

Annual Report
2004

ABN 97 084 464 193

bringing
science to
wellness™



CORPORATE INFORMATION

Directors

Kim Robert Slatyer (Chairman)

Sally Anne Capp

Peter William French

Geoffrey Charles Wild AM

Company Secretary

Paul Beatty Magoffin

Corporate Head Office

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Australian Technology Park
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Principal Solicitors

Freehills

Bankers

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Macquarie Investment Management Limited

Share Register

Computershare Investor Services Pty Ltd
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Patent & Trade Mark Attorney

Shelston *ip*

Auditors

Ernst & Young

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CONTENTS

	PAGE
Chairman's letter	2
Executive director's report	4
Directors' report	6
Corporate governance statement	13
Statement of financial performance	17
Statement of financial position	18
Statement of cash flows	19
Notes to the financial statements	20
Directors' declaration	42
Independent audit report	43
ASX additional information	45

CHAIRMAN'S LETTER

On behalf of the Board of Directors I am pleased to present the VRI Biomedical Limited 2004 annual report.

PRODUCT LAUNCH

The recent launch of proTract® in Australian pharmacies has been a remarkable achievement for a company of our size.

With a budget a fraction of that of our competitors, we have proven the ability to produce the product, achieve distribution onto the pharmacy shelf and to persuade the consumer to buy the product.

The great thing about proTract® is that it really works.

The many "life changing" testimonials we have received from sufferers of Irritable Bowel Syndrome (IBS) and other gastrointestinal conditions including Crohn's disease, who have enjoyed relief of symptoms from taking our product, are truly heartening.

Given this fact, we are confident that a considerable proportion of those buying proTract® for the first time will continue to buy it on a monthly basis.

We have now sold some 28,000 units of proTract®. With further advertising and PR about to commence nationally, we are optimistic of achieving our initial target of 47,000 people buying a proTract® product on a monthly basis. Monthly revenue at that level from those sales only would be sufficient to achieve a cash-neutral business.

The success of proTract® has prompted approaches from larger companies exploring licensing opportunities for VRI's technology in Australian and overseas markets.

PIPELINE

Recent successful clinical trial results in moderate to severe atopic dermatitis in infants, demonstrate that our proprietary probiotic strain - PCC™ - may have a systemic immune-modulating effect.

This finding markedly increases VRI's potential attraction to prospective licensing partners as we continue to explore the development of a wide range of future applications for technology.

BOARD OF DIRECTORS

2003/04 was a difficult year with several changes at Board level reflecting shareholder disquiet with a company struggling to find direction.

Geoff Wild and Peter French and I all joined the Board during the year, bringing a fresh set of the requisite marketing, scientific and commercial skills necessary to drive a biomedical company with product in market.

Sally Capp will not stand for re-election this year following her relocation to Melbourne. Sally has been a committed and valuable director. We wish her well in her new career and thank her for her valuable contribution to the company.

On much a sadder note, my predecessor Jim Grant passed away in July. Jim brought a great sense of focus and discipline to the company and the Board will continue to build on the solid foundations he helped establish.

CORPORATE GOVERNANCE

The Board is very conscious of the importance of good corporate governance and has strived to meet the standards the new ASX guidelines, within the confines of a small company budget.

SCIENTIFIC AND MEDICAL ADVISORY BOARD

I welcome the appointment of Professors Ron Penny and Terry Bolin to our Scientific and Medical Advisory Board to provide a high level of independent guidance and review.

The ability to attract professionals of such calibre is a credit to our management team and the potential of our technology.

CHAIRMAN'S LETTER

MANAGEMENT

Significant staff reductions reflect our change of direction as we conclude a range of R&D projects and proceed to focus on commercialisation.

We are developing an energetic team of people with the scientific, regulatory, marketing and commercial skills required to take your company to commercial success.

THE YEAR AHEAD

Our focus for the year ahead will be the continued commercialisation of our probiotic technology in three areas: therapeutic probiotics, functional foods, and novel biopharmaceutical molecules. We expect that success in these areas will result in an increase in the value of our company.

Our objectives are to:

1. increase profit margins from existing product sales
2. partner with larger companies for the distribution and marketing of our products – in Australia and overseas
3. promote the company as a leader in probiotic technology to our scientific peers, prospective licensing partners and the investment community.

VRI is a dramatically different company from that of twelve months ago. This turnaround could not have been achieved without the consistent support of a core group of shareholders to whom we are thankful.

We aspire to leadership in bringing the highest level of scientific validation to probiotics, and expect that this will dramatically increase the commercial attraction of our technology to major licensing partners. Collaborative associations with organizations such as the Rowett Research Institute in Scotland, which was announced recently, are a means to this end.

Kim Slatyer,
Executive Chairman

EXECUTIVE DIRECTOR'S REPORT

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 regularise 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 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.

NEW BUSINESS FOCUS

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 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 China, Korea, and Taiwan.

EXECUTIVE DIRECTOR'S REPORT

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.

Dr Peter French,
Executive Director

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2004.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

<p>Mr Kim Robert Slatyer <i>Executive Chairman</i></p>	<p>Mr Slatyer is an original founder of the Company and re-joined the Board of Directors on 6th November 2003 having previously been a Director from 1998 until April 2003. He was a member of the Remuneration Committee until 6th July 2004.</p> <p>Mr Slatyer was appointed Chairman of the Company on 6th July 2004 following the death of the previous Chairman Mr Jim Grant on 4th July 2004.</p> <p>Mr Slatyer is a Western Australian based businessman.</p>
<p>Ms Sally Anne Capp <i>Non-Executive Director</i> <i>LLB (Hons.) B Com. GAICD</i></p>	<p>Ms Capp is a senior executive of the ANZ Banking Group. She has corporate, commercial and legal expertise and experience in the management of public companies. Ms Capp practised law professionally for 10 years and is a member of the ASX and the Australian Institute of Company Directors.</p> <p>Ms Capp currently serves on the board of one other listed public company, Avon Resources Limited and several other public and private companies.</p> <p>Ms Capp was appointed as a Non-Executive Director on 29th May, 2003. Ms Capp is Chairman of the Company's Audit & Risk Management Committee and a member of the Remuneration Committee.</p>
<p>Dr Peter William French <i>Bsc, Msc. PhD. MBA</i></p>	<p>Dr French was appointed to the Board on 6th November 2003. He was previously Chief Executive Officer.</p> <p>Dr French is a Cell and Molecular Biologist and has almost 30 years of medical research experience combined with significant experience in the management of innovative organisations. Before joining VRI, Dr French was Principal Scientific Officer and Manager of the Centre for Immunology at St. Vincent's Hospital, Sydney with senior academic adjunct appointments at the University of Sydney and the University of New South Wales.</p>
<p>Mr Geoffrey Charles Wild AM <i>FAI(dip.) FAICD</i></p>	<p>Mr Wild joined the Board of the company on 6th November 2003.</p> <p>Mr Wild is a well known expert in marketing. He is a member of the Board of several public companies including TAB Ltd, and is a former Chairman of the NSW Tourism Commission. Mr Wild was Vice President of the Sydney Olympic bid committee.</p> <p>Mr Wild is Chairman of the Company's Remuneration Committee and a member of the Audit Committee.</p>
<p>Mr James Peter Grant <i>FCA, FAICD</i></p>	<p>Mr Grant was a non-executive Director from 29th May 2003 until 6th November 2003 when he was appointed non-executive Chairman.</p> <p>Mr Grant served as the Chairman and CEO of Deloitte Touche Tohmatsu Australia for seven years and practised in corporate recovery and reconstruction for 27 years. His skills have been developed over a 25 year career as a specialist receiver and manager acting on behalf of many of Australia's major financial institutions.</p> <p>Mr Grant died on 4th July 2004.</p>

