

VRI BioMedical Limited

ABN 97 084 464 193

PROSPECTUS

FOR

A bonus issue of options to shareholders on a one for five basis exercisable at \$0.25 on or before 30 June 2006

BONUS OPTIONS WILL BE ISSUED TO ELIGIBLE SHAREHOLDERS HOLDING SHARES IN THE COMPANY AT 5.00PM EST ON 6 AUGUST 2004.

**THIS IS AN IMPORTANT DOCUMENT.
IT REQUIRES YOUR ATTENTION AND SHOULD BE READ IN ITS ENTIRETY.
IF YOU ARE IN DOUBT ABOUT ITS CONTENTS, YOU SHOULD CONSULT
YOUR PROFESSIONAL ADVISER WITHOUT DELAY. THE OPTIONS WHICH
WILL BE GRANTED UNDER THIS PROSPECTUS AND ANY SHARES WHICH
MAY ISSUE UPON EXERCISE OF THOSE OPTIONS ARE OF A SPECULATIVE
NATURE**

Table of Contents

Corporate Directory & Important Information	3
Letter from the Chairman	4
Summary	
1 Details of the Bonus Issue	5
2 Action required by Shareholders	7
3 Company Overview	8
4 Effect of the Bonus Issue	12
5 Risk Factors	12
6 Financial Information	15
7 Material Agreements	17
8 Additional Information	17
9 Glossary of Terms	

Privacy Disclosure

The Corporations Act requires the Company to include information about the security holder (including name, address and details of the securities held) in its public register. The information contained in the Company's public register must remain there even if that person ceases to be a security holder. Information contained in the Company's registers is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

A shareholder has a right to gain access to the information that the Company holds about that person subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the Company's registered office.

Corporate Directory

Directors

Kim Robert Slatyer (Executive Chairman)
Peter William French (Managing Director)
Sally Anne Capp (Non-executive Director)
Geoffrey Charles Wild AM (Non-executive Director)

Company Secretary

Paul Beatty Magoffin

Registered Office

VRI BioMedical Limited
Suite G09
No. 1 Central Avenue
Australian Technology Park
EVELEIGH NSW 1430
Phone: (02) 9209 4268
Fax: (02) 9209 4256

Auditor

Ernst & Young
The Ernst & Young Building
321 Kent Street
Sydney NSW 2000
Ph: (02) 9248 5555
Fax: (02)9428 5205

Legal Advisers

Freehills
250 St Georges Terrace
PERTH WA 6000
Ph: (08) 9211 7777
Fax: (08) 9211 7878

ASX Code

VRI
VRIO

Share Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street,
Sydney New South Wales 2000
Ph: 1300 855 080
Fax: (02) 8235 8212

Website

www.vribiomedical.com

Important Information

This Prospectus is dated 27 July 2004 and was lodged with ASIC on that date. ASIC and ASX take no responsibility for the contents of this Prospectus.

This Prospectus is important and requires your attention. If you have any questions about its contents, the Bonus Issue or the impact of the Bonus Issue on the Company and its securities, you should contact your stockbroker, solicitor, accountant or professional adviser.

Shareholders at the Record Date with registered addresses in Australia and New Zealand are Eligible Shareholders who will be entitled to receive Bonus Options.

Eligible Shareholders are not required to apply for or take any other action in order to receive their Bonus Option entitlement. The Bonus Options will be issued automatically to Eligible Shareholders for no consideration on the basis of one (1) new Bonus Option for every five (5) Shares held in the Company as at the Record Date.

Defined terms and abbreviations used in this Prospectus are explained in Section 9.

LETTER FROM THE CHAIRMAN

27th July 2004

Dear Shareholder

On behalf of your Board of Directors, I am pleased to present this Prospectus to you in relation to the issue of Bonus Options to Eligible Shareholders.

The purpose of the Bonus Issue is to support the Company's growth strategy and to reward shareholders for their loyalty to the Company as it continues its transition from a company solely focussed on research and development to one that is now in the process of commercialising its world leading probiotic technology.

The Bonus Issue comprises one Bonus Option for every five Shares registered at the Record Date, at an exercise price of \$0.25 each on or before 30 June 2006. The Company shall apply to ASX for listing of the Bonus Options.

This Prospectus contains detailed information about the Bonus Issue and your Directors recommend that you read it carefully. In particular, Section 1 details your entitlement to be issued Bonus Options and summarises the Bonus Issue while Section 8 more completely describes the terms of the Bonus Options. Section 5 describes possible risks associated with exercising the Bonus Options.

Eligible Shareholders are not required to take any action to be issued their Bonus Options. The allotment and issue of Bonus Options will be made as soon as possible after the Record Date.

Finally, I would like to acknowledge the significant contribution made by my predecessor, the late Jim Grant. Jim joined the Company as a director in June 2003 and was Chairman from October 2003 to his untimely death on 4 July 2004. Jim was a fine man and will be sadly missed by all at VRI.

Thank you for your ongoing support.

Yours sincerely,

Kim Slatyer
Chairman

PROPOSED TIMETABLE

Lodgement of Prospectus with ASX and ASIC	27 July 2004
Shares quoted ex – Bonus Issue entitlement	30 July 2004
Trading in Bonus Options on a deferred settlement basis commences	30 July 2004
Record Date to determine entitlement	5.00pm (EST) 6 August 2004
Allotment and issue of Bonus Options	12 August 2004
Despatch date of holding statements	16 August 2004
Trading in Bonus Options on a normal settlement basis commences	17 August 2004

1. Details of the Bonus Issue

1.1. The Bonus Issue

The Company has decided to grant Bonus Options to Eligible Shareholders calculated on the basis of one Bonus Option for every five Shares held at 5.00pm (EST) on 6 August 2004. The Bonus Options will be issued for no consideration and shall be exercisable at \$0.25 on or before 30 June 2006

Approximately 21 million Bonus Options will be issued pursuant to this Prospectus.

Please refer to Section 8.1 for a summary of the rights attaching to the Bonus Options.

1.2. Purpose of the Bonus Issue

The Company is proceeding with the Bonus Issue to reward Shareholders for their loyalty to the Company. If all of the Bonus Options are converted into Shares, \$5.25m will be injected into the Company.

1.3. Your entitlement

Your entitlement to be issued with Bonus Options will be determined on the Record Date. The number of Bonus Options to which you as an Eligible Shareholder will be issued will be the number of Shares you hold as at the Record Date divided by five.

