

# **VIRAX HOLDINGS LIMITED**

**ABN 56 006 569 106**

**ANNUAL REPORT**

**YEAR ENDED**

**30 JUNE 2010**

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## GENERAL REPORT

Your Directors submit their report for the year ended 30 June 2010.

### Directors and Officers

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

#### Directors

**Mr M. Humphris** Mr Humphris has over 30 years experience as a partner in international and national Chartered Accounting Practices – specialising in Corporate Recovery, Dispute Resolution and Turnaround Management Consulting. Mr Humphris is currently a Consulting Director with BDO Chartered Accountants. He is currently a non executive director of Centro Retail Limited, CMA Corporation Limited, Tox Free Solutions Ltd. and Murray Irrigation Ltd,

Special Responsibility: Non-executive Chairman of the Board

Appointed: 16 January 2008

**Mr I. Pyman** Mr Pyman is a consultant to the Melbourne firm of Donaldson Trumble Lawyers and a principal of Business Redirections, a firm of business and legal consultants. Mr Pyman was previously at Allens Arthur Robinson, one of Australia's largest legal firms. His experience is in commercial and corporate law. Mr. Pyman is also Deputy Chancellor of Monash University and is the Chair of the Council's Audit & Risk Management Committee.

Special Responsibility: Non-executive Chairman of the Audit Committee.

Appointed: 16 January 2008

**Dr A. Ting** Dr Ting is a medical general practitioner in a practice that he founded 30 years ago. He has also fulfilled roles in the Chinese Methodist Church in Australia in the capacity as Chairman of the Board of Finance and Chairman of the Development Fund. Dr Ting is also actively involved in local charitable organisations. He has been a loyal supporter of Virax and its technology with a keen understanding of its science.

Special Responsibility: Non-executive Member of the Audit Committee

Appointed: 16 January 2008

**Mr T Cooper** Mr Cooper is a stockbroker serving a private client base. He has worked in the family business of, Herbert P Cooper and Son Since 2003, Mr. Cooper has worked with Macquarie Equities servicing private clients. Mr. Cooper is also a substantial shareholder in the Company through his company Unaval Nominees Pty Ltd and adds to the Board through his many years of providing advice on capital markets to investors. He was a non executive director of the ATM Deployer Customers Limited until 2005.

Special Responsibility: Non-executive Member of the Audit Committee

Appointed: 1 March 2010

As at the date of this report, the interests of the Directors in the shares, options and convertible notes of Virax Holdings Limited were:

	No. of Ordinary Shares	No. of Unlisted Options	No. of Convertible Notes
<b>M Humphris</b>	1,893,181	1,500,000	-
<b>I Pyman</b>	1,277,424	1,125,000	-
<b>A Ting</b>	4,900,651	1,125,000	-
<b>T Cooper</b>	11,221,106	1,500,000	-

#### Secretary

**Mr John Morrison** - Mr Morrison is a Chartered Accountant with over 30 years experience including 15 years with Ernst & Young. More recently he has also undertaken consulting assignments for public companies, government business enterprises and private companies – acting in the role of a senior executive – including CFO. Mr Morrison has acted as the Company's CFO since 1 January 2007.

Appointed: 16 January 2008

## Meetings

	Board	Audit Committee
No. of Meetings for the Year	13	3
No. of Meetings attended		
M Humphris	13	
I Pyman	13	3
A Ting	13	3
T Cooper (since date of appointment)	4	-

### Audit Committee

The Audit Committee consists of two non-executive Directors (excluding the Chairman of the Board who can be present by invitation). The role of the committee is set out in the Corporate Governance section of this Report.

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

### Nomination Committee

The Nomination Committee comprises all Directors and its functions are conducted within the normal meeting of the Board. The role of the committee is to review the Board structure, its composition and performance. Since 16 January 2008 all Directors comprised the Nomination Committee.

### Risk Management Committee

The Risk Management Committee comprises all Directors and its functions are conducted within the normal meeting of the Board. The role of the committee is to review the Company's risk profiles and the management of those risks. Since 16 January 2008 all Directors comprised the Nomination Committee.

### Remuneration Committee

The Remuneration Committee is appointed from non-executive directors. The role of the Remuneration Committee is to assist the Board in respect to establishing appropriate remuneration levels and policies for directors and executive staff. Since 16 January 2008 all Directors are non-executive and all Directors comprised the Remuneration Committee. These activities are currently activated in Board meetings with the exclusion of executive staff.

## Company Structure

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

### **Virax Holdings Limited ACN 006 569 106**

holds all the issued capital in

*Virax Scientific Management Pty Ltd, ACN 006 829 607*

which in turn, holds all the issued capital in

- *Virax Immunotherapeutics Pty Ltd. ACN 006 715 171*
- *Virax Development Pty Ltd ACN 104 938 016*
- *Virax Facilities Pty Ltd ACN 104 937 902*
- *Virax Southern Africa Project Pty Ltd ACN 122 688 831*

Virax Holdings Limited is the holding company of the group and raises funds that are used in the consolidated entity and also employs all staff and contractors and undertakes administrative activities for the other companies in the consolidated entity.

Virax Scientific Management Pty Ltd is an intermediate holding company for the following subsidiaries

Virax Immunotherapeutics Pty Ltd holds in-licensed intellectual property and various contracts related to such intellectual property, services and other matters. This company also sub-licenses applicable intellectual property.

Virax Development Pty Ltd holds the owned intellectual property and licenses out applicable intellectual property. This company also undertakes contracts with other entities.

Virax Facilities Pty Ltd held the physical assets associated with vector construction and GMP manufacture and undertakes biologic construction and manufacturing activities for Virax and third parties. These activities were concluded on 31 December 2007 and thereafter conducted on an outsourced basis.

Virax Southern Africa Project Pty Ltd was incorporated to manage the VIR201 trial in South Africa. Its operations commenced upon receipt of the South African regulatory approval to conduct the trial and a foreign branch is maintained in South Africa.

## Nature of Operations and Principal Activities

The principal activities during the year of the entities within the consolidated entity were:

- the construction of vectors and biologic components, and the manufacture of biologic drugs for clinical trial purposes;
- the preparation for and conduct of clinical trials;
- business development associated with the promotion of Virax's proprietary technologies;
- business development associated with developing collaborative, partnership relationships and corporate transactions; and
- capital raising to provide the funds to undertake further activities.

## Staff

The Company employs one full time staff member and three contractors.

## Earnings Per Share

Basic (loss)/earnings Per Share	2010: (1.22) cents	2009: (1.20) cents
Diluted (loss)/earnings Per Share	2010: (1.22) cents	2009: (1.20) cents

## Results and Review of Operations

### Results and Dividends

The operating loss for the year was \$1,864,246 (2009: \$1,345,933 loss).

No dividends are proposed or were paid for the year.

Revenue for the year decreased by 33% to \$429,355 (2009: \$636,321).

Expenses for the year increased by 16% to \$2,293,601 (2009: \$1,982,254)

The Consolidated entity loss after tax \$1,864,246 (2009: \$1,345,933 loss).reflects the net costs of operating the Company and conducting its business as an early stage biotechnology drug development company. The Company continued to progress the Co-X-Gene™ technology through:

- the Company's lead program, VIR201HIV immunotherapy vaccine, in clinical trials in South Africa;
- a sub-licence with major French publicly listed biopharmaceutical company - Transgene S.A. (which is conducting clinical trials of two advanced cancer vaccine programs, TG4001 cervical cancer vaccine and TG4010 no small cell lung cancer vaccine utilising the Co-X-Gene™ technology);
- seeking further value accretive clinical program(s) and opportunities for the Company to participate in.

The reduction in revenue to \$429,355 (2009: \$636,321) is primarily due to a reduced tax credit on research and development expenditures. There were no milestones receipts from Transgene under the sub-licence received during the financial year. Transgene did however enter into an option agreement with Novartis for \$US10 million in respect to the Non Small Lung Cell Cancer program (TG4010). This option provides Novartis with the ability to acquire an exclusive licence for TG4010 during the Phase IIb/III trial being undertaken by Transgene. Although Transgene originally intended to complete a licence agreement with a global pharma in respect to TG4010, it is understood that the prevailing circumstances resulted in the completion of the Option Agreement.

Expenses increased to \$2,293,601 (2009: \$1,982,254). This amount includes non-cash items totalling \$641,313 (2009: \$275,853) in relation to the following:

• Employee shares and options	\$189,828
• Directors' fees: share settled	\$258,707
• Convertible note finance charges	\$192,778

The options and shares issued to employees and directors were approved by shareholders at the general meeting on 25 February 2010. The share and option plans are designed to secure the services of key personnel through the use of long term incentives linked to the performance of the company.

The expense in relation to the settlement of outstanding directors' fees has arisen as a result of application of the relevant accounting standard and accounting guidance. AASB Interpretation 19 requires financial liabilities that are extinguished through the issue of securities to be measured at the fair value of those securities at the date the liability is settled. The amount of directors' fees outstanding was \$184,845 and as at 1 January 2010, it was agreed that this amount would be settled by the issue of 3,696,918 shares at 5 cents each. However, the share price on the date the outstanding fees were actually settled (being 8 March 2010 after the shareholder approval at general meeting on 25 February 2010) was 12 cents per share. This reflects a spike in the company's

share price which occurred between the date the arrangements were agreed between the parties and the date of the approval and implementation.

Consequently, an additional expense of \$258,707 arose (3,696,918 shares at 7 cents per share, being the change in the share price). This is a non-cash expense which has arisen as noted due to application of the accounting standard and accounting guidance for extinguishment of financial liabilities by equity settled transactions.

As at 30 June 2010, the Company's share price closed at 6.7 cents. The share price as at the date of this report is 2.9 cents.

The finance costs of the convertible notes of \$192,778 represent the implicit effective cost of funds recognised over the term (including the extended term) of the convertible notes in accordance with the accounting standard on Financial Instruments: Recognition and Measurement. This is a non cash item as the finance charges are only payable upon redemption. During the financial year, the redemption date of the notes was extended to 31 December 2011.

The underlying net operating cash flow for the year was \$(948,557) (2009: \$(1,183,910)).

### **Significant Changes in the State of Affairs**

In November 2009, the Company convened a general meeting of Convertible Noteholders that approved:

- The extension of the maturity date of the Convertible Notes to 31 December 2011;
- The amendment of the Redemption Price from 12 cents per note to 14 cents; and
- The opportunity for Noteholders until 18 December 2009 to convert their notes at a ratio of 2 notes into 5 ordinary shares (a bonus entitlement of 25%).

These amendments were incorporated into the Supplemental Trust Deed of 3 December 2009.

As a result of this approval, 14,056,601 fully paid ordinary shares were issued following the conversion of 5,619,257 VHLG Convertible Notes.

A further 326,888 fully paid ordinary shares were issued following the conversion of 163,444 VHLG Convertible Notes under the normal terms of the notes.

There were also 1,138 previously issued listed options converted to shares which raised \$228 (2009 – 6 options \$1).

On 15 December 2009, 13,473,526 VHLOB options exercisable at 20 cents per ordinary share expired.

The Company undertook a 1 for 5 rights issue at 5 cents per ordinary fully paid share to raise approximately \$1.3 million with an extended closing date of 21 January 2010. This rights offer was supported by Shortfall Placement Agreements of \$750,000. The rights offer concluded with the issue of 26,154,933 ordinary shares that resulted in the receipt of approximately \$1.3 million.

The rights issue was over subscribed and there was no shortfall. The Shortfall Placement agreements also provided (not conditional upon the existence of a shortfall) for the issue of 7,000,000 unlisted options with an exercise price of 10 cents expiring in December 2010.

The payment of Directors remuneration was deferred during the financial year. As at 17 December 2009, the Directors resolved to settle their remuneration outstanding to 31 December 2009 by the issue of ordinary shares on the same terms as the 1 for 5 rights issue – 5 cents per share. The issue of securities to Directors requires approval from shareholders under the ASX Listing Rules. This approval was sought and obtained on 25 February 2010. Accordingly 3,696,918 fully paid ordinary shares were issued to Directors.

The payment of the Directors' remuneration from 1 January 2010 continues to be deferred. It is intended that the deferred remuneration up to 30 June 2010 will again be settled through the issue of ordinary shares. This will require approval of shareholders to be sought at the Company's AGM.

Shareholders' equity at 30 June 2010 was \$279,829 compared with \$(604,478) deficiency as at 30 June 2009.

Details of:

Contributed Capital are shown in Note 13 of the Financial Statements

Securities on issue are shown in the tables in the section *Additional Shareholder Information*.

## Events Subsequent to Balance Date

### ASX Announcements

The Company has made the following announcement to the ASX since the end of the Financial Year.

7 July 2010	Update on VIR201 HIV Vaccine Clinical Trial
23 July 2010	Convertible Note Quarterly Report to the Trustee and ASIC
9 August 2010	Update on VIR201 Clinical Trial - RSA
12 August 2010	Publication in AIDS Journal – Positive effect of VIR201
16 August 2010	Results of VIR201 Clinical Trial – RSA
31 August 2010	Appendix 4E - Preliminary Final Report 30 June 2010

## General Information about Operations and Future Activities

### **Co-X-Gene™ Technology**

Virax retains a key technology asset, the Co-X-Gene™ technology. The company will continue its strategy of adding value to this key technology asset through its strategic out-licensing to major French biopharmaceutical company, Transgene, in two cancer vaccine products, both in advanced development.

These products are:

- TG4001 (cervical cancer vaccine) - Currently in Phase IIb trials and partnered with Roche; and
- TG4010 (lung cancer vaccine) - Phase IIb trials completed and now entering Phase III trials. This is subject to an Option Agreement negotiated by Transgene with Novartis.

The products use Modified vaccine Ankara as the delivery system.

The success of both products to date provides clinical validation of the Co-X-Gene™ technology. The Co-X-Gene™ technology asset, through the Transgene license, remains of significant value to Virax.

### **Significant Technical Developments – VIR201 Clinical Trial in South Africa**

Since the end of the previous financial year the Company reported the preliminary results (16 August 2010) for the Phase IIa Clinical Trial for the VIR201 immunotherapy vaccine for HIV in South Africa. The South African trial design differed from the earlier Australian trials as it used an increased dose of a more highly purified VIR201 vaccine and included both ART treatment naïve and experienced participants. The trial was conducted on 131 patients, with 65 patients undergoing antiretroviral (ART) treatment and 66 patients being naïve to ART treatment.

The major aim of the trial was to compare the immune responses to VIR201 in both patient populations.

The primary immunological endpoint of the trial was T-cell immune response via ELISpot assay. Such T-cells are critical in the detection and removal of HIV infected cells. The secondary immunological endpoint was the measurement of Antibody isotype responses (IgG1, IgG2 and IgG3). The effects of VIR201 vaccination on HIV viral load in the ART naïve group and CD4 count were also measured as secondary efficacy endpoints.

VIR201 did not meet its primary or secondary immunological endpoints, failing to elicit a statistically significant increase in immune response relative to the control group in both T-cell assay (ELISpot) and assays of antibody isotype.

Effect of viral load was measured as time weighted mean change from baseline to the end of the trial (pVL). An interesting result of the trial was that ART naïve patients receiving VIR201 had a 0.61 log reduction over the trial period relative to placebo in pVL ( $p=0.0934$ ). The reduction in viral load was more pronounced soon after the first vaccination. The VIR201 group had a statistically significant 1.49 log reduction relative to placebo ( $p=0.0001$ ) one week after the first vaccination with VIR201.

The Company is reviewing and further evaluating the trial results and will update shareholders in due course.

The review will focus on interpreting the observed reduction of viral load. The final clinical study report of the trial is scheduled to be received in Q4 2010. This report will underpin the rationale for undertaking further work. Such work could be undertaken by the Company or third party researchers at their own cost.

Virax is appreciative of the support provided by the following global coalition of multinational and South African companies which funded the trial:

African Rainbow Minerals Limited	Lonmin Plc
Anvil Mining Limited	Mitsubishi Materials Corporation
Assmang Limited	Nippon Mining and Metals Co. Ltd
BHP Billiton Limited	Paladin Energy Limited
Gold Fields Limited	Rio Tinto Limited
Harmony Gold Mining Company Ltd	Sumitomo Metal Mining Co. Ltd

In light of the South African trial results, the Company will now review its future plans for VIR201, which also uses the Co-X-Gene™ Technology with a fowlpox delivery system.

#### Co-X-Gene™ Technology and the Transgene Sub-licence

In March 2007 Transgene (Eurolist Paris: FR0005175080) executed a Licence Agreement (the "Transgene Sub-licence") with the Company for access to Co-X-Gene™ technology for use in two of Transgene's immunotherapeutic products:

- TG4001 - a treatment for pathologies relating to human papilloma virus (HPV) infection; and
- TG4010 - a treatment for non-small cell lung cancer (NSCLC).

On 11 April 2007, based upon having conducted a further Phase II trial with TG4001, Transgene announced a partnering with the Roche Group of TG4001, which included partnering payments receivable of €23 million for an upfront payment and a near term milestone. The Transgene announcement also stated that Roche may pay Transgene up to an additional €195 million, plus royalties on sales. To date, the Company has received AUD 1.352 million (net) under the Transgene Sub-licence in respect to TG4001. Transgene has stated that TG4001 has a market potential of €250 million per annum.

Transgene has announced the following achievements in respect of these products:

##### TG4001/R3486

- Successfully completed a Phase II trial for treatment of severe precancerous cervical lesions. Partnership with Roche achieved based upon this result.
- Commenced a Phase IIb trial with results anticipated in Q2 calendar 2011.

##### TG4010

- Primary endpoints of Phase IIb trial of TG4010 for NSCLC cancer successfully completed.
- Overall positive survival data from Phase IIb trial presented in December 2008.
- Final Phase IIb trial results were presented in June 2009 demonstrating an increased six months survival benefit.
- Approval from the FDA for the planned Phase III testing.
- Transgene anticipated completing a partnering of the program with a global pharma in mid 2009. This did not eventuate. On 11 March 2010 Transgene announced the completion of an Option Agreement with Novartis granting Novartis the right to acquire an exclusive global licence for TG4010 after the results of the Phase IIb portion of the Phase III clinical trial being undertaken by Transgene become available. These results are expected to be available in the first quarter 2012. Under the Option Agreement, Transgene is eligible to earn up to €700 million (\$A1 billion) upon achievement of development, regulatory and commercial milestones in various indications, in addition to royalties on global sales.

