

VIRAX HOLDINGS LIMITED
(ABN 56 006 569 106)

Financial Report 2003

VIRAX HOLDINGS LIMITED
ABN 56 006 569 106

COMPANY PARTICULARS

Board of Directors

Dr. Thomas W. Quirk, Non-Executive Chairman

Dr. David J. Beames, Chief Executive Officer

Mr John Stonier, Non-Executive Director

Secretary and Chief Financial Officer

Mr Richard de Lautour

Scientific Advisory Group

Dr. David J. Beames

Dr. Graham F. Mitchell, Foursight Associates Pty Ltd

Dr Christopher Langford, Victorian Institute of Animal Science

Registered Office

Virax Holdings Limited

Suite 220

89 High Street

Kew Vic 3101

Ph: (03) 9854 6230

Fax: (03) 9853 5134

Web Site

www.virax.com.au

Solicitors

Deacons
385 Bourke Street
Melbourne Vic 3000

Bankers

National Australia Bank Limited
990 Toorak Road
Camberwell Vic 3124

Principal Share Register

Computershare Registry
Level 12
565 Bourke Street
Melbourne Vic 3000

Auditors

Ernst & Young
Level 23
120 Collins Street
Melbourne Vic 3000

Exchange Listing

Australian Stock Exchange Limited
ASX Code: VHL

**VIRAX HOLDINGS LIMITED
ANNUAL REPORT 2003**

**Financial Report
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VIRAX HOLDINGS LIMITED

DIRECTORS' REPORT

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

Directors and Officers

The names and details of the Directors and Company Secretary of the Company in office during the financial year and at the date of this report are:

- Dr T.W. Quirk MSc, DPhil, MA (Oxon), SMP (Harv) - Dr Thomas W. Quirk is a principal of Quirk Partners which has interests in venture capital, investment management and business advisory work. He is chairman of the Victorian Rail Track Corporation, Deputy Chairman of Vencorp, and a director of Biota Holdings Limited. Dr Quirk worked in CRA Ltd setting up new businesses and also for James D. Wolfensohn in a New York based venture capital fund. He spent 15 years as an experimental research physicist, university lecturer and Oxford don.
Special Responsibility: Non-executive Chairman of the Board
Appointed a Director of the Company: May 1989
- Dr D. J. Beames BSc (Hons), PhD - Dr David J. Beames has spent twenty-seven years involved with healthcare, biotechnology, pharmaceutical and chemical industries in activities ranging from new business establishment and commercialisation of biomedical technology to R&D management in Australia, the UK and the US. He was a founder of IVF Australia which commercialised the Monash University IVF technology in the USA. He is a director of Kinacia Pty Ltd.
Special Responsibility: Chief Executive Officer
Appointed a Director of the Company: December 1996
- Mr J. Stonier MBA, LLB - Mr John Stonier consults on the development, negotiation and management of intellectual property and technology agreements. He is a member of the Australian Law Reform Commission's Advisory Committee on Genes and IP Rights and was a member of the Federal Government's Panel of Experts for the Biotechnology Centre of Excellence. He is a former President of the Licensing Executive Society (LES) International and LES Australia and lectures in Licensing and Commercialisation for universities in Melbourne and Queensland. John was BHP's Director Development and Investments, and has worked as a financial executive with WR Grace & Co in New York and as a lawyer in Melbourne.
Special Responsibility: Member of the Audit Committee to 5 May 2003, now Chairman.
Appointed a Director of the Company: October 1998 (Previously Mr Stonier was an adviser to the Board)
- Dr G. L. Blackman BSc(Hons), PhD, FRACI - Dr Graeme L. Blackman is Chairman and Managing Director of the public listed Australian drug development and manufacturing company, Institute of Drug Technology Australia Limited. He is a former Professor of Pharmaceutical Chemistry at the Victorian College of Pharmacy and has substantial experience in pharmaceutical research, development and scientific consulting.
Special Responsibility: Chairman of the Audit Committee to 5 May 2003.
Appointed a Director of the Company: September 1996
Resigned 5 May 2003

Secretary

Mr R de Lautour BCom, MBA, FCPA. – Mr Richard de Lautour has been Company Secretary and Chief Financial Officer of Virax Holdings Limited since 1996. He has experience in finance and administration in a venture capital company (including being a director of IFV Australia), SME companies and in various companies on the management of mining construction projects.

Principal Activity

The principal activity of the economic entity during the year was the early stage development of biopharmaceuticals and the construction and manufacture of biologic drugs for trial purposes.

Earnings Per Share

| | | |
|-----------------------------------|---------------|----------------------|
| Basic Earnings Per Share (Loss) | (10.70) cents | [2002: (9.90) cents] |
| Diluted Earnings Per Share (Loss) | (10.70) cents | [2002: (9.90) cents] |

Results and Dividends

Consolidated economic entity loss after tax \$3,135,000 (2002: \$2,648,000 loss)

No dividends are proposed or were paid for the year.

Review and Results of Operations

The major activities continue to be the VIR201 HIV Treatment trial and the preparatory work in hepatitis B and prostate cancer.

The successful results of the VIR201 HIV immune therapy safety trial were announced in February 2003. The second part of the Phase I/IIa trial, an extension study, is ongoing and the results will be available in fourth quarter 2003.

Virax filed a patent application for a future prostate cancer treatment and the pre-clinical program is due to commence in the fourth quarter of 2003.

In collaboration with the New York Blood Center, the preclinical program of a proposed therapy for hepatitis B is due to commence in the fourth quarter of 2003.

A major activity of the year has been the preparation and execution of the Board's decision to seek partners with whom Virax can further develop its Co-X-Gene™ technology and fowl pox vector technology. The US transaction specialist Clearview Projects Inc. has been engaged to assist Virax in undertaking an integrated and well-planned partnering process. As previously indicated this is a 12 – 15 month activity, which began at the beginning of 2003.

Revenue for the year decreased by 20% to \$383,000 (2002: \$539,000). While revenue from sales of services was \$154,000 (2002: nil) there was a decrease in the amount received from AusIndustry under a second Start Grant of \$169,000 (2002: \$435,000) and interest earned on short-term investments was lower. The operating loss for the year of \$3,135,000 was 18% more than last year (2002: \$2,648,000). The development expenditure of \$1,388,000 was primarily on the HIV Clinical Trial (2002: \$1,278,000).

Significant Changes in the State of Affairs

Operations

Two capital raisings occurred during the year. In October 2002 a Pro Rata Share Issue closed and raised approx. \$2,633,000, after expenses. As a consequence of that raising 6,886,368 shares were issued at 40 cents per share and 6,886,368 options were issued. Such options are exercisable at 50 cents per share, on or before 15 December 2005.

The Company issued a Prospectus dated 22 May 2003 for a Pro Rata Share Issue, which aimed to raise \$3.41 million and approx \$3.1 million, after expenses. This issue closed after the end of financial year, namely on 10 July 2003, and subsequently Directors commenced placing the shortfall. In September 2003 the issue was fully subscribed and 17,060,330 shares were issued at 20 cents per share and 4,265,171 options were issued. Such options are exercisable at 25 cents, on or before 16 January 2006. On an "after expenses" basis, the amount raised was approx \$3.25 million.

The Prospectus required a minimum subscription of \$1.0 million otherwise any monies subscribed would be returned. At 30 June 2003 the minimum subscription had not been reached and \$0.3 million of subscribed capital was held in trust.

Details of securities on issue are shown in a table in the section *Additional Shareholder Information*.

At year-end shareholders equity after accumulated losses decreased from \$1.5 million (as at 1 July 2002) to \$1.0 million. Contributed equity increased by \$2.6 million arising from subscriptions as mentioned above.

Approach to Virax by IDT

On 5 May 2003 the Board accepted the resignation of Dr Graeme L Blackman. Dr Blackman tendered his resignation at the request of a committee of the Board of Institute of Drug Technology Australia Limited (IDT). Subsequent to his resignation, an IDT committee met the Company's Directors with a view to IDT making a possible scrip for scrip offer.

This approach was terminated by IDT after the Company's Prospectus dated 22 May 2003 referred to such discussions.

Composition of the Board

Above reference is made to the resignation of Dr G L Blackman. His resignation reduced the number of directors to three. The Board wishes, in due course, to revert to at least four directors.

Events Subsequent to Balance Date

Except as noted below, it is believed that no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

ASX Announcements

The Company has made the following announcements to the ASX since the end of the Financial Year:

9 July 2003 - The Company announced that it had received share applications in excess of the \$1.0 million minimum subscription. Details of such minimum subscription were provided in the Prospectus dated 22 May 2003.

25 July 2003 - The Company announced that as at that date it had raised \$1.8 million in respect of the Prospectus dated 22 May 2003.

5 September 2003 - The Company announced that as at that date it had raised \$2.34 million in respect of the Prospectus dated 22 May 2003.

12 September 2003 Appendix 4E - Preliminary Final Results 30 June 2003 were released.

22 September 2003 The Company announced that the offering of shares issued pursuant to the Prospectus dated 22 May 2003 was fully subscribed and \$3.25 million was raised.

Likely Developments

Except as noted below, likely developments in the operations of the economic entity and the expected results of those operations have not been included in this report as the Directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the consolidated entity.

VIR201 Extension Trial

The Company is awaiting the result of the VIR201 HIV Therapeutic Extension Trial. The 25 patients in this trial took part in the previous VIR201 HIV Therapeutic Phase 1 Safety Trial. The VIR201 Phase 1 Safety Trial was successfully completed and the results announced in February 2003. While the number of patients may not be sufficient to provide a statistically significant result, the opportunity has been taken to evaluate HIV drug VIR201 as an independent therapy. An independent therapy is a therapy which does not require patients to continue to take anti-retroviral drugs (during the Safety Trial patients were required to continue to be administered anti-retroviral drugs.)

Future Funding

Other than equity capital raising, the Directors have implemented the following actions to assist future funding of activity:

- Partnering activities continue both in respect to licensing and collaborative partnering referred to above.

Seeking commercial opportunities to utilise the Company's facilities and capability to construct vectors and manufacture trial drugs.

The operations and development programs have been structured such that, should circumstances demand it, re-scheduling of expenditure could be made.

Partnering

The Company continues the active search, with Clearview Projects Inc of the USA acting as an advisor, to secure appropriate licensing of the Company's technology or partnership deal(s) for the Company's development programs. At this time the Directors are unable to anticipate the outcome of the partnering activities. As shareholders have been previously advised, the results of this initial phase may not be known until the end of the first quarter of 2004.

