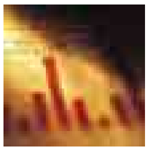
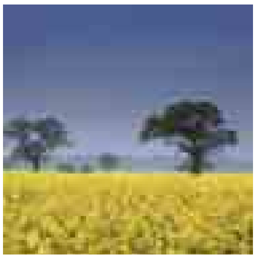
Developing, manufacturing and marketing our revolutionary CHEMEQ® polymeric antimicrobial and related polymeric technology for the control of microbials in various applications.





we are revolutionary

Chemeq

Report to shareholders 2005–2006

Contents

Corporate directory

Directors

John Hopkins
LLB, FAICD
Non-Executive Chairman

Lindsay David Hale Williams
LLB, BCom, MAICD
Chief Executive Officer and Director

Raymond Victor Steffanoni
BCom (UWA), CA

Anthony Charles Gwynne Davies
BA (Hons), CA

John Robert Nicholls
BCom (UNSW), MBA (UNSW)

Company Secretary

Brian Francis Mangano
BBus, CA, FCIS

Registered Office

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Facsimile +61 8 9528 0280
Website www.chemeq.com.au

Auditors

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Bankers

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Perth WA 6000

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District of Columbia 20006
United States of America

Stock Exchange

The Company's securities are quoted on the Official List of the Australian Stock Exchange Ltd, the home exchange being Australian Stock Exchange (Perth) Limited.

2 The Esplanade
Perth WA 6000

ASX Code

CMQ

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
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Perth WA 6000
Telephone +61 8 9323 2000
1300 55 70 10 (within Australia)

For any change in personal details, please contact Computershare.

ABN 77 009 135 264

The company

Chemeq is a technology company with its focus on commercialisation of its intellectual property and products through strategic partnerships.

2005–2006 at a glance

- Chemeq patent protection for the use of CHEMYDE® polymeric antimicrobial in topical emulsion compositions granted in Australia to the year 2021.
- Rockingham manufacturing facility achieves further improved performance capability in the range of 260,000 – 280,000 litres of finished product per annum.
- Chemeq signs and delivers a $1.4 million sales order to Inviro Animal Health Solutions CC.
- Mr John Hopkins was appointed Chairman of Chemeq in January 2006.
- Chemeq achieves revenue and cash targets under the final milestone covenant in the convertible bond deed poll for the financial year ended 30 June 2006.
- Key managerial appointments of Andrew Gunst, General manager, Operations and Bill McHenry, General manager, Commercial, along with existing CFO, Brian Mangano, form an integral part of Chemeq's new strategy.
- Chemeq announces its long term strategy that places it in the best possible position to successfully and profitably commercialise its technology in world markets.
- Rockingham manufacturing facility refinements enable operation at nameplate capacity of approximately 360,000 litres per annum.

Chairman and Chief Executive Officer's report

Dear Shareholder

It is our pleasure to present the Chemeq 2006 Annual Report.

We are pleased to report that Chemeq enters the new financial year in a strong position. We have valuable, patent protected intellectual property and a product that is a proven antibiotic alternative. We also have a world class research and development team and the capability to manufacture our product on a commercial scale. In short, we are well ahead of our peers in the antibiotic replacement market, a fact often overlooked by people unfamiliar with Chemeq.

Further detail on our performance for the year and our prospects for the future are contained in the sections that follow and we encourage you to read them.

Financial Position

Chemeq is in a strong financial position with $28.8 million in cash or cash equivalents at year end. Subsequent to year end, we announced the achievement of the final milestone covenant in the convertible bond deed poll. Achievement of this final milestone covenant was extremely important for Chemeq as it means we now have the time to analyse our long-term funding requirements. We have a range of funding options available to us and we are now in a position to develop a capital management plan to fund Chemeq's long-term development until it becomes cash flow positive.

Corporate Governance

Chemeq now has in place a new Board and management team that is open to new ways of thinking about our business. This was reflected in the results of our recent strategic review, which we discuss in further detail below.

The Board is committed to ensuring the highest standards of corporate governance that fully support our corporate strategy and objectives.

Strategic Review

In March 2006, the Board undertook a thorough review of Chemeq's strategy for delivering value from its products, intellectual property and key technological assets. This review was designed to ensure that Chemeq has the right strategy to successfully commercialise its valuable intellectual property to maximise value for Chemeq shareholders.

The key finding of the review was the necessity for Chemeq to focus on its core skills. Chemeq believes that its core skills are in successful research and development programs, developing intellectual property (IP), product patenting, procuring regulatory approvals, managing new product commercialisation and manufacturing know-how.

An important outcome from this review was the recognition that Chemeq should seek strategic partnerships in non-core activities such as manufacturing, distribution and registration in northern hemisphere markets. This is a major step forward in our thinking about how we commercialise our products and the resultant capital requirements.

We have had a number of discussions with strategic partners in manufacturing and distribution in the USA and Europe, and we have been encouraged by the interest shown in our products and technology, and the opportunities this opens up for us strategically in the future. The Board believes this approach will bring enormous benefits such as an ability to get our current and future products to market.

Manufacturing

Our Rockingham plant was further modified to improve its safety and output and we are now comfortable that the plant can operate at nameplate capacity of approximately 360,000 litres per annum. There are further process design changes able to be made that will give us the ability to increase production capability beyond nameplate in the future.

Our Rockingham manufacturing facility remains an important strategic asset for us and, notwithstanding any future manufacturing partnerships we may negotiate, this Company-owned facility allows us an alternative supply source to contract producers and provides the materials required for our ongoing R&D and commercialisation efforts.

Sales

Sales and marketing of our CHEMEQ® polymeric antimicrobial product remains our highest priority. During the year, we announced a $1.4 million sale into South Africa to Inviro Animal Health Solutions CC.

This sale was the culmination of many hours of hard work and effort by our marketing staff. We continue to work towards follow up sales in our largest approved market.

Our recent strategic review highlighted the need for Chemeq to adopt a new targeted approach to market entry. In the past, we have tried to market our product as an antibiotic growth promoter (AGP) replacement. By changing the emphasis of our product marketing to target specific diseases, we believe that customers will more readily adopt the product and thereby develop the confidence to use the product more widely.

