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ANNUAL REPORT



# VIROTEC INTERNATIONAL PLC

REGISTERED NUMBER 5796515

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All amounts are expressed in Australian dollars unless stated otherwise

DIRECTORS, SECRETARY AND ADVISERS

<b>Company registration number:</b>	5796515
<b>Registered office:</b>	Ship Canal House King Street Manchester M2 4WB
<b>Directors:</b>	B. Sheeran (Chairman) B. Bamonte (CFO) J. Glynn D. McConchie
<b>Secretary:</b>	A. Craig
<b>Nominated advisers and broker:</b>	Numis Securities Limited The London Stock Exchange Building No. 10 Paternoster Square London EC4M 7LT
<b>Solicitors:</b>	Cobbetts LLP Ship Canal House King Street Manchester M2 4WB  McCullough Robertson Level 11 Central Plaza Two 66 Eagle Street Brisbane, Queensland 4000 Australia
<b>Registrars:</b>	Computershare Investor Services plc The Registrar PO Box 82, The Pavilions Bridgewater Road BRISTOL BS99 7NH
<b>Auditors:</b>	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB

## CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present Virotec's financial report for the six months ended 31 December 2006.

During this period the Group became domiciled in the United Kingdom. We believe this is a positive step for Virotec and reflects our shareholder base and growing international operations. As a result of changing the domicile of the Group, we are reporting in this annual report for the shorter financial period of six months.

With the ever increasing focus on global environmental issues, Virotec is well placed with its world-class technologies for the remediation of water and soils providing effective, sustainable solutions to deal with many serious environmental problems.

The main focus of the Group in the six months has been centred on the expansion of our operations in the USA, mainly through the Virotec AquaSolve joint venture operating out of South Carolina. This business is focussed on the following key areas:

- > The treatment of radium in drinking water. This is a significant problem in many states in America and Virotec has the only regulatory approved solution. Whilst only two contracts for the implementation of our filters have been signed to date, the level of interest from a number of water companies in many states supports the view that this will become an important market for Virotec. A representative of the Department of Health and Environmental Control ("DHEC") told a public meeting that Virotec's technology "is a simple, effective, and efficient process for reducing and maintaining radium concentrations in drinking water below regulatory Maximum Contamination Levels", and that it is "the best alternative available in South Carolina". This endorsement reflects the level of support that Virotec has received from DHEC and with this ongoing support we are very confident that we will penetrate this lucrative market in 2007.
- > The treatment of phosphate in wastewater treatment systems. To date the technology has been applied to a number of ponds to show the effectiveness of the technology. As with all treatments of this type, the results need to be evaluated over a period of time and we expect to benefit from these trials in the 2007 year.
- > Development of a treatment for uranium in drinking water. Work has started for the design of filters that utilise new products developed by Virotec to treat drinking water for uranium contamination. Like radium, this is a natural occurring problem, with no solution available.

Virotec is also working with two large environmental consultancies and mining companies in the USA on a number of pilot trials at mine sites across America.

The business in Australia continues to be instrumental in the development of new applications of the technology in environmental remediation. In this period Virotec completed its first commercial contract to remediate a site contaminated with both hydrocarbons and heavy metals. It is pleasing to note that even after allowing for this additional development work, the operations are now trading profitably and likely to expand its customer and revenue base in the 2007 year. During the six months it has successfully remediated many sites and Virotec is

## *VIROTEC INTERNATIONAL PLC*

starting to reap the rewards from the extensive groundwork it has completed to date in the development of the technologies and demonstrating their effectiveness to industry and regulators.

Since the end of the period, the Company is refocussing its operations in the United Kingdom. We view this as a substantial market with enormous potential for the Virotec technologies. The aim in 2007 is to successfully complete trials with two of the large water companies and to pursue interest that has been generated from a number of industrial and mining customers.

In addition to the traditional markets, Virotec in 2007 will continue to explore opportunities in other geographic areas. We believe to successfully establish the business in the new developing markets including the Middle East, China and India, reputable local partners are essential. We will seek to establish these relationships to ensure any sovereign risk is mitigated as far as possible.

Whilst Virotec's main focus is on the expansion of its core business, we still retain a passive interest in technologies that we have sold in the past. Our interest in these technologies is held through:

- > Equity positions in listed companies. At the date of this report the market value of our equity positions in HydroDec Group plc and The Greenhouse Fund Limited was approximately AUD\$47 Million;
- > Royalty agreements. Virotec will receive a royalty on all future revenue generated from the sale of the technologies. To date very little has been received, but in 2007 HydroDec will be operating its first full size plant in Australia and they have announced plans to expand into the USA, with its first plants operational in 2008. This will underpin a strong growth in royalty income for Virotec.
- > Future carried interest. Virotec will receive a carried interest in all future floats that involve the technologies sold to The Greenhouse Fund Limited.

Virotec has also appointed Dr Lee Fergusson as the new Chief Executive Officer during the period, and I expect to work closely with Lee in the forthcoming years as the business continues to expand.

Virotec has established a strong asset base, ranging from the Intellectual Property that underpins our core business to the passive investments listed above. With your continued support and that of our staff we expect to grow Virotec from this base into a highly successful international environmental solution provider.

Sincerely,

**BRIAN SHEERAN**  
Executive Chairman

## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the period 1 July to 31 December 2006.

The Company was incorporated on 26th April 2006 as Cobco 747 plc and subsequently changed its name to Virotec International plc. On 25th August 2006 the Company acquired the entire share capital of Virotec International Ltd through a share for share exchange. The financial statements represent a shortened accounting period of the Group with comparatives for the year ended 30 June 2006.

### *Principal Activities and Business Review*

The principal activity of the Group during the financial period was providing environmental services through sustainable solutions developed by the Group for water and solids treatment and environmental remediation.

The Group also holds interests in a number of mining leases, however activities relating to these leases have been scaled down significantly in recent years.

The Group recorded losses for the 6 month period to 31 December of AUD\$7.6 million, compared to a loss of AUD\$7.1 million for the 12 months to 30 June 2006. The current period losses are proportionately larger as a result of the significant sales of technologies which occurred in the prior period. Discussions on the operations follow in this report.

The Group's balance sheet remains strong, with limited borrowings and significant investments in two listed companies, which are recorded in the balance sheet at a value of AUD\$15 million whilst the current market value of these investments is AUD\$47 million.

### **> Environmental Services**

The Group provides environmental services in the following areas:

#### *Environmental Remediation*

- > ViroMine™ Technology – applications developed for the mining industry.
- > ViroSoil™ Technology – applications developed for the agricultural, fertiliser and aquaculture industries.

#### *Drinking Water, Wastewater And Solids Treatment*

- > ViroFlow™ Technology – applications developed for the treatment of drinking water and wastewater from industrial sites.
- > ViroSewage™ Technology – applications developed for the sewage industry.

#### *Other*

- > Alumina Services – services to the alumina industry relating to the treatment of their refinery residue. Trials for the use of the Basecon™ Technology at a number of refineries are underway.

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An important part of the commercialisation of the technologies is to trial applications to demonstrate the capacity and viability of the technologies on a commercial basis. The Group's strategy is to use the results of these trials to make initial commercial sales in the industry and then attract the appropriate strategic partners in the relevant industries to market the technologies throughout the world.

These operations are conducted in three geographic areas, USA, Australia, Asia and Middle East and Europe.