DIRECTORS' REPORT

<i>Mr Ronald Edward Deane</i>	<p>Mr Deane was non-executive Chairman until he resigned on 31st October 2003.</p> <p>Mr Deane has had a distinguished career in the pharmaceutical and biotechnology industry. For over 20 years, he worked with CSL, where he became successively General Sales Manager, Marketing Director and then Group Director - Marketing, with responsibility for all sales, marketing and distribution activities across the four operating Divisions of Bioplasma, Pharmaceutical, Veterinary and Diagnostics.</p>
<i>Professor John Francis Cade MD, PhD, FRACP, FANZCA, FCCP.</i>	<p>Professor Cade was a non-executive Director until he resigned on 31st October 2003.</p> <p>Professor Cade is the Inaugural Director of Intensive Care at the Royal Melbourne Hospital and has held this position for over 20 years. He is a leader in the development of intensive care medicine in Australia. His academic interests have been in thromboembolism, biomedical engineering, infections and ethics.</p>
<i>Professor Glyn Michael Tonge B.Sc(Hons) Biochemistry, PhD, C Biol, FIBiol, FRSA</i>	<p>Professor Tonge was a non-executive Director until he resigned on 27th November 2003.</p> <p>Professor Tonge is a visiting Professor of Biotechnology at the University of Bath and serves on a number of government committees advising on research in the biological sciences. He has held directorships with Baring Brothers & Co Ltd, Baring Brothers International Ltd and ING Barings. Earlier in his career he held a senior executive position with ICI (now Astra Zeneca)</p>

COMPANY SECRETARY

<i>Mr Paul Beatty Magoffin FCPA, FCIS</i>	<p>Mr Magoffin has been Company Secretary of VRI BioMedical Limited since August 2003. He is a Fellow of CPA Australia and also a Fellow of Chartered Secretaries Australia.</p> <p>Mr Magoffin has had over 15 years experience as a public company secretary. He also has a similar length of experience as a financial controller of various sized public companies in a number of industries ranging from oil & gas exploration, heavy engineering, property development to manufacturing.</p>
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Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of VRI BioMedical Limited were:

Director	Number of Shares	Class	Options over Ordinary Shares	Employee Options
K R Slatyer	5,892,002	Ordinary	1,544,405	Nil
S A Capp	232,175	Ordinary	96,435	Nil
P W French	Nil	Ordinary	Nil	750,000
G C Wild	60,000	Ordinary	12,000	Nil

Refer to note 22 for further information on directors' remuneration, shares and options holdings.

EARNINGS PER SHARE

	Cents
Basic earnings/(loss) per share	(5.63)
Diluted earnings/(loss) per share	(5.63)

DIVIDENDS

No dividends have been paid or have been recommended during the year.

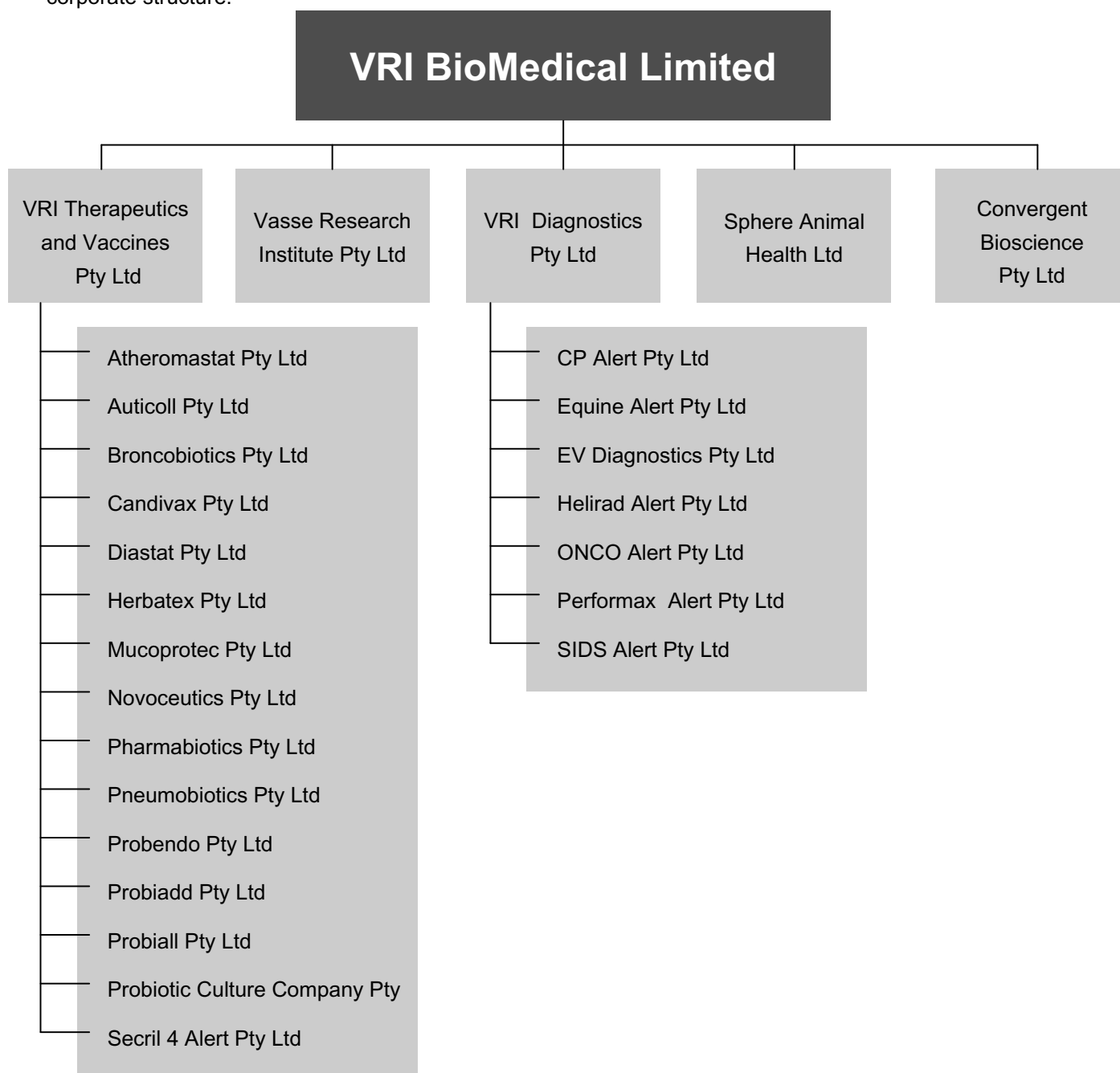
DIRECTORS' REPORT

CORPORATE INFORMATION

Corporate Structure

VRI BioMedical Limited is a company limited by shares that is incorporated and domiciled in Australia.

