

# FORM: Preliminary final report

Name of issuer

VET BIOTECHNOLOGY LTD

ACN or ARBN

105 577 017

Half yearly  
(tick)

☐

Preliminary  
final (tick)

☒

Financial year ended ('Current period')

30/6/2007

## For announcement to the market

Extracts from this statement for announcement to the market (see note 1).

				\$A
Revenue (item 1.1)	up	68%	to	128,780
(Loss) for the period (item 1.9)	down	17%	to	(518,407)
(Loss) for the period attributable to members of the parent (item 1.11)	down	17%	to	(518,407)
<b>Dividends</b>		Current period		Previous corresponding period
Franking rate applicable:		N/A		N/A
<b>Final dividend</b> (preliminary final report only)(item 10.13-10.14)		N/A		N/A
Amount per security				
Franked amount per security				
<b>Interim dividend</b> (Half yearly report only) (item 10.11 – 10.12)		N/A		N/A
Amount per security				
Franked amount per security				
Short details of any bonus or cash issue or other item(s) of importance not previously released to the market:				
N/A				

## Comparison of half-year profits

(Preliminary final statement only)

	Current period - \$A	Previous corresponding period - \$A
2.1 Consolidated (loss) after tax attributable to members reported for the 1st half year ( <i>item 1.11</i> in the half yearly statement)	(304,464)	(415,163)
2.2 Consolidated (loss) after tax attributable to members for the 2nd half year	(213,943)	(206,357)

## Ratios

	Current period	Previous corresponding period
<b>(Loss) before tax / revenue</b>	<b>(403%)</b>	<b>(811%)</b>
8.1 Consolidated (loss) before tax ( <i>item 1.5</i> ) as a percentage of revenue ( <i>item 1.1</i> )		
<b>(Loss) after tax / equity interests</b>		
8.2 Consolidated (loss) after tax attributable to members ( <i>item 1.11</i> ) as a percentage of equity (similarly attributable) at the end of the period ( <i>item 3.37</i> )	<b>(3166%)</b>	<b>(435%)</b>

## NTA Backing

(see note 7)

20.1	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	(0.88) cents	(3.12)cents

## Annual meeting

(Preliminary final statement only)

The annual meeting will be held as follows:

Place	TBA
Date	TBA
Time	TBA
Approximate date the annual report will be available	13 September 2007

**Compliance statement**

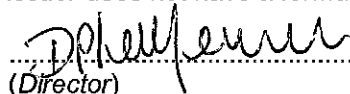
1. This statement has been prepared under accounting policies which comply with accounting standards as defined in the *Corporations Act* or other standards acceptable to the Exchange (see note 13).

Identify other standards used

N/A

2. This statement, and the financial statements under the *Corporations Act* (if separate), use the same accounting policies.
3. This statement does give a true and fair view of the matters disclosed (see note 2).
4. This statement is based on financial statements to which one of the following applies:
- |   |   |
|---|---|
| <input checked="" type="checkbox"/> The financial statements have been audited.                             | <input type="checkbox"/> The financial statements have been subject to review by a registered auditor (or overseas equivalent). |
| <input type="checkbox"/> The financial statements are in the process of being audited or subject to review. | <input type="checkbox"/> The financial statements have <i>not</i> yet been audited or reviewed.                                 |
5. The *issuer* does not have a formally constituted audit committee.

Sign here:

  
(Director)

Date:

11 September 2007

Print name: Peter LeMessurier

# Vet Biotechnology

ACN 105 577 017  
280 Gorge Street  
SYDNEY NSW 2000  
Telephone +61 (0) 2 9238 1188  
Facsimile +61 (0) 2 9233 3176

## Chairman's Letter

Dear Fellow Shareholder,

It is with pleasure I present the 2007 Annual Report for Vet Biotechnology Limited.

During the 2007 financial year your company has continued its path encouraging research for veterinary products.

Our General Manager, David Bridgland, has worked tirelessly throughout the year driving through increased sales on the Bone Marrow Services. To date 78 horses have been treated. 14 of the treated horses have gone on to race and of those, 8 have yielded individual winners. These figures are highly encouraging.

Management continues to follow the racetrack performances closely and eagerly awaits future race successes for graduates of the treatments.

The company has also created a new treatment process for the extraction of Umbilical Cord Stem cells known as Stembank. A sample of cord extractions has successfully taken place and the company excitedly awaits the uptake of this service.

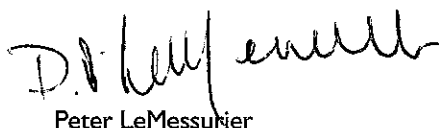
The company has continued to train Vets throughout the year to use out stem cell technology. This process has been working well and the board looks forward to continued positive outcomes in the next financial year.

The board continues to explore other product pipelines and will we look forward to advising shareholders in the future of any outcomes of our research.

The directors look forward to future positive announcements during the next financial year.

The board has a policy of contacting shareholders regularly on the progress of our research.

I take this opportunity to thank the management, directors and shareholders for their contributions this financial year.



Peter LeMessurier

Chairman

(1 Day of September 2007

**VET BIOTECHNOLOGY LTD**

**ABN 105 577 017**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2007**

**VET BIOTECHNOLOGY LTD  
ABN 105 577 017**

**CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of Vet Biotechnology Ltd is responsible for the corporate governance of the company. The Board guides and monitors the business and affairs of Vet Biotechnology Ltd on behalf of the members to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities, it has established corporate governance guidelines for the operation of the Board.

**Composition of the Board**

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board shall continue not less than three (3) nor more than ten (10) Directors, all being natural persons.
- one third of directors shall be elected by the member at an annual general meeting and will themselves be members throughout their term; such term expiring at the conclusion of the second annual general meeting of the company after the annual general meeting at which the directors were elected. Retiring directors are eligible for re-election.
- the Board may after each annual general meeting appoint as directors up to three (3) other persons, the first two (2) of whom shall not be members of the company. Such appointed directors shall hold office until the conclusion of the next annual general meeting of the company and shall be eligible for reappointment.
- the Board has the power to appoint any other qualified person as a director to fill a casual vacancy or as an addition to the Board but so that the total number of directors shall not at any time exceed the maximum number. Any director so appointed shall hold office only until the conclusion of the next annual general meeting of the company and shall be eligible for re-election.
- the chairman should be an appointed non executive director.

The directors in office at the date of this report are:

Mr Douglas Peter LeMessurier  
Mr Michael Derin  
Mr Alan Preston Beasley

**Board Responsibilities**

As the board acts on behalf of and is accountable to the shareholders, the board seeks to identify the expectations of the shareholders, as well as other interested parties. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The board seeks to discharge these responsibilities in a number of ways.

**VET BIOTECHNOLOGY LTD**  
**ABN 105 577 017**

**CORPORATE GOVERNANCE STATEMENT**

The responsibility for the operation and administration of the company is delegated by the board to the managing director and the executive team. The board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive team.

The board is responsible for ensuring the management's objectives and activities are aligned with the expectations and risks identified by the Board.

This is achieved by:

- development and adoption of strategic aims;
- constantly reviewing the future direction of the company;
- implementation of operating plans and budgets by management and monitoring by the Board of progress against budget;
- supervision and direction of management;
- monitoring of performance indicators against plans and prior year performance;
- procedure to allow the directors, whilst performing their duties, to seek independent professional advice;
- establishment of the remuneration package of the managing director and review of executive remuneration packages with the help of the remuneration committee;
- the review and approval of business acquisitions and disposals, mergers, joint ventures and the acquisition and disposal of strategic assets.

**Audit Committee**

The board is responsible for the company's accounting policies and practices, internal controls and financial reporting requirements. However, the board aims to establish an audit committee to assist in fulfilling these obligations. As of this time, the audit committee has not yet been established because of the size of the entity and until such time as it had been established the responsibilities noted below are those of the Directors:

- evaluating the adequacy and effectiveness of the company's administrative and accounting policies through active communication with management and the external auditors;
- reviewing of the financial statements to ensure accuracy and adequacy of disclosure and compliance with statutory requirements prior to their release to the members and the public;
- reviewing and monitoring effectiveness, efficiency and compliance with internal controls;

**VET BIOTECHNOLOGY LTD**  
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**CORPORATE GOVERNANCE STATEMENT**

- evaluating the adequacy of the company's accounting control system by reviewing written reports from external auditors and monitor managements' responses and actions to correct any deficiencies;
- reviewing and approving all significant accounting policy changes;
- the safeguarding of company assets;
- the reliability of non financial information;
- nomination of the external auditor and reviewing the scope and adequacy of the annual statutory external audit;
- evaluating the overall effectiveness of the external statutory audit through regular meetings with the external auditors;
- evaluation of insurance cover by discussion with or review of broker's reports.