### *United States of America*

During the period, the Group has through its joint venture partner (Virotec AquaSolve) focussed on:

- a. Marketing its Radium Proactiv™ product for the treatment of drinking water. In June 2006, the Department of Health and Environmental Control ("DHEC") confirmed that Virotec's solution is a simple, effective, and efficient process for reducing and maintaining radium concentrations in drinking water below regulatory Maximum Contamination Levels", and that it is "the best alternative available in South Carolina". Naturally occurring radium in drinking water is a widespread problem throughout North America and the results of work completed to date have generated interest from a number of different states. Virotec entered into service agreements with two customers during the year with the systems to be implemented in the 2007 year.
- b. The treatment of six ponds for large food processing companies in South Carolina to demonstrate the effectiveness of the ViroPhos™ reagent. During the period this has generated approximately \$140,000 in revenue. Virotec expects this will lead to orders for the treatment of additional ponds throughout 2007.

### *Australia, Asia and the Middle East*

The Australian operations which encompass Asia and the Middle East has continued to expand and operated profitably in the December quarter. The Australian market has been used to prove the commerciality of Virotec's various technologies and provides the platform for their commercialisation globally. The main achievements during the period include:

- a. The completion of the site remediation of 16 sites affected by copper chrome arsenate treatment. Whilst each of the sites is relatively small, the work has enhanced Virotec's reputation as a solution provider where no such solutions have previously existed.
- b. Virotec has received orders for the implementation of two new ViroSewage™ Technology systems. One of the systems was implemented in December 2006 and the second system will be implemented in Quarter 1 2007. The contracts will generate \$250,000 in revenue for the implementation of the systems and once installed the ongoing technical support will provide approximately \$250,000 per annum of ongoing annual revenue.
- c. Virotec has been commissioned to complete large scale trials at two operating sites of a large zinc smelter company to demonstrate the effectiveness of its ViroFlow™ Technology to bind up various waste materials including mercury, generated through its smelting process.
- d. Virotec has also recently signed a two-year contract for the conversion of low-level contaminated marine dredge spoil into commercial topsoil using its ViroSoil™ Technology. The contract is expected to generate revenue of approximately \$120,000 per year.

- e. Virotec has completed a large scale pilot trial with Clean Environment Technologies of Saudi Arabia for the implementation of its ViroCompost™ Technology at the NADA dairy in Al-Hofuf.

#### *Europe*

Virotec has commenced its first commercial trial with a UK Water Authority for the treatment of phosphate in municipal waste water. This follows the successful trial completed by the Water Research Council. Negotiations are continuing with a number of other Water Authorities.

#### **> Other Activities**

In August 2006, Virotec International Ltd implemented a scheme of arrangement under the Australian Corporations Act 2001 involving a share-for-share exchange on a one-for-one basis, with the Company to effect the change of domicile of the Virotec Group from Australia to England. The Scheme was subject to satisfaction of a number of conditions, including the approval of shareholders and of the Supreme Court of Queensland. On implementation of the Scheme, all shareholders in Virotec International Ltd exchanged their existing shares for shares of the Company on a one-for-one basis. Virotec International Ltd and all of its subsidiaries have been transferred to the Company.

As a result of successful sales and licenses of technologies over the past two years, Virotec retains the following shareholdings in AIM listed companies:

1. HydroDec Group plc – the Group owns approximately 34% of the equity of HydroDec, with current market value of \$36 million; and
2. The Greenhouse Fund Limited – the Group owns approximately 19.9% of the equity of Greenhouse, with a current market value of \$11 million.

In addition, Virotec is also entitled to ongoing royalties from revenue earned from the exploitation of certain technologies.

The directors are in very advanced discussions in relation to conducting a placing of ordinary shares to raise approximately AUD\$5 million following finalisation of this financial report. The proceeds from such a placing will be used to fund Virotec's continuing expansion in the USA and other ongoing operations. It is currently the directors' expectation that if such a placing occurs, no further issues of shares will be required prior to the Group being cash flow positive on an operational basis.

#### ***Dividends***

No dividend has been declared or is proposed for the period.

#### ***Directors***

The directors who served during the period are set out below together with their beneficial interests in the share capital of the Company according to the register of directors' interests:

## VIROTEC INTERNATIONAL PLC

	31 December 2006		1 July 2006	
	Ordinary shares	Options	Ordinary shares	Options
B. Sheeran	7,063,129	-	7,063,129	-
B. Bamonte	5,623,914	-	5,623,914	-
J. Glynn	56,300	-	56,300	-
D.McConchie	500,000	-	500,000	50,000
Total	13,243,343	-	13,243,343	50,000

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of Group companies.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial period except as indicated above.

### **Risk Management**

The Group continues to diversify its revenue streams across various industries in order to limit the impact of contract losses. Specific attention is paid to cash flows, with regular reviews and assessments taking place.

### **Employee Involvement**

The Group's policy is to encourage involvement at all levels, as it believes this is essential for the success of business.

### **Creditor Payment Policy**

The Group's current policy and practice concerning the payment of suppliers is to settle terms of payment when agreeing the terms of the transactions, to ensure that the suppliers are aware of the terms and to abide by the agreed terms. The Group's creditor days at 31 December 2006 were 45 (30 June 2006: 45) days.

### **Political and Charitable Contributions**

Neither the Company nor any of its subsidiaries made any political or charitable donations or incurred any political expenditure during the period.

### **Disclosure of Information to Auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Corporate Governance**

The Company is listed on the Alternative Investment Market and is therefore not required to comply with the provisions of the Combined Code. However, the Board is committed to ensuring that proper standards of

corporate governance operate and has established governance procedures and policies that are considered appropriate to the nature and size of the Group. The board considers that at this stage in the Company's development, the expense of full compliance with the Combined Code is not appropriate although it intends, as the Company grows, to ensure that it observes the provisions of the Code, so far as is practicable.

The directors are responsible for the Group's and the Company's system of internal financial control, safeguarding the assets of the Group and the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. In carrying out their responsibilities the directors have put in place a framework of controls to ensure ongoing financial performance is monitored in a timely and corrective manner and risk is identified as early as practicably possible. Clear lines of authority, responsibility and financial accounting exist between the relevant heads of regions and the directors.

The Audit Committee is comprised of John Glynn. The committee meets no fewer than twice annually and provides a link between the board and the Group's auditors on matters falling within the scope of the Group's audit. These matters included accounting standards and policies, internal financial control procedures and the Group's financial statutory reports, which are intended for publication. A formal statement of independence is received from the external auditors each year.

#### ***Going Concern***

The directors are of the opinion that at the time of approving the financial statements, the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### ***Dialogue with Shareholders***

The Company reports formally to shareholders once a year, when its full-year results are announced and Annual Report sent to its shareholders. The Annual Report includes notice of the Annual General Meeting of the Company at which a presentation is given and directors are available to take questions both formally during the meeting and informally after the meeting. Management is available for dialogue with major shareholders on the Company's plans and objectives and meets with them periodically.

