

PROBIOMICS LIMITED

(Formerly VRI Biomedical Limited)

A.B.N. 97 084 464 193

**ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2005**

PROBIOMICS LIMITED
(Formerly VRI BioMedical Limited)
A.B.N. 97 084 464 193

CORPORATE INFORMATION

2

Directors

Bryan Martin Gardiner (Chairman)

Patrick Douglas Ford

Ronald Penny

Company Secretary

Paul Beatty Magoffin

Corporate Head Office

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Australian Technology Park
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Principal Solicitors

Clavey Legal,
Ashton Chambers,
189 St George's Terrace,
PERTH WA 6000

Patent & Trade Mark Attorney

Shelston *ip*
Level 21, 60 Margaret Street,
SYDNEY NSW 2000

Bankers

National Australia Bank Limited
Macquarie Investment Management Limited

Auditors

Ernst & Young
Ernst & Young Centre,
680 George Street,
SYDNEY NSW 2000

Share Register

Computershare Investor Services Pty Ltd
Level 12, 565 Bourke Street,
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Contents

	Page
Chairman's letter	4
Chief Executive officer's Report	5
Directors' Report	6
Corporate Governance Statement	14
Statement of Financial Performance	18
Statement of Financial Position.....	19
Statement of Cash Flows.....	20
Notes to the Financial Statements.....	21
Directors' Declaration.....	39
Independent Audit Report.....	40
Auditor's Independence Declaration.....	42
ASX Additional Information.....	43

PROBIOMICS LIMITED
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CHAIRMAN'S LETTER

4

Dear shareholder,

I have been your Chairman since only May of this year when the company decided not to pursue admission to the AIM in London. This resulted in the then chairman, Sir Victor Garland, who is based in the UK, resigning, as no UK based director was then required.

In view of this and other changes of direction, the company's Board was reduced to three people - myself, Mr Patrick Ford of Taylor Collison and Professor Ronald Penny who, previously, was a member of the company's Scientific and Medical Advisory Board. The SMAB has since been re-constituted into a Research & Development Committee of the Board and will provide valuable input in the future as the company continues to research and develop new products based on its unique strain of probiotic. Professor Terry Bolin who was a member of the SMAB will transfer to that committee.

Mr Slatyer who is a founding member of the company and was appointed Chairman in a temporary capacity following the untimely death of Mr Jim Grant last July, continues as Chief Executive.

The company now has a lean and experienced Board and management team and both will drive the company to achieve much better results than have been achieved in the past.

Many other changes were made to the company's structure during the year and these are covered in the CEO's report so I won't dwell on them here other than to say that I am confident that the new direction is the right one for a company of this size at this stage of its development and that management has the full support of the Board to implement the new business plan.

It is my desire that in future years I will be able to report much better results - including an improved share value - and I thank all shareholders who have remained with the company for their patience and loyalty to date.

Bryan Gardiner,
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS FOR THE PERIOD

Dear Shareholders,

This has been a difficult year as we have implemented major structural changes to the business – the cash flow benefits of which will be reflected in next year's results.

Probiomics management team has focused on the continuous improvement of all aspects of our operations.

Revenue

Product sales increased by 27% - bolstered by the launch of the Atopic Dermatitis proTract[®] product in Australia, and proTract[®] in Malaysia by our distribution partner Nuvanta.

This is a very disappointing result. Problems associated with production and distribution resulted in our customers/distributors being short of product for several months at a time. This was an unacceptable scenario and remedying these problems has been one of our highest priorities.

Expenditure

Expenditure reduced by 13%. Changes to the business activities, primarily a reduction in administration, R&D, marketing and IP during the year will be reflected in far greater cost reductions in the current year.

Future Business Focus

1. Production.

Resolution of fermentation problems and the relocation of encapsulation and packaging to Australia from the US should ensure better reliability and efficiency.

2. OTC products.

The conclusion of a licensing agreement with a global pharmaceutical company will relieve Probiomics of the burden of product marketing and should increase revenue.

3. Functional Foods

Technical and marketing issues are being addressed in conjunction with our partners and should result in product launches this financial year.

4. Molecular Discovery project.

The successful conclusion of the "Rowett" project in February confirmed the anti-inflammatory action of PCC[®]. We will conclude the identification and characterisation of molecules derived from PCC[®] in mid 2006.

Probiomics now has a sensible business model, and a solid foundation from which we can proceed to build a profitable company.

Kim Slatyer

Chief Executive Officer

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2005.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

<p>Mr Bryan Martin Gardiner, Chairman</p>	<p>Mr Gardiner was appointed to the Board on 17th February 2005 and was elected Chairman on 20th May 2005.</p> <p>Mr Gardiner is a member of the Audit Committee and the Remuneration Committee.</p> <p>Mr Gardiner is a practising solicitor who was admitted to the Supreme Court in Western Australia in December 1970.</p> <p>He has had over thirty years' experience in commercial law and has been a partner in a medium-sized law firm, in-house counsel, a senior solicitor with a major national firm and now practices as a consultant to a Perth firm, Clavey Legal.</p> <p>Throughout his career, Mr Gardiner has been heavily involved in sport law. He is National Judicial Officer of the Equestrian Federation of Australia Ltd and he served as a Director of that organization for 10 years. He is a Commissioner of the West Australian Speedway Commission Inc. and is the Chairman of the Land Valuers Licensing Board. He is a director of the Immunogenics Research Foundation (Inc) which specializes in DNA research in Western Australia.</p> <p>Mr Gardiner also has considerable experience in intellectual property matters. He is a director of the Singapore-based Tat Hong Holdings Ltd, the shares of which are quoted on the ASX and SGX. This substantial company is the second largest crawler-crane company in the world (ninth overall) and operates BT Equipment, Tat Hong Rental and EQR in Australia. Mr Gardiner has not been a director of any other public companies during the past three years.</p>
<p>Mr Patrick Douglas Ford</p>	<p>Mr Ford joined the Board on 17th May 2005.</p> <p>Mr Ford is Chairman of the Audit Committee and is also a member of the Remuneration Committee of the Board.</p> <p>Mr Ford is a Sydney based stockbroker with Taylor Collison Limited. He has an extensive history of capital raising and supplying advice to the Australian Biotechnology sector. He holds a Bachelor of Commerce degree from the University of Canberra.</p> <p>Mr Ford has not been a director of any other listed company during the past three years.</p>
<p>Professor Ronald Penny</p>	<p>Professor Penny was appointed to the Board on 17th February 2005.</p> <p>Professor Penny is a member of the Audit Committee and the Remuneration committee of the Board.</p> <p>Professor Penny is one of Australia's leading immunologists. He graduated with Honours from the University of Sydney in 1960 following which he undertook further studies in haematology, oncology and immunology in the UK and the USA.</p> <p>Professor Penny set up the first Clinical Immunology Unit in NSW at the Royal Prince Alfred Hospital. In 1979 he was the recipient of the first Doctorate of Science awarded to a member of a clinical department by the University of NSW followed by a Personal Chair in Clinical Immunology in 1988. Professor Penny has published over 350 medical and scientific papers in prestige national and international journals.</p> <p>Professor Penny is currently Emeritus Professor of Medicine, University of NSW, Senior Clinical Advisor, NSW Health, Chairman of the Justice Health Board and Chairman of the NSW Blood Products Advisory Committee and is a director of publicly listed Cryosite Limited.</p> <p>Professor Penny has not been a director of any other listed public company during the past three years.</p>

Mr Geoffrey Charles Wild AM FAI(dip.) FAICD	Mr Wild joined the Board of the company on 6th November 2003 and resigned on 18 th May 2005. Mr Wild was Chairman of the Company's Remuneration Committee and a member of the Audit Committee.
Ms Sally Anne Capp LLB (Hons.) B Com GA/CD Non-executive Director	Ms Capp was appointed to the Board on 29 th May 2003 and retired as a director at the annual general meeting held on 26 th November 2004.
Mr Kim Robert Slatyer Executive Director and Chairman	Mr Slatyer is an original founder of the Company and re-joined the Board of Directors on 6 th November 2003 having previously been a Director from 1998 until April 2003. He was a member of the Remuneration Committee until 6 th July 2004. Mr Slatyer was appointed Chairman of the Company on 6 th July 2004 following the death of the previous Chairman Mr Jim Grant on 4 th July 2004. Mr Slatyer is a Western Australian based businessman. He resigned on 17 th February 2005 but continues to be employed by the Company in the role as Chief Executive Officer.
Dr Peter William French Bsc. Msc. PhD. MBA	Dr French was an executive director from 6 th November 2003 until he resigned on 17 th February 2005 but continues to be employed by the Company in the role of Innovation and Business Development Manager.
Sir Victor Garland	Sir Victor Garland was appointed Chairman on 17 th February 2005 and resigned on 17 th May 2005 when the Company decided not to pursue an AIM listing on the London Stock Exchange.
Mr James Peter Grant FCA, FAICD Non-executive Director and Chairman	Mr Grant was a non-executive Director from 29 May 2003 and Chairman of the company from 6 th November 2003 until his death on 4 th July 2004.

