

Building momentum on strong foundations for growth

*Bruno Bamonte,
Chief Financial Officer,
Virotec International Ltd.*



The path to value requires strategic thought, adaptation and anticipation. To ensure the Company is well placed to take advantage of the expected growth in our products and increased market penetration, we recently responded to growing investor interest and completed a successful share placement of over \$8 million in the United Kingdom.

This capital raising ensures that the company will continue to prosper from a strong financial position, currently in excess of \$14M in cash reserves with no debt. It also allows the company to build a sustainable platform for medium to long-term growth.

In 2003 we took a number of steps to create real value for shareholders. Foremost among them was our continued focus on commercializing our technologies; improving delivery systems and upgrading our product range. To that end we expended \$2,745,764 on research, development and patent applications, an increase of 52% over the previous year.

The revenue generated from the marketing and implementation of our new product lines in 2003 increased by 74% over the previous financial year. As a young technology innovator we are pleased with the growing momentum even though the total amount of revenue earned to date is not significant.

Actions taken in 2003 to improve margins and re-brand our specialist laboratory in Melbourne, Australia were also successful and we subsequently increased revenue by 14% over 2002.

Financially, going into 2004 we are satisfied that we are stronger in the marketplace as a result of our increased investment in initiatives that will grow our core business and we anticipate continued strong growth in the intrinsic value of the company.

>>> VIROTEC INTERNATIONAL LTD
AND ITS CONTROLLED ENTITIES

FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30 JUNE 2003

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The dollar amounts in this report are Australian dollars, unless otherwise stated.

>>> CORPORATE GOVERNANCE STATEMENT

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, unless otherwise stated. These practices are dealt with under the following headings: Board of Directors and its Committees, Internal control framework, and the Role of shareholders.

BOARD OF DIRECTORS AND ITS COMMITTEES

> *Role of the Board*

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Management's role is to implement the strategic plan established by the Board and to work within the corporate governance and internal control parameters established by the Board.

> *Board processes*

To assist in the execution of its responsibilities, the Board has established an Audit Committee and Remuneration and Nomination Committee and a framework for the management of the consolidated entity including a system of internal control.

The full Board will hold meetings regularly and at any other time as may be necessary to address any specific significant matters that may arise.

The agenda for board meetings is prepared in conjunction with the Executive Chairman, and standing items include the Executive Chairman's Report, financial reports, and operational reports. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to operations, for contact with a wider group of employees.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

> *Composition of the Board*

The names of the directors of the company in office at the date of this Statement are set out in the Directors' Report. The composition of the Board is determined using the following principles:

- > the Board should comprise five directors. This number may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified
- > the Board should comprise a majority of non-executive directors
- > the Board should have enough directors to serve on various committees of the Board without overburdening the directors or making it difficult for them to fully discharge their responsibilities
- > directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the Executive Chairman) are subject to re election at least every three years.
- > there are presently no independent directors on the Board. Independent directors are required,

>>> CORPORATE GOVERNANCE STATEMENT

amongst other considerations, to have or represent no significant equity interest in the Company. At the current stage of the Company's growth and development the Board is of the opinion that it is critical that Directors interests are aligned with shareholders and accordingly do represent a significant equity interest. In addition, the cost to attract appropriately qualified and skilled independent directors would be prohibitive and, more importantly, their appointment may have a adverse impact on the Company's growth strategy as the independent director would, by their nature, tend to be risk averse.

> *Conflict of interest*

In accordance with the Corporations Act 2001 and the Company's constitution directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the Board believes that a significant conflict exists, the director concerned is not present at the meeting whilst the item is considered.

> *Independent professional advice and access to company information*

Each director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the consolidated entity's expense. A copy of any advice received by the director is to be made available to all other members of the Board.

> *Audit Committee*

The role of the Audit Committee is documented in a Charter that has been approved by the Board of Directors. In accordance with this Charter, the majority of the members of the Committee must be non-executive directors. The role of the Committee is to advise the Board on the maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

The members of the Audit Committee are:

M. Nissen (Chairman)

J. Glynn

B. Bamonte

The external auditors, the Executive Chairman and the Company Secretary, are invited to Audit Committee meetings at the discretion of the Committee. The Committee is expected to meet four times during the year.

The responsibilities of the Audit Committee include:

- > reviewing the financial report and other financial information distributed externally
- > reviewing any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles
- > reviewing audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management

>>> CORPORATE GOVERNANCE STATEMENT

- > reviewing the nomination and performance of the auditor
- > considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence
- > liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner
- > monitoring the establishment of an appropriate internal control framework and considering enhancements
- > monitoring the procedures in place to ensure compliance with the Corporations Act 2001 and Stock Exchange Listing Rules and all other regulatory requirements
- > addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions
- > The Audit Committee reviews the performance of the external auditors on an annual basis and plans to meet with them during the year as follows:

Audit planning

- > to discuss the external audit plan
- > to discuss any significant issues that may be foreseen
- > to discuss the impact of any proposed changes in accounting policies on the financial statements
- > to review the nature and impact of any changes in accounting policies adopted by the consolidated entity during the year
- > to review the fees proposed for the audit work to be performed

Prior to announcement of results

- > to review the pro forma half-yearly and pro forma preliminary final report prior to lodgement of those documents with the ASX, and any significant adjustments required as a result of the audit
- > to make the necessary recommendation to the Board for the approval of these documents

Half-year and annual reporting

- > to review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made
- > to review the draft financial report and the report of the auditor and to make the necessary recommendation to the Board for the approval of the financial report

As required

- > To organise, review and report on any special reviews or investigations deemed necessary by the Board.

>>> CORPORATE GOVERNANCE STATEMENT

> *Remuneration and Nomination Committee*

During the year the company established a remuneration and nomination committee. The committee's responsibilities include: -

- > to review and make recommendations to the Board on remuneration packages and policies applicable to the Chairman, the Chief Executive Officer, Chief Financial Officer and other Senior Executives of the Company.
- > to make recommendations and nominate to the Board on the composition of the Directors on Virotec Board in respect of relevant experience and expertise.
- > to make recommendations to the Board on guidelines and policy for the structuring of employees remuneration packages (eg. share option schemes, incentive performance, packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies, and professional indemnity and liability insurance policies).
- > to endeavour to ensure that remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior executives with the ability to obtain independent advice on the appropriateness of remuneration packages given trends in comparative companies both locally and internationally.

The members of the remuneration committee are:

- M. Nissen (Chairman)
- A. Craig (resigned 23 September 2003)

The membership of the committee will be reviewed by the Board on an annual basis. The Chairman of the committee has a casting vote.

INTERNAL CONTROL FRAMEWORK

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described under four headings:

- (a) Financial reporting – there is a comprehensive budgeting system with an annual budget approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly.
- (b) Continuous disclosure – the consolidated entity has procedures to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.
 - > information provided to the ASX is immediately posted to the Company's web site,
 - > a comprehensive process is in place to identify matters that may have a material effect on the price of the Company's securities and notify them to the Chief Financial Officer,

>>> CORPORATE GOVERNANCE STATEMENT

- > the Chief Financial Officer and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board, and
- > the Company Secretary is responsible for all communications with the ASX.
- (c) Functional speciality reporting – the consolidated entity has identified a number of key areas which are subject to regular reporting to the Board such as Environmental, Legal and Operations matters.
- (d) Investment appraisal – the consolidated entity has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

THE ROLE OF SHAREHOLDERS

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the consolidated entity's state of affairs. Information is communicated to shareholders as follows:

- > the Board ensures that the full annual financial report is sent to all shareholders,
- > the half-year financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act 2001 and is lodged with the Australian Securities and Investments Commission and the Australian Stock Exchange. The financial report is sent to any shareholder who requests it,
- > proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders,
- > notices of all meetings of shareholders are sent to shareholders.

Documents that are released publicly are made available on the consolidated entity's internet web site www.virotec.com.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on the appointment of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

>>> DIRECTORS' REPORT

The directors present their report together with the financial report of Virotec International Ltd ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2003 and the independent audit report thereon.

DIRECTORS

The directors of the Company in office at the date of this report or who held office during or since the financial year are:

> *Mr. Brian Sheeran*

Chairman and Chief Executive Officer – (54 years)

Mr. Sheeran is a member of the Australian Institute of Company Directors. He started his career in mechanical engineering and gained further experience as a successful owner/operator in the marine and road transport industries. He has been a Director of various companies, covering mining, timber, farming ventures, earthmoving and haulage. He is a highly respected and successful businessman. Mr. Sheeran has been a Director since 1997.

> *Mr. Bruno Bamonte*

Director and Chief Financial Officer – (45 years)

Mr. Bamonte is a Chartered Accountant and a member of the Australian Institute of Directors. He has consulted to a number of public companies on a range of areas including preparation of prospectuses, assistance to gain admission to the official list of the Australian Stock Exchange, assistance to seek re-quotations of shares for suspended companies, corporate governance, and other financial areas. Mr. Bamonte has been a Director since 1997 and is a member of the audit committee.