The Board remains firmly of the view that our CHEMEQ® polymeric antimicrobial is a globally significant product. There is a growing acceptance among producers of the benefits of CHEMEQ® polymeric antimicrobial. That said, the road to market acceptance is not easy for a small pharmaceutical company. We believe that with the right manufacturing and distribution partners in the future, we can successfully travel that road and flourish.

New Opportunities

During the year, we held numerous discussions with interested parties regarding new opportunities for our technology in the cosmetic, industrial and human healthcare markets. The cosmetic and industrial markets are particularly attractive to Chemeq because they offer the opportunity to market product to customers quickly without the lead times associated with the regulatory product approvals in the pharmaceutical market.

Chemeq will focus more clearly on these applications in the future. Recent discussions with interested parties in these areas have been particularly encouraging and we hope to be able to report further on these developments over the next twelve months.

Regulatory Approvals

Chemeq's unique CHEMEQ® polymeric antimicrobial has already been approved for sale in South Africa (pigs and poultry) and New Zealand (pigs) and Chemeq also has the right to sell the product in Malaysia (pigs and poultry).

We continue to work hard to achieve regulatory approval for our product in Australia, Thailand, Brazil and New Zealand (poultry).

A company seeking to achieve registration is required to provide a complete dossier of trial results that prove the product is safe and effective. This testing is exhaustive, is often required to be carried out in certified laboratories or under the supervision of expert organisations such as universities and can take years to complete.

Chemeq is now three years into the registration process in Australia. The dossier of information we have compiled for the Australian Pesticides and Veterinary Medicine Authority (APVMA) over this time will prove invaluable in achieving USA Food and Drug Administration (FDA) and European Union (EU) approvals, though further trials in the country of registration will be required. We still expect to achieve Australian approval in 2007, although the exact timing of registration is very much in the hands of the APVMA.

European Partnering

Chemeq is actively engaged in seeking a strategic partner to formulate, market and distribute our CHEMEQ® products in Europe. This partner would also assist us in gaining European regulatory approval.

Europe will be a key market for our CHEMEQ® product in the future, particularly given its growing restrictions on the use of antibiotics as growth promotants in animals, and we are convinced that a strategic partner is the best strategy for us to successfully penetrate the EU market.

We have also held preliminary discussions in the USA with the aim of achieving a strategic partnership, and whilst a conclusion in the USA is probably further away, initial feedback has been very encouraging.

Cash Flow Management

Like all early stage development companies, cash flow management is an ongoing issue for Chemeq. The Board and management team of Chemeq is mindful of its cost structure and is continuously seeking ways to reduce its cash burn on a month to month basis whilst ensuring it has sufficient resources to pursue its long-term strategy effectively.

As part of our ongoing cost management initiatives, Chemeq recently implemented improved business efficiencies, including the relocation of our head office to Rockingham to save on lease expenses and the significant reduction in employee numbers. We will continue to seek ways to cut costs without curbing our ability to meet our ambitious strategic objectives.

Board and Management Changes

During the last year, two of our long serving directors retired from the Board. Graham Melrose, the inventor and founder of Chemeq, and Russell Barnett, who had also been part of the company since it was founded. On behalf of the Board, we would like to thank both of them for their invaluable contributions over many years.

We were pleased to welcome Andrew Gunst as our new General Manager Operations during the year. Andrew brings to Chemeq a decade of experience in pharmaceutical sector organisations at Managing Director, Operations Director and General Manager level. Andrew is a major appointment for Chemeq and his expertise and knowledge will be of enormous benefit to Chemeq's global strategy in the future.

We were also delighted to appoint Bill McHenry as General Manager Commercial this year. Bill brings to Chemeq more than 20 years international pharmaceutical industry experience. He has experience building business relationships in global markets whilst managing diverse technical disciplines from business development, marketing and sales to research and development. With his skills in the development, launch and licensing of new products, Bill will form an integral part of our new strategy as we seek to grow our business through strategic partnerships and alliances.

With the above appointments, together with the appointments of David Williams, Brian Mangano and Board changes implemented last year, Chemeq has now fundamentally revamped its Board and senior management team and is well positioned to deliver on its strategic objectives.

One of the major strengths of Chemeq has always been the quality of our people. Their commitment and dedication to our strategy and the commercialisation of our products is outstanding and on behalf of the Board we would like to thank all of Chemeq's past and present staff for their efforts and contributions in the last year.

Outlook

Chemeq is still in the early stages of commercialising its products in world markets. This process will take time. However, the Board of Chemeq believes that we have globally significant technology that can be successfully marketed to create value for Chemeq shareholders.

We are excited by the challenge of leading Chemeq and we look forward to being able to report further progress to you in the future.

John Hopkins
Chairman

David Williams
Chief Executive Officer

Board of Directors

John David Hopkins
(Non-executive Chairman)

LLB, FAICD

John Hopkins was appointed Chairman on 27 January 2006. He also serves on the Remuneration and Nomination committees of the company. Mr Hopkins has an extensive public company background, having chaired a number of public companies in both Australia and Canada over the past two decades. He has a strong background in both corporate and resource law with considerable experience in mergers and acquisitions together with public capital raisings.

Mr Hopkins is also Non-Executive Chairman of Evans & Tate Limited, Matilda Minerals Ltd, Adamus Resources Ltd and a director of North Australian Diamonds Ltd. During the past three years he has served as a director for the following listed companies:

- Matilda Minerals Ltd (11 April 2003 to current).
- Golden State Resources Ltd (29 November 2004 to 20 May 2006).
- Carpathian Resources (7 October 2003 to 7 October 2004).
- Adamus Resources Ltd (8 February 2006 to current).
- Evans and Tate (2001 to current).
- North Australian Diamonds (21 September 2006 to current).

Lindsay David Hale Williams
(Director and Chief Executive Officer)

LLB, BCom, MAICD

David Williams was appointed Director and Chief Executive Officer on 1 August 2005. He has a Bachelor of Laws and a Bachelor of Commerce and is a Member of the Australian Institute of Company Directors. Mr Williams joined Chemeq, after Epic Energy, where he was Chief Executive Officer. Prior to this position, he was General Counsel and Company Secretary of Alinta Gas from 1995 to 1999. Mr Williams was also a partner at the Melbourne branch of Freehills and Ebsworth & Esbworth, practicing in industrial relations and corporate law.