Any fractions in entitlements will be rounded up to the nearest whole number.

As the Bonus Options will be issued for no consideration, no formal action is required on your behalf in order receive your entitlement.

1.4. Allotment

The Bonus Options will be issued as soon as is practicable after the Record Date and, in any event, no later than six business days after the Record Date. Holding statements in relation to the Bonus Options will be despatched within six business days after the Record Date.

1.5. ASX quotation

Application will be made to ASX no later than seven days after the date of the Prospectus for the official quotation of the Bonus Options. If permission is not granted by ASX for the official quotation of the Bonus Options, the Company will still proceed with the Bonus Issue, however Shareholders will not be able to trade their Bonus Options on ASX.

1.6. CHES

The Company participates in the Clearing House Electronic Sub-register System, known as CHESS. ASTC, a wholly owned subsidiary of ASX, operates CHESS in accordance with the Listing Rules, ASTC Settlement Rules and ACH Clearing Rules.

Under CHESS, Eligible Shareholders who receive Bonus Options will not receive a certificate but will receive a statement of their holding of Bonus Options.

If you are broker sponsored, ASTC will send you a CHESS statement.

The CHESS statement will set out a number of Bonus Options issued under this Prospectus, provide details of your holder identification number and the participant identification number of the sponsor.

If you are registered on the Issuer Sponsored sub register, your statement will be dispatched by Computershare Investor Services Pty Limited and will contain the number of Bonus Options issued to you under this Prospectus and your security holder reference number.

A CHESS statement or an Issuer Sponsored statement will be sent routinely to Shareholders at the end of any calendar month during which the balance of their shareholding changes. Shareholders may request a statement at any other time. However, a charge may be made for additional statements.

1.7. Foreign Shareholders

Only Shareholders at the Record Date with registered addresses in Australia and New Zealand will be eligible to receive Bonus Options. The issue of securities including Bonus Options in other jurisdictions may constitute a violation of applicable securities laws. The Directors believe that it is unreasonable to issue Bonus Options to Foreign Shareholders, having had regard to the number of Shareholders in the relevant jurisdictions, the number of Bonus Options those Shareholders would be issued and the cost of complying with the securities legislation of those jurisdictions.

Accordingly, Bonus Options will not be issued to any Shareholder whose registered address is in a country other than Australia or New Zealand. The Prospectus is being sent to Foreign Shareholders for information purposes only.

1.8. Risk factors

Whilst the Bonus Options are being issued for no consideration, their subsequent exercise and conversion into Shares should be regarded as a speculative investment. In addition to the general risks applicable to all investments in securities of a listed company, there are specific risks associated with an investment in the Company which are set out in Section 5.

1.9. Taxation implications

The Directors do not consider that it is appropriate to give Shareholders advice regarding the taxation consequences of being issued with Bonus Options or their subsequent conversion into Shares. The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Shareholders. As a result, Shareholders should consult their professional tax adviser in connection with the Bonus Issue.

1.10. Withdrawal of Prospectus

The Directors may at any time decide to withdraw this Prospectus.

1.11. Brokerage and stamp duty

No brokerage or stamp duty will be payable by Eligible Shareholders in respect of the issue of the Bonus Options.

1.12. Effect of the Bonus Options on existing Option holders

The Company currently has 34,543,372 Options quoted on ASX, 4,230,000 unquoted Options on issue under the Company's employee share option plan and it has committed to issue 5,000,000 Options to Taylor Collison (TCL). The terms of the Options to be issued to TCL will be identical in all respects with the Bonus Options.

Options held at the Record Date will not be included when determining Shareholders' entitlements to receive Bonus Options. However, Option holders who exercise some or all of their Options and subsequently become registered Shareholders on or before the Record Date will be entitled to receive

Bonus Options calculated by reference to the total number of Shares they hold, provided they are Eligible Shareholders. Option holders who choose to exercise their Options in order to increase the number of Shares they hold (and therefore their entitlement to Bonus Options) should do so immediately so as to allow sufficient time for any Shares be issued and registered to them by the Record Date.

The exercise of any Options prior to the Record Date will increase the issued capital of the Company and this will result in an increase in the number of Bonus Options issued.

The exercise price for Options currently quoted on the ASX is currently \$0.75.

1.13. Recent Market Price Shares

The highest and lowest market sale prices of the Company's Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with ASIC and the respective dates of those sales were:

Highest: \$0.17 per Share on 7 May 2004

Lowest: \$0.10 per Share on 29 June 2004

The latest available market sale price of the Company's Shares on ASX prior to the date of lodgement of this Prospectus with the ASIC was \$0.125 per Share on 26 July 2004.

In addition to these comments, Shareholders should refer to Section 5.5 relating to share price movements and to the recommendation to seek professional tax advice in Section 1.9.

1.14. Dividend Policy

The rights attaching to Options do not include the right to receive any dividend payment made by the Company.

However, Shares which are issued upon exercise of the Bonus Options will rank pari passu in all respects (including dividend and bonus issues) with all existing Shares in the capital of the Company from the date of allotment and issue.

Directors are not able to say when or if dividends will be paid in the future, as the payment of any future dividend will depend on the future profitability, financial position and cash requirements of the Company.

1.15. Enquiries concerning Prospectus

Enquiries relating to this Prospectus should be directed to the Company Secretary, Paul Magoffin. Additional copies of this Prospectus can be obtained by contacting the Company by telephone on (02) 9209 4268 or facsimile on (02) 9209 4256.

2. Action required by Shareholders

2.1. Issue of Bonus Options

The Bonus Options will be issued to Eligible Shareholders for no consideration and no action is required by Eligible Shareholders.

2.2. Enquiries concerning your entitlement

If you have any queries concerning your entitlement please contact:

Computershare Investor Services Pty Limited

Telephone: 1300 855 080

Facsimile: (02) 8235 8212

If calling from New Zealand

Telephone: 61 3 9415 4000

3. Company Overview

(a) Company history and strategy

VRI is an Australian biotechnology company which listed on the ASX in December 2000 with a portfolio of projects in the areas of immunology and microbiology. The Company's fundamental strategy is to develop products that have global application with short to medium term expectation of commercial outcomes. All of the Company's projects are selected to develop products which conform to the following characteristics:

- Global market potential;
- Low regulatory hurdles; and
- Limited competition or strong points of differentiation.

The Company has intentionally avoided the development of new chemical entities (NCEs) with their associated extended development times and regulatory burdens and costs, deciding rather to focus on biological based products with fewer regulatory hurdles.

