of $4.0 million

The discounted cash flow model is highly sensitive to the market size and penetration estimates. Market penetration is extremely difficult to estimate in the biotechnology industry, where products are untested in the marketplace and especially where they still require further research, development and testing. In this regard, the following observations apply to VBL's technology portfolio.

- at the valuation date, the bone marrow product had been on sale since its launch on 1 July 2005. VBL projects a market penetration rate of 40% for the bone marrow product or 1,196 units per annum within five years and 157 bone marrow product sales for the year to 30 June 2006. Since the product's launch on 1 July 2005, eight bone marrow products have been sold, representing annualised sales of 48 units
- the cord storage product was not commercialised at the valuation date, although all regulatory approvals and manufacturing agreements were in place to commence sales
- VBL had commenced enquiries with the FDA as to whether its stem cell products required regulatory approval in the USA.

The following figure presents the impact of increased and decreased market penetration rates on the enterprise value of VBL.

Table 15: Sensitivity of equity value to changes in assumptions

Change in market penetration	Enterprise value $'000
-50%	1,076
-40%	1,666
-30%	2,240
-20%	2,815
-10%	3,389
+10%	4,538
+20%	5,113
+30%	5,687

Source: Deloitte Corporate Finance analysis

Notes: Sensitivity based on midpoint equity value of $4.0 million

9.3 Products in pre-clinical or product development phase

As described in Section 5.2.2 and 5.2.3, the Rattles diagnostic, Rattles vaccine and breath test are still in clinical trials or the product development phase. Given the potentially long and uncertain lead time prior to commercial development of these products, the expenditure required to complete all research and development and the inherent difficulties in projecting future revenues and costs for the products, we have placed a value of $nil on these products.

9.4 Number of shares outstanding

We have adjusted the number of shares outstanding of 11,513,092 to take account of the dilutive effect of options. This is because the number of options outstanding is significant and based on our assessed valuation of $0.30 to $0.39 per share on an undiluted basis and an exercise price of $0.30, the options are in the money. There are 10,346,426 options on issue, therefore, we have estimated the number of shares outstanding on a fully diluted basis to be 21,859,518.

9.5 Summary and conclusion

The valuation of VBL on a fully diluted basis using the discounted cash flow methodology is summarised in the following table.

Table 16: Valuation of VBL before Takeover Offer

	Section	Low value ($'000)	High value ($'000)
Bone marrow, cord storage and stem cell USA	9.2.6	3,252	4,193
Rattles diagnostic, Rattles vaccine and breath test	9.3	-	-
Surplus assets – Tax losses	9.2.4	-	121
Net (debt)/cash	9.2.5	181	181
Deloitte Corporate Finance assessed market value		**3,433**	**4,495**
Number of shares on issue before Takeover Offer		11,513,092	11,513,092
Value per Share $ (control basis)		**0.30**	**0.39**
Number of options on issue before Takeover Offer		10,346,426	10,346,426
Consideration from exercise		3,104	3,104
Assessed market value after exercise of options		6,537	7,599
Number of shares on a fully diluted basis		21,859,518	21,859,518
Value per Share on a fully diluted basis $		**0.30**	**0.35**

Source: Deloitte Corporate Finance

9.6 Analysis of recent share trading

We have considered an analysis of VBL's recent share trading as an indication of the fair market value of VBL.

The share market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities. As illustrated in Section 5.6, since VBL's listing at $0.30 on 10 December 2004, VBL's share price has traded mostly at $0.40 which implies a market capitalisation of $4.6 million, based on 11,513,092 shares.

VBL was listed on the NSX on 10 December 2004. The NSX is Australia's second official stock exchange approved under the Corporations Act in Australia and has developed a unique set of Listing Rules to assist small, medium and regional or national businesses to list their securities on an approved stock exchange. The NSX is usually a relatively illiquid market and VBL's shares have traded in very low volumes since its listing.

VBL's share price has mostly traded at $0.40 since listing on 10 December 2004 and prior to the initial announcement of the Takeover Offer on 14 June 2005. While acknowledging the relative illiquidity of VBL's shares, we have used this share price of $0.40 in order to provide an indication of the fair market value of VBL's shares. The equity value of VBL based on an analysis of recent share trading is higher than our assessed value using the discounted cash flow methodology. Our discounted cash flow does not place any value on the products in pre-clinical or product development phases, such as the Rattles diagnostic, Rattles vaccine and the breath test. The share price can be assumed to reflect upside associated with research into these products. On this basis, we are satisfied that our assessed value is not inconsistent with the indicative value obtained using an analysis of recent share market trading.

9.7 Other considerations

We are not aware of any other offers for VBL.

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10 Options valuation

VBL currently has 10,346,426 options on issue. The options, which have an exercise price of $0.30, expire on 30 June 2011 and were issued for no consideration. Standard financial markets methodology has been used to value the options. The Takeover Offer comprises three options for every two VBL options, therefore, if the offer is accepted and the resulting options in the Proposed Merged Entity are exercised, a total of 15,519,639 additional ordinary shares in the Proposed Merged Entity will be issued.

10.1 General considerations for the option valuation

The value of a call option over shares (that is the right to buy the underlying shares at a predetermined value) includes two components, an intrinsic value and the time value of the option.

The intrinsic value equates to any excess of the share price over the option exercise price.

The time value of the option is a function of the time to expiry of the option, the expected future volatility of the underlying share price and expected interest rates over the time period to the expiry of the option.

10.2 Option valuation methodology and assumptions

In accordance with general financial market practice for valuing “American” options where dividends are anticipated to be paid, we have utilised a modified Black Scholes model, with an adjustment made for the dilution effects occurring if the options are exercised. The modified Black Scholes valuation model takes into account that it may be financially advantageous to exercise the option before the expiry date due to the intrinsic value of the option being affected by the subject company declaring a dividend.

The modified Black Scholes model is used extensively in the market for over-the-counter equity option valuations of this kind. The most important assumption in this option valuation is the expected volatility of the underlying share price. In arriving at our estimate of the future volatility of the underlying share price over the period to expiry of the option we have considered the following:

- annualised volatility of VBL’s NSX listed shares since 10 December 2004 was approximately 31%. We consider the observed historic volatility for VBL to be low as the stock is thinly traded
- the annualised volatilities of comparable company stocks over a one year period are in the range of 40% to 50%. The comparable companies are all ASX listed.

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10.3 Valuation of VBL options

The inputs used in the option valuation model for the valuation of VBL options are as follows:

Table 17: Option valuation model inputs – VBL options

Input	Parameter used	Rationale
Number of options	10,346,426	
Share price	$0.30 - $0.35	Mid-point of the assessed valuation range
Exercise price	$0.30	Pursuant to the terms of the options
Expiry date	30 June 2011	Pursuant to the terms of the options
Share price volatility	30%	Based on VBL's share trading volatility on the NSX
Dividend	$0.00	Based on the historical dividends of VBL
Risk free interest rate	5.1%	10 year government bond rate on 26 August 2005
Dilution impact	Excluded	Not adjusted for the impact of additional shares issued at the strike price of each option

Source: Deloitte Corporate Finance

At the current share price of $0.40 and with an exercise price of $0.30, the VBL options are in the money. Based on the above assumptions and methodology we have derived a value for the VBL options in the range of $0.08 to $0.12 per option.

10.4 Valuation of options in the Proposed Merged Entity

Deloitte Corporate Finance has estimated the fair market value of a Proposed Merged Entity option after the Proposed Transaction to be in the range of $0.036 to $0.050 each.

For the purpose of our opinion fair market value is defined as the amount at which the options would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

In determining this amount, we estimated the fair market value of a Proposed Merged Entity option after the Proposed Transaction using the Black Scholes method.

As discussed in section 7, the Proposed Merged Entity will have 34,535,703 options on issue, of which 15,519,639 will be owned by existing VBL Optionholders (assuming that 100% of VBL Optionholders accept the Proposed Transaction). The options will have an exercise price of $0.30 and a term to expiry of six years, expiring on 30 June 2011.

The inputs used in the option valuation model for the valuation of Proposed Merged Entity options are as follows:

Table 18: Option valuation model inputs – Proposed Merged Entity

	Parameter	Rationale
Number of options	34,535,703	
Share price	$0.20	Implied price under the Proposed Capital Raising
Exercise Price	$0.30	Pursuant to the terms of the options
Exercise Date	30 June 2011	Pursuant to the terms of the options
Share price volatility	40%-50%	Based on the share trading volatility of comparable companies on the ASX
Dividend	$0.00	Based on the historical dividends of VBL
Risk free interest rate	5.1%	10 Year Government bond rate on 26 August 2005
Dilution impact	Excluded	Not adjusted for the impact of additional shares issued at the strike price of each option

Source: Deloitte Corporate Finance Analysis

In the event that the share price of the Proposed Merged Entity following the Proposed Transaction is $0.20, being the issue price implied by the Proposed Capital Raising, the Proposed Merged Entity options will be out of the money post the Proposed Transaction based on an exercise price of $0.30.

Based on the above assumptions and methodology we have derived a value for the Proposed Merged Entity options in the range of $0.036 to $0.050 per option. This implies a value for the consideration of $0.05 to $0.07 based on the three for two Option Offer.

11 Valuation of the Proposed Merged Entity

11.1 Introduction

In this section we have estimated the fair market value of the shares in the Proposed Merged Entity based on our discounted cash flow methodology and the price implied by the Proposed Capital Raising.

11.2 Valuation of the Proposed Merged Entity

In order to determine the fair market value of the shares in the Proposed Merged Entity, we have added the fair market value of the equity in VBL using our discounted cash flow methodology to the net assets of Plantcorp following the Proposed Capital Raising.

