VRI BIOMEDICAL LIMITED

A.B.N. 97 084 464 193

ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2003

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

CORPORATE INFORMATION

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John Francis Cade

Sally Anne Capp

James Peter Grant

Glyn Michael Tonge

Company Secretary

Paul Beatty Magoffin

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Commonwealth Bank of Australia Limited
Macquarie Investment Management Limited

Auditors

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Share Register

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CHIEF EXECUTIVE OFFICER'S REPORT

Introduction

In the past 12 months, VRI BioMedical Limited (VRI) has achieved what for most Australian biotechnology companies is still a dream – the launch of a product into the global marketplace. In a year marked by a number of significant changes for VRI, the transition of a research concept into a commercial product is clearly a landmark event.

In an agreement with the US-based company Pharmanex, ProBioPCC™ was launched in several major international markets including the USA, Japan, Korea and Taiwan. This was an achievement that realised the Company's vision of becoming a global company with product in market.

The attainment of this milestone was significant for a number of reasons.

Firstly, it demonstrated that VRI's model of supporting projects with low barriers to market entry is capable of yielding cash flow in considerably less time than biotechnology and healthcare companies adopting a more traditional approach.

Secondly, it extended VRI's knowledge and understanding of how to scale-up from laboratory bench to industrial manufacture - know-how that will prove invaluable in future commercialisation of probiotic-based products.

Thirdly, it validated the strength of the science and technology behind VRI's probiotic program. "Consumers are beginning to recognize the value of probiotics to maintain good health. We believe VRI BioMedical has developed a unique formulation of lactobacilli, potentially providing consumers with a probiotic that is useful in a variety of nutritional states," said Dr Joe Chang, President of Pharmanex.

Fourthly, the marketing of ProBioPCC™ showed for the first time that VRI BioMedical is able to apply its science to the development of commercial products and take them to international markets. Sales of $1.4M in gross revenue from a little over 8 months is a pleasing start to the company's commercial endeavours.

Having reached this first milestone, VRI's management is confident that further commercial outcomes are likely in the short term.

This first commercial contract was signed before I joined VRI. I would like to congratulate all of those who worked very hard to achieve this outcome. I am aware that there are numerous challenges ahead, and am committed to working with the Board and management to build on this first milestone and create a strong, thriving company with multiple revenue streams.

Our strategy to achieve this is to build on our competitive advantages in generating scientific and clinical data to support the marketing of our probiotic, diagnostic and vaccine products, and to sell these products in channels that provide maximum profitability through distributors who understand the real benefits of our products and will promote these benefits aggressively to customers. Recently, a second distribution agreement has been announced, for distribution of Progastrim® in Australia.

Focus on Wellness

My aim since joining the company has been to maximise returns on investment in three biotechnology platforms:

- Probiotics
- Diagnostics
- Vaccines

The common goal of these platforms is to promote wellness by developing products that contribute to disease prevention as well as those which offer treatment.

It is estimated that over the next 10 years Americans will increase their spending in the wellness industry from $US200billion to $US1 trillion-plus. Opportunities to tap into this market are numerous, including functional foods, dietary supplements, pills, vaccines, diagnostic tests to determine an individual's need for wellness products, and even cosmetics. Clearly, a company with scientifically-validated products that promote wellness has a head start in this industry. Thus a key to VRI's future success will be an emphasis on clinical efficacy for its products.

Probiotics

The worldwide market for probiotics in functional foods and yoghurts, dietary supplements and listed pharmaceutical formulations is very large. Sales from probiotic yoghurts alone are estimated to be approximately $US10 billion annually.

Scientific evidence is accruing that probiotics are useful in a range of conditions. For example a recent issue of the medical journal *Current Opinion in Allergy and Clinical Immunology* reported that "…administration of lactobacilli halved the later development of atopic eczema during the first 2 years of life… Probiotics also strengthen gut defence mechanisms…Due to preliminary encouraging results, more clinical trials with known and new potential probiotic strains are called for in the fight against the profusion of allergic diseases." (Kalliomaki M, Isolauri E. Curr Op Allergy Clin Immunol 3(1):15-20, 2003).

This paper demonstrated that probiotics, one of VRI's key technology platforms, is achieving increasing recognition from the medical profession as a valuable treatment option for both allergic and intestinal disease.

VRI's advantage in this emerging field of probiotics is that pre-clinical and clinical data are available to demonstrate viability and efficacy for VRI's two leading strains of *Lactobacillus fermentum* (VRI002 andVRI003).

Progastrim® was sold through a limited number of Australian naturopaths early in 2003 whilst VRI assessed market reaction. Progastrim® provided significant benefit to many customers who sent in impressive testimonials of its effectiveness in a range of disorders (see below). The Pan Pharmaceuticals issue in February significantly delayed our national distribution of Progastrim®. A new manufacturer has since been appointed, and distribution Australia-wide through Life-Span Holdings Pty Ltd, one of Australia's largest distributors of nutraceutical and complementary medicines to naturopathic clinics and health food stores was recently announced.

Feedback from our seed marketing programme and encouraging sales of Progastrim® probiotic capsules to date, give us confidence that we have a highly efficacious product.

Our next goal is to secure wide distribution and sales of our probiotic-based products through retail pharmacies, naturopaths and health food stores so that as many people as possible can experience the health benefits this product offers, as well as earning significant revenue for the Company. This is the focus of our commercialisation efforts in the forthcoming months.

Testimonials such as those below provide further confidence in the product.

Compliance with World Health Organization (WHO) Guidelines
We are confident that VRI owns one of the most effective probiotic strains available.VRI's lead probiotic strain, *L. fermentum* VRI002, the active ingredient in ProBioPCC™ and Progastrim® was isolated and characterised according to the WHO/FAO Guidelines for developing effective probiotic organisms.

These guidelines are:

1. That it should be resistant to gastric acids and bile to ensure survival through the stomach

2. That it should adhere firmly to the mucosa, and colonises and remains viable in the human intestinal tract. It is generally agreed that a probiotic must be capable of colonising the intestinal tract to influence human health; this requirement disqualifies many of the strains currently used in fermented dairy products.

3. That it should retain viability and biological activity over the shelf life.

4. That scientific evidence for clinical efficacy and safety is available.

L. fermentum VRI002 complies with these requirements.

In addition, we are building a portfolio of similar scientific and clinical evidence for other strains, including *L. fermentum* VRI003, and LAVRI strains (in association with DSM).

Progress on DSM-VRI Collaborative Programme

DSM is a supplier of bacterial cultures to the dairy industry, and in addition to their starter culture range, they have a range of probiotic cultures that are being developed together with VRI. Under the terms of the collaborative agreement both VRI and DSM have responsibility to characterise new strains which target immunological conditions. Any product arising will be marketed under the trademark "LAVRI". Over the past 12 months clinical trials covering these strains have commenced, focussing on the *Lactobacillus acidophilus* LAVRI - A1. The first trial was completed, and it showed that the strain has no negative impact on the health of the dosed subjects. The on-going studies are investigating the effects on development of atopic dermatitis. In addition, *Lactobacillus casei* LAVRI -C1 and *Bifidobacterium animalis* LAVRI - B1 have been extensively investigated in the laboratory and a dossier describing the strains is being prepared.

Clinical trials.

To prove the health benefits of our products it is essential to conduct high quality placebo controlled double blind randomised trials. Several clinical trials were progressed over the past 12 months.

Completed Trials

- Mucoprotec 1 (MP1) – A Phase I trial investigating the modulation of immune parameters in healthy volunteers using one of VRI BioMedical's *Lactobacillus acidophilus*(LAVRI-A1*)* strains. None of the measured parameters were altered significantly and no detrimental effects on any safety parameters were observed.

- MP1/Lfa – A preliminary Phase I trial investigating the dose-response of one of VRI BioMedical's *Lactobacillus fermentum* strains on the modulation of immunoglobulin A (IgA) in healthy volunteers. Evidence of elevation of salivary IgA was noted in subjects with initial low levels of IgA.

- Irritable Bowel Syndrome (IBS) – A preliminary proof of concept trial looking at the impact on IBS of one of VRI BioMedical's *Lactobacillus fermentum* strains alone and in combination with a prebiotic, resistant starch. The study was carried out on a small number of subjects under the direction of Dr Eric Wegman, Bondi Junction. This study indicated that oral administration of the Lactobacillus provided some benefit in reducing the severity of symptoms, and an extended trial has therefore been initiated.

Ongoing trials

- Irritable Bowel Syndrome (IBS) – A Phase II trial looking at the impact on the symptoms of IBS of one of VRI BioMedical's *Lactobacillus fermentum* strains (200 subjects). The study is a multi-centre study based at the University of New South Wales and has a number of gastroenterologists and participating physicians.