It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the group's corporate structure:



NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities during the year of the company and its controlled entities were:-

- The manufacture and distribution, under contract, of probiotic products,
- The further testing and development of the company's products by the conduct of clinical trials, and
- The continuation of research & development of the company's patented diagnostics and vaccines.

DIRECTORS' REPORT

REVIEW AND RESULTS OF OPERATIONS

The Review of Operations is contained in the Executive Director's Report.

RESULTS

The loss of the consolidated entity for the financial year after providing for income tax amounts to \$4,337,044 (2003: \$5,103,987). This reflects the Company's accounting policy to expense all Research and Development costs during the year as they arise.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year the Company raised additional capital of \$5,020,188 (before costs of \$475,651) by way of a placement to Institutional and Sophisticated investors in July 2003, a 1 : 6 Rights Issue in September 2003 followed by a further placement to Institutional and Sophisticated investors in April 2004.

The Company entered into a number of commercial agreements for the distribution of its products during the year. The most significant agreements being with Life-Span Holdings Pty Ltd to distribute Progastrim to naturopaths and with DiaCare International Pty Limited to distribute the proTract range of probiotics to pharmacies in Australia and New Zealand. In addition to these agreements the company's contract with Pharmanex of the US continued to produce operating revenue of approximately \$1m for the year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to the end of this reporting period the company raised \$2.1m (before costs of \$105,000) 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. The placement has not been recognised in the financial statements for the year ended 30 June 2004.

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.

On 16th August 2004, 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 issued on 12th August 2004.

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 2005 financial year. These redundancy costs have not been recognised in the financial statements for the year ended 30 June 2004.

Also subsequent to year end, the Company implemented a cost reduction program to focus its R&D on its existing products and strategies.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than matters referred to elsewhere in this report, further information as to likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

There have been no known breaches of any environmental regulation and performance criteria during the year.

DIRECTORS' REPORT

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 60,071,751 unissued ordinary shares under option (34,543,372 at balance date). Refer to note 14 (d) for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year no employees or shareholders have exercised their options to acquire fully paid ordinary shares. Since the end of the financial year, no options have been exercised.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company has paid premiums in respect of a contract insuring all the directors and officers of VRI.

The total amount of insurance contract premiums paid was \$80,560.

DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

Remuneration policy

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

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments including performance bonus and share option allocation to the Company's operational performance.

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

Emoluments* of directors of VRI BioMedical Limited

	<i>Annual Emoluments</i>			<i>Long Term Emoluments</i>		
	<i>Base Fee</i>	<i>Bonus</i>	<i>Other</i>	<i>Options Granted</i>		<i>Super-annuation</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>Number</i>	<i>\$</i>	<i>\$</i>
<i>K R Slatyer</i>	30,000	-	41,365	-	-	2,700
<i>S A Capp</i>	18,750	-	10,070	-	-	1,688
<i>P W French</i>	204,890	10,000	10,070	750,000	59,550	19,340
<i>G C Wild</i>	30,000	-	10,070	-	-	2,700
<i>J P Grant</i>	41,445	-	10,070	-	-	3,755
<i>J F Cade</i>	11,445	-	10,070	-	-	1,055
<i>R Dean</i>	34,404	-	10,070	-	-	3,096
<i>G Tonge</i>	16,667	-	10,070	-	-	-

DIRECTORS' REPORT

Emoluments* of the three# most highly paid executive officers of the consolidated entity.

	Annual Emoluments			Long Term Emoluments		
	Base Fee	Bonus	Other	Options Granted		Superannuation
				Number	\$	
	\$	\$	\$			\$
<i>P B Magoffin**</i>	134,880	-	-	-	-	12,139
<i>P L Conway</i>	91,667	22,935	6,000	500,000	41,524	10,314
<i>M Dunkley</i>	87,194	-	-	140,000	13,328	31,900

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.

* The elements of emoluments have been determined on the basis of the cost to the Company and the consolidated entity.

Executives are those employees who are directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity. The three listed above are the only employees in that category apart from the Executive Director whose emoluments are shown with Directors' emoluments.

** Mr Magoffin joined the company on 11th August 2003.

The above amounts do not include expenses incurred by Directors and their related entities and executive officers that were reimbursed by the Company.

DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings	Meetings of Committees	
		Audit and Risk Management	Remuneration***
Number of meetings held:	10	2	2
Number of meetings attended:			
J P Grant	10	2	-
S A Capp**	7	2	1
P W French*	6	-	-
K R Slatyer*	6	-	1
G C Wild*	6	-	1
J F Cade*	3	-	1
R E Deane*	3	1	1
G M Tonge**	3	-	-

Notes:

* These directors attended all meetings held during their tenure as Directors during the year.

** Prof. Tonge's Alternate – J Frame attended one Directors' meeting in his stead and S A Capp's alternate, K R Slatyer, attended one of the Audit Committee meetings in her stead.

*** The members of the Remuneration Committee during the year each attended the one meeting held while they were members of that Committee.

DIRECTORS' REPORT

Committee membership

As at the date of this report, the Company had an Audit and Risk Management Committee and a Remuneration Committee, of the Board of Directors.

Members acting on the Board committees during the year were:

Audit and Risk Management	Remuneration
J P Grant	J F Cade
S A Capp	S A Capp
K R Slatyer (as Alternate for Ms Capp for one meeting)	R E Deane
R E Deane	K R Slatyer

Current members as at the date of this report are:-

Audit and Risk Management	Remuneration
S A Capp (Chairman)	G C Wild (Chairman)
G C Wild	S A Capp

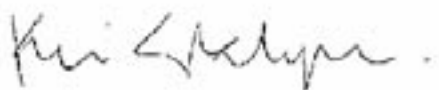
Tax Consolidation

From 1st July 2003 VRI BioMedical and its wholly owned subsidiaries formed a tax consolidation group.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of VRI BioMedical support, and have adhered to, the principles of corporate governance. The Company's corporate governance statement is contained in the following section of this annual report.

Signed in accordance with a resolution of the Directors.



Kim Slatyer
Chairman

Sydney 30th September 2004

CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of VRI is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business affairs of VRI BioMedical Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The format of the Corporate Governance Statement has changed in comparison to the previous year due to the introduction of the Australian Stock Exchange Corporate Governance Council's ('the Council's') "Principles of Good Corporate Governance and Best Practice Recommendations" ('the Recommendations'). In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed together with the reasons for the departure.

VRI BioMedical Limited's Corporate Governance Statement is now structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Principle 1. Lay solid foundations for management and oversight
- Principle 2. Structure the Board to add value
- Principle 3. Promote ethical and responsible decision making
- Principle 4. Safeguard integrity of financial reporting
- Principle 5. Make timely and balanced disclosure
- Principle 6. Respect the rights of shareholders
- Principle 7. Recognise and manage risk
- Principle 8. Encourage enhanced performance
- Principle 9. Remunerate fairly and responsibly
- Principle 10. Recognise the legitimate interests of stakeholders

VRI BioMedical Limited's corporate governance practices were in place throughout the year ended 30 June 2004 unless stated otherwise and were generally compliant with the Council's best practice recommendations. Departures from the above principles and the reasons why are explained under the following headings.

