



6 January 2005

CHEMEQ SIGNS TERM SHEET TO RAISE UP TO \$60 MILLION

Veterinary pharmaceutical company Chemeq Limited (Chemeq; ASX: CMQ) today announced that it had signed a Term Sheet with Mizuho International Plc (MHI) for MHI or its nominees to invest up to AU\$60 million in Chemeq.

MHI is part of the Mizuho Financial Group ("MFG") which is one of the world's largest financial institutions with assets of over US\$1.1 trillion and a capital base in excess of US\$30.0 billion. MHI is a subsidiary of Mizuho Securities Co. Ltd. and is based in London. Through the Global Special Situations Group, MHI has made a variety of investments around the world, including more recently in Australia, in turnaround opportunities. To date investments have been made in the mining, telecommunications, cable television, airline, property, speciality chemical and specialist engineering sectors.

The Term Sheet provides for Chemeq to issue to MHI 40,000 convertible bonds with a face value of AU\$1,000 per bond for an initial investment of AU\$40 million. The conversion price (exercisable between 31 March 2005 and 1 March 2008) is the lower of AU\$1.10 per Chemeq share or the volume weighted average price of Chemeq shares for the 30 ASX trading days prior to conversion.

In addition, MHI commits to underwrite an additional AU\$20 million investment in Chemeq to the extent Chemeq's listed options exercisable at AU\$2.40 on or before 30 June 2005 (June 2005 Options) do not generate AU\$20 million of capital for Chemeq.

The key terms and conditions of the Term Sheet are set out in the attachment.

Issue of the convertible bonds and the underwriting of the exercise of the June 2005 Options are subject to shareholder approval for the purposes of the Listing Rules and Corporations Act. An extraordinary general meeting of Chemeq shareholders is expected to be held during late February 2005. An

explanatory memorandum supported by an independent expert's report will be sent to shareholders as soon as practicable.

As part of the investment in Chemeq, the Term Sheet provides for Chemeq's Board to appoint two nominees by MHI, to the Board of Chemeq; MHI would also have a right of veto over any candidate proposed for appointment regarding Chemeq's planned, new CEO and CFO. Pending these appointments, and for a period of at least six months, Chemeq has agreed to hire an experienced management team which has been recommended by MHI, in order to assist the Company to achieving its business objectives. This management team has expertise across operational management, marketing and finance.

Chemeq Chairman and CEO Dr Graham Melrose said that he was delighted that MHI has undertaken such a significant investment of both capital and management resources in Chemeq.

"This investment by MHI is an endorsement of the future of Chemeq – and comes at an important stage in Chemeq's development following the successful construction and conditional approval of our manufacturing facility. Importantly, the AU\$40 million investment plus the underwriting of the options of a further AU\$20 million will provide Chemeq with the funding flexibility necessary to meet its current business objectives" he said.

"I am pleased that a major global financial institution like MHI has seen the potential in Chemeq and has decided to support us with such a large investment. The Board and management of the Company are looking forward to a productive partnership with MHI as milestones continue to be achieved. We believe the partnership will ensure the Company's capability in executing its business plan in 2005 and beyond."

Chemeq will immediately begin work with MHI to draft full documentation with an expectation that it will be executed by the end of January 2005. The actual investment will be pending the achievement of conditions precedent as outlined in the attachment.

About Chemeq

Chemeq is an emerging veterinary drug producer, which has developed a unique product, CHEMEQ[®] polymeric antimicrobial for the prevention and control of intestinal bacterial diseases in feedstock animals such as pigs and poultry.

The company's manufacturing facility in Western Australia was completed in August 2004 and is currently undergoing commissioning and optimisation.

Chemeq has secured conditional approval from the Australian Pesticides & Veterinary Medicines Authority (APVMA) to commence production at its manufacturing facility south of Perth, Western Australia.

To date, product approval has been secured in South Africa (pigs and poultry) and New Zealand (pigs). Distribution agreements with leading distributors have been secured in South Africa, New Zealand and Malaysia.

As Chemeq becomes a full-scale manufacturer, the company is moving to boost its management capabilities with the planned recruitment of a new CEO and CFO to complement its existing team.