- MP1/Lfb – A Phase I trial investigating the dose-response of one of VRI BioMedical's *Lactobacillus fermentum* strains on the modulation of IgA and cytokines in healthy volunteers (150 subjects). 80 subjects have completed the trial. This trial is expected to be completed July, 04.

- UWA Perth newborn atopic dermatitis study – A Phase II trial investigating the potential of one of VRI BioMedical's *Lactobacillus acidophilus* strains to prevent the development of atopic dermatitis in newborn infants by administration of the Lactobacillus to the infant from birth. The study is run in association with A/Prof Susan Prescott and involves a total of 180 mothers and their newborn infants. 72 subjects have been enrolled to date. Expected to be completed in late 2005.

- UWA Perth newborn atopic dermatitis study – A Phase II trial investigating the potential of one of VRI BioMedical's *Lactobacillus acidophilus* strains to prevent the development of atopic dermatitis in newborn infants by administration of the Lactobacillus to the mother. The study is run in association with A/Prof Susan Prescott and involves a total of 40 mothers and their newborn infants. Expected to be completed in late 2005.

- UWA Perth infant atopic dermatitis study – A Phase II trial investigating the potential of one of VRI BioMedical's *Lactobacillus fermentum* strains to prevent the development of atopic dermatitis in infants. The study is run in association with A/Prof Susan Prescott and involves a total of 50 infants, all of whom have been recruited. Expected to be completed in early 2004.

- Dermatology – The effect of one of VRI BioMedical's *Lactobacillus fermentum* strains on dermatological conditions, including eczema, is being investigated. The study will be completed second half of 2004 and includes up to 360 subjects.

- MP2 – A Phase II study investigating the impact of one of VRI BioMedical's *Lactobacillus fermentum* strains on immune parameters in elite athletes to prevent over-training syndrome. The study is run in collaboration with the AIS, Canberra and involves 20 highly trained athletes. This study has been completed, with the final report being available by the end of 2003.

- Endotoxaemia – A phase II study investigating the short term effects of probiotic bacterial strains on reducing endotoxaemia in patients undergoing cardiac surgery. This study is being run at Royal Melbourne Hospital under the supervision of Prof. Jack Cade. The study is expected to be completed by the end of the year.

Forthcoming trials due to start this year

- MP3 – A Phase II study to investigate the effects of one of VRI BioMedical's *Lactobacillus fermentum* strains on vulvovaginal Candida infection (thrush). The study is expected to start late 2003.
- MP4 – A Phase II trial in subjects with cardiovascular disease. They will be dosed with one of VRI BioMedical's *Lactobacillus fermentum* strains and indicates of cardiovascular disease will be monitored. The trial is antiicapted to start late 2003.
- MP 5 – A Phase II trial in subjects with elevated levels of serum cholesterol. Volunteers will be given one of VRI BioMedical's *Lactobacillus fermentum* strains and cholesterol levels monitored. The trial is expected to start in late 2003.
- MP 6 – A Phase I trial investigating the long term low dose effects of one of VRI BioMedical's Lactobacillus fermentum strains on the modulation of the immune system in healthy volunteers. The study is anticipated to start in late 2003.

The recent fund raising allows us to put significant resources into advancing the planned clinical trials for our probiotics programme.

Diagnostics
In December 2002 VRI signed a Master Development Agreement with Proteome Systems Ltd (PSL) in Sydney to develop VRI's diagnostic assays for rapid point-of-care (POC) applications. This venture provides great potential for VRI to commercialise these assays in the large and growing POC market internationally.

The world clinical diagnostics market is estimated to be in excess of US$20 billion in sales and growing at a medium term average of 5% per annum. The at-home market in the USA has grown from US$750 million in 1992 to a projected US$2.82 billion in 2002 and is growing at an annual rate of 12%. Additionally the world physicians' POC market is approximately US$2 billion.

VRI has developed a range of *in vitro* diagnostic tests, many of which are suited to designed to be configuration as rapid diagnostic assays for use in a POC setting. These include IgAlert™, a test of immune health, and two tests (OncoAlert™ and HeliRad Alert™)for the detection of the stomach ulcer-causing organism *Helicobacter (H.) pylori*. PSL has developed a proprietary diagnostic test platform that is fast, simple to use, reliable and quantitative, making it ideal for such applications.

OncoAlert™. In January we announced that a major study conducted in association with Royal Mary Hospital in Hong Kong had successfully validated OncoAlert™, VRI's unique diagnostic test for *H. pylori*. OncoAlert™ is a diagnostic assay which combines the ability to detect the presence of *H. pylori* with the potential to diagnose the risk of developing associated gastric cancer.

The results from the study showed that OncoAlert™ is highly accurate in the detection of the infectious disease, and meets or surpasses industry standards for tests of this kind. This is a major milestone in the commercialisation of this high potential diagnostic, and discussions have been commenced with several diagnostic companies re partnering.

The market for such a product is considerable. More than half of the world's population is infected with *H. pylori* and it is estimated to be the primary cause of around 70% of gastric, 90% of duodenal ulcers, and over half the cases of gastric cancer. Worldwide it is estimated that almost half a million new cases of gastric cancer are attributable to *H. pylori* annually.

No non-invasive test exists which would allow for prediction of risk and/or early diagnosis of gastric cancer caused by *H. pylori* infection. OncoAlert™ thus has the potential to provide clinicians with a new effective diagnostic tool.

VRI BioMedical is developing OncoAlert™ in two formats - a laboratory-based assay and a rapid point-of-care device.

IgAlert™ is being developed with PSL as a rapid diagnostic test of immune status, with a view to initially targeting the elite athlete market. IgAlert™ measures immunoglobulin A (IgA) concentration in saliva, is a convenient indicator of immune status. IgA appears selectively in mucosal secretions such as saliva, tears, nasal fluids, sweat, etc. Its primary function is to defend exposed external surfaces of the body, such as the mouth, throat, gastrointestinal tract, urinary tract and reproductive system against attack by microbes.

IgA prevents microorganisms to the surface of mucosal cells, thus preventing their entry into the body tissues. IgA also aids the destruction of pathogens. Numerous studies have shown that chronic exposure to stress can reduced the levels of salivary IgA, thereby increasing an individual's risk of infection, especially of the upper respiratory tract.

IgAlert is the only fast, simple and reliable measure of salivary IgA(and therefore of an individual's immunological status). VRI sees this product as having significant potential in the elite athlete market, the semi-professional athlete market and ultimately as a mass marketed test of immune health and well-being.

Vaccines
VRI is committed to developing two vaccines – Pneumobiotics™ for chronic bronchitis, and Candivax™ for recurrent vulvovaginal candidiasis.

Pneumobiotics™ is an oral vaccine for the prevention of commonly occurring bacterial-induced flare-ups of chronic bronchitis. Such flare-ups are particularly distressing to sufferers and may lead to hospitalisation and in some cases death, and represent a significant cost burden to the community.

In the USA it is estimated that between 1982 and 1996 the number of individuals reporting chronic bronchitis increased 84% from 7.7 million to 14.2 million. The development of a vaccine to treat this problem would thus be of major benefit for sufferers worldwide.

In May 2003, VRI received a Federal Government Biotechnology Innovation Fund (BIF) grant of $250,000 to accelerate the development of the Pneumobiotics™ vaccine project to phase II clinical trials. This was followed by the awarding of a $110,000 BioFirst Grant from the New South Wales Government.

In June, VRI's Chief Scientist in charge of the vaccine projects, Dr Margaret Dunkley was promoted to Associate Professor at the University of Newcastle in recognition of her contribution to the science of immunology.

Consolidation of Operations
In keeping with VRI's desire to reduce costs and increase efficiencies, the decision was taken some months ago to consolidate corporate and scientific operations substantially in Sydney. We now have premises in the Australian Technology Park in Sydney, close to the University of New South Wales.

Looking forward
VRI continues to build on its core competences in microbiology and immunology and in manufacturing and development of probiotic products. To this end I look forward to seeing over the next 12 months significant commercialisation achievement for products from both the probiotic and diagnostic platforms. A high priority for the next few months is the completion of distribution agreements for VRI's unique probiotic-based products with the aim of ensuring a recurrent revenue stream whilst further developing new products and formulations for a range of health applications.

Dr Peter French,
Chief Executive Officer

Bringing science to wellness

Senior Management and Research People

A fundamental strength of VRI BioMedical is its human capital with expertise in scientific research and development, and taking probiotic products to global markets. A highly qualified and experienced management team has been brought together to help manage the company's activities and drive the achievement of its primary objective to maximize shareholder wealth.

Dr Peter French – Chief Executive Officer

Dr French combines almost 30 years of medical research with significant experience in management of innovative organisations. Until recently 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.