The Company expected that a partnership agreement with TG4010 was likely to trigger milestone payments under the sub-licence. A payment under the Option Agreement is not currently expected at this time.

Transgene has estimated that TG4010 has a market potential of \$US 1.4 billion per annum.

#### Validation of Virax's Co-X-Gene™ Technology poised to significantly enhance shareholder value

Co-X-Gene™ has been validated by:

- Transgene's successful Phase II testing of its human papilloma virus (HPV) based vaccine (TG4001) for the treatment of precancerous lesions of cervical cancer.
- Transgene's successful Phase IIb testing of its lung cancer vaccine (TG4010).
- The licensing by Transgene SA of the Co-X-Gene™ technology from Virax in April 2007 for application in TG4001 and TG4010;
- Roche milestone payment of €23 million upon partnering with Transgene to develop TG4001 in April 2007;
- Novartis's \$US10 million option to exclusively licence TG4010 with milestone payments of up to €700 million.

#### **Company Pursuing New Clinical Program**

The Virax Board has previously communicated its desire to undertake a suitable value accretive corporate transaction to further expand and diversify its product and technology portfolios.

The Company has been very active in this area in recent months and can advise that it is in advanced discussions with a large international immunotherapeutic company regarding a new clinical program that has the potential to add significant value for shareholders. This cancer focused clinical program fits well with the Company's expertise in immunotherapeutic vaccines and its clinical trial experience. The Company hopes to announce the results of these discussions soon..

## **Funding**

During the Financial Year, the Company:

- Raised approximately \$1,307,747 through a 1 for 5 non renounceable rights issue at 5 cents per share. This resulted in the issue of 26,154,933 fully paid ordinary shares;
- Converted 163,444 convertible notes into 326,888 fully paid ordinary shares under the normal conversion terms of 1 note into 2 ordinary shares;
- Converted 5,619,257 convertible notes into 14,056,601 fully paid ordinary shares under the bonus conversion terms available in the period from 6 November 2009 to 18 December 2009;
- Issued 1,138 ordinary fully paid shares of 20 cents each upon the exercise of 1,138 VHLOB options.

The Directors are monitoring the Company's cash flows, future commitments (including the maturity date of the convertible notes) and future capital raising requirements, which will be dictated by developments such as the timing and amount of a Transgene milestone receipt.

Further reductions in the Company's general operations may crystallise liabilities (principally to employees and landlords) of approximately \$315,000.

## **Summary**

During the Financial Year, the significant developments included:

- Successful completion by Transgene of late-stage clinical testing of products that use the Co-X-Gene™ technology
- Successful execution by Transgene of an option agreement with \$US10 million non refundable deposit on clinical program TG4010)that uses the Co-X-Gene™ technology
- Prospective milestone receipts upon Transgene's partnering of its Lung Cancer product with a global pharmaceutical company
- The release of the preliminary results of the VIR201 non dilutive funded clinical trial in South Africa. The final report is due in Q4 2010.

## **Prejudicial Information**

Pursuant to sections 299(3) and 299A (3) of the Corporations Act 2001, this Report omits information relating to likely developments in the company's operations in the future because to do so will result, in the opinion of the Directors, in unreasonable prejudice to the Company.

## **Other Matters**

### **ASX Additional Information**

Details shown in the attachment "ASX Additional Shareholder Information" form part of this Directors' Report.

### **Auditor**

Ernst & Young.

### **Auditor's Independence and Non- Audit Services**

#### Auditor's Independence

The Directors have received from Ernst & Young the following declaration:

*In relation to our audit of the financial report of Virax Holdings Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.*

A copy of this declaration, as required by section 307C of the Corporations Act 2001, accompanies this Report.

#### Non-Audit Services

The Company may decide to employ the Auditor on assignments in addition to their statutory audit duties. This may be done where their expertise or experience with the Company (or the consolidated entity) is appropriate.

Details of the amounts paid to Ernst & Young for the year are shown in *Financial Statements Note 15 - Auditor's Remuneration*.

Based on the advice of the Company's Audit Committee, the Directors have satisfied themselves that the provision of non-audit services during the year by the Auditor, Ernst & Young, or on the Auditor's behalf, is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. There were no non audit services provided during the financial year.

**Continuous Disclosure**

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

**Corporate Governance**

An explanation of the principles of corporate governance followed by Directors is in the section of this Report – “ASX Corporate Governance Principles – An Explanation of Virax Practice”.

**Dividends**

No dividends were paid, declared or recommended during the year.

**Declaration by CEO and CFO**

Directors declare that they have received a Declaration from the Chief Executive Officer and the Chief Financial Officer made pursuant to Corporations Act 2001 sec 295A.

**Environmental Regulation and Performance**

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

**Indemnification and Insurance related to Directors**

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

At the date of this report, the Company is not aware of any issues associated with the underwriter's renewal of the insurance policies which expire on 15 November 2010. If no insurance cover is available each Director and officer will have to consider the basis of continuing or whether they are willing to continue.

During the financial year, the Company under a Deed Poll of 27 July 2007, indemnified Directors and Officers to the extent permitted by the Corporations Act. This Deed Poll also provides Directors with access to Board Minutes and Board Papers.

**Independent Professional Advice and Access to Company Information**

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

**Issued Securities**

Details of issued securities are shown in Notes to the Financial Statements, *Note 13 Contributed Equity*, and also in the “ASX Additional Shareholder Information” *F. Summary of Issued Securities* at 30 June 2010.

Information as to the securities held by Directors and Executives during the financial year ended 30 June 2010 is shown in the Financial Statements - *Note 17 Key Management Personnel*.

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

The Corporations Act requires this Report to show details of:

- unissued shares under option as at the day this Report is made, and
- shares issued during or since the end of the year as a result of the exercise of an option over unissued shares.

These details are shown below:

	<b>Ordinary Shares</b>	<b>Unlisted Options</b>	<b>Convertible Notes</b>
As at 30 June 2010	175,456,015	12,941,333	7,890,227
As at the date of this Report	175,456,015	12,941,333	7,890,227

During the year 1,138 listed options were exercised at \$0.20 per share.

There were no unlisted options exercised.

No options have been exercised since the end of the year.

No Notes have been converted since the end of the year.

(See also "ASX Additional Shareholder Information" attached to this Report for further details of outstanding securities.)

## Remuneration Report (Audited)

This Remuneration Report outlines the Director and Executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the two executives in the Parent and the Group receiving the highest remuneration.

### Basis of Report:

The form and required information of this Report is prescribed by the Corporations Act which requires directors to report on the relationship between the remuneration policy, particularly in respect to executive performance and rewards, company performance, company's earnings and shareholder wealth. (Compliance with Australian Accounting Standards is also required).

The Corporations Act refers to "Remuneration" and the Accounting Standards refer to "Compensation". For the purpose of this report the terms are synonymous.

The terms "director", "secretary" and "senior managers" as defined in the Corporations Act 2001 are synonymous with "Key Management Personnel" as defined by the Australian Accounting Standard. "Key Management Personnel" (KMP) are persons who are directly responsible and accountable for operational management and implementation of the strategic direction of the Company and the consolidated entities. During the financial year these terms have been applied to include the following persons as Key Management Personnel:

M. Humphris	Chairman (Non-executive)
I. Pyman	Director (Non-executive) & Chairman of the Audit Committee
A. Ting	Director (Non-executive)
T Cooper	Director (Non-executive) appointed 1 March 2010
L. Ward	Chief Executive Officer & Development Director
J. Morrison	Chief Financial Officer & Company Secretary

Each Director of, and the Secretary of, Virax Holdings Limited is also a director, or secretary, of Virax Scientific Management Pty Ltd, Virax Immunotherapeutics Pty Ltd, Virax Development Pty Ltd, Virax Facilities Pty Ltd and Virax Southern Africa Project Pty Ltd and, as such, no additional emoluments (as defined in the Corporations Act 2001) were paid.

### Philosophy in Respect of the Management of Virax

The performance of the Company depends on the calibre and capacity of its Directors, Executives, Managers and staff and the ability to attract and retain such persons. The Company aims to base remuneration on remuneration scales for companies comparable to Virax. Normally the philosophy of the Company is to endeavour to provide part of the remuneration of executives, managers and staff by way of grants of options over the Company's shares.

The aggregate amount payable to Directors is subject to shareholders' approval. The issue of securities (shares and options) to Directors is subject to prior shareholder approval.

### Company Performance, Wealth Creation and Executive Remuneration

#### The Correlation between Performance and Creation of Shareholder Value

The correlation between personnel performance and shareholder value for an early stage biological drug development company, such as Virax, is inextricably affected by the scientific uncertainty and complexity which underlies its development programs. The time required to create such value may be comparatively long.

In the shorter term, the performance of Directors, management and staff is not necessarily reflected by the market in the pricing of the Company's shares. The reasons for this may be varied, complex and external to the Company, due to the nature of the undertaking, market understanding, sentiment or impatience due to the inherent timeframes. This, of course, contrasts with a company that is in established product fields, mature technology and established markets. Compared to Virax's investment profile, such companies have a very different appeal and the rationale for the investor to invest in such companies' shares.

Also common with a small and early stage biological drug development company, such as Virax, cash resources and shareholder support are not unlimited which necessitates the prudent management of cash expenditures. Accordingly, elements of the company remuneration policies and their application are structured from this perspective.

The Nature of the Company's Activities and Evaluation of Executive Performance

In the General Section of the Directors' Report there are details of the Company's work in the past year and the work to be undertaken. An assessment of the performance of the executives responsible for that work is made when reviewing remuneration generally and when reviewing performance for the vesting of performance based remuneration. In making the assessment it is recognised that changed circumstances, beyond the control of the individual, may demand a change from previously set performance criteria. The consequence is that the assessment by Directors of the CEO's performance, or by the CEO of other executives' performance, is based primarily on subjective elements.

The Role of the Remuneration Committee

The Board has established a Remuneration Committee (currently being all non-executive directors of the Board). The responsibility of the Remuneration Committee is to determine compensation arrangements for the Directors (within the amount approved by shareholders) and also determine employment and compensation arrangements of the CEO. The Committee also reviews the employment and compensation arrangements for executives (i.e. senior managers), managers and staff as proposed by the CEO.

Non-executive Directors' Remuneration

The objective is to set remuneration levels so as to attract, and appropriately compensate, persons willing and able to take the responsibility of being a director of, and contribute expertise to, an early stage development biotechnology company. As published in the media, prospective directors are well aware of the increasingly onerous corporate regulatory environment and, consequently, there is a lessening ability to attract directors without providing appropriate compensation. When considering appropriate compensation the Board may seek information from independent sources as to comparative rates of remuneration.

The maximum aggregate remuneration for non-executive directors is set in accordance with the Constitution of the Company and the ASX Listing Rules. The setting of such aggregate amounts requires the approval of shareholders in a general meeting. The amount apportioned to each Director is determined by the Board, having regard to the responsibilities taken by each such director. Shareholders are not required to approve the amounts so apportioned.

The following table shows the aggregate remuneration approved by shareholders and the nominal Directors' Fees paid to each Director.

**Aggregate Director Remuneration & Nominal Directors' Fees:**

	<b>Amount</b>
<b>Aggregate Remuneration approved by shareholders</b>	
Date of Approval: 9 November 2004	<b>\$400,000</b>
<b>Nominal Fees</b>	
Fee payable to Chairman	\$75,000
Fee payable to Non-Executive Directors of \$55,000 each (Mr Pyman, Dr Ting and Mr. Cooper)	\$165,000
<b>Total Nominal Fees</b>	<b>\$240,000</b>

Recently, the Directors agreed in February 2009 to defer the payment of their remuneration on the basis that a proposal for its settlement by the issue of ordinary shares would be submitted to shareholders for their approval. This was to assist the Company with the management of its cash resources.

The Directors agreed to defer the payment of Directors' fees until 31 December 2009. On 23 December 2009, in conjunction with a 1 for 5 Rights Offer at 5 cents per share, the Directors agreed to the settlement of their deferred remuneration through the issue of ordinary shares at 5 cents each. On 25 February 2010, shareholders approved the issue of these securities in accordance with the ASX Listing Rules.

From 1 January 2010 to 30 June 2010, the Directors agreed to continue to defer the payment of Directors' fees. It is proposed this outstanding Director remuneration will also be settled by the issue of ordinary shares in accordance with a proposal to be submitted for shareholders' approval at the Company's forthcoming Annual General Meeting.

The deferral and settlement of Directors' fees in this manner is proposed to continue subsequent to 30 June 2010.

Payment to a Director for Work Undertaken other than as a Director

Where the Board determines it is appropriate, because of requisite skill or expertise, a Non-executive Director may undertake work in a capacity other than that as a director; the scope and the payment for such work is agreed by the Board prior to commencement. In reporting any such amount in this Report it is shown as "Short Term – Other" remuneration.

There were no such payments (or agreements for such payments) made during the financial year ended 30 June 2010 (2009: Nil).

The Use of Unlisted Options as Part of Remuneration

The Option Plan

The General Conditions of the Option Plan are set out in the "Summary of Terms of the Option Plan" which was included in the Explanatory Memorandum for the EGM of 25 February 2010. A copy can be obtained from the Company.

This Option Plan was last approved by the Shareholders at the EGM on 25 February 2010 and allowed the number of options on-issue up to, but not exceeding 6,500,000. There are currently 5,941,333 options on-issue – of which 4,879,000 relate to eligible persons currently engaged with the Company.

On 25 February 2010 the Option Plan was amended, so that options issued under the Option Plan lapsed upon the termination of a person's engagement with the Company – save for a short period of time in which all options may be exercised. Currently 1,062,333 Options remain issued to former employees, who received options before that amendment.

Types of Options Issued

The Company has issued six types of options, each having a different purpose and specific vesting conditions.

Service Options

There are two classes of service options

(i) *Non-executive Director Service Options*

Prior approval of shareholders is required before any options can be issued.

(ii) *Staff Service Options*

These have been issued to the CEO, executives, managers and staff. These options vest quarterly-in-arrears over the specified period of employment or service.

Performance Options

Such options are only issued to senior management. The options vest when the individual is judged as having satisfied performance criteria over the specified performance period, usually a calendar year. During the year ended 30 June 2010 there were 950,000 such options were issued in respect to the calendar year commencing on 1 January 2010.

Performance options in respect to the calendar years 2011 and 2012 have been formulated, however have not been issued as at the date of this report. These will be reviewed and if appropriate issued in respect to each relevant calendar year.

Sign-on Options

Such options have been used in three cases, as part of the remuneration package, to attract staff to join the Company. Such options vest upon signing an employment agreement with Virax. No such options were issued in the period ended 30 June 2010 (2009 - Nil).

Contract Options<sup>(1)</sup>

Contract options have been issued on two occasions, as part or total payment for services rendered. Such options vest upon satisfactory completion of the service contract. No such options were issued in the period ended 30 June 2010 (2009 – Nil).

Contract Performance Options<sup>(1)</sup>

These options have been granted on one occasion to a non staff contractor as an incentive for the successful completion of services. Such options vest upon meeting the service performance hurdle. No such options were granted during the period ended 30 June 2010 (2009 – Nil).

(1) Such options are not part of remuneration; they are noted here for completeness of the explanation of options that may be issued under the plan.

The Exercise Pricing of Options

It has been the Board's philosophy in granting options that they are to be a prospective incentive for the recipient. Thus the exercise price, being the price the holder must pay to convert the option into the underlying Virax share, has always been greater than the price of Virax shares at the time of the grant or the time just prior to the commencement of the period to which the service or performance relates.

When setting the option exercise price the Directors choose a price above the then prevailing market price. Such prices have previously been in a range of 10% to 15% (and sometimes greater than 15%), above the then current share market price. Consideration has also been given to such factors as the price paid by shareholders at the last raising, and the market price over an extended period - particularly if the market price had recently fallen.

The option exercise price the Directors choose for the pricing of options was determined in December 2009, at the same time as the 1 for 5 rights issue at 5 cents a share was initiated. On this basis, the Directors resolved that the following option exercise prices would be appropriate:

## Directors' Report Remuneration Report (continued)

Relevant Calendar Year	Option Exercise Price per Share	Relevant Current Share Price	Reference price of Capital Raise	Percentage above current share price/capital raising
2010	10 cents	5.4 cents	5 cents	85-100%
2011	15 cents	5.4 cents	5 cents	275-300%
2012	20 cents	5.4 cents	5 cents	370-400%

The Directors believe that the purpose of the Options is to allow the recipient to benefit in the future from his or her, and the Group's, future work.

As at 30 June 2010, the Company's share price closed at 6.7 cents.

As at the date of this report, the Company's share price is 2.9 cents and no options have been exercised.

### The Basis of Issue to Non-executive Directors

As referred to above, the prior approval of shareholders is required for the issue of options to a director.

In issuing options to Non-Executive Directors, the following five matters require agreement:

- the period of service for which cash fees are deferred or foregone;
- the ratio of the number of options to be issued for each dollar of fees deferred or foregone;
- the exercise price (determined as described above);
- the option expiry date; and
- the vesting conditions.

Prior to the issue of such options, shareholder approval at a general meeting is required.

During the financial period ended 30 June 2010 the following Options were issued to Directors:

Issued to:	Number of Options	Exercise Price	Expiry Date	Shareholder approval
Michael Humphris - Chairman	500,000	10 Cents per share	30-Jun-11	25-Feb-10
Ian Pyman - Non executive director	375,000	10 Cents per share	30-Jun-11	25-Feb-10
Albert Ting - Non Executive director	375,000	10 Cents per share	30-Jun-11	25-Feb-10
Michael Humphris - Chairman	500,000	15 Cents per share	30-Jun-12	25-Feb-10
Ian Pyman - Non executive director	375,000	15 Cents per share	30-Jun-12	25-Feb-10
Albert Ting - Non Executive director	375,000	15 Cents per share	30-Jun-12	25-Feb-10
Michael Humphris - Chairman	500,000	20 Cents per share	30-Jun-13	25-Feb-10
Ian Pyman - Non executive director	375,000	20 Cents per share	30-Jun-13	25-Feb-10
Albert Ting - Non Executive director	375,000	20 Cents per share	30-Jun-13	25-Feb-10

There were no Options issued to Directors during the financial period ended 30 June 2009.

