

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')

30/6/2008

For announcement to the market

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

				\$A
Revenue (item 1.1)	up	81%	to	233,476
(Loss) for the period (item 1.9)	up	5%	to	(541,838)
(Loss) for the period attributable to members of the parent (item 1.11)	up	5%	to	(541,838)
Dividends				
Franking rate applicable:		Current period N/A	Previous corresponding period N/A	
Final dividend (preliminary final report only)(item 10.13-10.14)		N/A	N/A	
Amount per security				
Franked amount per security				
Interim dividend (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				

Ratios

	Current period	Previous corresponding period
(Loss) before tax / revenue	(232%)	(403%)
8.1 (loss) before tax (<i>item 1.5</i>) as a percentage of revenue (<i>item 1.1</i>)		
(Loss) after tax / equity interests		
8.2 (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>)	(181%)	(3166%)

NTA Backing*(see note 7)*

20.1	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	(1.71) cents	(0.88)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 2008

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:

☒ The financial statements have been audited.
 ☐ The financial statements have been subject to review by a registered auditor (or overseas equivalent).

☐ The financial statements are in the process of being audited or subject to review.

☐ The financial statements have *not* yet been audited or reviewed.

5. The *issuer* does not have a formally constituted audit committee.

Sign here: P. LeMessurier Date: 12/9/08
(Director)

Print name: Peter LeMessurier

VET BIOTECHNOLOGY LTD

ABN: 54 105 577 017

**Annual Financial Report For The Year Ended
30 June 2008**

VET BIOTECHNOLOGY LTD

30 June 2008

ABN: 54 105 577 017

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VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
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 consist of not less than three (3) nor more than ten (10) Directors, all being natural persons.
- one third of directors shall be elected by the members 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 is an appointed non executive director where feasible.

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

Douglas Peter LeMessurier
Michael Derin
Ian David Brown

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.

The responsibility for the operation and administration of the company is delegated by the board to management. 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 management.

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;
- procedures 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.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
CORPORATE GOVERNANCE STATEMENT

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;
- 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.

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;

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
DIRECTORS' REPORT

Your directors present their report on the company for the financial year ended 30 June 2008.

Directors

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

Douglas Peter LeMessurier (appointed 23/07/03)

Michael Derin (appointed 15/12/06)

Ian Brown (appointed 16/02/08)

Alan Preston Beasley (retired 16/02/08)

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 (appointed 15/12/2006)

Principal Activities

The principal activities of the entity during the financial year were those of a veterinary biotechnology marketer. The company currently sells two products to the market known as Stembank, for the extraction of stemcells from umbilical cords of foals and Regenicell, for the extraction of stemcells from the bone marrow of horses.

There were no other significant changes in the nature of the entity's principal activities during the financial year.

Operating Results

The loss of the entity after providing for income tax amounted to \$-541,838.

Dividends Paid or Recommended

There were no dividends paid or recommended to be paid.

Review of Operations

Sales revenues have increased by \$102,851 from \$113,483 as at 30 June 2007 to \$216,334 as at 30 June 2008. There has been a 71% increase in Regenicell Income during the year ended 30 June 2008 and the service continues to receive positive publicity within the racing community and beyond.

Vet Biotechnology Ltd has increased its Stembank revenue from \$918 as at 30 June 2007 to \$24,385 as at 30 June 2008. This provides a good platform of sales from which to grow and expand further in the coming year and beyond. The launch of Vet Biotechnology Ltd's Umbilical Cord Collection technology (trade-name *Stembank*) was severely compromised by Equine Influenza in 2007, however, the number of studs with staff trained in *Stembank* grew substantially as did awareness of the product. The *Stembank* technology will be re-launched in 2008/9 with a comprehensive marketing campaign.

Stem Cell Therapies in the mature horse have now been trade-named *Regenicell* to differentiate the product in the marketplace. On Saturday May 17, prizemoney earnings for *Regenicell* horses returning from rehabilitation topped \$1 million thereby achieving a significant milestone for the product. Vet Biotechnology Ltd will continue to promote the *Regenicell* product as the leader in the tendon and ligament repair field. Research into development of Vet Biotechnology Ltd's stem cell products was boosted in 2007/8 with Vet Biotechnology Ltd partnering with Melbourne-based firm Cytromatrix in the development of a closed tissue culture device for Mesenchymal Stem Cells. Vet Biotechnology Ltd will continue to seek other opportunities in this field of orthopaedic science.

Financial Performance

The increase in sales during the year ended 30 June 2008 have shown that Vet Biotechnology Ltd's products have been accepted in the market and are contributing to positive outcomes for the horses treated and their owners.

The net liabilities of the entity have increased by \$283,068 from -\$16,376 at 30 June 2007 to -\$299,444 at 30 June 2008. The loss of the company for the year end 30 June 2008 after tax was \$541,838 compared to a loss of \$518,407 for the financial year ended 30 June 2007.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
DIRECTORS' REPORT

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the entity occurred during the financial year:

- the company launched its umbilical cord collection service, trade-named Stembank.
- the company has trade-named its Stem Cell Therapies service in the mature horses to Regenicell
- the company issued 451,118 ordinary shares to Ms Diana Mary O'Halloran Evans at \$0.105 per share on 6th November 2007 in consideration of the outstanding loan owing to her of \$47,367.
- the company issued 1,320,495 ordinary shares at \$0.10 to Medvet Science Pty Ltd on 30th June 2008 in consideration of \$132,050 owing in relation to outstanding Patent fees and services.

After Balance Date Events

On 28 August 2008, Peter LeMessurier signed a letter on behalf of First Avenue Investment Pty Ltd, an entity owned by Peter LeMessurier to guarantee \$365,000 of the loan outstanding to Raymond Pank. This leaves a shortfall of \$84,169 which remains unguaranteed.

Future Developments, Prospects and Business Strategies

To further improve the entity's profit and maximise shareholder wealth, the following developments are intended to be implemented in the near future:

The Board is pleased that the Rattles project is now poised to advance to the next phase which will include research into delivery systems and also field trials and safety studies. Subject to funding, the Rattles project is scheduled to commence that next phase in the 2008/9 calendar year.

A new team that includes Professors Gordon Duncan and Ross Butler is being convened to take the Equine Gastric Ulcer (EGUS) Breath Test to the next level. A proposal is expected from these scientists in the short term. Vet Biotechnology Ltd will continue to explore the development of this key diagnostic product.

Other opportunities in the unmet veterinary field both in Australia and internationally are being considered by the Board and will be communicated to shareholders and stakeholders in due course.

Environmental Issues

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

Information on Directors

Douglas Peter LeMessurier	— Director
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 Biotechnology Ltd in the name of First Avenue Investments Pty Ltd.
	— 530,000 ordinary shares of Vet Biotechnology Ltd and options to acquire a further 500,000 ordinary shares of Vet Biotechnology Ltd in the name of Kytron 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.
	— Director of Ascend Group Ltd and LabTech Systems Ltd
Directorships	

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
DIRECTORS' REPORT

Michael Derin	—	Company Secretary
Qualifications	—	Chartered Accountant
Experience	—	Various company directorships
Interest in Shares and Options	—	750,000 options in Vet Biotechnology Ltd in the name of Heirophant Pty Ltd
Directorships held in other listed entities	—	N/A
Ian Brown	—	Director
Qualifications	—	MBA FAICD FAIM
Experience	—	Biotechnology Sector
Interest in Shares and Options	—	N/A
Directorships held in other listed entities	—	N/A

REMUNERATION REPORT

This report details the nature and amount of remuneration for each key management person of Vet Biotechnology Ltd, and for the executives receiving the highest remuneration.