#### ***Auditors***

KPMG Audit Plc offers itself for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

By order of the Board

B.J. Bamonte

Director

27 March 2007

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial period. Under that law they have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable laws; and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

- > select suitable accounting policies and then apply them consistently;
- > make judgments and estimates that are reasonable and prudent;
- > for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- > for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIROTEC INTERNATIONAL PLC

We have audited the group and parent company financial statements (the "financial statements") of Virotec International plc for the period ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, the Company Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein. This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### *Respective Responsibilities of Directors and Auditors*

The directors' responsibilities for preparing the Annual Financial Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 10.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Financial Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### *Basis of Audit Opinion*

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

## *VIROTEC INTERNATIONAL PLC*

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- > the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2006 and of its loss for the period then ended
- > the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006
- > the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- > the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

27 March 2007

## CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Note	31 December 2006 AUD \$'000	30 June 2006 AUD \$'000
<b>Assets</b>			
Property, plant and equipment	10	6,019	4,161
Investments in equity accounted investees	11	5,396	6,719
Investments	12	9,680	10,978
Receivables	15	521	521
<b>Total non-current assets</b>		<b>21,616</b>	<b>22,379</b>
Inventories	14	1,475	1,360
Trade and other receivables	15	1,955	440
Cash and cash equivalents	16	3,283	10,812
<b>Total current assets</b>		<b>6,713</b>	<b>12,612</b>
<b>Total assets</b>		<b>28,329</b>	<b>34,991</b>
<b>Equity</b>			
Share capital	17	5,959	-
Reserves	17	105,944	110,126
Retained deficit	17	(86,890)	(77,149)
<b>Total equity attributable to equity holders of the Company</b>		<b>25,013</b>	<b>32,977</b>
Minority interest		-	47
<b>Total equity</b>	17	<b>25,013</b>	<b>33,024</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	20	139	2
Provisions	21	690	670
<b>Total non-current liabilities</b>		<b>829</b>	<b>672</b>
Interest-bearing loans and borrowings	20	551	22
Trade and other payables		1,705	1,062
Employee benefits		206	161
Provisions	21	25	50
<b>Total current liabilities</b>		<b>2,487</b>	<b>1,295</b>
<b>Total liabilities</b>		<b>3,316</b>	<b>1,967</b>
<b>Total equity and liabilities</b>		<b>28,329</b>	<b>34,991</b>

The financial statements were approved by the Board of Directors on 27 March 2007 and were signed on its behalf by:

**B Bamonte - Director**

The notes on pages 17 to 35 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2006

	Note	Six Months ended 31 December 2006 AUD \$'000	Year Ended 30 June 2006 AUD \$'000
Revenue		1,570	14,692
Cost of sales		(1,053)	(1,693)
<b>Gross profit</b>		<b>517</b>	<b>12,999</b>
Other income	5	33	23
Sales and marketing expenses		(2,681)	(2,637)
Administrative expenses		(4,195)	(14,200)
<b>Loss from operating activities</b>		<b>(6,326)</b>	<b>(3,815)</b>
Financial income		204	880
Financial expenses		(31)	(4)
<b>Net financing income</b>		<b>173</b>	<b>876</b>
Share of loss of associate	11	(1,412)	(4,191)
<b>Loss before tax</b>		<b>(7,565)</b>	<b>(7,130)</b>
Taxation	9	-	-
<b>Loss after tax</b>		<b>(7,565)</b>	<b>(7,130)</b>
<b>Attributable to:</b>			
Equity holders of the parent		(7,565)	(6,857)
Minority		-	(273)
<b>Loss for the period</b>		<b>(7,565)</b>	<b>(7,130)</b>
<b>Earnings per ordinary share:</b>			
Basic earnings per share (AUD \$)	18	(0.032)	(0.029)
Diluted earnings per share (AUD \$)	18	(0.032)	(0.029)

The notes on pages 17 to 35 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	Six Months ended 31 December 2006 AUD \$'000	Year Ended 30 June 2006 AUD \$'000
Foreign currency translation differences or foreign operations	17	(420)	280
Net change in fair value of available-for-sale financial assets	17	(1,298)	(9)
<b>Income and expense recognised directly in equity</b>		<b>(1,718)</b>	<b>271</b>
Loss for the period		(7,565)	(7,130)
<b>Total recognised income and expense for the period</b>	17	<b>(9,283)</b>	<b>(6,859)</b>
<b>Attributable to:</b>			
Equity holders of the Company		(9,283)	(6,586)
Minority interest		-	(273)
<b>Total recognised income and expense for the period</b>	17	<b>(9,283)</b>	<b>(6,859)</b>

The notes on pages 17 to 35 are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six Months ended 31 December 2006 AUD \$'000	Year Ended 30 June 2006 AUD \$'000
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		1,035	3,004
Cash payments in the course of operations		(7,049)	(14,788)
Cash generated from operations		(6,014)	(11,784)
Interest received		205	864
Interest paid		(11)	(3)
<b>Net cash from operating activities</b>		<b>(5,820)</b>	<b>(10,923)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		20	12
Proceeds from sale of investment		-	503
Acquisition of property, plant and equipment	10	(2,395)	(2,908)
<b>Net cash from investing activities</b>		<b>(2,375)</b>	<b>(2,393)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital		-	22,445
Share issue costs		-	(729)
Increase in borrowings		666	-
<b>Net cash from financing activities</b>		<b>666</b>	<b>21,716</b>
Net increase/(decrease) in cash and cash equivalents		(7,529)	8,400
Cash and cash equivalents at 1 July		10,812	2,412
<b>Cash and cash equivalents at 31 December</b>	16	<b>3,283</b>	<b>10,812</b>

The notes on pages 17 to 35 are an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

Virotec International plc (the “Company”) is a company domiciled in England. The address of the Company’s registered office is Ship Canal House, King Street, Manchester England. The consolidated financial statements of the Company as at and for the period ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates. The Group primarily is involved in the provision of environmental services.

On 25 August 2006, the Company became the holding company of Virotec International Ltd. The former Virotec International Ltd shareholders were issued new shares in the Company on a one-for-one basis under the terms of the Scheme of Arrangement (the “Scheme”) approved by Virotec International Ltd shareholders. Immediately following the Scheme, the former shareholders of Virotec International Ltd held the same economic interest in Virotec International plc as they held in Virotec International Ltd immediately prior to its implementation.

Accordingly, the acquisition of Virotec International Ltd via the Scheme has been accounted for as a reverse acquisition under IFRS3 “Business Combinations”. For accounting purposes in a reverse acquisition, the acquirer (Virotec International Ltd) is the entity whose equity interests have been acquired and the issuing entity (Virotec International plc) is the acquiree. The effect of this is that the financial statements of the combined group represent a continuation of Virotec International Ltd’s financial statements.

Virotec International plc, together with its subsidiaries, is referred to as the “Group”. Consolidated financial information has been presented for the Group for the six months ended 31 December 2006 and for the twelve months ended 30 June 2006.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP. The Group’s previous annual report was prepared in accordance with Australian Accounting Standards (AASBs). International Financial Reporting Standards (IFRS) form the basis of AASBs and so no adjustment to comparative information has been made, as no material differences have been identified. Virotec International Ltd transitioned to AASBs based on IFRS on 1 January 2004.

#### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets available-for-sale which are held at fair value.

#### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency.

**(d) Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

***Share-based payment transactions***

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Shares and performance rights may be issued to certain executives under short term and long term incentive schemes. The fair value of any shares and performance rights granted to the executives is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares and performance rights. The fair value of the shares is measured by reference to the market price of the shares at grant date. The fair value of performance rights is based on the market price of shares given the short period on issue before converting to shares.

***Mine rehabilitation***

Provision is made for the estimated cost of rehabilitation relating to areas that were disturbed during the mine's operations but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cashflows. These costs have been determined on the basis of present costs and legal requirements. Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

**(a) Basis of consolidation**

***i. Subsidiaries***

The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**ii. Associates (equity accounted investees)**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investee). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

**iii Investments**

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

**(b) Foreign currency****i. Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

**ii. Foreign operations**

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the date of the transactions.

Foreign currency differences are recognised directly in equity, such differences are recognised in translation reserve (TR). When a foreign operation is disposed of, in part or full, the relevant amount in the TR is transferred to profit or loss.

**(c) Credit risk**

The credit risk on financial assets of the Group which have been recognised in the balance sheet is generally the carrying amount net of any provision.