**Remuneration Committee**

The board is responsible for the company's remuneration policy and compliance with environmental and health welfare and safety issues. However the board aims to establish a remuneration committee to assist in fulfilling these obligations. As of this time, the remuneration committee has not yet been established because of the size of the entity and as such the responsibilities noted below are those of the Directors.

- to determine and monitor the application of the remuneration policy that best suits the achievement of the objectives of the company;
- evaluate the adequacy of the company's levels of remuneration by monitoring the remuneration packages that are available both nationally and in the local area;
- annually review the management recommendations for the remuneration packages of all employees
- review management proposals for individual employee remuneration packages where changes in responsibilities are to be made;
- evaluate the company's exposure to risk through lack of compliance to statutory regulations relating to environmental issues;
- evaluate the company's exposure to risk through lack of compliance to statutory regulations relating to occupational health, safety and welfare;
- monitor management's responses and actions to correct any deficiencies in relation to environmental and occupational health, safety and welfare issues.



**VET BIOTECHNOLOGY LTD  
ABN 105 577 017**

**CORPORATE GOVERNANCE STATEMENT**

**Monitoring of the Board's Performance and Communications to Shareholders**

The board aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors. Information is communicated through:

- the annual report which is distributed to all members;
- the annual general meeting of the company;
- regular newsletters.

**VET BIOTECHNOLOGY LTD**  
**ABN 105 577 017**

**DIRECTORS' REPORT**

Your directors submit the financial report for the company for the year-ended 30<sup>th</sup> June 2007. Directors were in office for this entire period unless otherwise stated.

**Directors**

The names of directors who held office during or since the end of the year are:

Mr Douglas Peter LeMessurier

Mr Paul Lawrence Kerr: ceased to be a Director on 18<sup>th</sup> November 2006

Mr Paul Andrew Mariani: ceased to be a Director on 18<sup>th</sup> November 2006

Ms Lusia Guthrie: ceased to be a Director on 18<sup>th</sup> November 2006

Mr Michael Derin: appointed 15<sup>th</sup> December 2006

Mr Alan Preston Beasley: appointed 15<sup>th</sup> December 2006

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

**Company Secretary**

The following person held the position of company secretary at the end of the financial year:

Michael Derin – Chartered Accountant. Mr. Derin was appointed company secretary on 15 December 2006.

**Principal Activities**

The principal activities of the company during the financial year were those of a veterinary biotechnology marketer.

The company launched its umbilical cord cell storage service during the financial year.

**Financial Performance**

The loss of the company for the year ended 30 June 2007 after tax was \$518,407 compared to a loss of \$621,520 during the financial year 30 June 2006.

**Dividends Paid or Recommended**

There were no dividends paid or recommended to be paid.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**DIRECTORS' REPORT**

**Review of Operations**

Vet Biotechnology Ltd continues to generate revenues from the stem cell therapy for equine tendon and ligament injury with orders received for the services from veterinarians in NSW, QLD, VIC, SA and WA. The company conducted the next round of Australian training courses for the stem cell therapy during May 2007 to increase the number of equine veterinarians able to conduct the service. The number of horses treated per month continues to rise with sales in recent months being very encouraging.

The company has launched an umbilical stem cell storage facility which will enable stem cells to be extracted from the umbilical cord of foals at birth. This will allow for faster treatment of equine tendon and ligament injuries in future reducing the chances of any scarring and hence increasing the probability of improved post therapy performance.

The company continues to undertake research into the equine breath test technology to develop a non-invasive method for the diagnosis of Equine Gastric Ulcer Syndrome (EGUS) in horses. Phase I clinical testing has been completed and validation of this in the form of an independent expert report is currently underway.

**Significant Changes in the State of Affairs**

The following significant changes in the state of affairs of the company occurred during the financial reporting period:

- The company issued 1,190,000 ordinary shares to Ms Diana Mary O' Halloran Evans who has agreed to convert the loan owed to her. The loan converted to equity amounted to \$238,000.
- The company also issued 254,000 ordinary shares to Westglade Pty Ltd and WHI Securities Pty Ltd (127,000 ordinary shares to each) at \$0.20 per share. Loans converted to equity amounted to \$50,800.
- The company was able to raise additional capital from the issuance of 1,725,000 ordinary shares at an issue price of \$0.20 per share to investors during the financial period.
- The company issued bonus shares of 9 shares for every 10 shares held as of 8 May 2007 to all shareholders on the record at that date. As a result, an additional 13,686,244 ordinary shares were issued.
- The company extended the terms of the loan of \$350,000 owing to Raymond George Pank for a further 9 months on current terms.
- The company has issued 750,000 options on 23 March 2007 to each of the following:

Mr Alan Beasley or his nominee  
Mr Michael Derin or his nominee  
Mr Paul Mansfield or his nominee

**VET BIOTECHNOLOGY LTD  
ACN 105 577 017  
DIRECTORS' REPORT**

- The company entered into a Capital Raising Agreement through private placement with Ascend Asset Management Limited (Ascend) and Le Messurier Pty Ltd (LemSec). Under the agreement, Ascend undertakes to raise a minimum of \$200,000 by 30 June 2007 and potentially up to \$400,000 in pre IPO capital to assist the company carry out certain further development.

In consideration for its performance, Ascend shall be entitled to the following payments by the company:

- 200,000 shares and options in Vet Biotechnology Ltd have been issued by 30 June 2007 in consideration of capital raised on 30 June 2007. An additional 200,000 options will be issued to Ascend at the completion of the \$200,000 capital raising.

#### **Subsequent Events**

It was resolved during the Director's meeting on 27<sup>th</sup> July 2007 to convert the remaining Diana Evans loan into equity at 10.9 cents per share.

#### **Environmental Issues**

The company's operations are not subject to significant environmental regulation under the laws of the Commonwealth and State.

#### **Remuneration Policy**

The Remuneration Policy of Vet Biotechnology Ltd has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting Vet Biotechnology Ltd's financial results.

The key objectives of the Remuneration Policy are to appropriately and effectively attract and retain the best executives and directors to run and manage the company, as well as create goals congruent between directors, executives and shareholders.

The Remuneration Policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Remuneration Committee and approved by the Board after seeking professional advice from independent external consultants.

The Remuneration Policy has been tailored to increase goal congruence between shareholders and directors and executives with:

- Performance-based bonus based on key Performance Indicators (KPI's); and
- Issue of Options to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

The Vet Biotechnology Ltd Board's policy for determining the nature and amount of remuneration for board members and senior company executives follows.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**DIRECTORS' REPORT**

**Terms and Conditions**

All executives receive a base salary, based on length of service, professional qualifications and experience, superannuation, fringe benefits, options and performance incentives.

The remuneration committee reviews executive packages annually by reference to the company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

**Performance Measurement**

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the company's profits and shareholders' value.

All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the Remuneration Committee's recommendations.

Any change must be justified by reference to measurable performance criteria. The policy is designed to attract the highest caliber of executives and reward them for performance that results in long term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

**Superannuation**

The executive directors and executives receive a superannuation guarantee contribution, required by the government, which is currently 9% and do not receive any other retirement benefits. Individuals may choose to sacrifice part of their salary to increase payments towards superannuation.

**Shares & Options**

Shares given to directors and executives are valued at their fair value on the date granted based on market prices. Options given to directors and executives are valued at their fair value using the Black-Scholes option pricing model.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**DIRECTORS' REPORT**

**Non-executive Directors**

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration Committee determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Fees for non-executive directors are not linked to the performance of the company. To align directors' interests with shareholders interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

**Performance Based Compensation**

As part of each executive director and executives' remuneration package there is a performance-based component consisting of key performance indicators. The intention of this programme is to facilitate goal congruence between directors and executives with that of the business and shareholders.

Key Performance Indicators – KPI's:

- Are set annually in consultation with directors/executives. The measures are specifically tailored to the areas in which the director/executive is directly involved and has a level of control over.
- Target areas which the board believes hold greater potential for business expansion and profit.
- Cover financial and non-financial as well as short and long-term goals.
- The level set for each KPI is based on budgeted figures for the company and respective industry standards.
- Performance in relation to KPI's is assessed annually, with minor quarterly reviews.
- Bonuses being awarded depend on the number and difficulty of the KPI's achieved.

Following the assessment, the KPI's are reviewed by the remuneration committee in light of the desired and actual outcomes. The efficacy of the KPI's is assessed in relation to the company's goals and shareholders wealth, before the KPI's are set for the following year. Where advisable, independent reports are obtained from external organizations.