The Company operates three divisions; Probiotics, Diagnostics and Vaccines. An overview of each division and its current activities is provided below.

The Company is continually updating its strategy in response to clinical trial results, global trends and commercial opportunities. In recent months the Company has focused increasingly on its probiotic portfolio in response to successful clinical trial outcomes. In particular, the Company's achievement in launching proTract™ (one of the Company's probiotic products) for sale in Australian pharmacies will be used to attract licensees in other countries.

The Company is approaching the conclusion of the development work which it can efficiently achieve in its vaccine and diagnostics projects. It is now focussing on securing partnerships with third parties in order to finalise development for those projects and achieve commercial outcomes for its work in these areas. Accordingly, the cash burn in those divisions will reduce significantly in the coming months.

In line with its sharper focus on probiotics, the Company has recently completed a detailed review of its intellectual property portfolio to streamline it so it includes only those patent applications with strong current and future commercialisation potential and which, based on available information, are reasonably likely to be successful. This process has allowed the Company to reduce expenditure but retain protection of the Company's most significant assets, its intellectual property. The Company will continue to regularly review and assess the composition of its portfolio of intellectual property.

(b) Probiotics Division

What are probiotics?

Probiotics are bacteria that have the ability to confer a health benefit when ingested. The key issue in the field of probiotics is to identify specific strains that can:

- survive passage in the stomach;
- attach to the intestinal tract; and
- demonstrate scientific evidence of efficacy in conferring health benefits.

Once such a strain has been identified, there are numerous avenues to market for a product containing that strain. These avenues include food, dietary supplements and over-the-counter (OTC) pharmaceutical products.

The Company's products and approach

The Company has developed the *Lactobacillus fermentum* VRI-002 and *Lactobacillus fermentum* VRI-003 probiotic strains. Using these strains, VRI has formulated three ranges of probiotic products, the major features of which are summarised below.

The Company's strategy with its probiotic portfolio is to expand the possible applications as well as providing itself with the ability to make medical claims by conducting extensive clinical trials. This means that by the time the Company launches a product out of its probiotic portfolio it is supported by a database of scientific evidence. This approach not only differentiates the Company's probiotic products from the majority of its competitors' products but also stands the Company in good stead for the anticipated increase in regulation of the probiotics industry.

proTract™

There are currently three products in the proTract™ range which target the following disease states respectively:

- intestinal health;
- relief from the symptoms of irritable bowel syndrome; and

- preventing and relieving diarrhoea.

The Company intends to increase the range of products available in the proTract™ range to applications for which positive results are produced in clinical trials.

The Company has appointed CS Pharma to distribute proTract™ exclusively in Australia and New Zealand through pharmacies. CS Pharma will distribute to pharmacy wholesalers, arrange information sessions and their sales representatives will call on individual pharmacies to promote the product.

Further, the Company is seeking registration of proTract™ in China, Hong Kong and Taiwan. Should registration be successful, the Company intends to appoint a distributor in these regions.

ProBio PCC

ProBio PCC is a dietary supplement for intestinal health. The Company entered into a worldwide agreement with Pharmanex Inc to distribute ProBio PCC in the multi-level distribution channel. The agreement was entered into in September 2002 for 3 years and has 15 months left to run. Revenue from this agreement has been steady without being significant. As the profile of the product grows, the Company hopes that revenue will increase significantly. Discussions for a new contract with Pharmanex have not yet commenced but the Company has no reason to believe that a new agreement would not be entered into at the conclusion of the term of the current agreement.

Progastrim

Progastrim is a TGA listed dietary supplement for intestinal health. The product is distributed in Australia and New Zealand through Life-Span Holdings Pty Ltd with the primary distribution channel being through naturopaths.

Registration of Progastrim with the appropriate authorities in Singapore has been confirmed. The Company has appointed a distributor for Singapore.

Manufacturing and Supply of Probiotics range

The Company outsources the growing, fermentation and encapsulation of its probiotic products. The growth and fermentation is shared between two suppliers, one based in America and one based in Sweden. At present, encapsulation of the Company's probiotic products is performed solely by a company based in America, however it is intended to have this work carried out in Australia once a suitable manufacturer is identified.

Clinical trials

The Company recognises that a key success factor for its probiotics range is to produce high quality clinical evidence of efficacy. To maximise the value to Shareholders of the Company's probiotic strains, a major priority of the Company's project development focus is on completion of a range of clinical trials to provide evidence of clinical effectiveness in a range of health disorders. This evidence will drive the further marketing and distribution of the Company's probiotic based products. The clinical trial projects are prioritised with the following issues in mind:

- Commercial / market potential of projects - the potential demand for new and safe products in that disease state.
- Strength of preliminary and pre-clinical data to support a full clinical study into a new disease state.
- The strength of the Company's intellectual property in the respective area.

The clinical trials currently in progress using *L. fermentum* 002 are listed below. Trials are managed by a dedicated clinical trials manager.

TRIAL	DURATION	EST TIME OF COMPLETION	%AGE COMPLETE AS AT 30 MAY 2004
Irritable Bowel Syndrome (IBS) – second study	18 weeks	Fourth quarter, calendar, 2004	80% - 40 subjects out of 50
Inflammatory Bowel Disease (IBS)	12 months	Fourth quarter, calendar, 2004	40% - 40 subjects out of 100
Eczema in adults	18 weeks	Second quarter, calendar, 2005	10% - 4 out of 40 subjects. Currently on hold due to modification of design

Psoriasis in adults	18 weeks	Second quarter, calendar, 2005	19% - 23 out of 120 subjects. Currently on hold due to modification of design
---------------------	----------	--------------------------------	-------------------------------------------------------------------------------

(c) Diagnostics Division

The Company has completed its research and development in the area of diagnostics and has developed the following rapid diagnostic assays:

Performax (formerly IgAlert™)

Performax is a salivary based assay for the measurement of mucosal immune competence. ie immunological stress.

Performax operates through measuring Immunoglobulin A (IgA) in saliva, which is a convenient indicator of immune status and susceptibility to infection, especially upper respiratory infection.

Performax is also available in a format known as KIDS Alert (formerly SIDS Alert) and is a useful tool for detecting the predisposition to immune system dysfunction. The Company intends to configure KIDS Alert as a point-of-care test to be used as an adjunct to a range of other tests performed on children for a range of potential disorders.