**(d) Foreign currency risk**

The Group is exposed to foreign currency risk on sales, purchases and investments that are denominated in a currency other than the AUD. The currencies giving rise to this risk are primarily British Pounds, Euro and U.S. Dollars. The Group does not hedge its foreign currency exposures.

**(e) Property, plant and equipment**

**i. Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date.

**ii. Depreciation**

With the exception of motor vehicles where diminishing value method is used, depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The depreciation rates used in the current and comparative periods are as follows:

> plant and equipment	10% - 23%
> motor vehicles	22.5%
> office furniture and equipment	20% - 30%
> computer equipment	33%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

**(f) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

**(g) Impairment**

**i. Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit

(group of units) on a *pro-rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 assessment of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised.

#### **ii. Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

### **(h) Revenue**

#### **i. Goods sold**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

#### **ii. Services rendered**

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

#### **iii. Royalties and licences**

Revenue from royalties and licences is recognised in the profit and loss when the relevant underlying contractual conditions are met and the amounts become receivable.

### **(i) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax on the following temporary differences is not recognised: the initial recognition of goodwill; the initial recognition of assets or

liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(j) Leases**

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

**(k) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

**(l) New standards and interpretations not yet adopted**

New standards, amendments to standards and interpretations that are not yet effective for the period ended 31 December 2006, and have not been applied in preparing these consolidated financial statements are set out below:

- > IFRS 7 *Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, is not expected to have any significant impact on the consolidated financial statements.

**(m) Financial statements of the Company**

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Practices.

#### 4. SEGMENT REPORTING

##### Business segments

The Group operates within one business segment of environmental services – the provision of solutions to industry for the treatment of contaminated water and soil. Previously the Group has also operated in the business segment of research and development into different applications, but has stopped this work since June 2006 when all non-core technologies were sold to the Greenhouse Fund Limited. All research and development work conducted during the period relates to the core business of the Group, being the provision of solutions for environmental problems.

The Group also retains mining tenements, however as they represent less than 10% of the Group's assets, are not considered significant, and are therefore not reported separately.

##### Geographical segments

The environmental services segment is managed on a worldwide basis, and operates in three principal geographical areas:

- Australia, Asia and the Middle East;
- Europe; and
- North America.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	<b>Australia, Asia and Middle East</b> AUD \$'000	<b>North America</b> AUD \$'000	<b>Europe</b> AUD \$'000	<b>Consolidated</b> AUD \$'000
<i>31 December 2006</i>				
Revenue	890	127	553	1,570
Segment assets	19,913	6,418	1,998	28,329
Capital expenditure	76	2,283	36	2,395
 <i>30 June 2006</i>				
Revenue	13,330	990	372	14,692
Segment assets	29,634	3,601	1,756	34,991
Capital expenditure	483	1,961	464	2,908

5. OTHER OPERATING INCOME

	Note	Six Months ended 31 December 2006 AUD \$'000	Year Ended 30 June 2006 AUD \$'000
Research and development grants received		33	-
Other		-	23
		<b>33</b>	<b>23</b>

6. EXPENSES AND AUDITORS' REMUNERATION

*Included in loss are the following:*

Legal fees		367	480
Loss on sale of property, plant and equipment		120	8
Operating lease rentals	21	109	537
Research and development		1,009	4,352
Impairment loss on receivables		-	1,053

*Auditors remuneration:*

Amounts receivable by auditors and their associates in respect of:

Audit of financial statements of company		50	-
Audit of financial statements of subsidiaries pursuant to legislation		76	49
Other services pursuant to Scheme of Arrangement		15	-
Other services relating to taxation		4	14
All other services		20	20
		<b>165</b>	<b>83</b>

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

7. STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including directors) during the period, analysed by category, was as follows:

	Six Months ended 31 December 2006	Year Ended 30 June 2006
	Number of employees	
Sales	12	12
Production	28	37
Administration	15	16
	<b>55</b>	<b>65</b>

The aggregate payroll costs of these persons were as follows:

	Note	Six Months ended 31 December 2006 AUD \$'000	Year Ended 30 June 2006 AUD \$'000
Wages and salaries		1,911	4,822
Share based payments	19	1,187	2,276
Pension costs		71	154
Social security costs		86	69
		<b>3,255</b>	<b>7,321</b>

**8. DIRECTORS' EMOLUMENTS**

Directors' emoluments	612	1,316
Amounts receivable under share based incentive schemes	546	2,170
Company contributions to superannuation plans	2	5
	<b>1,160</b>	<b>3,491</b>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was \$646,035 (30 June 2006: \$1,929,657),

	31 December 2006	30 June 2006
	<i>Number of directors</i>	
In office at the end of the period	4	4
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2
The number of directors who exercised share options was	-	-
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	2	2

Directors' rights to subscribe for shares in or debentures of the Company and its subsidiaries are indicated below:

	At start of year	At end of year	Exercise price
	<i>Number of options</i>		<i>pence</i>
D. McConchie	50,000	-	20p

9. INCOME TAX BENEFIT IN THE INCOME STATEMENT

	Six Months ended 31 December 2006 AUD \$'000	Year Ended 30 June 2006 AUD \$'000
<b>Current tax benefit</b>		
Current period	-	-
<b>Deferred tax benefit</b>		
Origination and reversal of temporary differences	-	-
Total income tax benefit in income statement	-	-
<b>Reconciliation of effective tax rate</b>		
Loss before tax	(7,565)	(7,130)
Income tax using the domestic corporation tax rate of 30% (June 2006: 30%)	(2,270)	(2,139)
Increase in income tax expense due to:		
- Share of associates net loss for the period	424	1,257
- Other non-deductible expenses	219	1,045
- Current year losses for which no deferred tax asset was recognised	1,627	-
Decrease in income tax expense due to:		
- Concession on research and development expenditure	-	(47)
- Recognition of previously unrecognised tax losses	-	(116)
Income tax benefit on pre-tax net profit	-	-

## 10. PROPERTY, PLANT AND EQUIPMENT

	Land	Plant & Equipment	Computer Equipment	Office Furniture & Equipment	Motor Vehicle	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>Cost</b>						
Balance at 1 July 2005	464	1,628	154	218	38	2,502
Additions	-	2,866	35	7	-	2,908
Disposals	-	(117)	(93)	(148)	(22)	(380)
Effect of movements in exchange rates	30	12	-	-	-	42
<b>Balance at 30 June 2006</b>	<b>494</b>	<b>4,389</b>	<b>96</b>	<b>77</b>	<b>16</b>	<b>5,072</b>
Balance at 1 July 2006	494	4,389	96	77	16	5,072
Additions	-	2,388	6	1	-	2,395
Disposals	-	(165)	(27)	(27)	-	(219)
Effect of movements in exchange rates	(14)	(159)	-	-	-	(173)
<b>Balance at 31 December 2006</b>	<b>480</b>	<b>6,453</b>	<b>75</b>	<b>51</b>	<b>16</b>	<b>7,075</b>
<b>Depreciation and Impairment Losses</b>						
Balance at 1 July 2005	-	(406)	(131)	(198)	(34)	(769)
Depreciation for the year	-	(340)	(22)	(14)	-	(376)
Impairment loss	-	(126)	-	-	-	(126)
Disposals	-	97	94	148	21	360
Effect of movement in exchange rates	-	-	-	-	-	-
<b>Balance at 30 June 2006</b>	<b>-</b>	<b>(775)</b>	<b>(59)</b>	<b>(64)</b>	<b>(13)</b>	<b>(911)</b>
Balance at 1 July 2006	-	(775)	(59)	(64)	(13)	(911)
Depreciation for the year	-	(213)	(15)	(5)	-	(233)
Impairment loss	-	-	-	-	-	-
Disposals	-	25	27	27	-	79
Effect of movement in exchange rates	-	9	-	-	-	9
<b>Balance at 31 December 2006</b>	<b>-</b>	<b>(954)</b>	<b>(47)</b>	<b>(42)</b>	<b>(13)</b>	<b>(1,056)</b>
<b>Net book value:</b>						
<b>At 31 December 2006</b>	<b>480</b>	<b>5,499</b>	<b>28</b>	<b>9</b>	<b>3</b>	<b>6,019</b>
At 30 June 2006	494	3,614	37	13	3	4,161