Other Development Programs

In addition to the HIV Treatment Trial, the HIV Extension Study, the Prostate Cancer Project and the Hepatitis B Project referred to above, Virax continues to evaluate other opportunities to add to its current product development base.

The matters discussed above are forward looking statements. Forward-looking statements regarding the Company's future business prospects, plans, objectives, expectations and intentions are subject to certain risks, uncertainties and other factors that could cause actual results to differ materially from those projected or suggested in the forward-looking statements.

Environmental Regulation and Performance

The Company's activities in respect of the HIV Treatment Trial and the manufacturing of drugs using Co-X-GenTM technology for preclinical and clinical trials are subject to Law of the Commonwealth or the State or Territory in which such activity takes place. The Company undertakes such activities itself and through contractors. Some aspects of such activities could be construed as being covered by law or regulations relating to environmental matters. It is believed that, should activities be so construed, it meets the requirements of such Law and regulations. The Company retains the right, under the respective contracts, to audit the performance of its contractors.

Company Structure

The corporate structure of the Virax Group, at the date of this report, is as follows:

Virax Holdings Limited ACN 006 539 106

holds all the issued capital in

- *Virax Scientific Management Pty Ltd, ACN 006 829 171*

in turn holds all the issued capital in

- *Virax Immunotherapeutics Pty Ltd. ACN 006 715 171*
- *VIP Development Pty Ltd ACN 104 938 011*
- *VIP Facilities Pty Ltd ACN 104 937 902*

Virax Immunotherapeutics Pty Ltd holds Virax's in-licensed intellectual property and various contracts related to such intellectual property, services and other matters. This company will sub-license intellectual property and complete existing contracts.

VIP Development Pty Ltd holds Virax owned intellectual property and will license out such property.

VIP Facility Pty Ltd holds physical assets associated with vector construction and GMP manufacture and will undertake construction and manufacturing activities for Virax and third parties.

Directors and Other Officers Emoluments

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors (subject to prior approval by the shareholders pursuant to the Corporations Act 2001) the Chief Executive Officer, and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions. The assessment also considers the overall objective of ensuring maximum stakeholder benefit from the retention of a highly qualified Board and executive team.

To assist in achieving these objectives, in the case of executives, the Board links part of the nature and amount of the executive director's and executive officer's emoluments to the Company's financial and operating performance. Such executives have the opportunity to qualify for participation in the *Option Plan*, which currently provides share option incentives. Vesting of such options occurs where, in the Board's judgement, criteria are met. These include vesting in arrears following provision of service or performance criteria.

In offering options to directors and employees, the option price has been priced materially in excess of the then prevailing market price. The terms of the options granted have not been changed. That is, when the option exercise price is well above market price, when the market price has dropped significantly, the option exercise price of existing outstanding options has not been adjusted downward, nor have additional options at lower prices been issued.

The emoluments of the three current Directors (there being only 3) and for Dr Blackman, who retired during the year, and each of the two executive officers (there being only 2) for the financial year are as follows:

| Virax Holdings Ltd ⁽¹⁾ | Annual Emoluments | | | | Long Term Emoluments | | |
|-----------------------------------|------------------------|-------|----------------------|--------------------------------|------------------------------|-----------------|-------|
| | Fees | Bonus | Other | Termination & Similar Payments | Option Grants ⁽³⁾ | Super-annuation | Other |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Directors | | | | | | | |
| T W Quirk | 16,000 | - | - | - | 33,102 | 1,440 | - |
| D J Beames (also an executive) | 325,000 ⁽²⁾ | - | - | - | 98,069 | 1,080 | - |
| G L Blackman | 12,000 | - | - | - | 19,864 | 1,080 | - |
| J Stonier | 12,000 | - | - | - | 19,864 | 1,080 | - |
| Executives | Salary | | | | | | |
| R de Lautour | 164,448 | - | 8,353 ⁽⁴⁾ | - | 38,207 | 15,552 | - |

- (1) Each Director of Virax Holdings Limited is also a director of Virax Scientific Management Pty Ltd, Virax Immunotherapeutics Pty Ltd, VIP Development Pty Ltd and VIP Facilities Pty Ltd, and as such receives no additional emoluments.
- (2) Payments made either directly to the Director or to an entity in which the individual has a beneficial interest
- (3) The amounts shown do not represent actual value or realized value. The fair value calculation as described below represents a valuation based on certain assumptions as detailed in the Notes to the Financial Statements Note 22(f)-Fair Value of Options. The Company has adopted the fair value measurement provisions of ED 108 "Share-based Payment" prospectively for all options granted to directors and relevant executives, which have 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 options granted using the method prescribed in Sec.139 of the Income Tax Assessment Act but did not allocated 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 options 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 the grant.

- (4) Allowance paid for activities associated with his employment

The elements of emoluments have been determined on the basis of the cost to the Company, except as noted for the value ascribed to the Options. Executives are those directly accountable and responsible for operational management and implementation of the strategic direction of the Company and the consolidated entity.

Directors' Remuneration

The Constitution provides that *"the total amount provided to all directors (other than those directors who serve in an executive capacity) for their services as directors in any year must not exceed \$200,000 or such larger amount as the Company in general meeting determines by ordinary resolution"*.

The issue of securities to directors requires shareholder approval. For the 2 year period 1 January 2002 to 31 December 2003, Directors chose to sacrifice part of their fees and take options in lieu. Shareholders' approval for the issue of such options was sought, and given, at the AGM on 14 November 2001. The approval for the payment of the nominal fees as cash plus a number of options was on the following basis:

| | Nominal Fees per annum | Nominal Fees - paid as | |
|-----------------|---------------------------|------------------------|------------------------|
| | | Cash | Options ⁽¹⁾ |
| Chairman | \$60,000 | \$16,000 | 100,000 |
| Other Directors | \$40,000 (each) | \$12,000 | 60,000 |

(1) These options vest quarterly in arrears for service over the two calendar years 2002 and 2003

In November 2001 the then current share price range was about \$1.05 - \$1.10. The option terms provided an: exercise price of \$1.40 and an expiry date of 31 December 2006.

For the period commencing 1 January 2004, the two non-executive directors have determined that they wish their directors' fees to be paid at the nominal amounts and no options are to be issued in lieu of cash payments. The Directors have made this decision recognising the advantage to the Company of directors sacrificing fees for options, however, they also recognise the recent comments on the practice and the difficulties associated with the requirement to value such options and their being expensed on the Statement of Financial Performance (formerly known as the Profit and Loss Statement.)

Options Granted to the Directors and Either of the Two Executives Referred to Above

No options were granted over unissued shares in Virax Holdings Limited during or since the end of the year to any non-executive director or either of the two executive officers of the Company, as part of their emoluments.

See also Note 17 - *Related Party Disclosures* in the Notes to the Financial Statements.

Service Agreements between the Company and Equitech Corporation Pty Ltd

In 1998 Virax Holdings Limited entered into an agreement with Equitech Corporation Pty Ltd, a company associated with D J Beames, the Chief Executive Officer and a Director of Virax Holdings Limited and its subsidiary companies. In December 2001 the Board concluded an extension of this contract for a two year period through to 31 December 2003. This agreement was in effect during the year ended 30 June 2003 and provides for the provision of various services in relation to the management of the Company. The Company has agreed with Equitech Corporation Pty Ltd for a further extension of an 18 months period ending 30 June 2005.

Interests of Directors

Interests in the Company and the Virax Group held by Directors of the Company and Director-related entities as at the date of this report are the following securities in the Company:

| | | Shares | | Options | |
|--------------------|----------|------------|-------------|---|--------------------------|
| | | Fully Paid | Partly Paid | Listed | Unlisted |
| Dr Thomas W. Quirk | Direct | 132,650 | 267,350 | 96,250 ⁽¹⁾ 66,838 ⁽²⁾ | 400,000 ⁽³⁾ |
| | Indirect | 257,750 | 145,000 | 51,250 ⁽¹⁾ 36,250 ⁽²⁾ | - |
| Dr David J Beames | Indirect | 1,220,000 | | 130,000 ⁽¹⁾ 18,750 ⁽²⁾ | 1,000,000 ⁽³⁾ |
| Mr John Stonier | Direct | - | | | 240,000 ⁽³⁾ |
| | Indirect | 133,000 | | 5,000 ⁽¹⁾ 12,500 ⁽²⁾ | - |

(1) ASX Code VHLO

(2) ASX Code VHLOA

(3) Issued pursuant to the Share Option Plan and subject to vesting provisions

Issued Securities

Details of issued securities are shown in Notes to the Financial Statements - Note 11, Note 17 and Note 22 and also in the Additional Shareholder Information - Summary of Issued Securities. Note 17 includes information as to the Options held by Directors during the financial year ended 30 June 2003

Holders of options, either listed or unlisted, do not have the right, by virtue of the option, to participate in any share issue of the Company or any related body corporate. However, if the Company offers to existing shareholders shares by the way of a Pro Rata Issue (except a Bonus Issue) the exercise price of Options may be reduced. Such reduction is determined in accordance with the formula set out in ASX Listing Rule 6.22.2.

See also in the Notes to the Financial Statements, Note 17 - *Related Party Disclosures*.

Indemnification and Insurance of Directors

During the financial year, the Company has paid premiums in respect of a contract insuring Directors and Officers (D & O Insurance) against liability, other than a wilful breach of duty, of a nature that is required to be disclosed under subsection 300 (8) of the Corporations Act 2001. In accordance with subsection 300 (9) of the Corporations Act 2001, further details have not been disclosed due to the confidentiality provisions contained in the insurance contract.

Since the end of the financial year, the Company has not indemnified any Director.

The Company's current underwriter of D & O Insurance has advised the Company that such underwriter will not renew the Company's policy when it expires on 1 November 2003. The insurer has advised that, as an early stage development biotechnology company without a positive revenue cash flow, the Company is in a class of insured that the insurance company has discontinued insuring.

The Company's insurance broker is seeking an alternate underwriter. If no insurance cover is available each Director and officer will have to consider the basis of continuing or whether they are willing to continue.

Corporate Governance

The Board of Directors of Virax Holdings Limited is responsible for the corporate governance of the consolidated entity. The Directors are elected by the shareholders and the Board guides and monitors the business affairs of the Company on behalf of the shareholders.

In recognising the need to maintain high standards of corporate behaviour and accountability, the Directors of Virax Holdings Limited support and have adhered to the principles of corporate governance. In addition to the shareholders, they also acknowledge they have a responsibility to take into consideration stakeholders in the Company.

Directors and Management

The prime objective of Virax Holdings Limited corporate governance activities is to ensure that the Board meets its responsibility for setting the direction and strategy for the Company.