Remuneration policy

The remuneration policy of Vet Biotechnology Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the entity's financial results. The board of Vet Biotechnology Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for key management personnel of the entity is as follows:

- 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 remuneration committee reviews key management personnel packages annually by reference to the entity's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the entity'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. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel are also entitled to participate in the employee share and option arrangements.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to key management personnel is valued at the cost to the company and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by the key management personnel. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. 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 entity. However, to align directors interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
DIRECTORS' REPORT

Key Management Personnel Remuneration Policy

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

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Any options not exercised before or on the date of termination lapse.

The contract of service of the general manager, David Bridgland is formalised in a terms of engagement between Thoroughbred Business Strategies Pty Ltd and Vet Biotechnology Ltd. Either Vet Biotechnology Ltd or Thoroughbred Business Strategies Pty Ltd are able to terminate the agreement with a minimum of 6 weeks notice. Other than the general manager, all other contracts of service are formalised by way of a contract on a continuing basis.

As at 30/6/2008, there are no employment contracts with Vet Biotechnology Ltd.

Remuneration policy continued

The board determines the proportion of fixed and variable compensation for each key management personnel. Refer below.

Key Management Personnel Remuneration

	Short-term benefits			Share-based Payment	Total
	Cash, salary & commissions \$000	Non-cash benefit \$000	Other \$000	Options \$000	\$000
2008					
Key Management Person					
Douglas Peter LeMessurier	-	-	-	-	-
Michael Derin	-	-	-	-	-
Ian Brown	-	-	-	-	-
Alan Preston Beasley	-	-	-	-	-
David Bridgland	137,070	-	-	-	137,070
	<u>137,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,070</u>

	Short-term benefits			Share-based Payment	Total
	Cash, salary & commissions \$000	Non-cash benefit \$000	Other \$000	Options \$000	\$000
2007					
Key Management Person					
Douglas Peter LeMessurier	-	-	-	-	-
Michael Derin	-	-	-	9,750	9,750
Alan Preston Beasley	-	-	-	9,750	9,750
David Bridgland	66,571	5,991	75,368	2,500	150,430
	<u>66,571</u>	<u>5,991</u>	<u>75,368</u>	<u>22,000</u>	<u>169,930</u>

Options Granted As Remuneration

During the year to 30 June 2008 there were no options issued to directors and executives as part of their remuneration.

No Options were exercised during the year that were granted as compensation in prior periods.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
DIRECTORS' REPORT

Meetings of Directors

During the financial year, 11 meetings of directors were held. Attendances by each director during the year were as follows:

Directors' Meetings	
Number eligible to attend	Number attended
Douglas Peter LeMessurier	11
Michael Derin	8
Ian Brown	11
Alan Preston Beasley	4
	7
	5

Options

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

VBLO Options exercisable at \$0.30 expiring 30/6/2011, eligible for 9:10 bonus

Grant Date	Date of expiry	Exercise price	Number under option
10/09/2003	30/06/2011	\$ 0.30	54,000
15/09/2003	30/06/2011	\$ 0.30	5,346,000
12/11/2003	30/06/2011	\$ 0.30	1,173,333
18/12/2003	30/06/2011	\$ 0.30	100,000
11/03/2004	30/06/2011	\$ 0.30	282,333
31/03/2004	30/06/2011	\$ 0.30	68,334
21/06/2004	30/06/2011	\$ 0.30	68,000
24/06/2004	30/06/2011	\$ 0.30	154,000
30/06/2004	30/06/2011	\$ 0.30	172,427
11/08/2004	30/06/2011	\$ 0.30	760,000
17/12/2004	30/06/2011	\$ 0.30	1,214,333
29/03/2005	30/06/2011	\$ 0.30	500,000
31/05/2007	30/06/2013	\$ 0.20	200,000
17/01/2008	Conversion of options to		(200,000)
			<u>9,892,760</u>

VBLOB Options exercisable at \$0.20 expiring 30/6/2011, eligible for 9:10 bonus

23/03/2007	30/06/2011	\$ 0.20	2,250,000
			<u>2,250,000</u>

VBLOC Options exercisable at \$0.20 expiring 30/6/2013, eligible for 9:10 bonus

8/05/2007	30/06/2013	\$ 0.20	3,173,514
			<u>3,173,514</u>

VBLOD Options exercisable at \$0.20 expiring 30/6/2013, not eligible for 9:10 bonus

31/05/2007	30/06/2013	\$ 0.20	200,000
6/11/2007	30/06/2013	\$ 0.20	451,118
5/08/2008	30/06/2013	\$ 0.20	30,000
			<u>681,118</u>

VBLOE Options exercisable at \$0.20 expiring 30/6/2011, not eligible for 9:10 bonus

31/05/2007	30/06/2011	\$ 0.20	625,000
			<u>625,000</u>

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
DIRECTORS' REPORT

Proceedings on Behalf of Company

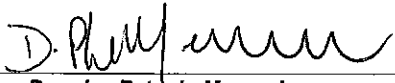
No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

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

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 9 of the directors' report.

Director



Douglas Peter LeMessurier

Dated this

12th

day of

September

2008



AUDITORS' INDEPENDENCE DECLARATION

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Duncan Dovico
DUNCAN DOVICO
Chartered Accountants

R. Megale
ROSEMARY MEGALE
Partner

Sydney, 12 September 2008

CHARTERED ACCOUNTANTS

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Liability limited by a scheme approved under Professional Standards Legislation

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008	2007
		\$	\$
Revenue	2,19	233,476	128,780
Cost of Sales	2b,19	(153,436)	(141,417)
Gross Profit		80,040	(12,637)
Employee benefits expense	3 (a)	(5,214)	(130,223)
General and administration expenses		(169,294)	(99,653)
Target statement expenses		-	(2,798)
Depreciation and amortisation expense		(16,042)	(17,848)
Bad debt expense	9	(1,350)	-
Other expenses	3b	(376,223)	(178,559)
Finance costs	3c	(53,755)	(76,689)
Loss before income tax		(541,838)	(518,407)
Income tax expense	4	-	-
Loss from continuing operations		(541,838)	(518,407)
Loss for the year		(541,838)	(518,407)
Loss attributable to members of the entity		(541,838)	(518,407)
Overall Operations			
Basic earnings per share (cents per share)	7	(1.83)	(3.47)
Diluted earnings per share (cents per share)	7	(1.83)	(3.47)

The accompanying notes form part of these financial statements.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
BALANCE SHEET AS AT 30 JUNE 2008