John Robert Nicholls
(Non-Executive Director)

BCom, MBA

John Nicholls was appointed Non-Executive Director on 17 May 2005. He is also Chairman of the Remuneration committee and serves on the Audit committee. Mr Nicholls has a Bachelor of Commerce and Master of Business Administration Degree. He has extensive experience with start-up and established companies, both listed and unlisted, in the capacity of Chief Executive Officer or Non-Executive Director. These companies, some of which were established by Mr Nicholls, have been engaged in a wide range of activities, including manufacturing, distribution, trading and banking, and were located in Japan, China, Hong Kong, Taiwan, Malaysia, Singapore, Indonesia, USA, Nigeria and Australia. From 1967 to 1997 Mr Nicholls was a resident of various Asian countries, particularly Hong Kong and Indonesia. Since returning to Australia in 1997, he has been principally engaged in Non-Executive Directorships and advisory roles. Mr Nicholls is also a Director of Brandrill Limited (appointed 16 December 2004).

Anthony Charles Gwynne Davies
(Non-Executive Director)

BA (Hons), CA

Tony Davies was appointed as a Non-Executive Director on 17 May 2005. Mr Davies is also Chairman of the Audit committee as well as serving on the Remuneration and Nomination Committees of the company. He has a Bachelor of Arts (Honours) in Economics and Accounting and is a Member of the Institute of Chartered Accountants in Australia. Mr Davies previously worked with Futuris Corporation Limited in a variety of roles, including Finance Director, Director of Risk management and Executive Director. Prior to joining Futuris, Mr Davies was General Manager of Finance and administration for the Bell Group Ltd; Finance Director for the Mitchell Cotts Group in Sydney, London and Vancouver, and as an auditor with Arthur Andersen. During the past three years Mr Davies has also served as a director of the following listed companies:

- Australian Plantation Timber Limited (Chairman - appointed 24 April 2002 to current)
- AMCOM Telecommunications Limited (appointed 20 October 2003 to current)
- Integrated Tree Cropping Limited (appointed 2 May 2002 to current).

Raymond Victor Steffanoni
(Non-Executive Director)

BCom, CA

Ray Steffanoni, Non-Executive Director, is a Chartered Accountant with more than fifteen years experience in corporate consulting divisions of international accounting firms in Australia and the United Kingdom. He has provided consultancy services with regard to prospectuses, takeovers, taxation, business valuations and corporate investigations. Mr Steffanoni is the Principal and Founder of Salisbury Business Services, consultants in all aspects of financial management. Mr Steffanoni is also Chairman of the Nomination committee and serves on the Audit committee of the company.

Company Secretary
Brian Francis Mangano

BBus, CA, FCIS

Brian Mangano was appointed Company Secretary and Chief Financial Officer on 5 May 2005. Mr Mangano is a senior corporate executive, with over 19 years experience in the Australian listed company environment, in the engineering, technology and investment sectors. He is a former Managing Director of listed companies AirBoss and Australian Growth, and was Chief Financial Officer of Yates (formerly Norgard Clohessy Equity). He also worked as Financial Controller of a number of companies in Richard Branson's Virgin Group based in London. Most recently, Mr Mangano was Chief Financial Officer of engineering consulting and construction group, VDM. A Chartered Accountant by profession, he has extensive experience in technology licensing, corporate governance and international marketing.

The Year in Review

Commercial

In September 2005, Chemeq signed a $1.4 million sales order with Inviro Animal Health Solutions CC, in South Africa.

Sales of CHEMEQ® polymeric antimicrobial are now building and we are continuing to see repeat sales in a number of markets, such as Malaysia and New Zealand. An order for $245,000 from Pahang Pharmacy Malaysia was delivered prior to 30 June 2006.

We are continuing commercial trials on a number of farms in South Africa and we have demonstrated commercial benefits for producers. Other commercial trials continue in Malaysia with Chemeq's own trials continuing in South Africa and New Zealand.

CHEMEQ® polymeric antimicrobial is a proven and efficient alternative to antibiotics. Our ongoing dialogue with customers has revealed that producers use antibiotics for whole-of-life disease prevention and supplement that use with other pharmaceutical products with specific label claims to address particular disease outbreaks. To win producer support for our product, Chemeq must be able to provide producers with specific label claims that allow them to adopt the product for particular therapeutic disease treatment. This will also provide a pathway to adoption for whole-of-life disease prevention.

Producers remain committed to new innovative products that treat specific diseases, meet consumer demands for lower antibiotic use and improve producer returns.

Regulatory approvals and Patents

During August 2005, Australia granted Chemeq patent protection for the use of CHEMYDE® polymeric antimicrobial in topical emulsion compositions in Australia to the year 2021.

Products which could benefit from the inclusion of CHEMYDE® polymeric antimicrobial in their formulation include (but are not limited to) dermatologicals, cosmetics, toiletries, pharmaceuticals and sunscreens.

Chemeq continues to work hard to achieve regulatory approval for our products, however, obtaining these approvals in each country is a lengthy and drawn out process, and we are subject to high levels of regulatory scrutiny and control. In Australia, we have some of the highest standards in the world administered by the APVMA.

The process to achieve regulatory approval in Australia, the USA or in the European Union is extremely complex. Product registration is not only dependent upon the safety of a pharmaceutical, but also stringent testing ensures it works as claimed. Safety testing encompasses assessing the impact of a new drug on animals, humans and the environment.

Operations

In February 2006, the Rockingham manufacturing facility achieved further improved performance capability in the range of 260,000 – 280,000 litres of finished product per annum. The improved capability came from improvements which were validated in accordance with the company's GMP registration.

The Rockingham plant comprises two main processes – production of active pharmaceutical ingredient (API) and formulation of API into finished CHEMEQ® polymeric antimicrobial product.

The API production process required to create the CHEMYDE molecule is predominantly petrochemical and is a complex and expensive process. Manufacture of API-type compounds is usually only undertaken by multinational pharmaceutical companies in specific locations around the world. During the year, we suspended manufacturing of API at our plant for a period to allow the review and approval of the process design changes which were vetted by an independent expert from overseas. The independent international expert validated our changes and confirmed that the manufacturing process is now reliable and robust.

The formulation process is less complex, but to maintain our GMP registration for the plant, this part of the overall production process is no less important and we must maintain strict processes and procedures to ensure the highest quality production output.

Corporate

Mr John Hopkins was appointed Chairman of Chemeq in January 2006.

