

The Australian Stock Exchange Limited,
Companies Announcements Office
SYDNEY
Via: asxonline
5th July 2005

Quarterly Shareholder Newsletter

Name Change

The change from VRI Biomedical Limited (ASX: VRI) to Probiomics Limited (ASX: PCC) is now complete, and signifies your Company's focus on commercializing and developing probiotic technology in three significant market areas – Consumer Health, Functional Foods and Biopharmaceuticals. Your company coined the term "Probiomics" and defines it as the study of the molecules by which probiotic bacteria generate a clinical benefit. It joins a long list of other biotechnology-related '-omics' specialties – proteomics, genomics and metabolomics to mention just three. We believe that we have a good chance of leading this area of probiotic science. Therefore, whilst Probiomics Ltd will continue to generate products for health maintenance and relief of specific disorders based on the whole PCC® organism, we are planning to embark upon a program of molecular discovery that will support the marketing of the current products and will potentially result in the development of novel biopharmaceutical products in areas such as inflammatory disorders.

Board

Your company now has a board comprising commercial lawyer Mr Bryan Gardiner (Chairman), Clinical Immunologist Prof Ronald Penny, AO, and stockbroker Mr Patrick Ford.

Mr Gardiner is a practising solicitor who was admitted to the Supreme Court in Western Australia in December 1970. He has had over thirty years' experience in commercial law and has been a partner in a medium-sized law firm, in-house counsel, a senior solicitor with a major national firm and now practices as a consultant to the Perth firm, Clavey Legal.

Throughout his career, Mr Gardiner has been heavily involved in sport law. He is National Judicial Officer of the Equestrian Federation of Australia Ltd and he served as a Director of that organization for 10 years. He is a Commissioner of the West Australian Speedway Commission Inc. and is the Chairman of the Land Valuers Licensing Board.

Mr Gardiner also has considerable experience in intellectual property matters.

He is a director of the Singapore-based Tat Hong Holdings Ltd, the shares of which are quoted on the ASX and SGX. This substantial company is the 9th largest crane company in the world and operates BT Equipment, Tat Hong Rental and EQR in Australia.

Professor Penny is one of Australia's leading immunologists. He graduated with Honours from the University of Sydney in 1960 following which he undertook further studies in haematology, oncology and immunology in the UK and the USA.

Professor Penny set up the first Clinical Immunology Unit in NSW at the Royal Prince Alfred Hospital. In 1979 he was the recipient of the first Doctorate of Science awarded to a member of a clinical department by the University of NSW followed by a Personal Chair in Clinical Immunology in 1988. Professor Penny has published over 350 medical and scientific papers in prestige national and international journals.

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Professor Penny is currently Emeritus Professor of Medicine, University of NSW, Senior Clinical Advisor, NSW Health, Chairman of the Justice Health Board and, among other roles is a director of publicly listed Cryosite Limited.

Mr Ford is a stockbroker with over seventeen years experience as an advisor and investor in the Australian equities market.

Over the past decade, he has increasingly specialised in the life sciences and biotechnology sector, where he has co-ordinated capital raisings for numerous Australian biotechnology companies, from seed capital funding to Initial Public Offerings through to post IPO funding. He also provides ongoing strategic advice to a range of these companies.

He is currently a senior client advisor at Taylor Collison Ltd (a stockbroking firm well regarded in the life sciences sector), and has previously held advisory positions at Bell Potter Securities Ltd, Jardine Fleming Australia Ltd, and James Capel Australia Ltd.

AIM Listing

The weak markets in the UK prompted the suspension of our plans to seek admission to the AIM in the UK. We have prepared the ground for admission, confirmed that the Probiomics technology and business model is of interest to UK investors, and can revisit this proposal at a later date if appropriate.

Sales

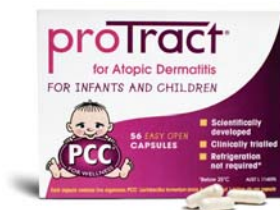
Sales this year have not reached expectations due to problems associated with production and distribution. These problems were addressed mid/late last year and numerous changes were implemented which are just beginning to take effect. Accordingly, we expect significant improvement in sales this financial year.

We are in discussions with a number of pharmaceutical companies for the licensing of our technology in Australia and other regions. Probiomics' ability to complete a licensing agreement with a major pharmaceutical company will be an important milestone in the development of the company. The arrangements being contemplated will enable Probiomics to focus on its core expertise in R&D and product development, in partnership with a large pharmaceutical company, who will take on the marketing and sales functions for the products arising therefrom.

Product Sales:

proTract[®] in Australia

Our exciting new product *proTract[®] for Atopic Dermatitis* was launched on schedule in April/May. We are



promoting the product to practitioners – paediatricians, dermatologists, GP's and pharmacists with apparent success. It will take several months for this to translate into sales, but the early signs are encouraging.

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proTract[®] is now available in the majority of pharmacies in Australia. We are preparing a rebate plan for Probiomics shareholders – the details of which will appear in the next newsletter. In the meantime, you can purchase products from your local pharmacy, or on-line from Pharmacy Direct.

Pharmacy Direct

proTract[®] products are available (at a discount to retail) on-line from Pharmacy Direct. www.pharmacydirect.com.au

A link to Pharmacy Direct is on our proTract[®] and company websites, and will appear on the new Probiomics website, as it is being updated.