The Board is concerned with setting the strategic direction for the Company and overseeing its long-term performance. It monitors financial performance, legal compliance and ethical standards. The Board is also concerned with assessing business risk, providing broad policy guidelines and monitoring the performance of the Chief Executive Officer (CEO) and senior management team.

Currently, the Board is composed of the Chairman, a non-executive director and the Chief Executive Officer. In due course, the Board wishes to revert to having at least four members. The Board has a policy of separating the role of Chairman and Chief Executive Officer (details of the experience and special responsibilities of Directors are set out on page 4 of this Report).

The Board schedules twelve meetings per year, in addition, ad-hoc meetings are called to consider specific or urgent matters. Certain matters may be dealt with by a circulatory resolution. Leave of absence is granted to Directors who are overseas and unable to attend by telephone or in the case of illness or unusual circumstances.

The agendas are prepared for all meetings in conjunction with the Chairman and CEO.

All Directors consider the composition of the Board and the appointment of new directors. In appointing directors the Board aims at obtaining a balance of capabilities, that is a mix of qualifications, age, skill and experience to achieve the most favourable outcome for the Company, and the size of Board appropriate to the stage of development of the Company. Directors, other than the Managing Director, are subject to re-election by rotation at least every three years. The appointment of new directors is a matter for the full board.

Directors' Meetings

During the year, 16 Board Meetings were held. Of the meetings conducted, 2 were meetings where one or some of the Directors were linked by telephone conference. Directors attendance at meetings were as follows:

| | No. of Meetings held while a Director | No. of Meetings attended |
|-------------------------------|---------------------------------------|---|
| T. W. Quirk | 16 | 16 |
| D. J. Beames | 16 | 16 |
| G. L. Blackman ⁽¹⁾ | 13 | 11 (overseas for 2 meetings) |
| J. Stonier | 16 | 13 (overseas for 1 meeting) (Leave of Absence due to illness for 2 meetings) |

(1) Dr Blackman resigned on 5 May 2003

Director's Interest

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised on an ongoing basis of any interest that could potentially conflict with those of the Company. If the Board believes there exists a potential conflict of interest then, depending on the nature of the matter, the director, with the potential conflict, may be subject to one or more of the following:

- Not vote in relation to the matter
- Not be provided information about the matter
- Not be present when the matter is discussed or decided.

Auditor

The Board requires that the Audit Committee meet the external auditor at least twice a year, once to review half yearly accounts and at least once to review the annual accounts. The external auditor may, at his request, meet with the Board of Directors without management being present.

Management

The Board delegates the responsibility for the operation and administration of the Company to the CEO.

The CEO is supported by a senior management team. The team meets regularly to review progress and initiate or co-ordinate the development of strategies for Board consideration and implement approved strategies, plans, standards, policies and programmes.

The Company remains focussed upon early stage product development and has a management group consisting of the CEO, Chief Financial Officer (CFO), Development Manager, Clinical Research Manager and Technology Manager. The Company engages outside firms to provide various services. Some development program activities and management functions are carried out directly or indirectly through external contracts. Board approval is required for any consultancy or management services provided by a Director, or Director related entity. Directors exclude themselves from Board decisions when they have a material interest either directly or indirectly.

Audit Committee

Normally the committee consists of two non-executive directors excluding the Chairman of the Board.

Until 5 May 2003 the members of the audit committee were Dr G.L. Blackman and Mr J. Stonier. The Chief Financial Officer, Mr R. de Lautour, attends Audit Committee meetings by invitation. In respect of Financial Reports during and for the current year ended 30 June 2003, there was one (1) audit committee meeting held. This was in respect of the half yearly accounts to 31 December 2002.

Subsequent to 5 May 2003 Mr Stonier is the chairman and an adviser Mr J S Chambers advises him. One (1) audit committee meeting was held subsequent to year-end in respect to this Financial Report.

The committee's specific role is to:-

- ensure compliance in legal, statutory and ethical matters,
- identify and monitor business risk areas,
- monitor activities to ensure prompt and appropriate responses to shareholder inquiries or complaints, and
- meet with the Company's Auditor to review matters arising from the Auditor's activities and satisfy itself that the audit firm's procedures regarding succession planning and lead partner rotation are appropriate and such procedures will ensure an on-going and effective audit.

Attendance at the meetings was as follows:

| | No. of Meetings held while a Director | No. of Meetings Attended |
|-------------------|--|-----------------------------|
| Committee Members | | |
| G. L. Blackman | 1 | 1 |
| J. Stonier | 2 | 2 |
| Present | No. of Meetings Attended | |
| R. de Lautour | 2 | |
| J. S. Chambers | 1 | |

Remuneration Committee

The members of the committee are the non-executive directors. The Chief Executive Officer, Dr David Beames, attends the Remuneration Committee by invitation. This Committee is responsible for setting the compensation arrangements for the Chief Executive Officer and reviewing the compensation arrangements other senior executives. This Committee is also responsible for reviewing management incentive schemes and share option schemes.

Remuneration and other terms of employment are determined having regard to performance, relevant comparative information and independent expert advice. As well as base salary, remuneration packages include superannuation and performance-related bonuses. Employees are also eligible to participate in the Virax Option Plan.

The Board, within the maximum amount approved by the shareholders, time to time, determines remuneration of non-executive directors. Superannuation payments, in accordance with Statutory requirements, are made in respect of director's fees. Options proposed to be issued by the Company to Directors are subject to prior approval by shareholders.

Internal Controls

The Company has in place procedures designed to safeguard the Company's assets and interests and ensure the integrity of its reporting. These include accounting, financial reporting, internal control, safety and health, property and environmental processes. Policies also specify who may authorise transactions and segregate duties amongst those carrying them out.

Directors and Staff Dealing in Company Shares

The Constitution permits the Directors to acquire shares in the Company. All Directors and staff, or associates of such persons, are required to refrain from buying or selling shares when the individual is, or might be perceived to be, in possession of price sensitive information. Should they wish to buy or sell shares, other than through the exercise of options, the individual is required to seek advice of the Company Secretary. If there is or may be a potential issue, the Secretary advises the Chairman who shall determine the action to be taken.

In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, Directors advise the Exchange of any transactions conducted by them in shares of the Company.

Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant Company information and to the Company's executives. An individual Director or Directors may request the Board's agreement to seek independent professional advice at the Company's expense, in respect of any matter reasonably and necessarily related to carrying out the individual Director or Directors' duties. Such agreement shall not be unreasonably withheld.

Ethical Standards

The Board expects all Directors, managers and employees of the Company and its subsidiary to meet the appropriate ethical standards.

Continuous Disclosure

The Company subscribes to the policy that all shareholders and investors are entitled to equal access to the Company's information and has procedures to ensure the Company complies with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

The CEO and the Company Secretary are responsible for interpreting and implementing the Company's policy and where necessary informing the Board.

The Company Secretary is responsible for all communications with the ASX.

Risk Management

The following policies are followed in respect of the Company's assets and potential liabilities.

Cash surplus to immediate requirements is invested in short term interest bearing deposits with the National Australia Bank Ltd.

Physical assets are insured under normal asset protection policies such as fire and theft.

In addition to statutory insurance, a range of potential liabilities are insured under policies such as Directors and Officer insurance, professional indemnity, product liability and executives when travelling overseas are covered under corporate travel insurance. The continued availability of such insurance cover, or the continued availability on economically viable terms, can not be assumed.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink that reads "Thomas W. Quirk". The signature is written in a cursive style with a prominent horizontal stroke at the beginning.

T. W. Quirk
Chairman
Melbourne,
30 September 2003

VIRAX HOLDINGS LIMITED AND CONTROLLED ENTITIES

Financial Statements 2003

VIRAX HOLDINGS LIMITED AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL PERFORMANCE

YEAR ENDED 30 JUNE 2003

| | Notes | Consolidated | | Virax Holdings Limited | |
|---|-----------|---------------------------|---------------------------|---------------------------|---------------------------|
| | | 30 June 2003 \$ | 30 June 2002 \$ | 30 June 2003 \$ | 30 June 2002 \$ |
| REVENUES FROM ORDINARY ACTIVITIES | 2 | 382,551 | 538,586 | 213,801 | 103,586 |
| Research and development expenses | | 1,387,941 | 1,277,802 | - | - |
| Administration and corporate expenses | 2 | <u>2,129,898</u> | <u>1,908,278</u> | <u>3,349,089</u> | <u>2,751,080</u> |
| LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE | | <u>(3,135,288)</u> | <u>(2,647,494)</u> | <u>(3,135,288)</u> | <u>(2,647,494)</u> |
| INCOME TAX EXPENSE RELATING TO LOSS FROM ORDINARY ACTIVITIES | 3 | - | - | - | - |
| NET LOSS ATTRIBUTABLE TO MEMBERS OF VIRAX HOLDINGS LIMITED | | <u>(3,135,288)</u> | <u>(2,647,494)</u> | <u>(3,135,288)</u> | <u>(2,647,494)</u> |
| Share Issue Costs | 11 | <u>(123,430)</u> | <u>-</u> | <u>(123,430)</u> | <u>-</u> |
| Total Expenses adjustments attributable to members of Virax Holdings Limited and recognised directly in equity | | <u>(123,430)</u> | <u>-</u> | <u>(123,430)</u> | <u>-</u> |
| Total changes in equity other than those resulting from transactions with owners as owners attributable to members of Virax Holdings Limited | | <u>(3,258,718)</u> | <u>-</u> | <u>(3,258,718)</u> | <u>-</u> |
| Basic earnings (loss) per share | 4 | (10.70) cents | [2002: (9.90) cents] | | |
| Diluted earnings (loss) per share | | (10.70) cents | [2002: (9.90) cents] | | |

