



2007  
ANNUAL REPORT



TOWARDS A CLEANER ENVIRONMENT

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## **Virotec International plc**

### **DIRECTORS, SECRETARY AND ADVISERS**

Company registration number:	5796515
Registered office:	Bioscience Centre International Centre for Life Times Square Newcastle-upon-Tyne NE1 4EP
Directors:	B. Sheeran (Chairman) B. Bamonte (CFO) J. Glynn D. McConchie J. Seager (Appointed 18 June 2007)
Secretary:	A. Craig
Nominated advisers and broker:	Ardens Partners plc, Nicholas House, 3 Laurence Poutney Hill, London EC4R 0EU
Solicitors:	Cobbetts LLP Ship Canal House King Street Manchester M2 4WB  McCullough Robertson Level 11 Central Plaza Two 66 Eagle Street Brisbane, Queensland 4000 Australia
Registrars:	Computershare Investor Services PLC The Registrar PO Box 82, The Pavilions Bridgewater Road BRISTOL BS99 7NH
Auditors:	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB

## CHAIRMAN'S STATEMENT

Dear Shareholders

I am pleased to present the Group's financial report for the year ended 31 December 2007.

The Group achieved turnover for the year ended 31 December 2007 of AUD\$3.52 million compared with AUD\$1.57 million for six months ended 31 December 2006. The loss for the year was AUD\$13.4m, compared to a loss of AUD\$7.6m for the six months ended 31 December 2006. The comparative information provided is only for the six month period to 31 December 2006 due to the change in the financial reporting period from the end of June to the end of December as a consequence of the change of domicile of the Group to the UK with Virotec International plc becoming the group holding company in August 2006.

The Group's balance sheet for the year remains strong with net assets of AUD\$17.4m, limited borrowings and significant investments in two listed companies (Hydrodec Group plc and The Greenhouse Fund Limited), which are recorded at book value in the balance sheet at AUD\$9.7m whilst their current market value is in excess of AUD\$57m. The cash balance at year end was AUD\$0.4m, however this does not include approximately AUD\$2m relating to the sale of Hydrodec Group plc shares in December 2007, which was accounted for as a receivable at year end and subsequently received in January 2008.

The Group continued to provide environmental remediation and waste treatment services through the application of Group patented technologies 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 Solid Waste Treatment**

- ViroFlow™ Technology – applications developed for the treatment of drinking water and wastewater and solid waste from industrial sites.
- ViroSewage™ Technology (referred to as ViroFilter™ Technology in the UK) – applications developed for the sewage industry.

The Group's operations are conducted in three geographic areas: Australia and Asia, Europe and the USA.

### **Australia and Asia**

In Australia and Asia, the Group's environmental remediation operations continued to grow, with a record year in terms of revenue. The turnover for the region for the period ended 31 December 2007 year was AUD\$2.16m, compared with AUD\$0.89m for six months ended 31 December 2006. The Group has operated for the longest period in the Australian market which has been the proving ground for its core technologies. The various environmental remediation and waste treatment applications have been commercially developed in Australia which has proven the viability of the aforementioned technologies. The Group now has significant market presence and forward orders in this region, and will continue to increase both its revenue and profitability in the coming year.

In March 2008, Virotec announced a significant new contract has been entered to supply solid waste treatment services to Nyrstar Hobart Pty Ltd (formerly part of Zinifex Ltd) using its ViroFlow™ Technology. The contract is to treat mercurous filter cake and is expected to generate up to \$3.5m in revenue in 2008. Work on the contract has commenced and is expected to be completed by the end of the third quarter of 2008.

### **Europe**

In Europe, the primary focus to date has been within the United Kingdom. The turnover for the year ended 31 December 2007 was AUD\$0.56m compared to \$0.55m in the six months ended 31 December 2006. Initially, the Group targeted water companies with its ViroFilter™ Technology for phosphate removal from municipal wastewater. This technology had been successfully trialled by an independent body, the Water Research Council, and has now been verified by one of the UK's largest water companies. Due to customer budgetary

## **Virotec International plc**

cycles, this part of the market has taken longer than expected to penetrate. During the period, a new general manager for the UK operations was appointed and the business is now expanding into other areas of waste treatment, including hazardous solid waste management, that have been successfully realised in Australia and which are expected to generate more immediate sales in the UK.

The operations in Italy have been scaled back, with a view of finding a licensee to manage the sales and marketing effort in the region. All production assets from Italy have been transferred to the USA where production for all geographical will be now based.

### **United States of America**

The turnover in the USA for the year ended 31 December 2007 was AUD\$0.8m compared to AUD\$0.13m for the six months ended 31 December 2006. The USA is considered to be our largest target market and three key industries have been identified for near-term focus by the Group.

1. Drinking Water from Wells – The Group has spent a significant amount of time addressing the regulatory issues associated with drinking water, particularly where contaminants include radium, uranium, gross alpha and/or arsenic. The Group has two ViroFlow™ Technology filter systems installed at the date of this report.

2. Phosphate Removal from Concentrated Animal Feeding Operation (CAFO) Lagoons – In June 2007, the Group was contracted to treat 13 lagoons for the largest hog farmer in the world. The treatments have been completed and it is expected that further contracts to treat additional lagoons will follow. These results will allow part of our ongoing sales efforts to target other CAFOs.

3. Wastewater Treatment Plants – To date a number of wastewater treatment plants have been contracted to use ViroFlow™ Technology to treat their waste lagoons for phosphate and odour reduction. These treatments have been successful and the Group now has important reference sites to demonstrate the effectiveness of the technology to other companies in the region.

In 2007 the sales effort in the USA was based in Colorado and South Carolina, where the Group operated through its 66% owned joint venture, Virotec Aquasolve. Due to the disappointing result in 2007 an extensive review of the operations was conducted by the Group.

Following this review the Board dismissed existing management of Virotec Aquasolve and commenced proceedings against them to recover assets which they consider to be misapplied. The majority of fixed assets have been secured and the cash balances expected to be recovered are not material in the context of the Group as a whole.

