

The Companies Announcements Office,
 The Australian Stock Exchange Limited,
 SYDNEY
 Via: asxonline
 31st August 2004

APPENDIX 4E

Dear Sirs,

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

1. The reporting period is the twelve months to 30 June 2004, The previous reporting period is the twelve months to 30 June 2003.
2. Key information relating to the above reporting period is as follows:-

	30 June 2004	30 June 2003	%age change
2.1 Revenues from ordinary activities	\$1,900,165	\$1,754,010	Up 8.3%
2.2 Loss from ordinary activities after tax attributable to members	\$4,337,044	\$5,103,987	Down 15.0%
2.3 Net loss attributable to members	\$4,337,044	\$5,103,987	Down 15.0%
2.4 Proposed dividends	No dividend is proposed		N/A
2.5 Not applicable			
2.6 Refer attached report			

3 to 15 See attached financial statements.

16. The accounts have not yet been audited.

COMMENTARY ON RESULTS FOR THE PERIOD

REVENUE

Whilst revenue is up 8.3% to \$1,900,165, of which \$1,090,995 is for the sale of product, the reporting period captures only the first few weeks of sales (ref: www.protract.com.au) of proTract®.

The rollout of proTract® to Australian pharmacies is on track. It will take approximately 6-9 months for sales to become consistent such that we can accurately forecast product demand.

Sales to date have exceeded our expectations.

EXPENDITURE

Operational expenditure is down 15% for the period.

We expect a greater reduction in expenditure for the current period as:

1. Development of the vaccine projects has ceased. This will result in the closure of VRI's office and laboratories at the University of Newcastle by November 2004. These projects are being packaged for sale/licensing to commercial partners.
2. Development of the diagnostic projects is complete. Negotiations to licence these to a US-based company are progressing.
3. R&D activity at the University of New South Wales has been significantly reduced.
4. Management changes and closure of the Perth office represented a one-off cost of approximately \$400,000 for the period.

These changes reflect VRI's new focus on the commercialisation of its unique probiotic technology.

BUSINESS STRATEGY

VRI contends that scientifically validated therapeutics derived from probiotics will increasingly and successfully compete with traditional pharmaceuticals in major global drug markets - without the costly and lengthy registration process.

VRI has proprietary ownership of *Lactobacillus fermentum* (PCC™) - a unique and potent strain of lactic acid bacteria.

Results from clinical trials have enabled VRI to make patent applications for the therapeutic use of PCC™ in a range of major disease conditions.

The apparent ability to secure patent protection for the use of PCC™ is evidence that VRI is a world-leader in the emerging science of probiotics.

VRI can exploit its technology in three markets:

1. Therapeutic Probiotics
2. Functional Food
3. Biopharmaceuticals

THERAPEUTIC PROBITOICS

Our primary objective is to ensure the successful sales of proTract® in Australia. This is well underway.

The secondary objective is to achieve sales of proTract® (or its equivalent) in Asia, the US and the EU. This requires product registration in each region and distribution or licensing agreements with qualified partners.

Product sales under the Progastrim™ label recently commenced in Singapore pharmacies. Registration is underway in mainland China, Korea, and Taiwan.

FUNCTIONAL FOODS

VRI is planning to license its technology for functional foods to the producers of global brands as a probiotic "device" for marketing enhancement – similar to the "Intel-inside" concept.

BIOPHARMACEUTICALS

VRI's clinical trials have demonstrated the efficacy of PCC™ in immune modulation. It is therefore likely that the organism contains one or more bioactive molecules with immune-modulating functions.

VRI is planning to collaborate with a leading international research institute to commence the identification of these molecules.

This exercise may result in VRI identifying, characterising and patenting a novel molecule with anti-inflammatory characteristics which could be licensed to a major pharmaceutical company for development, registration and marketing.

MANAGEMENT CHANGES

The following management changes reflect VRI's change of focus:

- Ms Cathie Hilton has been appointed Director - Consumer Health. Cathie is responsible for production, distribution, and marketing of VRI's Therapeutic probiotics.
- Dr Peter French will move to the position of Executive Director responsible for scientific and product development.