COMPANY SECRETARY

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

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

Director	Number of Shares	Class	Listed Options over Ordinary Shares	Unlisted Employee Options
Bryan Martin Gardiner	nil	n/a	nil	500,000 at \$0.25
Patrick Douglas Ford	3,302,667	Ordinary	2,770,000 at \$0.25	nil
Ronald Penny	nil	n/a	nil	500,000 at \$0.25

Refer to note 21 for further information on directors' remuneration, shares and options holdings.

EARNINGS PER SHARE

	Cents
Basic loss per share	(3.75)
Diluted loss per share	(3.75)

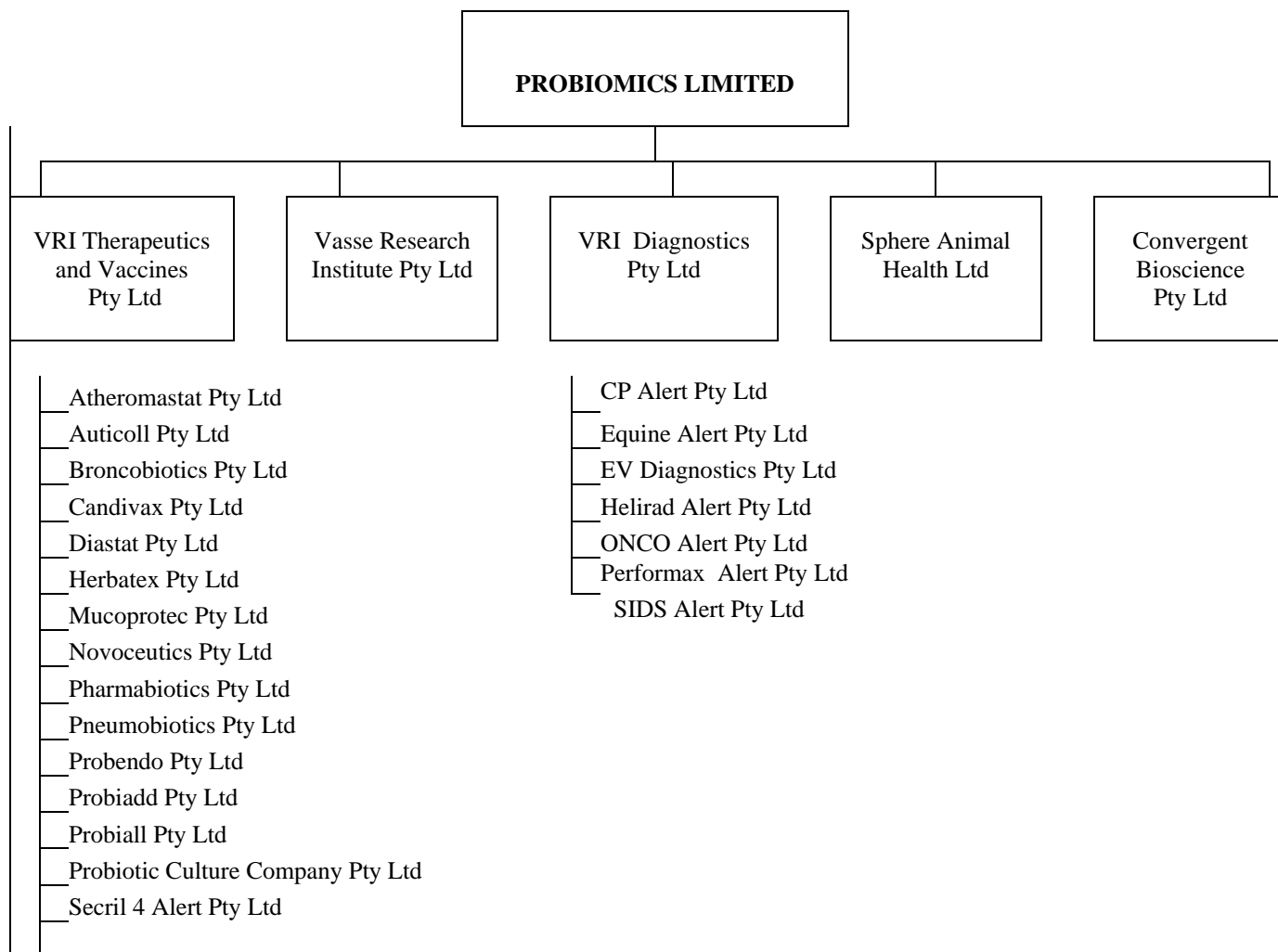
DIVIDENDS

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

CORPORATE INFORMATION

Corporate Structure

Probiomics Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the group's corporate structure:



Nature of operations and principal activities

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

- The manufacture and distribution under contract, of probiotic products,
- The further testing and development of the company's products by the conduct of clinical trials.

A significant change in the company's operations during the year was the discontinuation of its vaccine and diagnostics research at the University of Newcastle. This intellectual property is in the process of being negotiated for sale to another research company based in the Hunter area.

Employees

The consolidated entity employed 16 people as at 30th June 2005 (2004: 19)

OPERATING AND FINANCIAL REVIEW

Group Overview

Vasse Research Institute Pty Limited was formed in 1998. It changed its name to VRI BioMedical Pty Limited in December 1999 and to VRI BioMedical Limited when it converted to a public company in March 2000. The company listed on the Australian Stock Exchange in December 2000.

One of the initial founders of the company, Mr Kim Slatyer remains with the company as its Chief Executive Officer.

The company changed its name to Probiomics Limited in April 2005 to better reflect its focus on its probiotic products.

Operating results for the year

A review of operations for the year is contained in the Chief Executive Officer's report on page 5 of this annual report.

The results for the year are summarised below.

<i>Business segment</i>	2005	
	Revenues	Results
	\$	\$
Probiotic product sales	1,388,812	(4,059,252)
Non-segment and unallocated revenues	126,194	126,194
Consolidated entity sales and loss from ordinary activities before income tax expense	1,515,006	(3,933,058)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In October 2004 the company terminated the employment of the staff based at the University of Newcastle who worked on the company's vaccine and diagnostic projects. The vaccine projects were suspended and are in the process of being sold to a research group who can complete the R&D phase. The company will receive royalties from any commercialisation of the vaccines. Discussions continue with a US based company to licence the diagnostics.

The company incurred redundancy payments of approximately \$45,000 in respect of the Newcastle employees in the current financial year. Also some of the employees involved in R&D who were based at the University of New South Wales were made redundant in August 2004. Redundancy costs in respect of these employees were approximately \$10,000 in the 2005 financial year.

Going concern

Although the company completed a capital raising of \$1,000,000 in August 2005, its ability to continue as a going concern is dependent on it generating sufficient income to cover costs and the completion of an additional capital raising within the coming months. The directors believe there is no reason to doubt that these sources of funds will become available. However, should losses continue and/or the future capital raising not be successful, the company may not be able to continue as a going concern. If the company is unable to obtain such funding at an amount and timing necessary to meet its future operational plans, or to successfully exploit its intellectual property, the company may be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

During the period the company raised additional capital of \$3.1m (before costs of \$155,000) by the placement of shares to sophisticated and institutional investors. In July 2004 the company issued 21m shares at \$0.10 and in April 2005 issued 8,331,250 shares at \$0.12. The funds were used for general working capital.

The company has no debt to financial institutions.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to the end of this reporting period the company raised \$1.0m (before costs of \$50,000) by way of a placement of 12,588,000 shares to Institutional and Sophisticated investors at \$0.08 per share. This capital will provide the company with working capital and will allow it to continue to develop its products. The placement has not been recognised in the financial statements for the year ended 30 June 2005.

Subsequent to the end of this reporting period the company terminated the employment of some of the staff based at the University of New South Wales. The company will incur redundancy payments of approximately \$30,000 in respect of these employees in the 2005/2006 financial year. These redundancy costs have not been recognised in the financial statements for the year ended 30 June 2005.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors envisage that the arrangements and changes noted above will result in a significant increase in revenue and a significant reduction in operating costs in the 2005/2006 financial year.