> *Dr. Michael Nissen*

Non Executive Director – (75 years)

Dr Nissen is a qualified medical practitioner who graduated from Melbourne University and is a Member of Royal College of Physicians (UK). He was responsible for the building and was a co-owner of Florence Nightingale Hospital in Brighton, Victoria. He was also responsible as the Chief Executive and part owner in the development of Cedar Court Hospital in Camberwell, Victoria. He was for 25 years the honorary medical Director of the Montefiore Homes for the aged in Melbourne. He is a non executive director of the public company, Banque Tec Limited (formerly Australian Overseas Resources Ltd). Dr. Nissen was appointed a Director on 17 March 2000 and is the Chairman of the audit committee.

> *Mr. John Glynn*

Non Executive Director – (52 years)

Mr Glynn is a practising lawyer with his own firm in Lismore Northern NSW. He was admitted as a Solicitor in 1980. He practised in partnership in Wagga Wagga for 10 years before moving to Lismore where he established his own practice, as well as being admitted to practice in Queensland. He has appeared in the Land and Environment Court and has a particular interest in environmental, company and aviation law. Mr Glynn was appointed a Director on 17 March 2000 and is a member of the audit committee.

>>> DIRECTORS' REPORT

> *Dr. David McConchie*

Non Executive Director – (53 years)

Dr David McConchie is a Professor of Engineering and Environmental Geochemistry in the Centre for Coastal Management at Southern Cross University and a co-founder of the Centre for Research on Acid Sulphate Soils. He gained his MSc in geology (with distinction) in 1978 from the University of Canterbury, New Zealand and was awarded a PhD in 1985 by the University of Western Australia. He has published over 60 research papers and five books. Dr. David McConchie was appointed a Director on 10 July 2000.

DIRECTORS' MEETINGS

The number of directors' meetings and audit committee meetings, and number of meetings attended by each of the directors of the Company during the financial year were:

<i>Director</i>	<i>Directors' Meetings</i>		<i>Audit Committee Meetings</i>	
	<i>attended</i>	<i>held</i>	<i>attended</i>	<i>held</i>
B. Sheeran	9	10	n/a	n/a
B. Bamonte	10	10	3	3
M. Nissen	10	10	3	3
J. Glynn	10	10	3	3
D. McConchie	9	10	n/a	n/a

The remuneration committee did not meet during the year but has met once since the end of the financial year.

DIRECTORS' BENEFITS

Directors' benefits are set out in Notes 22 and 23 to the financial statements.

DIRECTORS' AND SENIOR EXECUTIVE EMOLUMENTS

The remuneration policy is to ensure the remuneration package properly reflects the person's duties, responsibilities and level of performance and provides an incentive to attract, retain and motivate employees. Directors and key personnel may receive options under the Employee Option Incentive Scheme.

Details of the nature and amount of each major element of the emoluments of each director and senior executive of the Company follow.

>>> DIRECTORS' REPORT

	<i>Consulting Fees/Salary</i>	<i>Directors Fees</i>	<i>Superannuation Options ⁽²⁾ Contributions</i>		<i>Total</i>
<i>Directors</i>	\$	\$	\$	\$	\$
B. Sheeran	324,080	24,000	1,920	-	350,000
B. Bamonte	224,080	24,000	1,920	-	250,000
M. Nissen	-	24,000	-	-	24,000
J. Glynn	-	24,000	1,920	-	25,920
D. McConchie	97,796	24,000	10,962	-	132,758
Total	645,956	120,000	16,722	-	782,678
<i>Executives</i>					
L. Fergusson	153,634	-	13,827	25,000	192,461
W. Prast ⁽¹⁾	140,898	-	-	-	140,898
P. Gazzard ⁽¹⁾	101,838	-	-	12,500	114,338
A. Craig	88,522	-	7,967	-	96,489
Total	484,892	-	21,794	37,500	544,186

(1) these executives are based outside Australia and are paid in their local currency.

(2) all options issued during the year ended 30 June 2003 were issued under the Company's Option Incentive Scheme as described in Note 15 to the financial reports. All options issued expire on 31 October 2005 and each option entitles the holder to purchase one ordinary share in the Company. The estimated value disclosed above is calculated at the date of grant using a Black-Scholes model.

DIRECTORS' INTERESTS

The relevant interest of the Directors in the share capital of the Company as notified by the Directors in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report are as follows:

<i>Director</i>	<i>Ordinary Shares</i>	<i>Options Exercisable at \$1.00 by 30/11/03</i>	<i>Options Exercisable at 56 cents by 30/11/03</i>
B. Sheeran	2,765,542	-	600,000
B. Bamonte	1,255,000	-	-
M. Nissen	7,450,000	200,000	-
J. Glynn	6,300	200,000	-
D. McConchie	280,000	500,000	-
Total	11,756,842	900,000	600,000

>>> DIRECTORS' REPORT

OPTIONS

At the date of this report unissued ordinary shares of the Company under option are:

<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Number</i>
30 November 2003	\$1.00	900,000
30 November 2003	\$0.56	700,000
28 February 2004	\$0.47	200,000
30 July 2005	\$0.47	150,000
30 July 2005	\$1.00	1,100,000
31 March 2005	\$0.30	100,000
31 October 2005	\$0.61	400,000
31 October 2005	\$0.21	300,000
31 March 2006	\$0.50	750,000
		<hr/>
		4,600,000
		<hr/>

The options may be exercised at any time up until the expiry dates, and do not entitle the holder to participate in any share issue of any other body corporate. None of these options have been exercised at the date of this report.

During or since the end of the year, the Company has granted the following options over unissued ordinary shares to directors or executives.

<i>Executive</i>	<i>Number of Options granted</i>	<i>Exercise price</i>	<i>Expiry date</i>
L. Fergusson	300,000	\$0.21	31 October 2005
L. Fergusson	500,000	\$0.50	31 March 2006
P. Gazzard	300,000	\$0.21	31 October 2005
P. Gazzard	250,000	\$0.50	31 March 2006

During or since the end of the financial year the Company issued 300,000 ordinary shares to L. Fergusson as a result of the exercise of options that were due to expire on 31 October 2005.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were environmental consulting, research and development of environmental remediation technology, and mining. The mining activities have been scaled down significantly in recent years.

DIVIDENDS

The directors do not recommend the payment of a dividend, and no amount has been paid or declared by way of dividend since the end of the previous financial year and up to the date of this report.

>>> DIRECTORS' REPORT

REVIEW OF OPERATIONS

> *Environmental consulting*

The environmental consulting operations generated revenue for the year of \$1,018,031 (2002: \$800,047), an increase of 27% and returned a profit of \$4,604 (2002: loss of \$26,084).

The main focus of this area has been the marketing and commercial implementation of the Bauxsol™ Technology, Basecon™ Technology and potential new applications of these technologies (the "Technologies") taking the concept through to customer acceptance. The turnover for the year in this area was \$309,140 (2002: \$178,101) an increase of 74%. In this area the consolidated entity has expanded its network of strategic partners that have the sales and marketing infrastructure to enable the technologies to be more effectively marketed globally. Of particular significance is the global strategic partnership entered into with the Hatch Group a leading consulting, engineering, technologies, project and construction management organisation. They operate through a network of more than 64 permanent offices worldwide with more than 4,000 employees. The main benefits from the work this year is expected to be generated in future years.

The consolidated entity also operated a specialised laboratory, which accounted for \$708,891 of the revenue noted above compared to \$621,946 for the 2002. This area is expected to continue to grow modestly over the ensuing years.

During the year the consolidated entity also licenced the HydroDec™ technology from CSIRO. This technology has been developed over eight years and treats organic contaminants (e.g. PCBs and Dioxins). It complements the Bauxsol™ Technology which deals with inorganic contaminants (e.g. heavy metals).

> *Research and development of environmental remediation technologies*

The consolidated entity continued its research and development programme into improving the efficiency of its Bauxsol™ Technology, Basecon™ Technology and potential new applications of these technologies into other industries.

Since the end of the previous financial year patent applications were lodged in respect of the Basecon™ Technology, the ViroSewage™ Systems and for the ViroPhosphate™ fertiliser, further evidence of the platform nature of the Technologies. As a further level of intellectual property protection Virotec scientists also developed and copyrighted two computer models to determine the most cost effective: -

- a. Method of treating residue from any alumina refinery to make it environmentally benign; and
- b. Bauxsol™ Reagent blend required for the treatment of sulphidic mine wastes and acid sulphate soils.

During the financial year the consolidated entity incurred costs of \$2,745,764 on research, development and patent applications which was expensed in accordance with the consolidated entity's accounting policy.

> *Mining and Exploration*

The consolidated entity continues to hold a number of mining leases on prospective tenements. Work on these areas has been, and is planned to remain the minimum required to protect the leases. During the financial year several leases have been relinquished or sold by the Company.