Dr French brings broad commercial experience to VRI BioMedical following his close association with listed bioscience company, Cryosite, in which he is a co-founder and non-Executive Director. Dr French is the author of many peer-reviewed scientific publications in the areas of cell and molecular biology. He has BSc and MSc degrees from the University of Sydney, a PhD from Deakin University for research undertaken at the CSIRO Division of Protein Chemistry and an MBA in Technology Management from Deakin University/APESMA.

Dr French has an extensive network of contacts in the Australian biological sciences area, being a Past-President of the Australian and New Zealand Society for Cell and Developmental Biology, and a member of the Board of the Federation of Australian Scientific and Technological Societies.

Mr Paul Magoffin – Chief Financial Officer & Company Secretary

Mr Magoffin is a Fellow of CPA Australia and a Fellow of Chartered Secretaries Australia and joins the company with many years experience as a public company secretary and also as a financial controller with small, medium and larger sized companies. Mr Magoffin's experience has been in a number of fields including resources, heavy engineering and processing and in these positions he has been involved in mergers and acquisitions (both on-market and privately) and capital raising as well as having had overall responsibility as financial controller of most of these companies.

Associate Professor Patricia Conway – Chief Scientist, Probiotics

Prof Conway is an internationally renowned researcher in the field of probiotics and prebiotics and is frequently invited to give plenary lectures at international scientific meetings. She has BSc and MSc degrees from the University of Queensland and a PhD from the University of Queensland. She spent 10 years in gastrointestinal microbiology at the CSIRO Division of Food Research before moving to Gothenburg University in Sweden. After almost 10 years in Sweden carrying out active research in probiotics, she returned to the University of New South Wales (UNSW) to continue her research on probiotics and prebiotics within the CRC for Food Industry Innovation.

Since joining VRI, Prof Conway has maintained her base at UNSW where she heads an active research group. In addition to having published almost 100 scientific articles in the field of gastrointestinal microbiology and probiotics, she has written numerous book chapters and is a co-inventor on approximately 20 patents.

Associate Professor Margaret Dunkley – Chief Scientist, Vaccine Projects

Prof Dunkley is known internationally for her work in the areas of mucosal immunology and infectious disease. Dr Dunkley holds a BSc (Hons) degree (University of Melbourne), MSc (Walter and Eliza Hall Institute / University of Melbourne) and a PhD in immunology (University of Newcastle). Prof Dunkley also has a Graduate Certificate of Management and Graduate Diploma of Management - Technology Management (APESMA/Deakin University) and is currently completing an MBA. She has many years experience in scientific research having published 67 scientific papers in the field of immunology and presented 50 papers at national and international scientific conferences.
She has worked in several research Institutions that include the Department of Medicine, Royal Melbourne Hospital; Walter and Eliza Hall Institute Melbourne; Australian National University, Canberra; University College, London; and University of Newcastle, Australia. Prof Dunkley's research experience has focussed predominantly on oral immunisation and development of vaccines for protection against infections at mucosal surfaces such as gut, lung and reproductive tract.

Henk Roubos – Product Development Manager

Mr Roubos has been employed for more than 25 years in various roles in the pharmaceutical industry. He has a BApp Sci (Chemistry). As Technical Development Manager for Wellcome Australia, Mr Roubos was responsible for new products from concept to regulatory submissions. He has extensive experience in all aspects of production of solid, semi-solid and liquid pharmaceutical dosage forms, as well as analytical method development, validation and testing procedures. Mr Roubos teaches pharmaceutical technology at the University of Sydney.

Bringing Benefits of Wellness to People

Intestinal Disorders Market
Poor intestinal health is very common:

- Up to 30% of the U.S. adult population experience symptoms of Irritable Bowel Syndrome (IBS) to some extent. The number of diagnosed prevalent cases is forecast to increase to 19.4 million by 2009. The market for agents to treat IBS totaled $US 426 million in the seven major pharmaceutical markets. Forecast sales for IBS therapies in development [cilanestron, renzapride and tergaserod], is expected to be at least $250 million US for each agent.
- Approximately 20% of adults who receive antibiotics experience antibiotic-induced diarrhoea.
- According to the WHO, up to 30% of the world population is affected by occasional diarrhea each year.
- 20-50% of travellers (~10 million) develop Travellers' Diarrhoea each year.

Testimonials

Intestinal health
"… thank you for all that you've done to help launch this incredible product. I'm already receiving fantastic feedback about ProBioPCC™ from people infected with *E. coli*, from people who are recovering from aggressive antibiotic treatments as well as from one person who has suffered for more than a decade with IBS (until now). I hope that Pharmanex can continue to do this product justice by spreading it throughout the world."
Dr Mark Bartlett, Senior Scientist, Pharmanex Inc.

Irritable bowel syndrome (IBS)
"For the last ten years I have suffered from Chronic Fatigue Syndrome, Irritable Bowel Syndrome and a parasite called Blastocystis hominis, causing chronic diarrhea which can send me to the toilet sometimes up to fifteen times per day… I started taking Progastrim™ in early January 2003 and am grateful to report that my [symptoms] have improved 80-90%…The benefits of Progastrim™ [were] demonstrated to me a month ago when I stopped taking it for one week to participate in a trial with a new drug … for the treatment of Blastocystis hominis... Unfortunately the drug did not work for me but the suspension of Progastrim™ sent me crashing back to all my old symptoms. I recommenced taking it and my improvement has been rapid. Although I still have Blastocystis, Progastrim™ has given me a quality of life that I haven't experienced in years."
Colin H, Perth

Diarrhoea
"In July of 1998, I was diagnosed with advanced cervical cancer and I went into treatment. I underwent chemotherapy and radiation therapy and my stomach and bowel were affected. I spent about 3 hours a day in the bathroom due to bouts of diarrhea for the past 4 years. Since October 1,2002, I have been taking the ProBioPCC™ and have been diarrhea-free for 64 days. My energy level has doubled and I have added 3 hours to my day to be able to build my business even faster. After four years of dealing with constant diarrhea, practically everyday for the last four years, Pharmanex has truly made the difference in my life that I wanted all of you to know."
Connie H - Sacramento, California

Dermatology market

In 2000, the sales of treatments for skin conditions world-wide were US$8,761 million, of which products for psoriasis accounted for 5%, and topical corticosteroids were 23%. The biggest markets for dermatological treatments were the US (40%), Japan (16%) and Europe (18%).

Atopic dermatitis affects an estimated 10% of infants and young children, and accounts for 10 to 20 percent of all referrals to dermatologists. 65% of patients develop symptoms in the first year of life, and 90% develop symptoms before the age of 5.

Statistics from the US National Psoriasis Foundation:
- 2.1% of the US population (4.5 million) has psoriasis, with world-wide incidence being 1-3%.
- Average age of onset is 28.
- 30% of cases are considered moderate to severe (>3% of their body).
- Psoriasis accounts for an estimated 30% of referrals to dermatologists – 2.4 million dermatologist visits p.a.
- Costs of treating psoriasis >$3 billion annually.
- 150,000 – 260,000 cases diagnosed each year.

The Australian Psoriasis Association (1999) estimated that the prevalence of psoriasis in Australia was 4-5% in 1999 and steadily rising.

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Testimonials

Childhood Eczema
"My 15 month old daughter had eczema in the creases at the back of her knees from the time she was 3-4 months old. We used a number of different creams and ointments to reduce the redness and itching, but they only mildly improved the condition and as soon as we stopped using them the condition would return to its previous state. The itching was so bad that it was waking her up at night - which was disruptive for the whole family. Since we started giving her Progastrim™ in her yoghurt the condition has disappeared totally and we are amazed. No more redness or itching, and no more discomfort as she hasn't been waking up any more screaming and scratching her legs as before. It really made a difference when other treatments did not, and we don't have to worry about side effects, as it's a natural product. We were so impressed, that the whole family now takes Progastrim™."
Mary-Jane R - Perth, Western Australia

Psoriasis

"… I have been suffering from psoriasis for the past twenty years. … I have been through the following courses of treatment:

- Tar based treatments
- Puva light treatment
- Various naturopaths
- Chinese medicines & acupuncture
- Zinc based treatments

Of these only the Puva actually had a positive impact on reducing the psoriasis, but it impacted heavily on my lifestyle and once I finished the treatment program the psoriasis immediately returned.
Recently I was invited to trial a course of probiotics (Progastrim™)… About 2.5 weeks into the first course my psoriasis started to dramatically improve. Patches decreased in size & thickness, the redness was decreasing and my energy levels started to rise.
For me this was great but I really dreaded going off the course as I was resigned to the psoriasis returning to its former state.
Imagine my surprise and relief when this did not happen. At the end of the course and the two week clean out period my condition remained positively static. The second course came and went without any further change – either good or bad. It is now two weeks after finishing the second course and it is only now that the psoriasis is starting to return. I can confidently state [Progastrim™] has had the best impact upon my psoriasis. It improved my condition without any side effects."
Paul S, Sydney.