Chemeq has signed a AU\$1.5 million sales order for its CHEMEQ[®] polymeric antimicrobial with an agent in South Africa in August 2004.

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FOR FURTHER INFORMATION CONTACT:

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Key Terms and Conditions – Convertible Bonds

Key Terms

- Coupon rate of 8.5% per annum payable quarterly;
- Matures on third anniversary of issue date, unless converted earlier;
- Convertible into ordinary shares in Chemeq at the lower of AU\$1.10 per share or the volume weighted average price (VWAP) of Chemeq shares for the 30 ASX trading days prior to conversion, subject to a floor conversion price of AU\$0.55;
- Convertible after 30 March 2005;
- Holder must convert if at any time after 31 December 2005 the 90 day VWAP of Chemeq shares exceeds AU\$4.00;
- Holder may elect to receive repayment of the convertible bonds or convert the bonds in the event of:
 - A takeover bid for Chemeq;
 - Chemeq shares no longer being listed on ASX;
 - Insolvency of Chemeq;
 - Chemeq disposing of its main undertaking; or
 - The occurrence of an event of default.
- Prior to conversion, holder of convertible bonds has the right to participate in any future issues of securities such that the holder can maintain its percentage interest in Chemeq;
- Bonds are unsecured, however the holder may require Chemeq to provide fixed and floating charges over assets of the company on 30 days written notice;
- At completion, fees and expenses of up to AU\$2,000,000 to be paid to the holder; and
- Chemeq will immediately retain the services of a team up to three professional managers with management, operational, marketing and finance expertise for a period of at least 6 months.

Conditions Precedent

- Completion of confirmatory due diligence by 21 January 2005 to include:
 - A status report in a form satisfactory to MHI from Chemeq's legal counsel in relation to current proceedings instituted by ASIC;
 - An Independent Engineering report to the satisfaction of MHI on plant capacity and production process rectification plans;
 - Discussions in relation to commercial trials of the Chemeq product; and
 - Preparation of an action plan to supply Chemeq polymeric antimicrobial in Australia;
- The appointment of the management team referred to above within 14 days;
- Shareholder approval to the issue of the convertible bonds and the underwriting arrangements; and
- Such others of a standard nature as may be mutually agreed in documentation.

Break Fee

- If Chemeq defaults in its obligations or chooses to pursue an alternative financing proposal Chemeq will be obliged to pay a lump sum of AU\$1 million as well as reimburse expenses up to AU\$500,000 and grant an option to MHI to subscribe for up to 15 % of the issued capital of Chemeq at a price of AU\$1.10 per share for a 3 month period with the latest exercise date being 31 May 2005; and
- If shareholders decline to approve the MHI proposal MHI will be entitled to claim a reimbursement of expenses up to AU\$500,000 and to an option to subscribe for shares as set out in the preceding paragraph.

Covenants

- On or before 31 May 2005, Chemeq must (i) receive unconditional APVMA licence for Rockingham plant; and (ii) confirm successful trialling of Chemeq product in poultry in South Africa;
- On or before 30 June 2005, Chemeq must provide evidence of confirmed orders for the combined sale of a minimum of 40,000 litres of Chemeq product for the 12 month period ended 30 June 2006;
- On or before 30 April 2006, Chemeq must receive unconditional APVMA approval to supply product in Australia;
- Negative pledge on incurring further secured debt at all or unsecured debt above AU\$200,000 without consent; and
- Minimum cash balance of AU\$25 million from completion until 15 July 2005 and AU\$40 million from approximately 15 July 2005 to 30 September 2005.

Key Terms and Conditions – June 2005 Option Underwriting

Key Terms

- Investment via additional convertible bonds in the event that existing June 2005 Options are not exercised;
- Additional bonds convertible into ordinary shares in Chemeq at the lower of AU\$2.40 or the VWAP of Chemeq shares for the 30 ASX trading days prior to 30 June 2005;
- Investment conditional on Chemeq not being in default of covenants of initial convertible bonds; and
- An underwriting fee of 1.75% (up to AU\$350,000) will be payable to MHI on completion of the MHI Underwriting.