## 11. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

The Group's share of loss in its equity accounted investees for the period was \$1,412,000 (year ended 30 June 2006: \$4,191,000). The Group equity accounts for its investment in HydroDec Group plc. Summary financial information for equity accounted investees for the six months ended 31 December 2006 and year ended 30 June 2006, not adjusted for the percentage ownership held by the Group:

	<b>31 December 2006</b>	<b>30 June 2006</b>
	32.5%	34%
	AUD \$'000	AUD \$'000
Ownership – ordinary shares		
Current assets	2,992	2,145
Non-current assets	25,900	26,005
Total assets	<u>28,892</u>	<u>28,150</u>
Current liabilities	1,039	928
Non-current liabilities	649	142
Total liabilities	<u>1,688</u>	<u>1,070</u>
Revenue	1,066	1,154
Expenses	(5,314)	(3,860)
Profit/ (loss)	<u>(4,248)</u>	<u>(2,706)</u>

## 12. INVESTMENTS

### *Non-current investments*

Listed equity securities – available-for-sale	<u>9,680</u>	<u>10,978</u>
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As a result of the issue of the sale and licence of certain technologies, the Group has a 19.9% holding in the voting share capital of The Greenhouse Fund Limited. It is also entitled to an ongoing royalty from any revenue earned from exploitation of the technologies and, if any of the technologies are subsequently sold by Greenhouse, any sale will include the obligation to continue to pay royalties to Virotec. No royalties were receivable during the period.

**13. DEFERRED TAX ASSETS AND LIABILITIES***Recognised deferred tax assets and liabilities*

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>31 December</b>	<b>30 June</b>	<b>31 December</b>	<b>30 June</b>	<b>31 December</b>	<b>30 June</b>
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
Employee entitlements	62	31	-	-	62	31
Provision for rehabilitation	215	216	-	-	215	216
Investment in associate	-	-	(1,619)	(2,016)	(1,619)	(2,016)
Other	357	-	(115)	-	242	-
Tax losses carried forward	1,100	1,769	-	-	1,100	1,769
Tax assets/(liabilities)	1,734	2,016	(1,734)	(2,016)	-	-
Set off tax	(1,734)	(2,016)	1,734	2,016	-	-
Net tax assets/(liabilities)	-	-	-	-	-	-

*Unrecognised deferred tax assets*

Deferred tax assets have not been recognised in respect of the following items:

	<b>31 December 2006</b>	<b>30 June 2006</b>
	AUD \$'000	AUD \$'000
Tax losses	4,133	5,213

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

**14. INVENTORIES**

Work in progress	88	-
Raw materials	1,387	1,360
	<u>1,475</u>	<u>1,360</u>

**15. TRADE AND OTHER RECEIVABLES***Current*

Trade receivables	1,508	358
Other receivables	428	14
Prepayments	19	68
	<u>1,955</u>	<u>440</u>

*Non-current*

Refundable security deposits and bonds	<u>521</u>	<u>521</u>
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## 16. CASH AND CASH EQUIVALENTS

	31 December 2006 AUD \$'000	30 June 2006 AUD \$'000
Bank balances	1,279	3,001
Call deposits	2,004	7,811
Cash and cash equivalents	<u>3,283</u>	<u>10,812</u>

## 17. SHARE CAPITAL AND RESERVES

Issues	Number of Ordinary Shares	Nominal Value AUD \$'000	Merger Reserve AUD \$'000
Issued on incorporation	2	-	-
Shares issued to acquire Virotec International Ltd	240,162,440	5,959	96,417
Balance at 31 December 2006	<u>240,162,442</u>	<u>5,959</u>	<u>96,417</u>

**Authorised issued and fully paid share capital**

	31 December 2006 AUD \$'000	30 June 2006 AUD \$'000
<b>Authorised share capital</b>		
900,000,000 ordinary shares of 1p each	<u>22,332</u>	<u>22,332</u>
Called up, allotted and fully paid 240,162,442 ordinary shares of 1p each	<u>5,959</u>	<u>-</u>

As at 31 December 2006 the Company has also granted a total of 11,310,000 options as described in note 19. (30 June 2006: 11,460,000 options).

	Share capital	Merger reserve	Trans- lation reserve	Fair value reserve	Share based payments reserve	Retained earnings	Total	Minority interest	Total equity
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
Effect of reverse acquisition	-	102,376	155	-	7,595	(77,149)	32,977	47	33,024
Prior period adjustment	-	-	-	-	2,176	(2,176)*	-	-	-
Total recognised income and expense	-	-	(420)	(1,298)	-	(7,565)	(9,283)**	(47)	(9,330)
Equity settled transactions	-	-	-	-	1,319	-	1,319	-	1,319
Share issues	<u>5,959</u>	<u>(5,959)</u>	-	-	-	-	-	-	-
Balance at 31 December 2006	<u>5,959</u>	<u>96,417</u>	<u>(265)</u>	<u>(1,298)</u>	<u>11,090</u>	<u>(86,890)</u>	<u>25,013</u>	<u>-</u>	<u>25,013</u>

\* Previous year adjustment relating to an IFRS conversion error.

\*\* Minority interest no longer recognised as related entity has moved into net liabilities.

**18. EARNINGS PER SHARE***Profit attributable to ordinary shareholders*

	<b>Six Months ended 31 December 2006</b> AUD \$'000	<b>Year Ended 30 June 2006</b> AUD \$'000
Loss for the period	(7,565)	(7,130)
Loss attributable to ordinary shareholders	<u>(7,565)</u>	<u>(6,857)</u>

*Weighted average number of ordinary shares*

	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>240,162,442</u>	<u>240,162,442</u>

The options outlined in Note 19 are potential ordinary shares which were not considered dilutive at 31 December 2006 or 30 June 2006.