Following the restructuring, all USA operations are now being managed directly by CEO, Dr Lee Fergusson, and are now both financially and operationally structured to more closely resemble Virotec's Australian operations, which are now trading profitably.

### **Investment in Associate**

Virotec holds 54,500,000 ordinary shares in Hydrodec Group plc ("Hydrodec") representing 28.1 percent of its issued share capital. In addition, under a royalty agreement, Virotec is entitled to receive five percent of revenues generated by the Hydrodec technology.

At present, production of Hydrodec's Superfine™ transformer oil at its Australian facility is at near full capacity and demand continues to be strong, driven primarily by an export order from a Turkish distributor which was announced on 8 November 2007.

On 29 January 2008, Hydrodec announced it had made progress in the USA with the construction of its first production plant in Ohio. A decision was also made to accelerate the planning and construction of a second plant in Mississippi, which is expected to be fully operational by the third quarter of 2009.

In a trading update, announced on 28 February 2008, Hydrodec stated that it had reached a price agreement with, and secured a conditional commitment from, a transformer oil buyer in the US to purchase more than 50 per cent. of the maximum production capacity of the Ohio plant, plus a firm expression of interest in increasing purchase quantities upon the commissioning of the Mississippi plant.

On 11 March 2008, Hydrodec announced its preliminary results for the year to 31 December 2007 which showed a pre-tax loss of £2.3m (2006: £2.8m) and a decrease in net operating cash outflow to £0.6m (2006: £2.1m).

## **Virotec International plc**

### ***Investment***

Virotec holds 30,000,000 ordinary shares in The Greenhouse Fund Limited ("Greenhouse") representing approximately 20 percent of its issued share capital. Greenhouse is a Jersey domiciled, closed-ended investment company established to invest principally in sustainable environmental technologies to create a portfolio of investment holdings in the Environmental Sector.

Since inception Greenhouse has invested in the Environmental Sector acquiring five Bauxsol™ Technology sub-licences from Virotec and now owns approximately 57% in Molecetra Australia Pty Ltd, which is licensed to commercialise an advanced technology based on a sustainable process that re-cycles used vehicle tyres and recovers materials from them, including crumb rubber, oil and carbon.

As a result of a conservative accounting treatment this investment has been written down to market value at 31 December 2007 resulting in an impairment loss of AUD\$3.5m being recorded in the current year.

### ***Dividend***

The Directors do not propose the payment of a dividend as they believe their resources will provide a greater return by being re-invested in its business operations.

### ***Bid Approach***

As advised to the market on 30 January 2008, Virotec was approached in relation to proposals that might result in an offer being made for the Company. On 4 April 2008, Virotec confirmed that discussions were ongoing with one party, and that Hydrodec had informed Virotec that it had purchased 7.75m shares (2.93 per cent. of the issued share capital) and noted its intention to make an offer at around 12p for the Company and that it had support of shareholders holding just below 30 per cent. of the issued share capital. Hydrodec announced that it had increased its holding to just over 3 per cent. and that its all share offer would be on the basis of 1 Hydrodec share for every 3.75 Virotec shares. Further it stated that it was seeking the recommendation of the Virotec Board.

Virotec is progressing these discussions at a good pace and the Board of Virotec hopes to be in a position to enable proposals to be put before shareholders as soon as due diligence and the legal requirements have been completed.

Yours sincerely,

**Brian Sheeran**  
Executive Chairman

## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2007.

The Company was incorporated on 26<sup>th</sup> April 2006 and on 25<sup>th</sup> August 2006 the Company acquired the entire share capital of Virotec International Ltd through a share for share exchange. The financial statements presented are for the year ended 31 December 2007 with comparatives for the six months ended 31 December 2006.

### Principal Activities and Business Review

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

The review of the business is included in the Chairman's Statement. The consolidated income statement is set out on page 12.

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. Virotec operates in areas where regulatory approvals and customer acceptance take time to obtain. These approvals have taken longer than the Company expected, however now that these milestones have been achieved, Virotec is focussed on the commercial roll out of its products and services.

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 28% of the equity of HydroDec, with a market value of \$28.1 million as at year end; and
2. The Greenhouse Fund Limited – the Group owns approximately 19.9% of the equity of Greenhouse, with a market value of \$6.8 million as at year end.

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

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.

During the year the Company conducted a placing of 17,350,000 ordinary shares which raised AUD\$4.77 million. The proceeds from the placing were used to fund Virotec's continuing expansion in the USA and other ongoing operations.

### Dividends

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

### Directors

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

	2007		2006	
	Ordinary shares	Options	Ordinary shares	Options
B. Sheeran	10,947,540	-	7,063,129	-
B. Bamonte	7,545,493	-	5,623,914	-
J. Glynn	56,300	500,000	56,300	-
D. McConchie	500,000	2,000,000	500,000	-
J. Seager*	1,345,000	-	-	-
Total	20,394,333	2,500,000	13,243,343	-

\* Mr Seager was appointed as a director in June 2007.

None of the directors who held office at the end of the financial year 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 year except as indicated above.

## **Virotec International plc**

### **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.

The Group has implemented a risk management system that incorporates all planning, control and reporting systems. These systems also permit existing potential opportunities to be included and exploited. The Group is required to identify and mitigate risks locally on a regular basis.

The principal risk to the business remains the achievement of greater market penetration of the technologies.

Other significant risks lay in inventories, receivables and intellectual property protection.

The Group manages business and development risks to minimise their likelihood or impact. There are processes in place to control the level of expenditure and future commitments.

### **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 2007 were 45 days (December 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 and Justin Seager. 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.

## **Virotec International plc**

### **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.

### **Post Balance Sheet Events**

As advised to the market on 30 January 2008, Virotec has been approached in relation to certain proposals, one of which may or may not result in an offer being made for the Company. On 4 April 2008, Virotec further advised the market that discussions with one particular party have been on-going since that date. The Board was informed by Hydrodec Group PLC ("Hydrodec") that Hydrodec had bought 7.75 million Virotec ordinary shares at an average price of 7.85 pence per share. This purchase represents approximately 2.93 per cent. of the issued share capital of Virotec. Hydrodec also informed the Board of Virotec of its intention to make an all share offer for the Company. On the basis of the share price of Hydrodec at the close of business on 3 April 2008, the indicative offer would value each Virotec ordinary share at approximately 12p per share. Hydrodec further notified the Board of Virotec that it had received support from shareholders in Virotec, representing in aggregate just below 30 per cent. of the issued share capital of Virotec. At the time of writing, discussions were continuing and the Company will update the market in due course.