In November 2005, there were changes in ownership of the convertible bonds, with existing bondholder, Stark Trading, purchasing the convertible bonds of fellow investor, Mizuho International. Stark, and its affiliate, Shepherd Investments International, acquired 100 per cent of the convertible bonds, with have a face value of $60 million. Chemeq and Stark agreed to vary the terms of the convertible bonds to:

- Remove the covenant which requires Chemeq to achieve APVMA product approval (for pigs) in Australia by 30 April 2006;
- Include new financial covenants that require Chemeq to achieve gross revenue from all sources of at least $4 million for the year ending 30 June 2006 and have liquid assets of $24 million or more at 30 June 2006.

Further changes were made in February 2006, when Harmony Investment Fund Limited, acquired 10,000 convertible bonds from Stark Trading, with the convertible bonds being held by Citicorp Nominees Pty Ltd.

Chemeq announced in early July 2006, that it has achieved revenue for the financial year ended 30 June 2006 in excess of $4 million, earned from product sales, interest and other revenue. In addition there were cash reserves in excess of $28 million.

Mr Andrew Gunst was appointed General Manager, Operations.

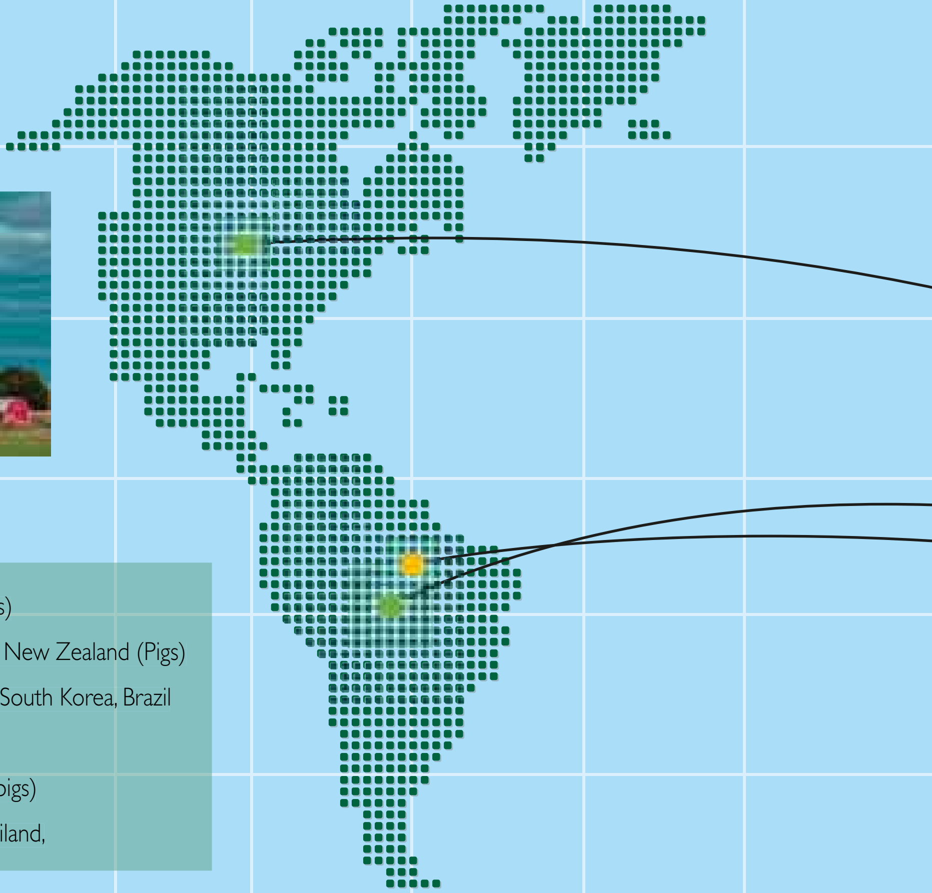
Mr Bill McHenry was appointed General Manager, Commercial.

Occupational safety and health

Chemeq has a practical and effective safety management system, which ensures all safety principles are complied with and the Company's safety objectives are achieved. Chemeq is committed to the principles of integrity and reliability of our people and our plant and equipment by conducting all aspects of the business in a safe manner, consistent with Chemeq's corporate values. The Company's Occupational Safety and Health policy is managed in the same way as any other aspect of business. All staff accept the responsibility for applying these policies across the company, working in accordance with appropriate risk management standards and utilising fit for purpose equipment in a well-controlled environment.

Environment

Chemeq has developed a dynamic Environmental management system, which reflects the company's recognition of the environment as a major priority and ensures through appropriate procedures, that environmental issues and risks are central to all strategic planning processes. The Company is committed to comply with applicable laws, regulations and standards, whilst promoting environmental awareness among the workforce, ensuring all employees are responsible for upholding the Company's standards of environmental management.



- Current Markets: South Africa, Malaysia, New Zealand (Pigs)
- Pending Regulatory approvals: Australia, Thailand, Brazil and New Zealand (Pigs)
- Target Markets: North & South America, European Union, South Korea, Brazil
- Commercial Trials: South Africa,
- Regulatory approval: South Africa, Malaysia, New Zealand (pigs)
- Strategic alliances: South Africa, New Zealand, Malaysia, Thailand,

A platform to develop, partner and commercialise.

Our Product today

CHEMEQ® polymeric antimicrobial replaces antibiotics and is used in the control of disease causing bacteria in commercial animal production.

Our product is a very broad spectrum antimicrobial. It has a different mode of action to antibiotics and as a result the potential for the development of resistance is extremely low. The key to CHEMEQ®'s sustained use is that in contrast to antibiotics, it does not lose it effectiveness with continued use. CHEMEQ® has two key advantages (among other attributes) over antibiotics – higher efficacy against antibiotic resistant 'super bugs' and no observed build-up of resistance to germs. In contrast to other marketed products that target only a few types of bacteria, our product is very broad, giving us a competitive advantage in the market place by increasing our range of potential applications.

With a proven and efficacious product that provides an alternative to a number of antibiotics, the company is well advanced in the commercialisation of its product.

Safeguarding our Intellectual Property

Chemeq maintains its policy of widespread Intellectual Property (IP) protection wholly owned by the company. It currently has over 90 registered patents world-wide. A further 175 patents are pending across many countries.