Role of Board and management

While the company has formal policies and procedures that are disseminated to all employees and Directors it does not have a formal statement of matters that are delegated to management specifically. The Board of Directors is of the opinion that in a company of this size, fewer than 20 employees, such a statement would be unnecessarily formal. Also, as the chief executive is an Executive Director who, as such, attends all Board meetings, the distinction between the Board and management is not sufficient to warrant a formal statement of the segregation of duties.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the Annual Report is included in the Directors' Report on page 6. Directors of VRI BioMedical Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

CORPORATE GOVERNANCE STATEMENT

In the context of director independence “materiality” is considered from both the company and the individual director’s perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the company’s loyalty.

In accordance with the definition of independence above and the materiality thresholds set, the following directors of VRI BioMedical Limited are considered to be independent.

Name	Position
Sally Anne Capp	Non-Executive Director
Geoffrey Charles Wild	Non-Executive Director

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the company’s expense.

The term in office of each director as at the date of this report is as follows:-

Name	Term in office
K R Slatyer	10 months
S A Capp	1 year and 4 months
P W French	10 months
G C Wild	10 months

As at the date of the report the Board structure is not fully compliant with the recommendations of the Council for the following reasons.

On 4th July 2004 the non-executive, independent Chairman, Mr James Grant died and to date an independent Chairman has not been appointed. The Board of Directors resolved on 6th July 2004 to appoint Mr Kim Slatyer as the company’s Chairman in a temporary capacity. Mr Slatyer is a substantial shareholder in the company and is not independent by definition. The appointment of an independent Chairman is still being considered by the Board as at the date of this report.

Due to the above matter the Board, as at the date of this report, does not consist of a majority of independent Directors and this will be considered also in the context of the appointment of an independent Chairman.

The company did not have a separate nominations committee during the year. All nominations for appointment as a director are considered by the whole Board.

Promoting ethical and responsible decision making

The company has a written code of conduct that is disseminated to all employees and Directors however at present it has not been released publicly. It is intended to review the policy in the near future and once agreed by the Board it will be posted on the company’s web site.

Safeguarding the integrity of financial reporting

Audit and Risk Management Committee

The Board has an established audit committee. It is the Board’s responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the

CORPORATE GOVERNANCE STATEMENT

responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the audit committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the Audit and Risk Management Committee during the year were:

J P Grant

S A Capp

R F Deane

Resigned 31st October 2004

G C Wild

As at the date of this report the members of the Audit & Risk Management Committee were:-

S A Capp (Chairman)

G C Wild

Ms Capp has extensive corporate, commercial and legal experience and expertise in the management of public companies. She practised law for ten years and is currently a senior executive with the ANZ Banking Group Limited.

Mr Wild is an experienced company executive and serves on a number of public company Boards. He has many years of experience in the reading and understanding of financial statements.

As at the date of this report the audit committee has only two members. Mr Wild was appointed to the committee following the death of the chairman of the committee, Mr Grant who was a qualified accountant. Neither Ms Capp nor Mr Wild are qualified accountants but both have extensive professional experience of financial and accounting matters.

The Executive Director, Dr French and the Chief Financial Officer, Mr Magoffin have stated in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results, that they are in accordance with relevant accounting standards and that the company's internal control systems are effective.

The committee does not have a formal charter however it is intended to develop and implement the charter during the current financial year.

The audit committee reviews the efficiency and effectiveness of the external auditors on a regular basis and determines from those reviews whether the external auditors should be retained. The company requires that the external auditors rotate their audit engagement partners regularly.

The rights of shareholders

The company does not have a formal strategy to promote effective communications with shareholders as the date of this report because all material matters affecting the company that are market sensitive are released through the ASX which makes them available publicly to all shareholders. Matters that are not necessarily market sensitive but of interest to shareholders are released by way of regular shareholders' update letters.

Participation at shareholders' meetings is encouraged but at present the company does not have a formal strategy for this. This matter is under review by the Board.

Recognition and management of risk

The company's Audit Committee also acts as the Risk Management committee so the members are the same as detailed above.

CORPORATE GOVERNANCE STATEMENT

Due to the relatively simple structure of the company and its current operations there has not been the necessity to establish a formal policy on the management of risk nor a risk profile. The Board as a whole meets sufficiently often to assess these matters.

Encouragement of enhanced performance

No formal evaluation process has yet been conducted of Board members as all Directors, other than Ms Capp have been Directors for less one year and this is insufficient time to evaluate their performance.

A formal evaluation process is conducted for all employees including the Executive Director and Chief Financial Officer/Company Secretary but the process is not published as it is considered to be a confidential evaluation of individuals and publishing it would not be appropriate.

Fair and responsible remuneration

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. The expected outcomes of the remuneration structure are:-

- retention and motivation of key executives, and
- attraction of quality management to the company

For details of the amount of remuneration and all monetary and non-monetary components for each of the three highest paid (non-director) executives during the year and for all directors, refer to note 20 of the Financial Statements.

In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of VRI BioMedical Limited and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, the Executive Director and the executive team. The Board has established a remuneration committee, comprising two Directors.

Members of the Remuneration Committee throughout the year were:

R E Deane	Resigned 31 st October 2003
J F Cade	Resigned 31 st October 2003
S A Capp	
K R Slatyer	Appointed 6 th November 2003 and resigned 6 th July 2004
G C Wild	Appointed 6 th November 2003

Current members of the Remuneration Committee are:

G C Wild (Chairman)
S A Capp

For details of the number of meetings of the Remuneration and Nominations Committee held during the year and the attendees at those meetings, refer to page 11 of the Directors' Report.

The committee does not have a formal charter as there are fewer than 20 employees to consider in the context of remuneration and such a formality is not considered an efficient use of the Directors' time.

Recognising the legitimate interests of stakeholders

The company has a written code of conduct which has been disseminated to all employees and directors. The code has not been published however the Board will review this matter during the current financial year.

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
Cost of goods sold		(871,860)	(1,056,857)	(871,860)	-
Depreciation expenses		(36,825)	(55,626)	(36,825)	(55,626)
Insurances		(208,230)	(153,615)	(208,230)	-
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	(1,053,860)	(524,403)	(1,053,860)	-
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)		(5.63)	(8.53)	(5.63)	(8.53)
Diluted earnings/(loss) per share (cents per share)		(5.63)	(8.53)	(5.63)	(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	410
Property, Plant and Equipment	10	159,033	166,358	159,033	166,358
TOTAL NON-CURRENT ASSETS		159,033	166,358	159,443	166,768
TOTAL ASSETS		2,378,749	1,980,479	2,379,159	1,980,889
CURRENT LIABILITIES					
Payables	11	1,111,854	933,589	1,112,264	933,999
Provisions	12	80,200	79,107	80,200	79,107
TOTAL CURRENT LIABILITIES		1,192,054	1,012,696	1,192,464	1,013,106
NON-CURRENT LIABILITIES					
Provisions	13	11,422	-	11,422	-
TOTAL LIABILITIES		1,203,476	1,012,696	1,203,886	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		731,487	1,103,029	731,487	2,743,695
Government grants		793,707	231,922	793,707	231,922
Payments to Suppliers and Employees		(4,760,331)	(3,780,475)	(4,760,331)	(1,439,605)
Interest Received		87,618	118,433	87,618	-
Research and Development Costs		(1,709,905)	(2,670,987)	(1,709,905)	(1,973,562)
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	16	(4,857,424)	(4,998,078)	(4,857,424)	(437,550)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from 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		(51,648)	(41,335)	(51,648)	(41,335)
Advances to Controlled Entities		-	-	-	(4,560,528)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(731,826)	(41,335)	(731,826)	(4,601,863)
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		(511,970)	(185,822)	(511,970)	(185,822)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		4,508,215	1,814,178	4,508,215	1,814,178
NET INCREASE/(DECREASE) IN CASH HELD		(1,081,035)	(3,225,235)	(1,081,035)	(3,225,235)
Add Opening Cash brought forward		1,349,664	4,574,899	1,349,664	4,574,899
CLOSING CASH CARRIED FORWARD	16	268,629	1,349,664	268,629	1,349,664