In March 2008, Virotec announced a significant new contract has been entered to supply solid waste treatment services to Nyrstar Hobart Pty Ltd (formerly part of Zinifex Ltd) using its ViroFlow™ Technology. The contract is to treat mercurous filter cake and is expected to generate up to \$3.5m in revenue in 2008. Work on the contract has commenced and is expected to be completed by the end of the third quarter of 2008.

In 2007 the sales effort in the USA was based in Colorado and South Carolina, where the Group operated through its 66% owned joint venture, Virotec Aquasolve. Due to the disappointing result in the Group's operation USA in 2007 an extensive review of the operations was conducted by the Group. Following this review the Board dismissed existing management of Virotec Aquasolve and commenced proceedings against them to recover assets which they consider to be misapplied. The majority of fixed assets have been secured and the cash balances expected to be recovered are not material in the context of the Group as a whole. The restructured USA operations are now being managed directly by CEO, Dr Lee Fergusson.

### **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. BAMONTE**

Director

21 April 2008

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

The directors are responsible for preparing the Annual 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 year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRS's 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.



KPMG Audit Plc  
8 Salisbury Square  
London EC4Y 8BB  
United Kingdom

## **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 year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statements, the Consolidated Statements 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 Directors' Report and the 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 8.

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.

In addition we 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 Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report and 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. It also includes an assessment of the significant estimates and judgments 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.

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.

**Independent auditors' report to the members of Virotec International  
Plc** *(continued)*

**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 2007 and of its loss for the year 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 2007;

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*

21 April 2008

## Virotec International plc

### Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 AUD\$'000	2006 AUD\$'000
<b>Assets</b>			
Property, plant and equipment	11	5,366	6,019
Investments in equity accounted investees	12	2,916	5,396
Investments	13	6,800	9,680
Receivables	16	450	521
<b>Total non-current assets</b>		<b>15,532</b>	<b>21,616</b>
Inventories	15	1,031	1,475
Trade and other receivables	16	3,522	1,955
Cash and cash equivalents	17	391	3,283
<b>Total current assets</b>		<b>4,944</b>	<b>6,713</b>
<b>Total assets</b>		<b>20,476</b>	<b>28,329</b>
<b>Equity</b>			
Share capital	18	6,535	5,959
Share premium reserve	18	8,140	-
Other reserves	18	101,441	105,944
Deficit	18	(98,732)	(86,890)
<b>Total equity attributable to equity holders of the Company</b>		<b>17,384</b>	<b>25,013</b>
<b>Minority interest</b>		-	-
<b>Total equity</b>	18	<b>17,384</b>	<b>25,013</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	21	290	551
Provisions	23	731	690
<b>Total non-current liabilities</b>		<b>1,021</b>	<b>1,241</b>
Interest-bearing loans and borrowings	21	392	139
Trade and other payables		1,556	1,705
Employee benefits		98	206
Provisions	23	25	25
<b>Total current liabilities</b>		<b>2,071</b>	<b>2,075</b>
<b>Total liabilities</b>		<b>3,092</b>	<b>3,316</b>
<b>Total equity and liabilities</b>		<b>20,476</b>	<b>28,329</b>

The financial statements were approved by the Board of Directors on 21 April 2008 and were signed on its behalf by

#### B. Bamonte - Director

The notes on pages 15 to 31 are an integral part of these financial statements.

**Consolidated Income Statement**  
**For the year ended 31 December 2007**

	Note	Year ended 31 December 2007 AUD\$'000	Six months ended 31 December 2006 AUD\$'000
Revenue		3,522	1,570
Cost of sales		(1,924)	(1,053)
<b>Gross profit</b>		<b>1,598</b>	<b>517</b>
Gain on disposal of shares	9	2,262	-
Other income	5	101	33
Impairment loss on investments		(3,543)	-
Sales and marketing expenses		(5,509)	(2,681)
Administrative expenses		(6,660)	(4,195)
<b>Loss from operating activities</b>		<b>(11,751)</b>	<b>(6,326)</b>
Financial income		158	204
Financial expenses		(77)	(31)
<b>Net financing income</b>		<b>81</b>	<b>173</b>
Share of loss of associate (net of income tax)	12	(1,699)	(1,412)
<b>Loss before tax</b>		<b>(13,369)</b>	<b>(7,565)</b>
Taxation	10	-	-
<b>Loss after tax</b>		<b>(13,369)</b>	<b>(7,565)</b>
<b>Attributable to:</b>			
Equity holders of the parent		(13,369)	(7,565)
Minority		-	-
<b>Loss for the year</b>		<b>(13,369)</b>	<b>(7,565)</b>
<b>Earnings per ordinary share:</b>			
Basic and diluted earnings per share (AUD \$)	19	(0.052)	(0.032)

The notes on pages 15 to 31 are an integral part of these financial statements.

**Consolidated Statement of Recognised Income and Expense**

**For the year ended 31 December 2007**

	Note	Year ended 31 December 2007 AUD\$'000	Six months ended 31 December 2006 AUD\$'000
Foreign currency translation differences for foreign operations	18	(2,105)	(420)
Net change in fair value of available-for-sale financial assets	18	1,298	(1,298)
<b>Income and expense recognised directly in equity</b>		<b>(807)</b>	<b>(1,718)</b>
Loss for the year		(13,369)	(7,565)
<b>Total recognised income and expense for the year</b>	18	<b>(14,176)</b>	<b>(9,283)</b>
<b>Attributable to:</b>			
Equity holders of the Company		(14,176)	(9,283)
Minority interest		-	-
<b>Total recognised income and expense for the year</b>	18	<b>(14,176)</b>	<b>(9,283)</b>

The notes on pages 15 to 31 are an integral part of these financial statements.