Yours sincerely,

Kim Slatyer
Chairman

VRI BIOMEDICAL LIMITED
A.B.N. 97 084 464 193

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	NOTES	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
REVENUES FROM ORDINARY ACTIVITIES	2	1,900,165	1,754,010	1,900,165	2,482,223
Raw materials and consumables used		(871,860)	(1,056,857)	(871,860)	-
Depreciation and amortisation expenses		(36,825)	(55,626)	(36,825)	(55,626)
Insurances		(208,230)	(153,615)	(208,230)	(153,615)
Product design and marketing costs		(828,696)	-	(828,696)	-
Salaries and employee benefits expense		(874,083)	(811,857)	(874,083)	(811,857)
Redundancy costs – closure of Perth office		(318,016)	-	(318,016)	-
Research and development expenditure		(1,636,657)	(2,877,367)	(1,636,657)	(1,973,562)
Travel expenses		(187,824)	(513,424)	(187,824)	-
Rental expenses		(156,160)	(257,023)	(156,160)	-
Consultancy fees		(64,998)	(423,188)	(64,998)	-
Shareholder requisition costs		-	(184,637)	-	(184,637)
Increase in provision for non recovery of loans to controlled entities		-	-	-	(4,560,528)
Other expenses from ordinary activities	3	(1,053,861)	(524,403)	(1,053,861)	(524,403)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(4,337,044)	(5,103,987)	(4,337,044)	(5,103,987)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	-	-	-	-
NET LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	14	(4,337,044)	(5,103,987)	(4,337,044)	(5,103,987)
Share issue costs		(475,651)	(185,822)	(475,651)	(185,822)
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF VRI BIOMEDICAL LIMITED AND RECOGNISED DIRECTLY IN EQUITY		(475,651)	(185,822)	(475,651)	(185,822)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF VRI BIOMEDICAL LIMITED		(4,812,695)	(5,289,809)	(4,812,695)	(5,289,809)
Basic earnings/(loss) per share (cents per share)		(5.71)	(8.53)	(5.71)	(8.53)
Diluted earnings/(loss) per share (cents per share)		(5.71)	(8.53)	(5.71)	(8.53)

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2004

	NOTES	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2004	2003	2004	2003
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		268,629	1,349,664	268,629	1,349,664
Receivables	5	1,423,030	332,828	1,423,030	332,828
Inventories	6	439,936	72,488	439,936	72,488
Other	7	88,121	59,141	88,121	59,141
TOTAL CURRENT ASSETS		2,219,716	1,814,121	2,219,716	1,814,121
NON-CURRENT ASSETS					
Receivables	8	-	-	-	-
Other Financial Assets	9	-	-	-	410
Property, Plant and Equipment	10	159,033	166,358	159,033	166,358
TOTAL NON-CURRENT ASSETS		159,033	166,358	159,033	166,768
TOTAL ASSETS		2,378,749	1,980,479	2,378,749	1,980,889
CURRENT LIABILITIES					
Payables	11	1,111,854	886,869	1,111,854	887,279
Provisions	12	80,200	125,827	80,200	125,827
TOTAL CURRENT LIABILITIES		1,192,054	1,012,696	1,192,054	1,013,106
NON-CURRENT LIABILITIES					
Provisions	13	11,422	-	11,422	-
TOTAL LIABILITIES		1,203,476	1,012,696	1,203,476	1,013,106
NET ASSETS		1,175,273	967,783	1,175,273	967,783
EQUITY					
Contributed Equity	14	19,955,725	15,411,191	19,955,725	15,411,191
Accumulated Losses	15	(18,780,452)	(14,443,408)	(18,780,452)	(14,443,408)
TOTAL EQUITY		1,175,273	967,783	1,175,273	967,783

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
30 JUNE 2004

	NOTES	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2004	2003	2004	2003
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers		727,444	1,103,029	727,444	2,743,695
Government grants		721,552	231,922	721,552	231,922
Payments to Suppliers and Employees		(4,798,395)	(3,780,475)	(4,798,395)	(1,439,605)
Interest Received		87,618	118,433	87,618	-
Research and Development Costs		(1,636,657)	(2,670,987)	(1,636,657)	(1,973,562)
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	16	<u>(4,898,438)</u>	<u>(4,998,078)</u>	<u>(4,898,438)</u>	<u>(437,550)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds form sale of property, plant & equipment		4,669	-	4,669	-
Proceeds from short term deposits		120,300	-	120,300	-
Purchase of short term deposits		(805,147)	-	(805,147)	-
Acquisition of Property, Plant & Equipment		(46,953)	(41,335)	(46,953)	(41,335)
Advances to Controlled Entities		-	-	-	(4,560,528)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		<u>(727,131)</u>	<u>(41,335)</u>	<u>(727,131)</u>	<u>(4,601,863)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Issue of Ordinary Shares		5,020,185	2,000,000	5,020,185	2,000,000
Payment of Share Issue Costs		(475,651)	(185,822)	(475,651)	(185,822)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		<u>4,544,534</u>	<u>1,814,178</u>	<u>4,544,534</u>	<u>1,814,178</u>
NET INCREASE/(DECREASE) IN CASH HELD		<u>(1,081,035)</u>	<u>(3,225,235)</u>	<u>(1,081,035)</u>	<u>(3,225,235)</u>
Add Opening Cash brought forward		1,349,664	4,574,899	1,349,664	4,574,899
CLOSING CASH CARRIED FORWARD	16	<u>268,629</u>	<u>1,349,664</u>	<u>268,629</u>	<u>1,349,664</u>