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

The company's operations are not subject to any particular environmental regulations.

SHARE OPTIONS

Un-issued shares

As at the date of this report, there were 60,071,751 un-issued ordinary shares under option. Refer to note 13 (d) for further details of the options outstanding.

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

Shares issued as a result of the exercise of options

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Probiomics Limited has paid premiums in respect of a contract insuring all the directors and officers of the company and its subsidiaries.

The total amount of insurance contract premiums paid was \$89,675.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Probiomics Limited (the company).

Remuneration philosophy

The Board of Directors recognises that the success of the company will depend, largely, upon the quality of its directors and its senior management. For this reason the Remuneration Committee reviews the remuneration arrangements for all senior employees to ensure that it attracts and keeps motivated highly skilled and appropriately qualified directors and executives.

Remuneration Committee

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

Salaries are reviewed periodically by the Committee but there is no specific link to company performance as the company has, until recently, been engaged mainly in research and development and linking remuneration to R&D outcomes would be inappropriate in the company's view.

Of the named directors and officers only the CEO's remuneration contains a component 'at risk'. The proportion of the CEO's remuneration 'at risk' in the current period was 25%. In order to receive the payment the CEO had to achieve pre-determined key performance objectives. These included:-

- ensuring that the company had adequate working capital for its needs
- successfully establishing distribution arrangements for the company's products both locally and internationally.

These performance conditions were chosen because these were the most important operational matters that the company needed to achieve at the time. As the objectives were of a factual nature there were no methods, as such, required to assess the outcomes. The outcomes were a matter of fact.

The performance conditions did not involve comparison to factors that were external to the company.

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

Table 1: Director remuneration for the year ended 30th June 2005

	Primary benefits	Post employment	Equity	Other	Total
	Salary & fees	Superannuation	Options (a)	Insurance	
	\$	\$	\$	\$	\$
J P Grant	-	-	-	8,115	8,115
S A Capp	22,500	2,025	-	8,115	32,640
G C Wild	41,250	3,712	23,750	8,115	76,827
B M Gardiner	15,000	1,012	9,000	8,115	33,127
R Penny	15,000	1,012	9,000	8,115	33,127
V Garland	14,583	-	9,000	8,115	31,698
P D Ford	-	-	-	8,115	8,115

(a) Options have been valued using the Black-Scholes Pricing Analysis method which takes account of factors such as the options' exercise price, the current level of volatility of the underlying share price, the market price of the underlying shares at the time the options were issued and the expiry date of the options.

Table 2: Remuneration of the four most highly paid executive officers of the consolidated entity for the year ended 30th June 2005

	Primary benefits	Post employment	Equity	Other	Total
	\$	\$	\$	\$	\$
	Salary & fees	Superannuation	Options		
K R Slatyer	158,481	17,638	-	45,615	221,734
P W French	168,060	15,125	-	8,115	191,300
P B Magoffin	131,732	11,855	-	8,115	151,702
P L Conway	91,667	8,250	-	14,115	114,032

Table 3: Options granted as part of remuneration for the year ended 30 June 2005.

	Grant date	Number granted	Vest from	Number exercised	Value of options at grant date	% of remuneration
G C Wild	26 Nov 2004	500,000	26 Nov 2004	-	22,000	28.6
G C Wild	25 May 2005	250,000	25 May 2005	-	1,750	2.3
B M Gardiner	8 April 2005	500,000	8 April 2005	-	9,000	27.2
V Garland	8 April 2005	500,000	8 April 2005	-	9,000	28.4
R Penny	8 April 2005	500,000	8 April 2005	-	9,000	27.2

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

Executives are those employees who are directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity. The four listed above are the only employees in that category.

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

Employment Contracts

The company has employment contracts with each executive that define

- the role and appointment date
- executive duties
- remuneration and benefits
- leave benefits
- termination notice periods
- non compete arrangements

DIRECTORS' MEETINGS

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

	Directors' Meetings	Meetings of Committees	
		Audit and Risk Management	Remuneration
Number of meetings held:	8	1	1
Number of meetings attended:			
J P Grant	-	-	-
S A Capp*	1	1	1
P W French*	3	-	-
K R Slatyer*	4	-	-
G C Wild*	7	1	1
V Garland*	2	-	-
B M Gardiner*	4	-	-
R Penny*	4	-	-
P D Ford**	1	-	-

Notes:

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

** Mr Ford was appointed to the Board on 17th May 2005.

Committee membership

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

Members acting on the Board committees during the year were:

Audit and Risk Management

Remuneration

S A Capp (Chairman)
G C Wild

G C Wild (Chairman)
S A Capp

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

Audit and Risk Management

Remuneration

P D Ford (Chairman)
B M Gardiner
R Penny

B M Gardiner (Chairman)
P D Ford
R Penny

TAX CONSOLIDATION

From 1st July 2003 Probiomics Limited (formally VRI BioMedical Limited) and its wholly owned subsidiaries formed a tax consolidation group.

AUDITOR INDEPENDENCE DECLARATION TO THE DIRECTORS OF PROBIOMICS LIMITED

The auditor's independence declaration appears on page 42 of this report.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received the following amounts for the provision of non-audit services.

Tax compliance services	\$19,935
Audit of Government grant claims	\$12,100

Signed in accordance with a resolution of the Directors.



Bryan Gardiner
Chairman

Sydney 29th September 2005

CORPORATE GOVERNANCE STATEMENT

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

The format of the Corporate Governance Statement changed in 2004 due to the introduction of the Australian Stock Exchange Corporate Governance Council's ('the Council's') "Principles of Good Corporate Governance and Best Practice Recommendations" ('the Recommendations'). In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed together with the reasons for the departure.

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

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

Probiomics Limited's corporate governance practices were in place throughout the year ended 30 June 2005 unless stated otherwise and were generally compliant with the Council's best practice recommendations. Departures from the above principles and the reasons why are explained under the following headings.

Role of Board and management

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

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the Annual Report is included in the Directors' Report on page 5. Directors of Probiomics Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

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

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

Name	Position
Bryan Martin Gardiner	Chairman & Non-Executive Director
Patrick Douglas Ford	Non-Executive Director
Ronald Penny	Non-executive Director

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

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

Name	Term in office
B M Gardiner	7 months
P D Ford	4 months
R Penny	7 months

Nominations Committee

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

Promoting ethical and responsible decision making

The company has a written code of conduct that is disseminated to all employees and Directors however at present it has not been released publicly. The company's share trading policy for Directors and employees has been posted on the company's web site.

Safeguarding the integrity of financial reporting

Audit and Risk Management Committee

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

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

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

S A Capp	Resigned 26 th November 2004
G C Wild	Resigned 18 th May 2005
P D Ford	
B M Gardiner	
R Penny	

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

P D Ford (Chairman)
B M Gardiner
R Penny

Mr Ford holds a Bachelor of Commerce degree and is a stock broker with extensive experience of financial and accounting matters.

Mr Gardiner is a practising solicitor with many years of experience in the area of corporate law.

Professor Penny is an Immunologist and has served on numerous public sector and public company Boards.

For details of the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to page 12 of the Directors' Report.

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

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

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

The rights of shareholders

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

Participation at shareholders' meetings is encouraged but at present the company does not have a formal strategy for this.

Recognition and management of risk.

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

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

Encouragement of enhanced performance

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

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

Fair and responsible remuneration

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

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

A full discussion of the company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period is contained in the remuneration report of the Directors' Report on pages 10 and 11.

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

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

Members of the Remuneration Committee throughout the year were:

G C Wild	Resigned 18 th May 2005
S A Capp	Resigned 26 th November 2004
B M Gardiner	
P D Ford	
R Penny	

Current members of the Remuneration Committee are:

B M Gardiner (Chairman),
P D Ford
R Penny

For details of the number of meetings of the Remuneration and Nominations Committee held during the year and the attendees at those meetings, refer to page 12 of the Directors' Report.