**VET BIOTECHNOLOGY LTD  
ACN 105 577 017  
DIRECTORS' REPORT**

**Information on Directors**

**Douglas Peter LeMessurier**

- |                                |   |   |
|--------------------------------|---|---|
| Qualifications                 | - | Sharebroker   |
| Experience                     | - | Various company directorships   |
| Interest in Shares and Options | - | 1,805,000 ordinary shares of Vet Biotechnology Ltd and options to acquire a further 950,000 shares of Vet Biotechnology Ltd.  |
|                                | - | 1,900,000 ordinary shares of Vet Biotechnology Ltd and options to acquire a further 1,000,000 ordinary shares of Vet Biotechnology Ltd in the name of Palpet Pty. Ltd.                      |
|                                | - | 1,710,000 ordinary shares of Vet Biotechnology Ltd and options to acquire a further 900,000 ordinary shares of Vet Biotechnonology Limited in the name of First Avenue Investments Pty Ltd. |
|                                | - | 950,000 ordinary shares of Vet Biotechnology Ltd and options to acquire a further 500,000 ordinary shares of Vet Biotechnology Ltd in the name of Kryton Pty Ltd.                           |
|                                | - | 665,000 ordinary shares of Vet Biotechnology Ltd and options to acquire a further 350,000 ordinary shares of Vet Biotechnology Ltd in the name of Jane Mary LeMessurier.                    |

**Mr Alan Preston Beasley**

- |                                |   |   |
|--------------------------------|---|---|
| Qualifications                 | - | Sharebroker   |
| Experience                     | - | Various company directorship  |
| Interest in Shares and Options | - | 750,000 options in Vet Biotechnology Ltd in the name of Capereef Pty Ltd. |

**Mr Michael Derin**

- |                |   |                              |
|----------------|---|------------------------------|
| Qualifications | - | Chartered Accountant         |
| Experience     | - | Various company directorship |

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**DIRECTORS' REPORT**

**Interest in Shares and Options**

- 750,000 options in Vet Biotechnology Ltd in the name of Heirophant Pty Ltd.

**Option Details**

At the date of this report, the unissued ordinary shares of Vet Biotechnology Ltd under option are as follows:

<b>Grant Date</b>	<b>Date of Expiry</b>	<b>Exercise Price</b>	<b>Number under Option</b>
10/09/03	30/06/11	\$0.30	54,000
15/09/03	30/06/11	\$0.30	5,346,000
12/11/03	30/06/11	\$0.30	1,173,333
18/12/03	30/06/11	\$0.30	100,000
11/03/04	30/06/11	\$0.30	282,333
31/03/04	30/06/11	\$0.30	68,334
21/06/04	30/06/11	\$0.30	68,000
24/06/04	30/06/11	\$0.30	154,000
30/06/04	30/06/11	\$0.30	172,427
11/08/04	30/06/11	\$0.30	760,000
17/12/04	30/06/11	\$0.30	1,214,333
29/03/05	30/06/11	\$0.30	500,000
23/03/07	30/06/13	\$0.20	2,250,000
08/05/07	30/06/13	\$0.20	3,173,514
31/05/07	30/06/13	\$0.20	825,000
			<hr/>
			16,141,274 <hr/>

**Director and Executive Option Plan**

The company has a Director and Executive Option Plan. Directors and executives, at the discretion of the board, may be granted options under this plan. To date, there have been no options issued under this plan.

**Indemnifying Officers or Auditors**

During or since the end of the financial year, the company has not indemnified or entered into any agreement to indemnify or paid or agreed to pay any insurance premiums to officers or the auditor.

**Auditor's Declaration**

The auditor's independence declaration under section 307 C of the Corporations Act 2001 is set out on page 46 for the year ended 30 June 2007.



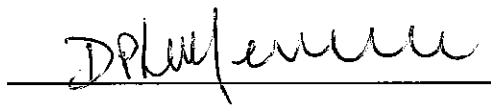
**VET BIOTECHNOLOGY LTD  
ACN 105 577 017  
DIRECTORS' REPORT**

**Proceedings on Behalf of Company**

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

The company was not a party to any such proceedings during the reporting period.

This report is signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'DPL/LeMessurier', is written over a solid horizontal line.

Director

Mr Douglas Peter LeMessurier

Dated this 11 day of September 2007



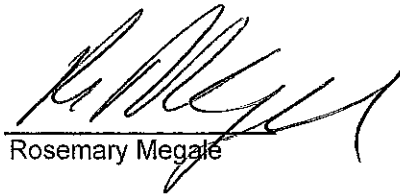
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF VET BIOTECHNOLOGY LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 there have been :

- 1 no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit, and
- 2 no contraventions of any applicable code of professional conduct in relation to the audit.

Duncan Dovico Chartered Accountants



Rosemary Megale

Dated this 11th day of September 2007.

CHARTERED ACCOUNTANTS

LEVEL 4, 5-9 HARBOURVIEW CRESCENT, MILSONS POINT NSW 2061 • PO BOX 446, MILSONS POINT NSW 1565

T: 9922 1166 • F: 9922 2044 • E: email@duncandovico.com.au • ABN: 19 173 426 199

Liability limited by a scheme approved under Professional Standards legislation

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**

**INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	Notes	2007	2006
		\$	\$
<b>Revenue</b>	2	<b>128,780</b>	<b>76,629</b>
Cost of Sales	3	(141,417)	(1,077)
<b>Gross Profit</b>		<b>(12,637)</b>	<b>75,552</b>
Employee benefits expense	4a	(130,223)	(148,672)
Depreciation and amortisation expenses		(17,848)	(17,259)
General and administration expenses		(99,653)	(52,802)
Target statement expense	5	(2,798)	(236,855)
Other expenses	4b	(178,559)	(225,217)
<b>Loss from operation</b>		<b>(441,718)</b>	<b>(605,253)</b>
Finance costs		(76,689)	(16,267)
<b>Loss before income tax</b>		<b>(518,407)</b>	<b>(621,520)</b>
Income tax expense		-	-
<b>Net loss for the year</b>		<b>(518,407)</b>	<b>(621,520)</b>
<b>Basic earnings per share</b> <b>(cents per share)</b>		<b>(3.47)</b>	<b>(5.23)</b>
<b>Diluted earnings per share</b> <b>(cents per share)</b>		<b>(3.47)</b>	<b>(5.23)</b>

*The accompanying notes should be read in conjunction with these financial statements*

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**

**BALANCE SHEET**  
**AS AT 30 JUNE 2007**

	Notes	2007 \$	2006 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	287,450	308,254
Trade and other receivables	8a	42,736	31,278
Prepayments	8b	21,651	-
<b>TOTAL CURRENT ASSETS</b>		<b>351,837</b>	<b>339,532</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	9	3,952	5,549
Intangible assets	10	238,694	232,102
Other assets	12	-	526
<b>TOTAL NON-CURRENT ASSETS</b>		<b>242,646</b>	<b>238,177</b>
<b>TOTAL ASSETS</b>		<b>594,483</b>	<b>577,709</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	166,725	98,974
Short term borrowings	14	444,134	621,467
<b>TOTAL CURRENT LIABILITIES</b>		<b>610,859</b>	<b>720,441</b>
<b>TOTAL LIABILITIES</b>		<b>610,859</b>	<b>720,441</b>
<b>NET LIABILITIES</b>		<b>(16,376)</b>	<b>(142,732)</b>
<b>EQUITY</b>			
Issued capital	15	1,762,494	1,151,106
Option Reserves	16	133,375	100,000
Accumulated Losses		(1,912,245)	(1,393,838)
<b>TOTAL EQUITY</b>		<b>(16,376)</b>	<b>(142,732)</b>

*The accompanying notes should be read in conjunction with these financial statements*

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	Notes	Issued Capital	Option Reserve	Accumulated Losses	Total
Balance at 1 July 2005		945,071	100,000	(772,318)	272,753
Shares issued during the period		208,100			208,100
Increase in capital raising costs		(2,065)			(2,065)
Loss attributable to members				(621,520)	(621,520)
<b>Balance at 30 June 2006</b>		<b>1,151,106</b>	<b>100,000</b>	<b>(1,393,838)</b>	<b>(142,732)</b>
Balance at 1 July 2006		1,151,106	100,000	(1,393,838)	(142,732)
Shares issued during the period		655,703			655,703
Capital Raising Cost	15a	(44,315)			(44,315)
Options granted as remunerations			33,375		33,375
Loss attributable to members				(518,407)	(518,407)
<b>Balance at 30 June 2007</b>		<b>1,762,494</b>	<b>133,375</b>	<b>(1,912,245)</b>	<b>(16,376)</b>

*The accompanying notes should be read in conjunction with these financial statements*

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**

**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	Notes	2007 \$	2006 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		112,151	51,573
Payments to suppliers and employees		(517,639)	(696,904)
Interest Received		7,560	6,810
<b>Net cash provided by (used in) operating activities</b>		<b>(397,928)</b>	<b>(638,521)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment	9	(2,132)	-
Purchase of Intangible Assets	10	(1,574)	-
<b>Net cash used in investing activities</b>		<b>(3,706)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
-Proceeds from issue of shares		345,903	-
-Exercise of Options		-	198,100
-Capital Raising Costs inclusive of Placements Commissions		(73)	(2,065)
Proceeds from borrowings		35,000	605,200
<b>Net cash provided by financing activities</b>		<b>380,830</b>	<b>801,235</b>
<b>Net increase in cash held</b>		<b>(20,804)</b>	<b>162,714</b>
Cash at beginning of the financial year		308,254	145,540
<b>Cash at end of the financial year</b>		<b>287,450</b>	<b>308,254</b>

*The accompanying notes should be read in conjunction with these financial statements*

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 1: Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncement of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Vet Biotechnology Ltd, a public company incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**Basis of Preparation**

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

**Accounting Policies**

**(a) Income tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax that will be recognised from the initial recognition of an asset or liability, excluding a business combination where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets in relation to tax losses have not been brought to account due to the uncertainty of the probability that future tax profits will be available against which deductible temporary differences can be utilised.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 1: Basis of Preparation (cont.)**

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

**(b) Plant and Equipment**

Plant and equipment are measured on the cost basis.