**19. SHARE-BASED PAYMENTS***Option incentive scheme*

Issue date	Expiry date	Fair value on grant date AUD\$	Exercise price GBP£	Options issued Number	Total options exercised and shares issued		Unissued options available	
					31 Dec 2006 AUD \$'000	30 Jun 2006 AUD \$'000	31 Dec 2006 AUD \$'000	30 Jun 2006 AUD \$'000
15 Oct 2003	30 Sep 2006	0.25	0.20 (1)	1,145,000	-	395	-	150
2 Jun 2004	31 Mar 2007	0.23	0.20 (1)	102,500	-	60	10	10
22 Dec 2004	30 Sep 2007	0.27	0.20 (1)	1,115,000	-	243	440	440
10 Dec 2005	30 Sep 2010	0.43	0.40 (2)	1,000,000	-	-	1,000	1,000
10 Dec 2005	30 Sep 2011	0.47	0.40 (2)	2,000,000	-	-	2,000	2,000
10 Dec 2005	30 Sep 2012	0.51	0.40 (2)	2,000,000	-	-	2,000	2,000
18 Jan 2006	31 Mar 2009	0.23	0.28 (1)	872,500	-	-	860	860
18 Jan 2006	30 Sep 2011	0.27	0.40 (2)	1,000,000	-	-	1,000	1,000
18 Jan 2006	30 Sep 2012	0.30	0.40 (2)	1,000,000	-	-	1,000	1,000
18 Jan 2006	30 Sep 2013	0.33	0.40 (2)	1,000,000	-	-	1,000	1,000
18 Jan 2006	30 Sep 2014	0.35	0.40 (2)	1,000,000	-	-	1,000	1,000
18 Jan 2006	30 Sep 2015	0.37	0.40 (2)	1,000,000	-	-	1,000	1,000
				<u>13,235,000</u>	-	698	<u>11,310</u>	<u>11,460</u>
							<u>2,310</u>	<u>2,460</u>
							Options vested at end of period	

## VIROTEC INTERNATIONAL PLC

In respect of the options:

- (1) These options vested when granted.
- (2) These options have performance criteria attached to them before they vest. The performance criteria are based on revenue and profits generated in the areas of responsibility for the employees and these criteria have been set by the Board and can vary, at the Board's discretion over the period of the option until they vest with the employee. The service criteria require the employee to remain employed by the Group for a period of five years.

The market value of ordinary shares at 31 December 2006 was AUD\$0.37(GBP£0.15). No options issued under the option incentive scheme were exercised during the period ended 31 December 2006. 150,000 options issued under the scheme lapsed during the period ended 31 December 2006.

The fair value of options granted during the past two years was calculated using a Black-Scholes model using the following inputs:

- Share price on the date of grant
- Exercise price of the options granted
- Risk free rate of return of 5.5% (30 June 2006: 5.5%)
- Volatility of 60% (30 June 2006: 60%) which is based on historic volatility
- Expected dividend yield 0% (2006: 0%)

Some options granted are under service conditions. Some options issued are subject to performance conditions, both market and non-market. Non-market performance conditions are not taken into account in the grant date fair value measurements of the services received.

The number and weighted average exercise prices of share options is as follows:

<i>In thousands of options</i>	<b>Weighted average exercise price 31 December 2006 GBP£</b>	<b>Number of options 31 December 2006 AUD \$'000</b>	<b>Weighted average exercise price 30 June 2006 AUD\$</b>	<b>Number of options 30 June 2006 AUD \$'000</b>
Outstanding at the beginning of the period	£0.38	11,460	\$0.62	4,313
Forfeited during the period	£0.20	(150)	\$0.99	(13,378)
Exercised during the period	-	-	\$0.48	(2,348)
Granted during the period	-	-	\$1.00	22,873
Outstanding at the end of the period	£0.35	<u>11,310</u>	\$0.95	<u>11,460</u>
Exercisable at the end of the period	£0.25	<u>1310</u>	\$0.63	<u>1,460</u>

**Executive Incentive Plans**

Short term and long term Incentive plans are currently in place for the Executive Chairman and Chief Financial Officer, pursuant to which shares may be issued in the future in completion of the periods of service.

The executive directors, being Mr Brian Sheeran, Executive Chairman (“EC”) and Mr Bruno Bamonte, Chief Financial Officer (“CFO”), receive remuneration which includes a fixed base remuneration payable in cash, and equity components to provide short term and long term incentive. The current agreements with the EC and CFO were agreed by the board in September 2003, and the equity components of the agreements were approved by shareholders at the Annual General Meeting of Virotec International Ltd held on 28 November 2003. Given the stage of development of the Group and requirements which that entails, the Board determined that it was appropriate to offer significant incentives in the form of equity to the executive directors to align their interests with shareholders.

The agreements for the provision of services by the EC and CFO provide for a fixed level of base remuneration. The agreements are for the period of 1 August 2003 to 31 July 2008. The agreements can be terminated by either party on one month’s notice, and there are no termination benefits payable on termination of the agreements.

The Short Term Incentive Plans (“STI”) covered the years ending 30 June 2003, 2004 and 2005. The STI provides that the executive directors are eligible to receive an award of up to 200% of their base remuneration based on performance for the relevant year against various criteria. If the executive director remains employed by Virotec on the third anniversary after an award is granted under the STI, additional shares of an equivalent number will be issued (termed “matching shares”). As a result of issues under the STI to date, further issues may occur in February 2007, September 2007 and July 2008. Any shares issued pursuant to the STI are not able to be disposed of until one year after the issue of the shares.

Charges to expenses and reserves for the current period and previous period relate to the STI matching shares component only.

**Share-based payments expense**

	<b>31 December 2006</b> AUD \$'000	<b>30 June 2006</b> AUD \$'000
Share options granted	642	1,119
Expenses arising in relation to issues under Executive Incentive Plans	545	2,170
Total expense recognised	<u>1,187</u>	<u>3,289</u>

## 20. INTEREST BEARING LOANS AND BORROWINGS

	31 December 2006 AUD \$'000	30 June 2006 AUD \$'000
Non-current liabilities		
Finance lease liabilities	551	22
Current liabilities		
Finance lease liabilities	139	2

## 21. PROVISIONS

Reconciliation of the amount of each class of provision are set out below:

### *Mine rehabilitation*

Carrying amount at beginning of period	720	720
Finance charge	21	-
Provisions used during the period	(26)	-
Carrying amount at end of period	715	720
Current	25	50
Non-current	690	670
	715	720

In accordance with Australian State government legislative requirements, a provision for mine rehabilitation has been recognised in relation to the Group's mining operations. The Group has security bonds and bank guarantees in place of approximately \$457,126 (30 June 2006: \$454,196) for rehabilitation of mining leases. The amount equals the estimate of the relevant mining departments when the leases were first granted. A provision of \$715,000 for rehabilitation has been recorded for the expected cost to rehabilitate all mining leases. However, further liabilities may arise to the Group if the cost of rehabilitating the mining leases exceeds the current estimate. It is impractical to determine the maximum amount of the contingent liability in respect of mine site rehabilitation.

## 22. OPERATING LEASES

### *Leases as lessee*

Non-cancellable operating lease rentals are payable as follows:

	31 December 2006 AUD \$'000	30 June 2006 AUD \$'000
Less than one year	61	646
Between one and five years	25	67
More than five years	-	-
	86	713

During the period ended 31 December 2006 \$109,000 was recognised as an expense in the income statement in respect of operating leases (30 June 2006: \$536,611).

### 23. RELATED PARTIES

During the 31 December 2006 period, pursuant to an agreement with Nouveau Technology Investments Ltd ("NTI"), a company in which B. Sheeran and D. McConchie are shareholders, under which the Group has a licence to distribute and market technology owned by NTI, an amount of \$58,952 (30 June 2006: \$250,716) was incurred during the period. The amount of \$335,694 (30 June 2006: \$276,742) was payable at 31 December 2006. Under this agreement the Group is responsible for all costs associated with the development of the technology and will pay a royalty to NTI upon the successful commercialisation of related technologies. All payments were in the ordinary course of business and on normal commercial terms and conditions.

During the 31 December 2006 period, pursuant to an agreement between the Group, Southern Cross University ("SCU"), NTI and D. McConchie which enables D. McConchie to provide ongoing technical advice to the Company through SCU, a total amount of \$80,457 (30 June 2006: \$131,384) was incurred during the period. The amount of \$13,409 (30 June 2006: \$Nil) was payable at 31 December 2006. All payments were in the ordinary course of business and on normal commercial terms and conditions.

During the 31 December 2006 period, F. McConchie, an associate of D. McConchie, provided technical advice and other services to the Group. All payments were in the ordinary course of business and on normal terms and conditions. Total amounts incurred and payable for the period were \$40,200 (30 June 2006: \$81,091).