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

Recognising the legitimate interests of stakeholders

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

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	NOTES	CONSOLIDATED		PROBIOMICS LIMITED	
		2005 \$	2004 \$	2005 \$	2004 \$
REVENUES FROM ORDINARY ACTIVITIES	2	1,515,006	1,900,165	1,515,006	1,900,165
Cost of goods sold		(1,048,802)	(871,860)	(1,048,802)	(871,860)
Annual report expenses		(15,427)	(30,194)	(15,427)	(30,194)
Audit fees	22	(91,198)	(143,810)	(91,198)	(143,810)
Depreciation expenses		(34,939)	(36,825)	(34,939)	(36,825)
Directors' fees		(119,583)	(198,555)	(119,583)	(198,555)
Insurances		(219,301)	(208,230)	(219,301)	(208,230)
Legal fees		(51,815)	(56,227)	(51,815)	(56,227)
Product design and marketing costs		(947,985)	(828,696)	(947,985)	(828,696)
Salaries and employee benefits expense		(1,055,686)	(874,083)	(1,055,686)	(874,083)
Redundancy costs		(54,436)	(318,016)	(54,436)	(318,016)
Research and development expenditure		(697,962)	(1,486,173)	(697,962)	(1,486,173)
Intellectual property protection costs		(307,650)	(179,350)	(307,650)	(179,350)
Travel expenses		(274,917)	(187,824)	(274,917)	(187,824)
Rental expenses		(69,270)	(156,160)	(69,270)	(156,160)
Consultancy fees		-	(64,998)	-	(64,998)
Other expenses from ordinary activities	3	(459,093)	(596,208)	(459,093)	(596,208)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(3,933,058)	(4,337,044)	(3,933,058)	(4,337,044)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	-	-	-	-
NET LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	14	(3,933,058)	(4,337,044)	(3,933,058)	(4,337,044)
Share issue costs		(154,988)	(475,651)	(154,988)	(475,651)
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF PROBIOMICS LIMITED AND RECOGNISED DIRECTLY IN EQUITY		(154,988)	(475,651)	(154,988)	(475,651)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF PROBIOMICS LIMITED		(4,088,046)	(4,812,695)	(4,088,046)	(4,812,695)
Basic loss per share (cents per share)	19	(3.75)	(5.63)	(3.75)	(5.63)
Diluted loss per share (cents per share)	19	(3.75)	(5.63)	(3.75)	(5.63)

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	NOTES	CONSOLIDATED		PROBIOMICS LIMITED	
		2005 \$	2004 \$	2005 \$	2004 \$
CURRENT ASSETS					
Cash assets		403,486	268,629	403,486	268,629
Receivables	5	381,044	1,423,030	381,044	1,423,030
Inventories	6	364,160	439,936	364,160	439,936
Prepayments	7	23,491	88,121	23,491	88,121
TOTAL CURRENT ASSETS		1,172,181	2,219,716	1,172,181	2,219,716
NON-CURRENT ASSETS					
Other Financial Assets	8	-	-	410	410
Property, Plant and Equipment	9	129,001	159,033	129,001	159,033
TOTAL NON-CURRENT ASSETS		129,001	159,033	129,411	159,443
TOTAL ASSETS		1,301,182	2,378,749	1,301,592	2,379,159
CURRENT LIABILITIES					
Payables	10	1,039,922	1,111,854	1,040,332	1,112,264
Provisions	11	66,653	80,200	66,653	80,200
TOTAL CURRENT LIABILITIES		1,106,575	1,192,054	1,106,985	1,192,464
NON-CURRENT LIABILITIES					
Provisions	12	7,631	11,422	7,631	11,422
TOTAL LIABILITIES		1,114,206	1,203,476	1,114,616	1,203,886
NET ASSETS		186,976	1,175,273	186,976	1,175,273
EQUITY					
Contributed Equity	13	22,900,486	19,955,725	22,900,486	19,955,725
Accumulated Losses	14	(22,713,510)	(18,780,452)	(22,713,510)	(18,780,452)
TOTAL EQUITY		186,976	1,175,273	186,976	1,175,273

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
30 JUNE 2005

	NOTES	CONSOLIDATED		PROBIOMICS LIMITED	
		2005	2004	2005	2004
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,636,450	731,487	1,636,450	731,487
Government grants		68,628	793,707	68,628	793,707
Payments to suppliers and employees		(4,660,440)	(4,760,331)	(4,660,440)	(4,760,331)
Interest received		57,366	87,618	57,366	87,618
Research and development costs		(697,962)	(1,709,905)	(697,962)	(1,709,905)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	15	(3,595,958)	(4,857,424)	(3,595,958)	(4,857,424)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant & equipment		-	4,669	-	4,669
Proceeds from short term deposits		805,147	120,300	805,147	120,300
Purchase of short term deposits		-	(805,147)	-	(805,147)
Acquisition of property, plant & equipment		(19,094)	(51,648)	(19,094)	(51,648)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		786,053	(731,826)	786,053	(731,826)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		3,099,750	5,020,185	3,099,750	5,020,185
Payment of share issue costs		(154,988)	(511,970)	(154,988)	(511,970)
NET CASH FLOWS FROM FINANCING ACTIVITIES		2,944,762	4,508,215	2,944,762	4,508,215
NET INCREASE/(DECREASE) IN CASH HELD		134,857	(1,081,035)	134,857	(1,081,035)
ADD OPENING CASH BROUGHT FORWARD		268,629	1,349,664	268,629	1,349,664
CLOSING CASH CARRIED FORWARD	15	403,486	268,629	403,486	268,629

PROBIOMICS LIMITED
(Formerly VRI BioMedical Limited)
A.B.N. 97 084 464 193

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

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

Going concern

Although the company completed a capital raising of \$1,000,000 in August 2005, its ability to continue as a going concern is dependent on it generating sufficient income to cover costs and the completion of an additional capital raising within the coming months. The directors believe there is no reason to doubt that these sources of funds will become available. However, should losses continue and/or the future capital raising not be successful, the company may not be able to continue as a going concern. If the company is unable to obtain such funding at an amount and timing necessary to meet its future operational plans, or to successfully exploit its intellectual property, the company may be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

Unless otherwise stated these accounts have been prepared in Australian dollars

(b) Changes in accounting policies

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

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Probiomics Limited (the parent company) and all entities which Probiomics Limited controlled from time to time during the year and at the balance date. Information from the financial statements of controlled entities is included from the date the parent company obtains control until such time control ceases. Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(d) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract. All resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

(e) Cash and cash equivalents

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

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

Interest is taken up as income on an accrual basis.

(f) Receivables

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

(g) Investments

Investments in controlled entities are carried at cost.

(h) Inventories

Manufacturing and maintenance

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

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

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

(i) Recoverable amount

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

(j) Plant and equipment

Cost, valuation and depreciation

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

Plant and equipment ranging from 2 to 20 years	(2004: 2-20 years)
Office equipment ranging from 2 to 14 years	(2004: 2-14 years)

(k) Leases

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

Operating leases

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

(l) Research and development.

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

(m) Payables

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

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

(n) Provisions

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

(o) Contributed equity

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

(p) Revenue recognition

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

Sale of goods

Control of the goods has passed to the buyer.

Interest

Control of a right to receive the interest payment.

Government grants – Research & development START grant income from AusIndustry and Bio First (BIF) grant income from the NSW Dept of State and Regional Development

This is recognised as revenue upon receipt of funds.

(q) Taxes

Income taxes

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

Goods and Services Tax (GST)

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

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

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

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

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

(r) Employee benefits

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

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

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

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

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

The value of the employee share option plan described in Note 20 is not charged as an employee benefits expense.

(s) Earnings per share

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

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

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

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

(t) Comparatives

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	CONSOLIDATED		PROBIOMICS LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$
2. REVENUE FROM ORDINARY ACTIVITIES				
Included in the operating loss is the following:				
Revenues from operating activities				
Revenue from sale of goods	1,388,812	1,090,995	1,388,812	1,090,995
Revenue from non-operating activities				
Interest received				
- Other persons/corporations	57,366	87,618	57,366	87,618
START Grant (i)	(27,783)	412,407	(27,783)	412,407
BIF Grant	96,611	309,145	96,611	309,145
	126,194	809,170	126,194	809,170
Total revenues from ordinary activities	1,515,006	1,900,165	1,515,006	1,900,165
3. EXPENSES AND LOSSES				
(a) Expenses				
Other expenses include:				
- ASX listing and other fees	49,641	30,557	49,641	30,557
- Computer costs	35,773	53,622	35,773	53,622
- Conferences and seminars	22,056	37,885	22,056	37,885
- Laboratory general supplies	7,531	35,739	7,531	35,739
- Motor vehicle running expenses	6,525	4,678	6,525	4,678
- Payroll tax	48,098	62,027	48,098	62,027
- QA direct costs	49,557	3,467	49,557	3,467
- Royalties (ii)	(52,905)	78,230	(52,905)	78,230
- Printing and stationery	35,947	32,464	35,947	32,464
- Scientific and Medical Advisory Board fees	50,300	-	50,300	-
- Share registry costs	42,783	36,710	42,783	36,710
- Subscriptions	8,630	11,383	8,630	11,383
- Telephone and other communication costs	48,500	60,218	48,500	60,218
- Website design and maintenance	23,846	13,982	23,846	13,982
- Other administration expenses	82,811	135,246	82,811	135,246
Total other expenses from ordinary activities	459,093	596,208	459,093	596,208
(b) Losses (gains)				
Net foreign currency losses	16,783	21,575	16,783	21,575

Note (i): Following the completion of the START grant an amount identified as overpaid in 2004 was repaid to AusIndustry.