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. The 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. Subsequent to year end, the company raised \$2.1m (before costs of \$105,000) by the issuing of further shares by placement and implemented a cost reduction program to focus its R&D on its existing products and strategies.

Going concern

In common with start-up technology companies the company's operations are subject to considerable risks and significant uncertainty due primarily to the nature of research, development and commercialisation to be undertaken. The Company is in the process of marketing and distributing its products and has signed agreements with distributors to facilitate these sales. In the event that sales do not eventuate as planned the company may require additional funding to successfully execute its existing and future plans. If further funding is required by way of the raising of additional capital this would have the effect of further diluting existing shareholders' equity which may require approval of shareholders. In the event that the Company does not generate sales or raise additional funding, significant uncertainty exists whether VRI BioMedical Limited and/or the consolidated entity will be able to continue as a going concern. 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.

Note 1 cont.**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.

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.

Note 1 cont.

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.

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.

Note 1 cont.

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 22 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.

	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	-
- Computer costs	53,622	33,208	53,622	-
- Conferences and seminars	37,885	3,199	37,885	-
- Directors' fees	198,555	131,870	198,555	-
- Legal expenses	56,227	90,479	56,227	-
- Payroll tax	62,027	28,146	62,027	-
- Royalties	78,230	-	78,230	-
- Printing and stationery	32,464	44,549	32,464	-
- Telephone and other communication costs	60,218	101,541	60,218	-
- All other operating expenses	330,822	9,468	330,822	-
(b) Losses (gains)				
Net foreign currency losses	21,575	43,523	21,575	-

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2004 \$	2003 \$	2004 \$	2003 \$
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)
Tax Effect of Permanent Differences				
Entertainment	277	-	277	-
Provision for Non Recovery of Loans	-	-	-	1,368,158
Other net timing differences	(54,620)	82,535	(54,620)	55,391
Future Income Tax Benefit not brought to account	1,355,456	1,448,661	1,355,456	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 \$5,109,510 (2003: \$3,754,053) as realisation of the benefit is not virtually certain.

The future income tax benefit will only be obtained if:

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

Tax consolidation

The head entity of the tax consolidation group is VRI Biomedical Limited. There is no material affect to the financial statements as no tax provision or deferred tax liability is recognised.

VRI Biomedical Limited will formally notify the Australian Taxation Office of its adoption of the tax consolidation regime when it lodges its 30 June 2004 tax return.

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2004 \$	2003 \$	2004 \$	2003 \$
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
	<u>1,423,030</u>	<u>332,828</u>	<u>1,423,030</u>	<u>332,828</u>
Australian dollar equivalent of amounts receivable in foreign currencies not effectively hedged:				
United States Dollars	<u>312,755</u>	<u>193,799</u>	<u>312,755</u>	<u>193,799</u>
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
Finished goods				
At cost	<u>111,234</u>	<u>44,167</u>	<u>111,234</u>	<u>44,167</u>
Total value of inventory at the lower of cost or net realisable value	<u>439,936</u>	<u>72,488</u>	<u>439,936</u>	<u>72,488</u>
7 OTHER CURRENT ASSETS				
Prepayments	<u>88,121</u>	<u>59,141</u>	<u>88,121</u>	<u>59,141</u>

	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	(42,663)	(31,331)	(42,663)	(31,331)
	65,007	63,538	65,007	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

CONSOLIDATED		VRI BIOMEDICAL LIMITED	
2004	2003	2004	2003
\$	\$	\$	\$

Note 10 cont.
(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	12,802	8,695	12,802	8,695
Depreciation expense	(11,333)	(11,597)	(11,333)	(11,597)
	65,007	63,538	65,007	63,538

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)
	94,026	102,820	94,026	102,820

11 PAYABLES (CURRENT)

Trade creditors	769,095	822,487	769,095	822,897
Accrued expenses	246,602	46,720	246,602	46,720
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	-	9,420	-
	1,111,854	933,589	1,112,264	933,999

Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:

United States Dollars	307,558	98,957	307,558	98,957
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Terms and conditions relating to the above financial instruments.

- Trade creditors are non-interest bearing and are normally settled on 30 – 60 day terms.

		CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
12	PROVISIONS (CURRENT)				
	Employee benefits	80,200	79,107	80,200	79,107
13	PROVISIONS (NON-CURRENT)				
	Employee benefits	11,422	-	11,422	-
14	CONTRIBUTED EQUITY				
	ISSUED AND PAID UP CAPITAL				
(a)	Ordinary shares fully paid	19,955,725	15,411,191	19,955,725	15,411,191
(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

(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 2004, 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.

Note 14 cont.
(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	-

15 ACCUMULATED LOSSES

Accumulated losses

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2004 \$	2003 \$	2004 \$	2003 \$
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)	368,862	(53,392)	368,862
Other payables	285,185	46,720	285,185	46,720
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	(4,857,424)	(4,998,078)	(4,857,424)	(437,550)

CONSOLIDATED		VRI BIOMEDICAL LIMITED	
2004 \$	2003 \$	2004 \$	2003 \$

Note 16 cont.**(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	-

Notes: The above commitments consist of the balance of a one year lease on the business premises which expires in August 2004 which contains an option to renew and a three year lease of a photocopy machine which commenced in May 2004.

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.

19 SUBSEQUENT EVENTS

- (a) Subsequent to the end of this reporting period the company raised \$2.1m (before costs of \$105,000) 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. The placement has not been recognised in the financial statements for the year ended 30 June 2004.

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.

On 16th August 2004, 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 issued on 12th August 2004.

- (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 2005 financial year. These redundancy costs have not been recognised in the financial statements for the year ended 30 June 2004.

Also subsequent to year end, the Company implemented a cost reduction program to focus its R&D on its existing products and strategies.