VIRAX HOLDINGS LIMITED AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2003

| | Notes | Consolidated | | Virax Holdings Limited | |
|----------------------------------|-------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | 30 June 2003 \$ | 30 June 2002 \$ | 30 June 2003 \$ | 30 June 2002 \$ |
| CURRENT ASSETS | | | | | |
| Cash assets | | 1,536,143 | 1,821,489 | 1,536,143 | 1,821,489 |
| Receivables | 5 | 17,465 | 48,671 | 17,465 | 48,671 |
| Other | 6 | <u>38,178</u> | <u>4,872</u> | <u>38,178</u> | <u>4,872</u> |
| TOTAL CURRENT ASSETS | | <u>1,591,786</u> | <u>1,875,032</u> | <u>1,591,786</u> | <u>1,875,032</u> |
| NON-CURRENT ASSETS | | | | | |
| Plant and equipment | 7 | 41,817 | 29,406 | 41,817 | 29,406 |
| Investments | 8 | <u>-</u> | <u>-</u> | <u>2</u> | <u>2</u> |
| TOTAL NON-CURRENT ASSETS | | <u>41,817</u> | <u>29,406</u> | <u>41,819</u> | <u>29,408</u> |
| TOTAL ASSETS | | <u>1,633,603</u> | <u>1,904,438</u> | <u>1,633,605</u> | <u>1,904,440</u> |
| CURRENT LIABILITIES | | | | | |
| Payables | 9 | 160,677 | 389,511 | 160,677 | 389,511 |
| Provisions | 10a | 195,364 | 58,912 | 195,364 | 58,912 |
| Other | 10b | <u>323,959</u> | <u>-</u> | <u>323,959</u> | <u>-</u> |
| TOTAL CURRENT LIABILITIES | | <u>680,000</u> | <u>448,423</u> | <u>680,000</u> | <u>448,423</u> |
| TOTAL LIABILITIES | | <u>680,000</u> | <u>448,423</u> | <u>680,000</u> | <u>448,423</u> |
| NET ASSETS | | <u>953,603</u> | <u>1,456,015</u> | <u>953,605</u> | <u>1,456,017</u> |
| EQUITY | | | | | |
| Contributed equity | 11 | 16,106,037 | 13,473,161 | 16,106,037 | 13,473,161 |
| Accumulated losses | 12 | <u>(15,152,434)</u> | <u>(12,017,146)</u> | <u>(15,153,432)</u> | <u>(12,017,144)</u> |
| TOTAL EQUITY | | <u>953,603</u> | <u>1,456,015</u> | <u>953,605</u> | <u>1,456,017</u> |

VIRAX HOLDINGS LIMITED AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS
YEAR ENDED 30 JUNE 2003

| | Notes | Consolidated | | Virax Holdings Limited | |
|--|-------|-----------------------|-----------------------|------------------------|-----------------------|
| | | 30 June 2003 \$ | 30 June 2002 \$ | 30 June 2003 \$ | 30 June 2002 \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Grants received | | 168,750 | 435,000 | 168,750 | 435,000 |
| Services Income Received | | 154,046 | - | 154,046 | - |
| Payments to suppliers and employees | | (3,598,899) | (3,144,077) | (2,750,082) | (1,866,275) |
| Interest received | | <u>63,155</u> | <u>320,429</u> | <u>63,155</u> | <u>320,429</u> |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | 13 | <u>(3,212,948)</u> | <u>(2,388,648)</u> | <u>(2,364,131)</u> | <u>(1,110,846)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of plant and equipment | 7 | <u>(29,232)</u> | <u>(14,404)</u> | <u>(29,232)</u> | <u>(14,404)</u> |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | <u>(29,232)</u> | <u>(14,404)</u> | <u>(29,232)</u> | <u>(14,404)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issues of ordinary shares | | 2,756,306 | 489,060 | 2,756,306 | 489,060 |
| Issue costs | | (123,430) | - | (123,430) | - |
| Other – Proceeds from partly paid shares | | 323,959 | - | 323,959 | - |
| Loans to Controlled Entities | | <u>-</u> | <u>-</u> | <u>(848,817)</u> | <u>(1,277,802)</u> |
| NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | | <u>2,956,835</u> | <u>489,060</u> | <u>2,108,018</u> | <u>(788,742)</u> |
| NET INCREASE/(DECREASE) IN CASH HELD | | <u>(285,345)</u> | <u>(1,913,992)</u> | <u>(285,345)</u> | <u>(1,913,992)</u> |
| Add opening cash brought forward | | <u>1,821,488</u> | <u>3,735,481</u> | <u>1,821,488</u> | <u>3,735,481</u> |
| CLOSING CASH CARRIED FORWARD | 13 | <u>1,536,143</u> | <u>1,821,489</u> | <u>1,536,143</u> | <u>1,821,489</u> |

VIRAX HOLDINGS LIMITED
NOTES TO 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 which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. The financial report also complies with other mandatory professional reporting requirements (Urgent Issues Group Consensus Views). The financial statements have been prepared in accordance with the historical cost convention.

(b) Inherent Uncertainty – Going Concern

This financial report has been prepared on a going concern basis, which assumes sufficient funding from capital raising, completion of income generating commercial agreements or, if necessary, reduction in activities or action to realise asset value.

In common with start-up biotechnology companies:

- the company's operations are subject to considerable risks due primarily to the nature of the development and commercialisation being undertaken; and
- to allow the Company to execute its longer term plans, it will be necessary to raise additional capital in the future.

The Directors cannot be certain of the success of the intended fund raising activities. However, the Directors currently plan to continue the company's operations on the basis of matters referred to above, and believe that such activities will raise sufficient funds together with the existing net assets, for the company to operate in its normal manner for a period of twelve months from the date of this report. In the event that such arrangements are not entered into, there is significant uncertainty whether the company and the consolidated entity will continue as going concerns and, therefore, whether it will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial statements take no account of the consequences, if any, of the effects of unsuccessful product development or commercialisation, nor of the inability of the company to obtain adequate funding.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as going concerns.

(c) Future Funding

Shareholders' attention is directed to the net current assets at 30 June 2003, which are approximately \$1.0 million. The funds raised, subsequent to year end, from the fully subscribed Pro Rata Share Issue pursuant to the prospectus dated 22 May 2003 were approximately \$3.25 million. Under circumstances where the Company had no funding constraints the forecast expenditure for the 2003/2004 financial year would be approximately \$3.6 million. For the period 1 October 2003 to 30 September 2004 the equivalent budget figure would be approximately \$3.4 million.

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Having regard to the current market conditions and the company's development programs, the Directors have therefore implemented the following actions to provide additional funds:

Partnering activities continue both in respect to licensing and collaborative partnering referred to above.

Seeking commercial opportunities to utilise the Company's facilities and capability to construct vectors and manufacture trial drugs.

The operations and development programs have been structured such that, should circumstances demand it, re-scheduling of expenditure could be made.

If fundraising activities do not raise sufficient funds to allow Virax Holdings Limited continue the principal development programs, the Company will scale back the programs and the Company's other operations until further funding is obtained.

A reduction in the Company's general operations may crystallise liabilities (principally to employees and landlords) of up to \$1.05 million.

(d) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year except for the accounting policies with respect to the provision for dividends and employee benefits.

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 benefits. 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 for 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 does not have any material effect on the accumulated losses or provisions for employee benefits.

(e) Principles of consolidation

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

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results from part of the reporting period during which the parent company has control.

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries 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 inter-company 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.

(f) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable 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 any outstanding bank overdrafts.

(g) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable 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.

(h) Investments

All investments in controlled entities are carried at the lower of cost and recoverable amount.

(i) Recoverable amount

Non-current assets, measured using the cost basis, are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate of 6.5%.

(j) Plant and equipment

Plant and equipment is measured at cost.

Depreciation

Depreciation is provided on a straight line basis on all plant and equipment. Major depreciation periods are:

| | |
|---------------------|--------------|
| | <u>Years</u> |
| Plant and Equipment | 4-8 |

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(k) Research and Development

Research and development costs are expensed as incurred.

(l) Trade and other 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, when charged by the lender, is recognised as an expense on an accrual basis

(m) Contributed Equity

Contributed equity is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares 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:

Grants

Grant revenue is recognised upon receipt.

Interest

Control of the right to receive the interest payment

Services

Service revenue is recognised upon receipt

(o) Income tax

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.

(p) Employee entitlements

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, and annual leave, and long service leave.

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Liabilities arising in respect of wages and salaries, annual leave, and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefits liabilities are measured at the present value of the estimated 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 market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee entitlements expenses arising in respect of the following categories:

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

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

The Value of equity-based compensation scheme described in note 22 is not being recognised as an employee benefits expense.

(q) Earnings per share

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

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

- costs of servicing equity (other than 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.

(r) Comparatives

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

(s) 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.

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

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

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

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| | Consolidated | | Virax Holdings Limited | |
|---|---------------------|------------------|-------------------------------|------------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2003 | 2002 | 2003 | 2002 |
| | \$ | \$ | \$ | \$ |
| 2. REVENUE AND EXPENSES FROM ORDINARY ACTIVITIES | | | | |
| (a) Revenues from non-operating activities | | | | |
| Grants | 168,750 | 435,000 | - | - |
| Interest | | 59,755 | 103,586 | 59,755 |
| 103,586 | | | | |
| Services | <u>154,046</u> | <u>-</u> | <u>154,046</u> | <u>-</u> |
| Total revenues from ordinary activities | 382,551 | 538,586 | 213,801 | 103,586 |
| (b) Administration and Corporate Expenses | | | | |
| Administration | 428,786 | 325,669 | 428,786 | 325,669 |
| Corporate | 1,684,290 | 1,570,398 | 1,990,714 | 1,135,398 |
| Depreciation of plant and equipment | 16,822 | 12,211 | 16,822 | 12,211 |
| Provision for doubtful debts | <u>-</u> | <u>-</u> | <u>912,767</u> | <u>1,277,802</u> |
| Total Administration and Corporate Expenses | 2,129,898 | 1,908,278 | 3,349,089 | 2,751,080 |
| 3. INCOME TAX | | | | |
| The prime facie tax, using tax rates applicable in the country of operation, on profit/(loss) from ordinary activities differs from the income tax provided in the financial statements as follows: | | | | |
| Prima facie tax on profit/(loss) from ordinary activities | (940,586) | (794,248) | (940,586) | (794,248) |
| Research and development concession | (63,661) | (95,835) | - | - |
| Provision for doubtful debt | <u>-</u> | <u>-</u> | <u>273,830-</u> | <u>383,340</u> |
| | (1,004,247) | (890,083) | (666,756) | (410,908) |
| Tax losses not brought to account | <u>1,004,247</u> | <u>890,083</u> | <u>666,756</u> | <u>410,908</u> |
| Income tax expense attributable to ordinary activities | - | - | - | - |

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| Consolidated | | Virax Holdings Limited | |
|---------------------|----------------|-------------------------------|----------------|
| 30 June | 30 June | 30 June | 30 June |
| 2003 | 2002 | 2003 | 2002 |
| \$ | \$ | \$ | \$ |

Income tax losses

Future income tax benefit arising from tax losses have not been brought to account at balance date as realisation of the benefit is not regarded as virtually certain.

This 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 conditions 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.

Tax Consolidation

Effective 1 July 2002, for the purposes of income taxation, Virax Holdings Limited and its 100% owned subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Virax Holdings Limited.