The following table presents our assessment of the fair market value of the equity of the Proposed Merged Entity:

Table 19: Valuation of Proposed Merged Entity

	Ref	Low value ($'000)	High value ($'000)
Fair market value of VBL (undiluted)	Table 16	3,433	4,495
Cash raised pursuant to the Proposed Capital Raising	Section 1	3,250	3,250
Transaction costs incurred by Plantcorp[1]		(400)	(400)
Net assets of Plantcorp pre Proposed Transaction	Section 6	(35)	(35)
Transaction costs incurred by VBL[2]		(266)	(266)
Value of equity of Proposed Merged Entity		5,982	7,044
Number of shares in Proposed Merged Entity	Section 7.2	63,984,002	63,984,002
Value of shares in Proposed Merged Entity ($)		0.09	0.11

Source: Deloitte Corporate Finance, Bidder's Statement and VBL
Notes :

1 - Plantcorp transaction costs as per the Bidder's Statement

2 - Additional transaction costs as estimated by VBL management

Our assessed valuation of the Proposed Merged Entity shares using a discounted cash flow methodology is $0.09 to $0.11 per share. Based on a seven for two Share Offer, the value of the consideration offered to VBL Shareholders is $0.32 to $0.39 per share.

In valuing the Proposed Merged Entity we have also had regard to the value implied by the Proposed Capital Raising which is to take place at $0.20 per share. Based on the Share Offer of seven shares in the Proposed Merged Entity for every two shares, this implies the value of the consideration offered to VBL Shareholders is $0.70 per share.

The equity value of the Proposed Merged Entity based on the price implied by the Proposed Capital Raising is higher than our assessed value using the discounted cash flow methodology. The value of $0.20 per Proposed Merged Entity share implied by the Proposed Capital Raising could reflect upside associated with the Rattles diagnostic, Rattles vaccine and breath test technologies as well as the removal of uncertainty concerning the Proposed Merged Entity's ability to fund future growth and research and development. The removal of this uncertainty would lower the risks associated with management's projections, implying a re-rating of the discount rates used in the discounted cash flow methodology.

As the value implied by the Proposed Capital Raising is based on a market indicator of the price investors are willing to pay for shares in the Proposed Merged Entity and is underwritten, we are of the opinion that this is the more persuasive evidence of the fair market value of the consideration offered to VBL Shareholders.

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12 Evaluation and conclusion

12.1 Valuation of consideration

In assessing whether the Proposed Transaction is fair to VBL Shareholders we have compared the fair market value of a VBL share with the fair market value of the consideration offered. In assessing whether the Proposed Transaction is fair to VBL's Optionholders we have compared the fair market value of a VBL option with the fair market value of the consideration offered.

In assessing whether the Proposed Transaction is reasonable we have considered the potential advantages and disadvantages to the VBL Shareholders and the VBL Optionholders of voting in favour of the Proposed Transaction. We have also considered other significant factors, such as the implications for the VBL Shareholders and the VBL Optionholders if the Proposed Transaction is unsuccessful and the likelihood of alternative offers.

12.2 Fairness – Share Offer

We have estimated the fair market value of a VBL share to be in the range of $0.30 to $0.35.

Table 20: Evaluation of fairness (fully diluted)

	Ref	Low ($)	High ($)
Share Offer			
Estimated fair market value of a VBL share	Section 9	0.30	0.35
Estimated fair market value of consideration offered	Section 11.2	0.70	0.70

Source: Deloitte Corporate Finance

We have estimated the fair market value of a VBL share using the discounted cash flow methodology, which estimates the value of VBL by discounting the Company's estimated future cash flows to their present value. The fair market value of a VBL share derived by the discounted cash flow methodology is $0.30 to $0.35 per share.

We have estimated the fair market value of the consideration offered for a VBL Share based on the issue price under the Proposed Capital Raising of $0.20 for each Proposed Merged Entity share, to give a value of $0.70 for the consideration offered to VBL Shareholders based on a Share Offer of seven for two.

12.3 Fairness – Option Offer

We have estimated the fair market value of a VBL option to be in the range of $0.08 to $0.12.

Table 21: Evaluation of fairness – Option Offer

	Ref	Low ($)	High ($)
Estimated fair market value of a VBL option	Section 10.3	0.08	0.12
Estimated fair market value of consideration offered	Section 10.4	0.05	0.07

We have estimated the fair market value of a VBL Option using the Black Scholes methodology. The fair market value of a VBL option derived using the Black Scholes methodology is $0.08 to $0.12 per option.

We have estimated the fair market value of the consideration offered for a VBL Option using the Black Scholes methodology and a share price equal to the issue price under the Proposed Capital Raising of $0.20 for each Proposed Merged Entity share, to give a value of $0.05 to $0.07 for the consideration offered to VBL Optionholders based on an Option Offer of three for two.

12.4 Reasonableness

In accordance with ASIC Policy Statement 75 the Share Offer is reasonable if it is fair and the Option Offer may be reasonable if despite not being fair, but considering other significant factors, VBL Optionholders should accept the offer in the absence of any higher bid before the close of the offer.

We have considered the following factors in assessing the reasonableness of the Share Offer and the Option Offer:

12.4.1 Advantages of the Proposed Transaction

Underwriting agreement

Raising funds in the biotechnology industry, whether in the form of equity or debt, has traditionally been difficult due to the complex and rapidly evolving nature of the industry where access to the latest technology is critical to remain competitive and material uncertainty surrounds the commercialisation of the research outcomes. Extensive research and development is at the core of the industry, where risks and rewards vary greatly.

VBL is currently researching a number of products for application in the equine industry and a high level of research and development is required to further progress the development of the majority of these products. The requirement for financing is therefore critical to the ongoing success of VBL, particularly given that the Company has experienced difficulty raising the funding levels required whilst listed on the NSX.

The Takeover Offer is conditional upon the Proposed Capital Raising. Martin Place Securities Pty Limited (MPS) has provided a letter of undertaking, subject to contract, to support VBL's ASX capital raising process and compliance listing to raise $3.25 million. A draft underwriting agreement has been agreed between Plantcorp and MPS. The underwriting agreement contemplates the issue of 16.25 million Plantcorp shares at $0.20 each and a one for one Plantcorp option.

In the absence of a comparable alternative financing solution secured in the near term, VBL will be unable to continue the research required in relation to many of the Company's current projects and will be unable to achieve future growth through commercialising the outcomes of the Company's research.

Means of listing on the ASX

By accepting the Proposed Transaction, VBL Shareholders and VBL Optionholders will hold shares and options respectively in a company listed on the ASX. A long term goal of the Directors of VBL has been to list VBL on the ASX and the Proposed Transaction provides this opportunity. In the absence of the Proposed Transaction VBL would need to pursue an alternative mechanism to seek quotation of its securities on the ASX.

The ASX should provide greater liquidity than the NSX. Hence, by listing on the ASX, VBL Shareholders and VBL Optionholders should be able to buy or sell their shares and options more quickly than at present.

In addition, companies listed on the ASX are generally able to raise further funding more easily and quickly than companies not listed on the ASX. The VBL Directors believe this will provide VBL with an enhanced ability to raise funds required to continue the Company's current projects and to support new projects.

By listing on the ASX, VBL's profile will also be increased, which will enhance the awareness of VBL's products and services.

Wider shareholder base

The ASX Listing Rules state that a company must have a minimum of 500 shareholders each with shares to the value of $2,000 to list on the ASX. VBL had 72 shareholders as at 12 August 2005. MPS was reluctant to underwrite a listing of VBL on the ASX as it believed that finding an additional 428 shareholders to meet the ASX Listing Rules would be difficult. Plantcorp was proposed as the vehicle for an ASX listing as it already has a large shareholder base of 19,232 ordinary shareholders, 661 convertible preference shareholders and 661 optionholders. If successful, the Proposed Transaction will increase the number of investors in VBL and, in addition, the Proposed Capital Raising will also introduce new shareholders to VBL. Access to a larger shareholder base should improve liquidity and the Proposed Merged Entity's ability to raise additional equity in the future.

Timing and availability of funding

VBL currently has no bank facilities or overdraft and had approximately $181,000 cash remaining in the bank at 22 August 2005, which represents the cash required to fund approximately two months trading. The time required to source other comparable funding is likely to take in excess of two months. In addition, VBL has sold just eight of the Company's bone marrow products since the product launch on 1 July 2005. Without prompt recourse to additional funding VBL will be unable to continue its operations.

12.4.2 Disadvantages of the Proposed Transaction

Dilution

VBL Shareholders will suffer a dilution of their interests in VBL as a result of the Proposed Transaction. Under the Proposed Transaction, VBL Shareholders' interest will reduce from 100% of VBL to 63% of the Proposed Merged Entity, on an undiluted basis, or 57% on a fully diluted basis. The remaining 37% interest in the Proposed Merged Entity on an undiluted basis will be held by investors in the Proposed Capital Raising (25%) and existing Plantcorp shareholders (12%). VBL Shareholders will collectively retain a controlling interest in the Proposed Merged Entity.

The investors in the Proposed Capital Raising will contribute $3.25 million to the Proposed Merged Entity, however, the existing Plantcorp shareholders will hold a 12% interest in the Proposed Merged Entity in exchange for relinquishing control of a company that is otherwise dormant, with net liabilities and that has been delisted from the ASX.

Plantcorp also intends to introduce a Director and Executive Option Plan that will provide for the granting of options to directors and executives at an exercise price to be determined by the directors at the time of granting the options. In addition, MPS will be paid a success fee of 380,000 fully paid shares in the Proposed Merged Entity each with a free attaching option upon completion of the Takeover Offer. These two initiatives have the potential to further dilute existing VBL Shareholders' interests in the Proposed Merged Entity.

Cost of funding

The MPS letter of undertaking to underwrite the $3.25 million Proposed Capital Raising represents an expensive source of funding. The proposed fee structure consists of a non refundable engagement fee of $5,000, an underwriting fee of 7%, a management fee of 1.5% and a success fee of 380,000 fully paid shares in the Proposed Merged Entity each with a free attaching option. It has not been demonstrated to us that this is the best source of funding available to VBL.