## Consolidated Statement of Cash Flows

For the year ended 31 December 2007

Note	Year ended 31 December 2007 AUD\$'000	Six months ended 31 December 2006 AUD\$'000
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	2,080	1,035
Cash payments in the course of operations	(9,100)	(7,049)
Cash absorbed by operations	(7,020)	(6,014)
Interest received	158	205
Interest paid	(77)	(11)
<b>Net cash flows from operating activities</b>	<b>(6,939)</b>	<b>(5,820)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	21	20
Acquisition of property, plant and equipment	(557)	(2,395)
<b>Net cash flows from investing activities</b>	<b>(536)</b>	<b>(2,375)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	4,984	-
Share issue costs	(216)	-
Repayments of borrowings	(185)	-
Increase in borrowings	-	666
<b>Net cash flows from financing activities</b>	<b>4,583</b>	<b>666</b>
Net decrease in cash and cash equivalents	(2,892)	(7,529)
Cash and cash equivalents at 1 January	3,283	10,812
<b>Cash and cash equivalents at 31 December</b>	<b>391</b>	<b>3,283</b>

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The notes on pages 15 to 31 are an integral part of these consolidated financial statements.

## **Notes to the Consolidated Financial Statements**

### **I. REPORTING ENTITY**

Virotec International plc (the “Company”) is a company domiciled in England. The address of the Company’s registered office is Bioscience Centre, International Centre for Life, Times Square, Newcastle-upon-Tyne England. The consolidated financial statements of the Company as at and for the year ended 31 December 2007 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 year ended 31 December 2007 and for the six months ended 31 December 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.

In these financial statements the following IFRSs which are effective for the first time, have been adopted:

- IFRS 7 ‘Financial Instruments: Disclosures’ and the related amendment to IAS 1 ‘Presentation of Financial Statements’ in relation to capital disclosures
- IFRIC 8 ‘Scope of IFRS 2 Share-based Payment’
- IFRIC 9 ‘Reassessment of Embedded Derivatives’
- IFRIC 10 ‘Interim Financial Reporting and Impairment’

#### **(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.

***Impairment of investment available-for-sale***

The carrying value of the investment classified as available-for-sale is reviewed at each balance sheet date to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated. Impairment losses are recognised in the income statement.

**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) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

**(g) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating activity.

**(h) 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.

**(i) 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.

### **(j) 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.

### **(k) 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 year, 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.

**(l) Employee benefits**

The provision for employee benefits to wages, salaries and annual leave represent the amount which the consolidated Group has a present obligation to pay resulting from employees services provided up to the balance date. The provision has been calculated at undiscounted nominal amounts based on wage and salary rates.

**(m) 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.

**(n) 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.

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

The following Adopted IFRS were available for early application but have not been applied by the Group and the Company in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' (mandatory for the year commencing on or after 1 March 2007)
- IFRS 8 'Operating Segments' – the effect of this standard has not yet been evaluated

**(p) Financial Statements of the Company**

The 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. All research and development work conducted during the period relates to the development 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 Group operates in three principal geographical areas:

- Australia and Asia;
- North America; and
- Europe

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.

## Virotec International plc

	Australia and Asia	USA	Europe	Consolidated
	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000
<b>31 December 2007</b>				
Revenue	2,164	800	558	3,522
Segment assets	7,324	5,441	7,711	20,476
Capital expenditure	151	411	40	602
<b>31 December 2006</b>				
Revenue	890	127	553	1,570
Segment assets	19,913	6,418	1,998	28,329
Capital expenditure	76	2,283	36	2,395

### 5. OTHER OPERATING INCOME

	Note	Year ended 31 December 2007 AUD\$'000	Six months ended 31 December 2006 AUD\$'000
Research and development grants received		-	33
Other income		101	-
		101	33

### 6. EXPENSES AND AUDITORS' REMUNERATION

Included in loss are the following:

Legal fees		317	367
Loss on sale of property, plant and equipment		83	120
Operating lease rentals	24	304	109
Research and development		865	1,009

Auditors remuneration:

Amounts receivable by auditors and their associates in respect of:

Audit of financial statements of the Company		216	50
Audit of financial statements of subsidiaries pursuant to legislation		8	76
Other services pursuant to Scheme of Arrangement		-	15
Other services relating to taxation		43	4
All other services		6	20
		273	165

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 year, analysed by category, was as follows:

	Year ended 31 December 2007	Six months ended 31 December 2006
	Number of employees	
Sales	9	12
Production	23	28
Administration	13	15
	45	55
	AUD\$'000	AUD\$'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	3,234	1,911
Share based payments (See note 20)	1,544	1,187
Pension costs	242	71
Social security costs	134	86
	5,154	3,255

**8. DIRECTORS' EMOLUMENTS**

	<b>Year ended 31 December 2007</b>	<b>Six months ended 31 December 2006</b>
	AUD\$'000	AUD\$'000
Directors' emoluments	1,253	612
Amounts receivable under share based incentive schemes	985	546
Company contributions to superannuation plans	4	2
	<u>2,242</u>	<u>1,160</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was \$1,105,523 (six months ended 31 December 2006: \$646,035).

	Number of directors	
In office at the end of the period	5	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 the Company are indicated below:

<i>Options to subscribe for shares</i>	At beginning of period	Granted	At end of period	Exercise price	Date first exercisable
	Number	Number	Number	£	
David McConchie	-	2,000,000	2,000,000	0.20	25 April 2007
John Glynn	-	500,000	500,000	0.20	25 April 2007

**9. GAIN ON DISPOSAL OF SHARES**

	<b>Year ended 31 December 2007</b>	<b>Six months ended 31 December 2006</b>
	AUD\$'000	AUD\$'000
Gain on disposal of shares in equity accounted investee	<u>2,262</u>	<u>-</u>

During the year the Group disposed of shares in its equity accounted investee Hydrodec Group plc. For information relating to the Group's investment refer to note 12.