VRI BIOMEDICAL LIMITED
A.B.N. 97 084 464 193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. There accounting policies have been applied consistently by each entity in the Consolidated Entity and are consistent with those of the previous year. The financial report has been prepared on an accrual basis of accounting including the historical cost convention and the going concern assumption.

In common with start-up technology companies the company's operations are subject to considerable risks due primarily to the nature of research, development and commercialisation to be undertaken. The company may require additional funding to successfully execute its existing and future plans. The financial statements take no account of the consequences, if any, of the effects of either unsuccessful product development or commercialisation or, of the inability of the company to obtain adequate additional funding if required. Unless otherwise stated these accounts have been prepared in Australian dollars

(b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising VRI BioMedical Limited (the parent company) and all entities which VRI BioMedical Limited controlled from time to time during the year and at the balance date.

Information from the financial statements of controlled entities is included from the date the parent company obtains control until such time control ceases. Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(d) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

All resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

(e) Cash and cash equivalents

Cash on hand and in banks and short term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within three months, net of outstanding bank overdrafts.

Interest is taken up as income on an accrual basis.

(f) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

(g) Investments

Investments in controlled entities are carried at cost.

(h) Inventories

Manufacturing and maintenance

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

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A.B.N. 97 084 464 193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

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

- Raw materials – purchase cost on a first-in-first-out basis; and
- Finished goods and work-in progress – cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

(i) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value using a market determined risk adjusted discount rate.

(j) Plant and equipment

Cost, valuation and depreciation

Items of plant and equipment are recorded in the financial report at cost. Depreciation is calculated on a diminishing value basis over the useful life as follows:-

Plant and equipment ranging from 2 to 20 years	(2003: 2-20 years)
Office equipment ranging from 2 to 14 years	(2003: 2-14 years)

(k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

(l) Research and development.

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs.

(m) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, where charged by the lender, is recognised as an expense on an accrual basis.

(n) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events. It is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(o) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on ordinary shares issued at balance date are recognised directly in equity as a reduction of the share proceeds received.

(p) Revenue recognition

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

Sale of goods

Control of the goods has passed to the buyer.

Interest

Control of a right to receive the interest payment.

VRI BIOMEDICAL LIMITED
A.B.N. 97 084 464 193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

START and BIF Grant Income

This is recognised as revenue upon receipt of the START and BIF Grant progress claims.

(q) Taxes

Income taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)

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

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

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(r) Employee benefits

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts expected to be paid when the liability is settled. All other employee entitlement liabilities are measured at the present value of the estimate future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Employee entitlements expenses and revenues arising in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- Other types of employee entitlements

are charged against profits on a net basis in their respective categories.

The value of the employee share option plan described in Note 13 is not charged as an employee benefits expense.