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

All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all plant and equipment is depreciated on a straight-line basis over their useful life to the company commencing from the time the asset is held ready for use.

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

Class of Fixed Asset	Depreciation Rate
Plant and Equipment	5 – 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet.

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**(c) Intangible Assets**

Licence fees and option fees are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised.



**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 1: Basis of Preparation (cont.)**

**Option Fee and Medvet Licence Fee**

The option fee and the Medvet Licence fee are being amortised over a fifteen year period commensurate with the terms of the sub-licence agreement and licence agreement.

**VetCell Licence Fee**

The VetCell licence fee is being amortised over a twenty one year period commensurate with the terms of the licence agreement negotiated with the company in respect of the relative technology, commencing 10 November 2004.

**(d) Research Expenditure**

Expenditure during the research phase of a project is recognised as an expense when incurred.

**(e) Financial Instruments**

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

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortization.

**(f) Impairment of Assets**

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the assets, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying over its recoverable amount is expensed to the income statement.

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

**(g) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, net of bank overdrafts.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 1: Basis of Preparation (cont.)**

**(h) Revenue**

Interest revenue is recognised on a proportional basis taking in to account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

**(i) Share-Based Payments**

**Equity Settled Transactions**

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

The company currently has a Director and Executive Option Plan in place to provide these benefits.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model.

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 19).

**(j) Goods and Services Tax**

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

Cash flows are presented in the cash flows statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 1: Basis of Preparation (cont.)**

**(k) Foreign Currency Transactions and Balances**

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at the date.

Exchange differences arising on the transaction of monetary items are recognised in the income statement.

**(l) Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance sheet date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Contributions are made by the company to employee superannuation funds and are charged as expenses when incurred.

**(m) Going Concern**

Notwithstanding the company's deficiency of net assets at 30 June 2007 of \$16,376 and the deficiency of current assets of \$259,022 (2006: \$142,732 and \$380,909, respectively) at that date the financial report has been prepared on a going concern basis. This basis has been adopted because:

- The company has entered into an agreement with Ascend Asset Management Limited to raise its capital through private placement via the issuance of a Prospectus. It is estimated that this will raise capital amounting from \$2.5 million to \$3 million. Ascend also undertakes to raise potentially up to \$400,000 in pre IPO capital to assist the company to carry out certain projects.
- The company has a commitment from Mr. D P LeMessurier by way of indemnification to the company and each of the directors which at the time of the execution of the deed of indemnification dated 4 May 2006 keeps each of the indemnified and their respective personal representatives and estates indemnified against all actions, proceedings, liability, claims, damages, costs and expenses in relation to or arising out of debts as at 4 May 2006 of the company including any payment of these debts that is subject to a successful preference claim to the extent that the company is unable to pay or satisfy the claims.

It is the belief of the directors of the company that through the above the company will meet its liabilities when they fall due.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 1: Basis of Preparation (cont.)**

**(n) Comparative Figures**

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

**(o) Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and the best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

**(p) Key Estimates – Impairment**

The company assess impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

	Notes	2007 \$	2006 \$
<b>Note 2: Revenue</b>			
Operating Activities:			
Stem Cell Services		112,565	60,661
Freight Received		6,002	3,773
Interest Earned		7,560	6,810
Training Courses		1,735	5,385
Stembank		918	-
		<b>128,780</b>	<b>76,629</b>
<b>Note 3: Cost of Sales</b>			
Bone Marrow Lab Costs		111,750	-
Freight		14,068	1,077
VetCell Royalty		8,978	-
Cord Validation		4,600	-
Contractor Cost		1,235	-
Patent Fee		786	-
		<b>141,417</b>	<b>1,077</b>

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	Notes	2007 \$	2006 \$
<b>Note 4: Operating Expenses</b>			
a. Employee benefits expense:			
Key management personnel compensation		88,511	94,738
Share options issued as compensation		32,375	-
Others		9,337	53,934
		<b>130,223</b>	<b>148,672</b>
b. <b>Other expenses:</b>			
Other expenses consist of:			
Consulting fees		62,060	6,790
Travel and accommodation		26,373	21,057
Insurance		22,565	25,032
Share registry cost		24,145	14,399
Auditor's remuneration	6	10,475	12,625
Legal fees		8,900	22,757
Rent		6,539	6,500
Training course expenses		2,406	9,073
Marketing and advertising		15,096	21,242
Research		-	25,513
Lab costs		-	19,000
Freight		-	8,777
Patent fees		-	9,745
VetCell expenses		-	7,573
Others		-	15,134
		<b>178,559</b>	<b>225,217</b>
<b>Note 5: Target Statement</b>			
Target statement expenses		<b>2,798</b>	<b>236,855</b>
Target statement expenses include legal and other costs relating to the preparation of the target statement in response to the bidder's statement received from Plantcorp Ltd.			
<b>Note 6: Auditor's Remuneration</b>			
Remuneration of the auditor for:			
-auditing or reviewing the financial report	4b	10,475	12,625
		<b>10,475</b>	<b>12,625</b>

**VET BIOTECHNOLOGY LTD**  
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**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	2007 \$	2006 \$
<b>Note 7: Cash and Cash Equivalents</b>		
Cash at bank	287,450	308,254
	<u>287,450</u>	<u>308,254</u>

**Reconciliation of cash**

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash at bank	287,450	308,254
	<u>287,450</u>	<u>308,254</u>

**Note 8: Trade and Other  
Receivables and Prepayments**

**a. Trade and Other Receivables**

Trade Debtors	27,346	16,897
Prepaid GST	15,390	14,381
	<u>42,736</u>	<u>31,278</u>

**b. Prepayments**

Prepayments	16,651	-
ASX Listing Related Expenses	5,000	-
	<u>21,651</u>	<u>-</u>

**VET BIOTECHNOLOGY LTD**  
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**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 9: Plant and Equipment**

Property and Equipment at 30 June consist of :

	Plant and Equipment	Leasehold Improvements	Total
<b>Cost</b>			
1 July 2006	11,315	248	11,563
Additions during the year	2,132		2,132
30 June 2007	13,447	248	13,695
<b>Accumulated Depreciation/amortisation</b>			
1 July 2006	(5,915)	(99)	(6,014)
Depreciation/Amortisation Charge	(3,580)	(149)	(3,729)
30 June 2007	(9,495)	(248)	(9,743)
<b>Carrying amount, 30 June 2007</b>	<b>3,952</b>	<b>-</b>	<b>3,952</b>
Carrying amount, 30 June 2006	5,400	149	5,549

**Note 10: Intangible Assets**

	Option Fee	Medvet License Fee	VetCell License Fee	Medvet Vap A International Patent	Stembank Trademark	Total
<b>Cost</b>						
1 July 2006	25,000	40,000	190,452	-	-	255,452
Additions during the year	-	-	-	18,611	1,574	20,185
30 June 2007	25,000	40,000	190,452	18,611	1,574	275,637
<b>Accumulated Amortisation</b>						
1 July 2006	(4,160)	(4,356)	(14,834)	-	-	(23,350)
Amortisation Charge	(1,667)	(2,857)	(9,069)	-	-	(13,593)
	(5,827)	(7,213)	(23,903)	-	-	(36,943)
<b>Carrying Amount, 30 June 2007</b>	<b>19,173</b>	<b>32,787</b>	<b>166,549</b>	<b>18,611</b>	<b>1,574</b>	<b>238,694</b>
Carrying Amount, 30 June 2006	20,840	35,644	175,618	-	-	232,102