	Note	2008 \$	2007 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	21,050	287,450
Trade and other receivables	9	51,759	42,736
Other current assets	12	9,606	21,651
TOTAL CURRENT ASSETS		<u>82,415</u>	<u>351,837</u>
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,855	3,952
Intangible assets	11	234,886	238,694
TOTAL NON-CURRENT ASSETS		<u>236,741</u>	<u>242,646</u>
TOTAL ASSETS		<u>319,156</u>	<u>594,483</u>
CURRENT LIABILITIES			
Trade and other payables	13	169,431	165,085
Financial liabilities	14	449,169	444,134
Short-term provisions	16	-	1,640
TOTAL CURRENT LIABILITIES		<u>618,600</u>	<u>610,859</u>
TOTAL LIABILITIES		<u>618,600</u>	<u>610,859</u>
NET LIABILITIES		<u>(299,444)</u>	<u>(16,376)</u>
EQUITY			
Issued capital	17	2,019,911	1,762,494
Reserves	18	134,728	133,375
Retained earnings		(2,454,083)	(1,912,245)
TOTAL EQUITY		<u>(299,444)</u>	<u>(16,376)</u>

The accompanying notes form part of these financial statements.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	Issued Capital \$	Retained Losses \$	Option Reserve \$	Total \$
Balance at 1 July 2006	1,151,106	(1,393,838)	100,000	(142,732)
Loss attributable to members of entity	-	(518,407)	-	(518,407)
Shares issued during the year	655,703	-	-	655,703
Capital Raising Cost	(44,315)	-	-	(44,315)
Options granted as remunerations	-	-	33,375	33,375
Balance at 30 June 2007	1,762,494	(1,912,245)	133,375	(16,376)
Shares issued during the year	197,417	-	-	197,417
Options converted to shares during the year	60,000	-	1,353	61,353
Loss attributable to members of entity	-	(541,838)	-	(541,838)
Balance at 30 June 2008	2,019,911	(2,454,083)	134,728	(299,444)

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$	2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		224,631	112,151
Payments to suppliers and employees		(550,040)	(517,639)
Interest received		3,309	7,560
Net cash provided by (used in) operating activities	20a	<u>(322,100)</u>	<u>(397,928)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	(2,132)
Purchase of intangibles		<u>(22,300)</u>	<u>(1,574)</u>
Net cash provided by (used in) investing activities		<u>(22,300)</u>	<u>(3,706)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		78,000	345,903
Capital raising costs		-	(73)
Proceeds from borrowings		<u>-</u>	<u>35,000</u>
Net cash provided by (used in) financing activities		<u>78,000</u>	<u>380,830</u>
Net decrease in cash held		(266,400)	(20,804)
Cash at beginning of financial year		<u>287,450</u>	<u>308,254</u>
Cash at end of financial year	8	<u><u>21,050</u></u>	<u><u>287,450</u></u>

The accompanying notes form part of these financial statements.

Note 1 Statement of Significant Accounting Policies

This financial report includes the financial statements and notes of Vet Biotechnology Ltd.

Basis of Preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(b) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

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.

Depreciation

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

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

Asset	Depreciation Rate
Plant and equipment	5-40%

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

(c) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Classification and Subsequent Measurement

(ii) Loans and receivables

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

(v) Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

(d) Impairment of Assets

At each reporting date, the entity 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 asset, 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 value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for intangible assets with indefinite lives.

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

(e) Intangibles
License Fees

License fees and options fees are valued in the accounts at costs of acquisition and are amortised over the period in which their benefits are expected to be realised.

Option Fees and Medvet License Fee

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

VetCell License Fee

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

Research Expenditure

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

(f) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

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

Equity-Settled Compensation

The entity operates equity-settled share-based payment employee share and option schemes. The company currently has a Director and Executive Option Plan in place to provide these benefits. The fair value of the equity to which those entitled become entitled is measured at the fair value of the equity instruments at the date at which they are granted. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

(h) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from the rendering of services is recognised upon delivery of the service to the customer. Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

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

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

(i) Borrowing Costs

Borrowing costs are recognised in income in the period in which they are incurred.

(j) Goods and Services Tax (GST)

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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

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

(k) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(l) Comparative Figures

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

(m) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and 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 entity.

Key Estimates — Impairment

The entity assesses impairment at each reporting date by evaluating conditions specific to the entity 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.

(o) Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuation of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

Vet Biotechnology Ltd have incurred net losses after tax for the year ended 30 June 2008 of \$541,838 and experienced net cash outflows from operating activities of \$317,296. As at 30 June 2008, Vet Biotechnology Ltd had net current liabilities of \$536,185. Accordingly, there remains uncertainty about Vet Biotechnology's ability to continue as a going concern.

Raymond Pank has requested that the outstanding loan be repaid in full prior to 30 September 2008, nine months earlier than the agreed payment terms. Vet Biotechnology Ltd has received a guarantee from First Avenue Investments Pty Ltd, an entity owned and controlled by Peter LeMessurier, Chairman of Vet Biotechnology Ltd, to the value of \$365,000 with respect to this Raymond Pank Loan. The shortfall of \$84,169 remains unguaranteed, and for which the company is currently not in a position to meet.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Going Concern continued

The ability of Vet Biotechnolgy Ltd to continue as a going concern is dependent on the following:

- (i) Vet Biotechnology Ltd's ability to secure additional funds through the issue of shares without which the company will not be able to support itself
- (ii) The Directors ability to generate operating cash flows through the continued growth in sales of its existing services through existing and new channels in the equine community
- (iii) Raymond Pank not pursuing the call made on loan funds prior to the agreed payment terms of 30 June 2009, being a total amount, including interest, of \$449,169 as at reporting date
- (iv) Vet Biotechnology's ability to reduce operational costs in order to manage cash flow and working capital requirements

The Directors are of the opinion that Raymond Pank will not call upon his loan earlier than 30 June 2009 and have confidence that they will be able to raise additional funds in order to ensure that the company has adequate resources to continue in operational existence for the foreseeable future. Furthermore, cost cutting measure are being put in place to reduce operational expenditure. The Directors look forward to a steady increase in Regenicell sales in the coming year and a substantial increase in the uptake of Stembank treatments which have started to gain traction, once again, following the outbreak of equine flu influenza in November 2007. The Directors will continue to strive to search out further opportunities to create shareholder wealth and will communicate these in due course. For this reason they continue to adopt the going concern basis in preparation of the accounts.