**10. INCOME TAX BENEFIT IN THE INCOME STATEMENT**

**Current tax benefit**

Current year	<u>-</u>	<u>-</u>
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**Deferred tax benefit**

Origination and reversal of temporary differences	<u>-</u>	<u>-</u>
Total income tax benefit in income statement	<u>-</u>	<u>-</u>

**Reconciliation of effective tax rate**

Loss before tax	<u>(13,369)</u>	<u>(7,565)</u>
Income tax using the domestic corporation tax rate of 30% (31 December 2006: 30%)	(4,011)	(2,270)
Increase in income tax expense due to:		
– Share of associates net loss for the year	510	424
– Impairment loss on investment	674	-
– Other non-deductible expenses	651	219
– Current year losses for which no deferred tax asset was recognised	2,085	1,627
Decrease in income tax expense due to:		
– Non assessable profit on sale of shares	91	-
Income tax benefit on pre-tax net profit	<u>-</u>	<u>-</u>

## Virotec International plc

### II. PROPERTY, PLANT AND EQUIPMENT

	<i>Land</i>	<i>Plant &amp; Equipment</i>	<i>Computer Equipment</i>	<i>Office Furniture &amp; Equipment</i>	<i>Motor Vehicle</i>	<i>Total</i>
	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000
<b>Cost</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>
Balance at 1 January 2007	480	6,453	75	51	16	7,075
Additions	-	522	13	67	-	602
Disposals	-	(516)	(44)	(50)	-	(610)
Effect of movements in exchange rates	3	(451)	-	-	-	(448)
<b>Balance at 31 December 2007</b>	<b>483</b>	<b>6,008</b>	<b>44</b>	<b>68</b>	<b>16</b>	<b>6,619</b>
<b>Depreciation and Impairment Losses</b>						
Balance at 1 July 2006	-	(775)	(59)	(64)	(13)	(911)
Depreciation for the year	-	(213)	(15)	(5)	-	(233)
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>
Balance at 1 January 2007	-	(954)	(47)	(42)	(13)	(1,056)
Depreciation for the year	-	(710)	(19)	(11)	(1)	(741)
Disposals	-	398	44	50	-	492
Effect of movement in exchange rates	-	52	-	-	-	52
<b>Balance at 31 December 2007</b>	<b>-</b>	<b>(1,214)</b>	<b>(22)</b>	<b>(3)</b>	<b>(14)</b>	<b>(1,253)</b>
<b>Net book value:</b>						
<b>At 31 December 2007</b>	<b>483</b>	<b>4,794</b>	<b>22</b>	<b>65</b>	<b>2</b>	<b>5,366</b>
At 31 December 2006	480	5,499	28	9	3	6,019
At 30 June 2006	494	3,614	37	13	3	4,161

At year end the net carrying value of leased plant and equipment was AUD\$357,799 (2006: AUD\$447,732)

## 12. EQUITY ACCOUNTED INVESTEEES

The Group's share of loss in its equity accounted investees for the year was \$1,698,790 (six months ended 31 December 2006: loss of \$1,412,000). The Group equity accounts for its investment in Hydrodec Group plc. Summary financial information for equity accounted investees for the year ended 31 December 2007 and the six months 31 December 2006, not adjusted for the percentage ownership held by the Group:

	2007	2006
Ownership – ordinary shares	28.1%	32.5%
	AUD\$'000	AUD\$'000
Current assets	27,819	2,992
Non-current assets	29,580	25,900
Total assets	<u>57,399</u>	<u>28,892</u>
Current liabilities	9,837	1,039
Non-current liabilities	755	649
Total liabilities	<u>10,592</u>	<u>1,688</u>
Revenue	5,417	1,066
Expenses	(10,886)	(5,314)
Loss	<u>(5,469)</u>	<u>(4,248)</u>

The market value of the investment in equity accounted investees as at year end was AUD\$28.1 million.

On 5 November 2007 Hydrodec Group Plc issued convertible loan notes to a third party. The equity interest in these compound instruments (and corresponding asset) has been eliminated for the purpose of consideration. If the convertible loan notes were issued the Company interest in Hydrodec Group Plc would be diluted to 21.8%.

## 13. INVESTMENTS

### Non-current investments

Listed equity securities – available-for-sale	<u>6,800</u>	<u>9,680</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.

## 14. DEFERRED TAX ASSETS AND LIABILITIES

### Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000
Employee Entitlements	29	62	-	-	29	62
Provision for Rehabilitation	227	215	-	-	227	215
Investment in Associate	-	-	(875)	(1,619)	(875)	(1,619)
Prepayments	-	-	(18)	-	(18)	-
Fixed Assets	-	-	(111)	-	(111)	-
Other	392	357	-	(115)	392	242
Tax losses carried forward	356	1,100	-	-	356	1,100
Tax assets/(liabilities)	<u>1,004</u>	<u>1,734</u>	<u>(1,004)</u>	<u>(1,734)</u>	<u>-</u>	<u>-</u>
Set off tax	(1,004)	(1,734)	1,004	1,734	-	-
Net tax assets/(liabilities)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## Virotec International plc

### Unrecognised deferred tax assets

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

	2007	2006
	AUD\$'000	AUD\$'000
Tax losses	6,402	4,133

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.