Refer to Note 21 for details of Licenses & Patents.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 11: Tax**

**2007**

**2006**

**\$**

**\$**

**The prima facie tax on losses before income tax is reconciled to the income tax as follows:**

Prima facie tax payable on losses from before income tax at 30%	(155,522)	(186,456)
Add:		
Tax effect of:		
Permanent differences		
Options issued to Directors/Employees	9,713	-
Research costs	-	7,654
Legal fees	-	6,827
	9,713	14,481
Tax losses not taken to account	<b>(145,809)</b>	<b>(171,975)</b>

**b. Deferred tax asset**

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in note 1(a) occur:

Temporary differences:		
-Employee benefits	-	1,204
-Loss on capital raising costs	67,267	53,973
Tax loss		
-Operating losses	438,645	292,836
	<b>505,912</b>	<b>348,013</b>

**c. Reconciliations**

(i) Gross movements

The overall movement in the deferred tax account is as follows:

Opening balance	348,013	175,461
(Charge)/credit to income statement	145,809	171,975
(Charge)/credit to equity	13,294	620
Provision	(1,204)	(43)
Closing balance	<b>505,912</b>	<b>348,013</b>



**VET BIOTECHNOLOGY LTD**  
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**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
(ii) Deferred Tax Assets		
The movement in deferred tax assets for each temporary difference during the year:		

**Employee benefits**

Opening balance	1,204	1,247
(Charge)/credit to income statement	(1,204)	(43)
Closing balance	<u>-</u>	<u>1,204</u>

**Capital Raising Costs**

Opening balance	53,973	53,353
(Charge)/credit to equity	13,294	620
Closing balance	<u>67,267</u>	<u>53,973</u>

**Note 12: Other Assets**

**NON-CURRENT**

Formation Expenses at Cost	1,276	1,276
Less: Accumulated Amortisation	(1,276)	(750)
	<u>-</u>	<u>526</u>

**Note 13: Trade and Other Payables**

**CURRENT**

Trade creditors and accrued expenses	165,085	50,960
Medvet License Fee at Cost	-	44,000
Unpaid Employee Entitlements	1,640	4,014
	<u>166,725</u>	<u>98,974</u>

**Note 14: Borrowings**

Loans	444,134	621,467
	<u>444,134</u>	<u>621,467</u>

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 14: Borrowings (cont'd)**

On 20 March 2006, Diana Evans lent the company \$57,700 for a period of nine months with interest payable on repayment of the principal at 15% per annum or until 20 December 2006.

On 21 April 2006, Diana Evans lent the company \$7,500 for a period of nine months with interest payable on repayment of the principal at 15% per annum or until 21 January 2007.

On 2 May 2006, Diana Evans lent the company \$50,000 for a period of nine months with interest payable on repayment of the principal at 15% per annum or until 2 February 2007.

On 21 November 2006, Diana Evans lent the company \$35,000 at 15% per annum.

On 23 March 2007, the company resolved to issue 1,190,000 ordinary shares to Diana Evans at a price of \$0.20 per share for the purpose of converting the loan due to her into equity. Total loan converted into equity amounted to \$238,000.

On 24 May 2006, Raymond Pank lent the company \$350,000 for a period of six months with interest payable on repayment of the principal at 12% per annum.

On 16 March 2007, the Board of Directors resolved to agree to extend the loan for a further nine (9) months or until 24 August 2007 on the same terms and conditions.

On 21 April 2006, Westglade Pty Ltd lent the company \$20,000 for a period of nine months with interest payable on repayment of the principal at 3% per month.

On 29 April 2006, WHI Securities lent the company \$20,000 for a period of nine months with interest payable on repayment of principal at 3% per month.

On 16 March 2007, the Directors resolve to convert the loans plus interest owing to Westglade Pty Ltd of \$25,400 and WHI Securities Pty Ltd of \$ 25,400 to equity at 0.20 cents per share.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	Notes	2007 \$	2006 \$
<b>Note 15: Issued Capital</b>			
29,093,188 (2006: 12,033,424) fully paid ordinary shares		1,986,717	1,331,015
Less: Cost associated with capital raising		(224,223)	(179,909)
		<b>1,762,494</b>	<b>1,151,106</b>
<b>(a) Ordinary Shares</b>			
At the beginning of the reporting period		1,151,106	945,071
Shares issued during the year:			
- 33,333 at \$0.30 each		-	10,000
- 660,332 from the exercise of options during the year		-	198,100
- Westglade Pty Ltd loan conversion (127,000 shares @ \$0.20 each)		25,400	-
- WHI Securities Pty Ltd loan conversion (127,000 shares @ \$0.20 each)		25,400	-
- Diana Evans loan conversion (1,190,000 shares @ \$0.20 each)		238,000	-
- Shares issued to Mr D Bridgland (4,514 shares @ \$0.20 each)		903	-
- Other shares issued (1,725,000 @ \$0.20 each)		345,000	-
- Shares issued to Ascend Asset Management (200,000 @ \$0.105 each)		21,000	-
- 13,686,244 bonus shares issued for nil consideration		-	-
Less: Cost associate with capital raising		(44,315)	(2,065)
		<b>1,762,494</b>	<b>1,151,106</b>
<b>(b) 13,686,244 bonus shares were issued for nil consideration on 8 May 2007</b>			
<b>(c) Each option entitles the holder to subscribe for one ordinary share in the capital of the company at an exercise price of 30 cents. Options may be exercised in whole or in part at any time until 30 June 2011. At 30 June 2007, there were 16,141,274 (2006: 9,892,760) options on issue.</b>			
<b>(d) Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.</b>			
<b>(e) In the event of winding up of the company there remains a surplus of the assets available for distribution to Members, ordinary shareholder will be repaid in proportion to the number of fully paid ordinary shares held by them.</b>			

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	2007 \$	2006 \$
<b>Note 16: Reserve</b>		
Option Reserve	133,375	100,000
	<u>133,375</u>	<u>100,000</u>

The reserve recognises 16,141,274 options on issue: 9,892,760 VBLO options with an exercise price of 30 cents, expiring on 30/6/ 2011, 3,998,514 VBL001 options with an exercise price of 20 cents expiring 30/6/2013 and 2,250,000 VBL002 options with an exercise price of 20 cents expiring 30/6/2011.

**Note 17: Leasing Commitments**  
**Outstanding**

Operating Lease Commitments for Office Premises

Non-cancelable operating leases contracted for but not capitalized in financial statements

Payable		
-not later than 1 year	-	13,000
	<u>-</u>	<u>13,000</u>

**Note 18: Cash Flow Information**

**Reconciliation of Cash Flow from**  
**Operations with Profit from Ordinary**  
**Activities After Income Tax**

Loss from ordinary activities after income tax	(518,407)	(621,520)
Non-cash flows in loss from ordinary activities		
Amortisation	14,119	13,898
Depreciation	3,729	3,361
(Increase)/decrease in trade and other receivables	(11,459)	(18,246)
Increase/(decrease) in trade and other payables	114,090	(16,014)
	<u>(397,928)</u>	<u>(638,521)</u>

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

	2007 \$	2006 \$
<b>Note 19: Earnings per Share</b>		
<b>Reconciliation of Earnings to Net Loss</b>		
Net Loss	<u>(518,407)</u>	<u>(621,520)</u>
Earnings used in the calculation of basic earnings per share	<u>(518,407)</u>	<u>(621,520)</u>
Earnings used in the calculation of diluted earnings per share	<u>(518,407)</u>	<u>(621,520)</u>
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	<u>14,949,289</u>	<u>11,875,288</u>
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	<u>14,949,289</u>	<u>11,875,288</u>
Potential ordinary shares arising from options issued:		
Balance at beginning of year	10,040,668	10,929,759
Movements of weighted average number of options due to:		
- Exercise of options	-	(917,310)
- Options issued on shares issued	<u>6,100,606</u>	<u>28,219</u>
Weighted average number of potential ordinary shares	<u><b>16,141,274</b></u>	<u><b>10,040,668</b></u>
Weighted average number of ordinary shares outstanding 30 June 2007 used in the calculation of diluted earnings per share	<u>14,949,289</u>	<u>11,875,288</u>

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 19: Earnings Per Share (cont'd)**

The options over ordinary shares on issue by the company have not been included in the calculation of diluted earnings per share because they are anti-dilutive. The options are considered anti-dilutive because their conversion would decrease the loss per share.

On 8 May 2007, the Company announced a Bonus Share Issue to shareholders on the basis of nine (9) bonus shares for every ten (10) shares held at record date.