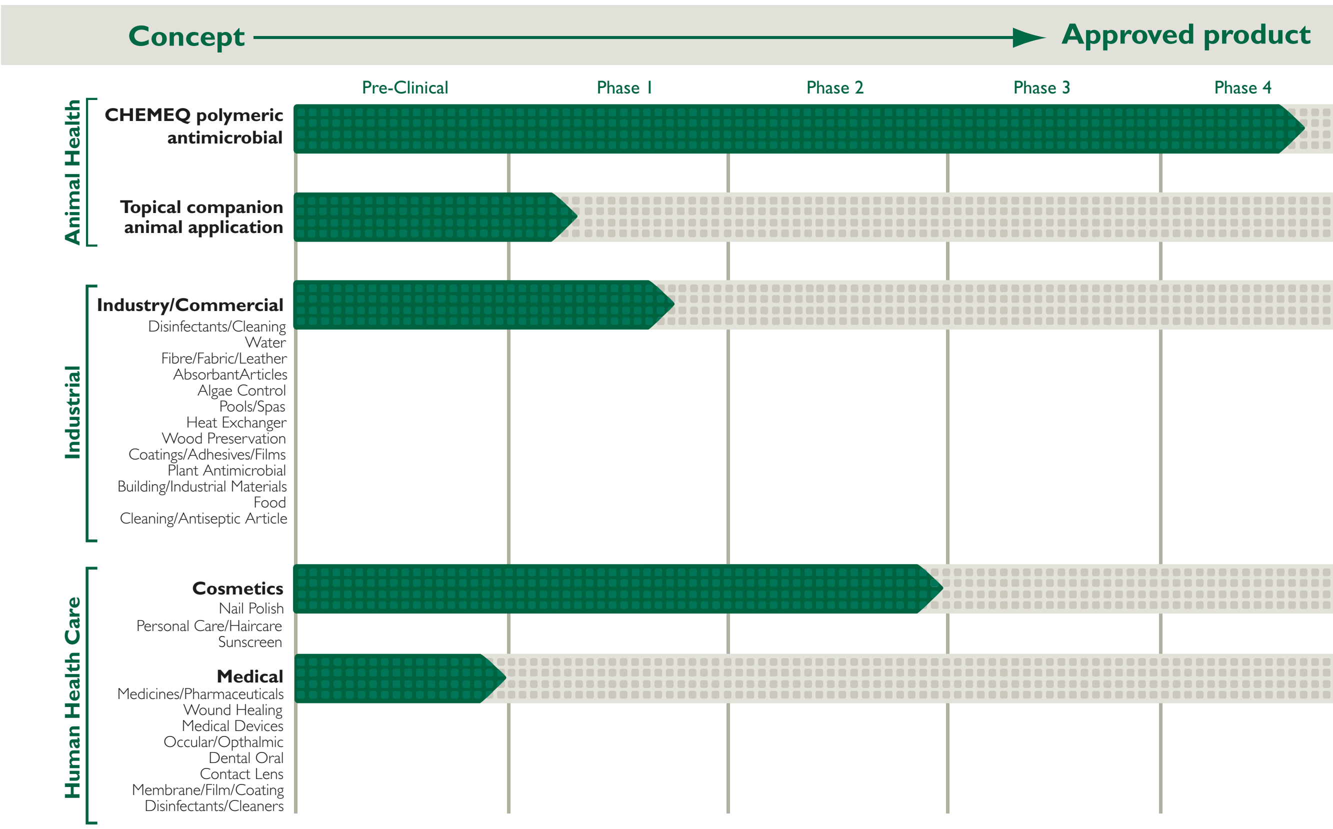
Our Intellectual Property is our most valuable asset and control of this asset will not be compromised.

Maintaining our IP gives us a firm base on which to grow and develop. By delivering value from our Intellectual Property we offer our strategic partnerships the best chance of greater value for Intellectual Property both current and future.

Chemeq recently commissioned an independent review of its patent portfolio, which determined that the company has a strong IP position across a range of applications and technologies.

Creating new opportunities

The CHEMEQ® Polymeric antimicrobial technology has been confirmed by an independent Intellectual Property Group review (IPCG) to have wide commercial applications. In some of these areas, Chemeq is well advanced in the development and commercialisation of the technology.



Commercialisation strategy

In reviewing our business strategy, Chemeq has already made significant achievements, proving that CHEMEQ® can be made on a commercial scale and that it works in a commercial setting. We have also added value to our business in the marketing of our product in South Africa, Malaysia and New Zealand, and have learned more about how the product is used in non-laboratory environments. This has given us a solid base on which to move forward.

The company will start the move away from being a one product company to a multi product company. The new strategy – key points:

- Target key market areas and deliver what the market wants
- Use our competitive strengths in R&D and Intellectual Property development and manage commercialisation with strategic partners
- Develop commercial applications for existing Intellectual Property in veterinary, industrial and human health care markets
- Develop strategic partnerships that offer the best chance to create value from current and future Intellectual Property
- Expand our manufacturing through outsourcing in target markets
- Build a comprehensive and focused approach to new markets

Target key market areas and generate greater sales

Chemeq will adopt a more targeted and focused sales approach to marketing our product, by providing our customers with a complete understanding about the specific effectiveness of our CHEMEQ® polymeric antimicrobial product as well as details of experience with its usage in the field under various conditions. By providing detailed product dossiers regarding the technology behind our product, the customer will be in a better position to make a valued technical and commercial decision.

We will also increase our analysis and understanding of the target markets to ensure we are delivering what the producers need and want.

Strategic Alliances

The Rockingham manufacturing facility has proven the ability to manufacture our technology into a finished product on a commercial scale. This has provided us with a strong base and valuable insight and experience with respect to our manufacturing technology. This knowledge and experience paves the way for a much faster pathway for strategic alliances and will be invaluable with potential strategic partners on both the commercial and contract manufacturing side.

Creating products for a healthier, safer, prosperous future

Creating healthier lives

Antibiotics are currently being used as growth promotants and are having increasing restrictions placed upon them. Our antimicrobial technology is able to provide a healthy alternative to Antibiotics.

Creating a safer environment

Waste from CHEMEQ® treated pigs and poultry has no antimicrobial effect on the normal flora found in slurry. Its inert nature has been tested and proven in a range of environmental conditions and soil types.

The manufacturing facility is a valuable asset and its long term role will evolve as the strategy is implemented over time.