Helirad

Helirad is a saliva based assay for the detection of *Helicobacter pylori* (*H. pylori*) infection eradication failure. *H. Pylori* is a microorganism linked to gastric ulcers, duodenal ulcers and gastric cancer.

Helirad can initially be used to determine whether a patient is infected with *H.pylori*. Within 6 weeks of treatment of the *H.pylori* infection, the patient can again be tested in order to confirm that the *H.pylori* has been successfully eradicated.

The use of a saliva based diagnostic assay instead of a serum based assay to confirm *H.pylori* eradication is advantageous as the saliva based assay can be carried out at a much shorter time after treatment.

Helirad can be configured in two formats – a central laboratory based assay, or a point of care rapid diagnostic assay.

OncoAlert™

H.pylori infection has been scientifically linked to gastric cancer. Gastric cancer is particularly difficult to detect in its early stage and by the time symptoms appear the disease is often at a more advanced stage. This means the prognosis for those diagnosed with gastric cancer is generally poor.

OncoAlert is a non-invasive serum-based assay which combines the ability to detect the presence of *H. pylori* infection with the potential to predict the risk of developing gastric cancer and the early diagnosis of gastric cancer.

The Company believes its diagnostics will be best developed in conjunction with a partner or partners with the appropriate skills. Accordingly, as disclosed to Shareholders in the Managing Director's address at the 2003 Annual General Meeting, the Company is now pursuing out-licensing opportunities.

(d) Vaccines Division

The following two products are currently under development:

- **Pneumobiotic vaccine** – for the prevention and treatment of respiratory tract infections such as chronic bronchitis and pneumonia.
- **Candivax vaccine** – for the prevention and treatment of candida albicans infection (candidiasis).

In recognition of the progress in the development of these vaccines to date and their importance, the Company has been awarded \$250,000 by way of AUSIndustry Biotechnology Innovation Fund Grants for each of the vaccine projects. Both projects have also received \$100,000 grants from the NSW Department of State and Regional Development.

The Board believes the vaccines have significant potential in the long term. In order to bring the vaccines to market it is necessary to complete Phase 1 to 3 clinical trials. This is a resource intensive exercise and the Company intends to seek potential partners in this development process. This will allow the vaccines to continue to be developed without significant expense to the Company and for the Company to share in the

benefits of the commercialisation of the vaccines. It should be noted, however, that if the Company suspends or stops the projects prior to completion, then the grants mentioned above may have to be repaid. The Company may also incur redundancy costs in respect of employees working on these vaccines if they are no longer required.

4. Effect of the Bonus Issue

4.1. Effect on the capital structure of the Company

Assuming no existing Options are exercised prior to the Record Date, the capital structure of the Company upon completion of the Bonus Issue will be as follows:

Issued Capital	Shares	Listed Options	Unlisted Options
On issue at the date of this Prospectus	104,973,127	34,543,372	4,230,000
Number of Options to be issued to Taylor Collison as part consideration for the Placement		5,000,000	
Number of Bonus Options that will be issued pursuant to this Prospectus (subject to rounding)		20,994,625	
Shares/Options on issue following the Bonus Issue	104,973,127	60,537,997	4,230,000

4.2. Financial Position

The effect of the Bonus Issue on the financial position of the Company is set out in section 6 below.

5. Risk factors

5.1. Business and investment risks

Whilst the Bonus Options are being issued for no consideration, Shareholders will be required to pay the exercise price of \$0.25 in order to exercise and convert their Bonus Options into Shares. Shareholders should therefore be aware that the exercise of their Bonus Options will involve various risks, which can be broadly categorised into general investment risks and specific business risks. In addition, Shareholders should appreciate that the value of both the Bonus Options and the underlying Shares on ASX may rise or fall depending on a range of factors beyond the control of the Company.

The following summary explains some of these risks. However, Shareholders should read this Prospectus in its entirety and consult their professional advisers before exercising any Bonus Options. Any of the factors set out in this Section 5, as well as any other factors identified in this Prospectus, may materially affect the financial performance of the Company and the market price of the Bonus Options and the underlying Shares.

None of the Company, its Directors, or any of its professional advisors gives any form of assurance or guarantee on future dividends, return on capital or the price at which the Bonus Options or Shares might trade on ASX.

5.2. General investment risk

Factors such as an outbreak of war, inflation, currency fluctuation, interest rates, market sentiment and commodity prices may have a significant impact on the Company's future revenues. The impact of these factors on the Company's future profitability is to a large extent beyond the control of the Company.

5.3. General economic risk

Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company. Factors which contribute to that general economic climate include:

- contractions in the world economy or increases in the rate of inflation resulting from domestic or international conditions (including movements in domestic interest rates and reduced economic activity);
- the level of direct or indirect competition against the Company;
- international currency fluctuations;
- new or increased government taxes or changes in taxation laws; and
- changes in government regulatory policy affecting the industry in which the Company operates and further regulation of the industry generally.

5.4. Biomedical market, probiotic market and business risk factors

There are some risks which relate to conducting business in the biomedical industry in general and some which are specific to the Company. The Company recognises these risks and operates its business in such a way as to minimise these risks as much as possible.

The major biomedical industry risks include:

- There is no guarantee that all of the projects that the Company is developing will generate products with demand in the market. For many of its projects, there is no existing developed market. Identification of the market and establishment of a position in the market can take time and consume a significant amount of the Company's resources.
- There is no guarantee that the level of sales to date of developed products will continue or that anticipated sales in the future will be achieved.
- Clinical trials require significant funding and at the same time do not generate revenue for the Company until such time as the products being tested can be commercialised. There is also no guarantee that the Company will be able to commercialise the products being tested. If the Company was unable to continue funding the trials, or it decided to focus its resources elsewhere, the trials may have to be put on hold until a commercial partner or alternative funding could be found.
- Whilst the Company has a competitive research and development program, because the biomedical industry is highly competitive, there is no certainty that the Company's research and development position and the intellectual property generated will not be overtaken or superseded by competitors working in similar areas.
- Commercialisation negotiations with strategic partners for marketing and distribution may have long lead times which may compromise the ability to earn revenues within an optimal time frame for the Company's cash flow. The Company must explore all promising leads and this can sometimes mean intensive and time consuming discussions and commitment of Company time and resources without any guarantee of a positive outcome.
- The biomedical industry is heavily regulated and regulatory guidelines can change from time to time which may result in product development delays, increased costs and have an adverse effect on the Company. Further, biomedical products such as those produced by the Company often require registration with a local authority before they can be distributed in a region or in order to make claims in relation to their effectiveness. This registration requirement can lengthen the time it takes to successfully commercialise the Company's products.