### The Basis of Issue of Options to Executives, Managers and Staff

#### Service Options - Basis of Options Granted to the Executives, Managers and Staff

Service options are considered to be part of salary and they do conserve Company funds. They also provide an incentive by way of the potential for the individual to share in the value he or she helps create in the Company. Service options vest after each quarter of completed service. The quantum of options offered to an individual is determined by the CEO, and ratified by the Remunerations Committee, and is related to market remuneration levels and salary levels the Company wishes to pay.

#### Performance Options - Basis of Options Granted to the Executives and Managers

Performance options are considered an incentive and provide a quantitative recognition for an individual's performance. Such options are provided to executives and some managers who, because of their position, are considered to have the opportunity to influence directly or indirectly the performance of the Company. The assessment of performance is based on qualitative criteria related to the nature of the work and responsibility of the person, both on an individual basis and on a comparative basis with other persons.

Determination of the quantum of performance options granted to an individual is related to salary levels. The quantum is determined by the Remuneration Committee.

Options granted to the Executives, Managers and Staff

During the period ended 30 June 2010, the following Options were issued as a Longer Term Incentive as a retention and performance based incentive.

Relevant Calendar Year	Option Exercise Price per Share	Relevant Current Share Price	Reference price of Capital Raise	Percentage above current share price/capital raising
2010	10 cents	5.4 cents	5 cents	85-100%

Issued to:	Number of Options	Exercise Price	Expiry Date	Shareholder approval
Larry Ward - CEO	500,000	10 Cents per share	30-Jun-11	n/a
John Morrison - CFO	350,000	10 Cents per share	30-Jun-11	n/a
Other Staff	100,000	10 Cents per share	30-Jun-11	n/a

There were no options issued in the financial period ended 30 June 2009.

There were no options exercised in the financial period ended 30 June 2010 (2009 - Nil).

Sign-on Options - Basis of Options Granted

The provision of such options is used as an incentive for an individual to join the Company. Their use is determined by the then-prevailing market conditions, the circumstances of the individual and the Company's needs. Thus, the use and quantum of such options is determined on a case-by-case basis.

There were no sign-on options granted during the period ended 30 June 2010 (2009 - Nil).

There were no employee options exercised during the financial period ended 30 June 2010 (2009 – Nil).

The Use of Incentive Reward Shares as Part of Remuneration

The Share Plan

The general conditions of the Share Plan are set out in the "Summary of Terms of the Share Plan" which was included in the Explanatory Memorandum for the EGM of 25 February 2010. A copy can be obtained from the Company.

This Share Plan was approved by the Shareholders at the EGM on 25 February 2010.

The operation of the Share Plan is fundamentally similar to the Option Plan however it provides a broader capacity to reward employees – excluding any Executive Directors.

The difference in the Company's application of the Share Plan has been the determination of the basis upon which shares may be issued to persons, including the terms and conditions.

These include:

- the number and issue price of the Shares (quantum of the incentive reward);
- the performance criteria, including the period over which that performance is to be achieved;
- the eligible person.

The Shares are an incentive reward for employees upon the achievement of outcomes that enhance the value of the Company. Accordingly the entitlement criterion is based upon the achievement of a sustained share price for a period of 30 days.

During the financial period ended 30 June 2010, the following Share Incentive Reward Shares were offered under the Share Plan:

Issued to:	Number of Shares	Issue Price	Period of Availability	Entitlement Criteria - VWASP
Larry Ward - CEO	500,000	Nil	Calender 2010	10 Cents per share
John Morrison - CFO	350,000	Nil	Calender 2010	10 Cents per share
Other Staff	100,000	Nil	Calender 2010	10 Cents per share

To participate in the Incentive Reward Plan the person must be an Eligible Person (employee) at the time the entitlement criteria is satisfied.

The VWASP exceeding 10 cents per share over a period exceeding 30 consecutive trading days

**Valuation of Options/Incentive Reward Shares provided as part of Compensation**

The Corporations Act requires the determination of a "fair value", as at the date of grant, for options issued as remuneration. The valuation method for non-publicly traded options as set by the accounting standard AASB 2, which is prescribed in the Corporations Act 2001, requires the estimation of value using an option pricing model and six prescribed variables. The determination of those variables is required to be as at *grant date* (a defined term). The six variables are the exercise price, the expected life of the option, the then current share price of the underlying share and its expected volatility, expected dividends and the risk free interest rate for the life of the option.

AASB 2 suggests the use of one or other of the two models. One model – the Black-Scholes model was developed for valuing options related to short term publicly traded highly liquid US Government Bonds. The use of such methodology for the valuation of unlisted options of a small biotechnology company, where the characteristics of the market for its shares do not necessarily resemble the characteristics of the US Bond market, may be of questionable value. The other suggested method, the Binomial method, is believed to have similar issues.

The Directors are of the view that there is no more appropriate model or method that can determine a "fair value" of Virax unlisted options. Since the law prescribes that a valuation must be determined and suggests acceptable models, the Directors have chosen the use of the Black-Scholes model when required.

The following criteria was used in valuing the options and Incentive Reward Shares issued during the financial period ended 30 June 2010 (2009 – Nil).

Criteria	Grant Dates	Option Expiry		Shares	
		30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-11
Dividend yield	25-Feb-10	0%	0%	0%	0%
Historical and expected volatility	25-Feb-10	85%	85%	85%	85%
Risk free rate	25-Feb-10	4.30%	4.60%	4.80%	4.30%
Expected life of options	25-Feb-10	1.5 years	2.5 years	3.5 years	1.0 year
Share price (cents)	25-Feb-10	11.99	11.99	11.99	11.99

The Directors believe that the options issued/shares available to staff do have value, but recognise the problem of ascribing a value in dollar terms as at the date of grant. The options certainly have the potential for value in the future. While there are uncertainties of attaining that future value, because of the nature and characteristics of Virax being a biotechnology development company, these same characteristics can attract persons to work in this type of company.

The Company has in place a policy prohibiting directors and employees from using derivatives or other similar mechanisms to limit the economic risk of participating in entitlements held under any equity based remuneration schemes. Any trading of Virax shares must be in accordance with the Virax Share Trading Policy.

**The Payment of Bonuses to Executives, Managers and Staff**

The payment of bonuses to executives, managers or staff is on an ad-hoc basis and, as such, is related to specific exceptional performance of an individual or a group of persons. In the case of persons, other than the CEO, the consideration of the payment of bonuses is the prerogative of the CEO. The CEO's recommendation is considered by the Remuneration Committee and, if it sees fit, it either ratifies the award or recommends modifications.

In the case of the CEO, consideration of the payment of a bonus is the prerogative of the Chairman. The Chairman's recommendation is considered by the Remuneration Committee and, if it sees fit, the Committee either ratifies the recommendation or recommends modifications.

There were no bonuses paid or accrued for during the period ended 30 June 2010 (2009 – Nil).

**Bonus Agreements**

**CEO and CFO**

The Board has recognised the importance of retaining Dr. L Ward and Mr J Morrison at this stage of the Company's development and providing remuneration orientated on performance.

The recent history of the Company, its share price movements and the principles noted above in respect to unlisted options has necessitated the Remuneration Committee/Board to implement alternate performance based incentives. Accordingly in the financial period ended 30 June 2008, the Remuneration Committee and the Board approved a bonus available to Dr. Ward and Mr Morrison of

\$200,000 each in the event that the Company completes a corporate transaction, as approved by the Board. These bonuses (modified) are available in circumstances where their engagement with the company terminates. In both cases, the bonus must be taken in ordinary shares if the payment would unduly create pressure on the Company's liquidity.

**Directors**

The Board resolved in December 2009, (subject to shareholder approval which was obtained on 25 February 2010) to the issue of options.

The issue of these Options were in recognition of:

- The amendment to obligation for the cash payment of their director remuneration without interest;
- The termination of arrangements from previous years in the event of the completion of a corporate transaction;
- The reward for the risk undertaken in the issue of securities in lieu of the payment of cash;
- To better align the interest of the Directors' with the interest of shareholders.

**Deferred Remuneration**

**Directors**

From 1 February 2009 the Directors agreed to defer the payment of directors' fees until 30 June 2009 or the receipt of a Transgene milestone payment. This deferral was extended beyond 30 June 2009. As at 23 December 2009, the Directors resolved, that subject to shareholder approval, the deferred Directors' remuneration of \$184,845 to 31 December 2009 would be satisfied by the issue of 3,696,918 fully paid ordinary shares at 5 cents per share.

From 1 January 2010 the Directors (including Mr Cooper from the date of his appointment) agreed to defer the payment of Directors' fees for the period to 30 June 2010. It is proposed, subject to the required shareholder approval to be sought at the Company's Annual General Meeting, that this deferred Directors' remuneration of \$120,808 be satisfied by the issue of fully paid ordinary shares.

## Directors' Report Remuneration Report

### Specific Details related to Remuneration of Key Management Personnel Compensation Received by Directors<sup>A</sup> & Key Management Personnel for the Financial Year ended 30 June 2010

	Short-Term				Post-Employment	Sub Total	Share Based Payments <sup>B</sup>			Total	Total Performance Related		
	Salary & Fees Paid	Salary / Fees Deferred	Cash Bonus Amount	Leave Entitlement			Other	Superannuation	Accounting Premium Deferred (Note 1)			Options	Shares
<b>30-Jun-10</b>													
M. Humphris	Nil	75,000	Nil	Nil	Nil	6,750	81,750	104,881	35,521	Nil	222,152	N/A	
J. Pymman	Nil	55,000	Nil	Nil	Nil	4,950	59,950	76,913	26,640	Nil	163,503	N/A	
A. Ting	Nil	55,000	Nil	Nil	Nil	4,950	59,950	76,913	26,640	Nil	163,503	N/A	
T Cooper	Nil	18,333	Nil	Nil	Nil	1,650	19,983	Nil	Nil	Nil	19,983	N/A	
Directors Sub total	Nil	203,333	Nil	Nil	Nil	18,300	221,633	258,707	88,807	Nil	569,141		
L. Ward	222,477	Nil	Nil	18,459	Nil	16,927	257,863	Nil	22,500	29,670	310,033	16.83%	
J. Morrison	190,737	Nil	Nil	Nil	Nil	Nil	190,737	Nil	16,450	20,769	227,956	16.33%	
Executive sub-total	\$413,214	Nil	Nil	\$18,459	Nil	\$16,927	\$448,600	Nil	\$38,950	\$50,439	\$537,989		
	\$413,214	\$203,333	Nil	\$18,459	Nil	\$35,227	\$670,233	\$258,707	\$127,751	\$50,439	\$1,107,130		
<b>30-Jun-09</b>													
M. Humphris	43,750	31,250	Nil	Nil	Nil	6,750	81,750	Nil	Nil	Nil	81,750	N/A	
J. Pymman	32,083	22,917	Nil	Nil	Nil	4,950	59,950	Nil	Nil	Nil	59,950	N/A	
A. Ting	32,083	22,917	Nil	Nil	Nil	4,950	59,950	Nil	Nil	Nil	59,950	N/A	
Directors Sub total	107,916	77,084	Nil	Nil	Nil	16,650	201,650	Nil	Nil	Nil	201,650		
L. Ward	168,482	19,591	Nil	10,967	Nil	16,927	215,967	Nil	Nil	Nil	215,967	N/A	
J. Morrison	150,105	18,876	Nil	Nil	Nil	Nil	168,981	Nil	Nil	Nil	168,981	N/A	
Executive sub-total	\$318,587	\$38,467	Nil	\$10,967	Nil	\$16,927	\$384,948	Nil	Nil	Nil	\$384,948		
	\$426,503	\$115,551	Nil	\$10,967	Nil	\$33,577	\$586,598	Nil	Nil	Nil	\$586,598		

## Directors' Report Remuneration Report (continued)

### Note 1

#### Accounting for the Deferred Director Remuneration

The Deferred Director remuneration Premium arising because of the application of the Accounting Standard.

This requires the recognition of the value of the shares issued to directors to extinguish the deferred remuneration obligation on the date those shares were issued.

The share price on that date was 11.9 cents per share.

The shareholders on 25 February 2010 approved the issue of shares to the Directors at a price of 5 cents per share.

The deferred remuneration that was settled by the issue of shares related to the period from 1 February 2009 to 31 December 2009.

This covered the financial years ended 30 June 2009 and 30 June 2010.

The following table allocates the premium to each respective financial year.

	Amount Deferred	Equity Settled Premium	Total Amount Deferred by Financial Year	30-Jun-09	30-Jun-10	Equity Settled Premium by Financial Year	30-Jun-09	30-Jun-10	Total Amount and Premium by Financial Year
<b>Total</b>		<b>Total</b>	<b>30-Jun-09</b>	<b>30-Jun-10</b>	<b>30-Jun-09</b>	<b>30-Jun-10</b>	<b>30-Jun-09</b>	<b>30-Jun-10</b>	
M. Humphris	74,937	104,881	34,062	40,875	47,673	57,208	81,735	98,083	
I. Pyman	54,954	76,913	24,979	29,975	34,960	41,953	59,939	71,928	
A. Ting	54,954	76,913	24,979	29,975	34,960	41,953	59,939	71,928	
	<b>\$ 184,845</b>	<b>\$ 258,707</b>	<b>\$ 84,020</b>	<b>\$ 100,825</b>	<b>\$ 117,593</b>	<b>\$ 141,114</b>	<b>\$ 201,613</b>	<b>\$ 241,939</b>	

#### General Notes:

- A. Payments made either directly to the Director or to an entity in which the individual has a beneficial interest.
- B. The following share based payments made during the year (2009: \$Nil)
- i. The issue to Directors of the following tranches of options – as approved by shareholders on 25 February 2010:
    - a. 1,250,000 options with an exercise price of 10 cents per share in respect to calendar year 2010 with an expiry date of 30 June 2011. The Director must be a director of the company at the vesting date and the exercise date – save for a 90 days exercise option upon termination in accordance with the Option Plan;
    - b. 1,250,000 options with an exercise price of 15 cents per share in respect to calendar year 2011 with an expiry date of 30 June 2012. The Director must be a director of the company at the vesting date and the exercise date – save for a 90 days exercise option upon termination in accordance with the Option Plan;
    - c. 1,250,000 options with an exercise price of 20 cents per share in respect to calendar year 2012 with an expiry date of 30 June 2013. The Director must be a director of the company at the vesting date and the exercise date – save for a 90 days exercise option upon termination in accordance with the Option Plan.
  - ii. The issue to staff of the following Longer Term Incentives:
    - a. 850,000 options with an exercise price of 10 cents per share in respect to calendar year 2010 with an expiry date of 30 June 2011. The Eligible Persons must be engaged with the company at the vesting date and the exercise date – save for a 90 days exercise option upon termination in accordance with the Option Plan;
    - b. A right to be awarded 850,000 free of cost in the event the Company's VWASP exceeds 10 cents for a period of 30 consecutive days during the calendar year 2010. The Person must be engaged with the company at the date of satisfaction of the performance conditions.

**Remuneration – Unlisted Options: Changes during the year**

The following table shows changes between 1 July 2009 and 30 June 2010 (and comparative changes between 1 July 2008 and 30 June 2009) to unlisted options granted as part of remuneration (Remuneration Options) by Virax Holdings Limited. Each such option carries the right to acquire unissued Virax Holdings Limited ordinary shares. Such options:

- do not entitle the holder to dividends or to attend or vote at meetings of the Company; and
- do not entitle the holder to participate in the new issue of Shares, options or other securities, without first exercising the Options.

**Unlisted Options: Changes during the year**

30-Jun-10	Balance at Beginning of Period		1 Jul 2009 to 30 Jun 2010				Balance at End of Period	
	1-Jul-09		Granted as Remuneration	Options Vested	Options Exercised	Net Change Other <sup>1 &amp; 2</sup>	30-Jun-10	
	Vested	Unvested					Vested	Unvested
<b>Directors</b>								
M Humphris	Nil	Nil	1,500,000	Nil	Nil	Nil	500,000	1,000,000
Ian Pyman	Nil	Nil	1,125,000	Nil	Nil	Nil	375,000	750,000
A Ting	Nil	Nil	1,125,000	Nil	Nil	Nil	375,000	750,000
T Cooper	Nil	Nil	Nil	Nil	Nil	1,500,000	1,500,000	Nil
<b>Executives</b>								
L. Ward	256,500	Nil	500,000	Nil	Nil	(103,500)	653,000	Nil
J Morrison	Nil	Nil	350,000	Nil	Nil	Nil	350,000	Nil
<b>Total</b>	256,500	Nil	4,600,000	Nil	Nil	1,396,500	3,753,000	2,500,000

30-Jun-09	Balance at Beginning of Period		1 Jul 2008 to 30 Jun 2009				Balance at End of Period	
	1-Jul-08		Granted as Remuneration	Options Vested	Options Exercised	Net Change Other <sup>1</sup>	30-Jun-09	
	Vested	Unvested					Vested	Vested
<b>Executives</b>								
L. Ward	391,500	Nil	Nil	Nil	Nil	(135,000)	256,500	Nil
<b>Total</b>	391,500	Nil	Nil	Nil	Nil	(135,000)	256,500	Nil

There were no unlisted options issued during the financial year ended 30 June 2009.

**Shares issued on exercise of Remuneration Options**

There were no shares issued during the financial year as a result of the exercise of Remuneration Options (2009 Nil).

During the financial year there were 1,472,500 remuneration options that lapsed of which 103,500 were in respect to current Executives (2009: 539,250/135,000).

**Other**

The Directors' have agreed to Longer Term Incentives for Dr. L. Ward and Mr. J. Morrison in respect to the calendar years 2011 and 2012. These arrangements have not been finalised as at 30 June 2010. Finalisation of these arrangements will be subject to a resolution of the Board, compliance with the Company Share and Option Plans and their continued engagement with the Company. The terms of the arrangements are generally consistent with the options issued to Directors – as approved by shareholders on 25 February 2010.