(s) Earnings per share

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

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

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

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

(t) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

VRI BIOMEDICAL LIMITED
A.B.N. 97 084 464 193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
2. REVENUE FROM ORDINARY ACTIVITIES				
Included in the operating loss is the following:				
Revenues from operating activities				
Service fees from controlled entities	-	-	-	1,988,829
Revenue from sale of goods	1,090,995	1,408,449	1,090,995	-
	<u>1,090,995</u>	<u>1,408,449</u>	<u>1,090,995</u>	<u>1,988,829</u>
Revenue from non-operating activities				
Interest received				
- Other persons/corporations	87,618	113,639	87,618	-
START Grant	412,407	191,922	412,407	453,394
BIF Grant	309,145	40,000	309,145	40,000
	<u>809,170</u>	<u>345,561</u>	<u>809,170</u>	<u>493,394</u>
Total revenues from ordinary activities	1,900,165	1,754,010	1,900,165	2,482,223
3. EXPENSES AND LOSSES				
(a) Expenses				
Other expenses include				
- Audit fees and auditor's other expenses	143,810	81,943	143,810	81,943
- Computer costs	53,622	33,208	53,622	33,208
- Conferences and seminars	37,885	3,199	37,885	3,199
- Directors' fees	198,555	131,870	198,555	131,870
- Legal expenses	56,227	90,479	56,227	90,479
- Payroll tax	62,027	28,146	62,027	28,146
- Royalties	78,230	-	78,230	-
- Printing and stationery	32,464	44,549	32,464	44,549
- Telephone and other communication costs	60,218	101,541	60,218	101,541
- All other operating expenses	330,823	9,468	330,823	9,468
(b) Losses (gains)				
Net foreign currency losses	21,575	43,523	21,575	-
4. INCOME TAX EXPENSE				
The prima facie tax expense (benefit) on the operating profit/(loss) from ordinary activities is reconciled to the income tax provided in the financial statements as follows:	-	-	-	-
Prima facie tax expense/(benefit) on operating loss from ordinary activities at 30% (2003: 30%)	(1,301,113)	(1,531,196)	(1,301,113)	(1,531,196)

VRI BIOMEDICAL LIMITED
A.B.N. 97 084 464 193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
Tax Effect of Permanent Differences				
Entertainment	277	-	277	-
Provision for Non Recovery of Loans	-	-	-	1,368,158
Other costs	-	82,535	-	55,391
Future Income Tax Benefit not brought to account	1,300,836	1,448,661	1,300,836	107,647
Income tax expense/(benefit) attributable to loss from ordinary activities	-	-	-	-

As at 30 June 2004 the consolidated entity has not brought to account a future tax benefit (at 30%) of \$5,522,452 (2003: \$4,221,616) as realisation of the benefit is not virtually certain.

The future income tax benefit will only be obtained if:

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

It is not at the date of this report, the intention of VRI BioMedical and its wholly owned subsidiaries to form a tax consolidation group. However, if a tax consolidation group was formed it would not be expected that it would materially impact the Company's results.

5. RECEIVABLES (CURRENT)

Current

Trade Debtors	438,399	74,848	438,399	74,848
GST – Input Tax Credits	81,113	92,680	81,113	92,680
Short-term deposits	805,147	120,300	805,147	120,300
Service contractor	80,751	-	80,751	-
Other receivables	17,620	45,000	17,620	45,000
	1,423,030	332,828	1,423,030	332,828
Australian dollar equivalent of amounts receivable in foreign currencies not effectively hedged.				
United States Dollars	312,755	193,799	312,755	193,799

Terms and conditions relating to the above financial instruments.

- (i) Trade debtors are non-interest bearing and generally on 30 day terms.
- (ii) Other receivables and GST-Input Tax Credits are non-interest bearing and have repayment terms between 30 and 90 days.
- (iii) Short-term deposits are held at National Australia Bank and Bank of Western Australia Limited.

6. INVENTORIES (CURRENT)

Raw materials and stores

At cost	328,702	28,321	328,702	28,321
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Finished goods

At cost	111,234	44,167	111,234	44,167
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Total value of inventory at the lower of cost or net realisable value	439,936	72,488	439,936	72,488
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7. OTHER CURRENT ASSETS

Prepayments	88,121	59,141	88,121	59,141
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VRI BIOMEDICAL LIMITED
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

		CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2004	2003	2004	2003
		\$	\$	\$	\$
8. RECEIVABLES (NON-CURRENT)					
Non-Current					
Loans to Controlled Entities		-	-	-	13,839,427
Less: Provision for Non Recovery of Loans		-	-	-	(13,839,427)
		-	-	-	-
These loans are unsecured and are not subject to an interest charge.					
9. OTHER FINANCIAL ASSETS					
Non-Current					
Investments at cost comprise:					
Shares in Controlled Entities					
- Convergent BioScience Pty Ltd		-	-	100	100
- Sphere Animal Health Ltd		-	-	100	100
- VRI Diagnostics Pty Ltd		-	-	100	100
- VRI Therapeutics & Vaccines Pty Ltd		-	-	100	100
- Vasse Research Institute Pty Ltd		-	-	10	10
		-	-	410	410
10. PLANT & EQUIPMENT					
Plant and Equipment – at cost		107,670	94,869	107,670	94,869
Accumulated depreciation		(42,664)	(31,331)	(42,664)	(31,331)
		65,006	63,538	65,006	63,538
Office Equipment – at cost		198,060	208,136	198,060	208,136
Accumulated depreciation		(104,034)	(105,316)	(104,034)	(105,316)
		94,026	102,820	94,026	102,820
Total Plant & Equipment					
Cost		305,730	303,005	305,730	303,005
Accumulated depreciation		(146,697)	(136,647)	(146,697)	(136,647)
Total written down amount		159,033	166,358	159,033	166,358