Note (ii): The company has re-negotiated the royalty arrangement with Chief Scientist – Patricia Conway applicable from the commencement of the agreement waiving all previous amounts due in exchange for 3 million options over ordinary shares in the company (to be issued).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	CONSOLIDATED		PROBIOMICS LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$
4. INCOME TAX EXPENSE				
The prima facie tax expense (benefit) on the operating profit/(loss) from ordinary activities is reconciled to the income tax provided in the financial statements as follows:	-	-	-	-
Prima facie tax benefit on operating loss from ordinary activities at 30% (2004: 30%)	(1,179,917)	(1,301,113)	(1,179,917)	(1,301,113)
Tax effect of permanent differences				
Entertainment	4,657	277	4,657	277
Other net timing differences	6,621	(54,620)	6,621	(54,620)
Future Income Tax Benefit not brought to account	1,168,639	1,355,456	1,168,639	1,355,456
Income tax expense/(benefit) attributable to loss from ordinary activities	-	-	-	-

As at 30 June 2005 the consolidated entity has not brought to account a future tax benefit (at 30%) of \$6,236,668 (2004: \$5,068,029) as realisation of the benefit is not virtually certain.

The future income tax benefit will only be obtained if:

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

Tax consolidation

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

The company adopted the tax consolidation regime when it lodged its 30 June 2004 tax return.

As at 30 June 2004 the Company had no tax franking credits available.

5. RECEIVABLES (CURRENT)

Current

Trade debtors	261,772	438,399	261,772	438,399
GST – input tax credits	100,810	81,113	100,810	81,113
Short-term deposits	-	805,147	-	805,147
Service contractor	-	80,751	-	80,751
Other receivables	18,462	17,620	18,462	17,620
	381,044	1,423,030	381,044	1,423,030
Australian dollar equivalent of amounts receivable in foreign currencies not effectively hedged.				
United States Dollars	4,572	312,755	4,572	312,755

Terms and conditions relating to the above financial instruments.

- (i) Trade debtors are non-interest bearing and generally on 30 day terms.
- (ii) Other receivables and GST-Input Tax Credits are non-interest bearing and have repayment terms between 30 and 90 days.
- (iii) Short-term deposits in 2004 were held at National Australia Bank

6. INVENTORIES (CURRENT)

Raw materials and stores

At cost	171,178	328,702	171,178	328,702
Finished goods				
At cost	192,982	111,234	192,982	111,234
Total value of inventory at the lower of cost or net realisable value	364,160	439,936	364,160	439,936

7. OTHER CURRENT ASSETS

Prepayments	23,491	88,121	23,491	88,121
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	CONSOLIDATED		PROBIOMICS LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$
8. OTHER FINANCIAL ASSETS				
Non-Current				
Investments at cost comprise:				
Shares in Controlled Entities				
- Convergent BioScience Pty Ltd	-	-	100	100
- Sphere Animal Health Ltd	-	-	100	100
- VRI Diagnostics Pty Ltd	-	-	100	100
- VRI Therapeutics & Vaccines Pty Ltd	-	-	100	100
- Vasse Research Institute Pty Ltd	-	-	10	10
	-	-	410	410
9. PLANT & EQUIPMENT				
Plant and equipment – at cost	70,155	107,670	70,155	107,670
Accumulated depreciation	(26,803)	(42,663)	(26,803)	(42,663)
	43,352	65,007	43,352	65,007
Office equipment – at cost	216,169	198,060	216,169	198,060
Accumulated depreciation	(130,520)	(104,034)	(130,520)	(104,034)
	85,649	94,026	85,649	94,026
Total plant & equipment				
Cost	286,324	305,730	286,324	305,730
Accumulated depreciation	(157,323)	(146,697)	(157,323)	(146,697)
Total written down amount	129,001	159,033	129,001	159,033
Reconciliations				
Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year.				
Plant and equipment				
Carrying amount at beginning	65,007	63,538	65,007	63,538
Additions	984	12,802	984	12,802
Disposals	(14,187)	-	(14,187)	-
Depreciation expense	(8,452)	(11,333)	(8,452)	(11,333)
	43,352	65,007	43,352	65,007
Office Equipment				
Carrying amount at beginning	94,026	102,820	94,026	102,820
Additions	18,110	34,152	18,110	34,152
Disposals	-	(17,454)	-	(17,454)
Depreciation expense	(26,487)	(25,492)	(26,487)	(25,492)
	85,649	94,026	85,649	94,026

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

	CONSOLIDATED		PROBIOMICS LIMITED	
	2005	2004	2005	2004
10. PAYABLES (CURRENT)	\$	\$	\$	\$
Trade creditors	873,820	769,095	873,820	769,095
Accrued expenses	26,254	246,602	26,254	246,602
GST liability	14,215	12,945	14,215	12,945
Employee superannuation payable	39,407	39,449	39,407	39,449
PAYG payable	79,186	34,753	79,186	34,753
Other payables	7,040	9,010	7,450	9,420
	1,039,922	1,111,854	1,040,332	1,112,264

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

165,874	307,558	165,874	307,558
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Terms and conditions relating to the above financial
instruments.

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

11. PROVISIONS (CURRENT)				
Employee benefits	66,653	80,200	66,653	80,200

12. PROVISIONS (NON-CURRENT)				
Employee benefits	7,631	11,422	7,631	11,422

13. CONTRIBUTED EQUITY

Issued and paid up capital

(a)	Ordinary shares fully paid	22,900,486	19,955,725	22,900,486	19,955,725
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(b)	Movements in shares on issue	2005		2004	
		Number of Shares	\$	Number of Shares	\$
	Beginning of the financial year	83,973,127	19,955,725	61,849,637	15,411,191

Issued during the year

• placement to Institutional and Sophisticated investors: 18 th July 2003	-	-	6,000,000	1,500,000
• pro-rata share issue to shareholders: 11 th September 2003	-	-	11,169,604	2,727,564
• placement to Institutional and Sophisticated investors: 31 st March 2004	-	-	4,953,886	792,624
• placement to Institutional and Sophisticated investors: 20 th July 2004	21,000,000	2,100,000	-	-
• placement to Institutional and Sophisticated investors: 13 th May 2005	8,331,250	999,750	-	-
• Shares cancelled by a selective reduction of capital on 26 th November 2004 (ii)	(260,000)	-	-	-
Less capitalised prospectus costs		(154,989)		(475,654)

End of the financial year	113,044,377	22,900,486	83,973,127	19,955,725
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(i) On 24th August 2005 12,588,000 shares were issued to Institutional and Sophisticated shareholders at \$0.08 per share by way of a private placement.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

(ii) The shares cancelled on 26th November 2004 were shares issued incorrectly to two shareholders following the September 2003 rights issue.

(c) Terms and condition of contribution equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote either in person or by proxy, at a meeting of the company.