<sup>1</sup> Options issued to L. Ward lapsed during the period

<sup>2</sup> Unlisted options issued to a company related to T. Cooper prior to him becoming a director.

**Employment Contract Termination Details**

The two executives have the following major contractual terms:

<b>Name</b>	<b>Position</b>	<b>Contract Termination Date</b>	<b>Notice Period</b>	<b>Non Statutory Contract Termination Payments</b>	<b>Termination Payment</b>
J Morrison	Chief Financial Officer	On going	9 Months	Notice Period	\$150,000
L Ward	Chief Executive Officer	On going	9 Months	Notice period	\$150,000

Should these executives' termination be attributable to the completion of a Corporate transaction similar to a takeover or merger whereupon their services are no longer required, then a further termination payment of \$50,000 each will be payable. (2009: Since 16 January 2008 a bonus is available to Dr. Ward and Mr Morrison of \$200,000 each, in the event that the Company completes a corporate transaction. Such bonus shall be required to be taken in ordinary shares in the circumstance that such a payment would unduly create pressure on the Company's liquidity.)

## **CORPORATE GOVERNANCE REPORT**

### **ASX CORPORATE GOVERNANCE PRINCIPLES AN EXPLANATION OF VIRAX PRACTICE**

#### **Introduction**

Reporting requirements as to Corporate Governance are set by the Corporations Act 2001 and the Australian Securities Exchange. This section is part of the Directors' Report and consists of an explanation of:

- the reporting of corporate governance principles recommended by the ASX for all Australian listed companies
- the common reasons for Virax not having fully adopted certain corporate governance principles
- the 8 Corporate Governance Principles and "If Not, Why Not" explanation of Virax's practices

#### **The Statement of Corporate Governance Principles required by the ASX of All Australian Listed Companies**

The ASX Corporate Governance Council established *Principles of Good Corporate Governance and Best Practice Recommendations* (Corporate Governance Principles) and the Australian Securities Exchange (ASX) and the Australian Securities and Investment Commission (ASIC) require listed companies to report on their adherence to the Corporate Governance Principles. The Council recognises that companies vary in size, complexity and operations and so allowed flexibility in the way a company adopted its corporate governance structure. However, they also require accountability. This they believe is achieved by mandating that a board explain to investors if a company adopts an alternative approach to that deemed "Best Practice". This they have called the "if not, why not" obligation.

The Board is aware of the benefits of good corporate governance but also recognises that on occasions the adoption of what has been prescribed, as "Best Practice" is impractical and potentially detrimental for Virax. On the Virax website ([www.virax.com.au](http://www.virax.com.au)) there is information regarding the corporate governance principles the Company has adopted. As required, this Annual Financial Report 2010 provides reasons for such variation from the ASX Corporate Governance Principles.

The 8 Corporate Governance Principles and "If Not, Why Not" Explanation are contained in this Section.

In addition to specific reasons for adoption of alternative practices there are common reasons for non-adoption. In this *Explanation of Virax Practice* each of the Corporate Governance Principles is addressed. Where the explanation refers to a common reason(s) for non-adoption of the particular principle, such reference will be to the Common Reasons for Non-adoption of the Corporate Governance Principles set out below.

#### **Common Reasons for Non- adoption of Certain Corporate Governance Principles**

There are a number of reasons common to most, if not all, principles as to why Virax has been unable to adopt all the Corporate Governance Principles.

These reasons are:

- Limitation of resources
- The application of Corporate Governance Principles which require processes inappropriate to small organisations
- Development in Virax of an appropriate culture based on ethical standards and systems rather than the adoption of arbitrary standards and "processes"
- The risk associated with the Board's adoption of "Appropriate Standards" and not "Best Practice Standards"

#### **Limitation of Resources**

Small biotechnology companies in Australia have limited access to capital. Concomitant with capital constraint is the limitation of the human resources that can be attracted and afforded. The time and knowledge required to implement, manage and run corporate governance systems is not limited to the direct cost but also includes the opportunity cost of resources being expended. Virax, as a biotechnology development company is so constrained. Inherent in a development biotechnology company is the risk arising from limited corporate governance systems. But such risk is one of many that shareholders accept when choosing to invest in a speculative stock.

#### **Application of Appropriate Standards & Systems and Avoidance of Inappropriate Standards & Processes**

In small organisations because of limited numbers of people the resultant short lines of communications may obviate the need for much paper work. Even where it can be argued that additional paperwork would be ideal there may be a negative return on the expenditure if the scarce capital and time is committed. Those human resources that can be afforded have to be deployed so as to

execute the Company's strategic and operational plans. Such execution is endangered if resources are diverted to an inappropriate degree to processes that merely allow the adherence to "Best Practice" as promulgated by the ASX Corporate Governance Council without a view to wealth creation and commercial reality.

The prescription of "Best Practice" is unfortunate since it has the unintended implication that any practice however appropriate to the circumstances of a Company, but at variance to that prescribed, is less than adequate.

### **Development of a Culture and Ethical Standards**

The Board takes legal and ethical standards seriously. The standards set and practiced by the Board create and affect the Company's culture. However, it also recognises that in a business environment there are acceptable ranges of practices of legal and ethical standards and policies. A company may adopt different practices within those ranges for different situations and still be well within that acceptable range. Equally, the point at which the Company may set a standard can still be within that acceptable range but not necessarily be "Best Practice".

### **The Risk Associated with the Board's Adoption of "Appropriate Standards" and not "Best Practice Standards"**

It is the Directors' responsibility to assess and approve the allocation of resources. In exercising that responsibility the Board has chosen to limit the money and resources that might have been allocated to meeting some Corporate Governance Principles that, in the judgement of the Board, have limited or no commercial utility in adding value to the Company.

Notwithstanding this evaluation of utility, a dilemma for the Directors has been, and will continue to be, to decide, in individual cases, the standards they judge appropriate for the commercial business and what is in the interests of shareholders. The risk in not adopting "Best Practice Corporate Governance Principles" is that, in this age of "check-list" judgement, the Company may be judged on a superficial basis and "marked down" by analysts, advisors or shareholders themselves. The Directors have assessed this matter in respect of the Corporate Governance Principles and decided that in certain cases the risk is to be accepted rather than waste resources inappropriately. These matters will be periodically reviewed as the Company and the business environment change over time.

### **The 8 Corporate Governance Principles and "If Not, Why Not" Explanation**

The essential corporate governance principles as set out in the Corporate Governance Principles are shown in bold. Comment is added to further explain detail requirements under the Principle or the particular issue of non compliance by the Company. Where the Company does not comply with the detailed recommendation under the Principle there is an explanation as to why, under the heading of "Explanation".

#### **Principle 1 Lay solid foundation for management and oversight**

The Principle requires that the Company should establish and disclose the respective roles and responsibilities of board and management.

*Comment:* The Board Charter and the responsibilities of the Board Committees are published on the Company's website [www.virax.com.au](http://www.virax.com.au). The Board Charter also includes the roles of management.

#### **Principle 2 Structure the board to add value**

The Principle requires that the Company should have a board of effective composition, size and commitment to adequately discharge its responsibilities and duties.

*Comment:* A majority of the Board should be independent Directors. The Principle contains a definition of "independent".

Virax does have a majority of "independent" Directors.

*Explanation:* The current Board consists of three non-executive Directors.

The ASX Corporate Governance Principles defines "Independent" Director. Accordingly:

- Mr. M Humphris is deemed "Independent".
- Mr. I Pyman is deemed "Independent".
- Dr A Ting is deemed "Independent".
- Mr T Cooper is not deemed "Independent" due to his indirect shareholdings of voting share capital. Mr Cooper, together with the other members of the Board considers Mr Cooper able to exercise independent judgement.

#### **Principle 3 Promote ethical and responsible decision-making**

The Principle requires that the Company actively promote ethical and responsible decision-making.

*Comment:* The Company's code of conduct and ethical standards are published on the Company's website.

**Principle 4      Safeguard integrity in financial reporting**

The Principle requires that a structure of review and authorisation designed to ensure the truthful and factual presentation of the Company's financial position.

- the Board establish an audit committee appropriately structured in a particular way and with a formal charter published on the Company's website

*Comment:* The Board Audit Committee has a formal charter with the primary responsibilities of the Committee under that Charter published on the Company's website.

The Audit Committee has an independent Chairman and has three members. Prior to July 2010, because of the structure and small size of the Board, the Audit Committee only had two members.

The CEO/CFO representation is a Corporations Law Sec 295A requirement with which the Company complies.

*Explanation:* The reasons why the Audit Committee does not have at least three members. As at the date of this report the Board consists of three members.

In accordance with the Corporate Governance Principles, the Chairman and the CEO of Virax Holdings Limited are not members of the Audit Committee. The Board believes that this is good practice.

Previously, having regard to the size and nature of the Company the Board believed that two members were sufficient. Since there were only two board members and only one was "Independent", arithmetically, a majority is not "Independent".

If it is necessary to hold an Audit Committee meeting when a member is unavailable then an adviser to the Committee is engaged. That person is required to be appropriately qualified and meet the definition of "Independent" referred to above.

The Board believes that because of the size and nature of the Virax business the selection of the Auditor does not warrant the development of a Policy. To date, in the Board's judgement, the service provided by Ernst & Young has been to the benefit of the Company, shareholders and management. The matter is reviewed, from time to time, to determine whether a change of auditor might be appropriate.

**Principle 5      Make timely and balanced disclosure**

The Principle requires that the Company promote timely and balanced disclosure of all material matters concerning the Company.

*Comment:* Written policies and procedures regarding the accountability at senior level are published on the Company's website.

**Principle 6      Respect the rights of shareholders**

The Principle requires that the Company respect the rights of shareholders and facilitate the effective exercise of those rights.

*Comment:* Written policies and procedures regarding shareholder communications are published on the Company's website.

**Principle 7      Recognise and manage risk**

The Principle requires that the Company establish a sound system of risk oversight and management and internal control.

*Comment:* A statement of the Company's Risk Profile is published on the Company's website. The Principles require the adoption of a comprehensive risk management system and an explanation of the system adopted if it is not based on an Australian Standard or like standard.

*Explanation:* The Directors believe that they and management have an understanding of risks associated with the inherent nature of a biotechnology development company, such as Virax. They also recognise that investors are aware of the nature of, and the inherent risks associated with, such a company

As required by the Corporate Governance Principles, particularly in respect of a description of the Company's risk management policy and internal compliance procedure, the Board has been required to limit the Risk Management system to one which is appropriate for the nature, size and human and monetary resources of the Company.

Management, with the guidance of an expert external consultant, undertook an assessment of certain strategic and operational risks in December 2003 and in June 2004. A further review was undertaken by management in 2005. The result of that work demonstrated that, even after possible mitigation action was taken into account, a number of risks rated as "High". This is normal for an early stage development company and particularly so for Virax because of the area of drug development in which it operates – the live viral vector sector of the field of immune based therapies. The ability of the Board or management to take comprehensive mitigation action on such a number of items is currently beyond the Company's resources.

The Board observes that risk management is a matter of importance to it and it is conscious of it but the application of "Best Practice" standards as required by the Principles is, in the Board's opinion, inappropriate and unaffordable.

The Board supports management in its efforts to inculcate a culture that is aware of risk management on a day-to-day basis. This rests on the principles of:

- Encouraging the maintenance of high ethical standards.
- Making staff aware of the Company's attitude to risk and in particular levels of risk that are accepted for various activities.
- Understanding risks and rewards.
- Educating staff to consider and monitor the risks inherent in their day-to-day activities.
- Building confidence in the staff as to management's need to know and thus encourage reporting potential dangers, failures or changes in risk levels at the earliest opportunity.

The Board believes that the development of the culture is and the reviews undertaken are appropriate for a company such as Virax. The above activities have continued during the current financial year.

The CEO/CFO representation is a Corporations Law Sec 295A requirement with which the Company complies.

**Principle 8 Remunerate fairly and responsibly**

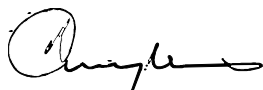
The Principle requires that:

- the Board establish a Remuneration Committee
- the non-executive Directors remuneration be clearly distinguished from that of executives
- the Company disclose the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined and explained to investors

*Comment:* Information regarding these matters is published on the Company's website.

Details of remuneration are prescribed by the Corporations Act 2001 and by the Australian Accounting Standards. Remuneration is reported in the Remuneration Section of this Directors' Report. There are no schemes for retirement benefits for non-executive Directors other than statutory superannuation contributions.

This Directors' Report is signed in accordance with a resolution of the Directors.



**M. Humphris**  
**Chairman**  
**Melbourne: 29 September 2010**

## ADDITIONAL SHAREHOLDER INFORMATION

This is an attachment to, and forms part of, the Directors' Report

### A. SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as per notices received pursuant to Section 671B of the Corporations Act 2001, as at **20 September 2010**, are listed below.

	No. of Shares
Dr. Keong Lim	10,749,240
Mr. Tim Cooper	11,221,106

### B. DISTRIBUTION OF EQUITY SECURITIES

There is no current on-market buy back.

#### i) Distribution of holdings:

Data as at the close of business **20 September 2010**

Number of Securities per Parcel	Shares - Fully Paid		Convertible Notes	
	VHL		VHLG	
	No. Holders	No. Shares	No. Holders	No. Convertible Notes
1-1,000 - 1,000	573	332,484	68	30,748
1,001 - 5,000	849	2,384,088	93	283,893
5,001 - 10,000	440	3,554,683	30	210,770
10,001 - 100,000	913	33,888,832	44	1,412,202
100,001 and over	297	135,295,928	7	5,952,614
<b>Total</b>	<b>3,072</b>	<b>175,456,015</b>	<b>242</b>	<b>7,890,227</b>

#### ii) Ordinary Shares

There were 2,139 holders of less than a marketable parcel (being 19,231 shares) of fully paid ordinary shares. Such holders, in aggregate, held 10,224,054 shares.

**Directors' Report Attachment**  
**Additional Shareholder Information (continued)**

**C. STATEMENT OF HOLDINGS OF COMPANY SECURITIES**

The names of the 20 largest holders of each class of the listed equity securities as at **20 September 2010** are listed below:

**i) VHL - Fully paid ordinary shares**

Name	Number of Shares	Percentage of Total Class
1 UNAAVAL NOMINEES PTY LTD <UNAAVAL RETIREMENT FUND A/C>	11,221,106	6.40
2 SIEW CHIE LIM	5,637,840	3.21
3 DR ALBERT TING	4,900,651	2.79
4 SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	3,950,338	2.25
5 KEONG LIM PTY LIMITED <SK LIM FAMILY A/C>	3,776,400	2.15
6 BRICOL HOLDINGS PTY LTD	3,500,000	1.99
7 WRENSAND PTY LTD	3,333,334	1.90
8 MRS MARGARET LYNDSEY CATTERMOLE	2,653,448	1.51
9 MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,151,250	1.23
10 HENLEAZE INVESTMENTS PTY LTD	2,078,781	1.18
11 MR ALLEN JOHN TAPP + MS MARIA POLYMENEAS <SUPER ACCOUNT>	2,000,000	1.14
12 EQUITECH CORPORATION PTY LTD <EQUITECH SUPER FUND A/C>	1,969,000	1.12
13 MR MICHAEL HUMPHRIS	1,893,181	1.08
14 MR DAVID WILLIAM ALLEN	1,800,000	1.03
15 MR KWI YONG TAN	1,761,555	1.00
16 DOUG PERRY (INSURANCES) NOMINEES PTY LIMITED <D C & M E PERRY FAMILY A/C>	1,608,168	0.92
17 MR BRUCE WARREN CLARK	1,442,118	0.82
18 UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	1,388,763	0.79
19 KEONG LIM PTY LIMITED <SK LIM SUPERFUND A/C>	1,335,000	0.76
20 MR MARTIN JAMES REED <EAST SYDNEY UNIT A/C>	1,290,346	0.74
<b>Top 20 Largest Shareholders</b>	59,691,279	34.01
<b>Total Issued Ordinary Shares</b>	175,456,015	100

**D. STATEMENT OF HOLDINGS OF COMPANY SECURITIES (cont.)**

The names of the 20 largest holders of each class of the listed equity securities as at **20 September 2010** are listed below:

**iii) Convertible Notes – Maturity 31 December 2011**

Name	Number of Convertible Notes	Percentage of Total Class
1 KEONG LIM PTY LIMITED <SK LIM FAMILY A/C>	2,120,000	26.87
2 YANCROFT PTY LTD	1,908,000	24.18
3 MRS MARGARET LYNDSEY CATTERMOLE	552,802	7.01
4 KEONG LIM PTY LIMITED <SK LIM SUPERFUND A/C>	530,000	6.72
5 MR ROBERT ARCHIE CAMERON	413,164	5.24
6 UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	322,825	4.09
7 TRAYBLOW PTY LTD	105,823	1.34
8 MR PETER JEFFREY REED <P J REED SUPER FUND ACCOUNT>	100,000	1.27
9 MR JULIUS MARCUS OPIT + MRS JUDY MARGARET OPIT <THE TWO JAYS SUPER ACCOUNT>	78,438	0.99
10 MOPERRY PTY LTD <RETIREMENT FUND A/C>	70,000	0.89
11 HOLINDA IRA NOMINEES PTY LTD <R MONRO P/L SUPER FUND A/C>	69,625	0.88
12 MR PASQUALE LA VISTA + MRS ANNA FELICE LA VISTA <LA VISTA SUPER FUND A/C>	61,816	0.78
13 GRANIC PTY LTD <JOHN FIELDING SUPERFUND A/C>	55,626	0.70
14 BERONARA PTY LTD <LDB SUPERANNUATION FUND A/C>	50,000	0.63
15 MR QUENTIN K T CHEUNG	50,000	0.63
16 KHAEMET PTY LTD <SUPER FUND A/C>	50,000	0.63
17 HAIL (VIC) PTY LTD	42,969	0.54
18 MARLACEE PTY LTD <MARLACEE S/F A/C>	41,657	0.53
19 MR JOHN SHILLINGFORD LOVERIDGE	39,759	0.50
20 MR RICHARD COBDEN	37,500	0.48
<b>Top 20 Largest Convertible Noteholders</b>	6,700,004	84.90
<b>Total Issued Convertible Notes</b>	13,631,662	100

The terms of issue of the Convertible Notes is governed by the Trust Deed of 19 December 2007 and the Supplemental Trust Deed of 3 December 2009 and are summarised as:

- No interest is payable on the Notes;
- The Notes are unsecured;
- Conversion of 1 Note into 2 ordinary shares;
- Conversion period – until 31 December 2011;
- Notes on issue at 5.00pm on 31 December 2011 will be redeemed at a 40% premium to their face value (14 cents per note);
- Noteholders have no right to vote at general meetings of the Company.