Prices are:

- proTract[®] for IBS \$23.95
- proTract[®] for Intestinal Health \$19.95
- proTract[®] for Diarrhoea \$12.49
- proTract[®] for Atopic Dermatitis \$39.95 each
- Plus \$5.95 postage and handling per order

ProBio PCC[®]

Pharmanex sales are currently 27,000 bottles per month and account for 50% of Probiomics' revenue. These sales have been achieved with minimal product promotion due to some issues in ensuring consistent product supply. With these production and distribution issues now resolved (see the Production section below), we look forward to considerable sales growth as Pharmanex proceed to promote the product in the US, Japan and Korea. We are investigating alternative packaging options which are likely to reduce cost of goods, and will consider producing a new (additional) product for Pharmanex for release later this year.

proTract[®] in SE Asia.

Nuvanta launched proTract in Malaysia earlier this month. Initial response has been very encouraging with re-orders already booked. Probiomics' Prof Patricia Conway visited Malaysia recently, presenting scientific data on PCC[®] to the pharmacy trade.

Product Promotion

The PCC[®] Logo Device

Probiomics Ltd earlier this year developed an attractive and eye-catching PCC[®] logo (see below) to be used on functional foods and OTC/dietary supplement products containing PCC[®]. It now appears on all new batches of proTract[®] products in Australia and S-E Asia.



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Probiomics believes that as the PCC[®] health and wellness story becomes known, the presence of the PCC[®] logo on packaging will add considerable value to the products, and a point of differentiation, in the same way that *NutraSweet*[®] and more recently *Splenda*[®] have done in food, and *Intel inside*[®] has done in IT.

Pharmacy Expo

Your company exhibited proTract[®] at the recent Pharmacy Expo 2005 in Sydney. The proTract[®] stand generated great interest, with over 600 pharmacists and pharmacy assistants attending and 45 pharmacy training sessions being booked.

AJP articles

Your Company's product *proTract*[®] for *Atopic Dermatitis* was featured on the front cover of the Australian Journal of Pharmacy in April, with a feature article on it inside. The cover is reproduced below.

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AJP

AUSTRALIAN JOURNAL OF
PHARMACY
SINCE 1886

APRIL 2005
PRINT POST APPROVED
PP241613/00054



Now you can treat and
relieve your little
ones' atopic dermatitis
with a simple capsule



See cover story
inside for details

Probiomix Limited
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In June, the Australian Journal of Pharmacy published an article entitled "Atopic dermatitis – the connection with the gastrointestinal tract and the use of probiotics as novel therapeutics", written by our Innovation and Business Development Manager Dr Peter French. This was part of the Specialty Practice Program for pharmacists, and explained how proTract® for Atopic Dermatitis could work at a scientific level.

Functional Foods

In February 2005, Probiomics announced collaborative agreements with two of Australia's largest food companies. We are obliged to keep the details of the agreements confidential at the request of these respective companies.

These relationships are developing very well. We have confirmed product targets, pilot production runs have occurred, and the first products incorporating PCC® are likely to appear on supermarket shelves within the next 12 months.

We have recently agreed to give one of our partners the right to sell product in Canada, South Africa, the UK and the US, and discussions are now underway with several multinational food companies with different product targets.

Australia represents the first market for novel functional foods containing PCC®. As we prove the concept in this market in a range of food types, we will be able to extend into overseas markets and the functional food component of our business could become a significant revenue stream.

Molecular Discovery Program

The positive feedback we have received from global pharmaceutical companies has reinforced our commitment to proceeding with the next phase of this project. This is a very exciting new sphere of science, and we appear to be amongst leaders in the world in its area.

The commencement of Phase 2 (isolation and characterization of novel anti-inflammatory molecules) in the third quarter of 2005 should see the project completed by early 2006. We have commenced licensing discussions with Pharmaceutical companies in anticipation of a positive outcome which would be the identification and patenting of one or more novel molecules with anti-inflammatory properties which would serve as the basis of new biopharmaceuticals. Inflammatory diseases represent the greatest collective burden of suffering and economic cost in the developed world, afflicting one in three people over the course of their lives and consuming tens of billions of dollars in annual health care costs¹. The US market for non-steroidal anti-inflammatory drugs (NSAIDs) in 2002/2003 was \$US3 billion (excluding drugs sold for arthritic conditions)². The market is growing rapidly worldwide, with psoriasis alone seen as a \$2.9 billion market globally by 2011³.

Production

Numerous changes and efficiencies introduced to the production process over the past year are now beginning to take effect. This will produce cost savings, and give our customers far greater confidence to promote our products.

The production of proTract® and ProBioPCC™ is a complex process that requires specific capabilities, technical know-how and regulatory compliance. It begins with a fermentation process (growing of the PCC® culture) in Sweden. The culture is then freeze-dried and sent in powder-form to Utah in the USA for encapsulation (in gelatin

¹ Source: AstraZeneca Australia - <http://www.astrazeneca.com.au/article/502023.aspx>

² Source: Novogen (<http://www.novogen.com/pharma/pharma0401.cfm?mainsection=04&subsection=06>)

³ Source: Pipeline and commercial perspectives: Psoriasis and atopic dermatitis. Datamonitor Report 2003.

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capsules). Some of these are destined for Pharmanex (who are based in Utah) for ProBioPCC™ production. Capsules for proTract® are sent to Sydney for blister packing and finishing.

In September 2005, encapsulation of product for markets other than the US is planned to occur in Australia – dramatically simplifying the production logistics and producing further cost savings.

If you require further information on any matter mentioned in this newsletter please contact the company on:-
02/9209 4268

Bryan Gardiner
Chairman

¹ Source: AstraZeneca Australia - <http://www.astrazeneca.com.au/article/502023.aspx>

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