During the financial year the consolidated entity incurred a loss of \$204,868 on its mining interests.

>>> DIRECTORS' REPORT

STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

EVENTS SUBSEQUENT TO BALANCE SHEET

On 27 August 2003 the Company announced that it had entered into a Placing Agreement with Numis Securities Limited for the issue of 25,000,000 ordinary shares at a price of GBPE0.14 per share (approximately A\$0.34). The funds raised of approximately A\$8.19 million after costs were received on 2 September 2003.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to effect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity.

LIKELY DEVELOPMENTS

The consolidated entity will continue to expand its commercialisation operations into Europe, North America and Australasia. The consolidated entity also plans to continue its research and development into its Technologies and their continued application to environmental management and remediation.

The consolidated entity will seek to retain a passive interest in its mining assets by finding joint venture partners to assist in the exploitation of the assets or by selling the assets and retaining an interest by way of royalty income.

ENVIRONMENTAL REGULATIONS

The consolidated entity's mining operations are subject to a number of significant environmental regulations.

> *Drake Tenements*

From 1 July 1999 the consolidated entity must meet the requirements of the new licensing system under the Protection of the Environment Operations Act 1997 (POEO Act) for its Drake tenements in Northern NSW. The POEO Act replaces the Pollution Control Act, Clean Waters Act, Noise Control Act, Environmental Offences and Penalties Act and the regulatory provisions from the Waste Minimisation and Management Act.

The Department of Mineral Resources requires security bonds to be in place for rehabilitating the mine site. This is currently set for the Drake tenements at approx. \$178,000. The Directors consider adequate provision exists in the accounts for future rehabilitation costs.

> *Queensland Tenements*

The Mines Department in Queensland also requires security bonds to be in place for rehabilitating the mine sites. The Consolidated entity currently holds a large number of mine sites and has in place security bonds of approx. \$382,000. The Directors consider adequate provision exists in the accounts for future rehabilitation costs.

Based upon the results of their enquiries, the directors are not aware of any significant breaches of any environmental regulation during the period covered by this report.

>>> DIRECTORS' REPORT

INDEMNIFICATION OF OFFICERS

The Company's constitution indemnifies any present and past director, secretary, or executive officer, subject to the Corporations Act 2001, against any liability incurred by them in that capacity, to a person where the liability does not arise out of a lack of good faith.

The Company also entered into a unilateral deed poll providing each officer with an indemnity, and entitles officers to inspect and be supplied with copies of all board papers in respect of their period of office. The deed is enforceable during the period in which they are officers of the Company and after they have ceased to be officers.

Dated at Gold Coast this 30th day of September 2003.

Signed in accordance with a resolution of the directors:

B. SHEERAN
Chairman

B. BAMONTE
Director

>>> FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	<i>Note</i>	<i>Consolidated</i>		<i>Company</i>	
		<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
		<i>A\$</i>	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>
Revenue from sale of goods		44,563	97,819	44,563	97,819
Revenue from rendering of services		1,018,031	800,047	-	16,069
Other revenues from operating activities		599,152	640,708	597,284	640,500
<i>Total Revenue</i>	2	1,661,746	1,538,574	641,847	754,388
Depreciation and amortisation expenses	2	(310,722)	(275,418)	(65,988)	(61,492)
Research and development expense	2	(2,745,764)	(1,804,866)	(672,279)	(1,104,723)
Mining interests expense	2	(217,902)	(489,839)	(217,902)	(489,839)
Employee costs and directors	2	(1,713,454)	(1,291,421)	(1,684,220)	(1,139,824)
Other expenses from operating activities remuneration		(2,292,628)	(2,793,437)	(3,620,182)	(3,074,917)
<i>Total Expenses</i>	2	(7,280,470)	(6,654,981)	(6,260,571)	(5,870,795)
Loss from ordinary activities before income tax		(5,618,724)	(5,116,407)	(5,618,724)	(5,116,407)
Income tax related to operating loss	5	-	-	-	-
<i>Net loss after income tax</i>		(5,618,724)	(5,116,407)	(5,618,724)	(5,116,407)
Basic loss per share	4	(\$0.033)	(\$0.034)		
Diluted loss per share	4	(\$0.033)	(\$0.034)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 45 to 67.

>>> FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2003

	Note	<i>Consolidated</i>		<i>Company</i>	
		2003 A\$	2002 A\$	2003 A\$	2002 A\$
Current Assets					
Cash assets		6,453,845	11,896,720	6,392,230	11,864,140
Receivables	6	132,814	178,435	-	15,092
Inventory	7	-	16,884	-	16,884
Other	8	52,407	107,267	52,407	107,138
Total current assets		6,639,066	12,199,306	6,444,637	12,003,254
Non-Current Assets					
Receivables	6	541,807	555,781	2,321,804	2,362,198
Other financial assets	9	-	-	20,484	20,483
Property, plant and equipment	10	1,224,854	1,266,714	199,938	317,905
Intangibles	11	746,651	849,635	-	-
Total non-current assets		2,513,312	2,672,130	2,542,226	2,700,586
Total assets		9,152,378	14,871,436	8,986,863	14,703,840
Current Liabilities					
Payables	12	633,263	780,348	517,663	635,399
Provisions	13	156,581	109,831	106,666	87,183
Total current liabilities		789,844	890,179	624,329	722,582
Non-Current Liabilities					
Provisions	13	790,000	790,000	790,000	790,000
Total non-current liabilities		790,000	790,000	790,000	790,000
Total liabilities		1,579,844	1,680,179	1,414,329	1,512,582
Net assets		\$7,572,534	\$13,191,258	\$7,572,534	\$13,191,258
Equity					
Contributed equity	14	63,678,284	63,678,284	63,678,284	63,678,284
Reserve	16	-	-	-	-
Accumulated losses	17	(56,105,750)	(50,487,026)	(56,105,750)	(50,487,026)
Total equity		\$7,572,534	\$13,191,258	\$7,572,534	\$13,191,258

The statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements, as set on pages 45 to 67.

>>> FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2003

	Note	<i>Consolidated</i>		<i>Company</i>	
		2003 A\$	2002 A\$	2003 A\$	2002 A\$
<i>Cash flows from operating activities</i>					
Cash receipts in the course of operations		1,063,652	907,088	59,655	132,056
Cash payments in the course of operations		(4,101,676)	(3,474,019)	(3,302,709)	(2,791,430)
Interest received		453,788	438,377	453,788	438,374
Net cash used in operating activities	21(b)	(2,584,236)	(2,128,554)	(2,789,266)	(2,221,000)
<i>Cash flows from investing activities</i>					
Payments for property, plant and equipment		(254,309)	(456,189)	(33,950)	(162,515)
Proceeds from sale of property, plant and equipment		68,464	28,650	68,244	26,650
Payment for mining expenses		(217,902)	(309,839)	(217,902)	(309,839)
Payments for research & development		(2,468,866)	(1,804,866)	(395,371)	(1,104,723)
Loans to controlled entities		-	-	(2,118,838)	(841,112)
Investment in controlled entity		-	-	-	(20,479)
Refund/ Payment for security deposits		13,974	(2,377)	15,173	(2,377)
Net cash used in investing activities		(2,858,639)	(2,544,621)	(2,682,644)	(2,414,395)
<i>Cash flows from financing activities</i>					
Proceeds from issues of shares		-	17,138,457	-	17,138,457
Share issue costs		-	(1,146,618)	-	(1,146,618)
Net cash provided by financing activities		-	15,991,839	-	15,991,839
Net increase/(decrease) in cash held		(5,442,875)	11,318,664	(5,471,910)	11,356,444
Cash at the beginning of the financial year		11,896,720	578,056	11,864,140	507,696
Cash at the end of the financial year	21(a)	6,453,845	11,896,720	6,392,230	11,864,140

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements, as set out on pages 45 to 67.

>>> NOTES TO FINANCIAL STATEMENTS

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, which have been adopted in the preparation of this financial report, are:

> *Basis of preparation*

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. It has been prepared on the basis of historical costs and does not take into account changing money values or, fair values of non-current assets. These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

> *Principles of consolidation*

The consolidated financial statements of the economic entity include the financial statements of the Company, being the parent entity, and its controlled entities ("the consolidated entity"). Where the entity either began or ceased to be controlled during the financial year, the results are included only from the date control commenced or up to the date control ceased. The balances, and effects of transactions, between controlled entities included in the consolidated financial statements have been eliminated.

> *Income tax – Note 5*

The consolidated entity adopts the liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

> *Inventory – Note 7*

Inventories are carried at the lower of cost and net realisable value. Cost is allocated on an average basis and includes direct material, labour and transportation costs to the point of sale and other fixed and variable overheads directly related to the production of the inventory. Net realisable value is determined on the basis of the entity's normal selling pattern. Expenses of selling and distribution to customers are estimated to establish net realisable value.

> *Investments – Note 9*

Investments in controlled entities are carried at the lower of cost, or recoverable amount being a directors' valuation based on market values at the time of the valuation. Dividends are brought to account as they are received.