There has been no material effect on the provision for deferred tax liabilities. Virax Holdings Limited has not formally notified the Australian Tax Office of its adoption of the tax consolidation regime.

4. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share.

| | | |
|--|----------------------|----------------------|
| Earnings used in calculating basic and diluted earnings per share | (3,135,288) | (2,647,494) |
| | No. of Shares | No. of Shares |
| Weighted average number of ordinary shares used in calculating basic earnings per share: | 29,194,594 | 26,630,225 |

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| | Consolidated | | Virax Holdings Limited | |
|--|---------------------|----------------|-------------------------------|----------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2003 | 2002 | 2003 | 2002 |
| | \$ | \$ | \$ | \$ |

Effect of dilutive securities:

| | | | | |
|--|---|----------------------|---|----------------------|
| Share Options ⁽¹⁾ | - | - | - | - |
| | | No. of Shares | | No. of Shares |
| Adjusted weighted average number of ordinary shares used in calculating basic earnings per share | | 29,194,594 | | 26,630,225 |

(1) There was no diluted effect of 10,291,368 outstanding options, because the exercise prices of such options are above the market price of ordinary shares at the end of the current financial period.

5. RECEIVABLES (CURRENT)

| | | | | |
|-------------------------|---------------|---------------|---------------|---------------|
| Goods and services tax | - | 28,961 | - | 28,961 |
| Interest receivable (i) | <u>17,465</u> | <u>19,710</u> | <u>17,465</u> | <u>19,710</u> |
| | <u>17,465</u> | <u>48,671</u> | <u>17,465</u> | <u>48,671</u> |

(a) Related party receivables

| | | | | |
|---|----------|----------|--------------------|--------------------|
| Wholly-owned group | | | | |
| - controlled entities (ii) | - | - | - | 7,146,724 |
| 6,509,153 | | | | |
| Provision for related party receivables | <u>-</u> | <u>-</u> | <u>(7,146,724)</u> | <u>(6,509,153)</u> |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

(b) Terms and Conditions

Terms and conditions relating to the above financial instruments

- (i) Details of the terms and conditions of interest receivable are set out in Note 19.
- (ii) See Related Party Disclosures Note 17.

6. OTHER CURRENT ASSETS

| | | | | |
|-----------------------------------|---------------|--------------|---------------|--------------|
| Deferred Capital Raising Expenses | 30,262 | - | 30,262 | - |
| Other | <u>7,916</u> | <u>4,872</u> | <u>7,916</u> | <u>4,872</u> |
| | <u>38,178</u> | <u>4,872</u> | <u>38,178</u> | <u>4,872</u> |

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| | Consolidated | | Virax Holdings Limited | |
|----------------------------------|---------------------|-----------------|-------------------------------|-----------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2003 | 2002 | 2003 | 2002 |
| | \$ | \$ | \$ | \$ |
| 7. PLANT AND EQUIPMENT | | | | |
| Opening Balance | 63,812 | 49,408 | 63,812 | 49,408 |
| Purchases for Year | <u>29,232</u> | <u>14,404</u> | <u>29,232</u> | <u>14,404</u> |
| Closing Balance | <u>93,044</u> | <u>63,812</u> | <u>93,044</u> | <u>63,812</u> |
| Opening Accumulated Depreciation | (34,406) | (22,195) | (34,406) | (22,195) |
| Depreciation for Year | <u>(16,821)</u> | <u>(12,211)</u> | <u>(16,821)</u> | <u>(12,211)</u> |
| Closing Accumulated Depreciation | <u>(51,227)</u> | <u>(34,406)</u> | <u>(51,227)</u> | <u>(34,406)</u> |
| Closing Net Plant and Equipment | <u>41,817</u> | <u>29,406</u> | <u>41,817</u> | <u>29,406</u> |

8. INVESTMENTS

| | | | | |
|---------------------------------|---|---|---|---|
| Investment in controlled entity | - | - | 2 | 2 |
|---------------------------------|---|---|---|---|

Investment in controlled entities

| Name | Country of incorporation | Beneficial % held by | | Book value of investment | |
|---|--------------------------|----------------------|------|--------------------------|------|
| | | economic entity | | 2003 | 2002 |
| | | 2003 | 2002 | 2003 | 2002 |
| | | % | % | \$ | \$ |
| Virax Scientific Management (VSM) Pty Ltd (formerly Esta Pty Ltd) | Australia | 100 | 100 | 2 | 2 |

The following companies are 100% subsidiaries of VSM

| | | | | | |
|--|-----------|-----|-----|---|---|
| Virax Immunotherapeutics Pty Ltd | Australia | 100 | 100 | 2 | 2 |
| VIP Development Pty Ltd ⁽¹⁾ | Australia | 100 | - | 2 | - |
| VIP Facilities Pty Ltd ⁽¹⁾ | Australia | 100 | - | 2 | - |

(1) Incorporated 2 June 2003

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| | Consolidated | | Virax Holdings Limited | |
|---|---------------------|----------------|-------------------------------|----------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2003 | 2002 | 2003 | 2002 |
| | \$ | \$ | \$ | \$ |
| 9. PAYABLES (CURRENT) | | | | |
| Trade creditors | - | 364,465 | - | 364,465 |
| Other creditors | 160,677 | 18,796 | 160,677 | 18,796 |
| Aggregate amounts payable to related parties: | | | | |
| Directors and director-related entities | | | | |
| - director-related entity (ii) | <u>-</u> | <u>6,250</u> | <u>-</u> | <u>6,250</u> |
| | <u>160,677</u> | <u>389,511</u> | <u>160,677</u> | <u>389,511</u> |

Terms and conditions relating to the above financial instruments:

- (i) Creditors are non-interest bearing and are normally settled on 30 day terms
- (ii) Details of the terms and conditions of related party payables are set out in Note 19.

10 CURRENT LIABILITIES

10a. Provisions

| | | | | |
|--|----------------|---------------|----------------|---------------|
| Employee Entitlements | 175,290 | 47,100 | 175,290 | 47,100 |
| Superannuation, Payroll Tax, Workcover | <u>20,074</u> | <u>11,812</u> | <u>20,074</u> | <u>11,812</u> |
| | <u>195,364</u> | <u>58,912</u> | <u>195,364</u> | <u>58,912</u> |

10b. Other

| | | | | |
|---|---------|---|---------|---|
| This represents subscription moneys for equity capital and such capital had not been issued at 30 June 2003 | 323,959 | - | 323,959 | - |
|---|---------|---|---------|---|

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

11. CONTRIBUTED EQUITY

| | 2003 | | 2002 | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | Number of | \$'000 | Number of | \$'000 |
| | Shares | | shares | |
| (a) Issued and paid up capital | | | | |
| Ordinary shares fully paid | 34,120,661 | 16,106,037 | 27,230,385 | 13,473,161 |
| (b) Movements in shares on issue | | | | |
| Beginning of the financial year | 27,230,385 | 13,473,161 | 26,321,985 | 12,984,102 |
| Issued during the year | | | | |
| - Conversion of Options | 1,954 | 977 | 200,000 | 64,020 |
| - public equity raising | 6,888,322 | 2,755,329 | 708,400 | 425,040 |
| less transaction costs | <u>-</u> | <u>(123,430)</u> | <u>-</u> | <u>-</u> |
| End of financial year | <u>34,120,661</u> | <u>16,106,037</u> | <u>27,230,385</u> | <u>13,473,161</u> |

(c) Share Options

The following options over ordinary shares, were outstanding at 30 June 2003.

| | Number of | Expiry | Exercise |
|------------------------|------------------|------------------|----------------------------|
| | Options | Date | Price⁽¹⁾ |
| <u>Listed Options:</u> | | | |
| VHLO | 6,886,368 | 15 December 2005 | \$0.5000 |
| <u>Listed Options:</u> | | | |
| Option Plan | } 970,000 | 31 December 2004 | \$1.2005 |
| (Directors Employees | } 440,000 | 31 December 2004 | \$1.3505 |
| & Advisors) | } 250,000 | 31 December 2004 | \$0.9505 |
| | } 1,095,000 | 31 December 2006 | \$0.9505 |
| | } 400,000 | 31 December 2007 | \$0.9505 |
| | } 110,000 | 31 December 2007 | \$0.4505 |
| | } <u>140,000</u> | 31 December 2007 | \$0.2500 |
| | 3,405,000 | | |

(1) The Exercise price has been adjusted pursuant to the Option Plan Rule 5.1 and in accordance with ASX Listing Rule 6.22.2.

(d) Partly Paid Shares

There was no partly paid shares outstanding at the end the current financial period.

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| | Consolidated | | Virax Holdings Limited | |
|--|---------------------|----------------|-------------------------------|----------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2003 | 2002 | 2003 | 2002 |
| | \$ | \$ | \$ | \$ |

(e) Terms and condition of contributed 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.

In accordance with the Constitution and subject to any rights or restrictions for the time being attached to any class or classes of shares, every member present or by proxy or attorney, in the case of a body corporate, by a representative duly authorised in writing under the seal of that body corporate, shall on a show of hands have one vote and upon a poll shall have one vote for each fully paid share held.