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Tax considerations

Some VBL Shareholders may suffer an adverse cash flow impact through any capital gains tax or income tax payable on disposal of VBL shares, in the event that the Proposed Transaction is approved and implemented. However, VBL Shareholders may be entitled to 'scrip for scrip' rollover relief. VBL Shareholders should consult their tax adviser regarding their personal tax circumstances.

Alternative ASX listing approaches

By accepting the Proposed Transaction, and provided that all the conditions are met, VBL will be committed to listing on the ASX by way of a backdoor listing through Plantcorp. There are alternative options to list VBL on the ASX, which may provide a superior outcome to existing VBL Shareholders and VBL Optionholders. The Independent Directors have advised that alternative approaches to listing VBL on the ASX have not been examined. While MPS have stated its preference for a listing of VBL through Plantcorp due to Plantcorp's large shareholder base, its letter of undertaking to underwrite the Proposed Capital Raising is not dependent on specifically using Plantcorp as the vehicle.

Sharing upside

The Takeover Offer may not be attractive to VBL Shareholders and VBL Optionholders who believe that VBL has a higher intrinsic value due to the prospects of the projects the Company currently has in the commercialisation and development phases.

Costs of ASX listing

The Proposed Merged Entity will incur higher costs as a consequence of listing on the ASX. These costs will comprise costs of admission to the ASX, ongoing costs to maintain its quotation on the ASX and increased compliance costs associated with being listed on the ASX. In addition, the Proposed Merged Entity will have increased disclosure and corporate governance obligations due to its requirement to comply with the ASX Listing Rules.

12.4.3 Other considerations

The VBL Directors are not aware of any other parties that are likely to make an offer to acquire the shares and options in VBL. The Proposed Transaction provides VBL Shareholders and VBL Optionholders with a means to dispose of their shares and options in a biotechnology company listed on the NSX in exchange for shares and options in a biotechnology company listed on the ASX. In the absence of the current offer, VBL shares are likely to continue to trade at prices comparable to the trading price prior to the announcement of the Proposed Transaction, however, the shares will continue to be illiquid.

While VBL Shareholders and VBL Optionholders will have their interests diluted, the alternative, being owning 100% of a company listed on the NSX with illiquid shares, does not enable the VBL Shareholders and VBL Optionholders to realise a full return on their investment as, without funding, the Company cannot continue to finance commercialisation and research of its products.

An individual shareholders and optionholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. We have considered the Proposed Transaction for VBL Shareholders and VBL Optionholders as a whole. We have not considered the effect of the Proposed Transaction on the particular circumstances of individual shareholders or optionholders nor have we considered their individual objectives, financial situation or needs. Due to their particular circumstances, individual shareholders or optionholders may place different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach different conclusions as to whether the Proposed Transaction is in their best interest. If in doubt VBL Shareholders and VBL Optionholders should consult an independent adviser.

12.5 Conclusion

Based on the foregoing, we are of the opinion that the Share Offer is fair and reasonable and the Option Offer is not fair but reasonable.

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Appendix 1: Glossary

Reference	Definition
Acuity	Acuity Technology Management Pty Ltd
AGSM	Australian Graduate School of Management
APVMA	Australian Pesticides and Veterinary Medicines Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited
AUS	Australian Auditing Standards
Bidder	Plantcorp Limited
bps	Basis points
CAPM	Capital asset pricing model
Company, the	Vet Biotechnology Limited
Corporations Act	Corporations Act 2001 (Cth)
CVM	Centre for Veterinary Medicine
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
EGUS	Equine Gastric Ulcer Syndrome
EMRP	Equity market risk premium
FDA	Food and Drugs Administration
GMP	Good Manufacturing Procedures
IMVS	Institute of Medical and Veterinary Science
Independent Directors	Directors of VBL except for Mr D P LeMessurier
K_e	Cost of equity
Medvet	Medvet Science Pty Ltd
MPS	Martin Place Securities Pty Limited
Nidor	Nidor Pty Ltd
NSX	Newcastle Stock Exchange Ltd
NTA	Net tangible assets
Option Offer	Plantcorp's offer to acquire all of the options in VBL
Plantcorp	Plantcorp Limited
Plantcorp Shareholders	Existing Plantcorp shareholders before the Proposed Transaction
Proposed Capital Raising	Plantcorp's $3.25 million capital raising to list on the ASX
Proposed Transaction	the Share Offer and Option Offer
Rattles Disease Technology	Antigenic Peptide Fragments of VapA Protein for the potential treatment of Rattles

Reference	Definition
R_f	Risk-free rate
Section 640	Section 640 of the Corporations Act 2001
Share Offer	Plantcorp's offer to acquire all of the shares in VBL
SWOT	Strengths, weaknesses, opportunities and threats
Takeover Offer	the Share Offer and Option Offer
VapA Protein	Rattles Disease Technology
VBL	Vet Biotechnology Limited
VBL Optionholders	Existing holders of VBL options
VBL option	Existing option over VBL shares
VBL Securityholders	VBL Shareholders and VBL Optionholders
VBL Shareholders	Existing holders of VBL shares
VBL share	Existing ordinary VBL share
VetCell	VetCell Biosciences (UK) Ltd
VRS	Veterinary Research Synergies Pty Ltd
WACC	Weighted average cost of capital

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Appendix 2: Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor. Discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the weighted average cost of capital (WACC). The WACC can be derived using the following formula:

$$\boxed{WACC = \left(\frac{E}{V} * K_e \right) + \left(\frac{D}{V} * K_d (1 - t_c) \right)}$$

The components of the formula are:

K_e = cost of equity capital

K_d = cost of debt

t_c = corporate tax rate

E/V = proportion of company funded by equity

D/V = proportion of company funded by debt

The adjustment of K_d by (1- t_c) reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 30%.

Cost of equity capital (K_e)

The cost of equity, K_e, is the rate of return that investors require to make an equity investment in a firm.

We have used the Capital Asset Pricing Model (CAPM) to estimate the K_e for VBL. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

Under the "classical" system of double taxation of dividends which existed in Australia until the introduction of dividend imputation in 1987 (and which still applies in many countries), the cost of equity capital under CAPM is determined using the following formula:

$$\boxed{K_e = R_f + \beta(R_m - R_f) + a}$$

The components of the formula are:

K_e = required return on equity

R_f = the risk free rate of return

R_m = the expected return on the market portfolio

β = beta, the systematic risk of a stock which can be objectively measured by the responsiveness of company returns to movements in returns earned on the market portfolio

α = specific company risk premium

Each of the components in the above equation is discussed below.

Risk free rate (R_f)

The risk free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk free rate is the long-term government bond rate.

In determining R_f we have taken the 10-year Australian Government Bond yield on 26 August 2005 of 5.1%. The 10-year bond rate is a widely used and accepted benchmark for the risk free rate. This rate represents a nominal rate and thus includes inflation.

Equity market risk premium (EMRP)

The Equity Market Risk Premium (EMRP) ($R_m - R_f$) represents the risk associated with holding a market portfolio of investments, that is, the difference between the expected return on holding the market portfolio and the risk free rate. It is the excess return above the risk free rate that investors demand for their increased exposure to risk when investing in equity securities.

In selecting an appropriate EMRP to include in the estimation of the cost of equity a number of factors need to be considered:

- whether to use historical or prospective measures
- the use of arithmetic or geometric averaging for historical data
- selection of an appropriate benchmark risk free rate
- the impact of franking tax credits
- time periods for use in historical analysis
- exclusion or inclusion of extreme observations.

Historical and prospective EMRP

In evaluating the EMRP, we have considered both the historically observed and the prospective EMRP. The most appropriate EMRP to use in our analysis is the prospective risk premium that investors are using to evaluate current investment opportunities. However, while being theoretically preferable, it is not possible to reliably measure prospective EMRP.

The historically observed EMRP is typically used as a proxy for the prospective EMRP. The historical EMRP is estimated by comparing the historical returns on equities against the returns on risk free assets such as Government bonds. The historical EMRP has the benefit of being capable of estimation from reliable data; however it is possible that historical returns achieved on stocks were different from those that were expected by investors when making investment decisions in the past and thus the use of historical market returns to estimate the EMRP would be inappropriate.

It is also likely that the EMRP is not constant over time. The forward-looking EMRP will be influenced by several factors such as population demographics, savings rates and the increase globalisation of world markets. In particular, relatively pessimistic investors believe that the days of high EMRPs have passed and that in the future, the share market will perform similarly to the bond market. However, these views are balanced by optimistic investors who believe that the returns on shares will continue to outperform the returns on bonds by a similar margin to the past. It does seem likely that equity investors will continue to be rewarded for the additional risk of their investment and so, in the absence of any conclusive evidence to the contrary, we have placed most emphasis on the historically observed risk premium in our analysis and choice of EMRP.

We have used the historically observed EMRP as a guideline in determining the appropriate EMRP to use in this report. In particular, we have considered a recent study undertaken by the Centre for Research in Finance at the Australian Graduate School of Management (AGSM) which gives detailed estimates of the EMRP for investors in Australian listed equity, calculated using data from January 1974 to June 2004.

Arithmetic or geometric averaging of historical returns

Empirical studies seeking to measure the historical EMRP typically average the results using either an arithmetic or geometric averaging process. Geometric averaging assumes that returns are reinvested in later periods and will be less than the arithmetic average if the returns show some variance between periods.

We consider the arithmetic average equity risk premium to be more appropriate when discounting future cash flows. The geometric average is more appropriate when reporting past performance, since it represents the compound average return, but we believe that investors today would demand a higher premium than that calculated using a geometric average.