Note 2 Revenue

	Note	2008 \$	2007 \$
(a) Sales Revenue			
— Regenicell Services		191,949	112,565
— Stembank Services		24,385	918
Total Sales Revenue		<u>216,334</u>	<u>113,483</u>
Other Revenue			
— Interest received	2(c)	3,309	7,560
— Government subsidies received		5,000	-
— Disbursement income		8,408	6,002
— Other		425	1,735
Total Other Revenue		<u>17,142</u>	<u>15,297</u>
Total Sales Revenue and Other Revenue		<u>233,476</u>	<u>128,780</u>
A Government grant of \$5,000 was awarded to Vet Biotechnology Ltd by the South Australian Government to assist with the fall out from the equine flu influenza during the year. There were no conditions attached to the grant and hence the full amount has been recognised as income.			
(b) Cost of Sales			
— Regenicell Services		107,897	125,328
— Stembank Services		19,475	-
— Disbursement Costs		19,918	14,068
— Other		6,146	2,021
Total Cost of Sales		<u>153,436</u>	<u>141,417</u>
(c) Interest revenue from:			
— other corporations		3,309	7,560
Total interest revenue		<u>3,309</u>	<u>7,560</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 3 Profit for the Year

	2008 \$	2007 \$
(a) Expenses		
Employee & Key Management compensation:		
— Salary and Wages	4,420	88,511
— Share options issued as compensation	-	32,375
— Other Employee Expenses	794	9,337
	<u>5,214</u>	<u>130,223</u>
(b) Other Expenses		
— Consulting Fees	172,986	62,060
— Travel and accommodation	14,005	26,373
— Insurance	26,026	22,565
— Share registry costs	13,622	24,145
— Auditor's remuneration	15,000	10,475
— Legal Fees	9,990	8,900
— Rent	7,435	6,539
— Training course expenses	1,253	2,406
— Marketing and advertising	20,059	15,096
— Research & Development	95,847	-
Total Other Expenses	<u>376,223</u>	<u>178,559</u>
(c) Finance costs		
— Interest on Outstanding Loans to third parties	53,755	76,689
Total Finance Costs	<u>53,755</u>	<u>76,689</u>

Note 4 Income Tax Expense

	2008 \$	2007 \$
(a) The components of tax expense		
Current tax	-	-
	<u>-</u>	<u>-</u>

Note 5 Key Management Personnel Compensation

(a) Names and positions held of the entity's key management personnel in office at any time during the financial year are:

Key Management Person	Position
Directors	
Douglas Peter LeMessurier (appointed 23/07/03)	Chairman
Michael Derin (appointed 15/12/06)	Director
Ian Brown (appointed 16/02/08)	Director
Alan Preston Beasley (retired 16/02/08)	Director
Specified Executives:	
David Raymond Bridgland (appointed 19 June 2006)	General Manager

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

(b) Options and Rights Holdings

Number of Options Held by Key Management Personnel

2008	Balance 1/07/2007	Granted as Compensation	Options Exercised*	Net Change Other*	Balance 30/06/2008	Total Vested 30/06/2008	Total Exercisable 30/06/2008	Total Unexercisable 30/06/2008
Douglas Peter LeMessurier	3,700,000	-	-	-	3,700,000	3,700,000	3,700,000	-
David Raymond Bridgland	504,514	-	-	-	504,514	504,514	504,514	-
Alan Preston Beasley	750,000	-	-	-	750,000	750,000	750,000	-
Michael Derin	750,000	-	-	-	750,000	750,000	750,000	-
Ian David Brown	-	-	-	-	-	-	-	-
Total	5,704,514	-	-	-	5,704,514	5,704,514	5,704,514	-

Number of Options Held by Key Management Personnel continued

2007	Balance 1/07/2006	Granted as Compensation	Options Exercised*	Net Change Other*	Balance 30/06/2007	Total Vested 30/06/2007	Total Exercisable 30/06/2007	Total Unexercisable 30/06/2007
Douglas Peter LeMessurier	3,700,000	-	-	-	3,700,000	3,700,000	3,700,000	-
David Raymond Bridgland	-	500,000	-	4,514	504,514	504,514	504,514	-
Alan Preston Beasley	-	750,000	-	-	750,000	750,000	750,000	-
Michael Derin	-	750,000	-	-	750,000	750,000	750,000	-
Total	3,700,000	2,000,000	-	4,514	5,704,514	5,704,514	5,704,514	-

*The Net Change Other column above includes those options that have been forfeited by holders as well as options issued during the year under review.

(c) Shareholdings

Number of Shares held by Key Management Personnel

2008	Balance 1/07/2007	Received as Compensation	Bonus Issue	Net Change Other*	Balance 30/06/2008
Key Management Personnel					
Douglas Peter LeMessurier	7,030,000	-	-	(420,000)	6,610,000
David Raymond Bridgland	8,577	-	-	-	8,577
Michael Derin	-	-	-	-	-
Alan Preston Beasley	-	-	-	-	-
Ian David Brown	-	-	-	-	-
Total	7,038,577	-	-	(420,000)	6,618,577

2007	Balance 1/07/2006	Received as Compensation	Bonus Issue	Net Change Other*	Balance 30/06/2007
Key Management Personnel					
Douglas Peter LeMessurier	3,700,000	-	3,330,000	-	7,030,000
David Raymond Bridgland	-	-	4,063	4,514	8,577
Michael Derin	-	-	-	-	-
Alan Preston Beasley	-	-	-	-	-
Total	3,700,000	-	3,334,063	4,514	7,038,577

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.

* Net Change Other refers to shares purchased or sold during the financial year.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 6 Auditors' Remuneration

	2008	2007
Remuneration of the auditor of the entity for:	\$	\$
— auditing or reviewing the financial report	15,000	10,475
	<u>15,000</u>	<u>10,475</u>

Note 7 Earnings per Share

	2008	2007
(a) Reconciliation of earnings to profit or loss	\$	\$
Net Loss	(541,838)	(518,407)
Earnings used to calculate basic EPS	(541,838)	(518,407)
Earnings used in the calculation of dilutive EPS	(541,838)	(518,407)
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	29,683,960	14,949,289
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	<u>29,683,960</u>	<u>14,949,289</u>
Potential ordinary shares arising from options issued:		
Balance at beginning of the year	16,141,274	10,040,668
Movement of weighted average number of options due to:		
— Exercise of options	(200,000)	
— Options issued on shares issued	481,118	6,100,606
Weighted average number of potential ordinary shares	<u>16,422,392</u>	<u>16,141,274</u>

Note 8 Cash and Cash Equivalents

	Note	2008	2007
Cash at bank and in hand		\$	\$
Short-term bank deposits	8 (a)	21,050	287,450
		<u>21,050</u>	<u>287,450</u>
(a) Reconciliation of cash			
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet			
Cash and cash equivalents		21,050	287,450
		<u>21,050</u>	<u>287,450</u>

Note 9 Trade and Other Receivables

	Note	2008	2007
CURRENT		\$	\$
Trade receivables		32,882	27,346
Prepaid GST		20,227	15,390
Provision for impairment of receivables	9(a)	(1,350)	-
		<u>51,759</u>	<u>42,736</u>

(a) Provision For Impairment of Receivables

Current trade receivables are non-interest bearing and generally on 30 day terms. A provision for impairment is recognised when there is an objective evidence that an individual trade receivable is impaired. These amounts have been included in bad debt expenses in the P&L statement.