#### *Other related party transactions*

During the period the Group has provided accounting and administrative services to its associate, HydroDec Group plc and its wholly owned controlled entities, on normal commercial terms and conditions. Details of the interest in the associate are set out in Note 12. The amount of \$24,238 (30 June 2006: \$113,936) was earned during the period for services provided by the Group. The amount of \$2,458 (30 June 2006: \$18,869) was receivable at 31 December 2006.

### 24. GROUP ENTITIES

	Country of Incorporation and Principal Operations	Ownership interest		Activity
		31 December 2006	30 June 2006	
<b>Significant Subsidiaries</b>				
Virotec International Ltd*	Australia	100	100	Mining operations
Virotec Global Solutions Pty Ltd	Australia	100	100	Environmental services
Virotec Investments Pty Ltd*	Australia	100	100	Corporate and administration
Virotec Technologies Pty Ltd	Australia	100	100	Environmental services
Virotec USA Inc.*	USA	100	100	Environmental services
Virotec Italia Srl*	Italy	100	100	Environmental services and production
ImperativePlus Pty Ltd	Australia	100	100	Environmental services
Virotec Europe Ltd*	England	100	100	Environmental services
Virotec AquaSolve LLC	USA	67	67	Environmental services

\* held directly by Virotec International plc. All shares held are ordinary shares.

VIROTEC INTERNATIONAL PLC

COMPANY BALANCE SHEET

As at 31 December 2006

	Note	31 December 2006	
		AUD \$'000	AUD \$'000
<b>Fixed assets</b>			
Investments	5		15,346
<b>Creditors: amounts falling due within one year</b>			
Loans due from subsidiaries		(87)	
Trade and other payables		(50)	
			<u>(137)</u>
<b>Net assets</b>			<u><b>15,209</b></u>
<b>Capital and reserves</b>			
Called up share capital	7		5,959
Translation reserve	7		(19)
Share-based payment reserve	7		9,406
Retained deficit	7		(137)
			<u>(137)</u>
<b>Shareholders funds</b>	7		<u><b>15,209</b></u>

The financial statements were approved by the Board of Directors on 27 March 2007 and were signed on its behalf by:

**B Bamonte - Director**

COMPANY RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the period from incorporation to the period ended 31 December 2006

	31 December 2006
	AUD \$'000
<b>Loss for the financial period</b>	<b>(137)</b>
Credit in relation to share based payments	9,406
Movement in foreign currency reserve	(19)
New share capital issued	5,959
<b>Net addition to shareholders' funds</b>	<u><b>15,209</b></u>
Opening shareholders' funds upon incorporation	<u>-</u>
<b>Closing shareholders' funds</b>	<u><b>15,209</b></u>

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### I. ACCOUNTING POLICIES

The Company was incorporated on 26 April 2006 and these hereby represent the first set of financial statements presented for the period from incorporation to 31 December 2006.

The accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group.

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards, under UK Generally Accepted Accounting Practice, and under the historical cost accounting rules.

Under section 230(4) of the Companies Act the Company is exempt from the requirement to present its own profit and loss account.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

The principal accounting policies are summarised below. They have been applied consistently throughout the period.

#### *Investments*

Investments in subsidiary and associate undertakings are stated at cost unless, in the opinion of the Directors, there has been impairment to their value in which case they are immediately written down to their estimate recoverable amount.

Where the Company makes an acquisition through share-for-share exchange and the conditions for merger relief under section 131 Companies Act 1985 are met the shares issued as part of the acquisition are recognised at their nominal value with no associated share premium and corresponding amount being taken as the cost of investment.

Where the Company assumes the acquiree's share option obligations as part of an acquisition the historical fair value of those options that have been expensed by the acquiree are recognised as a share based payment reserve and a corresponding amount is reflected as an increase to investment cost.

### TAXATION

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

**Foreign exchange**

Transactions denominated in foreign currencies are translated into Australian dollars at the rates ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences are taken to the profit and loss account. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**Share-based payments**

The fair value of options granted after 7 November 2002 and those not yet vested as at the effective date of FRS 20 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The Company accounts for share options granted in respect of employees of subsidiaries as an additional investment with a corresponding increase in equity.

**2. STAFF NUMBERS**

The only employees of the Company were the Directors.

**3. DIRECTORS EMOLUMENTS**

	<b>31 December 2006</b> AUD \$'000
Directors emoluments	612
Amounts receivable under share based incentive schemes	546
Company contributions to superannuation plans	2
	<hr/>
	1,160
	<hr/>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was \$646,035.

	<b>Number of Directors</b>
In office at the end of the period	4
Retirement benefits are accruing to the following number of directors under:	
Money purchase schemes	2
The number of directors who exercised share options was	-
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	2

Directors rights to subscribe for shares in the Company are indicated below:

	At start of year	At end of year	Exercise price
	Number of options		pence
D. McConchie	50,000	-	20p

#### 4. LOSS FOR THE FINANCIAL PERIOD

As permitted by section 230 (4) of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The loss for the period of the parent company was AUD\$137,490.

#### 5. INVESTMENTS

	Subsidiary and associated undertakings AUD \$'000
<b>Cost:</b>	
Initial acquisition	5,959
Addition capital contribution – share option fair value recognition	9,406
Foreign currency movement	(19)
	<hr/>
At 31 December 2006	15,346
	<hr/>
<b>Net book value:</b>	
At 31 December 2006	15,346
	<hr/>

On 25 August 2006, the Company became the holding company of Virotec International Ltd. The former Virotec International Ltd shareholders were issued new shares in the Company on a one-for-one basis under the terms of the Scheme of Arrangement (the "Scheme") approved by Virotec International Ltd shareholders. Immediately following the Scheme, the former shareholders of Virotec International Ltd held the same economic interest in Virotec International plc as they held in Virotec International Ltd immediately prior to its implementation.

The Company issued 240,162,442 1p shares in relation to the acquisition. In accordance with section 131 Companies Act 1985 the shares were issued at their nominal value with no associated share premium. This resulted in an initial cost of investment of £2,401,624. Under the Scheme the Company also issued share options to subsidiary employees to replace existing share options. A share based payment reserve has been recognised to reflect the fair value expensed in relation to these options with the corresponding amount accounted for as a capital contribution and an increase to the carrying value of the investment. During the period the additional fair value spread over the vesting period and recognised as an expense during the period in the underlying subsidiary is recognised as additional capital contributions to the subsidiary and increase in the cost of investment.

## 6. SHARE CAPITAL

The share capital of the Company is as follows:

	<b>31 December 2006</b> AUD \$'000
<b>Authorised:</b>	
900,000,000 ordinary shares of 1p each	22,332
<b>Allotted, called up and fully paid:</b>	
240,162,442 ordinary shares of 1p each	5,959

## 7. CAPITAL AND RESERVES

*Reconciliation of movement in total equity*

	<b>Share capital</b> AUD \$'000	<b>Share-based payment reserve</b> AUD \$'000	<b>Retained deficit</b> AUD \$'000	<b>Translation reserve</b> AUD \$'000	<b>Total equity</b> AUD \$'000
Share issued on incorporation	-	-	-	-	-
Loss for the year	-	-	(137)	-	(137)
Arising on issue of shares	5,959	-	-	-	5,959
Arising on issue of options	-	9,406	-	-	9,406
Total recognised income and expense	-	-	-	(19)	(19)
Balance 31 December 2006	5,959	9,406	(137)	(19)	15,209

## 8. EXECUTIVE SHARE OPTION SCHEMES

For full details of share option schemes, the number of options outstanding and associated terms see note 19 in the consolidated financial statements.