>>> NOTES TO FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

> *Property, plant and equipment – Note 10*

Items of property, plant and equipment are recorded at cost and with the exception of freehold land are depreciated over their estimated useful lives. The depreciation rates used for each class of asset are as follows:

Plant and equipment	10% - 23%	straight line
Motor Vehicles	22.5%	diminishing value
Furniture and fittings	20% - 30%	straight line
Computer equipment	33%	straight line

New assets are depreciated from the date of acquisition or from the time the assets are held ready for use. Profits and losses on disposal of non-current assets are taken into account in determining the results for the year.

> *Acquisitions of assets*

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets.

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Costs that do not meet the criteria for capitalisation are expensed as incurred.

> *Recoverable amount of non-current assets valued on cost basis*

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount.

>>> NOTES TO FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

> *Accounts payable - Note 12*

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Trade accounts are normally settled within 45 days.

> *Rehabilitation costs – Note 13*

Provision is made progressively in the financial statements for the estimated future mine site rehabilitation costs necessary to meet the requirements of the mining leases as notified by the relevant authorities. These costs have been determined on the basis of current costs, legal requirements and technology. Significant uncertainty exists as to the amount of costs that will be incurred due to the impact of changes in environmental legislation.

> *Employee entitlements – Note 13*

The provision for employee entitlements to wages, salaries, annual leave and sick leave represents the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to the balance date. The provision has been calculated at nominal amounts based on wage and salary rates and includes related on-costs at which the liabilities are expected to be settled. Contributions to employee superannuation accumulation funds are charged as expenses as the contributions are paid or become payable.

> *Research and development costs*

Research and development expenditure is expensed as incurred. Where a grant is received relating to research and development costs the grant will be recognised as revenue.

> *Mining interests costs*

Costs relating to the company's mining interests are expensed as incurred.

> *Borrowing costs*

Borrowing costs include interest and are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets, which take more than 12 months to get ready for their intended use or sale. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate. No borrowing costs have been capitalised by the consolidated entity.

> *Intangible assets*

All costs associated with patents and trademarks are expensed in the period incurred.

>>> NOTES TO FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

> *Goodwill – Note 11*

Goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired on the acquisition of a business, is amortised over the period of time during which benefits are expected to arise.

Goodwill is amortised on a straight line basis over 10 years. The unamortised balance of goodwill is reviewed at least at each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance.

> *Goods and services tax*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the assets or as part of the item of expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability. Cash flows are included in the statement of cash flows on a gross basis. The GST of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

> *Revenue recognition*

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

> *Sale of goods*

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products to entities outside the consolidated entity. Sales revenue is recognised when control of goods passes to the customer, which is normally upon delivery.

> *Rendering of services*

Revenue from rendering services is recognised in the period in which the service is provided.

> *Interest income*

Interest income is brought to account as it accrues.

> *Other income*

Other income is brought to account when the consolidated entity's right to receive is established and the amount can be reliably measured.

> *Foreign currency*

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated

>>> NOTES TO FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

at the rates of exchange ruling on that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the year in which the exchange rates change.

Translation of controlled foreign operations

The assets and liabilities of foreign operations, including controlled operations, associates and joint ventures, that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian dollars at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transaction occurred. Exchange differences arising on translation are brought to account in the statement of financial performance. For integrated operations, the translated amounts for non-monetary assets, other than inventory, are compared to recoverable amounts translated at spot rates at reporting dates any excess is expensed, unless a revaluation reserve balance exists for non-current assets carried at fair value.

> *Use of estimates*

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and costs and expenses during the reporting period. Actual results could differ from those estimates.

> *Earnings per share*

Basic EPS earnings are calculated as net profit or loss attributable to members for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company.

Diluted EPS earnings are calculated by only adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted. The dilutive EPS weighted average number of shares now includes the number of ordinary shares assumed to be issued for no consideration in relation to the dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued now represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price. The identification of dilutive potential ordinary shares is now based on net profit or loss from continuing ordinary operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary shares.

> *Segment reporting*

Individual business segments have been identified on the basis of grouping of individual products or services subject to similar risks and returns. The business segments reporting are: Environmental Consulting, Mining Interests, Research and Development and Unallocated.

>>> NOTES TO FINANCIAL STATEMENTS

2. OPERATING LOSS FROM ORDINARY ACTIVITIES

	<i>Note</i>	<i>Consolidated</i>		<i>Company</i>	
		<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
		<i>A\$</i>	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>
REVENUE FROM ORDINARY ACTIVITIES					
Revenue from operating activities					
Sale of goods from operating activities		44,563	97,819	44,563	97,819
Rendering of services from operating activities		1,018,031	800,047	-	16,069
Other revenue from operating activities					
Interest received or due and receivable from other parties		453,788	438,374	453,788	438,374
Sundry		76,900	49,893	75,252	76,335
Net foreign exchange gain		-	123,791	-	123,791
Proceeds from sale of non-current assets		68,464	28,650	68,244	2,000
Total revenue from ordinary activities		1,661,746	1,538,574	641,847	754,388
EXPENSES FROM ORDINARY ACTIVITIES					
Depreciation of:					
- plant and equipment		152,932	142,782	11,182	31,786
- motor vehicles		4,261	3,015	4,261	3,015
- computer equipment		23,707	17,995	23,707	17,995
- office furniture and equipment		26,838	8,696	26,838	8,696
Amortisation of goodwill		102,984	102,930	-	-
Research & development expenditure		2,745,764	1,804,866	672,269	1,104,723
Mining interests costs		217,902	489,839	217,902	489,839
Cost of goods sold		20,348	129,865	20,348	129,865
Cost of rendering services		768,693	556,075	-	1,341
Operating lease rentals		92,727	116,343	80,727	92,343
Doubtful debts – controlled entities		-	-	2,144,062	915,672
Book value of non-current assets sold		88,431	65,427	85,929	48,866
Amounts set aside to provisions for					
- employee entitlements		46,750	33,259	19,483	19,949
Employee costs – administration and corporate		930,776	556,940	918,241	416,521
Legal Fees		363,742	586,010	363,742	586,010
Marketing expenses		259,633	311,276	237,957	311,276
Accounting and audit services	3	86,166	196,307	86,166	196,307
Net foreign exchange loss		131	-	131	-
Director remuneration	22	782,678	714,720	782,678	714,720
Other administration and corporate costs		566,007	818,636	564,948	781,871
Total expenses from operating activities		7,280,470	6,654,981	6,260,571	5,870,795

>>> NOTES TO FINANCIAL STATEMENTS

3. AUDITORS' REMUNERATION

	<i>Consolidated</i>		<i>Company</i>	
	<i>2003 A\$</i>	<i>2002 A\$</i>	<i>2003 A\$</i>	<i>2002 A\$</i>
Amounts received or due and receivable by the auditors for:				
Audit and review of financial reports - Australia	33,042	31,396	33,042	31,396
Audit and review of financial reports - USA	46,888	-	46,888	-
Other services:				
- Independent reports for overseas listings	-	128,540	-	128,540
- Taxation and other advice	6,236	8,000	6,236	8,000
- Independent report in relation to litigation	-	28,371	-	28,371
	<u>86,166</u>	<u>196,307</u>	<u>86,166</u>	<u>196,307</u>

4. EARNINGS PER SHARE

The options outlined in Note 14 are potential ordinary shares, however all potential ordinary shares at the end of the period were not dilutive and accordingly diluted earnings/ (loss) per share is not disclosed.

	<i>2003 \$</i>	<i>2002 \$</i>
<i>Earnings reconciliation</i>		
Net loss	(5,618,724)	(5,116,407)
Basic earnings (loss)	<u>(5,618,724)</u>	<u>(5,116,407)</u>
	<i>Number</i>	<i>Number</i>
Weighted average number of ordinary shares used in the calculation of basic loss per share	168,193,841	150,430,225

5. TAXATION

	<i>Consolidated</i>		<i>Company</i>	
	<i>2003 A\$</i>	<i>2002 A\$</i>	<i>2003 A\$</i>	<i>2002 A\$</i>
<i>(a) INCOME TAX EXPENSE</i>				
Prima facie income tax benefit calculated at 30% (2002: 30%) on the operating loss	1,685,617	1,534,922	1,685,617	1,534,922
Increase in income tax benefit due to R&D expenditure	82,373	54,147	50,420	54,147
Decrease in income tax benefit due to non tax deductible items:				
Professional fees (including legal) and commissions	(42,675)	(109,657)	(42,675)	(109,657)
Provision for doubtful debts of controlled entities	-	-	(643,219)	(274,702)
Foreign exchange gain/ (loss)	(39)	37,137	(39)	37,137
Other expenses	(13,352)	(4,899)	(6,482)	(4,899)
Future income tax benefit in respect of income tax losses and timing differences not brought to account	(1,711,924)	(1,511,650)	(1,043,622)	(1,236,948)
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

>>> NOTES TO FINANCIAL STATEMENTS

5. TAXATION (CONT.)

(b) FUTURE INCOME TAX BENEFIT NOT BROUGHT TO ACCOUNT

	Note	Consolidated		Company	
		2003 A\$	2002 A\$	2003 A\$	2002 A\$
The potential future income tax benefit calculated at 30% (2002: 30%) arising from the following items has not been recognised as an asset because recovery is not virtually certain:					
Tax losses carried forward		7,824,730	6,712,960	7,204,436	6,574,740
Capital losses		80,700	80,700	80,700	80,700
Timing differences					
Employee entitlements		31,974	17,949	17,000	11,155
Rehabilitation provision		252,000	252,000	252,000	252,000
Prepaid expenses		(15,722)	(32,180)	(15,722)	(31,141)
Net timing differences		268,252	237,769	253,278	232,014
		8,173,682	7,031,429	7,538,414	6,887,454

The potential future income tax benefit will only be obtained if:

- (i) The relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- (ii) The consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) No changes in tax legislation adversely affect the consolidated entity in realising the benefit.