The Trustee for the Convertible Notes is Australian Executor Trustees Limited ACN 007 869 794 – Level 22, 207 Kent Street, Sydney

**Directors' Report Attachment**  
**Additional Shareholder Information (continued)**

**iv) Unlisted Options**

The following unlisted options, outstanding, as at 30 June 2010

	Categories	No of Holders	Number of Options	Percentage of Class of Options
Former Employees and Advisors	5,000–100,000	7	262,333	2.03%
Other persons – shortfall placement	5,000–100,000	2	100,000	0.77%
Directors, Employees & Advisors	100,001–1,000,000	3	1,129,000	8.72%
Former Employees and Advisors	100,001–1,000,000	3	800,000	6.18%
Other persons – shortfall placement	100,001–1,000,000	2	1,400,000	10.82%
Directors, Employees & Advisors	1,000,000 and over	3	3,750,000	28.98%
Other persons – shortfall placement	1,000,000 and over	3	5,500,000	42.50%
		23	12,941,333	100.00%

The exercise date and exercise price data in respect to the unlisted options is included in F Summary and Note 13 of the Financial Statements.

**D VOTING RIGHTS**

**Ordinary Shares**

In accordance with the Constitution and subject to any rights or restrictions for the time being attached to any class or classes of shares, every member present or by proxy or attorney, and in the case of a body corporate by a representative duly authorised in writing of that body corporate, shall:

- upon a show of hands have one vote, and
- upon a poll shall have one vote for each fully paid share held on a poll.

A partly paid share will confer a fraction of a vote in proportion to the proportion of the amount paid up on the share.

**E. ADDITIONAL INFORMATION**

**Company Secretary**

The name of the company secretary is Mr John Morrison.

**Registered Office**

The address of the registered office in Australia is Suite 220, 89 High Street, Kew Vic 3101.

Telephone (03) 9854 6230, Facsimile (03) 9853 5134, Email [virax@virax.com.au](mailto:virax@virax.com.au), Website [virax.com.au](http://virax.com.au).

**Securities Record**

Registers of listed securities are held at Computershare Registry Services Pty Ltd, 452 Johnson Street, Abbotsford, Vic 3067. Telephone 1300 137 328, Facsimile 1300 137 341.

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

**Stock Exchange Listing**

Quotation has been granted for all the fully paid Ordinary shares of the Company (ASX code VHL) and the Convertible Note maturity date 31 December 2011 (ASX Code VHLG) on the Australian Securities Exchange (Limited). No options are quoted.

**Directors' Report Attachment**  
**Additional Shareholder Information (continued)**

**F Summary of Securities Issued at 30 June 2010**

Shares	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
Ordinary Shares at 1 July 2009	130,602,316	130,602,316		
Changes during current period:				
Issued during the period	377,306	377,306	0.0583 cps	0.0583 cps
Issued during the period	29,851,851	29,851,851	0.05 cps	0.05 cps
Issued during the period	88,223	88,223	0.125 cps	0.125 cps
Issued during the period	151,692	151,692	0.0725 cps	0.0725 cps
Increases through issues conversions of Convertible Note	14,383,489	14,383,489	0.06 cps	0.06 cps
Increases through issues conversions of Options VHLOB Fully Paid	1,138	1,138	0.20 cps	0.20 cps
<b>Ordinary securities at 30 June 2010</b>	<b>175,456,015</b>	<b>175,456,015</b>		

Options	Approx Date Issued		No. Quoted	Exercise Price	Expiry date
<b>Quoted Options: ASX code: VHLOB</b>					
<b>Outstanding at 1 July 2009</b>		<b>13,474,664</b>	<b>13,474,664</b>		
Converted during the period		(1,138)	(1,138)	\$0.20	
Lapsed during the period		(13,473,526)	(13,473,526)	\$0.20	15-Dec-09
<b>Outstanding at 31 December 2009</b>		-	-	\$0.20	
<b>Unquoted Options</b>					
<b>Outstanding at 1 July 2009:</b>					
	Nov-04	250,000		\$0.50	31-Dec-09
	Nov-04	250,000		\$0.65	31-Dec-10
	Feb-05	422,500		\$0.65	31-Dec-09
	Nov-05	250,000		\$0.17	31-Dec-11
	Dec-05	641,333		\$0.17	31-Dec-11
	Jan-06	100,000		\$0.17	31-Dec-11
	Nov-06	800,000		\$0.25	31-Dec-09
	Dec-09	1,500,000		\$0.10	9-Dec-10
	Dec-09	500,000		\$0.10	16-Dec-10
	Dec-09	5,000,000		\$0.10	14-Dec-10
	Feb-10	1,250,000		\$0.10	30-Jun-11
	Feb-10	1,250,000		\$0.15	30-Jun-12
	Feb-10	1,250,000		\$0.20	30-Jun-13
	Feb-10	950,000		\$0.10	30-Jun-13
		<b>14,413,833</b>			
Lapsed during the period	Nov-04	(250,000)		\$0.50	31-Dec-09
	Feb-05	(422,500)		\$0.65	31-Dec-09
	Nov-06	(800,000)		\$0.25	31-Dec-09
		<b>(1,472,500)</b>			
		<b>12,941,333</b>	<b>12,941,333</b>		
<b>Total of All Options Extant at 30 June 2010</b>		<b>12,941,333</b>	<b>-</b>		

**Directors' Report Attachment**  
**Additional Shareholder Information (continued)**

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
Convertible Notes at 1 July 2009	13,672,928	13,672,928	10 cents	10 cents
Changes during current period:				
Converted during the period                      Dec-09	(5,660,523)	(5,660,523)		
Converted during the period                      Mar-10	(122,178)	(122,178)		
<b>Convertible Note at 30 June 2010</b>	<b>7,890,227</b>	<b>7,890,227</b>		

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**Statement of Financial Position**  
**As at 30 June 2010**

**VIRAX HOLDINGS LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2010**

	Notes	Consolidated	
		30 June 2010 \$	30 June 2009 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	1,383,680	1,070,630
Trade and other receivables	8	134,095	58,012
Other current assets		44,725	50,975
<b>Total current assets</b>		<b>1,562,500</b>	<b>1,179,617</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	5,067	2,057
<b>Total non-current assets</b>		<b>5,067</b>	<b>2,057</b>
<b>TOTAL ASSETS</b>		<b>1,567,567</b>	<b>1,181,674</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	319,438	224,934
Provisions	11	72,490	52,933
Convertible notes	12	-	1,508,285
<b>Total current liabilities</b>		<b>391,928</b>	<b>1,786,152</b>
<b>Non-current liabilities</b>			
Convertible notes	12	896,810	-
<b>Total non-current liabilities</b>		<b>896,810</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>1,288,738</b>	<b>1,786,152</b>
<b>NET (LIABILITIES)/ASSETS</b>		<b>278,829</b>	<b>(604,478)</b>
<b>EQUITY</b>			
Contributed equity	13	35,103,714	32,641,738
Contributed equity - convertible notes	13	95,752	78,527
Share based payments reserve		477,596	287,771
Accumulated losses		(35,398,233)	(33,612,514)
<b>TOTAL EQUITY</b>		<b>278,829</b>	<b>(604,478)</b>

This Statement of Financial Position to be read in conjunction with the attached notes.

## Statement of Comprehensive Income For the Year Ended 30 June 2010

### VIRAX HOLDINGS LIMITED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Consolidated	
		30 June 2010 \$	30 June 2009 \$
Interest		18,220	36,188
Other income	4(a)	411,135	600,133
<b>Total Income</b>		<b>429,355</b>	<b>636,321</b>
Research and development expenses		( 476,117 )	( 579,581 )
Business development		( 21,960 )	( 13,695 )
Corporate expenses		( 276,877 )	( 211,238 )
Administration expenses		( 207,905 )	( 261,605 )
Audit & tax services expenses	15	( 68,000 )	( 75,190 )
Directors fees		( 203,333 )	( 185,000 )
Finance costs – convertible notes		( 192,778 )	( 275,853 )
Employee share based expenses		( 189,828 )	-
Employee expenses - equity settled (deferred directors fee)		( 258,707 )	-
Insurance and legal expenses		( 165,698 )	( 210,803 )
Investor services expenses		( 117,439 )	( 57,685 )
Outside advisors & consultants expenses		( 111,495 )	( 106,772 )
Other expenses	4(b)	( 2,158 )	( 1,055 )
Depreciation expense	9	( 1,306 )	( 3,777 )
<b>Expenses</b>		<b>( 2,293,601 )</b>	<b>( 1,982,254 )</b>
<b>Loss before income tax expense</b>		<b>( 1,864,246 )</b>	<b>( 1,345,933 )</b>
Income tax expense	5	-	-
<b>Net loss for the year</b>		<b>( 1,864,246 )</b>	<b>( 1,345,933 )</b>
<b>Other comprehensive income</b>		-	-
<b>TOTAL COMPREHENSIVE INCOME attributable to members of Virax Holdings Limited</b>		<b>( 1,864,246 )</b>	<b>( 1,345,933 )</b>
<b>Earnings/(loss) per share (cents per share)</b>			
<b>Basic earnings (loss) per share</b>	6	(2010: (1.22) cents)	(2009: (1.20) cents)
<b>Diluted earnings (loss) per share</b>	6	(2010: (1.22) cents)	(2009: (1.20) cents)

This Statement of Comprehensive Income to be read in conjunction with the attached notes.

## Statement of Changes in Equity For the Year Ended 30 June 2010

### (a) Changes in equity for the year ended 30 June 2010

	Consolidated				
	Issued capital	Equity Component of Convertible Notes	Retained earnings (Accumulated losses)	Share based payments reserve	Total equity
	\$	\$	\$	\$	\$
<b>At 1 July 2009</b>	<b>32,641,738</b>	<b>78,527</b>	<b>( 33,612,514 )</b>	<b>287,771</b>	<b>( 604,478 )</b>
Loss for the period			( 1,864,246 )		( 1,864,246 )
Other comprehensive income			-		-
<b>Total comprehensive income for the year</b>	-	-	<b>( 1,864,246 )</b>	-	<b>( 1,864,246 )</b>
<b>Transactions with owners in their capacity as owners</b>					
Share issue	1,795,502			189,825	1,985,327
Exercise of listed options	23				23
Share issue costs	( 16,665 )				( 16,665 )
Conversion of Convertible Notes	683,116				683,116
Transfers		( 78,527 )	78,527		-
Convertible Notes		95,752			95,752
<b>At 30 June 2010</b>	<b>35,103,714</b>	<b>95,752</b>	<b>(35,398,233)</b>	<b>477,596</b>	<b>278,829</b>

### (b) Changes in equity for the year ended 30 June 2009

	Consolidated				
	Issued capital	Equity Component of Convertible Notes	Retained earnings/ (Accumulated losses)	Share based payments reserve	Total equity
	\$	\$	\$	\$	\$
<b>At 1 July 2008</b>	<b>31,973,335</b>	<b>78,527</b>	<b>( 32,266,581 )</b>	<b>287,771</b>	<b>73,052</b>
Loss for the period			( 1,345,933 )		( 1,345,933 )
Other comprehensive income			-		-
<b>Total comprehensive income for the year</b>	-	-	<b>( 1,345,933 )</b>	-	<b>( 1,345,933 )</b>
<b>Transactions with owners in their capacity as owners</b>					
Share issue	635,000				635,000
Exercise of listed options	1				1
Share issue costs	( 39,028 )				( 39,028 )
Conversion of Convertible Notes	72,430				72,430
<b>At 30 June 2009</b>	<b>32,641,738</b>	<b>78,527</b>	<b>(33,612,514)</b>	<b>287,771</b>	<b>(604,478)</b>

Share based payments reserve.

- the share based payments reserve recognises the value of share based payment provided to employee, including key management personnel, as part of remuneration. Refer note 20 for further details of the plan.

This Statement of Changes in Equity to be read in conjunction with the attached notes.

**Statement of Cash Flows**  
**For the Year Ended 30 June 2010**

		Consolidated	
		30 June	30 June
		2010	2009
Notes		\$	\$
<b>Cash flows from operating activities</b>			
	Payments to suppliers and employees	(1,293,532)	(1,822,720)
	Interest received	18,220	36,188
	Tax credit from R&D concession	96,450	203,583
	Other income	230,305	399,039
	<b>Net cash flows from/(used in)</b>		
	<b>operating activities</b>	<u>(948,557)</u>	<u>(1,183,910)</u>
14			
<b>Cash flows from investing activities</b>			
	(Purchase)/sale of plant and equipment	(4,316)	27,273
	<b>Net cash flows from/ (used in)</b>		
	<b>investing activities</b>	<u>(4,316)</u>	<u>27,273</u>
<b>Cash flows from financing activities</b>			
	Proceeds from issues of ordinary shares	1,307,973	620,000
	Issue costs on ordinary shares	(16,665)	(24,027)
	Convertible note refinancing cost	(25,385)	
	<b>Net cash flows from/(used in)</b>		
	<b>financing activities</b>	<u>1,265,923</u>	<u>595,973</u>
	<b>Net increase/(decrease) in cash held</b>	<b>313,050</b>	<b>(560,664)</b>
	Cash and cash equivalents at beginning of period	<u>1,070,630</u>	<u>1,631,294</u>
	<b>Cash and cash equivalents at end of period</b>	<u><u>1,383,680</u></u>	<u><u>1,070,630</u></u>

This Cash Flow Statement to be read in conjunction with the attached notes

## **1. CORPORATE INFORMATION**

The financial report of Virax Holdings Limited (the Company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 23 September 2010.

Virax Holdings Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of preparation**

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared in accordance with the historical cost convention.

The financial report is presented in Australian dollars, unless otherwise stated.

### **(a) Inherent Uncertainty – Going Concern**

This financial report has been prepared on a going concern basis, which takes account of the Company's assets and liabilities and assumes that future funding will be obtained from either:

- The receipt of milestone payments pursuant to the sub-licence agreement with Transgene; or
- further capital raising.

The Directors cannot be certain of the success or of the timing of the intended fund raising activities, including any Transgene sub-licence receipt.

However, the Directors currently plan to continue the Company's operations on the basis that the matters referred to above are in progress and believe that such activities will allow the availability of sufficient funds together with the existing assets, for the Company to operate for a period of not less than twelve months from the date of this report.

In the event that such arrangements are not entered into or concluded on a timely basis, there is significant uncertainty whether the Company and the consolidated entity will continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. In such circumstances the Company would assess the completion of a corporate transaction, restructuring transactions, or, if necessary, action to realise assets.

The financial statements take no account of the consequences, if any, of the effects of

- unsuccessful product development;
- commercialisation, or
- the inability of the Company to obtain adequate funding.

The financial report does not include:

- adjustments relating to the recoverability and classification of recorded asset amounts or
- the amounts and classification of liabilities that might be necessary

should the Company and consolidated entity not continue as going concerns.

### **(b) Compliance with IFRS**

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards board.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(c) Financial statement presentation**

The Group applied AASB 101 Presentation of Financial Statement which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence the group had to change the presentation of its financial statements. Comparative information has been represented so that it is also in conformity with the revised standard.

### **(d) New accounting standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2009.

- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations* effective 1 January 2009
- AASB 7 *Financial Instruments: Disclosures* effective 1 January 2009
- AASB 8 *Operating Segments* effective 1 January 2009
- AASB 123 *Borrowing Costs (revised 2007)* effective 1 January 2009
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* effective 1 January 2009
- AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* effective 1 January 2009
- AASB 2009-3 *Amendments to Australian Accounting Standards - Embedded Derivatives [AASB 139 and Interpretation 9]* effective 30 June 2009
- AASB 2009-6 *Amendments to Australian Accounting Standards* operative for periods beginning on or after 1 January 2009 that end on or after 30 June 2009

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

- (i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 (effective from 1 January 2009). AASB 8 introduces a 'management approach' to reporting on financial performance. This information will be based on what the key decision makers use internally from evaluating segment performance and deciding how to allocate resources to operating segments. The Group applied the AASB from 1 July 2009 with no material impact on the financial report.
- (ii) AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards* arising from AASB (effective from 1 January 2009). The September 2007 revised AASB101 introduces as a financial statement (formerly 'primary' statement) the 'statement of comprehensive income'. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. If an entity has made a prior period adjustment or reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one at the beginning of the comparative period. These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact upon the measurement and recognition of amounts disclosed in the financial report. The Group applied the AASB from 1 July 2009 with no material impact on the financial report.
- (iii) AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards* arising from AASB (effective from 1 January 2009) The revised AASB 123 has removed the option to expense borrowing costs and when adopted requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group did not capitalise any borrowing costs in the financial year.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (iv) AASB 2008-1 Amendments to the Australian Accounting Standards arising from AASB – Share Based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009). AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share based payment are not vesting conditions. It also specifies that all cancellations should receive the same accounting treatment. The Group applied the AASB from 1 July 2009 with no material impact on the financial report.
- (v) AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective from 1 July 2009)

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, the contingent payments classified as debt are subsequently remeasured through the income statement. There is a choice in an acquisition-by-acquisition basis to measure the non controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs must be expensed.

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions no longer result in goodwill or gains and losses. This standard also specifies the accounting when control is lost. Any remaining interest in the entity is measured at fair value, and a gain or loss is recognised in profit or loss. The Group applied the AASB from 1 July 2009 with no material impact on the financial report.