The major risks specifically related to the Company's business and strategy are:

- The Company has been awarded a number of grants which assist in the funding of its operations. Whilst the Company is not currently aware of any inability to draw on these grants, there is a risk that these grants may at some stage in the future not be able to be drawn upon, and in certain circumstances (for example where specified milestones are not achieved), that some or all of the funds received under the grants may have to be repaid.
- A delay in the conduct or completion of clinical trials could delay the marketing and commercialisation of products and postpone the achievement of revenue targets.
- Whilst it is the intention of the Company to publish the results of successful clinical studies in peer reviewed journals, this cannot be guaranteed. A failure to obtain validation of the Company's clinical trial results through lack of publication of results in scientific peer review journals may have an adverse effect on the Company's ability to successfully market and commercialise its products.
- The Company's employees are critical to the success of its business, particularly those employees involved in the scientific research and development of the Company's products such as Patricia Conway and Margaret Dunkley. These employees are leaders in their fields and have a detailed knowledge of the products they develop. Whilst the Company owns all intellectual property generated by these employees during the course of their employment, there is a risk these employees

may be approached by and accept positions with other Companies. This would slow the development of the Company's products and these employees and their knowledge would be difficult to replace. The Company attempts to mitigate this risk by paying its employees competitive salaries and offering appropriate incentives to its staff.

- The Company may not be able to secure granted patents on some or all of its current patent applications, due to prior art, obviousness, or some other factor determined by patent examiners in various jurisdictions. In addition, the Company may not be able to defend a proprietary position for its projects in key markets if its patents are challenged or infringed. Although the Company is not aware of any infringements, it is also possible its projects may infringe competitive patent positions in certain markets.
- The Company's success in probiotics depends upon the ability to differentiate its products from other competitive products. Whilst the Company has identified a number of unique probiotic strains, there is a risk that the efficacy of the strain may not be sufficiently differentiated from other strains to warrant premium pricing.
- There is no guarantee that existing arrangements for the manufacture and supply of the inputs for the Company's products and the manufacture of the finished products entered into by the Company will continue or be renewed.
- An important strategy for the Company has been, and will continue to be, the formation of strategic business relationships with other organisations for the conduct of certain research and development and for the commercialisation of its projects. There is no guarantee that these relationships can be maintained.
- The Company has received a writ from an individual claiming unpaid consultancy fees. The Company disputes the claim, has instructed solicitors to defend the action and is confident of the defence being successful.

5.5. Price movements

If the market price of Options or Shares increases or decreases, either during the period between the date of the issue of this Prospectus and the issue of the Bonus Options or after the issue of Bonus Options, the market value of the Bonus Options issued pursuant to this Prospectus, and / or any Shares issued upon the exercise of those Bonus Options, will increase or decrease accordingly.

Many of the factors that affect the market price of Options and Shares are beyond the control of the Company. For example, the price at which Shares trade on ASX may be determined by factors such as movements in international and local stock markets, inflation, interest rates, currency fluctuations, general economic conditions and changes in government, fiscal, monetary and regulatory policies. In the future, these factors may cause Shares to trade below current prices and may affect the financial performance of the Company.

The market price of Options and Shares may also be affected by decisions and actions of the Company. For example, the issue of the Bonus Options under this Prospectus may have a negative effect on the price of Options traded on ASX, due to the increase in the number of Options on issue.

5.6. Foreign exchange risk

The Company actively manages its exposure to adverse movements in foreign exchange through the natural hedging of manufacturing costs payable in \$US with sales revenues received in \$US. However, as the Company expands its commercialisation program, a more proactive foreign exchange management process will be required to ensure any potential negative impact of currency movements against the Australian currency is negated.

5.7. Regulatory risks

It is possible that changes in the Federal and / or State legislative and regulatory regimes may adversely affect the Company's future business, operations and financial performance. In addition, there is an inherent risk that approvals or waivers required from regulators, such as ASIC or ASX may not be granted upon request in the future, which may affect the Company's business objectives.

5.8. Other risk factors

The other risk factors include those normally found in conducting a business including risks relating to employees (through personal injuries, industrial matters or otherwise) or any other cause, strikes, lockouts, loss of service of key management or operational personnel, non insurable risks, adverse weather

conditions, delay in resumption of activities after a shutdown of operations and other matters that may interfere with the business or trade of the Company.

6. Financial Information

Set out below, for the purposes of illustration only, is a comparison of the unaudited statement of financial position of the Company as at 31 March 2004 with a pro forma statement of financial position of the Company after taking into account the Placement and the Bonus Issue. The pro forma consolidated statement of financial position illustrates the effect of the Placement and the issue of Bonus Options as if the Shares the subject of the Placement had been issued to the institutional investors and the Bonus Options to be issued under this Prospectus had been issued on 31 March 2004 (based on the assumptions set out below).

As a result of the Placement, Shareholders' funds and net assets have increased by approximately \$2.1 million before costs. The Bonus Issue will have no effect on the Company's statement of financial position at the present time, however, if all the Bonus Options are exercised, the Company would receive proceeds of approximately \$5,200,000.

Statement of Financial Position		Unaudited 31 March 2004 \$	Pro forma 31 March 2004 \$
	Note		
Current Assets			
Cash assets	1	1,762,062	4,192,851
Receivables		347,484	347,484
Inventories		299,297	299,297
Other		151,906	151,906
Total Current Assets		2,560,749	4,991,538
Non Current Assets			
Property, plant and equipment		164,218	164,218
Total Non Current Assets		164,218	164,218
Total Assets		2,724,967	5,155,756
Current Liabilities			
Payables		493,034	493,034
Other payables, provisions & accruals		538,832	272,000
Total Current Liabilities		1,031,866	765,034
Total Liabilities		1,031,866	765,034
Net Assets		1,693,101	4,390,722
Equity			
Issued capital	2	19,383,314	22,080,935
Accumulated Losses		17,690,213	17,690,213
Total Equity		1,693,101	4,390,722

Notes:

- The pro forma balance of cash assets is calculated as follows:

Cash Assets	\$
Balance 31 March 2004 (including term deposits)	1,762,062
Add balance of proceeds from placement to institutional and sophisticated investors in April 2004	525,789
Deduct costs of above placement	(50,000)
Add proceeds from Placement	2,100,000
Deduct estimated costs of Placement and this Prospectus	(145,000)
Pro forma balance 31 March 2004	<u>4,192,851</u>