Movement in the provision for impairment of receivables is as follows:

	Opening Balance 01/07/2006	Charge for the Year	Amounts Written Off	Closing Balance 30/06/2007
	\$	\$	\$	\$
Current trade receivables	-	1,350	-	1,350
	<u>-</u>	<u>1,350</u>	<u>-</u>	<u>1,350</u>

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 10 Property, Plant and Equipment

	2008 \$	2007 \$
Plant and equipment:		
Plant and equipment:		
At cost	13,447	13,695
Accumulated depreciation	(11,592)	(9,743)
Total Plant and Equipment	<u>1,855</u>	<u>3,952</u>

(a) Movements in Carrying Amounts

Movements in carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Leasehold improvements \$000	Plant and Equipment \$000	Total \$000
Balance at 1 July 2006	248	11,315	11,563
Additions	-	2,132	2,132
Depreciation expense	(248)	(9,495)	(9,743)
Balance at 30 June 2007	-	3,952	3,952
Depreciation expense	-	(2,097)	(2,097)
Balance at 30 June 2008	-	1,855	1,855

Note 11 Intangible Assets

	Option Fee \$	Medvet License Fee \$	VetCell License Fee \$	Medvet Vap A International Patent \$	Stembank Trademark & Logos \$	Total \$
Year ended 30 June 2007						
Balance at the beginning of year	20,840	35,644	175,618	-	-	232,102
Additions	-	-	-	18,611	1,574	20,185
Amortisation charge	(1,667)	(2,857)	(9,069)	-	-	(13,593)
Closing value at 30 June 2007	<u>19,173</u>	<u>32,787</u>	<u>166,549</u>	<u>18,611</u>	<u>1,574</u>	<u>238,694</u>
Year ended 30 June 2008						
Balance at the beginning of year	19,173	32,787	166,549	18,611	1,574	238,694
Additions	-	24,768	-	-	3,980	28,748
Amortisation charge	(1,667)	(2,857)	(9,069)	-	(352)	(13,945)
Impairment losses	-	-	-	(18,611)	-	(18,611)
Closing value at 30 June 2008	<u>17,506</u>	<u>54,698</u>	<u>157,480</u>	<u>-</u>	<u>5,202</u>	<u>234,886</u>

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the income statement.

Impairment Disclosures

Previously capitalised costs in relation to Medvet Vap A International Patents of \$18,611 have been written off during the year as the probability of any future economic benefit from this amount has become uncertain at this stage. Once the company obtains further funding for the Rattles project, to which this relates, and it becomes probable that an economic benefit will arise then consideration will be given to capitalising any further costs in relation to this project.

Note 12 Other Assets

	2008 \$	2007 \$
CURRENT		
Prepayments	9,606	16,651
Other Assets	-	5,000
	<u>9,606</u>	<u>21,651</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 13 Trade and Other Payables

	2008	2007
	\$	\$
CURRENT		
Trade payables	74,150	126,385
Sundry payables and accrued expenses	95,281	38,700
	<u>169,431</u>	<u>165,085</u>

Note 14 Financial Liabilities

	2008	2007
	\$	\$
CURRENT		
Unsecured liabilities	449,169	444,134
	<u>449,169</u>	<u>444,134</u>

On 1 July 2007 interest outstanding on previous loans extended by Diana Evans amounted to \$45,520. Further interest of \$1,848 accrued till 6th November 2008 when the total interest outstanding of \$47,368 was converted to shares at a rate of \$0.105 per share resulting in 451,118 shares being issued in full settlement of all amounts owing to Diana Evans.

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 loan 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 30 June 2007, Raymond Pank signed a letter agreeing to extend the loan for a further 24 months on the same terms and conditions. Since that date, Raymond Pank has requested the loan to be paid off by 30 September 2008 and not earlier and the company will attempt to assist in this regard. First Avenue Investment Pty Ltd, an entity owned and controlled by Peter LeMessurier, Chairman of Vet Biotechnology Ltd, has provided a financial guarantee for \$365,000 in relation to amounts payable to Raymond Pank of \$449,169 as at 30 June 2008. This leaves a shortfall of \$84,169 which remains unguaranteed.

Note 15 Tax

	2008	2007
	\$	\$
(a) The prima facie tax on losses from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on losses from ordinary activities before income tax at 30%	(162,551)	(155,522)
Tax losses not taken to account	(162,551)	(155,522)
Add:		
Tax effect of:		
Permanent differences		
— other non-allowable items	38,649	-
— other deductions	(18,711)	-
— share options expensed during year	-	9,713
Temporary Differences		
Tax losses to be carried forward and not taken to account	142,613	145,809
Income Tax Expenses	<u>-</u>	<u>-</u>

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

(b) Deferred tax asset

Deferred tax assets no brought to account, the benefits of which will only be realised if the conditions for deductability set out in note 1 (a) occur:

Temporary differences:

— loss on capital raising costs	53,814	67,267
— Accruals	3,300	-
— Provisions	405	-
Tax loss		
— Operating losses	581,258	438,645
	<u>638,777</u>	<u>505,912</u>

Deferred tax asset continued

(c) Reconciliations

(i) Gross Movements

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

	2008	2007
	\$	\$
Opening balance	505,912	348,013
Credit to income statement	145,913	145,809
(Charge)/credit to equity	(13,453)	13,294
Provisions	405	(1,204)
Closing balance	<u>638,777</u>	<u>505,912</u>

(ii) Deferred Tax Assets

The movement in deferred tax assets for each temporary difference during the year:

Employee benefits

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

Capital Raising Costs

Opening balance	67,267	53,973
(Charge)/credit to equity	(13,453)	13,294
Closing balance	<u>53,814</u>	<u>67,267</u>

Accruals

Opening balance	-	-
Credit to income statement	3,300	-
Closing balance	<u>3,300</u>	<u>-</u>

Provision - Doubtful Debts

Opening balance	-	-
Credit to income statement	405	-
Closing balance	<u>405</u>	<u>-</u>

(d) Deferred tax liability

Deferred tax assets no brought to account, the benefits of which will only be realised if the

— Write-down of Intangibles	26,525	-
— Business Costs Capitalised	423	-
	<u>26,948</u>	<u>-</u>

Reconciliations

(i) Gross Movements

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

Opening balance	-	-
Credit to income statement	26,948	-
Closing balance	<u>26,948</u>	<u>-</u>

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

(ii) Deferred Tax Liabilities

The movement in deferred tax assets for each temporary difference during the year:

Intangibles

Opening balance	-	-
Credit to income statement	26,525	-
Closing balance	<u>26,525</u>	<u>-</u>

Business Costs

Opening balance	-	-
Credit to income statement	423	-
Closing balance	<u>423</u>	<u>-</u>

Note 16 Provisions

	2008	2007
	\$	\$
CURRENT		
Employee Entitlements		
Opening balance at beginning of year	1,640	-
Additional provisions raised during year	-	1,640
Amounts used	(486)	-
Other movement	(1,154)	-
Balance at end of the year	<u>-</u>	<u>1,640</u>

Note 17 Issued Capital

	2008	2007
	\$	\$
31,324,801(2007: 29,093,188) fully paid ordinary shares	2,244,134	1,986,717
Less: Costs associated with capital raising	<u>(224,223)</u>	<u>(224,223)</u>
	<u>2,019,911</u>	<u>1,762,494</u>