None of the tax losses carried forward have expiry dates.

6. RECEIVABLES

CURRENT

Debtors		132,814	178,435	-	15,092
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NON-CURRENT

Loan - Controlled entities	23	-	-	5,044,750	2,925,912
Provision for doubtful debts		-	-	(3,263,554)	(1,119,495)
		-	-	1,781,196	1,806,417
Refundable security deposits and bonds		541,807	555,781	540,608	555,781
		541,807	555,781	2,321,804	2,362,198

>>> NOTES TO FINANCIAL STATEMENTS

7. INVENTORY

	<i>Note</i>	<i>Consolidated</i>		<i>Company</i>	
		<i>2003</i> A\$	<i>2002</i> A\$	<i>2003</i> A\$	<i>2002</i> A\$
Finished goods at net realisable value		-	16,884	-	16,884

8. OTHER CURRENT ASSETS

Other prepayments	52,407	107,267	52,407	107,138
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9. OTHER FINANCIAL ASSETS

NON-CURRENT

Shares in wholly owned controlled entities – at cost	-	-	20,484	20,483
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<i>NAMES OF CONTROLLED ENTITIES</i>	<i>Date Acquired</i>	<i>2003</i> <i>% held</i>	<i>2002</i> <i>% held</i>
Virotec Global Solutions Pty Ltd (1)	15 August 1998	100	100
Virotec Holdings Pty Ltd (1)	20 October 2000	100	100
Virotec Waste Management Pty Ltd (1)	20 October 2000	100	100
Virotec Development Corporation Pty Ltd (1)	20 October 2000	100	100
Virotec USA Inc.(2)	23 January 2002	100	100
Virotec Italia Srl (3)	1 March 2002	100	100
Tin Australia Pty Ltd (1)	2 July 2002	100	-

(1) these entities are incorporated and carry on business in Australia. The entities are “small proprietary companies” and are not required to be audited for statutory purposes.

(2) this entity is incorporated and carries on business in the USA. It was acquired for \$1.00 representing the issued capital of the company at the time of acquisition. It was a non-trading entity at the time of acquisition.

(3) this entity is incorporated and carries on business in Italy. It was acquired for \$20,779 representing the issued capital of the company at the time of acquisition. It was a non-trading entity at the time of acquisition.

(4) this entity was acquired for \$1.00 representing the issued capital of the company at the time of acquisition. It was a non-trading entity at the time of acquisition.

>>> NOTES TO FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

	<i>Consolidated</i>		<i>Company</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>
<i>PROPERTY PLANT AND EQUIPMENT</i>				
Plant and equipment, at cost	1,432,018	1,439,653	95,453	320,376
Less: Accumulated depreciation	(355,742)	(354,853)	(44,093)	(184,385)
	<u>1,076,276</u>	<u>1,084,800</u>	<u>51,360</u>	<u>135,991</u>
Motor vehicles, at cost	37,811	52,457	37,811	52,457
Less: Accumulated depreciation	(30,674)	(29,580)	(30,674)	(29,580)
	<u>7,137</u>	<u>22,877</u>	<u>7,137</u>	<u>22,877</u>
Computer equipment, at cost	118,772	88,384	118,772	88,384
Less: Accumulated depreciation	(55,522)	(31,817)	(55,522)	(31,817)
	<u>63,250</u>	<u>56,567</u>	<u>63,250</u>	<u>56,567</u>
Office furniture and equipment, at cost	121,298	124,297	121,298	124,297
Less: Accumulated depreciation	(43,107)	(21,825)	(43,107)	(21,825)
	<u>78,191</u>	<u>102,472</u>	<u>78,191</u>	<u>102,472</u>
Total property, plant and equipment, at net book value	<u>1,224,854</u>	<u>1,266,714</u>	<u>199,938</u>	<u>317,905</u>

> *Reconciliations*

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

> *Plant & Equipment*

Carrying amount at beginning of year	1,084,800	1,001,377	135,991	224,587
Additions	220,359	312,378	-	18,704
Reclassification	-	7,903	-	-
Carrying amount at end of year	<u>1,076,276</u>	<u>1,084,800</u>	<u>51,360</u>	<u>135,991</u>

>>> NOTES TO FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT (CONT.)

	<i>Consolidated</i>		<i>Company</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>
<i>> Motor Vehicles</i>				
Carrying amount at beginning of year	22,877	11,413	22,877	11,413
Additions	-	14,479	-	14,479
Disposals	(11,479)	-	(11,479)	-
Depreciation	(4,261)	(3,015)	(4,261)	(3,015)
Carrying amount at end of year	7,137	22,877	7,137	22,877
<i>> Computer Equipment</i>				
Carrying amount at beginning of year	56,567	38,829	56,567	30,926
Additions	30,390	43,636	30,390	43,636
Depreciation	(23,707)	(17,995)	(23,707)	(17,995)
Reclassification	-	(7,903)	-	-
Carrying amount at end of year	63,250	56,567	63,250	56,567
<i>> Office Furniture & Equipment</i>				
Carrying amount at beginning of year	102,472	25,472	102,472	25,472
Additions	3,508	85,696	3,508	85,696
Disposals	(951)	-	(951)	-
Depreciation	(26,838)	(8,696)	(26,838)	(8,696)
Carrying amount at end of year	78,191	102,472	78,191	102,472

11. INTANGIBLES

NON CURRENT

Goodwill	1,029,800	1,029,800	-	-
Accumulated Amortisation	(283,149)	(180,165)	-	-
	746,651	849,635	-	-

Goodwill arose from the acquisition by the Company of an environmental consultancy business. The recoverability of this goodwill is supported by the current trading and future cashflow projections prepared by the directors each year. If the cashflow projections are not achieved it may be necessary to write off part or all of the carrying value of goodwill.

>>> NOTES TO FINANCIAL STATEMENTS

12. ACCOUNTS PAYABLE

	<i>Consolidated</i>		<i>Company</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>
CURRENT				
Trade Creditors and Accruals	633,263	780,348	517,663	635,399

13. PROVISIONS

CURRENT

Rehabilitation	50,000	50,000	50,000	50,000
Employee Entitlements	106,581	59,831	56,666	37,183
	156,581	109,831	106,666	87,183

NON-CURRENT

Rehabilitation	790,000	790,000	790,000	790,000
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Number of employees at year end	26	31	9	11
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14. CONTRIBUTED EQUITY

(a) ISSUED AND PAID UP CAPITAL

Opening balance 168,193,841 ordinary shares issued (2002: 109,950,709 ordinary shares)	63,678,284	48,140,623	63,678,284	48,140,623
Add the following share issues:-				
27,514,400 ordinary shares issued at GBPE0.14 (A\$0.384) per share pursuant to a prospectus issued in the United Kingdom	-	10,570,861	-	10,570,861
Options exercised at A\$0.20 per share resulting in the issue of 26,509,919 ordinary shares	-	5,301,984	-	5,301,984
Options exercised at A\$0.30 per share resulting in the issue of 4,218,773 ordinary shares	-	1,265,632	-	1,265,632
Less share issue costs	-	(1,600,816)	-	(1,600,816)
Closing balance 168,193,841 ordinary shares issued and outstanding (2002: 168,193,841 ordinary shares)	63,678,284	63,678,284	63,678,284	63,678,284

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

>>> NOTES TO FINANCIAL STATEMENTS

14. CONTRIBUTED EQUITY (CONT.)

(b) OPTIONS

	<i>2003 Number</i>	<i>2002 Number</i>
The following share options are on issue at 30 June 2003:-		
Exercisable on or before 30 November 2002 at A\$0.75 each	-	1,000,000
Exercisable on or before 28 February 2003 at A\$0.20 each	-	10,000,000
Exercisable on or before 31 August 2003 at A\$1.00 each	2,700,000	2,700,000
Exercisable on or before 30 November 2003 at A\$1.00 each	900,000	900,000
Exercisable on or before 30 November 2003 at A\$0.56 each	700,000	850,000
Exercisable on or before 28 February 2004 at A\$0.47 each	200,000	200,000
Exercisable on or before 30 July 2005 at A\$1.00 each	1,100,000	1,100,000
Exercisable on or before 30 July 2005 at A\$0.47 each	150,000	150,000
Exercisable on or before 31 October 2005 at A\$0.61 each	400,000	400,000
Exercisable on or before 31 March 2005 at A\$0.30 each	100,000	-
Exercisable on or before 31 March 2006 at A\$0.50 each	750,000	-
	7,000,000	17,300,000

15. OPTION INCENTIVE SCHEME

Option Incentive Scheme

The Company has an option incentive scheme which was approved at the annual general meeting on 29 November 2000. The Scheme provides for eligible employees to receive options over ordinary shares each year for no consideration. The board may from time to time resolve to invite eligible employees to apply for a number of options as determined by the board. The maximum number of options able to be issued under the scheme is 5% of the total number of shares on issue. Each option is convertible to one ordinary share. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The exercise price of the options, determined in accordance with the rules of the Scheme, is based on the weighted average price of the Company's shares traded during the five business days preceding the date of granting the option or such higher price as the directors determine. All options expire on the earlier of their expiry date or termination of the employee's employment. The Scheme does not represent remuneration for past services.