Chemeq is actively seeking strategic partnerships that fast-tract product approvals, manage manufacturing development, expedite commercial trial work and provide access to established distribution networks that are crucial to bringing our product to the global market.

By adopting a partnership approach, the Company will improve the path to market for our products, reduce costs, lower future capital requirements and increase our margins, whilst minimising risk.

The Company has identified strong potential partners and will continue to pursue and negotiate towards making this strategic change a reality.

Our competitive strengths

We recognise our competitive strength lies in our Intellectual Property, with over 90 registered patents world-wide, some going out as far as 2021. We are in a strong position to bring products to market quickly with the aim of achieving this through strategic partners.

With a strong Research and Development team, that has developed the unique CHEMEQ® polymeric antimicrobial; Chemeq has proven product and production processes and the ability to take a product at its earliest stages of research through the various steps to commercialisation.

Chemeq's technology is unique and has numerous applications. Preliminary work has already been done into new applications, and investigations are ongoing. Our strategic partnerships will offer the best chance of maximising value from our Intellectual Property in the future.

With our significant manufacturing capability and production knowhow, we maintain an alternative supply source to our contract producers, whilst allowing the flexibility to continue our development process for both existing and new applications for our technology.

Outlook

Chemeq sees itself as a valuable Research and Development and IP factory, commercialising technology in the pharmaceutical, cosmetic and industrial fields, using its own technology as a base.

Our new direction will allow us to develop new technology lines as well as acquire other relevant technology to develop and license.

We will focus on new markets, such as animal health, cosmetics, industrial and human healthcare applications.

With an experienced board and management team, focused on the milestones and shareholder value, the company is now well positioned to deliver on its strategic objectives.

Creating improved profit margins

CHEMEQ® 5% solution kills bugs in chickens and pigs which decreases mortality and improves weight of chickens and pigs which means increased production and profits for the farmer

Creating new products

The related polymeric technology provides opportunities for the control of microbials in various applications such as sunscreen and cosmetics.

Corporate Governance Statement

The Board of Directors of Chemeq Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Chemeq Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Corporate Governance Statement contains certain specific information and discloses the extent to which the company has followed the guidelines of the Australian Stock Exchange Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations during the period. Where a recommendation has not been followed, that fact must be disclosed, together with reasons for the departure.

Chemeq's Corporate Governance Statement is now structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

Principle 1	**Lay solid foundations for management and oversight**
Principle 2	**Structure the board to add value**
Principle 3	**Promote ethical and responsible decision making**
Principle 4	**Safeguard integrity in financial reporting**
Principle 5	**Make timely and balanced disclosure**
Principle 6	**Respect the rights of shareholders**
Principle 7	**Recognise and manage risk**
Principle 8	**Encourage enhanced performance**
Principle 9	**Remunerate fairly and responsibly**
Principle 10	**Recognise the legitimate interests of stakeholders**

For further information on corporate governance policies adopted by Chemeq Limited, refer to our website:

www.chemeq.com.au/corporategovernance

Independence

Corporate Governance Council Recommendation 2.1 requires the majority of the Board to be independent. In addition, Recommendation 2.2 requires the chairperson of the company to be independent. The Corporate Government Council defines independence as being free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. In accordance with this definition, the following Directors are not considered independent by virtue of them being executives or directors of substantial shareholders of the Company and/or executives of the Company.

Name	Position
Mr Lindsay David Hale Williams	Chief Executive Officer
Dr Graham John Hamilton Melrose	Non-Executive Director (resigned 23 August 2006)
Mr John Robert Nicholls	Non-Executive Director

On 1 August 2005, Mr LDH Williams was appointed Chief Executive Officer and Director of the Company and as such is not considered to be independent, using the Council's definition of independence.

Dr GJH Melrose is a substantial shareholder of the Company and therefore is not considered to be independent, using the council's definition of independence.

During the 2005 year, Gadfly Consulting Pty Ltd, of which Mr JR Nicholls is a director, provided consulting services to the value of $937,500 to Chemeq, and as such is not considered to be independent, using the council's definition of independence. Mr Nicholls is also a director of Brandrill Limited.

Mr JD Hopkins, who was appointed to the Board in January, 2006 is considered to be independent. Mr RV Steffanoni, who was appointed to the Board in 1997 and Mr ACG Davies, who was appointed to the Board in May 2005 are also considered to be independent.

The Board believes that, given the size of the Company, it was not practical to have a majority of independent directors and in the context of the company's recent history and financial status it was not considered appropriate to appoint further directors. Nonetheless, the Board takes the responsibilities of best practice in corporate governance seriously and intends to continue to review the composition of the Board as the Company's operations evolve, and appoint further independent directors as opportunities arise.

Nomination Committee

Recommendation 2.4 requires listed entities to establish a nomination committee.

The Board has established a Nomination Committee, which meets at least annually, to ensure that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. The Nomination Committee is made up of non-executive directors and comprised the following members during the year.

RV Steffanoni (committee chairman)
RC Barnett (resigned 24 November 2005)
ACG Davies
GJH Melrose (resigned 23 August 2006)
JD Hopkins

For details of directors' attendance at meetings of the Nomination Committee, refer to the Directors Report. For additional details regarding the Nomination Committee, please refer to our website.

Audit Committee

Recommendation 4.3 requires an Audit Committee to consist of at least three members and that there be a majority of independent directors. Recommendation 4.4 requires an Audit Committee to adopt a formal charter.

The Audit Committee Charter can be viewed on the Company's website under the Corporate Governance section.

The Board has established an Audit committee, and has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit committee. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit committee are Non-executive Directors.

The members of the Audit committee during the year were:

ACG Davies (Chairman)
RV Steffanoni
JR Nicholls

Whilst the Board considers it a priority to restrict membership of the Audit committee to independent directors, due to the current structure of the Board, it has not been possible to satisfy this requirement. The Board has appointed those members who best satisfy the requirements of financial skills, expertise and industry experience. The Board considers the composition of the Audit committee satisfactory to properly discharge the duties of the Audit committee. Qualifications of Audit committee members is detailed in the section entitled Board of Directors on page 5.

For details on the number of meetings of the Audit committee held during the year and the attendees of those meetings refer to the Directors' Report.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Nomination committee conducted performance evaluations that involved an assessment of each Board member's and key executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria

Corporate Governance Statement

against which Directors and executives are assessed are aligned with the financial and non-financial objectives of Chemeq Ltd. Directors whose performance is consistently unsatisfactory may be asked to retire.