(a) Ordinary Shares

	2008	2007
	\$	\$
At the beginning of reporting period	1,762,494	1,151,106
Shares issued during year		
— 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
— Diana Evans interest on loan conversion (451,118 shares @ \$0.105 each)	47,367	-
— Shares issued to David Bridgland (4,514 shares @\$0.20 each)	-	903
— Shares issued to Ascend Asset Management (200,000 shares @\$0.105 each)	-	21,000
— Other shares issued (1,725,000 shares @ \$0.20 each)	-	345,000
— Other shares issued (30,000 shares @ \$0.10 each)	3,000	-
— Shares issued to Medvet Science Pty Ltd (1,320,495 shares @ \$0.10 each)	132,050	-
— Options converted to shares (200,000 options converted to shares at 9 for 10, being 380,000 shares issued)	60,000	-
— Shares issued as part of the Share Purchase Plan (150,000 @ \$0.10 each)	15,000	-
— Bonus shares issued on 8 May 2007 (9 for 10 bonus) for nil consideration	-	-
— Capital raising costs	-	(44,315)
At reporting date	<u>2,019,911</u>	<u>1,762,494</u>

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Issued Capital continued

On 9 May 2007, 13,686,244 bonus shares were issued to shareholders for nil consideration on the basis of 9 shares for every 10 shares held.

On 11 June 2008 Shareholders were invited to participate in a share purchase plan (SPP). The SPP was available to shareholders who were registered shareholders at 7pm on 11 June 2008 with a registered address in Australia or New Zealand. The SPP enabled shareholders to subscribe for a parcel of ordinary shares with a value of either \$2,500 or \$5,000 by 4 July 2008. The shares issued under the SPP were at \$0.10 per share. The SPP has subsequently been extended to 31 July 2008. The SPP raised \$18,000.

Medvet Science Payment Arrangement

On 30 June 2008 Vet Biotechnology Ltd had outstanding amounts payable to Medvet Science Pty Ltd of \$220,083 in relation to patent fees and other services. On 30 June 2008 Vet Biotechnology entered into an agreement with MedVet Science Pty Ltd resulting in Vet Biotechnology Ltd issuing Medvet Science Pty Ltd, 60% of amounts owing in equity and 40% in cash installments. As a result of this arrangement, 1,320,495 ordinary shares at \$0.10 per share were issued on 30 June 2008 to Medvet Science Pty Ltd in settlement of the equity portion. The remaining \$88,033 payable in cash is to be paid in the following installments; \$8,033 payable by 30 June 2008, \$20,000 payable by 31 July 2008, \$25,000 payable by 31 August 2008 and \$35,000 payable by 30 September 2008. As at the signing of this report, Vet Biotechnology Ltd has met and paid Medvet Science Pty Ltd the June 2008, July 2008 and August 2008 cash installments.

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

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

Note 18 Reserves

	2008	2007
Option Reserve	\$	\$
At the beginning of reporting period	133,375	100,000
Option Issued	1,353	33,375
At reporting date	<u>134,728</u>	<u>133,375</u>
	2008	2007
	No.	No.
(i) The following options were on issue:		
— VBLO Options (Exercisable at \$0.30, expiring 30/6/2011, eligible on conversion for the 9 May 2007 9 for 10 bonus)	9,692,760	9,892,760
— VBLOB Options (Exercisable at \$0.20, expiring 30/6/2013, eligible on conversion for the 9 May 2007 9 for 10 bonus)	2,250,000	2,250,000
— VBLOC Options (Exercisable at \$0.20, expiring 30/6/2011, eligible on conversion for the 9 May 2007 9 for 10 bonus)	3,173,514	3,373,514
— VBLOD Options (Exercisable at \$0.20, expiring 30/6/2013, not eligible for bonus issues)	681,118	-
— VBLOE Options (Exercisable at \$0.20, expiring 30/6/2011, not eligible for bonus issues)	625,000	625,000
	<u>16,422,392</u>	<u>16,141,274</u>

During the year, 200,000 VBLO options were converted to shares and given that VBLO option holders are eligible for the 9 for 10 bonus issue from 9th May 2007, the 200,000 options converted were converted into 380,000 ordinary shares.

For information relating to share options issued to key management personnel, refer to Note 21, Share Based Payments.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 19 Segment Reporting

		Regenicell		Stembank		Total	
		2008	2007	2008	2007	2008	2007
		\$	\$	\$	\$	\$	\$
Primary Reporting — Business Segments							
	Note						
REVENUE							
External Sales		191,949	122,565	24,385	918	216,334	113,483
Unallocated revenue		-	-	-	-	17,142	15,297
Total sales revenue	2 (a)	<u>191,949</u>	<u>122,565</u>	<u>24,385</u>	<u>918</u>	<u>233,476</u>	<u>128,780</u>
COST OF SALES							
Cost of Sales		107,897	125,328	19,475	-	127,372	125,328
Unallocated Cost of Sales		-	-	-	-	26,064	16,089
Total Cost of Sales	2 (b)	<u>107,897</u>	<u>125,328</u>	<u>19,475</u>	<u>-</u>	<u>153,436</u>	<u>141,417</u>

Secondary Reporting — Geographical Segments

	Segment Revenues from External Customers	
	2008	2007
	\$	\$
Geographical location:		
Australia	226,706	128,780
New Zealand	<u>6,770</u>	<u>-</u>
	<u>233,476</u>	<u>128,780</u>

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Assets and liabilities of Vet Biotechnology Ltd are not allocated separately to different segments at this stage.

Business and Geographical Segments

Business segments

The entity has the following business segments:

- Regenicell Services for the extraction of stem cells from the bone marrow of horses which are later expanded and injected into injured ligaments and tendons.
- Stembank Services for the collection of stem cells from the umbilical cord at foal birth which are later expanded and injected into injured ligaments and tendons.

Geographical segments

The entity's business segments are located in Australia, with the manufacturing and distribution of services taking place from Australia. During the year overseas sales to New Zealand were established which marks an exciting juncture in the entity's history.

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Note 20 Cash Flow Information

	2008 \$	2007 \$
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit after income tax	(541,838)	(518,407)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Amortisation	13,945	14,119
Depreciation	2,097	3,729
Interest on loan	53,755	76,689
Impairment of intangibles	16,920	-
Bad debt expense	1,350	-
Other non cash items in P&L	84,095	-
Changes in assets and liabilities		
Increase in trade and other receivables	(9,541)	(11,459)
Decrease in prepayments	7,043	-
Increase in trade and other payables	50,074	37,401
Cash flow from operations	<u>(322,100)</u>	<u>(397,928)</u>

Note 21 Share-based Payments

The following share-based payment arrangements existed at 30 June 2008:

	2008	Weighed Average Exercise Price \$	2007	Weighed Average Exercise Price \$
	Number of Options		Number of Options	
Outstanding at the beginning of the year	500,000	0.30	500,000	0.30
Outstanding at the beginning of the year	2,875,000	0.20	-	-
Granted	-	-	2,875,000	0.20
Outstanding at year end	<u>3,375,000</u>		<u>3,375,000</u>	
Exercisable at year end	<u>3,375,000</u>		<u>3,375,000</u>	

All options granted to key management personnel are ordinary shares in Vet Biotechnology Ltd which confer a right of one ordinary share for every option held.

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.