(d) Share options

Listed options over ordinary shares	2005		2004	
	Number of Options	\$	Number of Options	\$
Beginning of the financial year	34,543,372	-	23,373,768	-
Pro –rata bonus issue of options to shareholders: 16 th September 2003	-	-	11,169,604	-
Pro –rata bonus issue of options to shareholders: 12 th August 2004	20,528,379	-	-	-
Options granted to Taylor Collison Limited and an associated company in part consideration for placement of 21 million shares on 12 th August 2004	5,000,000	-	-	-
End of the financial year	60,071,751	-	34,543,372	-

	CONSOLIDATED		PROBIOMICS LIMITED	
	2005 \$	2004 \$	2005 \$	2004 \$
14. ACCUMULATED LOSSES				
Accumulated losses				
Balance at beginning of year	18,780,452	14,443,408	18,780,452	14,443,408
Operating loss after income tax attributable to members of Probiomics Limited	3,933,058	4,337,044	3,933,058	4,337,044
Balance at end of year	22,713,510	18,780,452	22,713,510	18,780,452

15. STATEMENT OF CASH FLOWS

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

Net loss	(3,933,058)	(4,337,044)	(3,933,058)	(4,337,044)
Depreciation of non-current Assets	34,939	36,825	34,939	36,825
Loss on disposal of non-current assets	14,186	12,785	14,186	12,785
Changes in assets and liabilities				
Trade creditors	104,725	(53,392)	104,725	(53,392)
Other payables & provisions	(193,995)	285,185	(193,995)	285,185
Trade debtors	176,627	(363,551)	176,627	(363,551)
Other receivables	124,842	(70,784)	124,842	(70,784)
Inventories	75,776	(367,448)	75,776	(367,448)
Net cash flow used in operating activities	(3,595,958)	(4,857,424)	(3,595,958)	(4,857,424)

(b) Reconciliation of cash

Cash balance comprises:

- Cash at bank and on hand	403,486	268,629	403,486	268,629
	403,486	268,629	403,486	268,629

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

(c) Financing facilities

As at the reporting date the Company had no financing facilities.

	CONSOLIDATED		PROBIOMICS LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$
16. EXPENDITURE COMMITMENTS				
Lease expenditure commitments				
Operating leases				
Minimum lease payments				
- not later than one year	5,625	17,728	5,625	17,728
- later than one year and not later than five years	4,688	10,313	4,688	10,313
	<hr/>	<hr/>	<hr/>	<hr/>
Aggregate lease expenditure contracted for at balance date	10,313	28,041	10,313	28,041

Notes: The above commitments consist of the balance of a three year lease of a photocopying machine which commenced in May 2004.

17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

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

The Directors are of the opinion, based on legal advice, that the matter will be defended successfully so no provision has been made for these costs at balance date.

18. SUBSEQUENT EVENTS

(a) Subsequent to the end of this reporting period the company raised \$1m (before costs of \$50,000) by way of a placement of 12.5 million shares to Institutional and Sophisticated investors at \$0.08 per share. This capital will provide the company with working capital and will allow it to continue to develop its products. The placement has not been recognised in the financial statements for the year ended 30 June 2005.

(b) Subsequent to the end of this reporting period the company terminated the employment of most of the staff based at the University of New South Wales and some marketing employees based at Eveleigh. The company will incur redundancy payments of approximately \$30,000 in respect of these employees in the year to 30 June 2006.

	CONSOLIDATED		PROBIOMICS LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$
19. EARNINGS PER SHARE				
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:				
Net loss	(3,933,058)	(4,337,044)	(3,933,058)	(4,337,044)
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average number of ordinary shares used in calculating basic earnings per share and diluted earnings per share:	104,764,195	77,087,558	104,764,195	77,087,558
	<hr/>	<hr/>	<hr/>	<hr/>
20. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS				
(a) Employee benefits				
The aggregate employee benefit liability is comprised of:-				
Provisions (current)	66,653	80,200	66,653	80,200
Provisions (non-current)	7,631	11,422	7,631	11,422
	<hr/>	<hr/>	<hr/>	<hr/>
	74,284	91,622	74,284	91,622

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

(b) Employee Option Plan

An employee option plan is established whereby Probiomics Limited may, at the discretion of the Directors grant options to purchase ordinary shares in the Company to certain eligible employees. The options are granted for no consideration and are generally for a term of five years with the exercise price being determined at the discretion of the Directors. Generally the options can be exercised at any time during the term of the option period but are not transferable and are not quoted on ASX. Currently there are two employees and two Directors who hold valid options.

Details of the number of options granted under the employee option plan are as follows:-

	2005	2004
Balance at beginning of year	3,930,000	4,230,000
- new options granted during the year	2,250,000	-
- options that lapsed during the year	(2,680,000)	(300,000)
Exercisable at end of the year	3,500,000	3,930,000

The following table details the information about options held by employees as at 1 July 2004.

No of options	Grant date	Vesting date	Expiry date	Exercise price
980,000	13/10/2000	13/10/2000	13/10/2006	\$0.50
1,600,000	23/11/2001	23/11/2001	23/11/2006	\$0.75
300,000	13/6/2002	13/6/2002	16/6/2007	\$0.75
300,000	23/8/2002	23/8/2002	23/8/2007	\$0.75
750,000	14/01/2003	See note * below	14/01/2008	\$0.75

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

No of options	Grant date	Vesting date	Date lapsed	Exercise price
840,000	13/10/2000	13/10/2000	19/4/2005	\$0.50
1,240,000	23/11/2001	23/11/2001	19/4/2005	\$0.75
300,000	13/6/2002	13/6/2002	19/4/2005	\$0.75
300,000	23/8/2002	23/8/2002	19/4/2005	\$0.75

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

	Grant date	Vesting date	Expiry Date	Exercise price
500,000	26/11/04	26/11/04	30/6/2006	\$0.25
1,500,000	8/4/2005	8/4/2005	30/6/2006	\$0.25
250,000	25/5/2005	25/5/2005	30/6/2006	\$0.25

The following table details the information about options held by employees and past employees as at 30 June 2005

No of options	Grant date	Vesting date	Expiry date	Exercise price
140,000	13/10/2000	13/10/2000	13/10/2006	\$0.50
360,000	23/11/2001	23/11/2001	23/11/2006	\$0.75
750,000	14/01/2003	See note*below	14/01/2008	\$0.75
2,250,000	As above	As above	30/6/2006	\$0.25

* Dr French's options were issued on the basis that they would vest pro-rata monthly over three years.

(c) Superannuation Commitments

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

21. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

Specified Directors

J P Grant	Chairman - from 6 th November 2003 - (non-executive.) Mr Grant died on 4 th July 2004
S A Capp	Director (non-executive) retired 26 th November 2004
P W French	Director (non-executive) resigned 17 th February 2005
K R Slatyer	Director (non-executive) appointed 6 th November 2003. Appointed Executive Chairman 5 th July 2004. Resigned 17 th February 2005
B M Gardiner	Director (non-executive) appointed 17 th February 2005. Appointed Chairman 17 th May 2005
G C Wild AM	Director (non-executive) appointed 6 th November 2003. Resigned 18 th May 2005
R Penny	Director (non-executive) appointed 17 th February 2005
V Garland KBE	Chairman from 17 th February 2005. Resigned 17 th May 2005
P D Ford	Director (non-executive) appointed 17 th May 2005.

Specified Executives

K R Slatyer	Chief Executive Officer from 17 th February 2005
P W French	Innovation & Business Development Manager
P L Conway	Chief Scientist - Probiotics
P B Magoffin	Chief Financial Officer and Company Secretary

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

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Remuneration Committee of the Board of Directors of Probiomics Limited is responsible for determining and reviewing compensation arrangements for its Directors, the Chief Executive Officer and other senior employees. The Remuneration Committee assesses the appropriateness of the nature and quantum of each officer's remuneration on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. The company requires all employees including executives to sign an employment agreement upon commencement of employment and this agreement allows *inter alia* for employees to take their remuneration package in a variety of forms if they wish such as a motor vehicle in lieu of salary. It is intended that the manner of payment chosen will be optional for the employee without creating undue administrative expense for the company. The Chief Executive Officer Mr Kim Slatyer received a bonus of \$37,500 during the year. The bonus was based on the achievement of certain specific performance indicators. These included achieving revenue budgets, completing distribution agreements within Australia, efficient transfer of the administration to Sydney and securing new government assistance grants all of which were achieved. No other bonuses were paid to the Directors and officers listed. The current employment agreements for the Chief Executive Officer, The Chief Financial Officer/Company Secretary, Chief Scientist – Probiotics provide for a notice period of three months by both parties or payment in lieu thereof. There are no other termination payments due under the contracts other than statutory entitlements.