Unissued ordinary shares of the Company under option pursuant to this Scheme are included in Note 14 and are summarised as follows:

<i>Issue date</i>	<i>Expiry date</i>	<i>Exercise price A\$</i>	<i>Options issued</i>	<i>Total options Exercised and shares issued</i>		<i>Unissued options available</i>	
				<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
11 April 2001	30 November 2003	0.56	850,000	-	-	700,000	850,000
20 July 2001	28 February 2004	0.47	200,000	-	-	200,000	200,000
1 October 2002	31 March 2005	0.30	100,000	-	-	100,000	-
20 June 2003	31 March 2006	0.50	750,000	-	-	750,000	-
			1,900,000	-	-	1,750,000	1,050,000

The market value of ordinary shares at 30 June 2003 was A\$0.185. No options issued under the option incentive scheme were exercised during the year ended 30 June 2003. 150,000 options issued under the Scheme lapsed during the year ended 30 June 2003.

>>> NOTES TO FINANCIAL STATEMENTS

16. RESERVES

<i>OPTION RESERVE</i>	<i>Consolidated</i>		<i>Company</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>
Balance at beginning of year	-	2,000,000	-	2,000,000
Add balance resulting from issue of options to the executive directors	-	-	-	-
Less transfer to accumulated losses	-	(2,000,000)	-	(2,000,000)
Total Reserves	-	-	-	-

The Option Reserve included the excess of the fair value of the options at the date the options were issued over the consideration received. These options were exercised or expired during 2002 and the option reserve was transferred to accumulated losses.

17. ACCUMULATED LOSSES

Accumulated losses at beginning of year	(50,487,026)	(47,370,619)	(50,487,026)	(47,370,619)
Net loss after income tax	(5,618,724)	(5,116,407)	(5,618,724)	(5,116,407)
Transfer from option reserve	-	2,000,000	-	2,000,000
Accumulated losses at end of year	(56,105,750)	(50,487,026)	(56,105,750)	(50,487,026)

18. SEGMENTS

> *INDUSTRY SEGMENTS*

The consolidated entity operates primarily in 3 industry segments – environmental consulting, mining interests and research and development of environmental remediation. The segments are determined based on several factors including nature of activities, customers and products/services provided.

Environmental Consulting encompasses the following areas:

- > Laboratory analysis – operations of a laboratory in Melbourne, Australia providing chemical analysis.
- > Fieldwork services – provision of on-site environmental management systems.
- > Consulting services – provision of specialist advice on cleaner production, waste management and reversing processes that generate waste. Revenue from sales of the Technologies are recognised in this segment.

Mining Interests – this segment consists of the consolidated entity's mining tenements and other mining assets. The tenements are not being actively explored. Revenue relates to the sale of tin which has been acquired from third parties and processed in the consolidated entity's mining plant.

Research and development – this segment is involved in research and development of the Technologies. It currently has no sales.

There are no intersegment sales. Certain segments may share resources of the consolidated entity. Where this occurs, costs are allocated on a usage basis. The following table reflects the results of operations of the segments consistent with the consolidated entity's management systems.

>>> NOTES TO FINANCIAL STATEMENTS

18. SEGMENTS (CONT.)

<i>2003</i>	<i>Environmental Consulting A\$</i>	<i>Mining Interests A\$</i>	<i>Research and Development A\$</i>	<i>Unallocated A\$</i>	<i>Consolidated A\$</i>
External customer revenue	1,018,031	44,563	-	-	1,062,594
Interest income	-	-	-	453,788	453,788
Other income	-	-	-	145,364	145,364
Total revenue	1,018,031	44,563	-	599,152	1,661,746
Depreciation and amortisation	244,734	11,181	-	54,806	310,722
Segment operating results	4,604	(204,868)	(2,745,764)	(2,672,696)	(5,618,724)
Acquisitions of non-current assets	220,010	-	-	34,299	254,309
Segment assets	1,965,896	51,360	-	7,135,122	9,152,378
Segment liabilities	(165,495)	(840,000)	-	(574,349)	(1,579,844)
<i>2002</i>					
External customer revenue	800,047	97,819	-	-	897,866
Interest income	-	-	-	438,374	438,374
Other income	-	-	-	202,334	202,334
Total revenue	800,047	97,819	-	640,708	1,538,574
Depreciation and amortisation	213,926	31,786	-	29,706	275,418
Segment operating results	(26,084)	(521,885)	(1,804,866)	(2,763,545)	(5,116,407)
Acquisitions of non-current assets	293,674	18,704	-	143,811	456,189
Segment assets	1,961,787	135,990	-	12,773,660	14,871,437
Segment liabilities	(155,898)	(840,000)	-	(684,281)	(1,680,179)

The revenue allocated to each segment from external customers relates to services rendered and sales from those segments. The losses of the industry segments reflect the trading results as managed and reported by the industry segments. The unallocated segment revenues and expenses are attributable to the corporate overhead activities of Virotec not directly attributable to an industry segment. Such revenues include primarily interest income and such expenses include development of the corporate strategy and development of Virotec's international activities.

>>> NOTES TO FINANCIAL STATEMENTS

18. SEGMENTS (CONT.)

> GEOGRAPHIC SEGMENTS

2003	Australia & Asia A\$	North America A\$	Europe A\$	Consolidated A\$
External customer revenue	809,143	43,010	210,441	1,062,594
Interest income	453,788	-	-	453,788
Other income	144,587	777	-	145,364
Total revenue	1,407,518	43,787	210,441	1,661,746
Depreciation and amortisation	309,076	873	773	310,722
Segment operating results	(4,641,856)	(440,427)	(536,441)	(5,618,724)
Acquisitions of non-current assets	243,367	4,805	6,137	254,309
Segment assets	9,132,116	16,034	4,228	9,152,378
Segment liabilities	(1,563,121)	(16,283)	(440)	(1,579,844)

The consolidated entity operated predominantly in Australia in 2002 and accordingly no comparatives are provided.

19. CONTINGENCIES AND COMMITMENTS

> (a) MINESITE REHABILITATION

The consolidated entity has security bonds and bank guarantees in place of A\$540,608 for rehabilitation of mining leases. The amount equals the estimates of the relevant mining departments when the leases were first granted. A provision of \$840,000 for rehabilitation has been recorded for the expected cost to rehabilitate all mining leases. However, further liabilities may arise to the consolidated entity if the cost of rehabilitating the mining leases exceeds the current estimate. It is impractical to determine the maximum amount of the contingent liability in respect of minesite rehabilitation.

> (b) IMPLICATIONS OF NATIVE TITLE

The decisions of the High Court of Australia in *Mabo v The State of Queensland* (1992) 107 ALR 1 and the *Wik Peoples v The State of Queensland* (1998) 141 ALR 129 may have an effect on the consolidated entity's mining tenements. The *Mabo* case recognised that native title to land in Australia survived the Crown's acquisition of sovereignty. However, the acquisition of sovereignty exposed native title to extinguishment by the valid exercise of sovereign power inconsistent with the continued right to enjoy native title. The *Wik* Case decided that Queensland pastoral leases do not necessarily extinguish native title and as a result, certain mining tenements and real property interests granted after 1 January 1994 may be invalid if they affect native title and were not granted in accordance with the Native Title Act 1993. The Federal Government has passed legislation to address this issue. However, at the date of these accounts, it is not possible to accurately predict the implications of Native Title on the consolidated entity's interests in mining tenements.

>>> NOTES TO FINANCIAL STATEMENTS

19. CONTINGENCIES AND COMMITMENTS (CONT.)

> (c) LITIGATION

The Company has brought defamation cases against third parties. These matters may result in substantial legal costs being incurred. The Company is also party to other litigious matters in the ordinary course of business. It is impractical to determine the maximum contingent liability in relation to these matters.