- (vi) AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2009) and AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 July 2009)

The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal plan results in loss of control. It is not anticipated that this amendment will apply the Group.

Certain new accounting standards and AASB Interpretations have been published that are not mandatory for 30 June 2010 reporting periods. When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

- (i) AASB 9 Financial Instruments and AASE 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and the measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group has not yet decided when to adopt AASB 9.

- (ii) AASB Interpretation 19 Extinguishing Financial Liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010).

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The interpretation is applicable from 1 July 2010 however it is to be retrospectively applied from the beginning of the earliest period presented (periods ended 30 June 2010). Accordingly the Group adopted the interpretation for the current financial period. This resulted in a charge to income statement of \$258,707 in respect to the deferred directors' remuneration extinguished by the issue of shareholder approved equity as 8 March 2010.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(e) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Virax Holdings Limited (The "Company") and its subsidiaries as at 30 June each year.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company and using consistent accounting policies.

In preparing the consolidated financial statements all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions, have been eliminated in full.

### **(f) Operating Segments**

The Group has adopted AASB 8 Operating Segments from 1 July 2009. The new standard requires a "management approach" under which segment information is presented on the same basis as that used for the internal reporting purposes, consistent with the internal reporting provided to the Board. The Group applied the AASB from 1 July 2009 with no material impact on the financial report.

### **(g) Business Combinations**

The purchase method of accounting is used for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of the exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange, unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of the equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

#### **Change of Accounting Policy**

A revised AASB 3 Business Combinations became operative on 1 July 2009. The revised standard continues to apply the acquisition method to business acquisitions but there have been some significant changes. Acquisition costs are now expensed as incurred, rather than included in the acquisition costs. All purchase consideration is now recorded at fair value at acquisition date.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(h) Revenue recognition**

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

#### *Interest*

Revenue is recognised as the interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *License fee, milestones and Royalties.*

Revenue is recognised in accordance with the terms of the license agreement. Milestone and royalty revenues are recognised when the amount is readily calculated based upon advice or announcements from the licensee.

#### *Rendering of services*

Revenue from performance contracts is recognised by reference to costs incurred and services provided. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *Research and Development Concessional Cash Receipts*

Receipts under the Federal Government's AusIndustry concessional R&D scheme are brought to account as income when received. Cash payment is received only when the eligible R&D expenditures in respect to a financial year are \$20,000, but whose grouped expenditure on R&D is not more than \$1 million per year, and who have an annual group turnover of less than \$5 million. The Federal Government amended these arrangements in the Federal Budget 2009. The maximum grouped expenditure has been increased to not more than \$2 million.

### **(i) Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

### **(j) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and on hand and short-term deposits which are highly liquid, readily convertible to known amounts of cash and which are subject to an insignificant risk of change of value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

### **(k) Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible debts.

An estimate for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written-off when identified.

### **(l) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; or
- when the taxable temporary differences are associated with investments in subsidiaries, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Deferred income tax assets are recognised for all deductible temporary differences, carried forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, in which case deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### *Tax consolidation legislation*

Virax Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

### **(m) Plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and any impairment in value.

Depreciation is provided on a straight-line basis over the estimated useful life of the asset. Plant and equipment is depreciated over 4 to 8 years of estimated useful life.

The carrying value of any plant or equipment is written off upon disposal or when it is recognised that there is no future economic benefit expected to arise from its use or disposal.

Any gain or loss arising from such event is calculated as the difference between the net disposal proceeds and the carrying amount of the item and such difference is included in the income statement for the period in which the event occurs.

### **(n) Investments**

In the Company's separate financial statement investment in subsidiaries are accounted for at cost less impairment.

### **(o) Intangible assets**

#### *Research and Development*

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an internal project will be recognised only when the Company or a subsidiary can demonstrate all of the following:

- technical feasibility of completing the intangible asset so that it will be available for use or sale,
- it intends to complete the asset and use or sell it,
- its ability to use or sell the asset,
- how the asset will generate future economic benefits,
- the availability of resources to complete the development and to use or sell the asset, and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Following the initial recognition of the development expenditure as an intangible asset, the asset is required to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period. (See Note 2(u).

### **(p) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(q) Provisions**

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of cash or other assets will be required to settle the obligation and a reliable monetary estimate of the obligation can be made.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, then a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### **(r) Employee benefits**

#### *(i) Wages, salaries, annual leave*

Liabilities, up to the reporting date, for salaries including non-monetary benefits, and annual leave, are recognised by a provision in respect of employee entitlements. They are measured at the amounts expected to be paid when the liabilities are settled. Expense for sick leave is recognised when the leave is taken and is measured at the rates paid or payable.

#### *(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee entitlements. It is measured as the present value of expected future payments to be made in respect of services provided by employees, up to the reporting date, using the projected unit credit method. Consideration is given to expected future wage and salary levels, the Company's experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date based on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### **(s) Share-based payment transactions**

The Company provides benefits to employees, directors, contractors and advisors of the Company in the form of share-based payment transactions, whereby persons render services in exchange for options (i.e. rights over shares) such benefits are referred to as 'equity-settled transactions'.

The following plans (as approved by shareholders on 25 February 2010) are in place to provide these benefits - "Virax Holdings Limited Option Plan" and the "Virax Employee Share Plan".

The cost of an equity-settled transaction is measured by reference to the fair value of the options at the date at which the options were granted. The fair value is determined using a Black-Scholes model, a Binominal model or such other generally accepted model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the share price of Virax Holdings Limited.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the vesting conditions are fulfilled, starting on the first date of the vesting period ending on the date on which the grantee becomes fully entitled to the options granted ('vesting date').

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Until vesting date, the cumulative expense recognised for equity-settled transactions at each reporting date reflects:

- the extent to which the vesting period has expired, and
- the number of options that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determinations of fair value at grant date.

No expense is recognised for grants that do not ultimately vest, except for grants where vesting is conditional upon a market condition.

Where a grant is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the grant is recognised immediately.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (refer Note 2(t) and Note 6).

### **(t) Contributed equity**

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

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

### **(u) Earnings per share**

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

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

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

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

The effect of dilution, due to outstanding options, is only calculated for those options when the exercise price of such options is below the average market price during the period.

### **(v) Recoverable amount of assets**

Assets are carried at no more than their recoverable amount.

The recoverable amount of an asset, or assets making up a cash generating unit, is the higher of its value in use or its fair value less costs to sell.

Impairment occurs when the amount by which the current carrying amount of an asset, or assets making up a cash generating unit, exceeds its recoverable amount. Such difference is referred to as "impairment loss".

At each reporting date an assessment is made as to whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, an estimate of the asset's recoverable amount is made.

The recoverable amount is determined for an individual asset, unless:

- the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, and
- the asset's value in use cannot be estimated to be close to its fair value.

In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at a revalued amount (in which case the impairment loss is treated as a revaluation decrease).

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### **(w) Foreign Currency Translation**

Transactions in foreign currencies are recorded in the Company's functional currency (Australian dollars) by applying the exchange rate at the date of the transaction. Monetary items are translated at the exchange rate at the Balance Sheet date. All exchange differences in the Financial Reports are taken to the profit and loss account.

### **(x) Prepaid Expenses**

Expenditure classified as expense is recognised in the period in which the activity, which gives rise to the expense, takes place. Where expense is incurred before the activity has occurred such expense is classified as prepaid expense.

### **(y) Convertible Notes**

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time, is recognised as a finance (interest) cost.

The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a Convertible Note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years.

The corresponding interest on convertible notes is expensed to the income statement.

Issue costs are apportioned between the liability and equity components of the convertible note based on the same allocation of proceeds to the liability and equity components when the instruments are first recognised.

### **(z) Significant Accounting Judgments, Estimates and Assumptions**

#### **(i) Significant account judgments**

##### *Recovery of deferred tax assets*

Deferred tax assets are only recognised for deductible temporary differences when management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

#### **(ii) Significant account estimates and assumptions**

##### *Share-based payments transactions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model, with the assumptions details in note 20. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

##### *Long service leave provision*

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

##### *Convertible Note*

An assessment of the interest equivalent for debt funding in lieu of the unsecured convertible note issue was estimated to be 14% pa. This estimate was applied when calculating the components of the compound financial instrument of the Convertible Note.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(aa) GST Accounting**

Other taxes, revenue, expenses and assets are recognised net of the amount of GST except:

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

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

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

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

**(bb) Parent entity financial information**

The financial information for the parent entity, Virax Holdings Limited, disclosed in note 15(c), has been prepared on the same basis as the consolidated financial statements.

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### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, convertible notes, cash at bank and short term deposits from time to time.

The Group manages its exposures to key financial risk, including interest rate and currencies in accordance with the Group's financial risk management policy, which requires it to undertake those things that are necessary to reduce the Group's exposure to financial risk so as to provide reasonable assurances as to financial outcomes in respect to the transactional circumstances of each situation.

#### **Interest Rate Risk**

The Group's exposure to market interest rates relate to the Group's cash at bank and on deposit. There was no bank debt or interest bearing debt during the financial year.

The Group has an implied interest rate within the redemption premium on the Convertible Notes, however such implied interest rate was fixed upon the issue of the notes.

The Group does not enter into any interest rate swap or cap contracts.

At the balance date the Group had the following financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
Cash at bank	\$ 1,383,680	\$ 1,070,630

The following sensitivity analysis is based on the interest rate exposures in existence at the balance date. As at 30 June 2010, if interest rates had moved, as illustrated in the table below, with all the other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:

<b>Consolidated</b>	<b>Profit and Loss</b>		<b>Equity</b>	
	<b>Higher/(Lower)</b>		<b>Higher/(Lower)</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
+1.00% (100 basis points)	14,542.77	10,706.00	-	-
+0.50% (50 basis points)	3,435.28	5,353.00	-	-
-1.00% (100 basis points)	(12,498.87)	(10,706.00)	-	-
-0.50% (50 basis points)	(6,832.42)	(5,353.00)	-	-

The movements in profit are due to higher or lower interest rates applicable to cash at bank and on deposit. The sensitivity is greater in 2010 than 2009 due to generally lower prevailing interest rates during the year.

#### **Foreign Currency Risk**

The Group has the following foreign currency exposures:

##### *Transgene Sub-licence*

The Group has Sub-licensed Co-X-Gene™ to Transgene under which milestone payments are expected and due from time to time.

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Upon successful completion by Transgene of the clinical trials of their products which utilise the Co-X-Gene™ technology, the Group would expect to receive milestone payments and royalty income. The Sub-licence is contractually denominated in US currency.

As at 30 June 2010 and in the near future the amounts that the Group may receive are not known in respect to quantum or timing. These amounts and timing of receipts become known after Transgene has completed transactions with third parties which they then in turn announce to the market. The time period between the revenue triggering event and payment by Transgene is not significant and accordingly any risk is assessed at that time.

Accordingly, there is limited ability to manage these risks until milestone entitlements or royalty streams are established under the Transgene Sub-licence.

#### **Credit Risk**

##### **Cash at Bank**

The cash at bank and cash equivalents are held with an Australian major bank in accordance with the Board's risk policy. The Board believes the Group does not expose to significant credit risk.

#### **Liquidity Risk**

The Group's objective is to maintain a continuity of funding. As with most small biotechnology companies in Australia, there is uncertainty from time to time in respect to the sources of funding in order to maintain operations. Like these other small biotech companies, the Group is required to raise capital to further its development programs and strategy implementation. The Group has historically raised capital approximately every 12-18 months. The most recent capital raisings were completed in January 2010.

Below is a table that reflects all contractually fixed payment obligations and receivables for settlement, repayments and effective interest from financial assets and liabilities. In the case of the convertible notes, the undiscounted cash amount is on the assumption that all notes are subject to redemption on 31 December 2011.

<b>Year ended 30 June 2010</b>	<b>&lt; 6 months</b>	<b>6-12 months</b>	<b>12-18 months</b>	<b>&gt; 18 months</b>	<b>TOTAL</b>
<b>Consolidated</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	1,383,680	-	-	-	1,383,680
Trade and other receivables	134,095	-	-	-	134,095
	<u>1,517,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,517,775</u>
<b>Financial Liabilities</b>					
Trade and other payables	319,438	-	-	-	319,438
Convertible Notes	-	-	1,104,632	-	1,104,632
	<u>319,438</u>	<u>-</u>	<u>1,104,632</u>	<u>-</u>	<u>1,424,070</u>
<b>Net maturity</b>	<u>1,198,337</u>	<u>-</u>	<u>(1,104,632)</u>	<u>-</u>	<u>93,705</u>
<b>Year ended 30 June 2009</b>					
<b>Consolidated</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	1,070,630	-	-	-	1,070,630
Trade and other receivables	58,015	-	-	-	58,015
	<u>1,128,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,128,645</u>
<b>Financial Liabilities</b>					
Trade and other payables	224,934	-	-	-	224,934
Convertible Notes	1,640,751	-	-	-	1,640,751
	<u>1,865,685</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,865,685</u>
<b>Net maturity</b>	<u>(737,040)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(737,040)</u>

Prospective financial assets (Note A)

### **3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

#### ***Prospective Financial Assets - Note A.***

The Company has prospective financial assets and liabilities that arise from the Group's continuing operations in undertaking the Southern Africa clinical trial, awaiting receipts under the Transgene sub-license and the processes of undertaking a corporate transaction. It is important to note that some of these continuing operations involve developments that as at 30 June 2010 have not occurred. The prospects of these developments occurring in respect to timing and quantum is outside the direct control of the Company, and have not therefore been included in the Group's overall liquidity as the Directors consider that any estimates would constitute forecasts and representations in respect to these developments eventuating. Reference should be made to Notes 23 and 24 on the Group's Contingent Assets and Liabilities. Also, there has been no allowance for any capital raisings that may be initiated.

It is important to note that:

1. the financial assets that are prospective in nature and have not contractually crystallised at 30 June 2010 have not been included in the above table;
  2. there is no allowance made for the possible conversion of outstanding convertible notes at 30 June 2010 into ordinary equity prior to their maturity on 31 December 2011. The Notes are convertible during the period to 31 December 2011 on the basis that each convertible note is convertible into 2 ordinary shares in the Company.
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#### 4. REVENUE AND EXPENSES

	Consolidated	
	30 June 2010	30 June 2009
	\$	\$
<b>(a) Other Income</b>		
Recoupment of project costs	314,685	396,550
R&D Receipt	96,450	203,583
	<b>411,135</b>	<b>600,133</b>
<b>(b) Other expenses</b>		
Seminar/Conference	2,158	1,055
	<b>2,158</b>	<b>1,055</b>
<b>(c) Employee benefits expense</b>		
Wages and salaries	220,180	316,185
Superannuation expense	19,933	16,921
Other employee benefits expense	5,160	31,045
	<b>245,273</b>	<b>364,151</b>
<b>(d) Lease payments</b>		
Lease payments - operating lease	42,674	96,257

#### 5. INCOME TAX

Reconciliation between tax expense / (benefit) and the accounting loss before income tax multiplied by the Company's applicable income tax rate is as follows:

	Consolidated	
	30 June 2010	30 June 2009
	\$	\$
Accounting profit/(loss) before tax	(1,864,246)	(1,345,933)
At the statutory income tax rate of 30% (2009: 30%)	(559,273)	(403,780)
Capital raising costs	(75,795)	(78,357)
Research and development concession	(28,935)	(61,075)
Remuneration – shares based and deferred	134,560	-
Others	57,833	82,756
Net temporary differences not recognised	655	(2,437)
	<b>(470,955)</b>	<b>(462,893)</b>
Tax losses not brought to account	470,955	462,893
Total tax expense reported in the Income Statement	-	-

#### Deferred Tax Asset not booked

*Deferred tax assets* are the amounts of income tax recoverable in future periods in respect of:

- the carry forward of unused tax losses;
- the carry forward of unused tax credits; and
- deductible temporary differences.

*Temporary differences* are differences between the carrying amount of an asset or liability in the balance sheet and its tax base, i.e. the amount recognised under tax law.

## 5. INCOME TAX (Continued)

*Deductible temporary differences* are those that will result in amounts that are deductible in determining taxable profits or tax losses of future periods. The amount of deductible temporary differences recognised is limited to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

As the Directors are unable to determine that future taxable profit meets the test of probability, the following items have not been recognised as deferred tax assets and liabilities in the balance sheet as at 30 June 2009.

	Consolidated	
	30 June 2010 \$	30 June 2009 \$
<b>Deferred tax assets</b>		
Capital raising expenses	73,170	36,374
Other IP deductions	39,896	43,574
Employee entitlements	21,747	15,880
Differences in depreciation	15,457	16,332
Accruals	-	14,850
	<b>150,270</b>	<b>127,010</b>

These deferred tax assets do not include carried forward tax losses that are noted below.

### Benefit of income tax losses and temporary difference

Deferred tax asset arising from tax losses and temporary difference have not been brought to account at balance date as realisation of the benefit is not regarded as probable.

This deferred tax asset will only be obtained if:

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

### Summary of Carry Forward Loss Position

As at 30 June 2010, the VHL Group should be able to satisfy the continuity of ownership test in respect of all carried forward tax losses. In the future, the carried forward tax losses that may be available to offset future taxable income and the rate at which available tax losses may be utilised is impacted by business activities, including further equity raisings, that may occur between now and the time when such utilisation is to take place.

1. Concessional method in determining tax loss utilisation. These losses can only be utilised once the losses incurred by the VHL Group after 1 July 2003 have been used. Their availability is subject to the VHL Group being able to satisfy the tax loss recoupment rules (either under the continuity of ownership test or the same business test).
2. Tax losses of \$11.1 million, incurred from 1 July 1999 to 30 June 2003, are able to be utilised at a rate determined by the tax legislation. The rate of utilisation of these tax losses may be reduced each time VHL undertakes an equity raising. Furthermore, they are subject to the tax loss recoupment rules and can only commence to be used once the VHL Group has used all post 1 July 2003 and 3 year concessional method losses.
3. After taking into account the estimated tax losses incurred during the year ended 30 June 2010, tax losses of \$24.5 million have been incurred since 1 July 2003. These tax losses are known as "group losses", and whilst not currently restricted in the rate to which they may be utilised, their availability is subject to the VHL Group being able to satisfy the tax loss recoupment rules.