VRI BIOMEDICAL LIMITED
A.B.N. 97 084 464 193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

		CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2004	2003	2004	2003
		\$	\$	\$	\$
(a)	Reconciliations				
	Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year.				
	Plant and Equipment				
	Carrying amount at beginning	63,538	66,440	63,538	66,440
	Additions	12,801	8,695	12,801	8,695
	Depreciation expense	(11,333)	(11,597)	(11,333)	(11,597)
		<u>65,006</u>	<u>63,538</u>	<u>65,006</u>	<u>63,538</u>
	Office Equipment				
	Carrying amount at beginning	102,820	142,639	102,820	142,639
	Additions	34,152	5,685	34,152	5,685
	Disposals	(17,454)	(1,475)	(17,454)	(1,475)
	Depreciation expense	(25,492)	(44,029)	(25,492)	(44,029)
		<u>94,026</u>	<u>102,820</u>	<u>94,026</u>	<u>102,820</u>
11.	PAYABLES (CURRENT)				
	Trade Creditors	769,095	822,487	769,095	822,897
	Accrued expenses	246,602	-	246,602	-
	GST liability	12,945	15,295	12,945	15,295
	Employee superannuation payable	39,449	-	39,449	-
	PAYG payable	34,753	49,087	34,753	49,087
	Other payables	9,010	-	9,010	-
		<u>1,111,854</u>	<u>886,869</u>	<u>1,111,854</u>	<u>887,279</u>
	Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:				
	United States Dollars	<u>307,558</u>	<u>98,957</u>	<u>307,558</u>	<u>98,957</u>
	Terms and conditions relating to the above financial instruments.				
	- Trade creditors are non-interest bearing and are normally settled on 30 – 60 day terms.				
12.	PROVISIONS (CURRENT)				
	Employee benefits	<u>80,200</u>	<u>125,827</u>	<u>80,200</u>	<u>125,827</u>
13.	PROVISIONS (NON-CURRENT)				
	Employee benefits	<u>11,422</u>	<u>-</u>	<u>11,422</u>	<u>-</u>
14.	CONTRIBUTED EQUITY				
	Issued and Paid Up Capital				
(a)	Ordinary Shares fully paid	<u>19,955,725</u>	<u>15,411,191</u>	<u>19,955,725</u>	<u>15,411,191</u>

VRI BIOMEDICAL LIMITED
A.B.N. 97 084 464 193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

(b) Movements in Shares on issue	2004		2003	
	Number of Shares	\$	Number of Shares	\$
Beginning of the financial year	61,849,637	15,411,191	58,516,333	13,597,013
Issued during the year				
• share purchase plan	-	-	3,333,304	2,000,000
• placement to Institutional and Sophisticated investors: July 2003	6,000,000	1,500,000	-	-
• pro-rata share issue to shareholders: September 2003	11,169,604	2,727,564	-	-
• placement to Institutional and Sophisticated investors: April 2004	4,953,886	792,624	-	-
Less capitalised prospectus costs		(475,654)		(185,822)
End of the financial year	83,973,127	19,955,725	61,849,637	15,411,191

(c) Terms and condition of contribution equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote either in person or by proxy, at a meeting of the company.

(d) Share Options

Listed Options over Ordinary Shares	2004		2003	
	Number of Options	\$	Number of Options	\$
Beginning of the financial year	23,373,768	-	23,377,768	-
Pro –rata issue of options to shareholders: September 2003	11,169,604	-	-	-
End of the financial year	34,543,372	-	23,373,768	-

- (i) On 20th July 2004, 21,000,000 shares were issued to Institutional and Sophisticated shareholders at \$0.10 per share by way of a placement approved by shareholders at a general meeting held on 12th July 2004.
- (ii) On 12th August 2004, 20,528,379 Bonus Options were issued to shareholders for no consideration with an exercise price of \$0.25 and an expiry date of 30th June 2006.
- (iii) On 16th August, 5,000,000 options to purchase ordinary shares in the company were issued to Taylor Collison Limited and an associated company as part consideration for the placement of the 21 million shares above. These options have the same terms and conditions as the Bonus Options in (ii) above.