2. The pro forma balance of issued capital is calculated as follows:

Issued Capital	\$
Balance 31 March 2004	19,383,314
Add proceeds from placement to institutional investors in April 2004	792,621
Deduct costs of above placement	(50,000)
Add proceeds from Placement	2,100,000
Deduct estimated costs of Placement and this Prospectus	(145,000)
Pro forma balance 31 March 2004	<u>22,080,935</u>

Assumptions

The assumptions used in preparation of the pro forma consolidated statement of financial position set out above are:

1. Shareholders approved the Placement on 12 July 2004, and the Company has since placed 21,000,000 Shares to institutional and sophisticated investors at a price of \$0.10, raising cash totalling \$2,100,000 before costs. The costs of the Placement were approximately \$120,000 which comprised of a \$105,000 placement fee payable to Taylor Collison Limited and Bell Potter Securities Limited, ASX listing fees and share registry costs of \$15,000.
2. From 31 March 2004 until the date of this Prospectus, the Company has continued operating as normal except that there has been additional spending required on marketing costs for the launch of the proTract™ range. The Company expects to incur a total amount of approximately \$400,000 over the period from 1 April until 31 December 2004 on proTract™ marketing.
3. The costs of this Prospectus including legal fees, share registry costs and printing and despatch to Shareholders are estimated at \$25,000.
4. The unaudited statement of financial position has been prepared based on the management accounts of the Company as at 31 March 2004 for illustrative purposes only and should be read in conjunction with the 30 June 2003 Annual Report, the 31 December 2003 Half Yearly Directors' Report and Appendix 4B, and the Quarterly Appendix 4C reports for 30 September 2003 and 31 December 2003.
5. A list of other ASX announcements made after lodgement of the 2003 Annual Report and before the date of this Prospectus is provided in Section 8.3.
6. If the Options currently on issue are exercised it will have the effect of increasing the Company's cash position by the amount of the exercise price multiplied by the number of Options exercised and will increase the Company's issued capital by the number of Options issued.
7. No allowance has been made for revenue or expenditure incurred in the normal course of business from 31 March 2004 to the date of this Prospectus.
8. The financial information in this Prospectus has been prepared in accordance with Australian Generally Accepted Accounting Principles ("Australian GAAP"). For reporting periods beginning on or after 1 January 2005, the Company must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board. The Company has not quantified the effects which the differences between Australian GAAP and IFRS will have on the financial reports of the Company. Accordingly, there can be no assurances that the financial performance and the financial position of the Company as disclosed in this Prospectus would not be significantly different if determined in accordance with IFRS.

7. Material Agreements

The Company entered into an agreement with TCL under which it placed twenty-one (21) million Shares to sophisticated and investor clients of TCL at \$0.10 per share. As remuneration for organising the Placement, TCL was paid a fee of 5% of the proceeds of the Placement, and will be issued five (5) million Options exercisable at \$0.25 each with an expiry date of 30th June 2006. The Placement and the issue of the five (5) million Options to TCL was approved by Shareholders at a general meeting of the Company held on 12 July 2004.

8. Additional Information

8.1. Rights attaching to the Bonus Options

Bonus Options issued pursuant to this Prospectus will constitute a new class of Option. The Bonus Options will have an exercise price of \$0.25 and can be exercised any time from when issued up to and including 30 June 2006. Application will be made to ASX to have the Bonus Options listed.

The Bonus Options do not entitle holders to vote at general meetings of the Company or to receive dividends. However, once exercised, the Bonus Options will convert into Shares and the holder will acquire the rights which attach to those Shares. These rights arise from a combination of the Company's Constitution, statute and general law. The Constitution sets out the internal rules for the Company and defines matters such as the rights, duties and powers of Shareholders and the Directors. A summary of the more significant rights attaching to Shares are set out below. In addition, copies of the Constitution are available for inspection during business hours at the Company's registered office.

(a) Remuneration of Directors

The non-executive Directors' remuneration is to be determined by the Company in general meeting, or, until so determined, such sum as determined by the Directors. Non-executive Directors may not be remunerated by way of commission on, or percentage of, profits nor operating revenue of the Company.

(b) Meeting procedures

Subject to the Constitution and to the rights or restrictions attached to any Shares (at present there are none), each Shareholder is entitled to notice of a general meeting of the Company. A notice of general meeting must:

- specify the date, time and place of the meeting;
- state the general nature of the business to be transacted at the meeting and any other matter that the Listing Rules require particular notice of; and
- specify a place and fax number or electronic address for the receipt of proxy appointments.

(c) Voting

Subject to the Constitution, at a general meeting, each Shareholder who is entitled to vote may attend and vote in person or by proxy, attorney or representative. Every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and every Shareholder present has one vote for each Share held on a poll.

A Shareholder who holds a partly paid share, in respect of which the Shareholder is entitled to vote, shall be entitled to a fraction of a vote equal to the proportion which the amount paid up on the Share bears to the total amounts paid.

A Shareholder is not entitled to vote in respect of Shares unless all calls and other sums presently payable to the Company have been paid.

(d) Dividends

Subject to any rights or restrictions attached to any Shares (at present there are none), the profits of the Company, which the Directors from time to time determine to distribute by way of dividend, will be apportioned and paid on all Shares proportionately to the amounts paid (not credited) on the Shares.

A transfer of Shares does not pass the right to a dividend declared on those Shares before registration of that transfer.

Subject to any rights or restriction attached to any Shares (at present there are none), the Board may capitalise and distribute among the Shareholders entitled to receive dividends and in the same proportions, any amount:

- forming part of the undivided profits of the Company;
- representing profits arising from an ascertained accretion to capital or from a revaluation of the assets of the Company;
- arising from the realisation of any assets of the Company; or
- otherwise available for distribution as a dividend.

Subject to the Constitution, the Board may set aside out of the profits of the Company such reserves or provisions for such purposes as it thinks fit. The Board may carry forward so much of the profits remaining as it considers ought not be distributed as dividends or capitalised without transferring those profits to a reserve or provision.

(e) **Future Issues**

Subject to the restrictions imposed by the Constitution, the Listing Rules or the Corporations Act, the Directors may issue further securities in the Company on such terms and conditions as they see fit.