### 15. INVENTORIES

Work in progress	-	88
Raw materials	1,031	1,387
	<u>1,031</u>	<u>1,475</u>

### 16. TRADE AND OTHER RECEIVABLES

#### Current

Trade receivables	795	1,508
Other receivables	2,617	428
Prepayments	110	19
	<u>3,522</u>	<u>1,955</u>

#### Non-current

Refundable security deposits and bonds	450	521
	<u>450</u>	<u>521</u>

### 17. CASH AND CASH EQUIVALENTS

Bank balances	391	1,279
Call deposits	-	2,004
	<u>391</u>	<u>3,283</u>

### 18. SHARE CAPITAL AND RESERVES

Issues	Number of ordinary shares	Nominal value AUD\$'000	Merger reserve AUD\$'000	Share premium 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>	<u>-</u>
Balance at 1 January 2007	240,162,442	5,959	96,417	-
17,350,000 ordinary shares of 1p issued for cash at a price of 12p per share	17,350,000	415	-	4,569
6,655,789 ordinary shares of 1p issued under executive share plans at a price of AUD\$0.60 per share	6,655,789	161	-	3,798
Capital raising costs		-	-	(227)
Balance at 31 December 2007	<u>264,168,231</u>	<u>6,535</u>	<u>96,417</u>	<u>8,140</u>

## Virotec International plc

### Authorised issued and fully paid share capital

	2007	2006
	AUD\$'000	AUD\$'000
Authorised share capital		
900,000,000 ordinary shares of 1p each	22,332	22,332
Called up, allotted and fully paid 264,168,231 ordinary shares of 1p each	6,535	5,959

As at 31 December 2007 the Company has also granted a total of 10,860,000 options as described in note 20. (2006: 11,310,000 options).

	Share capital	Share premium reserve	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	AUD \$'000
Effect of reverse acquisition	-	-	102,376	155	-	9,771	(79,325)	32,977	47	33,024
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	5,959	-	(5,959)	-	-	-	-	-	-	-
<b>Balance at 31 December 2006</b>	<b>5,959</b>	<b>-</b>	<b>96,417</b>	<b>(265)</b>	<b>(1,298)</b>	<b>11,090</b>	<b>(86,890)</b>	<b>25,013</b>	<b>-</b>	<b>25,013</b>
Balance at 1 January 2007	5,959	-	96,417	(265)	(1,298)	11,090	(86,890)	25,013	-	25,013
Total recognised income and expense	-	-	-	(2,105)	1,298	-	(13,369)	(14,176)	-	(14,176)
Equity settled transactions	-	-	-	-	-	434	1,357	1,791	-	1,791
Share issues	576	8,140	-	-	-	(4,130)	170	4,756	-	4,756
<b>Balance at 31 December 2007</b>	<b>6,535</b>	<b>8,140</b>	<b>96,417</b>	<b>(2,370)</b>	<b>-</b>	<b>7,394</b>	<b>(98,732)</b>	<b>17,384</b>	<b>-</b>	<b>17,384</b>

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

The Fair Value Reserve records the change in the fair value recorded of investments held for resale.

### 19. EARNINGS PER SHARE

#### Profit attributable to ordinary shareholders

	Year ended 31 December 2007	Six months ended 31 December 2006
	AUD\$'000	AUD\$'000
Loss for the year	(13,369)	(7,565)
Loss attributable to ordinary shareholders	(13,369)	(7,565)

#### Weighted average number of ordinary shares

	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	257,983,256	240,162,442

The options outlined in Note 20 are potential ordinary shares which were not considered dilutive at 31 December 2007 or 31 December 2006.

**20. SHARE-BASED PAYMENTS**

**Option incentive scheme**

Issue date	Expiry date	Fair value on grant date		Exercise price	Options issued	Total options exercised and shares issued		Unissued options available		
		AUD\$	GBP£			2007	2006	2007	2006	
					Number	'000s	'000s	'000s	'000s	
2 Jun 2004	31 Mar 2007	0.23	0.20	(1)	102,500	-	-	-	10	
22 Dec 2004	30 Sep 2007	0.27	0.20	(1)	1,115,000	-	-	-	440	
10 Dec 2005	30 Sep 2010	0.43	0.40	(2)	1,000,000	-	-	-	1,000	
10 Dec 2005	30 Sep 2011	0.47	0.40	(2)	2,000,000	-	-	-	2,000	
10 Dec 2005	30 Sep 2012	0.51	0.40	(2)	2,000,000	-	-	-	2,000	
18 Jan 2006	31 Mar 2009	0.23	0.28	(1)	872,500	-	-	460	860	
18 Jan 2006	30 Sep 2011	0.27	0.40	(2)	1,000,000	-	-	-	1,000	
18 Jan 2006	30 Sep 2012	0.30	0.40	(2)	1,000,000	-	-	-	1,000	
18 Jan 2006	30 Sep 2013	0.33	0.40	(2)	1,000,000	-	-	-	1,000	
18 Jan 2006	30 Sep 2014	0.35	0.40	(2)	1,000,000	-	-	-	1,000	
18 Jan 2006	30 Sep 2015	0.37	0.40	(2)	1,000,000	-	-	-	1,000	
25 Apr 2007	30 Apr 2012	0.14	0.20	(3)	3,400,000	-	-	3,400	-	
25 Apr 2007	30 Apr 2010	0.14	0.20	(2)	1,000,000	-	-	1,000	-	
25 Apr 2007	30 Apr 2011	0.16	0.20	(2)	1,500,000	-	-	1,500	-	
25 Apr 2007	30 Apr 2012	0.18	0.20	(2)	1,500,000	-	-	1,500	-	
25 Apr 2007	30 Apr 2013	0.19	0.20	(2)	1,500,000	-	-	1,500	-	
25 Apr 2007	30 Apr 2014	0.20	0.20	(2)	1,500,000	-	-	1,500	-	
						22,490,000	-	-	10,860	11,310
Options vested at end of period								3,460	2,310	

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.
- (3) These options have service criteria attached to them before they vest, requiring employees to remain employed by the Group for various periods.

The market value of ordinary shares at 31 December 2007 was AUD\$0.11 (GBP£0.0475). No options issued under the option incentive scheme were exercised during the year ended 31 December 2007.

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% (2006: 5.5%)
- Volatility of 60% ( 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:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2007	2007	2006	2006
	GBP£	'000	GBP£	'000
Outstanding at the beginning of the period	£0.38	11,310	£0.38	11,460
Forfeited during the period	£0.38	(10,850)	£0.20	(150)
Exercised during the period	-	-	-	-
Granted during the period	£0.20	10,400	-	-
Outstanding at the end of the period	£0.20	10,860	£0.38	11,310
Exercisable at the end of the period	£0.21	3,460	£0.25	2,310

The weighted average contractual life of options outstanding at year end was 4.3 years (2006: 5.4 years).