Risk free rate used in the analysis of historical returns

Risk free securities of different maturities can be used to measure the historical EMRP. For example, the AGSM reports the EMRP calculated over both 13 week Government notes and 10 year Government bonds. To match the risk free rate included in the CAPM and discussed above, we have considered the premium calculated over the return on 10 year Government bonds.

Franking tax credits

The return on the market portfolio used in calculating the EMRP may include a return that shareholders receive through franking tax credits. The evidence on franking tax credits is inconclusive and therefore we have not adjusted the cost of capital for the impact of dividend imputation. The AGSM estimated that the inclusion of franking tax credits increased the historically observed EMRP by approximately 75 basis points ("bps"), based on short-maturity risk free assets. As we have used the EMRP calculated over longer term securities, we have assumed the same estimated increase of 75 bps to determine the illustrative EMRP including franking tax credits.

Time period for observations

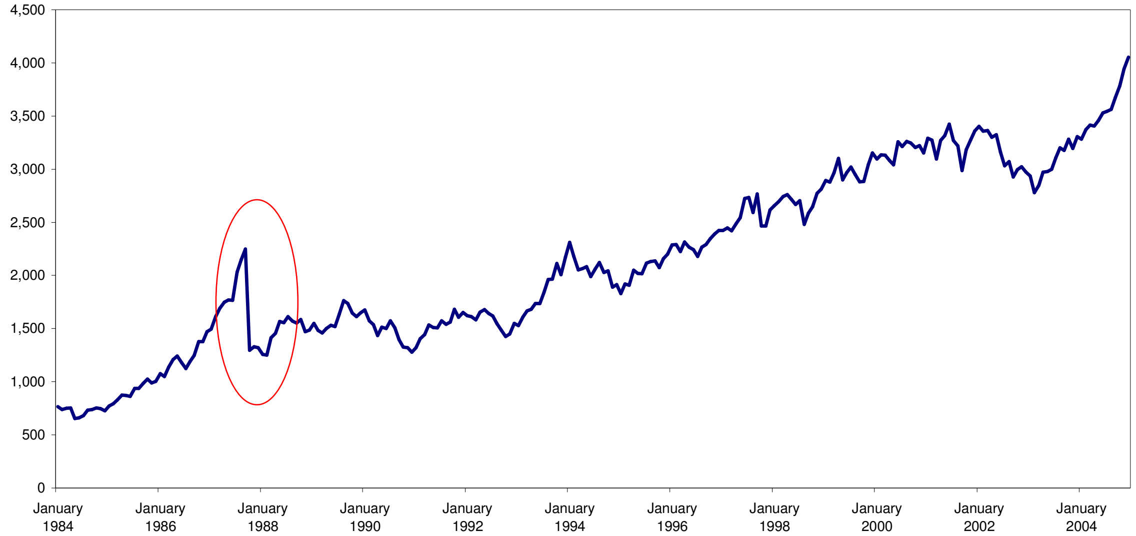
In empirical studies seeking to measure the EMRP, it is necessary to select a time period over which observations are considered. In general a longer time period is preferred as a larger number of observations are available which narrows the confidence intervals for the observed EMRP. However, it is possible that the EMRP does not remain stable over time and therefore a shorter observation period could be used to incorporate the recent observed risk premium only.

As noted above, we have used the results calculated using data from January 1974 as this is the longest period covered in the AGSM survey and data from a shorter period would be less reliable.

Extreme observations – October 1987

Some observers consider that the severe market movement in October 1987 (and shown in the graph of the ASX 100 Accumulation Index below) was an extreme observation, which is unlikely to repeat itself.

Figure 4:ASX 100 Accumulation Index



Source: Bloomberg

A large fall in value, such as in October 1987, will decrease the returns to equity holders and therefore the EMRP. Accordingly, ignoring this observation tends to increase the historically observed EMRP by approximately 1.4% based on the AGSM study.

On balance, we favour the inclusion of October 1987 within the observations as it appears that this movement merely returned the market to its longer term trend.

Selected EMRP

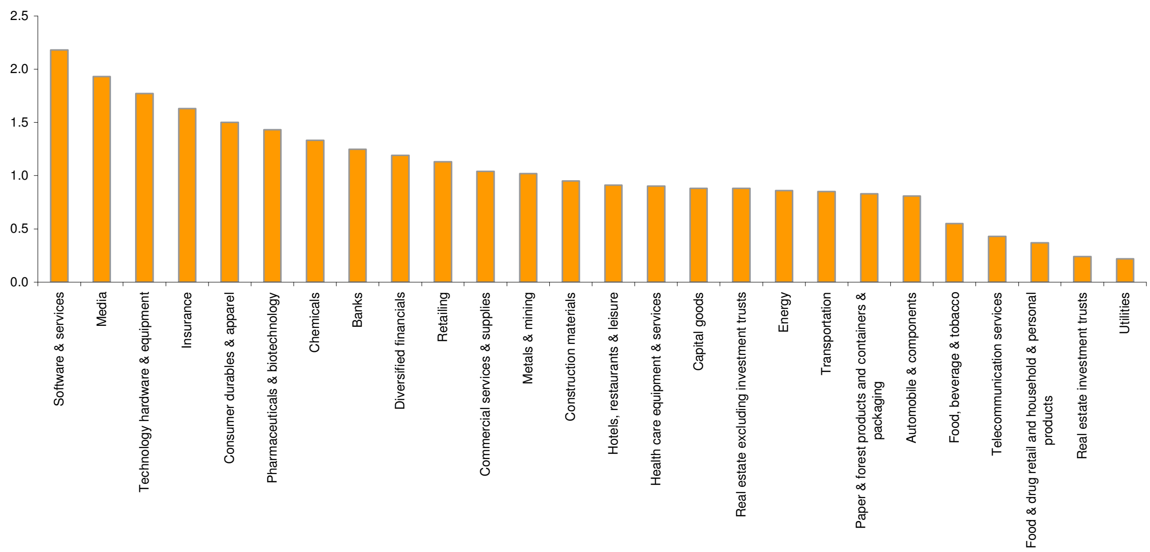
The recent study undertaken by the Centre for Research in Finance at the AGSM detailed a number of estimates for the EMRP. The EMRP calculated using arithmetic averaging of returns between January 1974 and June 2004, including October 1987, without adjusting for franking credits was 5.81%. On this basis, we have adopted 6% as the EMRP. This EMRP is consistent with other studies in developed markets. In particular, Roger Ibbotson and Peng Chen, of Ibbotson Associates and the Yale School of Management respectively, estimated the expected long-term equity risk premium in the USA (relative to the long-term government bond yield) to be about 6% arithmetically and 4% geometrically (Financial Analysis Journal, Vol. 59, No.1, February 2003).

Beta estimate (β)

Description

The beta coefficient measures the systematic risk of a company in comparison to the market as a whole. A beta of greater than one indicates greater market related risk than average, while a beta of less than one indicates less risk than average. The betas of various Australian industries listed on the ASX are reproduced below.

Figure 5: Betas for various Industries (as at December 2004)



Source: AGSM Risk Management Service

The differences are related to the business risks associated with the industry. For example, the above diagram indicates the media industry is riskier than the utilities industry. The beta for an asset can be estimated by regressing the returns on any asset against returns on an index representing the market portfolio, over a reasonable time period.

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Market evidence

In estimating an appropriate beta for VBL we have considered the betas of listed companies that are comparable to VBL. These betas, which are presented below, have been calculated based on monthly returns, over a four year period, compared to an AGSM generated index, which is based on all stocks listed on the ASX. We have also considered the average beta for the Australian pharmaceutical and biotechnology industry.

Table 22: Analysis of Betas for listed companies with comparable operations to VBL

Company Name	Market capitalisation $m	Levered Beta	Unlevered Beta
BresaGen Limited	13.2	2.69	2.03
Biotron Limited	19.6	1.45	0.91
Imugene Limited	20.9	0.49	0.49
Stirling Products Limited	19.7	2.14	2.14
Average	**17.2**	**1.56**	**1.39**
Median	**16.7**	**1.53**	**1.47**
Pharmaceutical and biotechnology industry average beta[1]		**1.45**	

Source: AGSM

Notes:

1 Industry average beta based on AGSM's classification of pharmaceutical and biotechnology companies

The observed beta is a function of the underlying risk of the cash flows of the company, together with the capital structure and tax position of that company. This is described as the levered beta.

The capital structure and tax position of the entities in the table above may not be the same as VBL's. The levered beta is often adjusted for the effect of the capital structure and tax position. This adjusted beta is referred to as the unlevered beta. The unlevered beta is a reflection of the underlying risk of the pre-financing cash flows of the entity.

Selected beta (β)

In selecting an appropriate beta for VBL we have considered the following:

- the average unlevered beta for the ASX listed animal-based biotechnology companies is 1.39
- the average levered beta for the pharmaceutical and biotechnology companies listed on the ASX is 1.45
- biotechnology is a high risk industry where returns are contingent on successful research and development
- there is a high rate of failure in the biotechnology industry
- returns from research and development are often not realised until a number of years after the commencement of research due to the lengthy process undertaken to trial the efficacy and effectiveness of the product and ensure regulatory approvals are obtained
- VBL does not own any patents but rather licences the right to commercialise products if the research and development is successful. VBL is therefore dependent on third parties to originate and carry out successful research and development projects, which have the potential to be marketed on a large scale

- most biotechnology companies listed on the ASX undertake their own research and development
- of 82 ASX listed pharmaceutical and biotechnology companies, only four are involved in biotechnology for animals
- the market for animal related biotechnology is considerably smaller than the market for human related biotechnology
- most biotechnology companies are 100% equity financed as debt funding is difficult to source given the high-risk nature of the industry and the absence of cash flows available for debt servicing.

Taking into account these factors, we have selected a levered beta of 1.4 to 1.6 for VBL.

Specific company risk premium (α)

The specific company risk premium adjusts the cost of equity for company specific factors. The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company risks (often referred to as unsystematic risk).