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2004 \$	2003 \$	2004 \$	2003 \$
20 EARNINGS PER SHARE				
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:				
Net loss	(4,337,044)	(5,103,987)	(4,337,044)	(5,103,987)
Weighted average number of ordinary shares used in calculating basic earnings per share and diluted earnings per share:	77,087,558	59,843,638	77,087,558	59,843,638
21 EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS				
(a) Employee benefits				
The aggregate employee benefit liability is comprised of:				
Provisions (current)	80,200	125,827	80,200	125,827
Provisions (non-current)	11,422	-	11,422	-
	91,622	125,827	91,622	125,827
(b) Employee Option Plan				
An employee option plan is established whereby VRI BioMedical Limited may, at the discretion of the Directors grant options to purchase ordinary shares in the Company to certain eligible employees. The options are granted for no consideration and are generally for a term of five years with the exercise price being determined at the discretion of the Directors. Generally the options can be exercised at any time during the term of the option period but are not transferable and are not quoted on ASX. Currently there are three employees and three past employees who hold valid options.				
Details of the number of options granted under the employee option plan are as follows:				
Balance at beginning of year	4,230,000	5,252,000	4,230,000	5,252,000
- new options granted during the year	-	1,050,000	-	1,050,000
- options that lapsed during the year	(300,000)	(2,072,000)	(300,000)	(2,072,000)
Exercisable at end of the year	3,930,000	4,230,000	3,930,000	4,230,000

Note 21 cont.

The following table details the information about options held by employees and past employees* as at 1 July 2003.

No of options	Grant date	Vesting date	Expiry date	Exercise price
980,000	13/10/2000	13/10/2000	13/10/2006	\$0.50
1,900,000	23/11/2001	23/11/2001	23/11/2006	\$0.75
300,000	13/06/2002	13/06/2002	16/06/2007	\$0.75
300,000	23/08/2002	23/08/2002	23/08/2007	\$0.75
750,000	14/01/2003	See note ** below	14/01/2008	\$0.75

The following table details information about options that lapsed during the year.

No of options	Grant date	Vesting date	Date lapsed	Exercise price
300,000	23/11/2001	23/11/2001	02/07/2003	\$0.75

The following table details the information about options held by employees and past employees as at 30 June 2004

No of options	Grant date	Vesting date	Expiry date	Exercise price
980,000	13/10/2000	13/10/2000	13/10/2006	\$0.50
1,600,000	23/11/2001	23/11/2001	23/11/2006	\$0.75
300,000	13/06/2002	13/06/2002	16/06/2007	\$0.75
300,000	23/08/2002	23/08/2002	23/08/2007	\$0.75
750,000	14/01/2003	See note** below	14/01/2008	\$0.75

* Some employees who left the employ of the Company during the year were granted an extension of time of 15 months, from the time they ceased employment, to exercise their options. Options held by past employees total 2,540,000. Of these, 800,000 for which no extension of time was granted have since lapsed.

** Dr French's options were issued on the basis that they would vest pro-rata monthly over the term of the options i.e. five years.

(c) Superannuation Commitments

The company has no commitments to contribute to superannuation funds for any employee other than the statutory 9% required under Australian law.

22. DIRECTOR AND EXECUTIVE DISCLOSURES**(a) Details of Specified Directors and Specified Executives**

Specified Directors

J P Grant	Chairman - from 6 th November 2003 - (non-executive.) Mr Grant died on 4 th July 2004
R E Deane	Chairman (non-executive) resigned on 31 st October 2003
J F Cade	Director (non-executive) resigned 31 st October 2003
S A Capp	Director (non-executive)
P W French	Executive Director, appointed 6 th November 2003
K R Slatyer	Director (non-executive) appointed 6 th November 2003. Appointed Executive Chairman 5 th July 2004
G M Tonge	Director (non-executive) resigned 27 th November 2003
G C Wild AM	Director (non-executive) appointed 6 th November 2003

Specified Executives

P L Conway	Chief Scientist - Probiotics
M L Dunkley	Chief Scientist - Vaccines
P B Magoffin	Chief Financial Officer and Company Secretary

Executives are those employees who are directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity. The three listed above are the only employees in that category apart from the Executive Director whose emoluments are shown with Directors' emoluments.

(b) Remuneration of Specified Directors and Specified Executives*(i) Remuneration Policy*

The Remuneration Committee of the Board of Directors of VRI BioMedical Limited is responsible for determining and reviewing compensation arrangements for its Directors, the Managing Director and other senior employees. The Remuneration Committee assesses the appropriateness of the nature and quantum of each officer's remuneration on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. The company requires all employees including executives to sign an employment agreement upon commencement of employment and this agreement allows *inter alia* for employees to take their remuneration package in a variety of forms if they wish such as a motor vehicle in lieu of salary. It is intended that the manner of payment chosen will be optional for the employee without creating undue administrative expense for the company. The Managing Director, Dr French, received a bonus of \$10,000 during the year. The bonus was based on the achievement of certain specific performance indicators. These included achieving revenue budgets, completing distribution agreements within Australia, efficient transfer of the administration to Sydney and securing new government assistance grants all of which were achieved. The Chief Scientist-Probiotics received a bonus of \$25,000 for her contribution in securing a distribution agreement for the company's products in the USA. No other bonuses were paid to the Directors and officers listed.

The current employment agreements for the Executive Director, The Chief Financial Officer/Company Secretary, Chief Scientist – Probiotics and Chief Scientist – Vaccines, provide for a notice period of three months by both parties or payment in lieu thereof. There are no other termination payments due under the contracts other than statutory entitlements.

Employee option Plan:

In addition to the agreed remuneration package, some senior employees are offered the opportunity to participate in the company's Employee Option Plan which grants the employee options to purchase shares at a fixed price at some time in the future in accordance with the plan's rules. This is designed to be an incentive for the employees granted options to remain with the company so that it can achieve its operational and corporate goals and budgets.

Details of the options are set out in note 21(b).

Note 22 cont.

(ii) Remuneration of Specified Directors and Specified Executives

Specified Directors		Primary		Post - employment	Equity	Other	TOTAL
		Directors fees	Salary	Superannuation	Options	Bonuses, Insurance cover & consultant's fee	
J P Grant	2004	41,445	-	3,755	-	10,070	55,270
	2003	-	-	-	-	-	-
R E Deane	2004	34,404	-	3,096	-	10,070	47,570
	2003	8,596	-	774	-	-	9,370
J F Cade	2004	11,445	-	1,055	-	10,070	22,570
	2003	27,522	-	2,478	-	-	30,000
S A Capp	2004	18,750	-	1,688	-	10,070	30,508
	2003	-	-	-	-	-	-
P F French	2004	-	204,890	19,340	59,550	20,070	303,850
(Commenced October 2002)	2003	-	90,272	8,124	34,200	-	132,596
K R Slatyer	2004	30,000	-	2,700	-	41,365	74,065
	2003	20,642	-	1,858	-	-	22,500
G M Tonge	2004	16,667	-	-	-	10,070	26,737
	2003	60,000	-	-	-	-	60,000
G C Wild	2004	30,000	-	2,700	-	10,070	42,770
TOTAL REMUNERATION OF SPECIFIED DIRECTORS	2004	182,711	204,890	34,334	59,550	121,855	603,340
TOTAL REMUNERATION OF SPECIFIED DIRECTORS	2003	116,760	90,272	13,234	34,200	-	254,466

Specified Executives		Primary		Post-employment	Equity	Other	TOTAL
		Salary		Superannuation	Options	Bonuses	
P L Conway	2004	-	89,602	10,314	41,524	25,000	166,440
	2003	-	91,666	8,250	47,000	-	146,916
M L Dunkley	2004	-	87,194	31,900	13,328	-	132,422
	2003	-	69,971	36,000	14,470	-	120,441
P B Magoffin	2004	-	134,880	12,139	-	-	147,019
(Commenced August 2003)							
TOTAL REMUNERATION OF SPECIFIED EXECUTIVES	2004		311,676	54,353	54,852	25,000	445,881
TOTAL REMUNERATION OF SPECIFIED EXECUTIVES	2003		161,637	44,250	61,470	-	267,357

The totals in respect of the financial year ended 2003 are not the same as the sum of the amounts disclosed in the 2003 financial statements as different individuals were specified in 2003 and have since left the employ of the Company.