VRI BIOMEDICAL LIMITED
A.B.N. 97 084 464 193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
15. ACCUMULATED LOSSES				
Accumulated losses				
Balance at beginning of year	14,443,408	9,339,421	14,443,408	9,339,421
Operating loss after Income Tax attributable to members of VRI BioMedical Limited	4,337,044	5,103,987	4,337,044	5,103,987
Balance at end of year	18,780,452	14,443,408	18,780,452	14,443,408

16. STATEMENT OF CASH FLOWS

(a) Reconciliation of the Operating profit/(loss) after tax to the Net Cash Flows from/(used in) Operations

Net loss	(4,337,044)	(5,103,987)	(4,337,044)	(5,103,987)
Depreciation of Non Current Assets	36,825	55,626	36,825	55,626
Loss on disposal of financial assets	12,785	-	12,785	-
Provision for Non Recovery of Loans	-	-	-	4,560,528
Changes in assets and liabilities				
Trade Creditors	(53,392)	415,582	(53,392)	415,582
Other payables	244,171	-	244,171	-
Trade Debtors	(363,551)	(254,876)	(363,551)	(254,876)
Other receivables	(70,784)	(37,935)	(70,784)	(37,935)
Inventories	(367,448)	(72,488)	(367,448)	(72,488)
Net cash flow from/(used in) operating activities	(4,898,438)	(4,998,078)	(4,898,438)	(437,550)

(b) Reconciliation of cash

Cash balance comprises:

- Cash on hand	268,629	1,349,664	268,629	1,349,664
	268,629	1,349,664	268,629	1,349,664

17. EXPENDITURE COMMITMENTS

Lease expenditure commitments

Operating leases

Minimum lease payments

- not later than one year	17,728	79,856	17,728	-
- later than one year and not later than five years	10,313	-	10,313	-

Aggregate lease expenditure contracted for at balance date	28,041	79,856	28,041	-
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18. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

As at the date of this report the company is in a legal dispute with an ex-consultant who has commenced proceedings for the recovery of alleged fees owing of \$135,000. If the action is successful through the court process, the company would be liable to pay these fees plus estimated legal costs of between \$60,000 and \$70,000 plus interest and the claimant's costs.

The Directors are of the opinion, based on legal advice, that the matter will be defended successfully.

Contingent assets

As at the date of this report the company had no contingent assets.

VRI BIOMEDICAL LIMITED
A.B.N. 97 084 464 193

19. SUBSEQUENT EVENTS

- (a) Subsequent to the end of this reporting period the company raised \$2.1m (before costs) by way of a placement of 21 million shares to Institutional and Sophisticated investors at \$0.10 per share. This capital will provide the company with working capital and will allow it to continue to develop its products.
- (b) Subsequent to the end of this reporting period the company decided to terminate the employment of the staff based at the University of Newcastle who work on the company's vaccine and diagnostic projects. The vaccine projects will be suspended until an equity partner or partners can be identified who can complete the R&D phase. Discussions are at an advanced stage with a US based company to licence the diagnostics.
The company will incur redundancy payments of approximately \$45,000 in respect of the Newcastle employees in the current financial year. Also some of the employees involved in R&D who are based at the University of New South Wales were made redundant in August. Redundancy costs in respect of these employees will amount to approximately \$10,000 in the current financial year.

20. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

VRI Biomedical Limited has begun transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalent of International Financial Reporting Standards (IFRS). The company has engaged its auditors to perform diagnostics and to conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As the company has a 30 June year end, priority will be given to considering the preparation of an opening statement of financial position in accordance with AASB equivalents to IFRS as at 1st July 2004. This will form the basis of accounting equivalents of IFRS in the future and will be required when the company prepares its first fully IFRS compliant financial report for the year end 30 June 2006. Set out below are the key areas where accounting policies will change that may have an impact on future financial reports. At this time the company has not been able to quantify, reliably, the impacts on the financial report.

Share based payments

Under AASB 2, *Share based Payments*, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown, however it is expected to have a negative impact on accumulated losses.