**Note 20: Key Management Personnel Compensation**

**(a) Names and positions held by key management personnel in office at any time during the financial year:**

Directors:

Mr. D P LeMessurier	Chairman - (Non-executive)
Ms. L H Guthrie	Director - (Non-executive)
Mr. P A Mariani	Director - (Non-executive)
Mr. P L Kerr	Director - (Non-executive)
Mr A Beasley	Director
Mr. M Derin	Director

Specified Executives:

Mr. D R Bridgland	General Manager	<i>Appointed 19 June 2006</i>
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**(b) Compensation Practices**

The board's policy for determining the nature and amount of compensation of key management for the company is as follows:

All executives receive a base salary, based on length of service, professional qualifications and experience, superannuation, fringe benefits, options and performance Incentives.

Packages are reviewed annually by reference to the company's performance, executive performance, and comparable information from industry sectors and other listed companies in similar industries. The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the company's profit and shareholders' value.

**VET BIOTECHNOLOGY LTD**  
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**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**(c) Key Management Personnel Compensation (cont'd)**

**2007**

	Short-term Benefits			Post Employment Others	Superannuation	Share-based Payment		Total
	Cash, salary and commissions	Cash profit share	Non-cash benefit			Shares	Options	
Mr D P LeMessurier	-	-	-	-	-	-	-	-
Mr A P Beasley	-	-	-	-	-	-	9,750	9,750
Mr M Derin	-	-	-	-	-	-	9,750	9,750
Ms L H Guthrie	-	-	-	-	-	-	-	-
Mr P A Mariani	-	-	-	-	-	-	-	-
Mr P L Kerr	-	-	-	-	-	-	-	-
Mr D R Bridgland	66,571	-	5,991	75,368	-	-	2,500	150,430
	66,571	-	5,991	75,368	-	-	22,000	169,930

**2006**

	Short-term Benefits			Post Employment Others	Superannuation	Share-based Payment		Total
	Cash, salary and commissions	Cash profit share	Non-cash benefit			Shares	Options	
Mr H F LeMessurier	84,066	-	-	-	7,150	-	-	91,216
Mr D R Bridgland	3,231	-	-	-	291	-	-	3,522
	87,297	-	-	-	7,441	-	-	94,738

**(d) Remuneration Equity**

	Notes	2007 \$	2006 \$
Option granted as remuneration		22,000	-
Shares granted as remuneration		-	-
		22,000	-

There were no options and shares granted as remuneration in 2006.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**(e) Option Holdings**

Number of options held by key management personnel

**2007**

Key Management Personnel	Balance 01/07/06	Granted as Remuneration	Net Charge Other*	Balance, 30/06/07	Total Vested 30/06/07	Total Exercisable 30/06/07	Total Unexercisable 30/06/07
Mr D P LeMessurier	3,700,000	-	-	3,700,000	3,700,000	3,700,000	-
Mr D R Bridgland	-	500,000	4,514	504,514	504,514	504,514	-
Mr A Beasley	-	750,000	-	750,000	750,000	750,000	-
Mr M Derin	-	750,000	-	750,000	750,000	750,000	-
Mr P Mansfield	-	-	-	-	-	-	-
	3,700,000	2,750,000	4,514	5,704,514	5,704,514	5,704,514	-

**2006**

Key Management Personnel	Balance 01/07/05	Balance, 30/06/06	Total Vested 30/06/06	Total Exercisable 30/06/06	Total Unexercisable 30/06/06
Mr D P LeMessurier	3,700,000	3,700,000	3,700,000	3,700,000	-
Mrs L H Guthrie	500,000	500,000	500,000	500,000	-
Mr P A Mariani	500,000	500,000	500,000	500,000	-
Mr P L Kerr	500,000	500,000	500,000	500,000	-
Mr H F LeMessurier	500,000	500,000	500,000	500,000	-
	5,700,000	5,700,000	5,700,000	5,700,000	-

\*Net change other reflects those options that have been forfeited by holders as well as options issued during the year.



**VET BIOTECHNOLOGY LTD**  
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**(f) Shareholdings**

Number of shares held by key management personnel

**2007**

Key Management Personnel	Balance 01/07/06	Received as Compensation	Bonus Issued	Net Change Other*	Balance 30/06/07
Mr D P LeMessurier	3,700,000	-	3,330,000	-	7,030,000
Mr D R Bridgland	-	-	4,063	4,514	8,577
	<u>3,700,000</u>	<u>-</u>	<u>3,334,063</u>	<u>4,514</u>	<u>7,038,517</u>

**2006**

Key Management Personnel	Balance 01/07/05	Received as Compensation	Options Exercised	Net Change Other*	Balance 30/06/06
Mr D P LeMessurier	3,700,000	-	-	-	3,700,000
Mrs L H Guthrie	500,000	-	-	-	500,000
Mr P A Mariani	500,000	-	-	-	500,000
Mr P L Kerr	500,000	-	-	-	500,000
Mr H F LeMessurier	500,000	-	-	-	500,000
	<u>5,700,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,700,000</u>

\*Net change other refers to shares purchased or sold during the year.

**Employees**

	<b>2007</b>	<b>2006</b>
Number of employees (including directors) at year end:	<u>4</u>	<u>6</u>

**Note 21: Related Party Transaction**

Transactions between related parties or on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Director's Transaction with the Company**

**D P LeMessurier**

An option agreement between Medvet Science Pty Ltd and D P LeMessurier and or his nominee was entered into on 3 June 2003.

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 exclusive worldwide sublicense in respect of their intellectual property rights in the technology to an invention known as the *Rhodococcus equi* ELISA Diagnostic Assay.

The terms and conditions for which this option is granted are that Mr D P LeMessurier having the option agreement and exercised his option shall pay Medvet Science Pty Ltd the non-refundable sum of \$25,000.

On 9 September 2003, D P Le Messurier agreed to assign and transfer all of the rights, title and interest in the option and the Agreement to Vet Biotechnology Ltd.

The consideration for the transfer of the Option and the Agreement was that Vet Biotechnology Ltd:

- (a) Grants to D P LeMessurier and or his nominee a royalty in relation to net sales of any Vet Biotechnology product an overriding royalty of 1.8% (with net sales defined as gross sales minus returns that are actually credited). Gross sales are the total amount on invoice billed to customers. The royalty stream also applies if and when the company converts to a public company or any other commercial entity.
- (b) Vet Biotechnology, Ltd agrees to issue 500,000 shares and 500,000 shares options when Vet Biotechnology Ltd or any of its subsidiaries list on the Australian Stock Exchange or any Stock Exchange in Australia or internationally other than the Newcastle Stock Exchange.

On 11 August 2005, D P LeMessurier relinquished his rights to a royalty on net sales of any Vet Biotechnology Ltd product other than a royalty of 1.8% of net sales of all products resulting from the development of the technology to an invention known as *Rhodococcus equi* ELISA Diagnostic Assay.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Director's Related Entity Transactions with the Company**

Total income paid or payable, or otherwise made available, to all directors of the company from the company or any related party is \$29,250 (2006: \$91,216), including payments to a prescribed superannuation fund.

**Other Related Parties**

**Transactions with the Company**

**Medvet Science Pty Ltd**

Medvet Science Pty Ltd is a shareholder in Vet Biotechnology Ltd, holding 600,000 ordinary shares and 600,000 options with an exercise price of 30 cents expiring 30 June 2011.

**License Agreement – Antigenic Peptide Fragments of Vap A Protein and uses thereof**

On 23 December 2003, Medvet Science Pty Ltd entered into a sublicense agreement to commercialise and further research the application of Antigenic Peptide Fragments of Vap A Protein and uses thereof with Vet Biotechnology Ltd.

Both parties have certain obligations to meet during the term of this license.

Details of the license fees, other fees, patent issuance fees and royalties payable to Medvet Science Pty Ltd as set out in the License Agreement are summarized below.

**(a) License Fees**

The company has paid to Medvet Science Pty Ltd a license fee of \$40,000.

**(b) Other Fees**

- (i) Each year for the term of the licence, the company will pay Medvet Science Pty Ltd an Annual IP Fee comprising 2% (two percent) of the previous year's net sales of the product (+GST). This fee is payable to Medvet Science Pty Ltd on 23 December each year.
- (ii) Each year for the term of the license, the company will pay Medvet Science Pty Ltd an Annual Research Fee comprising 3% (three percent) of the previous year's net sales of the product (+GST). This fee is payable to Medvet Science Pty Ltd on 23 December each year.

**VET BIOTECHNOLOGY LTD**  
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**Note 21: Related Party Transaction (cont'd)**

**(c) Patent Issuance Fee**

**(i) Patent Issuance Fee**

The company will pay \$75,000 to Medvet Science Pty Ltd for the Vap A Patent granted in the United States of America once a decision had been made as to whether to proceed with the Rattles project and the Gro-el technology needed to improve the efficacy of the treatment, has been awarded to Vet Biotechnology Ltd.