### Tax Consolidation Regime

The Virax Holdings Limited ("VHL") group of companies elected to form a tax consolidated group from 1 July 2003. The head entity, Virax Holdings Limited, continues to account for its own current and deferred tax amounts. In addition to its own current and deferred tax amounts, Virax Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits that are assumed from controlled entities in the tax consolidated group. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone tax payer in its own right. As no tax funding agreement is in place, the allocation of taxes to the head entity is recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2010**

**6 EARNINGS PER SHARE**

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

	<b>Consolidated</b>	
	<b>30 June 2010</b>	<b>30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Net Loss attributable to members used in calculating basic and diluted earnings per share	(1,864,246)	(1,345,933)
	<b>No. of Shares</b>	<b>No. of Shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share:	153,131,467	111,933,425
Adjusted weighted average number of ordinary shares used in calculating dilutive earnings per share:	153,131,467	111,933,425

Note: The effect of dilution, due to outstanding options, is only calculated for those options when the exercise price of such options is below the market price.

**7 CASH AND CASH EQUIVALENTS**

	<b>Consolidated</b>	
	<b>30 June 2010</b>	<b>30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	1,383,680	1,070,630
	<b>1,383,680</b>	<b>1,070,630</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

**8 TRADE AND OTHER RECEIVABLES (CURRENT)**

	<b>Consolidated</b>	
	<b>30 June 2010</b>	<b>30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Receivables <sup>(i)</sup>	112,436	28,056
GST receivables	19,836	28,133
Other	1,823	1,823
	<b>134,095</b>	<b>58,012</b>

**(a) Terms and Conditions**

Terms and conditions relating to the above financial instruments:

- (i) Details of the terms and conditions of interest receivable are set out in Note 18.
- (ii) See Related Party Disclosures Note 16.

**(b) At 30 June, the ageing analysis of receivables is as follows:**

	<b>Total</b>	<b>0-30 days</b>
	<b>\$</b>	<b>\$</b>
2010 Consolidated and Virax Holdings Limited	112,436	112,436
2009 Consolidated and Virax Holdings Limited	28,056	28,056

**Notes to the Financial Statements (continued)**  
For the Year Ended 30 June 2010

**9. PROPERTY, PLANT AND EQUIPMENT**

	Consolidated	
	30 June 2010	30 June 2009
	\$	\$
<b>Cost</b>		
Opening balance	106,488	500,227
Purchases for the period	4,316	-
Disposals	-	(393,739)
Closing Balance	<b>110,804</b>	<b>106,488</b>
<b>Accumulated Depreciation</b>		
Opening balance	(104,431)	(494,393)
Depreciation charged for the year	(1,306)	(3,777)
Disposals	-	393,739
Closing balance	<b>(105,737)</b>	<b>(104,431)</b>
<b>Net book value of plant and equipment</b>	<b>5,067</b>	<b>2,057</b>

**10 TRADE AND OTHER PAYABLES (CURRENT)**

	Consolidated	
	30 June 2010	30 June 2009
	\$	\$
Other creditors (i)	198,630	100,682
Deferred Director fees (ii)	120,808	124,252
	<b>319,438</b>	<b>224,934</b>

Terms and conditions relating to the above financial instruments:

(i) Creditors are non-interest bearing and are normally settled on 30-day terms

(ii) Subject to shareholder approval, this amount is proposed to be settled by the issue of ordinary shares in accordance with a proposal to be presented to shareholders.

**11. PROVISIONS – CURRENT**

	Consolidated	
	30 June 2010	30 June 2009
	\$	\$
<b>Current Provision</b>		
Annual Leave	30,644	20,049
Long Service Leave	41,846	32,884
	<b>72,490</b>	<b>52,933</b>

**Notes to the Financial Statements (continued)**  
For the Year Ended 30 June 2010

**12. CONVERTIBLE NOTES – CURRENT AND NON-CURRENT**

	30 June 2010 \$	Consolidated 30 June 2009 \$
<b>Current</b>		
Convertible Notes - maturity 31 December 2009	-	<u>1,508,285</u>
<b>Non-current</b>		
Convertible Notes - maturity 31 December 2011	<u>896,810</u>	<u>-</u>

In November 2009, the Company convened a general meeting of Convertible Noteholders that approved:

- The extension of the maturity date of the Convertible Notes to 31 December 2011;
- The amendment of the Redemption Price from 12 cents per note to 14 cents; and
- The opportunity for Noteholders until 18 December 2009 to convert their notes at a ratio of 2 notes into 5 ordinary shares (a bonus entitlement of 25%).

As at 30 June 2010 there were 7,890,227 unsecured convertible notes on issue. Each note had an issue price of 10 cents per note.

The terms of issue of the Convertible Notes are governed by the Trust Deed of 19 December 2007 and the Supplemental Trust Deed of 3 December 2009 and are summarised as:

- No interest is payable on the Notes;
- The Notes are unsecured;
- Conversion of 1 Note into 2 ordinary shares;
- Conversion period from 1 January 2009 to 31 December 2009, extended to 31 December 2011;
- Notes on issue at 5.00pm on 31 December 2011 will be redeemed at a 40% premium to their face value (i.e. 14 cents per note);
- Noteholders have no right to vote at general meetings of the Company.

The Trustee for the Convertible Notes is Australian Executor Trustees Limited ACN 007 869 794 – Level 22, 207 Kent Street, Sydney.

Voting rights are restricted to those matters that affect the rights of the noteholders.

The fair values and the carrying amount of the Group's and Parent's Convertible Notes materially equates to its carrying value at 30 June 2010. The fair value of the liability portion of the convertible notes is estimated using an equivalent interest rate for the issuer for the instrument with similar terms but without the conversion option. This rate was 14% p.a.

Information in respect to the interest rate exposures is set out in Note 3.

**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2010**

**13. CONTRIBUTED EQUITY**

	30 June 2010		30 June 2009	
	Number of Securities	\$	Number of Securities	\$
<b>Issued and paid up capital</b>				
Ordinary shares fully paid	175,456,015	35,103,714	130,602,316	32,641,738

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value on respect of this issued capital.

**(a) Movements in shares**

Beginning of the financial year	130,602,316	32,641,738	107,352,943	31,973,335
Issued during the year				
- Public equity raising	30,469,072	1,795,297	21,896,575	635,000
- Conversion of Options	1,138	228	6	1
- Conversion of Convertible Notes	14,383,489	683,116	1,352,792	72,430
- Less Capital Raising Expenses		(16,665)	-	(39,028)
End of financial year	<u>175,456,015</u>	<u>35,103,714</u>	<u>130,602,316</u>	<u>32,641,738</u>

	No. of Options	Expiry Date	Exercise Price(1)
<b>(b) Movement in Listed Options</b>			
<b>VHLOB:</b>			
Beginning of the financial year	13,747,664	15-Dec-09	\$0.20
- Issued during the period	-		
- Conversion of Options	(1,138)		
- Lapsed during the year	(13,746,526)		
End of financial year	<u>-</u>		

**(c) Unlisted Options**

The following options were outstanding at 30 June 2010

	Number of Options	Expiry date	Exercise price
Virax Holdings Limited	250,000	31 December 2010	\$0.6500
Option Plan	250,000	31 December 2011	\$0.1700
	641,333	31 December 2011	\$0.1700
	100,000	31 December 2011	\$0.1700
	7,000,000	9-16 December 2010	\$0.1000
	1,250,000	30 June 2011	\$0.1000
	950,000	30 June 2011	\$0.1000
	1,250,000	30 June 2012	\$0.1500
	1,250,000	30 June 2013	\$0.2000
Total Unlisted Options	<u>12,941,333</u>		

**(d) Partly Paid Shares**

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

**13. CONTRIBUTED EQUITY (Continued)**

**(e) Terms and conditions of contributed equity**

**Ordinary shares**

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

In accordance with the Constitution and subject to any rights and restrictions for the time being attached to any class of shares:

- i) on a show of hands at a meeting of members, each member present in person or by proxy, attorney or Representative has one vote; and
- ii) on a poll at a meeting of members, each member present in person or by proxy, attorney or Representative has one vote for each fully paid share and a fraction of a vote for each partly paid share. The fraction is the proportion which the amount paid on the partly paid share is of the full issue price of such share.

For the purposes of calculating the fraction of a vote under paragraph ii), an amount paid in advance on a partly paid share shall be ignored.

Options referred to in the following tables are, unless otherwise noted, unlisted options granted by Virax Holdings Limited in respect to the acquisition of unissued Virax Holdings Limited ordinary shares.

There are no rights that the option holders have under the options to participate in any share issue of the Company.

**(f) Equity Component of Convertible Notes – Unsecured – Maturity 31 December 2009**  
**ASX Code: VHLG**

	30 June 10		30 June 09	
	Number of Securities	\$	Number of Securities	\$
<b>Unsecured Convertible Notes</b>	<u>7,890,227</u>	<u>95,752</u>	<u>13,672,928</u>	<u>78,527</u>
<b>(f) Movements in notes</b>				
Beginning of the financial year	13,672,928	78,527	14,349,324	78,527
Issued during the year				
- Refinancing 31 December 2009	-	95,752	-	-
- Conversion into ordinary shares	(5,782,701)		(676,396)	-
- Transferred to accumulated losses	-	(78,527)	-	-
End of financial year	<u>7,890,227</u>	<u>95,752</u>	<u>13,672,928</u>	<u>78,527</u>

The Convertible Notes are classified as a compound financial instrument under the Accounting Standards – comprising a debt component and an equity component being the option to convert the note into ordinary share capital in the Company.

The debt component is recognised by measuring the fair (present) value of a similar liability using an equivalent interest rate estimate but without the equity conversion option. Information regarding the interest rate exposures is set out in Note 3.

The equity component is the difference between the present value of the notes using the notes' effective rate of interest plus the cost of the note issue less the fair value of the convertible note using the effective rate of interest

The extension of the maturity date of the Convertible Notes was a refinancing of the Notes as at 31 December 2009. The fair value of the debt component was assessed at that date. Accordingly the equity component was also assessed at that date. The previous equity component was transferred to accumulated losses at 31 December 2009.

### 13. CONTRIBUTED EQUITY (Continued)

In November 2009, the Company convened a general meeting of Convertible Noteholders that approved:

- The extension of the maturity date of the Convertible Notes to 31 December 2011;
- The amendment of the Redemption Price from 12 cents per note to 14 cents; and
- The opportunity for Noteholders until 18 December 2009 to convert their notes at a ratio of 2 notes into 5 ordinary shares (a bonus entitlement of 25%).

As at 30 June 2010 there were 7,890,227 unsecured convertible notes on issue. Each note had an issue price of 10 cents per note.

The terms of issue of the Convertible Notes are governed by the Trust Deed of 19 December 2007 and the Supplemental Trust Deed of 3 December 2009 and are summarised as:

- No interest is payable on the Notes;
- The Notes are unsecured;
- Conversion of 1 Note into 2 ordinary shares;
- Conversion period from 1 January 2009 to 31 December 2009, extended to 31 December 2011;
- Notes on issue at 5.00pm on 31 December 2011 will be redeemed at a 40% premium to their face value (i.e. 14 cents per note);
- Noteholders have no right to vote at general meetings of the Company.

The Trustee for the Convertible Notes is Australian Executor Trustees Limited ACN 007 869 794 – Level 22, 207 Kent Street, Sydney

#### (g) Capital Management

As it is common with most small biotechnology companies developing their technology, the management of capital is focused on maintaining the entity as a going concern in order to maintain optimal returns for shareholders and benefits for other stakeholders. As such in order for the Company to execute its longer term plans, it will be necessary to raise additional capital.

### 14. CASH FLOW RECONCILIATION

	<b>Consolidated</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Reconciliation of the loss before income tax to net cash flows used in operations</b>		
Loss before income tax	(1,864,246)	(1,345,933)
<b>Non-Cash Items</b>		
Depreciation/write off of non-current assets	1,306	3,777
Provision for employee entitlements	19,557	(24,887)
Director remuneration – settled by share allotment	184,844	-
Employee expenses – equity settled (deferred directors remuneration)	258,707	-
Share based transaction expenses		
Share option expense	133,451	-
Share plan incentive expense	56,374	-
Professional services – share placement	44,000	-
Convertible Note financing cost	192,778	275,853
Profit on disposal of fixed assets		(27,273)
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(69,832)	4,352
Increase/(decrease) in trade, other creditors	94,504	(69,799)
Net cash flow used in operating activities	<b>(948,557)</b>	<b>(1,183,910)</b>

## 15 AUDITOR'S REMUNERATION

	Consolidated	
	30 June 2010	30 June 2009
	\$	\$
Amounts received or due and receivable by the auditors, from entities in the economic entity:		
Auditing the accounts	68,000	75,190
	<b>68,000</b>	<b>75,190</b>

## 16 RELATED PARTY DISCLOSURES

### (a) Investment in controlled entities

The consolidated financial statements include the financial statements of Virax Holdings Limited and the subsidiaries listed in the following table.

	Country of Incorporation	Beneficial % held by economic entity		Virax Holdings Limited	
				30 June 2010	30 June 2009
				Book value of investment	
		%	%	\$	\$
Virax Scientific Management Pty Ltd (VSM)	Australia	100	100	2	2

The following companies are 100% subsidiaries of VSM

Virax Immunotherapeutics Pty Ltd	Australia	100	100
Virax Development Pty Ltd	Australia	100	100
Virax Facilities Pty Ltd	Australia	100	100
Virax Southern Africa Project Pty Ltd	Australia	100	100

### (b) Related Party Transactions

The following related party transactions occurred during the financial year:

#### Transactions with related parties in the wholly owned group

Related party		Loans to related parties	Loans from related parties	Amounts owed by related parties	Amounts owed to related parties
		\$	\$	\$	\$
Virax Immunotherapeutics Pty Ltd (VIP)	2010	-	-	-	-
	2009	-	598	-	-
Virax Development Pty Ltd (VDP)	2010	-	350,387	-	-
	2009	-	429,974	-	-
Virax Facilities Pty Ltd (VFP)	2010	-	-	-	-
	2009	-	(27,273)	-	-
Virax Scientific Management Pty Ltd (VSM)	2010	-	-	-	-
	2009	-	-	-	-
Virax Southern Africa Project Pty Ltd (VSAP)	2010	-	-	-	-
	2009	-	-	-	-

Virax Scientific Management Pty Ltd is a 100% owned subsidiary of Virax Holdings Limited. From time to time Virax Holdings Limited may advance funds to Virax Scientific Management Pty Ltd which uses such funds for investigating potential investment in

**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2010**

research and development activities. The total amount advanced during the current year was nil (2009: nil). Virax Holdings Limited has fully provided as doubtful debts for such advances.

Virax Holdings Limited advances funds to Virax Immunotherapeutics Pty Ltd (VIP) which uses such funds for research and development activities. The total amount advanced during the current year was nil (2009: \$598) and has been fully expensed. Such advances are on an interest free basis and secured by a fixed and floating charge over all assets of VIP. Virax Holdings Limited has fully provided as doubtful debts for such advances.

Virax Holdings Limited advances funds to Virax Development Pty Ltd (VDP) which uses such funds for research and development expenses. The total amount advanced during the current year was \$350,387 (2009: \$429,974). Such advances are on an interest free basis. Virax Holdings Limited has fully provided as doubtful debts for such advances.

Virax Holdings Limited advances funds to Virax Facilities Pty Ltd (VFP) which uses such funds for expenditure in respect of vector construction and drug manufacture. The total amount repaid during the current year was nil (2009: \$27,273 advanced). Such advances are on an interest free basis. Virax Holdings Limited has fully provided as doubtful debts for such advances.

Virax Southern Africa Project Pty Ltd (VSAP) is the subsidiary that undertakes the management of the South Africa Clinical on behalf of the Thervax Foundation. A foreign branch has been established in South Africa. It holds no assets beneficially and earns no income. All expenses are reimbursed. The Trial is funded by the Theravax Foundation and the foreign branch's activity is to facilitate the payment of third party contractors on behalf of the Theravax Foundation.

**(c) Key Management Personnel**

Details relating to Key Management Personnel are included in Note 17.

**(d) Holding Company**

The ultimate holding company in the wholly owned group is Virax Holdings Limited.

In accordance with Section 295(3)(a) of the Corporations Act, the following supplementary information is provided about Virax Holdings Limited:

	<b>Virax Holdings Limited</b>	
	<b>30 June 2010</b>	<b>30 June 2009</b>
	<b>\$</b>	<b>\$</b>
Current Assets	1,562,500	1,179,617
Total Assets	1,567,569	1,181,676
Current Liabilities	391,928	1,786,152
Total Liabilities	1,288,738	1,786,152
<b>Shareholder's Equity</b>		
Contributed equity - shares	35,103,714	32,641,738
Contributed equity - convertible notes	95,752	78,527
Share based payments reserve	477,596	287,771
Accumulated losses	(35,398,231)	(33,612,512)
	<b>278,831</b>	<b>(604,476)</b>
<b>Total comprehensive income/(loss)</b>	<b>(1,864,246)</b>	<b>(1,343,319)</b>
Guarantees	None	None
Contingent liabilities	Refer Note 23	Refer Note 23
Contractual commitments	None	None

**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2010**

**17. KEY MANAGEMENT PERSONNEL**

**(a) Details of Key Management Personnel**

(i) Directors

M. Humphris	– Chairman (non-executive)
I. Pyman	– Director (non-executive)
A. Ting	– Director (non-executive)
T. Cooper	– Director (non-executive)(from 1 March 2010)

(ii) Executives

L. Ward	– Chief Executive Officer
J. Morrison	– Chief Financial Officer and Company Secretary

**(b) Compensation for Key Management Personnel**

	2010 \$	2009 \$
Short – Term Paid	413,214	426,503
Post Employment - Paid	35,227	33,577
Leave Entitlement	18,459	10,967
Short – Term Deferred	203,333	115,551
Share-based payment benefits	436,897	-
	<b>1,107,130</b>	<b>586,598</b>

This note is supplementary to the Remuneration Report included in the Director's Report.