There are several empirical studies that demonstrate that the investment market does not ignore specific company risks. In particular, studies show that:

- on average, smaller companies have higher rates of return than larger companies (often referred to as the size premium)
- on average, early stage companies have higher rates of return than mature companies

These are discussed separately below.

Size premium

Several research studies indicate that smaller companies have higher rates of return than larger companies. The following table summarises the returns for different size categories from 1926 to 2003 for companies on the New York Stock Exchange, the American Stock Exchange and the National Association of Securities Dealers Automated Quotation System.

Table 23: Evidence of Size Premium

	Summary statistics of annual returns	
	Geometric mean (%)	Arithmetic mean (%)
Largest (1st decile)	9.6	11.4
Large (2nd decile)	10.8	13.2
Mid-cap (3rd – 5th decile)	11.3	14.2
Low-cap (6th – 8th decile)	11.7	15.7
Micro-cap (9th – 10th decile)	12.7	19.0

Source: Stocks, Bonds, Bills and Inflation Valuation Edition 2004 Yearbook, Ibbotson Associates

Asymmetric risk

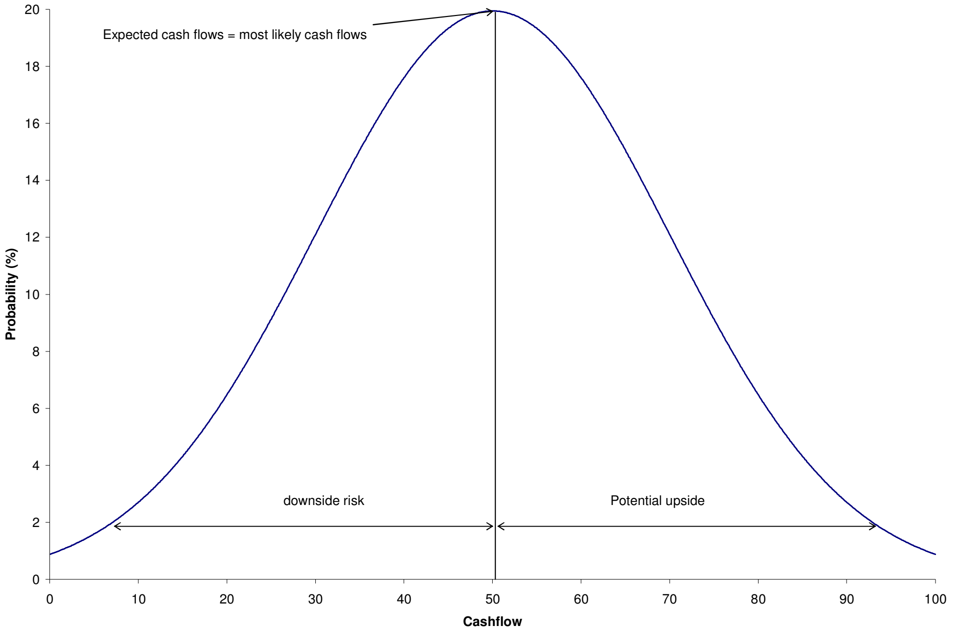
When using a DCF approach, it is critical that the nature of both the cash flows and the discount rate are considered on a consistent basis. A leading business valuation text states:

> *"The most common error in application of the income approach is using a discount rate that is not appropriate for the definition of economic income being discounted or*

capitalized. This general category of error has almost infinite variations". (from p. 168, Valuing a Business, Pratt, Reilly & Schweihs).

In any DCF valuation the cash flows utilised should represent the expected cash flows which have been probability weighted to reflect a range of potential outcomes, which will not necessarily coincide with the 'base case' or 'best case' scenario. The most likely (or base case) scenario can only be used if the probability of various outcomes follows a symmetrical distribution such as the normal distribution. A symmetrical distribution occurs where there is the same probability of achieving a positive outcome, such as outperforming by 10%, as the probability of achieving a corresponding negative outcome (i.e. underperforming by 10%). This can be illustrated as follows:

Figure 6: Normal probability distribution



Source: Deloitte Corporate Finance analysis

Note: cash flows are for illustrative purposes only

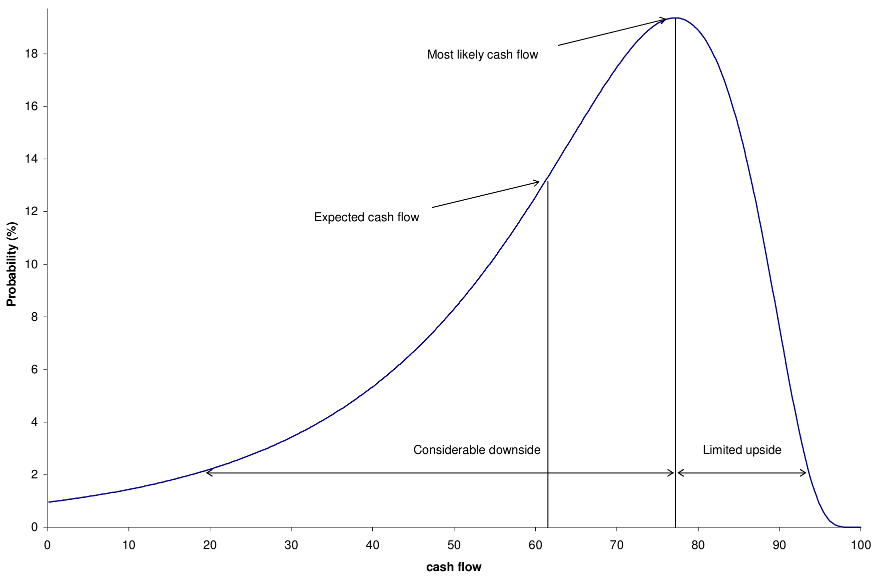
While we understand that VBL is of the opinion that there is only a low level of risk that the cash flow forecasts will not be achieved, we have identified the following risks that appear to have a downside for the company without a compensating upside:

- the cash flows adopt VBL management's view of the most likely cash flows
- the cash flows assume that the commercialisation of the stem cell and cord technology will be successful with no consideration of failure
- there is little upside beyond the cash flow forecasts, however, there is considerable downside i.e. veterinarians not accepting the technology
- the upside of the cash flows is limited by the size of the market and the number of potential users of the technology
- VBL forecasts that it will sell 157 units of its stem cell product in the 2006 financial year. To date, sales of only eight units have been achieved.

Deloitte.

Diagrammatically, VBL's probability distribution of possible returns can be illustrated as follows:

Figure 7: Skewed probability distribution



Source: Deloitte Corporate Finance analysis

Note: cash flows are for illustrative purposes only

To overcome this asymmetric risk allocation, it would be best practice to adopt the expected cash flows. By adopting the expected cash flows one would expect that after the initial commercialisation period, the cumulative rate of return achieved by VBL would be equivalent to its cost of capital as the returns generated would revert to the probability weighted return. However, as the financial template provided by VBL is based on most-likely cash flows it is necessary to make an adjustment to the discount rate to reflect the asymmetric risk of the cash flows through the α factor.

Early stage companies

VBL is an early stage business seeking to expand rapidly. Investors in early stage companies often require higher rates of return than investors in mature companies. Venture capitalists are a common source of equity capital for early stage investments. The Australian Venture Capital Guide provides the following indicative guidelines for their require rate of return.

Table 24: Venture capital required rates of return

Methodology	Required rate of return
Starting a new business	30.0% to 40.0%
Expanding a business, MBOs or MBIs	20.0% to 30.0%

Source: Australian Venture Capital Guide 2003

These rates of return are significantly higher than those required for mature listed companies. The reason that the discount rate required for an early stage company is different to that required for a mature company is because the relationship between business risks, finance risks and the cost of equity changes as a company progresses from an early stage company to a mature company. The relationship between business risk, finance risk and cost of equity is illustrated in the following figure.

Figure 8: Business risks, finance risks and cost of equity

Phase	Funding requirements	Business risk	Finance risk	Cost of equity
Pre-build	Low/Zero	High	High (but low debt)	High
Build	Peak		High	High
Consolidation				Medium
Stabilise	Low	Low	Low	Low

Source: Adapted from The Valuation of Businesses, Shares and Other Equity, 3rd edition, W Lonergan

Selection of specific company risk premium

We have selected a specific company risk premium of 15% to 20% for VBL’s bone marrow and cord storage business and 20% to 25% for stem cell USA business.

In determining this amount we have had regard to the following:

- *Size premium*: Most of VBL’s comparable companies are likely to be similar in size to VBL, therefore, a size premium may not apply
- *Early stage of development*: VBL’s business is in an early stage of development. Substantial expansion of its operations is planned. For this reason, VBL is likely to be more exposed to a number of risks than more mature companies
- *Limited history*: While VBL has been in existence for two years, it only reached commercialisation stage on the first of its products on 1 July 2005. Further, limited performance-related financial information about VBL is available. VBL forecasts that it will sell 157 units of its stem cell product in the 2006 financial year. To date, sales of only eight units have been achieved. Research and development for VBL’s products is expected to require significant further capital expenditure.

Dividend imputation

Dividends paid by Australian corporations may be franked, unfranked, or partly franked. A franked dividend is one that is paid out of company profits which have borne tax at the company rate, currently 30%. Where the shareholder is an Australian resident individual or complying superannuation fund, it will generally be entitled to a tax credit (called an imputation credit) in respect of the tax paid by the company on the profits out of which the dividend was paid. If the recipient of the dividend is another company, the dividend will give rise to a credit in that company’s franking account thereby increasing the potential of the company to pay a franked dividend at a later stage.

Imputation credits represent the prepayment of company tax and when utilised result in the shareholder receiving dividends that are effectively “untaxed” at the company level. Imputation credits result in the shareholder receiving a higher tax cashflow than would otherwise be the case under the classical taxation system.