12. ACCUMULATED LOSSES

Accumulated Losses

| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Balance at the beginning of year | 12,017,146 | 9,369,650 | 12,017,144 | 9,369,650 |
| Net loss attributable to members of Virax Holdings Limited | <u>3,135,288</u> | <u>2,647,494</u> | <u>3,135,288</u> | <u>2,647,494</u> |
| Balance at end of year. | <u>15,152,434</u> | <u>12,017,146</u> | <u>15,152,432</u> | <u>12,017,144</u> |

13. STATEMENT OF CASH FLOWS

**a) Reconciliation of the loss after tax
from ordinary activities to net
cash flows used in operations**

| | | | | |
|--|--------------------|--------------------|--------------------|--------------------|
| Loss from ordinary activities after tax | (3,135,288) | (2,647,494) | (3,135,288) | (2,647,494) |
| Non-Cash Items | | | | |
| Depreciation of non-current assets | 16,821 | 12,211 | 16,821 | 12,211 |
| Provision against receivable from controlled entity | - | - | 912,767 | 1,227,802 |
| Changes in assets and liabilities | | | | |
| (Increase)/decrease in trade and other receivables | 896 | 465,941 | 896 | 465,941 |
| Increase/(decrease) in trade, other creditors and provision | <u>(95,377)</u> | <u>(219,307)</u> | <u>(159,327)</u> | <u>(219,307)</u> |
| Net cash flow used in operating activities | <u>(3,212,948)</u> | <u>(2,388,648)</u> | <u>(2,364,131)</u> | <u>(1,116,846)</u> |

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| | Consolidated | | Virax Holdings Limited | |
|-----------------------------------|---------------------|------------------|-------------------------------|------------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2003 | 2002 | 2003 | 2002 |
| | \$ | \$ | \$ | \$ |
| (b) Reconciliation of cash | | | | |
| Cash balance comprises: | | | | |
| Bank Balances | 436,143 | 259,630 | 436,143 | 259,630 |
| Term Deposits | <u>1,100,000</u> | <u>1,561,859</u> | <u>1,100,000</u> | <u>1,561,859</u> |
| | <u>1,536,143</u> | <u>1,821,489</u> | <u>1,536,143</u> | <u>1,821,489</u> |

14. REMUNERATION OF DIRECTORS

Amounts paid or payable or otherwise made available to the directors, in respect of the financial year, directly or indirectly of the consolidated entity from the parent entity, related parties or entities controlled by the parent entity

| | | |
|--|----------------|----------------|
| | <u>369,680</u> | <u>339,159</u> |
|--|----------------|----------------|

Amounts paid or payable or otherwise made available to the directors, in respect of the financial year, of Virax Holdings Limited from that Company and related parties

| | | |
|--|----------------|----------------|
| | <u>369,680</u> | <u>339,159</u> |
|--|----------------|----------------|

The number of directors of Virax Holdings Limited whose remuneration (including superannuation contributions) falls within the following bands:

| | Number | Number |
|------------------------|---------------|---------------|
| \$ 10,000 to \$ 19,999 | 3 | 3 |
| \$320,000 to \$329,999 | 1 | 1 |

15. REMUNERATION OF EXECUTIVES

Remuneration received or due and receivable by executive officers, of the consolidated entity whose remuneration for the financial year was \$100,000 or more from entities in the consolidated entity or related parties in connection with the management of the affairs of the entities in the economic entity whether as executive officer or otherwise.

| | | |
|--|----------------|----------------|
| | <u>514,433</u> | <u>468,676</u> |
|--|----------------|----------------|

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| Consolidated | | Virax Holdings Limited | |
|--------------|---------|------------------------|---------|
| 30 June | 30 June | 30 June | 30 June |
| 2003 | 2002 | 2003 | 2002 |
| \$ | \$ | \$ | \$ |

The number of executive officers of the consolidated entity and the Company whose remuneration for the financial year (including superannuation contributions) falls within the following bands:

| | Number | Number |
|------------------------|--------|--------|
| \$170,000 to \$179,999 | - | 1 |
| \$180,000 to \$189,999 | 1 | - |
| \$320,000 to \$329,999 | 1 | 1 |

Remuneration received or due and receivable by executive officers of the Company whose remuneration for the financial year was \$100,000 or more from the Company or related parties in connection with the management of the affairs of the Company or an entity whether as executive officer or otherwise.

| | | |
|--|----------------|----------------|
| | <u>514,433</u> | <u>468,676</u> |
|--|----------------|----------------|

The number of executive officers of the Company whose remuneration (including superannuation contributions) falls within the following band:

| | Number | Number |
|------------------------|--------|--------|
| \$170,000 to \$179,999 | - | 1 |
| \$180,000 to \$189,999 | 1 | - |
| \$320,000 to \$329,999 | 1 | 1 |

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| | Consolidated | | Virax Holdings Limited | |
|--|---------------|---------------|------------------------|---------------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2003 | 2002 | 2003 | 2002 |
| | \$ | \$ | \$ | \$ |
| 16. AUDITOR'S REMUNERATION | | | | |
| Amounts received or due and receivable, by the auditors, from entities in the economic entity: | | | | |
| Auditing the accounts | 53,425 | 46,849 | 53,425 | 46,849 |
| Tax and Other Services | <u>37,505</u> | <u>7,725</u> | <u>37,505</u> | <u>7,725</u> |
| | <u>90,930</u> | <u>54,574</u> | <u>90,930</u> | <u>54,574</u> |

17. RELATED PARTY DISCLOSURES

(a) The directors of Virax Holdings Limited during the year ended 30 June 2003 were:

T.W. Quirk
D.J. Beames
G.L. Blackman (resigned 5 May 2003)
J. Stonier

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

Transactions with related parties in the wholly owned group

Virax Scientific Management Pty Ltd is a 100% owned subsidiary of Virax Holdings Limited. Virax Holdings Limited advances funds to Virax Scientific Management Pty Ltd which uses such funds for investigating potential investment in research and development activities. The total amount advanced during the current year was nil (2002: nil) and has been fully provided for.

Virax Holdings Limited has made its investment in Virax Immunotherapeutics Pty Ltd (VIP) which is a 100% owned subsidiary of Virax Scientific Management Pty Ltd. Virax Holdings Limited advances funds to Virax Immunotherapeutics Pty Ltd which uses such funds for research and development activities. The total amount advanced during the current year was \$848,817 (2002: \$1,277,802) and has been fully expensed. Such advances are on an interest free bases and secured by a fixed and floating charge over all assets of VIP.

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

Virax Holdings Limited has made its investment in VIP Development Pty Ltd (VDP) which was incorporated 2 June 2003, which is a 100% owned subsidiary of Virax Scientific Management Pty Ltd. Virax Holdings Limited advances funds to VIP Development Pty Ltd which uses such funds for formation and establishment expenses. The total amount advanced during the current year was \$1,098 (2002: nil). This entity did not trade during the financial year ended 30 June 2003. Such advances are on an interest free bases and secured a fixed and floating charge over all assets of VDP.

Virax Holdings Limited has made its investment in VIP Facilities Pty Ltd (VFP) which was incorporated 2 June 2003, which is a 100% owned subsidiary of Virax Scientific Management Pty Ltd. Virax Holdings Limited advances funds to VIP Facilities Pty Ltd which uses such funds for formation and establishment expenses. The total amount advanced during the current year was \$1,098 (2002: nil). This entity did not trade during the financial year ended 30 June 2003. Such advances are on an interest free bases and secured by a fixed and floating charge over all assets of VFP.

Transactions with director - related entities

In 1998 Virax Holdings Limited entered into an agreement with Equitech Corporation Pty Ltd, a company associated with D. J. Beames, a director of Virax Holdings Limited. This agreement was in effect during the year ended 30 June 2003 and provided for provision, on normal commercial terms, of various services in relation to the management of the Company and a total amount of \$325,891 (2002: \$314,267) was paid excluding GST in respect of year ended 30 June 2003 on this account. This amount included \$12,891 (2002: \$31,268) paid on account of reimbursement of expenses settled on behalf of Virax Holdings Limited. This amount of \$12,891 is not included in the Directors and Executives Remuneration.

In the financial year 1997-1998, Virax Holdings Limited entered into an agreement with Institute of Drug Technology Australia Limited (IDT) for the provision of project management and other professional services and such agreement continues. Such contract was entered into on commercial terms and conditions. Dr G L Blackman, who was a director of Virax Holdings Limited until 5 May 2003, is the Chairman and Managing Director of IDT. Dr Blackman took no part in the Board's decision to award the contract to IDT. A total amount of \$70,345 (2002: \$567,946) was paid, or payable, for the year in respect of this contract.

- (c) The ultimate holding company in the wholly owned group is Virax Holdings Limited.
- (d) Interests in the securities of Virax Holdings Limited held by directors of the reporting entity and their director-related entities, as at 30 June 2003 and changes therein:

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

| Holder | Shares in Virax Holdings Limited | | Options in Virax Holdings Limited | |
|--------------------|-------------------------------------|------------|--------------------------------------|------------|
| | 30 June 03 | 30 June 02 | <u>30 June 03</u> | 30 June 02 |
| | T.W. Quirk | | | |
| Direct - | 132,650 | 105,000 | 496,250 | 400,000 |
| Indirect - | 257,750 | 206,500 | 51,250 | - |
| D.J. Beames | | | | |
| Direct - | - | - | - | - |
| Indirect - | 1,145,000 | 1,015,000 | 1,130,000 | 1,000,000 |
| J. Stonier | | | | |
| Direct- | - | - | 240,000 | 240,000 |
| Indirect- | 133,000 | 128,000 | 5,000 | - |

⁽¹⁾ Options issued to directors pursuant to the Share Option Plan

(e) Movements in interests in the securities of Virax Holdings Limited held by directors of the reporting entity and their director-related entities, as at 30 June 2003 and changes therein:

| | Shares | Options |
|----------------------------------|------------------|------------------|
| T.W. Quirk | | |
| Direct Open Bal 1/7/02 | 105,000 | 400,000 |
| Sep-02 | (68,600) | - |
| Oct-02 | 70,000 | 96,250 |
| Apr-03 | 26,250 | - |
| Total Direct 30/6/03 | <u>132,650</u> | <u>496,250</u> |
| Indirect - | 257,750 | 51,250 |
| D.J. Beames | | |
| Direct - | - | - |
| Indirect Open Bal. 1/7/02 | 1,015,000 | 1,000,000 |
| No. Acquired Oct-02 | 130,000 | 130,000 |
| Total Indirect 30/6/03 | <u>1,145,000</u> | <u>1,130,000</u> |
| J. Stonier | | |
| Direct - | - | 240,000 |
| Indirect Open Bal. 1/7/02 | 128,000 | - |
| No. Acquired Oct-02 | 5,000 | 5,000 |
| Total Indirect 30/6/03 | <u>133,000</u> | <u>5,000</u> |

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

18. CONTINGENT LIABILITIES

The Company's subsidiary, Virax Immunotherapeutics Pty Ltd, was offered a Start Grant from the IR&D Board of the Commonwealth Department of Industry, Science and Tourism. An Agreement was signed as of 23 October 2001. The amount of the Grant, up to \$911,375, is 50% of eligible expenditure incurred on the clinical trial. The name of the Trial is *HIV/AIDS Therapeutic Trial using Co-X-Gene™ Technology*.

Should Virax Immunotherapeutics Pty Ltd not satisfy the standard terms and conditions as set out in the AusIndustry IR&D Board Start Grant Agreement, the amount paid under the Grant may become refundable, in part or in full. The total amount received up to 30 June 2003 is \$865,750 (2002: \$697,000).

In addition to the above, please refer to Note 1 (d).