> (d) NON-CANCELLABLE OPERATING LEASE COMMITMENTS

Future operative lease commitments not provided for in the financial statements and payable:

	<i>Consolidated</i>		<i>Company</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>	<i>A\$</i>
Within 1 year	49,117	111,380	46,117	111,380
Within 1-5 years	1,650	232,767	1,650	232,767
Later than 5 years	-	-	-	-
	<u>50,767</u>	<u>344,147</u>	<u>47,767</u>	<u>344,147</u>

20. CAPITAL COMMITMENTS

The consolidated entity has commitments under research agreements with Southern Cross University amounting to A\$156,034 in 2004, A\$163,836 in 2005 and A\$19,772 in 2006.

While the company remains listed on the Alternative Investment Market of the London Stock Exchange it has an annual commitment for fees of approximately A\$100,000.

21. NOTES TO THE STATEMENTS OF CASH FLOWS

> (A) RECONCILIATION OF CASH

For the purposes of the statement of cash flows, cash includes cash on hand and at bank.

Cash at the end of the financial year as shown in the statement of cash flows reconciled to the related items is in the balance sheet as follows:

Cash at bank	<u>6,453,845</u>	<u>11,896,720</u>	<u>6,392,230</u>	<u>11,864,140</u>
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>>> NOTES TO FINANCIAL STATEMENTS

21. NOTES TO THE STATEMENTS OF CASH FLOWS (CONT.)

> (B) RECONCILIATION OF OPERATING LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES	Consolidated		Company	
	2003 A\$	2002 A\$	2003 A\$	2002 A\$
Operating loss after income tax	(5,618,724)	(5,116,407)	(5,618,724)	(5,116,407)
Add non cash items:				
Depreciation and amortisation	310,722	275,418	65,988	61,492
Loss on disposal of assets	19,966	65,427	17,600	48,866
Provision for diminution of loans to controlled entities	-	-	2,144,062	915,672
Add/(less) items classified as investing/financing activities				
Net exploration expenditures written off during the year	217,902	309,839	217,902	309,839
Net research and development costs written off during the year	2,468,866	1,804,866	395,371	1,104,723
Changes in assets and liabilities:				
Decrease/(increase) in receivables	45,621	9,229	15,173	18,168
Decrease/(increase) in prepayments	54,860	(88,269)	54,731	(106,875)
Decrease/(increase) in inventories	16,884	97,278	16,884	97,278
Increase/(decrease) in trade creditors	93,078	60,644	(117,736)	246,595
Increase/(decrease) in provisions	(193,411)	453,420	19,483	199,649
Net cash used by operating activities	(2,584,236)	(2,128,554)	(2,789,266)	(2,221,000)

> (C) NON CASH FINANCING AND INVESTING ACTIVITIES

During the 2003 year, the company issued 850,000 options to employees.

During the 2002 year, the company;

- > Issued 200,000 options to employees; and
- > Issued 1,650,000 options to advisors in relation to the company's listing on AIM.

These transactions were not reflected in the statements of cash flows.

>>> NOTES TO FINANCIAL STATEMENTS

22. REMUNERATION OF DIRECTORS AND EXECUTIVES

> DIRECTORS

2003

2002

The number of directors whose income from the company or any related party falls within the following bands:

A\$ 20,000 – A\$ 29,999	2	2
A\$ 60,000 – A\$ 69,999	-	1
A\$ 130,000 – A\$ 139,999	1	-
A\$ 250,000 – A\$ 259,999	1	1
A\$ 350,000 – A\$ 359,999	1	1

Total income paid or payable, or otherwise made available to all the directors of the company from the company or any related party. (The directors of the controlled entity are also directors of the consolidated entity.)

\$782,678 \$714,720

There were no retirement benefits paid to directors of the consolidated entity and/or its controlled entities. Not included in the above information is a director of a wholly owned overseas subsidiary, who received no fees for acting in the capacity of director during the year.

> EXECUTIVES

The number of executives whose remuneration from the consolidated entity or related party falls within the following bands:

A\$ 110,000 - A\$ 119,999	1	1
A\$ 120,000 - A\$ 129,999	-	1
A\$ 140,000 - A\$ 149,999	1	-
A\$ 150,000 - A\$ 159,999	-	1
A\$ 190,000 - A\$ 199,999	1	-
A\$ 250,000 - A\$ 259,999	1	1
A\$ 350,000 - A\$ 359,999	1	1

Total remuneration received, or due and receivable from the consolidated entity or related parties by executive officers of the consolidated entity whose income is A\$100,000 or more. (The executives of the controlled entity are also executives of the consolidated entity.)

\$1,047,697 \$989,828

23. RELATED PARTIES

> DIRECTORS

The names of each person holding the position of director of Virotec International Ltd during the financial year are B. Sheeran, B. Bamonte, M. Nissen, J. Glynn and D. McConchie. Details of directors' remuneration are set out in Note 22. There were no retirement benefits paid to directors, and no loan advances to directors during the year. Apart from the details disclosed in this note, no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

> DIRECTORS' HOLDINGS OF SHARES AND SHARE OPTIONS

The interests of the directors of the consolidated entity and their director-related entities in shares and options of Virotec International Ltd at year-end are set out below:

	<i>Number Held</i>	
	2003	2002
Fully paid ordinary shares	11,756,842	11,756,842
Options over ordinary shares	1,500,000	2,200,000

During the 2003 year, the directors in aggregate sold and purchased nil shares (2002: nil shares) in the company and were issued with nil options (2002: nil options). During the year the directors were issued nil shares on exercise of options and 700,000 options lapsed unexercised.

> OTHER TRANSACTIONS WITH THE COMPANY OR ITS CONTROLLED ENTITIES

During the 2003 year, Sheeran Nominees Pty Ltd, a company in which B. Sheeran is a shareholder, sold plant and equipment to the Company. All payments were in the ordinary course of business and on normal commercial terms and conditions. Total payments for the period were \$40,073 (2002: \$nil).

During the 2002 year, Sheeran Nominees Pty Ltd, provided transport services to the Company. No transport services were provided during 2003. All payments were in the ordinary course of business and on normal commercial terms and conditions. Total payments for the period were \$nil (2002: \$23,575).

During the 2003 year, C. Boland, an associate of B. Sheeran, provided marketing and communication services to the Company. All payments were in the ordinary course of business and on normal commercial terms and conditions. Total payments for the period were \$42,622 (2002: \$56,596).

During the 2003 year, pursuant to an agreement with Naveau Technology Investments Limited ("NTI"), a company in which B. Sheeran and D. McConchie are shareholders, under which the Company has a world wide exclusive licence to distribute and market technology owned by NTI, an amount of \$6,607 (2002: \$454) has been paid or is payable at the end of the period. Under this agreement the Company is responsible for all costs associated with the development of the technology and will pay a royalty to NTI upon the successful commercialization of related technologies. Under the licence agreement, the company pays NTI a royalty of 2% of the gross proceeds received from the exploitation of the intellectual property. From 1 July 2006, minimum royalties of \$100,000 are payable for the first year increasing by 10% per annum to a maximum of

>>> NOTES TO FINANCIAL STATEMENTS

23. RELATED PARTIES (CONT.)

\$250,000 per annum. Virotec may terminate the agreement on one years notice in writing. The terms and conditions of this agreement are no more favourable than those available, or which might be reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

During the 2003 year, pursuant to an agreement between the Company, Southern Cross University ("SCU"), NTI and D. McConchie which enables D. McConchie to provide ongoing technical advice to the Company through SCU. A total amount of \$129,164 (2002: \$111,661) was paid or is payable at 30 June 2003. All payments were in the ordinary course of business and on normal commercial terms and conditions.

During the period, F. Davies-McConchie, an associate of D. McConchie, provided technical advice and other services to the Company via an arrangement with SCU. All payments were in the ordinary course of business and on normal commercial terms and conditions. Total amounts paid or payable for the period were \$60,895 (2002: \$43,664).

Under a retainer agreement dated 19 June 2001, Mr B Bamonte provides consultancy services to the Company, payments for which are included in directors' remuneration.

Under a retainer agreement dated 19 June 2001, Mr B Sheeran provides consultancy services to the Company, payments for which are included in directors' remuneration.

Details of interests in a wholly-owned controlled entities are set out in note 9. Details of dealings with these entities are set out below:	<i>Company</i>	
	<i>2003</i>	<i>2002</i>
	<i>A\$</i>	<i>A\$</i>
Balance with entities within the wholly owned group		
Receivables - non-current loans	5,044,750	2,925,912

These loans were unsecured, interest free and have no fixed term of repayment.