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2003.

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

Mr Ronald Edward Deane **Non-Executive Chairman**	Mr Deane has 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. In 1986, he became Group Director – Administration, controlling the Finance and Personnel functions. He was then appointed Chief Executive Officer of CSL's new wholly-owned biotech company, Mimotopes Pty Ltd (www.mimotopes.com). When Mimotopes was acquired by Chiron and later by another US biotechnology company, MitoKor, Inc, he was asked to stay on as CEO on each occasion. He was appointed Chief Business Officer for MitoKor in 2000 and worked in San Diego until his retirement in 2002. Mr. Deane continues to act as a Consultant for both MitoKor and Mimotopes. Appointed Non-Executive Director on the 24 April 2003. Appointed Non-Executive Chairman on the 23 May 2003.
Professor John Francis Cade **Non-Executive Director** **MD, PhD, FRACP, FANZCA, FCCP**	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.
Ms Sally Anne Capp **Non-Executive Director** **LLB (Hons.) B Com. GAICD**	Ms Capp is the Managing Director of Perth based investment banking organisation, Australian Heritage Group Limited. She has corporate, commercial and legal expertise and experience in the management of public companies, practised law professionally for 10 years and is a member of the ASX and the Australian Institute of Company Directors. In addition to her role as an executive director of AHT, Ms Capp currently serves on the board of one other listed public company, Avon Resources Limited and several other public and private companies. Appointed as a Non-Executive Director on 29 May 2003.
Mr James Peter Grant **Non-Executive Director** **FCA, FAICD**	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. He is currently a director of Sydney Water Corporation, the Deputy Chairman of Arab Bank Australia Limited, and the Independent Member of the Audit Committee of the Indigenous Land Corporation. Mr Grant has extensive experience on the boards of ASX listed companies. Appointed as a Non-Executive Director on 29 May 2003.
Professor Glyn Michael Tonge **Non-Executive Director** **B.Sc(Hons) Biochemistry PhD, C Biol, FIBiol, FRSA**	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). His time with PA Consulting Group saw him develop its biotechnology and pharmaceutical business. He holds directorships with a large number of UK companies including Laxdale Ltd, Site Intelligence Ltd, Penn Pharmaceuticals Ltd, Fraser Williams Plc and the Southampton Institute. Professor Tonge is currently a non-executive director of Dabur Oncology plc, a UK pharmaceutical company specialising in Oncology with research and development in both the UK and India. He is also a partner and director of Vida Capital Partners Ltd a UK private equity fund investing in the healthcare and life science industries.

Mr Leon Ivory	Mr Ivory was Chairman of the Company until 23 May 2003 and a Non-executive Director until he resigned on 29 May 2003.
Mr Kenneth Peter Baxter B. Ec, FAIM, FAICA	Mr Baxter resigned as a Non-Executive Director on 29 May 2003.
Mr Kim Slatyer	Mr Slatyer resigned as a Non-Executive Director on 4 April 2003.
Mr Ronald Rowland AM	Mr Rowland was appointed a Non-Executive Director on 29 May 2003 and resigned on 17 June 2003.

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
JF Cade	275,333	Ordinary	106,800	300,000
GM Tonge	-	Ordinary	-	300,000
SA Capp	327,800	Ordinary	-	-
J Grant	-	Ordinary	-	-
RE Deane	-	Ordinary	-	-

EARNINGS PER SHARE

	Cents
Basic earnings/(loss) per share	(8.53)
Diluted earnings/(loss) per share	(8.53)

DIVIDENDS

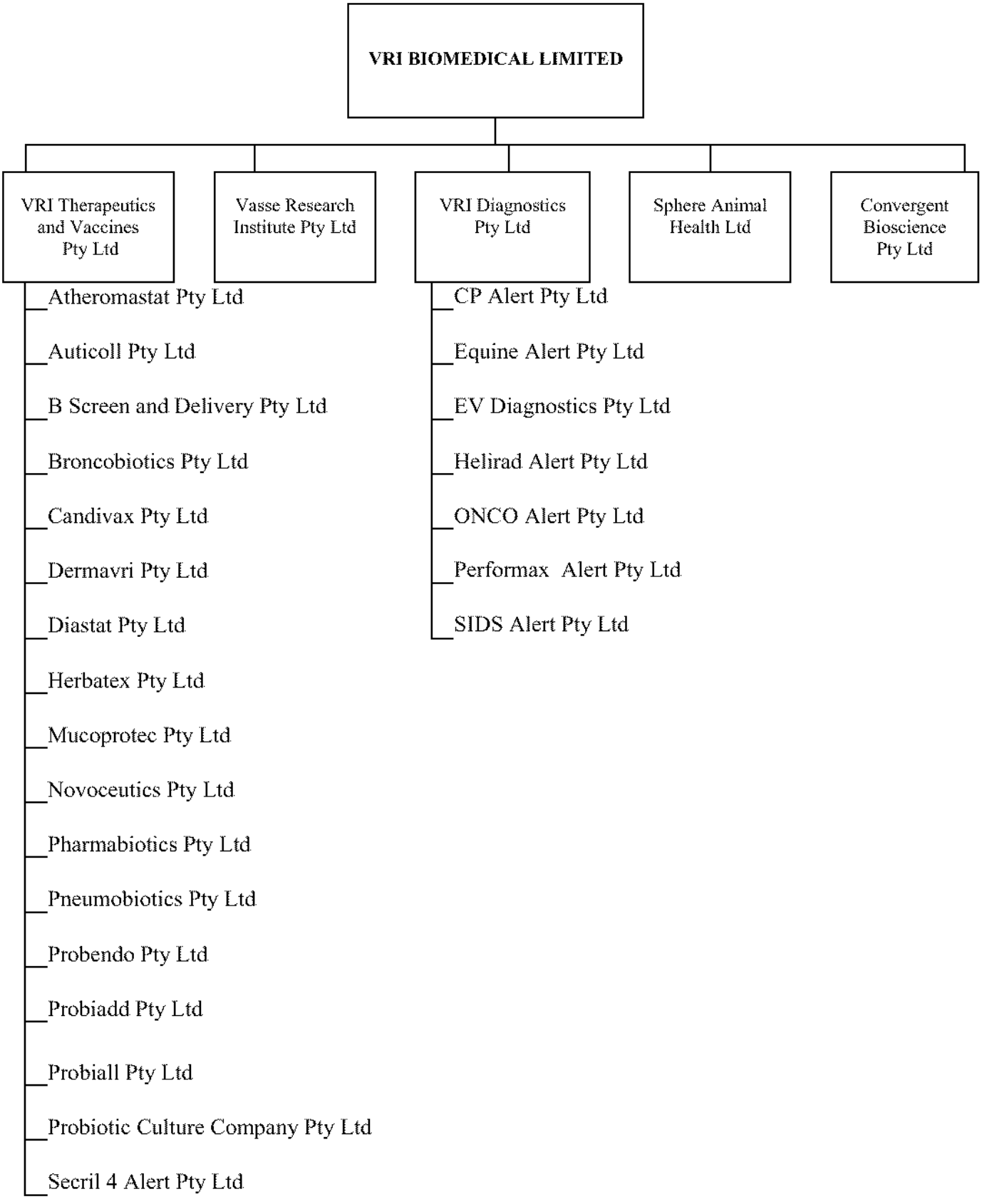
No dividends have been paid or have been recommended during the year.

DIRECTORS' REPORT (Cont.)

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 wholly owned entities that it controlled during the financial year, which are outlined in the following illustration of the group's corporate structure:



DIRECTORS' REPORT (Cont.)

Nature of operations and principal activities

The principal activity of the Company is the development of products for commercialisation supported by target research activities for the prediction, prevention and treatment of disturbances of the body's natural defence systems.

There have been no significant changes in the nature of those activities during the year.

Employees

The consolidated entity employed 26 employees as at 30 June 2003 (2002: 24 employees)

REVIEW OF OPERATIONS

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

Results

The loss of the consolidated entity for the financial year after providing for income tax amounts to $5,103,987 (2002: $4,803,987). 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 $2 million (before costs) via a share placement.

The Company commercialised its first product namely ProBio PCC under the terms of the Supply Agreement with Nu Skin International Inc which provided revenue of $1,408,449.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to the end of this reporting period the Company has successfully raised by way of a placement and a rights issue, $4.3million (before costs). This capital will enable the Company to continue to develop its products.

Also subsequent to the end of this reporting period, the Company consolidated its operations in Sydney and this is expected to result in the reduction of expenses in a range of areas over time.

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 (Cont.)