#### **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 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 year and previous period relate to the STI matching shares component only.

<b>Share-based payments expense</b>	<b>Year ended</b>	<b>Six months ended</b>
	<b>31 December 2007</b>	<b>31 December 2006</b>
	AUD\$'000	AUD\$'000
Share options granted	769	642
Expenses arising in relation to issues under Executive Incentive Plans	775	545
Total expense recognised	1,544	1,187

## **21. INTEREST BEARING LOANS AND BORROWINGS**

Non-current liabilities		
Finance lease liabilities	290	551
Current liabilities		
Finance lease liabilities	392	139

**Finance lease liabilities**

Finance lease liabilities are payable as follows:

	<b>Minimum lease payments</b>	<b>Interest</b>	<b>Principal</b>	<b>Minimum lease payments</b>	<b>Interest</b>	<b>Principal</b>
	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>
	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000
Less than one year	392	53	339	139	25	114
Between one and five years	290	58	232	551	43	508
More than five years	-	-	-	-	-	-
	<u>682</u>	<u>111</u>	<u>571</u>	<u>690</u>	<u>68</u>	<u>622</u>

**22. FINANCIAL INSTRUMENTS**

The Group's financial instruments comprise trade debtors, trade creditors, cash and equity shares. The main purpose of these financial instruments is to raise finance and manage working capital for the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below:

**Credit Risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and investment securities.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<b>2007</b>	<b>2006</b>
	AUD\$'000	AUD\$'000
Investment	6,800	9,680
Trade debtors	672	1,508
Other debtors	2,617	428
Prepayments	110	19
Cash and cash equivalents	391	3,283
	<u>10,590</u>	<u>14,918</u>

The maximum exposure to credit risk for trade receivables at balance sheet date by geographic region was:

	<b>2007</b>	<b>2006</b>
Australia and Asia	468	586
North America	37	841
Europe	167	81
	<u>672</u>	<u>1,508</u>

The aging of trade receivables at the balance sheet date was:

	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000
Not past due	208	-	1,118	-
Past due 0-30 days	77	-	117	-
Past due 31-60 days	145	-	36	-
More than 60 days	476	234	237	-
	<u>906</u>	<u>234</u>	<u>1,508</u>	<u>-</u>

Based on historic default rates, the Group believes that no general impairment allowance is necessary in respect of trade receivables. The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

## Virotec International plc

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007	2006
	AUD\$'000	AUD\$'000
Balance at 1 January 2007	-	957
Provided during the year	234	-
Utilised during the year	-	(957)
Balance at 31 December 2007	<u>234</u>	<u>-</u>

### Interest Risk

The Group has financed its operations through equity. The Group at year end held cash at bank amounts of \$390,915 for the majority of which the applicable interest rate is 5.5%.

### Liquidity Risk

As regards liquidity, the Group's policy has throughout the year been to ensure continuity of funding. The Group has not entered into any derivative transactions in either year. All trade payables are due to be paid within 45 days of the balance sheet date. (2006: 45 days)

### Currency Risk

The Group has a small amount of trading with overseas customers which are settled in foreign currencies. The majority of sales however are denominated and settled in Australian dollars.

### Financial Assets

The Group has no financial assets, other than listed investments, short-term debtors and cash at bank balances.

### Fair Values

There are not deemed to be any differences of a material nature between the carrying values and the fair values of trade and other receivables, cash and cash equivalents and trade and other payables.

### Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity.

## 23. PROVISIONS

	2007	2006
	AUD\$'000	AUD\$'000
Reconciliation of the amount of each class of provision are set out below:		
<i>Mine rehabilitation</i>		
Carrying amount at beginning of the year	715	720
Finance charge	41	21
Provisions used during the year	-	(26)
Carrying amount at end of year	<u>756</u>	<u>715</u>
Current	25	25
Non-current	<u>731</u>	<u>690</u>
	<u>756</u>	<u>715</u>

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 \$415,299 (2006: \$457,126) for rehabilitation of mining leases. The amount equals the estimate of the relevant mining departments when the leases were first granted. A provision of \$756,000 (2006: \$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.

**24. OPERATING LEASES**

	<b>2007</b>	<b>2006</b>
	AUD\$'000	AUD\$'000
<b>Leases as lessee</b>		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	158	61
Between one and five years	320	25
More than five years	115	-
	<u>593</u>	<u>86</u>

During the year ended 31 December 2007 \$303,897 was recognised as an expense in the income statement in respect of operating leases (six months ended 31 December 2006: \$109,000).

**25. RELATED PARTIES**

During the 31 December 2007 year, pursuant to an agreement with Nauveau 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 \$126,558 (six months ended 31 December 2006: \$58,952) was incurred during the year. The amount of \$465,878 (2006: \$339,320) was payable at 31 December 2007. 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 transactions were in the ordinary course of business and on normal commercial terms and conditions.

During the 31 December 2007 year, 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 \$134,095 (six months ended 31 December 2006: \$80,457) was incurred during the year. The amount of \$13,409 (2006: \$13,409) was payable at 31 December 2007. All transactions were in the ordinary course of business and on normal commercial terms and conditions.

During the 31 December 2007 year, 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 year were \$80,400 (six months ended 31 December 2006: \$40,200).

*Other related party transactions*

During the year 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 11. The amount of \$10,945 (six months ended 31 December 2006: \$24,238) was earned during the year for services provided by the Group. The amount of \$2,318 (2006: \$2,458) was receivable at 31 December 2007.

In addition the Group is entitled to earn a 5% royalty from gross revenue generated by Hydrodec Group plc. The amount of \$92,100 (six months ended 31 December 2006: \$Nil) was earned during the year from royalty. The amount of \$29,256 (2006: \$Nil) was receivable at 31 December 2007.