Employee option Plan:

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

Details of the options are set out in note 20(b).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

(ii) *Remuneration of Specified Directors and Specified Executives*

		Primary		Post -employment	Equity	Other	TOTAL
		Directors fees	Salary	Superannuation	Options		
Specified Directors							
J P Grant	2005	-	-	-	-	8,115	8,115
	2004	41,445	-	3,755	-	10,070	55,270
S A Capp	2005	22,500	-	2,025	-	8,115	32,640
	2004	18,750	-	1,688	-	10,070	30,508
K R Slatyer	2005	-	-	-	-	-	-
	2004	30,000	-	2,700	-	10,070	42,770
G C Wild	2005	41,250	-	3,712	23,750	8,115	76,827
	2004	30,000	-	2,700	-	10,070	42,770
B M Gardiner	2005	15,000	-	1,012	9,000	8,115	33,127
R Penny	2005	15,000	-	1,012	9,000	8,115	33,127
V Garland	2005	14,583	-	-	9,000	8,115	31,698
P D Ford	2005	-	-	-	-	8,115	8,115
TOTAL REMUNERATION OF SPECIFIED DIRECTORS	2005	108,333	-	7,761	50,750	56,805	223,649
TOTAL REMUNERATION OF SPECIFIED DIRECTORS	2004	120,195	-	10,843	-	40,280	171,318

		Primary		Post- employment	Equity	Other	TOTAL
		Directors fees	Salary	Superannuation	Options		
Specified Executives							
K R Slatyer	2005	15,000	143,481	17,638	-	45,615	221,734
	2004	30,000	-	2,700	-	41,365	74,065
P W French	2005	-	168,060	15,125	-	8,115	191,300
	2004	-	204,890	19,340	59,550	20,070	303,850
P L Conway	2005	-	91,667	8,250	-	14,115	114,032
	2004	-	89,602	10,314	41,524	25,000	166,440
P B Magoffin	2005	-	131,732	11,855	-	8,115	151,702
	2004	-	134,880	12,139	-	-	147,019
TOTAL REMUNERATION OF SPECIFIED EXECUTIVES	2005	15,000	534,940	52,868	-	75,960	678,768
TOTAL REMUNERATION OF SPECIFIED EXECUTIVES	2004	30,000	429,372	44,493	101,074	86,435	691,374

The totals in respect of the financial year ended 2004 are not the same as the sum of the amounts disclosed in the 2004 financial statements as different individuals were specified in 2004 and have since left the employ of the Company.

(c) Option holdings of specified Directors and specified Executives

The table below lists the options that were granted to specified directors and specified executives during the year.

Specified Directors	Balance at beginning of period 1 July 2004	Granted as remuneration	Options exercised	Net change – other	Balance at end of period 30 June 2005
J P Grant	-	-	-	-	-
S A Capp	81,435	-	-	(16,435)	65,000
G C Wild	-	750,000	-	-	750,000*
B M Gardiner	-	500,000	-	-	500,000*
R Penny	-	500,000	-	-	500,000*
V Garland	-	500,000	-	-	500,000*
P D Ford	-	-	-	-	-
Specified Executives					
K R Slatyer (i)	366,003	-	-	646,035	1,012,038 (i)
P F French	750,000	-	-	-	750,000 *
P L Conway	500,000	-	-	-	500,000 *
P B Magoffin	-	-	-	-	-

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

(i) Mr Slatyer is a director of and has a controlling shareholding in Trivenia Pty Limited which owned 891,837 options as at balance date.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

(d) Share holdings of specified Directors and specified Executives

Specified Directors	Balance at beginning of period 1 July 2004	Granted as remuneration	Options exercised	Net change – other	Balance at end of period 30 June 2005
J P Grant	-	-	-	-	-
S A Capp	232,175	-	-	(75,091)	157,084
G C Wild (iii)	-	-	-	60,000	60,000
B M Gardiner	-	-	-	-	-
R Penny	-	-	-	-	-
V Garland	-	-	-	-	-
P D Ford (i)	-	-	-	3,302,667	3,302,667
Specified Executives					
K R Slatyer (ii)	5,892,002	Nil	Nil	(2,645,168)	3,246,834
P W French	-	-	-	-	-
P L Conway	-	-	-	-	-
P B Magoffin	-	-	-	-	-

- (i) Mr Ford joined the Board of Directors on 17th May 2005. He has a beneficial interest in Diskdew Pty Ltd which owned 3,302,667 shares in the Company at balance date.
- (ii) Mr Slatyer is a director of and has a controlling shareholding in Trivenia Pty Limited which owned 2,916,667 shares as at balance date.
- (iii) These shares are held by Wild Family Nominees Pty Limited in which Mr Wild has a beneficial interest.

e) Remuneration options: Granted and vested during the year

During the financial year options were granted as equity compensation benefits to certain specified directors and specified executives as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at the various exercise prices listed below.

	Vested	Granted	Terms & Conditions for Each Grant					
			Number	Number	Grant date	Value per option at grant date (\$)	Exercise Price per share (\$)	First Exercise Date
Specified Directors								
G C Wild	500,000	500,000	26/11/05	0.044	0.25	26/11/05	30/6/06	
G C Wild	250,000	250,000	25/5/05	0.007	0.25	25/5/05	30/6/06	
V Garland	500,000	500,000	8/4/05	0.018	0.25	8/4/05	30/6/06	
R Penny	500,000	500,000	8/4/05	0.018	0.25	8/4/05	30/6/06	
B Gardiner	500,000	500,000	8/4/05	0.018	0.25	8/4/05	30/6/06	
Specified Executives								
P French	250,000	-	14/1/03	0.215	0.75	14/1/05	14/1/06	
Total	<u>2,500,000</u>	<u>2,250,000</u>						

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

(f) Loans to Specified Directors and Specified Executives

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

(g) Other transactions with specified Directors and specified Executives

Purchases

- (i) During the year Probiomics Limited purchased services, on normal commercial terms and conditions, totalling \$17,409 (2004: \$5,861) from Cryosite Limited. Dr Peter French, who was a Director of Probiomics Limited until 17th February 2005, is a Director of Cryosite Limited.
- (ii) During the year Probiomics Limited was provided legal services, on normal commercial terms and conditions, by Clavey Legal, totalling \$3,547 (2004: nil). Mr Bryan Gardiner is a consultant to Clavey Legal.
- (iii) During the year Probiomics Limited was provided services, on normal commercial terms and conditions, by Taylor Collison Limited, totalling \$137,508. Mr Patrick Ford is an employee of Taylor Collison Limited.
- (iv) Mr Kim Slatyer provided consulting services to the company in 2004 totalling \$31,295 (2005: nil) on normal commercial terms and conditions.

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

22. AUDITOR'S REMUNERATION

	Consolidated		Probiomics Limited	
	2005	2004	2005	2004
Amounts received or due and receivable by Ernst & Young for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	59,163	56,678	59,163	56,678
- other services in relation to the entity and any other entity in the consolidated entity				
- Tax compliance	19,935	73,312	19,935	73,312
- Special audits required by regulators	12,100	-	12,100	-
- Other	-	13,820	-	13,820
	91,198	143,810	91,198	143,810

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

23. INTERESTS IN CONTROLLED ENTITIES

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

(a) VRI Diagnostics Pty Limited owns 100% of the following entities: CP Alert Pty Limited, Equine Alert Pty Limited, Helirad Alert Pty Limited, EV Diagnostics Pty Limited, ONCO Alert Pty Limited, Performax Alert Pty Limited, SIDS Alert Pty Limited.

(b) VRI Therapeutics and Vaccines Pty Limited owns 100% of the following entities: Athermostat Pty Limited, Auticoll Pty Limited, Broncobiotics Pty Limited, Candivax Pty Limited, Diastat Pty Limited, Herbatex Pty Limited, Mucoprotec Pty Limited, Novoceutics Pty Limited, Pharmabiotics Pty Limited, Pneumobiotics Pty Limited, Probendo Pty Limited, Probiadd Pty Limited, Probiall Pty Limited, Probiotic Culture Company Pty Limited, Secril 4 Alert Pty Limited.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

24. SEGMENT INFORMATION

(a) The company operates entirely within the biomedical industry.

(b) Geographic segments	Australia		USA		Consolidated	
	2005	2004	2005	2004	2005	2004
Segment revenue	797,721	921,996	717,285	978,169	1,515,006	1,900,165
Segment assets	1,098,159	2,050,047	203,023	328,702	1,301,182	2,378,749
Other segment information:						
Acquisition of plant & equipment	19,094	46,954	-	-	19,094	46,954

25. FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

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

Financial Instruments	Floating interest rate		Non-interest bearing		Total carrying amount per the balance sheet		Weighted average effective interest rate	
	2005	2004	2005	2004	2005	2004	2005	2004
Financial assets								
	\$	\$	\$	\$	\$	\$	%	%
Cash	403,486	268,629	-	-	403,486	268,629	2.90	3.45
Trade and other receivables	-	-	261,772	438,399	261,772	438,399	N/A	N/A
Short term deposits	-	805,147	-	-	-	805,147	-	5.1
- Other	-	-	119,272	190,728	119,272	190,728	N/A	N/A
Total financial assets	403,486	1,073,776	381,044	629,127	784,530	1,702,903		
Financial liabilities								
Payables	-	-	873,820	769,095	873,820	769,095	N/A	N/A
Other creditors	-	-	148,102	342,759	148,102	342,759	N/A	N/A
Total financial liabilities	-	-	1,021,922	1,111,854	1,021,922	1,111,854		

In the table above N/A is used for non-interest bearing financial instruments.