Note 22 cont.**(c) Remuneration options: Granted and vested during the year.**

No Director, executive or employee was granted options as part of his/her remuneration during the year. No options granted previously vested during the year.

(d) Option holdings of specified Directors and specified Executives

Specified Directors	Balance at beginning of period 1 July 2003	Granted as remuneration	Options exercised	Net change – other	Balance at end of period 30 June 2004
S A Capp	Nil	Nil	Nil	81,435	81,435
P F French	750,000	Nil	Nil	Nil	750,000 **
K R Slatyer (i)	1,448,189	Nil	Nil	(1,082,186)	366,003
Specified Executives					
P L Conway	500,000	Nil	Nil	Nil	500,000 **
M L Dunkley	140,000	Nil	Nil	Nil	140,000 **
P B Magoffin	Nil	Nil	Nil	Nil	Nil

** Unlisted options issued under the company's Employee Share Ownership Plan

(i) Mr Slatyer is a director of and has a controlling shareholding in Trivenia Pty Limited which owned 311,836 options as at balance date.

(e) Share holdings of specified Directors and specified Executives

Specified Directors	Balance at beginning of period 1 July 2003	Granted as remuneration	Options exercised	Net change – other	Balance at end of period 30 June 2004
S A Capp	30,300	Nil	Nil	201,875	232,175
P F French	Nil	Nil	Nil	Nil	Nil
K R Slatyer (i)	8,596,132	Nil	Nil	(2,704,130)	5,892,002
G C Wild (ii)	Nil	Nil	Nil	60,000	60,000
Specified Executives					
P L Conway	Nil	Nil	Nil	Nil	Nil
M L Dunkley	Nil	Nil	Nil	Nil	Nil
P B Magoffin	Nil	Nil	Nil	Nil	Nil

(i) Mr Slatyer is a director of and has a controlling shareholding in Trivenia Pty Limited which owned 5,561,835 shares as at balance date.

(ii) These shares are held by Wild Family Nominees Pty Limited in which Mr Wild has a beneficial interest.

Note 22 cont.

(f) Loans to Specified Directors and Specified Executives

There were no loans made to any Specified Director or Specified Executive during the year and no loans have been made previously.

(g) Other transactions with specified Directors and specified Executives

Purchases

(i) During the year VRI BioMedical Limited purchased services totalling \$5,861 from Cryosite Limited, of which Dr Peter French is a Director, on normal commercial terms and conditions.

(ii) During the year Mr Kim Slatyer provided consulting services to the company totalling \$31,295 on normal terms and conditions.

There were no other material transactions between the company and the Specified Directors and Specified Executives during the year

23 AUDITOR'S REMUNERATION

Amounts received or due and receivable by

Ernst & Young for:

- an audit or review of the financial report of the entity and any other entity in the consolidated entity
- other services in relation to the entity and any other entity in the consolidated entity:

- Tax compliance
- Special audits required by regulators
- Other

CONSOLIDATED		VRI BIOMEDICAL LIMITED	
2004 \$	2003 \$	2004 \$	2003 \$
56,678	42,000	56,678	42,000
73,312	9,300	73,312	9,300
-	3,200	-	3,200
13,820	27,443	13,820	27,443
143,810	81,943	143,810	81,943

24

INTERESTS IN CONTROLLED ENTITIES

Name	Country of Incorporation	Percentage of equity Interest held by the Consolidated entity
Vasse Research Institute Pty Ltd	Australia	100%
VRI Diagnostics Pty Ltd	Australia	100% and its controlled entities
Equine Alert Pty Ltd	Australia	100%
Helirad Alert Pty Ltd	Australia	100%
CP Alert Pty Ltd	Australia	100%
ONCO Alert Pty Ltd	Australia	100%
Performax Alert Pty Ltd	Australia	100%
SIDS Alert Pty Ltd	Australia	100%
VRI Therapeutics & Vaccines Pty Ltd	Australia	100% and its controlled entities
Herbatex Pty Ltd	Australia	100%
Novoceutics Pty Ltd	Australia	100%
Auticoll Pty Ltd	Australia	100%
Candivax Pty Ltd	Australia	100%
Pneumobiotics Pty Ltd	Australia	100%
Pharmabiotics Pty Ltd	Australia	100%
Probendo Pty Ltd	Australia	100%
Mucoprotec Pty Ltd	Australia	100%
Probiall Pty Ltd	Australia	100%
Probiadd Pty Ltd	Australia	100%
Probiotic Culture Company Pty Ltd	Australia	100%
Atheromastat Pty Ltd	Australia	100%
Broncobiotics Pty Ltd	Australia	100%
EV Diagnostics Pty Ltd	Australia	100%
Secril 4 Alert Pty Ltd	Australia	100%
Sphere Animal Health Ltd	Australia	100%
Diastat Pty Ltd	Australia	100%
Convergent BioScience Pty Ltd	Australia	100%

All of these controlled entities meet the criteria of a small proprietary company and consequently are not required to be audited.

25 SEGMENT INFORMATION

Geographic segments	Australia		USA		Consolidated	
	2004	2003	2004	2003	2004	2003
Segment revenue	921,996	345,561	978,169	1,408,449	1,900,165	1,754,010
Segment assets	2,378,749	1,980,479	-	-	2,378,749	1,980,479
Other segment information:						
Acquisition of plant & equipment	46,954	41,335	-	-	46,954	41,335

26 FINANCIAL INSTRUMENTS**(a) Interest Rate Risk**

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets recognised at the balance date are as follows:

Financial Instruments	Floating interest rate		Non-interest bearing		Total carrying amount per the balance sheet		Weighted average effective interest rate	
	2004	2003	2004	2003	2004	2003	2004	2003
Financial assets	\$	\$	\$	\$	\$	\$	%	%
Cash	268,629	1,349,664	-	-	268,629	1,349,664	3.45	3.4
Trade and other receivables	-	-	438,399	74,848	438,399	74,848	N/A	N/A
Short term deposits	805,147	-	-	120,300	805,147	120,300	5.1	N/A
- Other	-	-	190,728	137,680	190,728	137,680	N/A	N/A
Total financial assets	1,073,776	1,349,664	629,127	332,828	1,702,903	1,682,492		
Financial liabilities								
Payables	-	-	769,095	822,487	769,095	822,897	N/A	N/A
Other creditors	-	-	342,759	64,382	342,759	64,382	N/A	N/A
Total financial liabilities	-	-	1,111,854	886,869	1,111,854	886,869		

Note 26 cont.**(b) Net fair values**

All financial assets and liabilities have been recognised at the date of the statement of financial position at their net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities

Recognised financial instruments

Cash, cash equivalents and short-term investments: The carrying amount approximates fair value because of their short term to maturity.