>>> NOTES TO FINANCIAL STATEMENTS

24. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURES

> (A) INTEREST RATE RISK

> Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Weighted Ave interest Rate	Fixed Interest Maturing Interest		Non Interest Bearing A\$	Total A\$
		Floating interest rate A\$	1 Year or less A\$		
Financial Assets – 2003					
Cash	4.87%	6,453,845	-	-	6,453,845
Receivables – current		-	-	132,814	132,814
Receivables – non-current	1.50%	-	56,016	485,791	541,807
		<u>6,453,845</u>	<u>56,016</u>	<u>618,605</u>	<u>7,128,466</u>

Financial Assets – 2002					
Cash	4.75%	11,896,720	-	-	11,896,720
Receivables – current		-	-	178,435	178,435
Receivables – non-current	1.50%	-	56,016	499,765	555,781
		<u>11,896,720</u>	<u>56,016</u>	<u>678,200</u>	<u>12,630,936</u>

	Weighted Ave interest Rate	Fixed Interest Maturing Interest		Non Interest Bearing A\$	Total A\$
		1 Year or less A\$	2 Years or less A\$		
Financial Liabilities – 2003					
Accounts Payable		-	-	633,263	633,263

Financial Liabilities – 2002					
Accounts Payable		-	-	780,348	780,348

>>> NOTES TO FINANCIAL STATEMENTS

24. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURES (CONT.)

> (B) CREDIT RISK EXPOSURE

Credit risk represents the loss that would be recognised if counter-parties failed to perform as contracted

> *On Balance Sheet Financial Information*

The credit risk on financial assets, excluding investments, of the consolidated entity, which have been recognised in the balance sheet, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity is not materially exposed to any individual customer or individual overseas country.

> *Off Balance Sheet Financial Instruments*

There are no off balance sheet financial instrument credit risk applicable.

> *Net fair values of financial assets and liabilities*

Valuation Approach - Net fair values of financial assets and liabilities are the approximately equivalent of their book values.

25. SUBSEQUENT EVENTS

On 27 August 2003 the Company announced that it had entered into a Placing Agreement with Numis Securities Limited for the issue of 25,000,000 ordinary shares at a price of GBP£0.14 per share (approximately A\$0.34). The funds raised of approximately A\$8.19 million after costs were received on 2 September 2003. The financial effect of this transaction has not been brought to account in this report.

Apart from the matter noted above, there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to effect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity.

>>> DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

In the opinion of the directors of Virotec International Ltd: -

- (a) The financial statements and notes, set out on pages 42 to 67, are in accordance with the Corporations Act 2001, including:
 - giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

Dated at Gold Coast this 30th day of September 2003.

Signed in accordance with a resolution of the directors:

B. SHEERAN
Executive Chairman

B. BAMONTE
Director

>>> AUDIT REPORT

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF VIROTEC INTERNATIONAL LTD

> *Scope*

We have audited the financial report of Virotec International Ltd for the financial year ended 30 June 2003, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 25, and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

> *Audit opinion*

In our opinion, the financial report of Virotec International Ltd is in accordance with:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2003 and of their performance for the financial year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

KPMG

PAUL STEER

Partner

Place: Gold Coast

Date: 30 September 2003

>>> SHAREHOLDER INFORMATION

SHAREHOLDER INFORMATION

The following shareholder information is as at 30 September 2003.

Prior to September 2003, the holders of the Company's ordinary shares have been recorded on two share registers, one in Australia and one in the United Kingdom. Shares held on the Australian register were held and traded in an electronic form. Shares held on the UK register were held and traded in the form of certificates.

In September 2003, to enable the electronic holding and settlement of securities traded in the UK on AIM, under the relevant UK laws, the Company established Depository Interests ("DIs"), which represent interests in the existing ordinary shares which are similar to "CUFS" issued by foreign issuers in Australia and "ADS" issued by foreign issuers in the USA, which enable trading and settlement of the securities to occur in the respective stock markets. Each DI represents one ordinary share, which is held in trust by Computershare Services Plc, and virtually all of the rights attaching to the underlying share are passed on by the trustee to the DI holder. As a result DI holders have virtually the same rights as ordinary shareholders. For the purposes of the following disclosure, the ordinary shareholders and DI holders have been aggregated to provide more relevant information.

VOTING RIGHTS

Holders of ordinary shares are entitled to vote at any meeting of the members of the Company and their voting rights are: one vote per shareholder present on a show of hands, and one vote for each fully paid share held on a poll.

DISTRIBUTION OF SHAREHOLDINGS

<i>Range</i>	<i>Number of holders</i>	<i>%</i>	<i>Number of shares</i>	<i>%</i>
1-1,000 shares	408	7.14	294,204	0.15
1,001-5,000 shares	2,356	41.20	7,192,092	3.72
5,001-10,000 shares	1,291	22.58	10,855,857	5.61
10,001-50,000 shares	1,193	20.86	26,823,097	13.86
50,001-100,000 shares	280	4.90	19,411,563	10.03
100,001 shares and over	190	3.32	128,917,028	66.63
	5,718	100	193,493,841	100

The above table aggregates the holders of ordinary shares and depository interests. There were 411 holdings of less than a marketable parcel of securities. There is no current on market buy back.

> *Substantial holders*

Substantial holders (5% or more of issued capital) as at 30 September 2003

	<i>Ordinary shares%</i>	<i>issued capital</i>
Mr Nigel Wray	14,768,000	7.64

>>> SHAREHOLDER INFORMATION

> *Twenty Largest shareholders at 30 September 2003.*

	<i>Number of shares/DI's held</i>	<i>% of issued capital</i>
1 Prestbury Investments Holdings Pty Ltd	7,850,000	4.06
2 Andwenrod Services Pty Ltd	7,300,000	3.77
3 Cheapside Nominees Limited	6,900,000	3.57
4 ANZ Nominees Pty Ltd	6,451,677	3.33
5 SFE Investments Pty Ltd	6,300,542	3.26
6 Jefferies International (Nominees) Limited	5,190,072	2.68
7 NCL Nominees Limited	3,850,000	1.99
8 Stanlife Nominees Limited	3,726,340	1.93
9 Chase Nominees Limited (11DF1CVC)	3,300,000	1.71
10 Sheeran Nominees Pty Ltd	2,765,542	1.43
11 Tobyone Inc	2,749,830	1.42
12 Revson International Pty Ltd	2,639,276	1.36
13 Citicorp Nominees Pty Limited	2,558,891	1.32
14 Diana Investments Limited	2,433,333	1.26
15 National Nominees Limited	2,092,291	1.08
16 Melshare Nominees Limited	2,022,553	1.05
17 Numis Nominees Limited (ZZ Market a/c)	1,936,270	1.00
18 Nortrust Nominees Limited (Buns a/c)	1,919,000	0.99
19 Giltspur Nominees Limited	1,845,696	0.95
20 BBHISL Nominees Limited (125380)	1,796,428	0.93
Total of 20 largest holders	75,627,741	39.09
Total number of shares issued	193,493,841	100

>>> SHAREHOLDER INFORMATION

> Unquoted securities on issue at 30 September 2003

<i>Description</i>	<i>Number of Options on issue</i>	<i>Number of holders</i>
Options expiring 30 November 2003 exercisable at \$0.56 Issued to employees.	700,000	2
Options expiring 30 November 2003 exercisable at \$1.00 Issued to directors.	900,000	3
Options expiring 28 February 2004 exercisable at \$0.47 Issued to employees.	200,000	2
Options expiring 30 July 2005 exercisable at \$0.47 Issued to Nabarro Wells & Co. Ltd.	150,000	1
Options expiring 30 July 2005 exercisable at \$1.00 Holders in excess of 20%: WH Ireland Limited – 1,000,000 options	1,100,000	2
Options expiring 31 March 2005 exercisable at \$0.30 Issued to employees.	100,000	1
Options expiring 31 October 2005 exercisable at \$0.61 Issued to Global Markets Capital Corporation.	400,000	1
Options expiring 31 October 2005 exercisable at \$0.21 Issued to employees.	300,000	1
Options expiring 31 March 2006 Issued to employees.	750,000	2
Total number of unquoted securities on issue	<u>4,600,000</u>	

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Administrative Office***

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Email mail@virotec.com

Commercial Laboratory

34 Norfolk Court
Coburg VIC 3058
AUSTRALIA

Additional offices are located in Italy, United Kingdom and the USA

Directors

B. Sheeran (Chairman & CEO)
B. Bamonte (CFO)
M. Nissen
J. Glynn
D. McConchie

Company Secretary

A. Craig

Corporate Advisors

McCullough Robertson Lawyers
Jones Day Reavis & Pogue
Fox Brooks Marshall
KPMG
Numis Securities Limited

Stock Exchange Listings

Australian Stock Exchange
(Home Exchange - Brisbane)
ASX Code:VTI

Alternative Investment Market of the London Stock Exchange
AIM Code:VTI

The Company's securities are also listed on the Frankfurt and Berlin Stock Exchanges.

The Company has an approved but not yet activated Level 2 ADR program on Nasdaq in the USA.

Share Registry

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Other Information

Virotec International Ltd is incorporated and domiciled in Australia, and is a publicly listed company limited by shares.

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