**(ii) Reimbursement of Patent Fees**

The company will reimburse Medvet Science Pty Ltd actual and reasonable out of pocket expenses incurred by Medvet Science Pty Ltd in connection with the preparation, filing, prosecution and maintenance of all patent applications and grant of patents relevant to the Patent Applications within thirty (30) days after receipt of an official receipt.

**(d) Royalties**

**(i) Royalties on Product Sold**

The company will pay the royalties to Medvet Science Pty Ltd comprising 5% (five percent) of net sales of the product. Medvet Science Pty Ltd may at its absolute, sole and unfettered discretion convert its Royalty to a lower percentage in return for shares of the company.

**License, Sub-license, Service, Manufacture and Supply Agreement**

On 27 April 2005, Medvet Science Pty Ltd entered into a License, Sub-license, Service, Manufacture and Supply Agreement with Vet Biotechnology Ltd for the provision of services being, growth of bone marrow derived mature equine stem cells to treat equine tendon and ligament injuries and other treatments as agreed and cryo-storage of equine umbilical cord or cord blood and its recovery and growth for use and future treatment of equine tendon and ligament injuries and other treatments as agreed.

**(a) Price**

**(i)** \$40,000 has been paid to Medvet Science for the completion of the validation study and provision of the validation report.

**(ii)** The cost of the provision of each growth of bone marrow derived mature equine stem cells to treat equine tendon and ligament injuries is currently \$1,500.

**VET BIOTECHNOLOGY LTD  
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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2007**

**Note 21: Related Party Transaction (cont'd)**

- (iii) The cost of the provision of each cryo-storage of equine umbilical cord or cord bloods and its recovery and growth of use and future treatment equine tendon and ligament injuries is currently \$1,500.
- (iv) For each three-year period of cryo-storage of cord blood or related product a fee of \$40 will be charged.
- (v) The cost for the provision of bone marrow collection consumables for veterinarians will be \$55.
- (vi) A sample-handling price of \$350 is payable to Medvet Science Pty Ltd for the provision of each service.

**VetCell Bioscience Ltd (UK Registered)**

John Cook is a shareholder of Vet Biotechnology Ltd as well as director of VetCell Bioscience Ltd.

On 26 May 2004, VetCell Bioscience Ltd entered into an exclusive heads of agreement with Vet Biotechnology Ltd to exploit the technology in Australia and New Zealand.

Under the heads of agreement VetCell Bioscience Ltd has agreed to grant an exclusive License of its mesenchymal stem cell technology and umbilical cord and blood derived stem cell collection and storage service to Vet Biotechnology Ltd.

On 10 November 2004, the license agreement was signed by Vet Biotechnology Ltd and VetCell Bioscience Ltd.

**License Fees**

Details of the license fees payable to VetCell Bioscience Ltd as set out in the License Agreement are summarized below:

The company has paid the license fee to VetCell Bioscience Ltd in milestone payments being:

- (i) A payment of \$36,354 on 26 May 2004 for the exclusive option to undertake due diligence by 31 October 2004;
- (ii) A payment of \$73,916 on 12 November 2004 upon signing the license agreement covering the license, manufacture and compliance for the technology;
- (iii) A payment of \$75,131 on 2 March 2005 upon signing the license agreement covering the license, manufacture and compliance for the technology.
- (iv) A royalty payment of \$200 per licensed product sold.

**VET BIOTECHNOLOGY LTD**  
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**NOTES TO FINANCIAL STATEMENTS**  
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On 10 August 2005, VetCell Bioscience Ltd entered into a license agreement with Vet Biotechnology Ltd for the worldwide Equine Umbilical Stem Cell Storage Technology (multinational customers only as defined by the agreement).

Royalty fees payable under this license are 5% of net sales.

**Note 22: Financial Instruments**

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>Financial Assets:</b>		
Cash and cash equivalents	287,450	308,254
Receivables	64,387	31,278
<b>Total Financial Assets:</b>	<u>351,837</u>	<u>339,532</u>
<b>Financial Liabilities:</b>		
Trade and other payables	166,725	98,974
Short Term Borrowings	444,134	621,467
<b>Total Financial Liabilities:</b>	<u>610,859</u>	<u>720,441</u>

**(a) Interest Rate Risk**

The company has no long term financial assets or liabilities upon which it pays or earns interest. Cash is held in an interest yielding cheque account where the interest rate can vary from day to day.

**(b) Credit Risk Exposure**

Credit risk represents the loss that would be recognized if counterparties failed to perform as contracted. The credit risk on financial assets, excluding investments, of the company which have been recognized in the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

**(c) Net Fair Values**

The net fair value of financial assets and liabilities approximates their carrying value.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 23: Share-Based Payment**

The following share-based payment arrangements existed at 30 June 2007:

At a general meeting of shareholders held on 29 March 2005 the shareholders approved the allotment to Paul Kerr of 500,000 ordinary shares and 500,000 options with an exercise price of 30 cents expiring 30 June 2011 for services rendered as a director.

	<b>2007</b>		<b>2006</b>	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	500,000	0.30	500,000	0.30
Granted	<u>2,875,000</u>	0.20	<u>-</u>	-
Outstanding at year end	<u>3,375,000</u>		<u>500,000</u>	
Exercisable at year end	<u>3,375,000</u>		<u>500,000</u>	

At a shareholders' meeting held on 23 March 2007, the shareholders approved the allotment to Mr. Michael Derin, Mr. Alan Beasley and Mr Paul Mansfield and the allotment of 750,000 options each with an exercise price of \$0.20 expiring 30 June 2013 for services rendered as directors.

At a shareholders' meeting held on 31 May 2007, the shareholders approved the allotment of 625,000 options, including 500,000 to Mr David Bridgland and 125,000 to other parties for services rendered, with an exercise price of \$0.20 expiring 30 June 2013.

The price of the options granted during the year was calculated using the Black-Scholes option pricing model applying the following inputs:

Exercise price	\$0.20
Life of the option	1,496 days (from 31 May 2007)
Underlying share price	\$0.105
Expected share price volatility	20.00%
Risk free interest rate	5.85%

**Note 24: Segment Reporting**

The company will operate in one business and several geographical segments, providing veterinary biotechnological research and products for the horse breeding industry.

**Note 25: Credit Standby Arrangements**

There are no credit standby facilities in place.

**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 26: Subsequent Events**

It was resolved during the Director's meeting on 27<sup>th</sup> July 2007 to convert the remaining Diana Evans loan into equity at 10.9 cents per share.

**Note 27: Contingent Liabilities**

Acquisition of Invention and Technology – Rhodococcus equi ELISA Diagnostic Assay:

	Nature	Details
(a) D P LeMessurier	Shares and options to be issued and Royalty payable as consideration for assignment of rights under an option agreement	Note 21

Acquisition of Invention Technology – Antigenic Peptide Fragments of Vap A Protein and uses thereof:

(a) Medvet Science Pty Ltd	Licence, patent, royalties and other fees payable	Note 21
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Acquisition of Technology – Mesenchymal stem cell technology and umbilical cord and blood derived stem cell collection and storage services:

(a) VetCell Biosciences Ltd (UK)	Royalties payable in accordance with the number of licensed products sold	Note 21
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Licence, Distribution and Supply Agreement for Equine Umbilical Stem Cell Storage Technology

(a) VetCell Biosciences Ltd	Royalties payable of 5% on net sales	Note 21
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Equine Gastric Ulcer Syndrome in Horses – Sub Licence

(a) Nidor Pty Ltd	Royalties each year of the higher amount of 4% of net sales in the 12 month period or \$5,000 and a pass through fee of 25% of fees and royalties collected from under-licensees in the relevant 12 month period.	
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**VET BIOTECHNOLOGY LTD**  
**ACN 105 577 017**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2007**

**Note 28: Company Details**

The registered office of the company is:

Level 12, 280 George Street,  
SYDNEY, NSW 2000

The principal place of business is:

Level 1, 157 Melbourne Street  
North Adelaide SA 5006

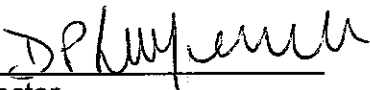
**VET BIOTECHNOLOGY LTD**  
**CAN 105 577 017**

**DIRECTOR'S DECLARATION**

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 14 to 44, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the company;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become payable, as in accordance with note 1(f) to the financial statements, it is the opinion of the directors that further contributions of seed capital will fund the operations of the company.
4. this declaration has been made after receiving the declarations required to be made by the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2007.

This declaration is made in accordance with a resolution of the Board of Directors.

  
\_\_\_\_\_  
Director  
Douglas Peter LeMessurier

Dated at this 11 day of September 2007



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
VET Biotechnology Limited**

**Report on the Financial Report**

We have audited the accompanying financial report of VET Biotechnology Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the company at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading 'Remuneration Report' in the directors' report and not in the financial report.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of VET Biotechnology Limited on [insert date], would be in the same terms if provided to the directors as at the date of this auditor's report.