(b) Net fair values

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

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

Recognised financial instruments

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

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

(c) Credit risk exposures

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

Concentrations of credit risk

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

26. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Probiomics Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the final year ending 30 June 2006. Probiomics Limited reviewed each of the areas in order of priority, with priority given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, the Company's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when the Company prepares its first fully AIFRS compliant financial report for the year ending 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) on-going work being undertaken; (b) potential amendments to AIFRS and Interpretations thereof being issued by the standard setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

Quantified Disclosures

- (i) Under AASB2 Share based Payments, Probiomics will be required to determine the fair value of options issued to employees as remuneration and recognise the expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity-based remuneration. It applies to all share-based payments issues after 7 November 2002 which have not vested as at 1 January 2005. This would result in an increase in the losses from AGAAP to AIFRS of \$68,667 for the year ended 30 June 2005. The transitional adjustment to retained losses at 1 July 2004 would be an increase in losses of \$26,875.
- (ii) Management has decided to apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* which permits entities not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. The company is in the process of determining the impact that adopting the standards would have on the financial statements of the Group. There is no effect on the 30 June 2005 financial report.

Disclosures not yet quantified

- (ii) *Government grants*

Under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, government grants will be recognised at their fair value where there is reasonable assurance that the grant will be received and will be in compliance with all attaching conditions.

When the grant relates to an expense item, it will be recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value will be credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments. This may result in revenue being recognised in different periods to that recognised under AGAAP.

- (iii) Under AASB 136 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of its net selling price and value in use. The group's current accounting policy is to determine the recoverable amount of an asset on the basis of undiscounted cash flows. The Group's assets will be tested for impairment where indicators of impairment exist on transition and each subsequent reporting date. This may result in an impairment loss.
- (v) AASB 112 *Income Taxes* requires the Group to use a balance sheet liability method, rather the current income statement method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. The company is currently determining its assets for tax purposes which may result in the recognition of a deferred tax liability in relation to those assets.

Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

DIRECTORS' DECLARATION

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

1. In the opinion of the directors:
 - a) the financial statements and the notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) comply with Accounting Standards and Corporations Regulations 2001; and
 - b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2005.

On behalf of the Board



Bryan Gardiner
Chairman

Sydney 29th September 2005



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Independent audit report to members of Probiomics Limited (formerly VRI Biomedical Limited)

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration of Probiomics Limited (the company) and the consolidated entity, for the year ended 30 June 2005. 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 them 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. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the annual report. 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 Probiomics Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Probiomics Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation of Going Concern

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

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'C. Hosking'.

Colleen Hosking
Partner

Sydney
29 September 2005



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Auditor's Independence Declaration to the Directors of Probiomics Limited (formerly VRI Biomedical Limited)

In relation to our audit of the financial report of Probiomics Limited and its controlled entities for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'C. Hosking'.

Colleen Hosking
Partner

Sydney
29 September 2005

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 19th September 2005.

(a) Distribution of equity securities

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

			Ordinary shares		Options over ordinary shares			
			Number of holders	Number of shares	No. of holders \$0.75 ex 6/3/06	No. of options	No. of holders \$0.25 ex 30/6/06	No. of options
1	-	1,000	253	216,016	84	46,086	803	342,106
1,001	-	5,000	554	1,502,593	418	1,022,728	595	1,552,035
5,001	-	10,000	324	2,629,444	105	754,834	191	1,453,236
10,001	-	100,000	812	31,169,910	148	5,704,061	220	7,067,566
100,001	and over		175	90,124,075	63	27,015,663	42	15,113,436
			2,118	125,639,038	818	34,543,372	1,851	25,528,379

(b) Twenty largest shareholders

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

		Ordinary shares	% of shares
1	Link Traders (Aust) Pty Ltd	7,520,952	5.99
2	Hurst Pollock Nominees Pty Ltd	5,186,584	4.13
3	I E Properties Pty Ltd	4,500,000	3.58
4	Link Traders (Aust) Pty Ltd	4,076,500	3.24
5	Redbrook Nominees Pty Ltd	3,361,476	2.68
6	Diskdew Pty Ltd	3,202,667	2.55
7	Trivenia Pty Ltd	2,916,667	2.32
8	McKell Place Nominees Pty Ltd	2,412,909	1.92
9	Jamel Investments Pty Ltd	2,330,000	1.85
10	Symington Pty Ltd	1,900,000	1.51
11	Mr A & Mrs S Grant-Smith	1,691,000	1.35
12	Acres Holdings Pty Ltd	1,625,000	1.29
13	White Sands Investments Pty Ltd	1,525,000	1.21
14	DMD Holdings Pty Ltd	1,450,000	1.15
15	Mr James Clement Whiting	1,360,000	1.08
16	Starwide Investments Pty Ltd	1,050,000	0.84
17	The East Coast Group (Australia) Pty Ltd	1,000,000	0.80
18	Octiful Pty Ltd	1,000,000	0.80
19	Mr Ted Marchese	864,820	0.69
20	Mr D & Mrs R M Edwards	860,000	0.68
		49,833,575	39.66

ASX ADDITIONAL INFORMATION (cont.)

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

Optionholder	PCCO \$0.75 ex 6/3/06	
	Number	% of options
1 Jamel Investments Pty Ltd	3,098,333	8.97
2 Mr David Keith Edwards	2,541,074	7.36
3 Edwards Investments Australia Pty Ltd	2,008,970	5.82
4 Mr D K Edwards & Mrs R M Edwards	1,750,000	5.07
5 Mr J P J & Mrs J De Vetten	1,096,226	3.17
6 Campeche Pty Ltd	1,047,000	3.03
7 Park Finance Pty Ltd	1,016,667	2.94
8 Actmoat Pty Ltd	836,834	2.42
9 Pierce CIM Pte Ltd	734,667	2.13
10 Manvel Nominees Pty Ltd	655,834	1.90
11 Loughridge Nominees Pty Ltd	600,000	1.74
12 Primegold Pty Ltd	584,224	1.69
13 Keykara Pty Ltd	500,000	1.45
14 John Walker Financial Counselling Pty Ltd	400,000	1.16
15 Mrs Claudine Walker	400,000	1.16
16 Mr Kevin Ross Atkinson	384,521	1.11
17 Mr Edwin Paul Cayzer	358,347	1.04
18 John Walker Financial Counselling Pty Ltd – Staff S/F account	352,747	1.02
19 Mr N K & Mrs S Anderson	350,000	1.01
20 Mr Bern Straube	344,300	1.00
	19,059,744	55.19

Optionholder	PCCOB \$0.25 ex 30/06/06	
	Number	% of options
1 Taycol Nominees Pty Ltd	2,230,000	8.74
2 Diskdew Pty Ltd – P Ford Super Fund a/c	1,770,000	6.93
3 Diskdew Pty Ltd	1,000,000	3.92
4 Yoix Pty Ltd	901,003	3.53
5 Link Traders (Aust) Pty Ltd	888,891	3.49
6 I E Properties Pty Ltd	700,326	2.74
7 Actmoat Pty Ltd	690,000	2.70
8 Trivenia Pty Ltd	583,334	2.29
9 Keykarra Pty Ltd	496,784	1.95
10 Hurst Pollock Noms Pty Ltd	495,667	1.94
11 Link Traders (Aust) Pty Ltd	488,891	1.92
12 Primegold Pty Ltd	434,106	1.70
13 Roxglen Pty Ltd	370,000	1.45
14 Mr C D Taylor	350,000	1.37
15 Mr Walter Horeb	260,240	1.02
16 Mr A W Gleeson	240,000	0.94
17 McKell Place Nominees Pty Ltd	212,493	0.83
18 White Sands Investments Pty Ltd	204,001	0.80
19 Mr R L O’Shea	203,000	0.80
20 Mr A R Ramage	201,160	0.79
	12,231,005	47.91

Additional ASX

(c) Substantial shareholders

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

SHAREHOLDER	NO OF SHARES
Link Traders (Aust) Pty Ltd	7,520,952

(d) Voting rights

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

(e) Unquoted equity on issue

Class of security	Number of securities	Number of holders
Employee Options over ordinary shares	3,500,000	6