Remuneration

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration committee links the nature and amount of Executive Directors' and officers' emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of high quality management to the Company; and
- Performance incentives that allow executives to share the success of Chemeq Ltd.

For further information on the remuneration received by Directors and executives in the current period, please refer to the Remuneration report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-executive Directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves and the Chief Executive Officer and executive team. The Board has established a Remuneration committee, comprising three Non-executive Directors. Members of the Remuneration committee throughout the year were:

JR Nicholls (chairman)

JD Hopkins

ACG Davies

RC Barnett (resigned 24 November 2005)

For details on the number of meetings of the Remuneration committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Director and Executive Code of Conduct

Recommendation 3.1 requires the Company to establish a Code of Conduct to guide Directors and executives as to policies to maintain the integrity of the Company and to report and investigate unethical practices.

Chemeq's corporate governance practices were in place throughout the year ended 30 June 2006. With the exception of the departures from Corporate Governance Council recommendations in relation to independence, the corporate governance practices of Chemeq were compliant with Council's best practice recommendations.

Dealings in Company Securities

The Company's share trading policy imposes basic trading restrictions on all directors and employees of the Company.

"Inside information" is information that:

- Is not generally available; and
- If it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

Directors and employees are prohibited from trading in the Company's shares where they possess information which is not generally available and that information, if readily available, may have a material effect on the share price of the Company. Further, Directors, officers and employees may only trade in the Company's shares for the period commencing four weeks preceding the announcement of the annual results. For further information on Chemeq's Share Trading Policy, please refer to the website.

Code of Ethics and Conduct

The Company has implemented a suite of policies including a Code of Business Conduct which provides guidelines aimed at maintaining high ethical standards and corporate behaviour. The principals of the policies include:

- Respect the law and act in accordance with it;
- Respect confidentiality and not misuse company information, assets or resources;
- Avoid real or perceived conflicts of interest;
- Act in the best interest of stakeholders; and
- Perform their duties in ways that minimise environmental impacts and maximise workplace safety.

Directors and employees are expected to comply with all Company policies and to act professionally with integrity, honesty and responsibility at all times.

Communication with Stakeholders

The Company places considerable importance on effective communications with shareholders and other stakeholders. Chemeq's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company is provided to shareholders. Mechanisms employed include:

- Announcements lodged with ASX;
- Half Yearly Report
- Presentations at the Annual General Meeting;
- Annual Report
- Shareholder newsletters

Continuous Disclosure

The Company's continuous disclosure policy has been adopted to ensure compliance with obligations under the continuous disclosure regime of the Corporations Law and the Listing Rules of the Australian Stock Exchange Limited and to ensure that all Chemeq shareholders have access to material information about the Company and its prospects.

The disclosure obligations include:

All employees, Company officers and Directors must comply with the ASX Listing Rules and Corporations Law provisions relating to a timely disclosure of price sensitive information to the ASX. The Company does this by releasing written announcements to the ASX.

The Company Secretary is accountable for the establishment, communication and maintenance of this policy and ensuring that material information is disclosed to the ASX.

Role of the Board

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals. The Chief Executive Officer is responsible to the Board for the day to day management of the Company.

The Board has sole responsibility for the following:

- Appointing and removing the Chief Executive Officer and any other Executive Directors and approving their remuneration;
- Appointing and removing the Company Secretary/Chief Financial Officer and approving their remuneration;
- Determining the strategic direction of the Company and measuring performance of management against approved strategies.
- Review the adequacy of resources for management to properly carry out approved strategies and business plans;
- Adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress by both financial and non-financial key performance indicators.
- Monitoring the Company's medium term capital and cash flow requirements;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Company's financial affairs;
- Review and ratify systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements; and
- Ensuring that policies and compliance systems consistent with the Company's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Company's corporate governance practices are being continually reviewed and improved reflecting the Company's circumstances.

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the section entitled Board of Directors on page 5 .

Refer above under the sub-heading "Independence" for disclosure regarding independent directors.

The Company's Constitution provides that the number of Directors shall not be less than three and not more than seven. There is no requirement for any shareholding qualification. Directors are initially appointed by the full Board subject to election by shareholders at the next general meeting. Under the Company's Constitution the tenure of Directors is subject to reappointment by shareholders not later than the third anniversary following their last appointment. Subject to the requirements of the *Corporations Act 2001*, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director.

The Directors in office and the term of their appointment at the date of this statement are:

Name	Position	Term in Office
Mr John Hopkins	Chairman, Non-Executive Director	Appointed 27/1/2006
Mr Lindsay David H Williams	Chief Executive Officer, Director	Appointed 1/8/2005
Mr Raymond V Steffanoni	Non-Executive Director	Appointed 1997
Mr Anthony CG Davies	Non-Executive Director	Appointed 17/5/2005
Mr John R Nicholls	Non-Executive Director	Appointed 17/5/2005

Corporate Governance Statement

Conflicts of Interest

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised on an ongoing basis of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unnecessarily. If appropriate, any advice so received will be made available to all Board members.

Risk Management

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Chief Executive Officer and Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

Areas of significant business risk to the Company are highlighted in the Business Plan presented to the Board in respect of operations and the financial position of the Company.

Role of Auditor

The Company's practice is to invite the Auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditors' report. Non-executive Directors have direct access to the Auditors as required by them.

Recommendations and advice provided by the external auditor and other external advisers on the operational and financial risks faced by the Company were instigated and where appropriate implemented.

Table of Contents

This annual report covers both Chemeq Ltd as an individual entity and the consolidated entity comprising Chemeq Ltd and its subsidiary. The group's functional and presentation currency is AUD ($).

A description of the group's operations and of its principal activities is included in the review of the operations and activities in the Directors' Report on page 19 to 20. The Directors' Report is not part of the Financial report.

Directors' Report

Your Directors submit their report for the year ended 30 June 2006.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows, unless otherwise stated:-

JD Hopkins - appointed 27 January 2006
LLB, FAICD

Mr Hopkins has an extensive public company background, having chaired a number of public companies in both Australia and Canada over the past two decades. He has a strong background in both corporate and resource law with considerable experience in mergers and acquisitions together with public capital raisings. Mr Hopkins is also non-executive chairman of Evans & Tate Limited, Matilda Minerals Ltd and Golden State Resources Limited. He has also been a director of Carpathian Resources from 7 October 2003 to 7 November 2004.