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 38,912,041 unissued ordinary shares under options (27,603,768 at balance date). Refer to note 13 (c) and (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 have exercised their options to acquire fully paid ordinary shares in terms of their employee share options. Since the end of the financial year, no options have been exercised.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since 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 $21,702, which is not included in their remuneration.

The Company has entered into officer protection deeds (Deeds) with each Director, the company secretary and certain members of senior management (Officers).

Under the Deeds, the Company will to the maximum extent permitted by law and the Company's constitution, indemnify the Officers against:

- Costs and expenses incurred in defending proceedings; and
- Other liabilities that may arise from their position.

Also pursuant to the Deeds, VRI BioMedical must insure the Officers against liability and provide access to all documents relevant to defending any claim brought against the Officers in their capacity as officers of the Company.

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:

DIRECTORS' REPORT (Cont.)

Emoluments* of directors of VRI BioMedical Limited

	Annual Emoluments				Long Term Emoluments Options		
	Base Fee	Bonus	Other	Termination and Similar Payments			Super-annuation
	$	$	$	$	Number	$	$
R Deane	8,596	-	-	-	-	-	774
J Cade	27,523	-	-	-	-	31,000	2,477
S Capp	-	-	-	-	-	-	-
J Grant	-	-	-	-	-	-	-
G Tonge	40,000	-	-	-	-	31,000	-
L Ivory	200,192	25,000	8,231	52,387	-	-	18,511
K Baxter	27,523	-	23,310	-	-	31,000	2,477
K Slatyer	20,642	-	77,500	-	-	-	1,858
R Rowland	-	-	-	-	-	-	-

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

	Annual Emoluments				Long Term Emoluments Options		
	Base Fee	Bonus	Other	Termination and Similar Payments			Super-annuation
	$	$	$	$	Number Granted	$	$
P French***	111,898	-	-	-	750,000 @	34,200	12,019
JR Frame	138,888	-	14,967	-	-	54,240	36,112
PL Conway	97,667	-	21,153	-	-	41,000	8,250
JJ Fitzgerald	98,612	-	-	-	-	50,000	11,388
M Dunkley	69,972	-	-	-	-	14,470	35,308

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 directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity.

The company has adopted the fair value measurement provision of ED 108 "Share-based Payments" prospectively for all options granted to directors and relevant executives, which had not vested as at 1 July 2002. The fair value of such grants is being amortised and disclosed as part of director and executive emoluments on a straight line basis over the vesting period. No adjustments have been or will be made to reverse amounts previously disclosed in relation to options that never vest (i.e.,forfeitures). Prior to 1 July 2002, the company disclosed the fair value of option grants but did not allocate those values over the vesting period. Rather, the full fair value of the grant was disclosed as an emolument in the year of grant. As a result, included in the amounts disclosed above as option grant emoluments in relation to the 2003 financial year, are amounts related to options that vested during or over the 2003 financial year, which were granted and therefore disclosed as part of emoluments in prior years as well. This is a one-off result of transitioning to allocation of such amounts to emoluments over the vesting period rather than disclosure of the full amount as

emoluments in the year of grant. From 1 July 2002, options granted as part of director and executive emoluments have been valued using the Black-Scholes pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying shares, current market price of the underlying shares and the expected life of the option.

@ These employee share Options granted under the Employee Share Option Plan are exercisable at $0.75 per Ordinary Share. They have been valued at $0.271 per option using the Black-Scholes pricing model. The value of these options has not been included in the Remuneration of Directors or Executives as disclosed in Note 21 and Note 22.

*** Dr P French commenced employment with the Company on 14 October 2002.

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:

		Meetings of Committees	
	Directors' Meetings	Audit and Risk Management	Remuneration
Number of meetings held:	13	4	3
Number of meetings attended:			
R Deane *	7	-	-
L Ivory **	10	-	-
S Capp *	3	-	-
K Slatyer **	5	3	3
J Grant *	3	-	-
K Baxter **	10	4	3
R Rowland **	2	-	-
J Cade	13	4	3
G Tonge***	10	-	-

Notes:

* S Capp, J Grant, R Deane and R Rowland attended all Directors' meetings held since or during their appointment.

** R Rowland, K Slatyer, L Ivory and K Baxter attended all Directors' meetings held prior to their resignation.

*** Two of these meetings were attended by G Tonge's Alternate – J Frame

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 Cade (Chairman)	K Baxter (Chairman)
K Baxter	J Cade
K Slatyer	K Slatyer
G Tonge	G Tonge

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

Audit and Risk Management	Remuneration
J Grant (Chairman)	J Cade (Chairman)
S Capp	S Capp
R Deane	R Deane

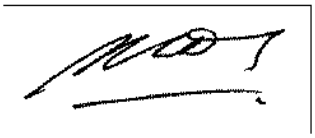
TAX CONSOLIDATION

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

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.



R Deane
Chairman
Melbourne, 25th .September 2003

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 on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

Composition of the Board

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

- the Board should comprise a majority of non-executive directors;
- the Chairman must be a non-executive director;
- the Board should comprise directors with an appropriate range of qualifications and expertise; and
- the Board shall meet as and when required and follow meeting guidelines set down ensure that all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

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

Name	Position	Name	Position
R Deane	Chairman, Non-Executive Director	J Grant	Non-Executive Director
J Cade	Non-Executive Director	G Tonge	Non-Executive Director
S Capp	Non-Executive Director		

Remuneration and Nominations Committee

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves and the chief executive officer and the executive team. The Board is also responsible for ensuring that it continues to operate within the established guidelines, including when necessary, selecting candidates for the position of Director of the Company.

The Board has established a Remuneration and Nominations committee, comprising three non-executive directors.

Members of the Remuneration and Nominations committee throughout the year were:

K Baxter (Chairman)
J Cade
K Slatyer
G Tonge

Current members of the Remuneration and Nominations Committee are:-

J Cade (Chairman)
R Deane
S Capp

Audit Committee and Risk Management Committee

The Board has established an 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. This includes the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board has delegated the 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. All members of the audit committee are non-executive directors.

CORPORATE GOVERNANCE STATEMENT (Cont.)

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

J Cade (Chairman)
K Baxter
K Slatyer

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

J Grant (Chairman)
S Capp
R Deane

The Audit and Risk Management Committee is also responsible for:

- directing and monitoring the internal audit function; and
- nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year statutory audit or review.

Board Responsibilities

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

The responsibility for the operation and administration of the consolidated entity is delegated by the Board to the chief executive officer and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the chief executive and the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the board. The board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of the committees referred to above, these mechanisms include the following:

- Board approval of a business plan, which encompasses the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;
- the strategic plan is a dynamic document and the board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- implementation of operating plans and budgets by management and Board monitoring of progress against budget – this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
- procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the company's expense.

Communication to Shareholders

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

- the annual report which is distributed to all shareholders;
- the half-yearly report is also available to all shareholders; and
- the annual general meeting and other meetings so called to obtain approval for board action as appropriate.

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

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2003

	NOTES	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2003 $	2002 $	2003 $	2002 $
REVENUES FROM ORDINARY ACTIVITIES	2	1,754,010	579,054	2,482,223	-
Raw materials and consumables used	3	(1,129,345)	-	-	-
Changes in inventories		72,488	-	-	-
Depreciation and amortisation expenses	3	(55,626)	(70,444)	(55,626)	-
Salaries and employee benefits expense	3	(811,857)	(941,713)	(811,857)	-
Research and development expenditure	3	(2,877,367)	(2,475,321)	(1,973,562)	-
Travel expenses	3	(513,424)	(720,586)	-	-
Rental expenses	3	(257,023)	(221,315)	-	-
Consultancy fees	3	(423,188)	(375,455)	-	-
Shareholders meeting costs	3	(184,637)	-	(184,637)	-
Increase in provision for non recovery of loans to controlled entities		-	-	(4,560,528)	(4,804,297)
Other expenses from ordinary activities		(678,018)	(578,207)	-	-
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(5,103,987)	(4,803,987)	(5,103,987)	(4,804,297)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	-	-	-	-
NET LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	14	(5,103,987)	(4,803,987)	(5,103,987)	(4,804,297)
Share issue costs		(185,822)	-	(185,822)	-
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF VRI BIOMEDICAL LIMITED AND RECOGNISED DIRECTLY IN EQUITY		(185,822)	-	(185,822)	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF VRI BIOMEDICAL LIMITED		(5,289,809)	(4,803,987)	(5,289,809)	(4,804,297)
Basic earnings/(loss) per share (cents per share)	20	(8.53)	(8.22)		
Diluted earnings/(loss) per share (cents per share)	20	(8.53)	(8.22)		

The statement of financial performance should be read in conjunction with the accompanying notes.