(f) **Winding-up**

Subject to the Constitution and rights and restrictions attached to any Shares (at present there are none), Shareholders will be entitled, in a winding up, to any surplus assets of the Company in proportion to the number of shares held by them, less any amounts which remain unpaid on the Shares at the time of distribution.

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Shareholders:

- divide among the Shareholders the whole or any part of the property of the Company; and
- determine how the division is to be carried out as between the Shareholders or different classes of shareholders.

Any such division may be otherwise than in accordance with the legal rights of the Shareholders and, in particular, any class may be given preferential or special rights or may be excluded altogether or in part. Where a division is otherwise than in accordance with the legal rights of the Shareholders, a Shareholder is entitled to dissent and to exercise the same rights as if the special resolution sanctioning that division were a special resolution passed under section 507 of the Corporations Act.

If any property to be divided by the liquidator above, includes securities with a liability to calls, any person entitled under the division of any of the securities may within 10 days after the passing of the special resolution, by notice in writing, direct the liquidator to sell that person's proportion and pay to that person the net proceeds, and if practicable, the liquidator shall do so.

(g) **Transfer of Shares**

Subject to the Constitution and to the rights or restrictions attached to any Shares (at present there are none), a Shareholder may transfer Shares, for an uncertificated securities holding by a proper ASTC transfer or, for other than an uncertificated securities holding, by an instrument in writing in any usual form or other form approved by the Board. The Board may refuse to register a transfer in several circumstances including where a transfer is not in a registrable form.

(h) **Shareholder Liability and Calls on Shares**

Any sum unpaid on a Share that, by the terms of issue of the Share, becomes payable on issue or at a fixed date, must be paid on the date on which it is payable under the terms of issue of that Share.

Subject to the Constitution and to the terms upon which any shares may be issued, the Board may make calls upon the Shareholders in respect of any money unpaid on their Shares which is not by the terms of issue of these shares made payable at fixed times.

While the Company is a listed company, calls must be made in accordance with the Listing Rules. Upon receiving at least 30 days' notice, specifying the time and place of payment, each Shareholder must pay to the Company by the time and at the place so specified the amount called on the Shareholder's Shares. If a sum called in respect of a Share is not paid in full by the day appointed for payment of the sum, the person from whom the sum is due must pay:

- interest on so much of the sum as is unpaid from the date appointed for payment of the sum to the date of actual payment; and
- any costs, expenses or damages incurred by the Company in relation to the non-payment or late payment of the sum.

8.2. Company is a disclosing entity

The Company is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

The Company's disclosure obligations include being required to notify ASX immediately of any information concerning the Company which it is, or becomes, aware of and which a reasonable person would expect to have a material effect on the price or value of the Company's Shares. Exceptions apply for certain information which does not have to be disclosed.

8.3. Inspection and copies of documents

Copies of documents lodged by the Company in connection with its reporting and disclosure obligations may be obtained from, or inspected at, an office of ASIC or ASX. The Company will provide free of charge to any person who requests it during the period of the Bonus Issue, a copy of:

- (a) the Annual Report dated 25 September 2003 containing the financial statements of the Company for the year ended 30 June 2003, being the last financial year for which financial statements have been lodged with ASIC in relation to the Company before the issue of this Prospectus;
- (b) the Half Yearly Report lodged with ASX on 27 February 2004, containing the financial statements of the Company to 31 December 2003; and
- (c) the following documents lodged by the Company to notify ASX of information relating to the Company after lodgement of the 2003 Annual Report on 30 September 2003 referred to above and before the date of issue of the Prospectus, in accordance with the Listing Rules and the Corporations Act:

Date Lodged	Subject of Announcement
1 October 2003	Australian Institute of Sport test results
20 October 2003	Notice of Annual General meeting
22 October 2003	Notice of ceasing to be a substantial shareholder from AHT
28 October 2003	Notice of becoming a substantial shareholder from A Barton
30 October 2003	Appendix 4C first quarter report
30 October 2003	Notice of change in substantial shareholding from Trevenia Pty Ltd
3 November 2003	Notice of resignations of directors
5 November 2003	Response to ASX's query on first quarter appendix 4C
7 November 2003	Notice of appointment of directors and election of Chairman
17 November 2003	Notice of resignation of a director
25 November 2003	Advice of the execution of a distribution agreement for Australia & NZ
25 November 2003	Notice of the resignation of a company secretary
26 November 2003	Advice of the receipt of a new BIF grant
28 November 2003	Managing Director's address to AGM
28 November 2003	Advice of the outcome of the AGM resolutions
21 January 2004	Notice of advice of ceasing to be a substantial shareholder
28 January 2004	Appendix 4C second quarter report
5 February 2004	Response to ASX's query on the second quarter appendix 4C
27 February 2004	Half year report to 31 December 2003
27 February 2004	Shareholder update from Managing Director
15 March 2004	Advice of plans to distribute in Asia & USA
29 March 2004	Announcement of capital raising
30 March 2004	Appendix 3B – application for quotation of additional securities
29 April 2004	Appendix 4C for quarter ended 31 March 2004
4 May 2004	Appointment of Medical and Scientific Advisory Board
7 May 2004	Registration of Progastrim in Singapore
12 May 2004	Announcement of the launch of proTract™
28 May 2004	Placement of 21m shares subject to shareholder approval
11 June 2004	Notice of meeting to shareholders
15 June 2004	Announcement of bonus options to shareholders
21 June 2004	Notice of change in substantial shareholding
5 July 2004	Notification of death of the Chairman of the Company
6 July 2004	Notice of ceasing to be a substantial shareholder
12 July 2004	Results of general meeting of shareholders
14 July 2004	Results of Phase II trial results for Atopic Dermatitis

Date Lodged	Subject of Announcement
20 July 2004	Appendix 3 B – application for listing of additional securities
20 July 2004	Placement of shares – ASIC class order relief
20 July 2004	Appendix 3 B – application for listing of additional securities

The documents referred to in paragraphs (a) and (b) and (c) above are not included in, and do not accompany, this Prospectus.

In addition, the following documents are available for inspection throughout the application period of this Prospectus during normal business hours at the Sydney office of the Company at Suite G09, 1 Central Avenue, Australian Technology Park, Eveleigh, NSW 1430:

1. This Prospectus; and
2. The Company's Constitution.

8.4. Directors' interests

Except as disclosed in this Prospectus, no Director or proposed Director, and no firm in which a Director or proposed Director is a partner:

- (a) has or has had, in the two years immediately prior to the date of this Prospectus, any interest in the formation or promotion of the Company, the Bonus Issue or property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Bonus Issue; or
- (b) has been paid or given or will be paid or given any amount or benefit to induce him or her to become, or to qualify as, a Director, or otherwise for services rendered by him or her in connection with the formation or promotion of the Company or the Bonus Issue.