*Auditor's Opinion*

In our opinion:

- a. the financial report of VET Biotechnology Limited is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the company's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. the financial report also complies with International financial Reporting Standards as disclosed in Note 1; and
- c. the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

CHARTERED ACCOUNTANTS

LEVEL 4, 5-9 HARBOURVIEW CRESCENT, MILSONS POINT NSW 2061, PO BOX 446, MILSONS POINT NSW 1565

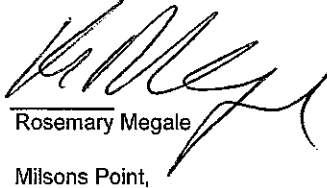
P: 9922 1166 • F: 9922 2044 • E: email@duncandovico.com.au • ABN: 19 173 326 199

Liability limited by a scheme approved under Professional Standards Legislation

*Inherent Uncertainty Regarding Going Concern*

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1 (m) to the financial statements, there exists a net deficiency of assets of \$16,376, and a net deficiency of current assets of \$259 022. The company has entered into various agreements as disclosed to raise capital via private placement subsequent to the year end. Should the capital raising not proceed to the extent forecast, then there may be doubt as to the ability of the entity to pay its debts as and when they are due, and realise assets at the values stated.

**Duncan Dovico Chartered Accountants**

  
Rosemary Megale  
Milsons Point,

Dated this                      11                      day of                      September                      2007

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is required by the Newcastle Stock Exchange in respect of listed public companies only.

### STATEMENT OF ISSUED SECURITIES

The total number of shareholders is 83 and there are 29,093,188 ordinary fully paid shares on issue.

The total number of VBL OPT (Class A) option holders is 56 and there are 9,892,760 options on issue.

The total number of VBL001 (Class B) option holders is 21 and there are 3,998,514 options on issue.

The total number of VBL002 (Class C) option holders is 3 and there are 2,250,000 options on issue.

### DISTRIBUTION OF SECURITIES

Equity Distribution	No. of Shareholders	No. of Class A Option-holders	No. of Class B Option-holders	No. of Class C Option-holders
1 - 1,000	-	-	-	-
1,001 - 5,000	1	-	-	-
5,001 - 10,000	1	12	-	-
10,001 - 100,000	32	23	11	-
100,001 and over	49	21	10	3
	<b>83</b>	<b>56</b>	<b>21</b>	<b>3</b>

There are no shareholders holding less than a marketable parcel.

### SUBSTANTIAL SHAREHOLDERS

The name of the substantial shareholder listed in the company's register as at 30 June 2007 are:

Name	Number of Shares Held	% Held of Issued Capital
LeMessurier, Douglas Peter	7,030,000	24.16

### VOTING RIGHTS

The voting rights attached to each class of security are as follows:

#### *Ordinary Shares*

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has

#### *Options Expiring 30 June 2011 with an Exercise Price of 30 cents*

- These options have no voting rights.

#### *Options Expiring 30 June 2011 with an Exercise Price of 20 cents*

- These options have no voting rights.

#### *Options Expiring 30 June 2013 with an Exercise Price of 20 cents*

- These options have no voting rights.

# **ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

## **TOP 20 SHAREHOLDERS (ORDINARY & ESCROW ORDINARY)**

Rank	Name	Number of Shares	% of Shares
1	Evans, Mrs Diana Mary O' Halloran	3,237,600	11.13
2	Palpet Pty Ltd	1,900,000	6.53
3	LeMessurier, Douglas Peter	1,805,000	6.20
4	First Avenue Investments Pty Ltd	1,710,000	5.88
5	Emu Cards Pty Ltd	1,140,000	3.92
6	Medvet Science Pty Ltd	1,140,000	3.92
7	Mills, Nicholas Greenaway	997,500	3.43
8	Pank, Raymond George	955,700	3.28
9	Brentwood Pty Ltd	950,000	3.27
10	Guthrie, Hugh Berkley & Guthrie, Lusla Halina	950,000	3.27
11	Kerr, Paul Lawrence	950,000	3.27
12	Kytron Pty Ltd	950,000	3.27
13	LeMessurier, Hugo Frederick	950,000	3.27
14	J.J. Holdings (NSN) Pty.Ltd <J.J. Discretionary Trust A/c>	712,500	2.45
15	Cook, John P M	669,612	2.30
16	LeMessurier, Jane Mary	665,000	2.29
17	Brohok Investment Co Pty Ltd	475,000	1.63
18	JFB Services Pty Limited <Farrow Super Fund Account>	475,000	1.63
19	Nesco Holdings Pty Ltd	475,000	1.63
20	Alcardo Investments Ltd <Styld 102501 A/c>	380,000	1.31
		<b>21,487,912</b>	<b>73.86</b>

## **TOP 20 OPTION HOLDERS (OPTIONS & ESCROW OPTIONS)**

Rank	Name	Number of Options	% of Options
1	Palpet Pty Ltd	1,000,000	10.11
2	LeMessurier, Douglas Peter	950,000	9.60
3	First Avenue Investments Pty Ltd	900,000	9.10
4	Medvet Science Pty Ltd	600,000	6.07
5	Brentwood Pty Ltd	500,000	5.05
6	Guthrie, Hugh Berkley & Guthrie, Lusla Halina	500,000	5.05
7	Kerr, Paul Lawrence	500,000	5.05
8	Kytron Pty Ltd	500,000	5.05
9	LeMessurier, Hugo Frederick	500,000	5.05
10	Mills, Nicholas Greenaway	447,000	4.52
11	Cook, John P M	352,427	3.56
12	LeMessurier, Jane Mary	350,000	3.54
13	Evans, Diana Mary O'Halloran	234,000	2.37
14	Alcardo Investments Ltd <Styld 102501 A/c>	200,000	2.02
15	Porter, Adrian John & Wallace, Neil Lachlan <Adrian Porter Family A/c>	200,000	2.02
16	Porter, Adrian John & Wallace, Neil Lachlan <Adrian Porter Family A/c>	200,000	2.02
17	Cook, Wendy	180,000	1.82
18	Martin Place Securities Staff Superannuation Fund Pty Ltd <MPSF Investment A/C>	180,000	1.82
19	H H Sutton Nominees Pty Ltd	170,000	1.72
20	Emu Cards Pty Ltd	130,000	1.31
		<b>8,593,427</b>	<b>86.87</b>

# **ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

## **TOP 20 VBL001 - OPTION @ 20cents expiring 30/6/2013**

Rank	Name	Number of Options	% of Options
1	Evans, Diana Mary O'Halloran	1,190,000	29.76
2	Bridgland, David Raymond	504,514	12.62
3	J.J. Holdings (NSN) Pty.Ltd <J.J. Discretionary Trust A/c>	375,000	9.38
4	Brohok Investment Co Pty Ltd	250,000	6.25
5	JFB Services Pty Limited <Farrow Super Fund Account>	250,000	6.25
6	Nesco Holdings Pty Ltd	250,000	6.25
7	Ascend Asset Management Limited	200,000	5.00
8	Just Excellence Investments Pty Ltd	150,000	3.75
9	Westglade Pty Ltd <The Cecil Hoffman Family A/C>	127,000	3.18
10	WHI Securities Pty Ltd <Crown Credit A/C>	127,000	3.18
11	Beasley, Marjorie Gertrude	100,000	2.50
12	BFSF Pty Ltd <Breedon Family Superannuation Fund A/C>	100,000	2.50
13	Jolly Brothers International Pty Ltd <Jolly Brothers International Pty Ltd S/F A/C>	75,000	1.88
14	Butler, Jacqueline	50,000	1.25
15	Emu Card Pty Ltd	50,000	1.25
16	Gask, Jeremy	50,000	1.25
17	S & L Investments P/L <S&L Investments Trust A/C>	50,000	1.25
18	Chisholm, Stephen	25,000	0.63
19	O'Halloran Giles, Helen	25,000	0.63
20	Marlock Pty Ltd	25,000	0.63
		<b>3,973,514</b>	<b>99.37</b>

**TOP 20 VBL002 - OPTION @ 20cents expiring 30/6/2011**

		<b>Number of Options</b>	<b>% of Options</b>
1	Capereef Pty Limited	750,000	33.33
2	Heirophant Pty Ltd	750,000	33.33
3	Mansfield, Paul	750,000	33.33
		<u>2,250,000</u>	<u>100.00</u>

**REGISTER OF SECURITIES**

The register of securities is located at:

Link Market Services Limited  
Level 12  
300 Queen Street  
BRISBANE SA 4000  
Phone: (02) 8280 7454 (Sydney Contact Centre)  
Fax: (07) 3228 4999  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)