19. FINANCIAL INSTRUMENTS

Terms and Conditions

| Recognised Financial Instruments | Balance Sheet Notes | Terms and Conditions |
|--|---------------------|---|
| i Financial Assets | | |
| Cash, Cash Equivalents and Short-term investment | | The carrying amount approximates fair value because of their short-term to maturity |
| Receivables | 5 | The carrying amount approximates fair value |
| ii Financial Liabilities | | |
| Creditors and Accruals | 9 | Liabilities are normally settled on 30 day terms. The carrying amount approximates fair value |
| iii Equity | | |
| Ordinary Shares | 11 | Details of shares issued are set out in Note 11. |

| Unrecognised Financial Instruments | Balance Sheet Notes | Terms and Conditions |
|------------------------------------|---------------------|--|
| Options over Ordinary Shares | | The fair value of options over ordinary share is determined using the Black Scholes Option pricing model |

VIRAX HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

19. FINANCIAL INSTRUMENTS (cont.)

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

Interest Rate Risk

| Financial Instruments | Floating Interest rate | | Fixed interest rate maturing in: | | | | | | Non-interest bearing | | Total carrying amount as per the balance sheet | | Weighted average effective interest rate | |
|--|------------------------|------------|----------------------------------|------------------|-------------------|------------|-------------------|------------|----------------------|----------------|--|------------------|--|--------------|
| | | | 1 year or less | | Over 1 to 5 years | | More than 5 years | | | | | | | |
| | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ | 2003 % | 2002 % |
| i Financial Assets | | | | | | | | | | | | | | |
| Cash Assets (Cash) | - | - | - | - | - | - | - | - | 112,184 | 259,630 | 112,184 | 259,630 | N/A | N/A |
| Receivables – Other Current Assets | - | - | - | - | - | - | - | - | 52,648 | 53,543 | 52,648 | 53,543 | N/A | N/A |
| Receivables – related parties/entities | - | - | - | - | - | - | - | - | - | - | - | - | N/A | N/A |
| Cash Assets (Short term deposits) | - | - | 1,100,000 | 1,561,859 | - | - | - | - | - | - | 1,100,000 | 1,561,859 | 4.45% | 4.23% |
| Total Financial Assets | - | - | 1,100,000 | 1,561,859 | - | - | - | - | 164,832 | 313,173 | 1,264,832 | 1,875,032 | 4.45% | 4.23% |
| ii Financial Liabilities | | | | | | | | | | | | | | |
| Bank | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Creditors, Accruals and Provisions | - | - | - | - | - | - | - | - | 680,000 | 448,423 | 680,000 | 448,423 | - | - |
| Total Financial Liabilities | - | - | - | - | - | - | - | - | 680,000 | 448,423 | 680,000 | 448,423 | - | - |

19. FINANCIAL INSTRUMENTS (cont.)

Recognised Financial Instruments

Cash, Cash equivalents and Short-Term Investments:

The carrying amounts approximate fair value because of their short-term value to maturity.

Trade Receivables and Payables:

The carrying amounts approximate fair value.

Credit Risk Exposures:

The economic entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those asset as indicated in the Statement of Financial Position.

20 SEGMENT REPORTING

Virax operates within one segment, being the development of biotechnology, within Australia.

21. SUBSEQUENT EVENTS

Except as noted below, it is believed that no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

ASX Announcements

The Company has made the following announcements to the ASX since the end of the Financial Year:

9 July 2003 - The Company announced that it had received share applications in excess of the \$1.0 million minimum subscription. Details of such minimum subscription were provided in the Prospectus dated 22 May 2003.

25 July 2003 - The Company announced that as at that date it had raised \$1.8 million in respect of the Prospectus dated 22 May 2003.

5 September 2003 - The Company announced that as at that date it had raised \$2.34 million in respect of the Prospectus dated 22 May 2003.

12 September 2003 Appendix 4E - Preliminary Final Results 30 June 2003 were released.

22 September 2003 The Company announced that the offering of shares issued pursuant to the Prospectus dated 22 May 2003 was fully subscribed and \$3,25 million was raised

Fund Raising

As noted above, the Company announced that the offering of shares issued pursuant to the Prospectus dated 22 May 2003 was fully subscribed and \$3.25 million was raised. Under circumstances where the Company had no funding constraints the forecast expenditure for the 2003/2004 financial year would be approximately \$3.6 million

Having regard to the current market conditions and the Company's development programs, the Directors have therefore implemented the following actions to provide additional funds:

Seeking commercial opportunities to utilise the Company's facilities and capability to construct vectors and manufacture trial drugs.

The operations and development programs have been structured such that, should circumstances demand it, re-scheduling of expenditure could be made.

Partnering - The Company continues the active search, with Clearview Projects Inc of the USA acting as an advisor, to secure appropriate licensing of the Company's technology or partnership deal(s) for the Company's development programs.

At this time the directors are unable to anticipate the outcome of the partnering activities. As shareholders have been previously advised, the results of this initial phase may not be known until the end of the first quarter of 2004. In addition to the HIV Treatment Trial, HIV Extension Study, the Prostate Cancer Project and the Hepatitis B Project, Virax continues to evaluate other opportunities to add to its current product development base.

The matters discussed above are forward looking statements. Forward-looking statements regarding the Company's future business prospects, plans, objectives, expectations and intentions are subject to certain risks, uncertainties and other factors that could cause actual results to differ materially from those projected or suggested in the forward-looking statements.

22 EMPLOYEE BENEFITS

The Option Plan has been established, with shareholder approval, whereby Virax Holdings Limited may, at the discretion of the Board, grant options over ordinary shares of the Company. Such options may be issued to directors, with shareholder approval and to staff and advisers. The options, issued for nil consideration, may be granted in accordance with guidelines established by the directors, although management retains the final decision as to the granting of options. Such guidelines allow for the granting of options on conditions relating to service or performance. The options are normally issued for a period of approximately five years (but less than six years) and are exercisable after vesting. The options are not transferable without the approval of the Board and they will not be listed on the ASX.

Currently, there are 3 directors and 9 staff eligible for the Plan.

Information with respect to the number of options granted under the Option Plan is as follows

(a) Options held at beginning of the reporting period (1 July 2002 – 30 June 2003)

| Number of Options | Grant Date | Expiry Date | Exercise Price⁽¹⁾ | Weighted Average Exercise Price |
|--------------------------|------------------------|--------------------|-------------------------------------|--|
| 970,000 | 1 February 31 May 2000 | 31 December 2004 | \$1.2005 | |
| 440,000 | 30 November 2000 | 31 December 2004 | \$1.3505 | |
| 250,000 | 1 September 2001 | 31 December 2004 | \$0.9505 | |
| <u>1,140,000</u> | 1 January 2002 | 31 December 2006 | \$0.9505 | |
| <u>2,800,000</u> | | | | <u>\$1.10</u> |

(b) Options granted during the report period.

| Number of Options | Grant Date | Expiry Date | Exercise Price⁽¹⁾ | Weighted Average Exercise Price |
|--------------------------|----------------------|--------------------|-------------------------------------|--|
| 400,000 | July – 1 August 2002 | 31 December 2007 | \$0.9505 | |
| 110,000 | 1 August 2002 | 31 December 2007 | \$0.4505 | |
| <u>140,000</u> | 21 May 2003 | 31 December 2007 | \$0.2500 | |
| <u>650,000</u> | | | | <u>\$0.72</u> |

(c) Options exercised during the reporting period is nil.

(d) Options lapsed during the reporting period

| Number of Options | Grant Date | Expiry Date | Exercise Price⁽¹⁾ | Weighted Average Exercise Price |
|--------------------------|-------------------|--------------------|-------------------------------------|--|
| 45,000 | 1 January 2002 | 31 December 2006 | \$0.9505 | |

(e) Options held at the end of the reporting period

| Number of Options | Grant Date | Expiry Date | Exercise Price ⁽¹⁾ | Weighted Average Exercise Price |
|-------------------|--------------------------|------------------|-------------------------------|---------------------------------|
| 970,000 | 1 February – 31 May 2000 | 31 December 2004 | \$1.2005 | |
| 440,000 | 30 November 2000 | 31 December 2004 | \$1.3505 | |
| 250,000 | 1 September 2001 | 31 December 2004 | \$0.9505 | |
| 1,095,000 | 1 January 2002 | 31 December 2006 | \$0.9505 | |
| 400,000 | 1 Jul – 1 Aug 2002 | 31 December 2007 | \$0.9505 | |
| 110,000 | 1 August 2002 | 31 December 2007 | \$0.4505 | |
| <u>140,000</u> | 21 May 2003 | 31 December 2007 | \$0.2500 | |
| <u>3,405,000</u> | | | | <u>\$1.07</u> |

(f) Fair value of Options

The fair value of options is estimated on the date of grant being 1 January 2002 using a Black-Scholes option pricing model.

| | |
|-------------------------|---------|
| Dividend Yield | 0% |
| Expected Volatility | 84.9% |
| Historical Volatility | 84.9% |
| Risk-free interest rate | 5.26% |
| Expected option life | 5 years |

The dividend assumption reflects the assumption that since Virax has not paid a dividend since 1993 this will continue in the future. The expected volatility has been assumed to be the same as the historic volatility. The expected life is assumed to be the same as the contract life of the options. This is a conservative assumption. A more detailed analysis to determine the expected life based on the eight vesting dates would be expected to provide a materially lower Option Fair Value. For Performance based options it is assumed that 100 % of Performance options will be earned. This is a conservative assumption. A more detailed analysis to determine the probability of the individual option holder meeting his Performance Criteria could result in a materially lower Option Fair Value.

23 OTHER INFORMATION

Domicile: Suite 220, 89 High Street, Kew, Victoria, Australia

Legal Form: Incorporated public company, limited by shares

Country of Incorporation: Australia

Number of Employees at Reporting Date: 10 (not including 2 non-executive directors)

VIRAX HOLDINGS LIMITED AND CONTROLLED ENTITIES

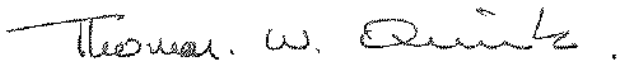
DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Virax Holdings Limited I state that -

In the opinion of the directors:

- (a) the financial statements and 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) complying 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



T. W. Quirk
Chairman
Melbourne,
30 September 2003

Independent audit report to members of Virax Holdings 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 Virax Holdings Limited (the company) 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 judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Virax Holdings Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Virax Holdings 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.

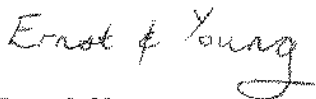
Inherent Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matters.

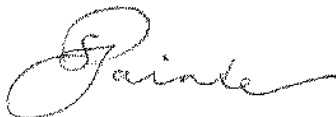
As outlined in Note 1 to the financial statements, in common with other drug development biotechnology companies, the operations of the company and consolidated entity are subject to substantial risks due primarily to the nature of the drug development and commercialisation being undertaken.