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2003

	NOTES	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2003 $	2002 $	2003 $	2002 $
CURRENT ASSETS					
Cash assets		1,349,664	963,187	1,349,664	963,187
Receivables	5	332,828	3,704,053	332,828	3,704,053
Inventories	6	72,488	-	72,488	-
Other	7	59,141	21,206	59,141	21,206
TOTAL CURRENT ASSETS		1,814,121	4,688,446	1,814,121	4,688,446
NON-CURRENT ASSETS					
Receivables	8	-	-	-	-
Other Financial Assets	9	-	-	410	410
Property, Plant and Equipment	10	166,358	209,079	166,358	209,079
TOTAL NON-CURRENT ASSETS		166,358	209,079	166,768	209,489
TOTAL ASSETS		**1,980,479**	**4,897,525**	**1,980,889**	**4,897,935**
CURRENT LIABILITIES					
Payables	11	886,869	561,426	887,279	561,836
Provisions	12	125,827	78,507	125,827	78,507
TOTAL CURRENT LIABILITIES		1,012,696	639,933	1,013,106	640,343
TOTAL LIABILITIES		**1,012,696**	**639,933**	**1,013,106**	**640,343**
NET ASSETS		**967,783**	**4,257,592**	**967,783**	**4,257,592**
EQUITY					
Contributed Equity	13	15,411,191	13,597,013	15,411,191	13,597,013
Accumulated Losses	14	(14,443,408)	(9,339,421)	(14,443,408)	(9,339,421)
TOTAL EQUITY		**967,783**	**4,257,592**	**967,783**	**4,257,592**

The statement of financial position should be read in conjunction with the accompanying notes.

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
30 JUNE 2003

	NOTES	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2003 $	2002 $	2003 $	2002 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Government Grants		1,334,951	-	2,975,617	-
Payments to Suppliers and Employees		(3,780,475)	(2,500,295)	(1,439,605)	-
Interest Received		118,433	358,992	-	-
Research and Development Costs		(2,670,987)	(2,382,407)	(1,973,562)	-
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	15	(4,998,078)	(4,523,710)	(437,550)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of Property, Plant & Equipment		(41,335)	(58,812)	(41,335)	(58,812)
Advances to Controlled Entities		-	-	(4,560,528)	(4,523,710)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(41,335)	(58,812)	(4,601,863)	(4,582,522)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Issue of Ordinary Shares		2,000,000	37,000	2,000,000	37,000
Payment of Share Issue Costs		(185,822)	-	(185,822)	-
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		1,814,178	37,000	1,814,178	37,000
NET INCREASE/(DECREASE) IN CASH HELD		(3,225,235)	(4,545,522)	(3,225,235)	(4,545,522)
Add Opening Cash brought forward		4,574,899	9,120,421	4,574,899	9,120,421
CLOSING CASH CARRIED FORWARD	15	1,349,664	4,574,899	1,349,664	4,574,899

The statement of cash flows should be read in conjunction with the accompanying notes

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial statements have been prepared in accordance with the historical cost convention.

(b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year. Except for the accounting policy with respect to employee benefits.

The consolidated entity has adopted the revised Accounting Standard AASB 1028 "Employee Benefits", which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised Standard, the provision of the employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. The effect of the revised policy has been immaterial in the 2002 and 2003 years.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising VRI BioMedical Limited (the parent entity) 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.

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

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.

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

(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 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

(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. Interest is taken up as income on an accrual basis.

(g) Investments
Investments in controlled entities are carried at cost.

(h) Inventories
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
Items of plant and equipment are recorded in the financial report at cost. Depreciation is calculated on a straight line basis over the useful life as follows:-

Plant and equipment ranging from 2 to 20 years	(2002: 2-20 years)
Office equipment ranging from 2 to 14 years	(2002: 2-14 years)

(k) 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.

(l) 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.

(m) 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.

(n) 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 consideration for the provision of, or investment in, assets has been attained.

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

Service fees
Fees are charged to the subsidiaries for contracted labour and equipment hire at cost.

(o) Taxes

Income taxes

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

Goods and Services Tax (GST)

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

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

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

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

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

(p) 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, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick 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 option plan described in Note 13 is not charged as an employee entitlement expense.

(q) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2003	2002	2003	2002
	$	$	$	$
2. REVENUE FROM ORDINARY ACTIVITIES				
Included in the operating loss is the following:				
Revenues from operating activities				
Service fees	-	-	1,988,829	-
Revenue from sale of goods	1,408,449	-	-	-
	1,408,449	-	1,988,829	-
Revenue from non-operating activities				
Interest received				
- Other persons/corporations	113,639	317,582	-	-
START Grant	191,922	261,472	453,394	-
BIF Grant	40,000	-	40,000	-
	345,561	579,054	493,394	-
Total revenues from ordinary activities	**1,754,010**	**579,054**	**2,482,223**	**-**
3. EXPENSES AND LOSSES				
(a) **Expenses**				
- Cost of goods sold	1,056,857	-	-	-
- Depreciation of non-current assets	55,626	70,444	55,626	-
- Research and Development costs	2,877,367	2,475,321	1,973,562	-
- Provision for Non Recovery of Loans	-	-	4,560,528	4,804,297
- Salaries and Employee Benefits	811,857	941,713	811,857	-
- Rental expenses	257,023	221,315	-	-
- Consultancy fees	423,188	375,455	-	-
- Travel expenses	513,424	720,586	-	-
- Shareholders meeting costs	184,637	-	184,637	
(b) **Losses (gains)**				
Net foreign currency losses	43,523	-	-	-

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2003	2002	2003	2002
	$	$	$	$

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% (2002: 30%)	(1,531,196)	(1,441,196)	(1,531,196)	(1,441,196)
Tax Effect of Permanent Differences				
Provision for Non Recovery of Loans	-	-	1,368,158	1,441,196
Research & Development accelerated claim	-	243,249	-	-
Other costs	82,535	580	55,391	-
Future Income Tax Benefit not brought to account	1,448,661	1,197,367	107,647	-
Income tax expense/(benefit) attributable to loss from ordinary activities	-	-	-	-

As at 30 June 2003 the consolidated entity has not brought to account a future tax benefit (at 30%) $4,221,616 (2002: $2,772,955) as realisation of the benefit is not virtually certain.

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

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

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2003	2002	2003	2002
	$	$	$	$

5. RECEIVABLES (CURRENT)

Current

Trade Debtors	74,848	-	74,848	-
Bank Bills	-	3,626,101	-	3,626,101
GST – Input Tax Credits	92,680	70,874	92,680	70,874
Short-term deposits	120,300	6	120,300	6
Other receivables	45,000	7,072	45,000	7,072
	332,828	3,704,053	332,828	3,704,053
Australian dollar equivalent of amounts receivable in foreign currencies not effectively hedged.				
United States Dollars	193,799	-	193,799	-

Terms and conditions relating to the above financial instruments.

(i) Trade debtors are non-interest bearing and generally on 30 day terms.

(ii) Other receivables and GST-Input Tax Credits are non-interest bearing and have repayment terms between 30 and 90 days.

(iii) Short-term deposits are held with a contract manufacturer. It has repayment/offset terms with related payables.

6. INVENTORIES (CURRENT)

Raw materials and consumables				
At cost	72,488	-	72,488	-

7. OTHER CURRENT ASSETS

Prepayments	59,141	21,206	59,141	21,206

8. RECEIVABLES (NON-CURRENT)

Non-Current

Loans to Controlled Entities	-	-	13,839,427	9,278,899
Less: Provision for Non Recovery of Loans	-	-	(13,839,427)	(9,278,899)
	-	-	-	-

These loans are unsecured and are not subject to an interest charge.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2003	2002	2003	2002
	$	$	$	$
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
(Refer to Note 25)	-	-	410	410
10. PLANT & EQUIPMENT				
Plant and Equipment – at cost	94,869	86,174	94,869	86,174
Accumulated depreciation	(31,331)	(19,734)	(31,331)	(19,734)
	63,538	66,440	63,538	66,440
Office Equipment – at cost	208,136	206,083	208,136	206,083
Accumulated depreciation	(105,316)	(63,444)	(105,316)	(63,444)
	102,820	142,639	102,820	142,639
Total Plant & Equipment				
Cost	303,005	292,257	303,005	292,257
Accumulated depreciation	(136,647)	(83,178)	(136,647)	(83,178)
Total written down amount	166,358	209,079	166,358	209,079