We have not adjusted the cost of capital or the projected cashflows for the impact of dividend imputation due to the diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Determining the value of franking credits requires an understanding of shareholders' personal tax profiles to determine the ability of shareholders to use franking credits to offset personal income. Furthermore, the observed EMRP already includes the value that shareholders ascribe to franking credits in the market as a whole. In our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive.

Conclusion on cost of equity

Based on the above factors we arrive at a cost of equity, Ke, as follows:

Table 25: K_e applied to valuation of VBL

	Bone marrow and cord storage business		Stem cell USA business	
Input	Low	High	Low	High
Risk free rate (%)	5.1	5.1	5.1	5.1
EMRP (%)	6.0	6.0	6.0	6.0
Beta	1.4	1.6	1.4	1.6
Specific company risk premium (%)	15.0	20.0	20.0	25.0
Cost of equity capital (K_e)	**28.5**	**34.7**	**33.5**	**39.7**
Assessed range	**30%**	**35%**	**35%**	**40%**

Source: Deloitte Corporate Finance analysis

Debt and equity mix

VBL does not currently have any debt. We have calculated the debt to equity mix of VBL, as at 30 June 2005, to be 0% debt and 100% equity and we have assumed that it will continue to be 100% equity financed.

Calculation of WACC

Based on the above, we have assessed the nominal post-tax WACC for VBL to be:

Table 26: WACC applied to valuation of VBL

	Low	High
Bone marrow and cord storage business	30.0%	35.0%
Stem cell USA business	35.0%	40.0%

Source: Deloitte Corporate Finance

Appendix 3: Comparable entities

Descriptions of selected comparable companies are provided below:

BresaGen Limited

BresaGen Limited is a biotechnology company involved in the research, development and commercialisation of therapeutic protein and peptide pharmaceutical products such as EquiGen Injection, a growth hormone for horses.

Biotron Limited

Biotron Limited specializes in the funding, management and commercialisation of biomedical projects that result from research conducted at the John Curtin School of Medical Research, a research institute within the Australian National University. The group conducts diagnostic and therapeutic research with the intention of creating compounds and diagnostics that can be sold or licenced.

Imugene Limited

Imugene Limited is an animal health biotechnology development company. Imugene manufactures biological growth promotants and vaccines to prevent disease in pigs and chickens and vaccines to kill fleas in dogs and cats.

Stirling Products Limited

Stirling Products Limited develops, commercialises and holds the rights to an animal growth promoting agent that is used for accelerating chemical changes in fat and muscles in livestock production.

Appendix 4: Acuity report

The following section contains Acuity's report.

12 September 2005

Deloitte Corporate Finance Pty Limited
Deloitte House
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Dear Sirs

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Management consultancy to
high technology industries.

Project management
Technology assessment
Valuation
Financial analysis
Research management
Market research
Quality assurance

Independent Industry Report – Vet Biotechnology Limited

This report has been prepared at the request of Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) for inclusion in an independent expert's report to be addressed to the directors of Vet Biotechnology Limited (VBL or the Company). We understand that the independent expert's report will be dated on or about 13 September 2005 and will be included in a Target's Statement to be provided to VBL shareholders in relation to the proposed takeover by Plantcorp Limited (Plantcorp).

Acuity Technology Management Pty Ltd (Acuity) has been requested by Deloitte Corporate Finance to provide an assessment of the financial projections prepared by VBL relating to their equine bone marrow stem cells and umbilical cord storage products (the Products). These projections have subsequently been relied upon by Deloitte Corporate Finance in their valuation as part of their independent expert's report.

Specifically, we were required to comment on the following matters:

- the route to market assumed for the Products in VBL's financial projections;
- the time to market for the Products assumed in VBL's financial projections;
- the size of the markets for the Products assumed in VBL's financial projections;
- the market penetration of the Products assumed in VBL's financial projections;
- the cost of the Products assumed in VBL's financial projections;
- the sales price of the Products assumed in VBL's financial projections; and
- the probabilities of success for the bone marrow and cord storage products and stem cell sales in the USA.

Our review is based on documents provided by VBL, online database searches through the Internet and publicly accessible subscription services, and discussions with VBL staff. Details of specific sources of information are provided at the end of this report.

1 *The Technology and Products*

1.1 Background to the Technology

VBL provides a service for the provision of stem cells to the equine industry for the treatment of tendon injury. Stem cells are early stage cells that have the potential to grow into any form of cell in the body through a process known as differentiation. Bone marrow, as well as other tissue, is a source for stem cells which are produced for growth and to repair injured tissue. Foetal cord and cord blood are rich in stem cells and the collection and storage of normally discarded umbilical cord blood may provide a means of treating disease and injury at a future point for the animal or person from which it is obtained.

Stem cell research is currently an area of active interest for human therapeutics, although most research to date has been undertaken on experimental animals.

The technology that VBL has licensed allows the collection of bone marrow and the isolation of mesenchymal stem cells (those that are destined to form structural tissue components such as collagen and cartilage) from a horse and their expansion in numbers for re-injection to the donor animal (termed autologous) for therapeutic purposes. The technology includes a proprietary technique for multiplying mesenchymal stem cells, a method of cryogenic storage of stem cells and a training program for collection and implantation of stem cells.

The technology was developed by The Royal Veterinary College in the UK and licensed to English company, VetCell Biosciences Limited (VetCell). The technology is the subject of patent applications which are pending in relevant markets including Europe, Australia and the USA. VBL has an exclusive agreement with VetCell to commercialise new stem cell based services for equine tendon and ligament injuries in Australia and New Zealand.

A second technology, which is not dissimilar to services already available for humans, is the collection and storage of umbilical stem cells for future use. The technology, predominantly procedures and know how, has also been acquired from VetCell. The Company has an agreement with VetCell to globally exploit this technology.

Earlier this year, VBL entered a Heads of Agreement with VetCell to negotiate the terms and conditions of a Joint Venture Agreement to commercialise and distribute VetCell's proprietary equine stem cell services in the United States of America. The proposed Joint Venture will use the commercialisation experience from Europe and Australia to provide a full turnkey operation to customers in the USA. A US based partner will be identified to be a third party to the Joint Venture.

VBL has an agreement with Medvet Science Pty Ltd (Medvet) to service, process, maintain and supply equine mesenchymal stem cell services in Australia. The Therapeutic Products Facility, Department of Haematology, at the Institute of Medical and Veterinary Science (IMVS) will conduct processing to acceptable veterinary pharmaceutical standards.

1.2 Application

Horses that are subject to rigorous training or work, including thoroughbreds, are prone to tendon and ligament injuries. The most common injuries are to the suspensory ligament and bowed tendons. These injuries often result in early retirement and are a major cause of wastage in the industry. Current therapies for repair of these injuries have a poor prognosis for recovery with low success rates between 20% and 50% in Australia. Those animals that do recover have a high risk of re-injury.

It is difficult to judge how successful stem cell transplantation might ultimately be as there have been a limited number of relevant trials conducted to date. Research in other species, for example mice and rabbits, have provided proof of concept for tendon and ligament restoration. One recent horse study using bone marrow aspirate resulted in a return to full work in 84 of 100 horses treated, compared to 15% in a group of 66 horses treated conservatively.[1] However, this research has been criticised as lacking in description of the placement and severity of injuries which could have influenced outcome and the impracticality of the procedure followed.

The inventors of the VetCell technique have reported results on 100 horses throughout UK and Europe between 2002 and 2005 of which 74% returned to work compared to 23-30% for the same category of injury and horse type.[2]

Herthel has modified his procedure to the use of fat cells rather than bone marrow which are easier to collect. His company, Vet-Stem (USA), has not published results of controlled studies using the procedure and, according to the press reports, only “six to a dozen” procedures have been performed.[3] According to Herthel, there is a higher concentration of stem cells in fat tissue (about one in 50, or 2% of the cells, are stem cells, as compared with one in 100,000 in bone marrow). This company is the only known competition to Vet-Cell and VBL in the field of equine stem cell therapies. It currently only operates in the USA.

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[1] D Herthel. Enhanced suspensory ligament healing in 100 horses by stem cell and other bone marrow components. AAEP Procedings 47:319, 2001.
[2] RKW Smith *et al*. Recent developments in the treatment of digital flexor tendon core lesions. http://www.vetbiotechnology.com.au/PDF/R_Smith_Aust_Eq_Vet_March_2005.pdf
[3] Thoroughbred Times Today. http://www.thoroughbredtimes.com/horsehealth/hhview.aso?recno=56767

1.3 Horse Bone Marrow Stem Cells

Postnatally derived stem cells are multipotent, which means they can form a limited number of adult cell types. These stem cells can be subdivided into haemopoietic (blood cell lines) and mesenchymal stem cells, which can give rise to tenocytes (tendon and ligament), osteoblasts (bone), chondrocytes (cartilage), adipocytes (fat), fibroblasts (scar tissue) and myofibroblasts (myotubes). While mesenchymal stem cells can be found at low levels in various areas throughout the body the bone marrow and umbilical cord blood are easily accessible sources of these unique cells.

Under the VetCell procedure, mesenchymal stem cells are purified from bone marrow which is extracted from the sternum of the horse under standing sedation. These cells are transported to the laboratory, isolated from the bone marrow and expanded more than 1000 fold. The cells are then delivered to the core lesion via ultrasonographic guided injection. The optimal timing for stem cell re-injection is 4 to 8 weeks after injury, when the initial inflammation has subsided and before substantial fibrosis has occurred. Following cell implantation the horses undergo a controlled exercise regime which results in a return to full training in 48 weeks.

1.4 Horse Umbilical Cord Storage

Umbilical cords are collected from foals at birth. Mesenchymal stem cells are harvested from the cord and frozen for storage under specified conditions for later use. The cells are thawed, expanded and delivered to the injured horse in the same manner as for bone marrow cells when required, which may be several years after the umbilical cord is obtained.