**Shareholdings of Key Management Personnel.**

	Balance as at 1 Jul 09	Granted as Remuneration <sup>A</sup>	On Exercise of Options	Additions/ (Disposals)	Balance as at 30 Jun 10
<b>30-Jun-10</b>					
<b>Directors</b>					
M. Humphris	303,448	1,498,750	Nil	90,983	1,893,181
I. Pyman	143,966	1,099,084	Nil	34,374	1,277,424
A. Ting	6,017,783	1,099,084	Nil	(2,216,216)	4,900,651
T. Cooper	Nil	Nil	Nil	11,221,106 <sup>B</sup>	11,221,106
<b>Executives</b>					
L. Ward	Nil	Nil	Nil	Nil	Nil
J Morrison	Nil	Nil	Nil	Nil	Nil
<b>Total</b>	<b>6,465,197</b>	<b>3,696,918</b>	<b>Nil</b>	<b>9,130,247</b>	<b>19,292,362</b>

	Balance as at 1 Jul 08	Granted as Remuneration	On Exercise of Options	Additions/ (Disposals)	Balance as at 30 Jun 09
<b>30-Jun-09</b>					
<b>Directors</b>					
M. Humphris	Nil	Nil	Nil	303,448	303,448
I. Pyman	Nil	Nil	Nil	143,966	143,966
A. Ting	6,017,783	Nil	Nil	Nil	6,017,783
<b>Executives</b>					
L. Ward	Nil	Nil	Nil	Nil	Nil
J Morrison	Nil	Nil	Nil	Nil	Nil
<b>Total</b>	<b>6,017,783</b>	<b>Nil</b>	<b>Nil</b>	<b>447,414</b>	<b>6,465,197</b>

<sup>A</sup> These shares issued were in settlement of deferred director remuneration.

<sup>B</sup> Mr. Cooper was appointed on 1 March 2010. These amounts represent Mr. Cooper's direct and indirect security holdings as at 1 March 2010.

**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2010**

**17. KEY MANAGEMENT PERSONNEL (Continued)**

**Listed Option holdings of Key Management Personnel.**

<b>30-Jun-10</b>	Balance as at 1 Jul 09	Granted as Remuneration	On Exercise of Options	Additions/ (Disposals)	Balance as at 30 Jun 10
<b>Directors</b>					
M. Humphris	Nil	Nil	Nil	Nil	Nil
I. Pyman	Nil	Nil	Nil	Nil	Nil
A. Ting	660,685	Nil	Nil	(660,685)	Nil
T. Cooper	Nil	Nil	Nil	Nil	Nil
<b>Executives</b>					
L. Ward	Nil	Nil	Nil	Nil	Nil
J Morrison	Nil	Nil	Nil	Nil	Nil
<b>Total</b>	<b>660,685</b>	<b>Nil</b>	<b>Nil</b>	<b>(660,685)</b>	<b>Nil</b>

<b>30-Jun-09</b>	Balance as at 1 Jul 08	Granted as Remuneration	On Exercise of Options	Additions/ (Disposals)	Balance as at 30 Jun 09
<b>Directors</b>					
M. Humphris	Nil	Nil	Nil	Nil	Nil
I. Pyman	Nil	Nil	Nil	Nil	Nil
A. Ting	660,685	Nil	Nil	Nil	660,685
<b>Executives</b>					
L. Ward	Nil	Nil	Nil	Nil	Nil
J Morrison	Nil	Nil	Nil	Nil	Nil
<b>Total</b>	<b>660,685</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>660,685</b>

**Convertible Note holdings of Key Management Personnel.**

<b>30-Jun-10</b>	Balance as at 1 Jul 09	Granted as Remuneration	On Exercise of Options	Additions/ (Disposals)	Balance as at 30 Jun 10
<b>Directors</b>					
M. Humphris	Nil	Nil	Nil	Nil	Nil
I. Pyman	Nil	Nil	Nil	Nil	Nil
A. Ting	137,800	Nil	Nil	(137,800)	Nil
T. Cooper	Nil	Nil	Nil	Nil	Nil
<b>Executives</b>					
L. Ward	Nil	Nil	Nil	Nil	Nil
J Morrison	Nil	Nil	Nil	Nil	Nil
<b>Total</b>	<b>137,800</b>	<b>Nil</b>	<b>Nil</b>	<b>(137,800)</b>	<b>Nil</b>

<b>30-Jun-09</b>	Balance as at 1 Jul 08	Granted as Remuneration	On Exercise of Options	Additions/ (Disposals)	Balance as at 30 Jun 09
<b>Directors</b>					
M. Humphris	Nil	Nil	Nil	Nil	Nil
I. Pyman	Nil	Nil	Nil	Nil	Nil
A. Ting	137,800	Nil	Nil	Nil	137,800
<b>Executives</b>					
L. Ward	Nil	Nil	Nil	Nil	Nil
J Morrison	Nil	Nil	Nil	Nil	Nil
<b>Total</b>	<b>137,800</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>137,800</b>

## Notes to the Financial Statements (continued) For the Year Ended 30 June 2010

### 17. KEY MANAGEMENT PERSONNEL (Continued)

Unlisted Option holdings of Key Management Personnel.

30-Jun-10	Balance at Beginning of Period		1 Jul 09 to 30 Jun 10				Balance at End of Period	
	1-Jul-09		Granted as Remuneration	Options Vested	Options Exercised	Net Change Other <sup>1&amp;2</sup>	30-Jun-10	
	Vested	Unvested					Vested	Unvested
<b>Directors</b>								
M Humphris	Nil	Nil	1,500,000	Nil	Nil	Nil	500,000	1,000,000
Ian Pyman	Nil	Nil	1,125,000	Nil	Nil	Nil	375,000	750,000
A Ting	Nil	Nil	1,125,000	Nil	Nil	Nil	375,000	750,000
T Cooper	Nil	Nil	Nil	Nil	Nil	1,500,000	1,500,000	Nil
<b>Executives</b>								
L. Ward	256,500	Nil	500,000	Nil	Nil	(103,500)	653,000	Nil
J Morrison	Nil	Nil	350,000	Nil	Nil	Nil	350,000	Nil
<b>Total</b>	<b>256,500</b>	<b>Nil</b>	<b>4,600,000</b>	<b>Nil</b>	<b>Nil</b>	<b>1,396,500</b>	<b>3,753,000</b>	<b>2,500,000</b>

30-Jun-09	Balance at Beginning of Period		1 Jul 08 to 30 Jun 09				Balance at End of Period	
	1-Jul-08		Granted as Remuneration	Options Vested	Options Exercised	Net Change Other <sup>1</sup>	30-Jun-09	
	Vested	Unvested					Vested	Unvested
<b>Executives</b>								
L. Ward	391,500	Nil	Nil	Nil	Nil	(135,000)	256,500	Nil
<b>Total</b>	<b>391,500</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>(135,000)</b>	<b>256,500</b>	<b>Nil</b>

1. Options issued to L. Ward lapsed during the period

2. Unlisted options issued to a company related to T. Cooper prior to him becoming a director.

There were no loans to KMP at any time during the financial year (2009: Nil).

### 18. OPERATING SEGMENTS

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

A foreign branch has been established in South Africa for the purpose of the Clinical Trial. Its activity commenced in October 2008 and it managed the conduct of the South African clinical trial. It holds no assets beneficially, earns no income. All expenses are reimbursed. The Trial is funded by the Theravax Foundation and the foreign branch's activity is to facilitate the payment of third party contractors on behalf of the Theravax Foundation.

### 19. SUBSEQUENT EVENTS

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

#### ASX Announcements

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

7 July 2010	Update on VIR201 HIV Vaccine Clinical Trial
23 July 2010	Convertible Note Quarterly Report to the Trustee and ASIC
9 August 2010	South African Clinical Trial Data Lock
12 August 2010	Publication VIR201 Novel Mode of Action
16 August 2010	VIR201 Clinical Trial Results – Preliminary
31 August 2010	Appendix 4E- Preliminary Final Report 30 June 2010

**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2010**

**20. SHARE-BASED PAYMENT**

The Option Plan has been established, with shareholder approval, whereby Virax Holdings Limited may, at the discretion of the Board, grant options over ordinary shares of the Company. Such options may be issued to Directors, with shareholder approval, and to staff and advisors. The options, issued for nil consideration, may be granted in accordance with guidelines established by the Directors. Such guidelines allow for the granting of options on conditions relating to service or performance. The options are normally issued for a period of approximately five years (but no more than six years) commencing on the first day of the vesting period and are exercisable after vesting. The options are not transferable without the approval of the Board and they will not be listed on the ASX.

Currently, there are 4 Directors and 3 staff eligible to participate under the Plan.

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

**(a) Unlisted options held at beginning and end of the reporting period**

**2010**

Grant Date	Expiry Date	Exercise Price	Number of Options	
			1 July 2009	30 June 2010
9-Nov-04	31-Dec-09	\$0.5000	250,000	
2-Feb-06	31-Dec-09	\$0.6500	422,500	
27-Nov-06	31-Dec-09	\$0.2500	800,000	
25-Feb-10	14-Dec-10	\$0.1000		7,000,000
9-Nov-04	31-Dec-10	\$0.6500	250,000	250,000
25-Feb-10	30-Jun-11	\$0.1000		1,250,000
25-Feb-10	30-Jun-11	\$0.1000		950,000
21-Nov-05	31-Dec-11	\$0.1700	250,000	250,000
6-Feb-06	31-Dec-11	\$0.1700	641,333	641,333
31-Dec-05	31-Dec-11	\$0.1700	100,000	100,000
25-Feb-10	30-Jun-12	\$0.1500		1,250,000
25-Feb-10	30-Jun-13	\$0.2000		1,250,000
			2,713,833	12,941,333

**2009**

Grant Date	Expiry Date	Exercise Price	Number of Options	
			1 July 2008	30 June 2009
25-Aug-04	1-Jan-09	\$0.5000	168,000	-
25-Aug-04	30-Jun-09	\$0.5000	371,250	-
9-Nov-04	31-Dec-09	\$0.5000	250,000	250,000
9-Nov-04	31-Dec-09	\$0.6500	250,000	250,000
2-Feb-06	31-Dec-09	\$0.6500	422,500	422,500
27-Nov-06	31-Dec-09	\$0.2500	800,000	800,000
21-Nov-05	31-Dec-11	\$0.1700	250,000	250,000
6-Feb-06	31-Dec-11	\$0.1700	641,333	641,333
31-Dec-05	31-Dec-11	\$0.1700	100,000	100,000
			3,253,083	2,713,833

**20. SHARE-BASED PAYMENT (Continued)**

**(b) The unlisted options granted during the report period were:**

Grant Date	Expiry Date	Exercise Price	Number of Options
25-Feb-10	14-Dec-10	\$0.1000	7,000,000
25-Feb-10	30-Jun-11	\$0.1000	950,000
25-Feb-10	30-Jun-11	\$0.1000	1,250,000
25-Feb-10	30-Jun-12	\$0.1500	1,250,000
25-Feb-10	30-Jun-13	\$0.2000	1,250,000
			<b>11,700,000</b>

**(c) There were no unlisted options exercised during the reporting period**

**(d) Unlisted options lapsed during the reporting period**

Grant Date	Expiry Date	Exercise Price	Number of Options
9-Nov-04	31-Dec-09	\$0.5000	250,000
2-Feb-06	31-Dec-09	\$0.6500	422,500
27-Nov-06	31-Dec-09	\$0.2500	800,000
			<b>1,472,500</b>

**(e) Unlisted options held and exercisable at 30 June 2010**

Number of Options	Grant Date	Expiry Date	Exercise Price	Weighted Average Exercise Price	Number of Options Exercisable
7,000,000	25 February 2010	14 December 2010	\$0.1000		7,000,000
250,000	9 November 2004	31 December 2010	\$0.6500		250,000
1,250,000	25 February 2010	30 June 2011	\$0.1000		1,250,000
950,000	25 February 2010	30 June 2011	\$0.1000		950,000
250,000	21 November 2005	31 December 2011	\$0.1700		250,000
641,333	6 February 2006	31 December 2011	\$0.1700		641,333
100,000	6 February 2006	31 December 2011	\$0.1700		100,000
1,250,000	25 February 2010	30 June 2012	\$0.1500		1,250,000
1,250,000	25 February 2010	30 June 2013	\$0.2000		1,250,000
			<b>12,941,333</b>	<b>\$0.13</b>	<b>12,941,333</b>

The Options with an expiry date of 14 December 2010 were issued pursuant to shortfall placement agreements supporting the 1 for 5 Rights Offer of December 2009.

**Notes to the Financial Statements (continued)**  
For the Year Ended 30 June 2010

**20. SHARE-BASED PAYMENT (Continued)**

(f) **Fair value of unlisted options**

The fair value of each option on issue to employees/directors at the end of the financial period has been estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Grant dates	Detail
Dividend yield	All	0%
Historical and expected volatility	9-Nov-04	71.29%
	21-Nov-05	66.01%
	6-Feb-06	65.82%
	25-Feb-10	85.00%
Risk free rate	9-Nov-04	5.75%
	21-Nov-05	5.85%
	6-Feb-06	5.63%
	25-Feb-10	4.57%
Expected life of options - average	Prior	3.07 years
	25-Feb-10	2.5 years
Share price	9-Nov-04	42.20 cents
	21-Nov-05	19.40 cents
	6-Feb-06	14.20 cents
	25-Feb-10	11.99 cents

The dividend yield reflects the assumption that the Company will not pay a dividend in the foreseeable future. The expected life of the option is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

**21. LEASE EXPENDITURE COMMITMENTS**

The leases relate to real estate.

	Consolidated	
	30 June 2010	30 June 2009
	\$	\$
Operating Leases (non-cancellable):		
- not later than one year <sup>(1)</sup>	5,000	3,880
Aggregate lease expenditure contracted for at reporting date	<b>5,000</b>	<b>3,880</b>

(1) Lease is contracted on month by month base.

**22. CONTINGENT ASSETS**

At the date of this Report there are no material contingent assets other than those disclosed under Note 23 and any amount that may be further recouped from the completion of the external funding of the Public Benefits Organisation for the Southern Africa clinical trial of VIR201.

Since the last annual reporting date, there has been no material change of any contingent assets.

## **23. CONTINGENT LIABILITIES**

Except as noted below, there are no material contingent liabilities.

The Group has developed the formation of an independent Public Benefits Organisation (the Theravax Foundation) to fund the undertaking of the clinical trial of VIR 201 in Southern Africa.

The Group has underwritten the costs of the HIV Southern Africa trial.

Currently the Group is owed approximately \$640,000 of reimbursable costs incurred from the project. This amount has not been brought to account as at 30 June 2010 and currently offsets any amount that the Group expects may be required to support the trial's funding body or in respect to the project budget. This balance will be claimed from funds available at the conclusion of the trial.

As at the end of the financial year the funds held for the trial by the Theravax Foundation were equivalent to approximately USD 1.4 million. The Southern Africa trial at the end of the financial year had budgeted costs to complete were equivalent to approximately USD 1.3 million. The project was fully funded based on the FX rates at 30 June 2010 excluding the reimbursable cost to the Group referred to above.

The major exposure to the trial for the Group pursuant to its underwriting commitment is payment of the USD costs from ZAR funds. This net exposure is at the end of the financial year was Nil.

### **Inherent uncertainty – going concern and consequential contingent liability**

In the Note to the Accounts 2(a) reference is made to the inherent uncertainty – going concern. A reduction in the Company's general operations may crystallise contingent liabilities (principally to employees and landlords) of up to an estimated \$315,000.

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## **24. OTHER INFORMATION**

Domicile:	Suite 220, 89 High Street, Kew, Victoria, Australia
Legal Form:	Incorporated public company, limited by shares
Country of Incorporation:	Australia
Number of Employees at Reporting Date:	1 employee (not including 4 Non-executive Directors) and three contractors

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8 Exhibition Street  
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## Auditor's Independence Declaration to the Directors of Virax Holdings Limited

In relation to our audit of the financial report of Virax Holdings Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in cursive script that reads "Ernst &amp; Young".

Ernst & Young

A handwritten signature in cursive script that reads "June Wilson".

June Wilson  
Partner  
29 September 2010

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under Professional Standards Legislation

## Directors' Declaration

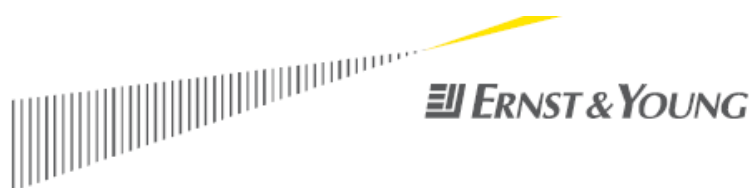
In accordance with a resolution of the Directors of Virax Holdings Limited, I state that -

- (1) In the opinion of the Directors:
  - (a) The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001* including:
    - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date.
    - (ii) complying with Accounting Standards, International Financial Reporting Standards and *Corporations Regulations 2001*; and
  - (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

On behalf of the Board



**Michael Humphris**  
Chairman  
Melbourne, 29 September 2010



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## Independent auditor's report to the members of Virax Holdings Limited

### Report on the Financial Report

We have audited the accompanying financial report of Virax Holdings Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2 (b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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### **Auditor's Opinion**

In our opinion:

1. the financial report of Virax Holdings Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Uncertainty Regarding Continuation as a Going Concern**

Without qualifying our opinion, attention is drawn to the following matter. As indicated in Note 2 (a) to the financial statements, the continuing operations of the company and consolidated entity are dependent upon future funding (from either licence receipts or additional capital raisings).

The Directors cannot be certain of the success or of the timing of the intended fund raising activities.

As a result of these matters, there is material uncertainty as to whether the consolidated entity will be able to continue as a going concern, and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 12 to 22 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Auditor's Opinion**

In our opinion the Remuneration Report of Virax Holdings Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

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

Ernst & Young

A handwritten signature in cursive script that reads 'June Wilson'.

June Wilson  
Partner  
Melbourne  
29 September 2010