		CONSOLIDATED		VRI BIOMEDICAL LIMITED	
		2003	2002	2003	2002
		$	$	$	$
(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	66,440	45,705	66,440	45,705
	Additions	8,695	32,684	8,695	32,684
	Depreciation expense	(11,597)	(11,949)	(11,597)	(11,949)
		63,538	66,440	63,538	66,440
	Office Equipment				
	Carrying amount at beginning	142,639	145,974	142,639	145,974
	Additions	5,685	55,160	5,685	55,160
	Disposals	(1,475)	-	(1,475)	-
	Depreciation expense	(44,029)	(58,495)	(44,029)	(58,495)
		102,820	142,639	102,820	142,639
11.	**PAYABLES (CURRENT)**				
	Trade Creditors	886,869	507,913	887,279	508,323
	Director – related entities	-	53,513	-	53,513
		886,869	561,426	887,279	561,836
	Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:				
	United States Dollars	98,957	-	98,957	-
	Terms and conditions relating to the above financial instruments.				
	- Trade creditors are non-interest bearing and are normally settled on 30 – 60 day terms.				
	PROVISIONS (CURRENT)				
12.	Employee benefits	125,827	78,507	125,827	78,507

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

13. CONTRIBUTED EQUITY

(a) Issued and Paid Up Capital

Ordinary Shares fully paid	15,411,191	13,597,013	15,411,191	13,597,013

(b) Movements in Shares on issue

	2003		2002	
	Number of Shares	$	Number of Shares	$
Beginning of the financial year	58,516,333	13,597,013	58,444,333	13,560,013
Issued during the year				
- share placement	3,333,304	2,000,000	-	-
- exercise of listed options	-	-	4,000	3,000
- exercise of employee share options	-	-	68,000	34,000
Less capitalised prospectus costs	-	(185,822)	-	-
nancial year	61,849,637	15,411,191	58,516,333	13,597,013

(c) Share Options

Listed Options over Ordinary Shares	2003		2002	
	Number of Options	$	Number of Options	$
Beginning of the financial year	23,373,768	-	23,377,768	-
Exercise of options	-	-	(4,000)	-
End of the financial year	23,373,768	-	23,373,768	-

(d) Unlisted Employee Share Options

The Board has adopted an Employee Share Option Plan (ESOP) to provide a long-term incentive for employees and directors of VRI BioMedical. The ESOP enables eligible persons to participate in the Company's future growth by contributing to increasing profitability and returns to Shareholders.

A summary of the ESOP is set out below:

Full or permanent part-time employees and directors of VRI BioMedical are eligible to participate, by invitation of the Board, in the ESOP;

The Directors may from time to time, in their absolute discretion, issue such number of options on such terms as they determine to eligible participants;

These options are not listed on the Australian Stock Exchange.

Issued options shall be exercisable within such period(s) or upon such event(s) as the Directors may specify at the date of issue of the options;

Options will be issued free of charge to the participants in the ESOP. The exercise price of each option offered pursuant to the ESOP is at the discretion of the Directors;

There are currently 2 directors and 5 staff eligible for this scheme.

Under this scheme the following were granted:-

	2003 Number of Options	2002 Number of Options
Balance at the beginning of the year	5,252,000	1,820,000
Issued on 22 August 2002exercisable at $0.75 on or before 22 August 2007	300,000	-
Issued on 14 January 2003 exercisable at $0.75 on or before 14 January 2008	750,000	-
Issued on 23 November 2001 exercisable at $0.75 on or before 23 November 2006	-	3,200,000
Issued on 13 June 2002 exercisable at $0.75 on or before 13 June 2007	-	300,000
Exercised during the year at $0.50	-	(68,000)
Lapsed during the year exercisable at $0.75	(1,300,000)	-
Lapsed during the year exercisable at $0.50	(772,000)	-
Outstanding at end of year:		
exercisable at $0.50 on or before 13 October 2005	980,000	1,752,000
exercisable at $0.75 on or before 23 November 2006	1,900,000	3,200,000
exercisable at $0.75 on or before 13 June 2007	300,000	300,000
exercisable at $0.75 on or before 22 August 2007	300,000	-
exercisable at $0.75 on or before 14 January 2008	750,000	-
	4,230,000	5,252,000

These employee options vest monthly over a 3 year period.

(e) 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.

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2003 $	2002 $	2003 $	2002 $
14. ACCUMULATED LOSSES				
Accumulated losses				
Balance at beginning of year	9,339,421	4,535,434	9,339,421	4,535,124
Operating loss after Income Tax attributable to members of VRI BioMedical Limited	5,103,987	4,803,987	5,103,987	4,804,297
Balance at end of year	14,443,408	9,339,421	14,443,408	9,339,421

15. STATEMENT OF CASH FLOWS

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2003	2002	2003	2002
	$	$	$	$
(a) Reconciliation of the Operating profit/(loss) after tax to the Net Cash Flows from/(used in) Operations				
Net loss	(5,103,987)	(4,803,987)	(5,103,987)	(4,804,297)
Depreciation of Non Current Assets	55,626	70,444	55,626	-
Provision for Non Recovery of Loans	-	-	4,560,528	4,804,297
Intangible written off	-	2,400	-	-
Changes in assets and liabilities				
- Creditors	415,582	95,144	415,582	-
- Other Debtors	(37,935)	(15,330)	(37,935)	-
- Receivables	(254,876)	(76,498)	(254,876)	-
- Inventories	(72,488)	-	(72,488)	-
Net cash flow from/(used in) operating activities	(4,998,078)	(4,523,710)	(437,550)	-
(b) Reconciliation of cash				
Cash balance comprises:				
- Cash on hand	1,349,664	963,187	1,349,664	963,187
- Bank Bills	-	3,611,712	-	3,611,712
	1,349,664	4,574,899	1,349,664	4,574,899

16. EXPENDITURE COMMITMENTS

Lease expenditure commitments				
Operating leases				
Minimum lease payments				
- not later than one year	79,856	69,000	-	-
- later than one year and not later than five years	-	74,750	-	-
Aggregate lease expenditure contracted for at balance date	79,856	143,750	-	-

17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at the balance date.

18. SUBSEQUENT EVENTS

Subsequent to the end of this reporting period the company has successfully raised by way of a placement and a rights issue, $4.3m (before costs). This capital will enable the company to continue to develop its products.

Also subsequent to the end of this reporting period the company consolidated its operations in Sydney.

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2003	2002	2003	2002
	$	$	$	$

19. ECONOMIC DEPENDENCY

There are no known economic dependencies affecting the operation of VRI BioMedical Limited.

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	(5,103,987)	(4,803,987)		
Adjustments:				
Nil	-	-		
Net loss used in calculating basic and diluted earnings per share	(5,103,987)	(4,803,987)		
Weighted average number of ordinary shares used in calculating basic earnings per share:	59,843,638	58,446,500		

There have been no other conversion to, calls of, or subscription for ordinary shares or issues of potencial ordinary shares since the reporting date and before the completion of this financial report.

21. REMUNERATION OF DIRECTORS

(a) Directors' remuneration

Income paid or payable, or otherwise made available, in respect of the financial year, to directors or their related entities, either directly or indirectly amounted to:	537,001	764,351	537,001	764,351

The number of directors of VRI BioMedical Limited to whom payments were made either directly or indirectly whose income falls within the following bands is:

			2003	2002
			No	No
$0	-	$9,999	4	1
$30,000	-	$39,999	1	2
$40,000	-	$49,999	1	-
$50,000	-	$59,999	1	-
$70,000	-	$79,999	-	1
$90,000	-	$99,999	-	1
$100,000	-	$109,999	1	-
$160,000	-	$169,999	-	1
$300,000	-	$309,999	1	-
$350,000	-	$359,999	-	1

The remuneration above does not include the options granted and valued using the Black-Scholes pricing model.

	CONSOLIDATED		VRI BIOMEDICAL LIMITED	
	2003	2002	2003	2002
	$	$	$	$

22. REMUNERATION OF EXECUTIVES

Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is $100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise.	$656,234	$1,102,832	$656,234	$1,102,832

The number of executives of the consolidated entity and the Company whose remuneration falls within the following bands:

	No.	No.
$90,000 - $99,999	-	1
$100,000 - $109,999	1	1
$110,000 - $119,999	1	1
$120,000 - $129,999	2	-
$180,000 - $189,999	1	1
$240,000 - $249,999	-	1
$300,000 - $309,999	1	-
$350,000 - $359,999	-	1

The remuneration above does not include the options granted and valued using the Black–Scholes pricing model.