*Compensation of key management personnel*

The compensation of key management personnel (including the directors) is as follows:

	<b>2007</b>	<b>2006</b>
	AUD\$'000	AUD\$'000
Key management emoluments	1,503	862
Amounts receivable under share based incentive scheme	1,401	1,335
Company contributions to superannuation plan	27	25
	<u>2,931</u>	<u>2,222</u>

**26. GROUP ENTITIES**

	Country of incorporation and principal operations	Ownership interest		Activity
		2007	2006	
<b>Significant Subsidiaries</b>				
Mount Carrington Mines Pty 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 and production
Virotec Italia Srl*	Italy	100	100	Environmental services
Imperative Plus Pty Ltd**	Australia	-	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

\*\* Interest was sold on 30 December 2007

All shares held are ordinary shares.

## Company Balance Sheet

As at 31 December 2007

	Note	2007 AUD\$'000	2006 AUD\$'000
<b>Fixed assets</b>			
Investments	5	22,866	15,346
<b>Current assets</b>			
Trade and other receivables		7	-
Cash and cash equivalents		16	-
<b>Creditors: amounts falling due within one year</b>			
Loans due to subsidiaries		(3,292)	(87)
Trade and other payables		(138)	(50)
<b>Net assets</b>		<b>19,459</b>	<b>15,209</b>
<b>Capital and reserves</b>			
Called up share capital	7	6,535	5,959
Share premium reserve		8,140	-
Foreign currency reserve	7	(134)	(19)
Share-based payments reserve	7	5,465	9,406
Retained deficit	7	(547)	(137)
<b>Shareholders funds</b>	7	<b>19,459</b>	<b>15,209</b>

The financial statements were approved by the Board of Directors on 21 April 2008 and were signed on its behalf by:

**B. Bamonte - Director**

## Company Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2007

	Year ended 31 December 2007 AUD\$'000	Period from incorporation to 31 December 2006 AUD\$'000
<b>Loss for the financial year</b>	(580)	(137)
Movement in share premium reserve	8,140	-
Movement in share based payments reserve	(3,941)	9,406
Movement in foreign currency reserve	(115)	(19)
Charge to retained deficit for share based payments provided for no longer payable	170	-
New share capital issued	576	5,959
<b>Net addition to shareholders' funds</b>	<b>4,250</b>	<b>15,209</b>
Opening shareholders' funds	15,209	-
<b>Closing shareholders' funds</b>	<b>19,459</b>	<b>15,209</b>

## **Notes to the Company Financial Statements**

### **I. ACCOUNTING POLICIES**

The Company was incorporated on 26 April 2006. Financial information has been presented for the year ended 31 December 2007 and 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, modified to include the revaluation of investment in equity security.

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

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

#### **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.

#### **Available-for-sale accounted investments**

The investment is recorded at cost, unless in the opinion of the Directors, there has been an impairment to the value in which case the investment is written down to estimated recoverable amount.

#### **Taxation**

The charge for taxation is based on the result for the year 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>Year ended 31 December 2007</b>	<b>Period from incorporation to 31 December 2006</b>
	AUD\$'000	AUD\$'000
Directors emoluments	1,253	612
Amounts receivable under share based incentive schemes	775	546
Amounts relating to the issue of options	210	-
Company contributions to superannuation plans	4	2
	<u>2,242</u>	<u>1,160</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was \$1,105,523 (six months ended 31 December 2006: \$646,035).

	Number of directors	Number of directors
In office at the end of the year	5	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

**4. LOSS FOR THE FINANCIAL YEAR**

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 year ended 31 December 2007 of the parent company was AUD\$579,448 (period from incorporation to 31 December 2006: AUD\$137,490)

**5. INVESTMENTS**

	<b>Other</b>	<b>Subsidiary and associated undertakings</b>	<b>Total</b>
	AUD\$'000	AUD\$'000	AUD\$'000
<b>Cost:</b>			
Initial acquisition	-	5,959	5,959
Addition capital contribution – share option fair value recognition	-	9,406	9,406
Foreign currency movement	-	(19)	(19)
Balance at 31 December 2006	<u>-</u>	<u>15,346</u>	<u>15,346</u>
Balance at 1 January 2007	-	15,346	15,346
Addition capital contribution – share option fair value recognition	-	898	898
Impairment loss on investment in subsidiary	-	(178)	(178)
Acquisition of investment from controlled entity	9,832	-	9,832
Net change in fair value of investment	(2,246)	-	(2,246)
Foreign currency movement	(786)	-	(786)
Balance at 31 December 2007	<u>6,800</u>	<u>16,066</u>	<u>22,866</u>

## Virotec International plc

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:

	2007	2006
	AUD \$'000	AUD \$'000
<b>Authorised share capital</b>		
900,000,000 ordinary shares of 1p each	22,332	22,332
Called up, allotted and fully paid 264,168,231 ordinary shares of 1p each	6,535	5,959

### 7. CAPITAL AND RESERVES

#### Reconciliation of movement in total equity

	Share capital	Share premium reserve	Translation reserve	Share based payments reserve	Retained deficit	Total equity
	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000	AUD\$'000
Share issued on incorporation	-	-	-	-	-	-
Loss for the period	-	-	-	-	(137)	(137)
Share issues	5,959	-	-	-	-	5,959
Arising on issue of options	-	-	-	9,406	-	9,406
Total recognised income and expense	-	-	(19)	-	-	(19)
<b>Balance at 31 December 2006</b>	<b>5,959</b>	<b>-</b>	<b>(19)</b>	<b>9,406</b>	<b>(137)</b>	<b>15,209</b>
Balance at 1 January 2007	5,959	-	(19)	9,406	(137)	15,209
Loss for the period	-	-	-	-	(580)	(580)
Share issues	576	8,140	-	(4,130)	170	4,756
Equity settled transactions	-	-	-	189	-	189
Total recognised income and expense	-	-	(115)	-	-	(115)
<b>Balance at 31 December 2007</b>	<b>6,535</b>	<b>8,140</b>	<b>(134)</b>	<b>5,465</b>	<b>(547)</b>	<b>19,459</b>

### 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 2007. The Company had no capital commitments or contingent liabilities at 31 December 2007.

**10. RELATED PARTY DISCLOSURE**

The Company is considered to have no ultimate controlling party. For details of related party transactions see note 25 in the consolidated financial statements.

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