Directors' interests in Company securities

No Director or proposed Director as at the date of this Prospectus has a relevant interest in any securities of the Company other than as set out below:

Director	Shares	Bonus Option entitlement*	Listed Options	Unlisted Options
Sally A Capp	232,175	46,435	50,000	Nil
Peter W French	Nil	Nil	Nil	750,000
Kim R Slatyer (i)	5,892,002	1,178,400	382,670	Nil
Geoffrey C Wild	60,000	12,000	Nil	Nil

* The Directors (or their associates) will be issued Bonus Options pursuant to this Prospectus on the same terms and conditions as all other Shareholders. The number of Bonus Options to which the Directors (or their associates) are entitled as set out above is calculated on the assumption that the number of Shares indicated as being held by each Director above will be held on the Record Date.

(i) Mr Slatyer has an indirect interest in 5,561,835 of the Shares listed above by virtue of him being a director and major shareholder of the company which is the registered holder of those Shares.

Remuneration of Directors

The Constitution provides that the Directors may, for their services as Directors, be paid a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the Directors in such proportion and manner as the Directors agree and, in default of agreement, equally. The current maximum remuneration level payable to the Non-Executive Directors is \$250,000 in aggregate.

8.5. Interests of other persons

Except as disclosed in this Prospectus, no expert, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner nor any company with which any of those persons is or was associated, has now, or has had, in the two year period ending on the date of this Prospectus, any interest in:

- the formation or promotion of the Company; or
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Bonus Issue.

Except as disclosed in this Prospectus, no amounts of any kind (whether in cash, securities or otherwise) have been paid or agreed to be paid to any expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, or to any firm in which any of those persons is or was a partner or to any company with which any of those persons is or was associated, for services rendered by that person in connection with the formation or promotion of the Company or the Bonus Issue.

- Freehills has acted as solicitors to the Offer. The Company will pay approximately \$20,000 for services provided by Freehills in relation to this Prospectus. In addition, Freehills is beneficially entitled to 232,000 Shares which were previously issued in connection with the provision of past services by Freehills to the Company.
- Computershare Investor Services Pty Limited will be paid for the provision of registry services to the Company in connection with the Bonus Issue.

8.6. Cost of Bonus Issue

The total cost of the Bonus Issue, including the ASIC lodgement fee, ASX quotation fee, legal fees, accounting fees, printing, mailing, share registry and other expenses are estimated to be approximately \$25,000.

8.7. Consents

Each of the Directors of the Company has consented to the lodgement of the Prospectus with ASIC and to the issue of the Prospectus and none of the Directors have withdrawn their consent before the Prospectus was lodged with ASIC.

Freehills has given, and at the time of lodging this Prospectus with ASIC, has not withdrawn its written consent to being named in this Prospectus as legal advisers to the Company in the form and context in which it is named. Freehills does not make the Bonus Issue, has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and, to the maximum extent permitted, expressly disclaims and takes no responsibility for any part of this Prospectus other than the references to its name.

Ernst & Young has given, and at the time of lodging this Prospectus with ASIC, has not withdrawn, its written consent to being named in this Prospectus as auditor to the Company in the form and context in which it is named. Ernst & Young does not make the Bonus Issue, has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and, to the maximum extent permitted, expressly disclaims and takes no responsibility for any part of this Prospectus.

Computershare Investor Services Pty Limited has given, and as at the date hereof, has not withdrawn, its written consent to be named as Share Registrar in the form and context in which it is named. Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registrar to the Company. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Prospectus.

8.8. Forecasts

The Company is a biomedical company. The Company's revenue streams and profits are difficult to predict and the Company's capacity to negotiate and finalise commercialisation arrangements is dependent on many factors, many of which are out of the Company's control. Therefore, future revenues are unknown and difficult to predict. After due consideration by the Company, it was determined that there are significant uncertainties associated with forecasting future revenue of the Company. The Directors have therefore determined that reliable forecasts cannot be prepared and accordingly have decided not to include forecasts in this Prospectus.

8.9. Signature of Directors

Each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

This Prospectus is signed for and on behalf of the Company by:

A handwritten signature in black ink, appearing to read "Kim Robert Slatyer", followed by a red vertical line.

Kim Robert Slatyer
Chairman

9. Glossary of Terms

These definitions are provided to assist persons in understanding some of the expressions used in this Prospectus.

“ASIC”	Australian Securities and Investment Commission
“ASTC”	ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532
“ASX”	Australian Stock Exchange Limited ACN 008 129 164
“Bonus Issue”	The issue of Bonus Options to Eligible Shareholders
“Bonus Option”	An Option issued pursuant to this Prospectus
“CHESS”	Clearing House Electronic Subregister System
“Company” or “VRI”	VRI BioMedical Limited ABN 97 084 464 193
“Constitution”	The constitution of the Company as at the date of this Prospectus
“Corporations Act”	Corporations Act 2001 (Cth)
“Directors”	The directors of the Company as at the date of this Prospectus
“Eligible Shareholder”	A person registered as the holder of Shares on the Record Date whose registered address is in Australia or New Zealand
“EST”	Eastern Standard Time, being the time in Sydney, New South Wales
“Foreign Shareholder”	A person registered as the holder of Shares on the Record Date whose registered address is outside Australia or New Zealand
“Issuer Sponsored”	Securities issued by an issuer that are held in uncertificated form without the holder entering into sponsorship agreement with a broker or without the holder being admitted as an institutional participant in CHESS
“Listing Rules”	The Listing Rules of ASX
“Option”	An Option to acquire one Share
“Pharmanex”	A wholly owned subsidiary of Nu Skin Enterprises, listed on the New York Stock Exchange
“Placement”	The placement to institutional and sophisticated investors in accordance with the terms of the agreement described in section * of this Prospectus
“Prospectus”	This prospectus

“Record Date”	5.00pm (EST) on 6 August 2004, being the date for the determination of entitlements of Shareholders to participate in the Rights Issue
“Shareholders”	Holders of Shares
“Shares”	Fully paid ordinary shares in the capital of the Company
“TCL or Taylor Collison”	Taylor Collison Limited ABN 53 008 172 450
“\$”	Australian Dollars
“\$US”	United States Dollars