23. AUDITORS' 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	42,000	62,750	42,000	62,750
- other services in relation to the entity and any other entity in the consolidated entity	-	51,884	-	51,884
- Tax compliance	9,300	-	9,300	-
- Special audits required by regulators	3,200	-	3,200	-
- Other	27,443	-	27,443	-
	81,943	114,634	81,943	114,634

24. RELATED PARTY DISCLOSURES

(a) The directors of VRI BioMedical, during the financial year were:

Ronald Deane	(Appointed 24 April 2003)
Leon Ivory	(Resigned 29 May 2003)
Sally Capp	(Appointed 29 May 2003)
James Grant	(Appointed 29 May 2003)
Kenneth Peter Baxter	(Resigned 29 May 2003)
John Francis Cade	
Kim Robert Slatyer	(Resigned 4 April 2003)
Glyn Michael Tonge	
Ronald Rowland	(Appointed 29 May 2003)
	(Resigned 17 June 2003)

(b) The following related party transactions occurred during the financial year:

(i) Transactions with related parties in wholly owned group.
Payments were made by VRI BioMedical Limited during the year on behalf of its controlled entities. These payments have been reflected through the loan accounts to each of the controlled entities as shown in note 8 of the financial statements totalling $13,839,427 at balance date, this amount has been fully provided for. These loans are unsecured and are not subject to an interest charge.

sactions with director-related entities

These transactions were made on normal commercial terms and conditions.

- $77,500 has been paid to Trivenia Pty Ltd as trustee for The Kim Slatyer Trust of which K R Slatyer is a director, for consultancy fees. This has been included in Directors' remuneration.
- $23,230 has been paid to Baxter & Associates Pty Ltd and TFG International Pty Ltd for Sydney office rental. This has not been included in Directors' remuneration. $23,310 has been paid to Baxter & Associates Pty Ltd as consultancy fees for assistance in contractual and remuneration matters. This has been included in Directors' remuneration. K Baxter is a director of Baxter & Associates Pty Ltd and TFG International Pty Ltd.

In addition, directors have been reimbursed for expenditure incurred on behalf of VRI BioMedical.

(c) **Equity instruments of directors**

Interests at balance date
Interests in the equity instruments of entities in the consolidated entity held by directors of the reporting entity and their director-related entities at balance date, being the number of instruments held:

	Ordinary Shares Fully Paid		Options over ordinary Shares		Employee Options	
Director	Number 2003	Number 2002	Number 2003	Number 2002	Number 2003	Number 2002
J Cade	275,333	267,000	106,800	106,800	300,000	300,000
G Tonge	-	-	-	-	300,000	300,000
S Capp	30,300	-	-	-	-	-
R Deane	-	-	-	-	-	-
J Grant	-	-	-	-	-	-

Movements in directors' equity holdings:

Prof J Cade acquired 8,333 Ordinary Shares in terms of the share placement during the year.

Ms Capp acquired 30,300 Ordinary Shares during the year. Ms Capp is a Director of Australian Heritage Group Ltd a substantial shareholder of VRI BioMedical Limited.

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

25. 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%
B Screen and Delivery Pty Ltd	Australia	100%
Dermavri Pty 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.

26. SEGMENT INFORMATION

The consolidated entity operates in the biotechnology industry in Australia.

The principal development currently being undertaken is product development and research to bring probiotic, diagnostic, and vaccine products to market.

27. FINANCIAL INSTRUMENTS

Net Fair Values
The carrying amount of the consolidated entity's financial assets and financial liabilities approximate their fair value.

Debtors
Debtors are recognised at the amount due. The balance is continually assessed and provision is made for doubtful accounts.

Accounts Payable
Liabilities are recognised for amounts to be paid in the future for goods and services received on or before the reporting date. Accounts are settled in accordance with the vendor's terms, which are usually between 7 – 30 days.

Amounts Due from Related Entities
All amounts due for related entities are carried at nominal value and a provision for the non recovery of such amounts has been provided for. Interest is not charged on these amounts.

Credit Risk
Credit risk on the company's financial assets is the loss that would be recognised if the other parties failed to perform their contractual obligations. The maximum credit risk relating to amounts recognised in the statement of financial position is the carrying amount of those assets. The company minimises exposure to credit risk by trading with a substantial number of parties and not having any significant exposure to any individual debtor.

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		Weighted average effective interest rate	
Financial assets	2003	2002	2003	2002	2003	2002	2003	2002
	$	$	$	$	$	$	%	%
Cash	1,349,664	963,187			1,349,664	963,187	3.4	3.3
Trade and other receivables	-	-	74,848	-	74,848	-	N/A	N/A
Short term deposits	-	-	120,300		120,300	-	N/A	N/A
Receivables -Commercial bank bills	-	3,626,101	-	-	-	3,626,101	4.7	4.5
- Other	-	-	137,680	77,952	137,680	77,952	N/A	N/A
Total financial assets	1,349,664	4,589,288	332,828	77,952	1,682,492	4,667,240		
Financial liabilities								
Payables	-	-	886,869	561,426	886,869	561,426	N/A	N/A

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

DIRECTORS' DECLARATION

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

1. In the opinion of the directors:

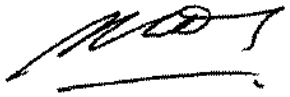
a) the financial statements and the notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 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



R Deane
Chairman

Melbourne, 25th September 2003

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INDEPENDENT AUDIT REPORT

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 and the consolidated entity, for the year ended 30 June 2003. 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 judgment 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 2003 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.

Ernst & Young

G H Meyerowitz
Partner
Perth
Dated: 26 September 2003

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

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 29 August 2003.

(a) Distribution of equity securities

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

			Ordinary shares		Options over ordinary shares	
			Number of holders	Number of shares	Number of holders	Number of options
1	-	1,000	38	22,300	37	20,969
1,001	-	5,000	343	1,179,759	421	1,035,485
5,001	-	10,000	315	2,612,505	103	758,278
10,001	-	100,000	477	15,501,180	158	6,557,937
100,001	and over		71	48,533,893	46	15,001,099
			1,244	67,849,637	765	23,373,768

(b) Twenty largest shareholders

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

		Ordinary shares	Percentage of shares
1	Australian Heritage Group Ltd	9,039,293	13.32
2	Ivory & Company Pty Ltd	8,552,173	12.60
3	Trivenia Pty Ltd	8,198,132	12.08
4	AP Barton	2,666,667	3.93
5	RBC Global Services Australia Nominees Pty Limited	2,000,000	2.95
6	Gwynvill Trading Pty Ltd	1,200,000	1.77
7	Maktram Pty Ltd	1,000,000	1.47
8	Hurst Pollock Noms Pty Ltd	770,000	1.13
9	RBC Global Services Australia Nominees Pty Limited <Flexiplan A/C>	769,500	1.13
10	Pierce CIM Pte Limited	734,000	1.08
11	Link Traders (Aust) Pty Limited	600,000	0.88
12	BB Nominees Pty Ltd	550,000	0.81
13	D M D Holdings Pty Ltd	550,000	0.81
14	Mr David Edwards <Edwards Superfund A/C>	503,333	0.74
15	Avanteos Investments Limited <Symetry Retire SVS 1006 A/C>	496,906	0.73
16	Mr David Keith Edwards	480,000	0.71
17	Woodhurst Pty Ltd	450,000	0.66
18	Mr Peter Kirkham <Kirkham Super Fund A/C>	438,244	0.65
19	Muffet Pty Ltd	435,327	0.64
20	Allied Equipment Pty Ltd	425,833	0.63
		39,859,408	58.72

ASX ADDITIONAL INFORMATION (cont.)

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

		Options over ordinary shares	
		Number of options	**Percentage of options**
1	Campeche Pty Ltd	1,047,000	4.48
2	Maktram Pty Ltd	1,000,000	4.28
3	Park Finance Pty Ltd	1,000,000	4.28
4	Mr David Edwards <Edwards Superfund A/C>	925,834	3.96
5	Manvel Nominees Pty Ltd	825,000	3.53
6	Langton Nominees Pty Ltd	800,000	3.42
7	Pierce CIM Pte Limited	668,000	2.86
8	Fogbell Nominees Pty Ltd	590,935	2.53
9	Jamel Investments Pty Ltd	500,000	2.14
10	Trivenia Pty Ltd <Kim Robert Slatyer A/C>	398,366	1.70
11	Mr Kevin Ross Atkinson	384,521	1.65
12	Mr Robert Paul Dunn & Mrs Pauline Dunn	320,418	1.37
13	Mr Brian Lee & Mrs Audrey Lee	307,405	1.32
14	Whitehall Securities Pty Ltd <G/M A/C>	300,000	1.28
15	Professional Payment Services Pty Ltd	280,000	1.20
16	Brocklebank Pty Ltd	264.400	1.13
17	Miss Nisha Shareen Arnold	257,773	1.10
18	Acara Holdings Pty Ltd	249,160	1.07
19	RBC Global Services Aust Nominees Pty Ltd <Flexiplan A/c>	225,380	0.96
20	Stichting Stroeve Global Custody	216,000	0.92
		10,560,192	45.18

(c) Substantial shareholders

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

	Number of shares	**Number of Options over ordinary shares**
Ivory & Company Pty Ltd	8,552,173	-
Trivenia Pty Ltd	8,198,132	398,366
Australian Heritage Group Limited	9,039,293	-

(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	4,230,000	10