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, 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 options to Mr. David Bridgland and 125,000 options to other parties for services rendered, with an exercise price of \$0.20 expiring 30 June 2013.

The weighted average fair value of the options granted during 2007 was \$0.005.

This price was calculated by using a Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	\$0.20
Weighted average life of the option	1496 days (from 31 May 2007)
Underlying share price	\$0.105
Expected share price volatility	20.0%
Risk free interest rate	5.85%

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement is nil for 2008 (2007: \$32,375), and relates, in full, to equity-settled share-based payment transactions.

Note 22 Events After the Balance Sheet Date

On 28 August 2008, Peter LeMessurier signed a letter on behalf of First Avenue Investment Pty Ltd, an entity owned by Peter LeMessurier to guarantee \$365,000 of the loan outstanding to Raymond Pank. This leaves a shortfall of \$84,169 which remains unguaranteed.

Note 23 Related Party Transactions

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

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 LeMessurier 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 right 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.

Director's Related Entity Transactions with the Company

Alice LeMessurier, daughter of D P LeMessurier, provides consultancy services to Vet Biotechnology Ltd at a rate of \$2,750 (inc GST) per month in her capacity as Commercial Manager. These services were charged to Vet Biotechnology Ltd via Le Messurier Securities Pty Ltd for the period from July 2007 to February 2008 and from Ascend Corporate Pty Ltd from March 2008 onwards.

Total income paid or payable, or otherwise made available to all directors of the company or any related party, is \$137,070 (2007: \$29,250), including payments to a prescribed superannuation fund.

Transactions with the Company

Medvet Science Pty Ltd

Medvet Science Pty Ltd is a shareholder in Vet Biotechnology Ltd, holding 2,460,495 ordinary shares and 600,000 VBLO 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 summarised 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 license, 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.

(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. A payment arrangement has been reached with Medvet Science Pty Ltd whereby this will be invoiced and paid over the July - September 2008 Quarter.

- (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. 1,320,495 ordinary shares were issued to Medvet Science Pty Ltd in relation to outstanding patent fees in the year to 30 June 2008.

(d) Royalties

- (i) Royalties of 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 Ltd may at its absolute, sole and unfettered discretion convert its Royalty to a lower percentage in return for shares of the company.

Related Party Transactions continued

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.
- (iii) The cost of the provision of each cryo-storage of equine umbilical cord or cord bloods is currently \$575 and the cost of its recovery and growth of use and future treatment equine tendon and ligament injuries is currently \$1200.
- (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.

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 24 Financial Risk Management

(a) Financial Risk Management Policies

The entity's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

(ii) Financial Risk Exposures and Management

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

Interest rate risk

The principal loan outstanding to Raymond Pank of \$350,000 attracts an interest rate of 12% per annum. In order to mitigate risk, the principal attracts a fixed interest rate of 12% rather than a variable interest rate. The company has no other 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.

Liquidity risk

The entity manages liquidity risk by monitoring forecast cash flows and determining additional sources of cash from either additional private placements or share purchase plans with existing shareholders. Given the tight capital market conditions felt throughout Australia and beyond, there is a risk that the company will find it difficult to raise capital from the investment community in order to generate the necessary future cash flows required for working capital management. Given this, the company's focus since year end has been on reducing operating costs in order to minimise the additional cash required through these means.

Credit risk

The maximum exposure to credit risk at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. It arises from exposures to customers as well as current account cash deposits with financial institutions. In respect of cash deposits these are held with a 'AA' rated entity.

There are no other material amounts of collateral held as security at 30 June 2008.

The entity does not have any material credit risk exposure.

(ii) Financial Instrument Composition and Maturity Analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such the amounts may not reconcile to the balance sheet.

	Floating Interest Rate		Non-interest Bearing		Total	
	\$		\$		\$	
	2008	2007	2008	2007	2008	2007
Financial Assets:						
Cash and cash equivalents	21,050	287,450	-	-	21,050	287,450
Receivables	20,227	15,390	31,532	27,346	51,759	42,736
Total Financial Assets	41,277	302,840	31,532	27,346	72,809	330,186

			Fixed Interest Rate			
			Maturing			
	Non-interest Bearing		Within 1 Year		Total	
	\$		\$		\$	
	2008	2007	2008	2007	2008	2007
Financial Liabilities:						
Trade and sundry payables	169,431	166,725	-	-	169,431	166,725
Short term borrowings	-	-	449,169	444,134	449,169	444,134
Total Financial Liabilities	169,431	166,725	449,169	444,134	618,600	610,859

VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Trade and sundry payables are expected to be paid as follows:

	2008	2007
	\$	\$
Less than 6 months	169,431	166,725
	<u>169,431</u>	<u>166,725</u>

(iii) Net Fair Values

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

Note 25 Company Details

The registered office of the company is:

Vet Biotechnology Ltd
 Level 12
 280 George Street
 Sydney, NSW, 2000

The principal place of business is:

Vet Biotechnology Ltd
 Level 1, 157 Melbourne Street
 North Adelaide
 SA 5006

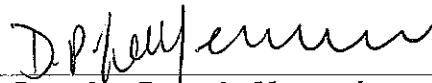
VET BIOTECHNOLOGY LTD ABN: 54 105 577 017
DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 10 to 33, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company;
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 due and payable.

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

Director


Douglas Peter LeMessurier

Dated this 12th day of September 2008

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
VET BIOTECHNOLOGY LIMITED**

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, and statement of changes in equity, statement of cash flows, accompanying notes to the financial statements and the directors' declaration for VET Biotechnology Limited for the year ended 30 June 2008.

The Company has disclosed the information required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 Related Party disclosures (remuneration disclosures), under the heading "Details of Remuneration to Executive and Non Executive Directors" in the Directors' Report, as permitted by Corporations Regulation 2M.6.04.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the financial report.

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 Related Party disclosures. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations, changes in equity and cash flows, and whether the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

We formed our opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide an assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgment of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Company.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
VET BIOTECHNOLOGY LIMITED (CONT'D)

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit Opinion

In our opinion:

1. the financial report of VET Biotechnology Limited is in accordance with:
 - (a) the Corporations Act, including;
 - (i) giving a true and fair value of the Company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporation Regulations 2001; and
 - (b) other mandatory professional reporting requirement
2. the remuneration disclosures that are constrained in the Directors' Report comply with Accounting Standard AASB 124 Related Party Disclosures.

Inherent Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1 (o) to the financial statements, there exists a net deficiency of assets of \$299,444, and a net deficiency of current assets of \$536,185. 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
Partner

Sydney, 12 September 2008

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 84 and there are 31,324,801 ordinary fully paid shares on issue.

The total number of VBLO option holders is 50 and there are 9,692,760 options on issue.

The total number of VBLOB option holders is 3 and there are 2,250,000 options on issue.

The total number of VBLOC option holders is 17 and there are 3,173,514 options on issue.

The total number of VBLOD option holders is 3 and there are 681,118 options on issue.

The total number of VBLOE option holders is 4 and there are 625,000 options on issue.