Trade receivables and trade creditors: The carrying amount approximates fair value.

(c) Credit risk exposures

The consolidated entity's maximum exposure to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position.

Concentrations of credit risk

Currently the consolidated entity's credit risk is concentrated with a few major distributors.

27 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 the financial report.

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 and the company's results.

DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of VRI BioMedical Limited, I state that:

1. In the opinion of the directors:

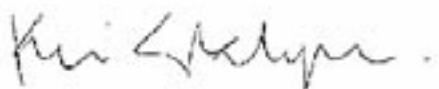
(a) the financial statements and the notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

(ii) comply with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



K R Slatyer
Chairman

Sydney 30th September 2004

Independent audit report to members of VRI BioMedical Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for VRI BioMedical Limited (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, 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 accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. 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 in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit 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 assurance on internal controls.

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

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the financial report, 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.

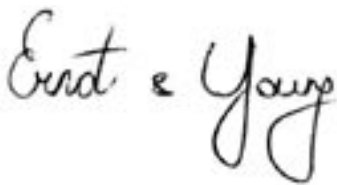
Audit opinion

In our opinion, the financial report of VRI BioMedical Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of VRI BioMedical Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation of Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(a) to the financial statements, there is significant uncertainty whether the company and/or the consolidated entity will be able to continue as going concerns and therefore whether they will be able to pay their debts as and when they fall due and realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and/or the consolidated entity not continue as going concerns.



Ernst & Young



Colleen Hosking
Partner
Sydney

30 September 2004

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31st August 2004.

Distribution of equity securities

The number of shareholders, by size of holding, in each class of security are:

Twenty largest shareholders

			ORDINARY SHARES		OPTIONS OVER ORDINARY SHARES			
			Number of holders	Number of shares	No. of holders \$0.75 ex 6/3/06	No. of options	No. of holders \$0.25 ex 30/6/06	No. of options
1	-	1,000	273	241,249	88	49,188	865	368,650
1,001	-	5,000	610	1,624,906	437	1,080,300	699	1,851,805
5,001	-	10,000	345	2,840,265	115	825,607	234	1,807,409
10,001	-	100,000	788	29,358,350	168	6,724,420	278	8,416,487
100,001	and over		165	70,915,018	68	25,863,857	39	13,084,028
			2,182	104,979,788	876	34,543,372	2,115	25,528,379

The names of the twenty largest holders of ordinary shares are:

		ORDINARY SHARES	% OF SHARES
1	Trivenia Pty Limited	5,561,835	5.30
2	Link Traders (Aust) Pty Limited	4,444,452	4.24
3	Redbrook Nominees Pty Limited	4,050,000	3.86
4	Ivory & Co Pty Limited	3,383,630	3.22
5	Hurst Pollock Noms Pty Limited	3,328,334	3.17
6	White Sands Investments Pty Ltd	1,450,000	1.38
7	Jamel Investments Pty Limited	1,050,000	1.00
8	I E Properties Pty Limited	1,001,627	0.95
9	Arredo Pty Limited	1,000,000	0.95
10	Pathold No 25 Pty Limited	1,000,000	0.95
11	Diskdew Pty Limited	950,000	0.90
12	Mckell Place nominees Pty Ltd	800,000	0.76
13	Mr David Edwards	740,000	0.70
14	Grason Investments Inc.	721,113	0.69
15	Gwynvill Trading Pty Limited	695,000	0.66
16	D M D Holdings Pty Limited	675,000	0.64
17	Mr Rami Cassis	670,000	0.64
18	RBC Global Services Australia Nominees Pty Limited	668,745	0.64
19	Bernd Straube and Sophie Kleitsch	650,000	0.62
20	Merrill Lynch (Australia) Nominees Limited	603,125	0.57
		33,442,861	31.84

ASX ADDITIONAL INFORMATION

ASX ADDITIONAL INFORMATION (CONT.)

The names of the twenty largest holders of options over ordinary shares are:

Optionholder	VRIO \$0.75 ex 6/3/06	
	NUMBER	% of options
1 Jamel Investments Pty Limited	3,098,333	8.97
2 Mr David Edwards	2,401,074	6.95
3 Mr David Keith Edwards and Mrs Roberta May Edwards Super Fund A/c	1,200,000	3.47
4 Campeche Pty Limited	1,047,000	3.03
5 Park Finance Pty Limited	1,016,667	2.94
6 Maktram Pty Limited	1,000,000	2.89
7 Actmoat Pty Limited the Ryan Family Super A/c	836,834	2.42
8 Langton Nominees Pty Limited	800,000	2.32
9 Pierce CIM Pte Limited	734,667	2.13
10 Marvel Nominees Pty Limited	655,834	1.90
11 Edwards Investments Australia Pty Limited	618,970	1.79
12 Loughridge Nominees Pty Ltd	600,000	1.74
13 Primegold Pty Limited	584,224	1.69
14 Keykara Pty Limited	500,000	1.45
15 Mrs Claudine Walker	400,000	1.16
16 Mr Kevin Ross Atkinson	384,521	1.11
17 Mr Edwin Paul Cayzer	358,347	1.04
18 John Walker Financial Counselling Pty Ltd Staff S/F A/c	352,747	1.02
19 Mr Bernd Straube	344,300	1.00
20 Mr John R English	330,360	0.96
	17,263,878	49.98

ASX ADDITIONAL INFORMATION

Optionholder	VRIOB \$0.25 ex 6/3/06	
	NUMBER	% of options
1 Diskdew Pty Limited	2,600,000	10.18
2 Taycol Nominees Pty Limited	2,580,000	10.11
3 Link Traders (Aust) Pty Limited	888,891	3.49
4 Trivenia Pty Limited	583,334	2.29
5 Redbrook Nominees Pty Limited	541,368	2.12
6 Ivory & Company Pty Limited	500,000	1.96
7 Hurst Pollock Noms Pty Limited	495,667	1.94
8 Trivenia Pty Limited <HSB A/c>	310,000	1.21
9 Accbell Nominees Pty Limited	268,632	1.05
10 Trivenia Pty Limited <Kim Robert Slatyer A/c>	219,034	0.86
11 Jamel Investments Pty Limited	210,000	0.82
12 White Sands Investments Pty Limited	204,001	0.80
13 I E Properties Pty Limited	200,326	0.78
14 ANZ Executors & Trustee Co Limited	200,000	0.78
15 Arredo Pty Limited	200,000	0.78
16 Pathold No. 205 Pty Limited	200,000	0.78
17 Mr Russell Frank Percival	200,000	0.78
18 Ivory & Co Pty Limited <The Ivory Fund A/c>	196,726	0.77
19 Diskdew Pty Limited <P Ford Super Fund A/c>	170,000	0.67
20 Gwynvill Trading Pty Limited	139,000	0.55
	10,906,979	42.72

ASX ADDITIONAL INFORMATION

ASX ADDITIONAL INFORMATION (CONT.)

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Number of shares	Number of Options over ordinary shares
Trivenia Pty Ltd	5,561,835	1,478,371

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Unquoted equity on issue

Class of security	Number of securities	Number of holders
Employee Options over ordinary shares	3,430,000	6

VRI BioMedical


bringing science to wellness™

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