2 *Markets and Competition*

2.1 The Equine Industry & Pharmaceuticals

In considering the potential market for VBL’s technologies, we looked at the population of horses and the incidence of tendon and ligament injuries, the overall value of the equine pharmaceutical industry, and the role of stem cell treatments and competition.

According to the Rural Industry Research & Development Corporation (RIRDC), the contribution of the horse industry to Australian GDP in 2000 was in excess of $6.3 billion, and if the value of volunteer labour is also included the contribution is almost $8.0 billion.[4] The estimate was based on horse related business activities, events and expenditure on horse maintenance.

[4] The Horse Industry Contributing to the Australian Economy. Jenny Gordon, Centre for International Economics. RIRDC Publication Number 01/083, June 2001.

The number of horses in Australia, according to the RIRDC, could be as high as 1.5 million or as low as 0.9 million of which around 300,000 are feral. The estimated value of $6.3 billion is based on a figure of 1.2 million horses but if in fact there are closer to 1.5 million, the contribution to GDP could be as high as $7.3 billion. The Australian Racing Board estimates that the racing industry has an economic impact of $3.8 billion. Breeders, owners and trainers in Australia outlay $2.4 billion in annual direct investment in the industry.

The GDP value of the British industry, including Northern Ireland, is £2.5 billion (A$6.0 billion).[5] In the US, the horse industry has a total impact of US$112.1 billion (A$150 billion). America has 6.9 million horses.[6]

Thus, the industry in Australia is large by world standards being similar in size to the British industry. The number of horses in Australia is almost 20% of the US number, for a country with one fifteenth of the population.

Australia has over 11,000 horse breeders and almost 32,000 horses in training (part of the 285,000 named horses in the country).[7] Each year there are 18,000 foals born in Australia, second only to the USA where 33,000 foals are born, and followed by Japan (8,000), Ireland (8,000), Great Britain (5,000) and New Zealand (4,000).

The animal health market in Australia was estimated to be $540.2m in 2001 - this figure includes feed supplements and vaccines. There appears to be no data on the size of the equine pharmaceuticals market. The Australian Pesticides and Veterinary Medicines Authority (APVMA) collects data from industry concerning the sales of agricultural chemicals and publishes summary data in the Commonwealth of Australia Gazette.

The world market for animal health products in 1999 was US$11.05 billion (A$15 billion). The UK market for veterinary pharmaceuticals is £358.8m (A$860m). Total European sales for 1999 of animal medicines were €2.4 billion (A$3.9 billion).[8]

The US market for veterinary medicines is US$4.2 billion (A$5.6 billion), of which US$169m (A$225m) is into the equine industry.

In the USA, equine pharmaceuticals represent 4.0% of the veterinary medicines business. It is reasonable to assume that the breakdown in Australia is similar, if not higher considering horse numbers and the importance of the racing industry here. This suggests at least $21m a year in equine drugs. Publicly available data do not allow breakdown by market share or values in Australia. Extrapolation of the US data suggests a global market for equine pharmaceuticals in excess of $600m.

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5 http://www.defra.gov.uk/news/newsrel/1999/990325a.htm
6 http://www.horsecouncil.org/ahcstats.html
7 Australian Racing Board. Size and Scope of the Australian Thoroughbred Racing Industry. Dec 2001.
8 http://noah.co.uk/pressrel/2001/010315a.htm

3 *Markets for Stem Cells*

Tendonitis of the superficial digital flexor tendon (bowed tendon) and suspensory ligament desmitis are common injuries of athletic horses that can be recalcitrant to treatment, resulting in significant economic loss to the equine industry. Internationally, inflammation of the tendons (tendinitis) has proven to be a major problem for the racing industry. The combination of an unacceptably high number of cases and the long recovery and rehabilitation periods result in high financial overhead.

One UK study reported that, of 199 horses with foot-related lameness subjected to magnetic resonance imaging, deep digital flexor tendonitis was the most common injury with 59% of horses afflicted either as the primary injury (33%) or in association with other injuries. Desmitis of the collateral ligament was the second most common injury occurring in 31%, being the primary injury in 15%.[9]

A Japanese study found that between 1,100 and 1,200 racehorses (approximately 17%) of the 6,400 to 7,000 currently registered with the Japan Racing Association (JRA) suffer from tendinitis (mainly of the superficial digital flexor tendon), and some 70% of these return to racing without further success on the track in a single race.[10]

The same study reports that the mean incidence of tendinitis from 1991 to 1997 in horses registered with the JRA was 11.3% (7,321 affected horses from 64,787 registered). The data suggest incidence rates are on the increase, presumably due to more aggressive training and racing regimens, as has been noted by other commentators.

A New Zealand study reports inflammation of the superficial digital flexor tendon occurring in 3.2% of 1,571 commercially trained racehorses monitored over an average of 350 training days per horse.[11] Injury of suspensory apparatus of the forelimb was observed in 3.1% of horses. The authors cite other literature which claims a cumulative incidence of 30% for injuries involving the superficial digital flexor tendon in training horses. Furthermore, as many as 20 - 60% of affected horses return to racing, but up to 80% sustain a recurrent injury.

US data report that 23% of thoroughbred horses, 34% of standardbred and 27% of quarter horses are retired because of bowed tendon (tendonitis) injury, while the figures for suspensory ligament injury are 1%, 4% and 2% for the breeds respectively.[12] On the list of injuries, tendonitis is the leading cause for all three.

[9] SJ Dyson *et al*. Lameness associated with foot pain: results of magnetic resonance imaging in 199 horses (January 2001-December 2003) and response to treatment. Equine Veterinary Journal 37(2):113, 2005.

[10] Masa-aka Oikawa. Some Aspects of Tendinitis in Thoroughbred Racehorses in Japan. Japan Racing Journal 10(5), 2002. http://www.jair.jrao.ne.jp/journal/v10n5/j6000f.html

[11] NR Perkins *et al*. Risk factors for injury to the superficial digital flexor tendon and suspensory apparatus in thoroughbred racehorses in New Zealand. New Zealand Veterinary Journal 53(3):184, 2005.

[12] http://www.ultimatehorsesite.com/info/raceinjury.html

4 *Regulatory Matters*

The bone marrow stem cell procedure has been available in Europe since 2002 and was introduced into Australia by VBL this year.

In Australia, the manufacture and sale of veterinary medicines is controlled by the APVMA. The APVMA has determined that the VBL procedure is individualised therapy, in that it involves removing the bone marrow from a horse and reinjecting it directly into the injury of the same animal under the instruction of the prescribing veterinary surgeon. As such it is an exempt procedure, requiring a Minor Use Permit which was granted to the Company in July of this year.

We believe that US-based Vet-Stem has not been required to obtain a licence or permit of any form in the US, either from the Food and Drug Administration (FDA), whose Centre for Veterinary Medicines regulates animal food and drugs, or the Department of Agriculture. A search of the FDA website failed to confirm that a permit has been issued and we assume that one may not be necessary because the procedure is individualised.

Having said that, there are technical differences between the Vet-Stem and VetCell/VBL procedures and the FDA has yet to provide clear guidance to VBL concerning its technology. If an approval is required, it could take many months to a year before issuance, which may delay the proposed introduction in the current financial year. It is also a possibility that the FDA may require a marketing approval at some point in the future.

The maintenance, preparation and expansion of cells for delivery to the horse must be produced under strict pharmaceutical production guidelines, termed Good Manufacturing Practices (GMP). GMP is available at Medvet for the VBL products and the APVMA have issued a licence to this effect.

GMP procedures will also be a requirement in New Zealand and the USA, but the techniques and documents will be transferable with minimal effort.

5 *Revenue Projections*

5.1 Selling Price

VBL is currently marketing the procedure to veterinary surgeons at $2,000 and is projecting a steady increase over the coming five years, although the revenue projections are premised on the base figure. To this must be added the surgeon's costs for both harvesting stem cell and re-injecting them in a subsequent procedure. We are of the opinion that the price is comparable to current treatments and affordable relative to the maintenance cost of performance thoroughbreds and the value of the industry. We note that conventional treatments, including drugs and growth factors, can often exceed $2,000, sometimes with dubious outcome.

In the US, Vet-Stem is reported as selling its fat tissue derived stem cell therapy for between US$2,000 and $3,000, depending on whether the surgeon is providing other services concurrently. We have no reason to believe that the Vet-Stem procedure is likely to have superior outcome over the VBL approach and, therefore, suggest that VBL's product is competitively priced. The entry of other players into the marketplace may erode pricing, but we see no reason to suspect that VBL will face significant competition in the next five years, in Australasia or the USA.

5.2 Sales Penetration and Volume

The Company's bone marrow projections are based on a number of analyses, including the incidence of injuries and the numbers of surgical procedures performed annually on horses. Our estimate is that the Company is projecting treatment to 3% of Australian horses in training after five years and assuming horse numbers remain static, a figure we consider reasonable based on recently published data on injury levels in the industry. In addition, we are confident that the customer base will go beyond racehorses and involve other performance and work horses. However, the rate of penetration or acceptance may prove to be slower than anticipated. VBL's estimates for the current financial year are 157 procedures. Given that only 8 procedures have been performed to date this figure may be optimistic, although achievable if the technology proves highly efficacious.

It is proposed that VBL will be investing in a US joint venture during the current year ($500,000 budgeted) and the Company will receive royalties on treatments undertaken in the joint venture. This venture will undertake both stem cell recovery and implantation, and cord storage. Revenues from royalties are somewhat simplistically assumed to be 20% of Australian sales revenues, from a country with twice the number of foals born annually, twice the number of horses in training and five times the overall number of horses. It is difficult to comment on whether a particular level of royalty will be available to the company, but the total projected revenues seem conservative.

Revenues for cord derived stem cell storage assume a possible market of 10% of all foals. Taking data for the worldwide number of foals born annually (112,000), the Company estimates 11,200 of these represent the available market. Considering the value of the industry and the investment in racehorses, this may not be unreasonable.