## 9. COMMITMENTS

The Company has no commitments under operating leases at 31 December 2006. The Company had no capital commitments or contingent liabilities at 31 December 2006.

## 10. RELATED PARTY DISCLOSURE

The Company is considered to have no ultimate controlling party. For details of related party transactions see note 23 in the consolidated financial statements.

# VIROTEC INTERNATIONAL PLC

## (the “Company”)

(Incorporated in England and Wales with registered number 05796515)

### Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the first annual general meeting of the Company will be held at Kempson House, Camomile Street, London EC3 7AN on 26 April 2007 at 10.00a.m for the following purposes:

*As ordinary business:*

- 1 To receive and adopt the report of the Directors and the audited accounts of the Company for the period ended 31 December 2006 together with the report of the auditors thereon.
- 2 To re-elect John Glynn, who retires by rotation pursuant to Article 114 of the Company’s Articles of Association and who, being eligible, offers himself for re-election, as a Director.
- 3 To re-elect Brian Sheeran, who retires by rotation pursuant to Article 114 of the Company’s Articles of Association and who, being eligible, offers himself for re-election, as a Director.
- 4 To re-appoint KPMG Auditor Plc as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

*As special business:*

- 5 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with section 80 Companies Act 1985 (“CA 1985”) and in substitution for any existing power to allot relevant securities to exercise all the powers of the Company to allot relevant securities (within the meaning of the said section 80) up to an aggregate nominal amount of £856,100 during the period commencing on the date of the passing of this resolution and expiring on the earlier of the conclusion of the next annual general meeting of the Company and 26 July 2008 but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

- 6 To consider and, if thought fit, to pass the following resolution as a special resolution:

THAT

- a) the Directors be and they are hereby empowered, pursuant to section 95 Companies Act 1985 (“CA 1985”):
  - (i) subject to the passing of Resolution 5 set out above, to allot equity securities (within the meaning of section 94 CA 1985) for cash consideration pursuant to the authority given by the said Resolution;

and

- (ii) to transfer equity securities (within the meaning of section 94 CA 1985) which are held by the Company in treasury;

as if section 89(I) CA 1985 did not apply to any such allotments or transfers, provided that this power shall be limited to the allotment or transfer of equity securities:

(A) in connection with or the subject of an offer or invitation, open for acceptance for a period fixed by the Directors, to holders of ordinary shares and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (including equity securities which, in connection with such offer or invitation, are the subject of such exclusion or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal practical problems under the laws of, or other requirements of any recognised regulatory body or any stock exchange in, any territory);

(B) pursuant to the grant or exercise of any share option pursuant to any share scheme of the Company in force from time to time and any shares acquired or held by the Company in treasury may be transferred in satisfaction of the exercise of such options;

(C) (otherwise than pursuant to sub paragraphs (A) and (B) above) up to an aggregate nominal amount of £256,830 (representing approximately 10 per cent of the issued share capital of the Company);

and shall expire at the earlier of the conclusion of the next annual general meeting of the Company and 26 July 2008, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements; and

- b) all authorities previously conferred under section 95 CA 1985 be and are hereby revoked, provided that such revocation shall not have retrospective effect.

**By Order of the Board**

Angus Craig  
Secretary  
30 March 2007

**Registered Office:**

Ship Canal House  
King Street  
Manchester M2 4WB

**Notes:**

- 1 A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
- 2 A form of proxy is provided with this notice. Completion and return of such a proxy will not prevent a member from attending the meeting and voting in person.
- 3 To be effective, the form of proxy and any power of attorney or other authority under which it is signed

(or a notarially certified copy of such authority) must be deposited with the Company's registrars, Computershare Investor Services PLC The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom not less than 48 hours before the time of the holding of the meeting or any adjournment thereof.

- 4 Pursuant to regulation 41(1) of the Uncertificated Securities Regulations 2001 (2001 No.3755), the Company has specified that only those members registered on the register of members of the Company at 10a.m. 24 April 2007 shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the register of members after 10a.m. 24 April 2007 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 5 The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and Public Holidays excluded) until the date of the annual general meeting and also on the date and at the place of the meeting from 10a.m. until the conclusion of the meeting:
  - (a) copies of Directors' service contracts and letters of appointment; and
  - (b) the Register of Directors' Interest required to be kept by Companies Act 1985

## **ORDINARY BUSINESS**

### ***Annual report and accounts (Resolution 1)***

Shareholders will be asked to receive and adopt the annual report and accounts for the period ended 31 December 2006

### ***Reappointment of Directors (Resolutions 2 and 3)***

John Glynn who retires by rotation pursuant to Article 114 of the Company's articles of association offers himself for re-election.

Brian Sheeran who retires by rotation pursuant to Article 114 of the Company's articles of association offers himself for re-election.

### ***Auditors (Resolution 4)***

The Company is required at each general meeting at which accounts are presented to appoint auditors to hold office until the next such meeting. KPMG Audit Plc have indicated their willingness to continue in office. Accordingly, Resolution 5 reappoints KPMG Audit Plc as auditors to the Company until the next annual general meeting and authorises the Directors to fix their remuneration.

## **SPECIAL BUSINESS**

### ***Authority of Directors to allot shares (Resolution 5)***

The authority given to the Directors to allot further shares in the capital of the Company requires the prior authorisation of the shareholders in general meeting under Section 80 Companies Act 1985. Upon the passing

## *VIROTEC INTERNATIONAL PLC*

of Resolution 5 the Directors will have authority to allot up to 85,609,925 shares, which is approximately one third of the current issued share capital. This authority will expire immediately after the next annual general meeting following the resolution being passed or, if earlier, 26 July 2008.

### ***Disapplication of pre-emption rights (Resolution 6)***

The passing of Resolution 6 will give the Directors authority under Section 95 Companies Act 1985 to allot, for cash (or sell equity securities which are, from time to time held by the Company in treasury), limited to (i) an offer to the shareholders by way of a rights issue; (ii) pursuant to the grant or exercise of any share option pursuant to any share scheme of the Company in force from time to time; and (iii) otherwise than in respect of (i) and (ii) up to 25,628,298 shares, (being approximately 10 per cent. of the current issued share capital) without being required first to offer such securities to existing shareholders in accordance with the statutory pre-emption rights. This authority will expire immediately after the next annual general meeting following the resolution being passed or, if earlier, 26 July 2008. It is intended to renew such power at successive annual general meetings of the Company. There is no present intention of issuing any shares.

### ***Action to be taken***

You will find enclosed a form of proxy for use at the Annual General Meeting. Please complete, sign and return the enclosed form as soon as possible in accordance with the instructions printed thereon, whether or not you intend to be present at the Annual General Meeting. Forms of proxy should be returned so as to be received by Computershare Investor Services PLC The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom as soon as possible and in any event no later than 48 hours before the time appointed for holding the Annual General Meeting.

### ***Documents for inspection***

Copies of the following documents will be available for inspection at the registered office of the Company from the date of this document until the date of the Annual General Meeting and will also be available for inspection at the Annual General Meeting:

- a) copies of the Directors' service contracts and letter of appointment; and
- b) the Register of Directors' Interests required to be kept by the Companies Act 1985.

### ***Recommendation***

Your Directors consider that the proposals described in this letter are on the best interests of shareholders as a whole and unanimously recommend shareholders to vote in favour of all the Resolutions to be proposed at the Annual General Meeting.

*www.virotec.com*

Virotec International plc

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Registered Number 5796515