DISTRIBUTION OF SECURITIES

Equity Distribution	No. of Shareholders	No. of VBLO Option Holders	No. of VBLOB Option Holders	No. of VBLOC Option Holders	No. of VBLOD Option Holders	No. of VBLOE Option Holders
1 - 1,000	-	-	-	-	-	-
1,001 - 5,000	-	-	-	1	-	-
5,001 - 10,000	1	11	-	-	-	-
10,001 - 100,000	31	18	-	8	1	3
100,001 and over	52	21	3	8	2	1
	84	50	3	17	3	4

There are no shareholders holding less than a marketable parcel.

SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders listed in the company's register as at 30 June 2008 are:

Name	Number of Shares Held	% Held of Issued Capital	Number of Shares Held	% Held of Issued Capital
MRS DIANA MARY O'HALLORAN EVANS			4,241,718	13.54
MEDVET SCIENCE PTY LTD			2,460,495	7.85
MR DOUGLAS PETER LEMESSURIER (Director) in the name of:				
FIRST AVENUE INVESTMENTS PTY LTD	1,710,000	5.46		
PALPET PTY LTD	1,900,000	6.07		
KYTRON PTY LTD	530,000	1.69		
MR DOUGLAS PETER LEMESSURIER	<u>1,805,000</u>	<u>5.76</u>		
	5,945,000	18.98	5,945,000	18.98

VOTING RIGHTS

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

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

VBLO

These options have no voting rights.

These options are eligible for the 9:10 bonus

VBLOB

These options have no voting rights.

These options are eligible for the 9:10 bonus

VBLOC

These options have no voting rights.

These options are eligible for the 9:10 bonus

VBLOD

These options have no voting rights.

These options are not eligible for the 9:10 bonus

VBLOE

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

These options have no voting rights.

These options are not eligible for the 9:10 bonus

TOP 20 SHAREHOLDERS (ORDINARY & ESCROW ORDINARY)

Name	Number of Shares	% of Shares
Evans, Mrs Diana Mary O' Halloran	3,790,600	12.10
Medvet Science Pty Ltd	2,460,495	7.85
Palpet Pty Ltd	1,900,000	6.07
LeMessurier, Douglas Peter	1,805,000	5.76
First Avenue Investments Pty Ltd	1,710,000	5.46
Emu Cards Pty Ltd	1,140,000	3.64
Mills, Nicholas Greenaway	997,500	3.18
Pank, Raymond George	955,700	3.05
Brentwood Pty Ltd	950,000	3.03
Guthrie, Hugh Berkley & Guthrie, Lusia Halina	950,000	3.03
Kerr, Paul Lawrence	950,000	3.03
LeMessurier, Hugo Frederick	950,000	3.03
J.J. Holdings (NSN) Pty Ltd <J.J. Discretionary Trust A/c>	712,500	2.27
Cook, John P M	669,612	2.14
LeMessurier, Jane Mary	665,000	2.12
Kytron Pty Ltd	530,000	1.69
Brohok Investment Co Pty Ltd	475,000	1.52
JFB Services Pty Limited <Farrow Super Fund Account>	475,000	1.52
Nesco Holdings Pty Ltd	475,000	1.52
Diana Mary O'Halloran Evans	451,118	1.44
	23,012,525	73.45

TOP 20 VBLO OPTION HOLDERS (OPTIONS & ESCROW OPTIONS)

Name	Number of Options	% of Options
Palpet Pty Ltd	1,000,000	10.32
LeMessurier, Douglas Peter	950,000	9.80
First Avenue Investments Pty Ltd	900,000	9.29
Medvet Science Pty Ltd	600,000	6.19
Brentwood Pty Ltd	500,000	5.16
Guthrie, Hugh Berkley & Guthrie, Lusia Halina	500,000	5.16
Kerr, Paul Lawrence	500,000	5.16
Kytron Pty Ltd	500,000	5.16
LeMessurier, Hugo Frederick	500,000	5.16
Mills, Nicholas Greenaway	447,000	4.61
Cook, John P M	352,427	3.64
LeMessurier, Jane Mary	350,000	3.61
Evans, Diana Mary O'Halloran	244,000	2.52
Alcardo Investments Ltd <Styled 102501 A/c>	200,000	2.06
Porter, Adrian John & Wallace, Neil Lachlan <Adrian Porter Family A/C>	200,000	2.06
Porter, Adrian John & Wallace, Neil Lachlan <Adrian Porter Family A/C>	200,000	2.06
Cook, Wendy	180,000	1.86
Martin Place Securities Staff Superannuation Fund Pty Ltd <MPSF Investment A/C>	180,000	1.86
H H Sutton Nominees Pty Ltd	170,000	1.75
Emu Cards Pty Ltd	130,000	1.34
	8,603,427	88.77

TOP 20 VBLOB - OPTION @ 20 cents expiring 30/6/2011, eligible for 9:10 bonus

Name	Number of Options	% of Options
Capereef Pty Limited	750,000	33.33
Heiropant Pty Ltd	750,000	33.33
Mansfield, Paul	750,000	33.33
	2,250,000	100.00

TOP 20 VBLOC - OPTION @ 20cents expiring 30/6/2013, eligible for 9:10 bonus

Name	Number of Options	% of Options
Evans, Diana Mary O'Halloran	1,190,000	37.50
J.J. Holdings (NSN) Pty Ltd <J.J. Discretionary Trust A/C>	375,000	11.82
Brohok Investment Co Pty Ltd	250,000	7.88
JFB Services Pty Limited <Farrow Super Fund Account>	250,000	7.88
Nesco Holdings Pty Ltd	250,000	7.88
Just Excellence Investments Pty Ltd	150,000	4.73
Westglade Pty Ltd <The Cecil Hoffman Family A/C>	127,000	4.00
WHI Securities Pty Ltd <Crown Credit A/C>	127,000	4.00
Beasley, Marjorie Gertrude	100,000	3.15
BFSF Pty Ltd <Breedon Family Superannuation Fund A/C>	100,000	3.15
Jolly Brothers International Pty Ltd <Jolly Brothers International Pty Ltd S/F A/C>	75,000	2.36
Emu Card Pty Ltd	50,000	1.58
S & L Investments P/L <S&L Investments Trust A/C>	50,000	1.58
Chisholm, Stephen	25,000	0.79
O'Halloran Giles, Helen	25,000	0.78
Marlock Pty Ltd	25,000	0.78

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

David Raymond Bridgland	4,514	0.14
	3,173,514	100.00

TOP 20 VBLOD - OPTION @ 20 cents expiring 30/6/2013, not eligible for 9:10 bonus

	Number of Options	% of Options
Diana Mary O'Halloran Evans	451,118	66.23
Ascend Asset Management Limited	200,000	29.36
Vantom Investments Pty Ltd <APAC P/L Super Fund A/C>	30,000	4.40
	681,118	100.00

TOP 20 VBLOE - OPTION @ 20 cents expiring 30/6/2011, not eligible for 9:10 bonus

	Number of Options	% of Options
David Raymond Bridgland	500,000	80.00
Jacqueline Butler	50,000	8.00
Jeremy Gask	50,000	8.00
Alistair McFarlane	25,000	4.00
	625,000	100.00

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