The Company believes that it can secure 1% of this estimated market in its first year, rising to 19% over five years. We are of the opinion that this percentage may be achievable in Australasia, Europe, Japan and some other markets, but a lower figure may be more reasonable in the US, where there is already competition in the storage of horse stem cells, albeit not cord derived cells, and other less developed regions of the world.

5.3 Probabilities of Success

At this stage, we know that the treatment of tendon and ligament injuries with stem cells has been successful with small numbers of horses. We consider that greater numbers are required before one can assume complete technical success, defined as an improvement over current therapeutic procedures and with positive outcome in the majority of animals treated. Long term follow-up is also required. Results to date are promising and we would assign a high probability of technical success.

Acceptance by veterinarians and horse owners is another matter. As long as the outcomes are beneficial, namely horses are able to return to the track successfully and costs remain competitive, we think that the procedure will be accepted.

5.4 Delivery Costs

VBL has a contract with Medvet, the commercial arm of South Australia's well respected IMVS to receive, isolate, store, expand and deliver to veterinarians stem cells. This price has been assumed in the financial modelling and, although the contract with Medvet is only for one year following which term the contractor may choose to revise costs, we consider that the continuation of the present charge, with allowance for inflation, is a reasonable assumption.

In addition, Medvet will charge a fee for cord storage and a sample handling cost for the provision of each service. These figures have not been included in the modelling. On the income side, no charge has been applied to customers for the ongoing storage of cord stem cells. One assumes that the costs of this service will be more than covered.

Other expenses are reasonably in line with a company of this type with the exception of marketing and promotion, which we consider low.

It should also be appreciated that the agreements with VetCell stipulate minimum sales of both products, in terms of units sold. The projections for treatments using bone marrow stem cells exceed minimum quantities. However, should the company fail to achieve these amounts, VetCell may terminate the contract unless VBL can provide reasonable grounds for failure. Alternatively, it could be assumed that VBL may have to pay the royalty on contracted minimum sales.

There are two minima for cord blood, one for the collection and storage of samples and the other for the delivery of treatments using these cells. The prescribed minimum amounts include both Australian and US sales and, on the basis that counting only commences on the year of entry into the US, projections exceed the benchmark amounts.

5.5 Timing

The timing of entry to the US market is difficult to estimate until some response has been received from the FDA to a query concerning the need for market approval. It is reasonable to assume that there will be minimal regulation as discussed above, but one should include a delay in financial forecasts to be conservative. In any event, it will take many months to establish GMP manufacturing and obtain a manufacturer’s licence, and it will take longer to realise market acceptance.

6 *Conclusions*

We are able to independently confirm industry information as provided by VBL about horse numbers, tendon injury incidence, alternative treatments and competition. Thus, the starting point for determining market sizes is reasonable. Our reading of the technology based on published scientific reports and data contained in the patent application is that it has proven efficacy and safety in Europe and that this has been replicated to a small extent in Australia. We understand that VBL has implemented manufacturing, has received all necessary permits and met regulatory requirements in Australia.

We consider that longer term studies will be required to convince horse owners and breeders of the merits of the technology. Assuming that data to date of a three out of four success rate can be confirmed or improved upon then, at the price proposed, we see no difficulty in developing and growing a market for the technology.

We consider that the Company’s estimates of potential markets to be realistic and ultimate market penetration are achievable. These estimates may be relied upon by Deloitte Corporate Finance for valuation purposes. We caution, however, that initial penetration may be less than projected and market growth slower, for the following reasons, and that any valuation should take these matters into consideration:

- Real proof of the benefits of stem cell treatment will be observed in the performance of horses 12 or more months after treatment. Initially, owners and trainers will accept treatment on the advice of their veterinarians, the limited overseas data or a desire to take a risk because there is little else of promise. Not all veterinarians will be sold on the treatment from the start. Growth in the longer term will derive from word-of-mouth between owners and trainers and from demonstrable success on the track. We see a 12 month to two year period of guarded acceptance.

- In the current financial year there have been very few procedures. It is going to take a major push, in our opinion, to achieve budget over the remaining period.

- We consider that the Company will require a stronger commitment to marketing and promotion that has been budgeted for in early years.

- Introduction into the US market may not occur this year, as noted above.

With appropriate modification to the spreadsheets, or use of a methodology that accounts for the risks described in the report, we believe that Deloitte Corporate Finance can rely on the Company's financial projections in preparing a valuation.

7 *Information Sources*

To assist in the preparation of our report, we were provided with the following documents by VBL:

- **Business Plan**. **Equine Stem Cell Therapies for Tendons and Ligaments**. Vet Biotechnology, August 2005.

- **Licence Agreement, between VetCell Bioscience Limited and Vet Biotechnology Limited**. Dated 10 November 2004.

- **Compliance Agreement, between VetCell Bioscience Limited and Vet Biotechnology Limited**. Dated 10 November 2004.

- **Licence, Sub-licence, Service, Manufacture and Supply Agreement, between Vet Biotechnology Limited and Medvet Science Pty Ltd**. Dated 8 July 2005.

- **Licence, Distribution and Supply Agreement, between Vet Biotechnology Limited and VetCell Bioscience Limited: "Equine Umbilical Stem Cell Storage Technology."** Dated 9 August 2005.

- **Patent Application WO2004022078, Pharmaceutical kits comprising mesenchymal stem cells**. Applicant: Royal Veterinary College (UK). Inventors RK Smith, KG McGarrell, AE Goodship & GW Blunn. Priority 7/9/2002.

- **Five Year Forecast for Vet Biotechnology**. VBL Spreadsheet: *Adjusted forecasts.xls*. Attached to email from Deloitte Corporate Finance to Acuity 5/9/2005.

- **Stem Cell Market Estimates**. VBL Spreadsheet: *Market estimate Stem cells 240805 HLM.xls*. Attached to email from Deloitte Corporate Finance to Acuity 9/9/2005.

8 *Qualifications & Declarations*

Acuity is a consultancy firm that advises on R&D and its commercialisation with a particular emphasis on healthcare and biotechnology. Acuity undertakes technology and market assessments of projects and provides advice to investors in relation to high technology projects. The author of this report, Dr David Randerson, has over 30 years experience as a practicing biomedical engineer and research adviser. He has managed commercial and academic research programs, taught science and engineering at tertiary institutes and worked in the medical device and pharmaceutical industries.

Neither Acuity nor its principals have any pecuniary interest in VBL or Plantcorp that could be regarded as affecting the ability to provide an unbiased opinion of the matters contained in this report. Acuity will receive a professional fee for the preparation of this report.

This report was submitted in draft form to VBL for comment on factual accuracy prior to finalisation.

We have given our written consent to the issue of this report as part of Deloitte Corporate Finance's independent expert's report to be included in the Target Statement to be provided to VBL shareholders in relation to the proposed takeover by Plantcorp.

Yours sincerely

David H Randerson, BE, PhD
Managing Director

Deloitte.

Appendix 5: Sources of information

In preparing this report we have had access to the following principal sources of information:

- Plantcorp's Bidder's Statement dated 12 August 2005
- Plantcorp annual financial report for the year ended 30 June 2005
- Discussions with VBL management and the independent directors of VBL
- VBL annual financial report for the year ended 30 June 2005
- VBL Rattles Diagnostic & Vaccine business plan
- VBL Breath Test business plan
- VBL Equine Stem Cell Therapies for Tendons & Ligaments business plan
- Licence Agreement between VBL and Medvet
- Licence, Sub-licence, Service, Manufacture and Supply Agreement between VBL and Medvet
- Licence, Distribution and Supply Agreement between VBL and VetCell
- Licence Agreement between VBL and VetCell
- Sub-Licence Agreement between VBL and Nidor
- Research and Development Agreement between VBL and Veterinary Research Synergies Pty Ltd
- Option Agreement between Medvet and D P LeMessurier
- Director and Executive Option Plan Rules
- Agreement between VBL and D P LeMessurier
- MPS letter of intent and draft underwriting agreement

Deloitte.

Appendix 6: Qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of VBL and is to be included in the Target's Statement to be given to Shareholders for approval of the Proposed Transaction. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Target's Statement in their assessment of the Takeover Offer outlined in the report and should not be used for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Takeover Offer.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Takeover Offer is fair and reasonable in relation to Section 640. Deloitte Corporate Finance consents to this report being included in the Target's Statement.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the information provided by the directors and executives of VBL which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to VBL management for confirmation of factual accuracy.

Furthermore, recognising that Deloitte Corporate Finance may rely on information provided by VBL and its officers and/or associates, VBL has agreed to make no claim against Deloitte Corporate Finance to recover any loss or damage which VBL may suffer as a result of that reliance and also has agreed to indemnify Deloitte Corporate Finance against any claim arising out of the assignment to give this report, except where the claim has arisen as a result of any proven wilful misconduct by Deloitte Corporate Finance.

Deloitte Corporate Finance also relies on the report prepared by Acuity. Deloitte Corporate Finance has received consent from Acuity for reliance in the preparation of this report.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of VBL personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit in accordance with Australian Auditing Standards, nor did they constitute a review in accordance with AUS 902 applicable to review procedures. In addition, we relied on a report prepared by Acuity.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for VBL included in this report has been prepared on a reasonable basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of VBL referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were David Hill, B.Comm, ICAA, MBA, CFTP, Rachel Foley-Lewis, ASIA, CA, B.Com, Johan Duivenvoorde, ACA, B.Com, AnnMarie Mahony, BA, MAcc, ICAI and Aleks Lupul, MAppFin, ASIA, CA, B.Com. David, Rachel and Johan are Directors, AnnMarie is an Associate Director and Aleks is a Manager of Deloitte Corporate Finance. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte Corporate Finance will receive a fee of $75,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Takeover Offer.