In addition, in order for the company and consolidated entity to execute their longer term plans, it will be necessary to raise additional funds in the future. The Directors cannot be certain of the success of any intended fund raising or the success of any product development or commercialisation. As a result of these factors there is significant uncertainty whether the company and consolidated entity will be able to continue as going concerns, and the company and consolidated entity therefore may not be able to pay their debts as and when they become due and payable, and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as going concerns.



Ernst & Young



Stuart Painter
Partner
Melbourne
30 September 2003

VIRAX HOLDINGS LIMITED

ADDITIONAL SHAREHOLDER INFORMATION

A. SUBSTANTIAL SHAREHOLDERS

There were no substantial shareholders, as at 30 June 2003, pursuant to Section 671B of the Corporations Act 2001.

B. DISTRIBUTION OF EQUITY SECURITIES

There is no current on-market buy back.

i) Distribution of holdings:

Data as at the close of business 23 September 2003

| Number of Securities per Parcel | Fully Paid Ordinary Shares | |
|---------------------------------|----------------------------|------------------------|
| | No. Holders | Total Number of Shares |
| 1 - 5,000 | 1,894 | 3,921,063 |
| 5,001 - 10,000 | 492 | 4,017,115 |
| 10,001 - 20,000 | 296 | 4,462,876 |
| 20,001 - 50,000 | 190 | 6,431,052 |
| 50,001 - 100,000 | 75 | 5,536,755 |
| 100,001 and over | 60 | 20,273,558 |
| Total | 3,007 | 44,642,419 |

ii) Ordinary Shares

There were 1,318 holders of less than a marketable parcel (being 2,631 shares) of fully paid ordinary shares. Such holders, in aggregate, held 1,588,407 shares.

ADDITIONAL SHAREHOLDER INFORMATION (continued)

C. STATEMENT OF HOLDINGS OF COMPANY SECURITIES

The names of the 20 largest holders of each class of the listed equity securities as at 23 September 2003 are listed below:

i) **Fully paid ordinary shares**

| Name | Number of Shares | Percentage of Total Class |
|---|-------------------------|----------------------------------|
| 1 Commonwealth Custodial Services Ltd | 1,794,282 | 4.02 |
| 2 Invia Custodian Pty Ltd | 1,200,000 | 2.69 |
| 3 Equitech Corporation Pty Ltd | 1,125,000 | 2.52 |
| 4 Mrs Margaret Lyndsey Cattermole | 1,069,539 | 2.40 |
| 5 Keong Lim Pty Limited | 847,000 | 1.90 |
| 6 Invia Custodian Pty Limited | 800,000 | 1.79 |
| 7 Mr Martin James Reed | 662,250 | 1.48 |
| 8 Perpetual Custodians Limited | 612,812 | 1.37 |
| 9 Mr Angus Mackay | 574,053 | 1.29 |
| 10 R O Henderson (Beehive) Pty | 568,272 | 1.27 |
| 11 Dixtru Pty Limited | 500,000 | 1.12 |
| 12 Droga Capital Pty Ltd | 500,000 | 1.12 |
| 13 Vagg Investment Management | 500,000 | 1.12 |
| 14 National Nominees Limited | 450,500 | 1.01 |
| 15 Mulgara Pty Limited | 425,000 | 0.95 |
| 16 Strath Dee Pty Ltd | 420,000 | 0.94 |
| 17 Mr Andrew Graham Field | 415,932 | 0.93 |
| 18 Tula Investments & Services | 357,000 | 0.80 |
| 19 Runyon Pty Ltd | 350,000 | 0.78 |
| 20 Mr Brian Edwards & Mrs Colleen Edwards | <u>345,875</u> | <u>0.77</u> |
| Total 20 Largest Shareholders | <u>13,517,515</u> | <u>30.27</u> |
| Total Issued Ordinary Shares | <u>44,642,419</u> | <u>100.00</u> |

ADDITIONAL SHAREHOLDER INFORMATION (continued)

C. STATEMENT OF HOLDINGS OF COMPANY SECURITIES

The names of the 20 largest holders of each class of the listed equity securities as at 23 September 2003 are listed below:

i) **Partly Paid ordinary shares (Unlisted)**

| Name | Number of Shares | Percentage of Total Class |
|---|-------------------------|------------------------------|
| 1 Keong Lim Pty Limited | 463,500 | 7.09 |
| 2 Albert & Teresa Ting Pty Ltd | 400,000 | 6.11 |
| 3 Mr Martin James Reed | 360,000 | 5.50 |
| 4 Siew Chie Lim | 350,000 | 5.35 |
| 5 Colleen Gaye Edwards | 342,495 | 5.24 |
| 6 Unaval Nominees Pty Ltd | 300,000 | 4.59 |
| 7 Yancroft Pty Ltd | 280,000 | 4.28 |
| 8 Dr Thomas William Quirk | 201,025 | 3.07 |
| 9 Albert & Teresa Ting Pty | 198,750 | 3.04 |
| 10 Aotea Roa Investments Pty Ltd | 195,764 | 2.99 |
| 11 Tula Investments & Services | 178,500 | 2.73 |
| 12 Mr Brian Edwards & Mrs Colleen Edwards | 172,938 | 2.64 |
| 13 Oakleigh Tower Pty Ltd | 158,500 | 2.42 |
| 14 Mrs Diana Mary Morgan | 150,000 | 2.29 |
| 15 Saharasand Holdings Pty Ltd | 140,625 | 2.15 |
| 16 Hayes Funds Management Pty | 125,000 | 1.91 |
| 17 Perpetual Custodians Limited | 125,000 | 1.91 |
| 18 Questco Pty Ltd | 125,000 | 1.91 |
| 19 Mrs Colleen Gaye Edwards | 112,471 | 1.72 |
| 20 Quark Nominees Pty Ltd | <u>100,550</u> | <u>1.54</u> |
| Total 20 Largest Shareholders | <u>4,480,118</u> | <u>68.48</u> |
| Total Issued Ordinary Shares Partly Paid | <u>6,541,769</u> | <u>100.00</u> |

ADDITIONAL SHAREHOLDER INFORMATION (continued)

C. STATEMENT OF HOLDINGS OF COMPANY SECURITIES (cont.)

iv) Unlisted Options

The following unlisted options, outstanding, as at 23 September 2003

| | Categories | No of Holders | Number of Options | Percentage of Class of Options |
|--|------------------|---------------|-------------------|--------------------------------|
| Directors, Employees & Advisors | 10,000 – 100,000 | 1 | 20,000 | 0.59% |
| | 100,001 and over | 9 | 3,385,000 | 99.41% |

See Note 11 for the exercise date and exercise price data.

D. VOTING RIGHTS

Ordinary Shares

In accordance with the Constitution and subject to any rights or restrictions for the time being attached to any class or classes of shares, every member present or by proxy or attorney, in the case of a body corporate, by a representative duly authorised in writing under the seal of that body corporate, shall on a show of hands have one vote and upon a poll shall have one vote for each fully paid share held on a poll, partly paid share confer a fraction of a vote in proportion to the proportion of the amount paid up on the share.

E. ADDITIONAL INFORMATION

Company Secretary

The name of the company secretary is Mr Richard de Lautour.

Registered Office

The address of the registered office in Australia is Suite 220, 89 High Street, Kew Vic 3101. Telephone (03) 9854 6230, Facsimile (03) 9853 5134.

Securities Record

Registers of listed securities are held at Computershare Registry Services Pty Ltd, Level 12, 565 Bourke Street, Melbourne Vic 3000. Telephone (03) 9611 5711, Facsimile (03) 9611 5710.

A register of unlisted options is held at the Company's registered office.

Stock Exchange Listing

Quotation has been granted for all the fully paid Ordinary shares of the Company (ASX code VHL) on the Australian Stock Exchange Limited, and for all Options issued other than those pursuant to the Virax Option Plan. Partly paid ordinary shares are not quoted on the Australian Stock Exchange Limited. Such shares will be quoted after they become fully paid by payment of the second and final instalment due and payable on or before 24 October 2003.

F. Summary of Securities Issued at 23 September 2003

| Shares | Total number | Number quoted | Issue price per security (cents) | Amount paid up per security (cents) |
|---|--------------|---------------|----------------------------------|-------------------------------------|
| Ordinary Shares at 1 July 2002 | 27,230,385 | 27,230,385 | | |
| Changes during current period | | | | |
| Increases through issues | | | | |
| (a) Fully Paid (Issued during Financial Year) | 6,888,322 | 6,888,322 | 0.40 c | 0.40 c |
| Fully Paid (Post Year end) | 10,518,561 | 10,518,561 | 0.20 c | 0.20 c |
| Partly Paid (Post Year end) Unquoted | 6,541,769 | nil | 0.20 c | 0.10 c |
| (b) Increases through conversions of Options | | | | |
| Fully Paid | 1,954 | 1,954 | 0.50 c | 0.50 c |
| Fully Paid | 3,197 | 3,197 | 0.25 c | 0.25 c |
| Ordinary securities | 51,184,188 | 44,642,419 | | |

| Options | Approx. Date Issued | | No. Quoted: | Exercise price | Expiry date |
|-------------------------------|---------------------|------------------------------|------------------|----------------|-------------|
| Quoted Options: | | | | | |
| ASX code: VHLO | Sep 2002 | 6,886,368 | 6,886,368 | \$0.5000 | 15Dec05 |
| ASX code: VHLOA | Jul/Sep 2003 | <u>4,261,974</u> | <u>4,261,974</u> | \$0.2500 | 16Jan06 |
| | | <u>11,148,342</u> 11,148,342 | 11,148,342 | | |
| Unquoted Options: | | | | | |
| Outstanding at 1 July 2002: | Pre 1 Jul 02 | 970,000 | | \$1.2005 | 31Dec04 |
| | .. | 440,000 | | \$1.3505 | 31Dec04 |
| | .. | 250,000 | | \$0.9505 | 31Dec04 |
| | .. | <u>1,140,000</u> | | \$0.9505 | 31Dec06 |
| | | <u>2,800,000</u> | | | |
| Issued during the year: | | | | | |
| | 1 Jul 02 | 400,000 | | \$0.9505 | 31Dec07 |
| | 1 Aug 02 | 110,000 | | \$0.4505 | 31Dec07 |
| | 21 May 03 | <u>140,000</u> | | \$0.2500 | 31Dec07 |
| | | <u>650,000</u> | | | |
| Expired during current period | | <u>(45,000)</u> | | \$0.9505 | 31Dec06 |
| | | <u>3,405,000</u> 3,405,000 | | | |
| Total of All Options | | 14,553,342 | 11,148,342 | | |