LDH Williams
LLB, MAICD, BCom

Mr Williams joined Chemeq, after Epic Energy, where he was chief executive officer. Prior to this position he was general counsel and company secretary for Alinta Gas from 1995 to 1999. Mr Williams was also a partner at the Melbourne branch of Freehills and Ebsworth & Ebsworth, practicing in industrial relations and corporate law.

ACG Davies
BA (Hons), CA

Mr Davies previously worked for Futuris Corporation Limited in a variety of roles, including finance director, director of risk management and executive director. Prior to joining Futuris, Mr Davies was general manager of finance and administration for the Bell Group Ltd; finance director for Mitchell Cotts Group in Sydney, London and Vancouver; and as an auditor with Arthur Andersen. Mr Davies is also chairman of Australian Plantation Timber Limited, and a non-executive director for AMCOM Telecommunications Limited and Integrated Tree Cropping Limited.

JR Nicholls
BCom, MBA

Mr Nicholls has extensive experience with start-up and established companies, both listed and unlisted, in the capacity of chief executive officer or non-executive director. These companies, some of which were established by Mr Nicholls, have been engaged in a wide range of activities, including manufacturing, distribution, trading and banking, and were located in Asia, North America, Africa and Australia. Since returning to Australia from Asia, where he resided between 1967 and 1997, Mr Nicholls has been principally engaged in non-executive directorships and advisory roles. He is also a director of Brandrill Limited.

RV Steffanoni
BCom, CA

Mr Steffanoni has more than fifteen years experience in corporate consulting divisions of international accounting firms in Australia and the United Kingdom. He has provided consultancy services with regard to prospectuses, takeovers, taxation, business valuations and corporate investigations. Mr Steffanoni is the principal and founder of Salisbury Business Services, consultants in all aspects of financial management.

GJH Melrose – resigned 23 August 2006
BSc (Hons), PhD, MBA, FRACI, FAICD, CChem

Dr Melrose is the inventor of CHEMEQ® polymeric antimicrobial, and founder of Chemeq Limited. Formerly a research and executive director of Johnson & Johnson (Australia), with responsibilities including intellectual properties and quality assurance for the Asia-Pacific region, Dr Melrose has a distinguished scientific and business career. He was tenure-head of the department of Applied Organic Chemistry at the University of New South Wales and has held university lecturing and research positions in Oxford, Munich and Western Australia. Dr Melrose later established and directed a leading marketing strategy consultancy business, and has been widely involved in commercial marketing and chemical organisations.

RC Barnett – resigned 24 November 2005
Mgt Cert, FAICD

Mr Barnett has been a leader in a number of business organisations, having held committee, president or chair appointments for the Housing Industry Association (NSW), Framed Housing Association, WA Committee of Indicative Planning, Kewdale Business Association, Monash/Mt Eliza Alumni Association (WA branch) and the International Services Committee of the Confederation of WA Industry. As founder and principal of Russell Marketing, he has been closely associated with Chemeq for over ten years.

Directors' Report

COMPANY SECRETARY

BF Mangano
BBus, CA, FCIS

Mr Mangano is a senior corporate executive, with over nineteen years experience in the Australian listed company environment, in the engineering, technology and investment sectors. He is a former managing director of listed companies AirBoss and Australian Growth, and was chief financial officer of Yates (formerly Norgard Clohessy Equity). He also worked as financial controller of a number of companies in Richard Branson's Virgin Group, based in London. Most recently, Mr Mangano was chief financial officer of engineering consulting and construction group VDM. A chartered accountant by profession, he has extensive experience in technology licensing, corporate governance and international marketing.

Interest in the ordinary shares of the Company
As at the date of this report, the interests of the Directors in the shares of Chemeq Ltd were:

Number of ordinary shares	
JD Hopkins	–
LDH Williams	–
ACG Davies	–
JR Nicholls	1,280
RV Steffanoni	112,886

DIVIDENDS

No amounts were paid or proposed by way of dividend by the Company since the end of the previous financial year.

PRINCIPAL ACTIVITIES

During the year, the principal activities of the Company consisted of:-

(a) The manufacture of CHEMEQ® polymeric antimicrobial, in conjunction with continued efforts towards the enhancement and optimisation of the production process;

(b) The pursuit of sales agreements and supply of sales orders;

(c) Undertaking commercial trials and product launches in key initial markets; and

(d) Continued research and development related to the CHEMEQ® polymeric antimicrobial and CHEMYDE® antimicrobial.

OPERATING AND FINANCIAL REVIEW

Chemeq Ltd is a technology company with its focus on commercialisation of its intellectual property and products through strategic partnerships.

At a glance, the following events took place over the financial year ended 30 June 2006:-

(a) Patent protection for the use of CHEMYDE® polymeric antimicrobial in topical emulsion compositions was granted in Australia to the year 2021.

(b) The Rockingham manufacturing facility achieved further improved performance capability in the range of 260,000 to 280,000 litres of finished product per annum.

(c) A sales order with Inviro Animal Health Solutions CC to the value of $1,400,000 million was signed and delivered upon.

(d) The final milestone revenue and cash covenants under the convertible bond deed poll were achieved.

(e) Mr John Hopkins was appointed as Chairman of Chemeq in January 2006.

(f) Key management appointments of Mr Andrew Gunst as Operations General Manager and Mr William McHenry as Commercial General Manager, joined Mr Brian Mangano as Chief Financial Officer to form an integral part of the Company's new strategy.

(g) An announcement of a long term strategy that places it in the best possible position to successfully and profitably commercialise its products in world markets.

(h) The Rockingham manufacturing facility proves operation at nameplate capacity of approximately 360,000 litres per annum.

Operating results for the year and shareholder returns
The operating loss after income tax, and before the write-down of the plant and equipment is $25,387,000 (2005: $29,643,000), and after the write-down is $31,808,000 (2005: $60,765,000). The loss per share is (31.2) cents (2005: (63.5) cents). The improved operating loss is as a result of the significant write-down of the plant and equipment at 30 June 2005.

Directors' Report

Review of financial condition

Liquidity and capital resources and profile of debt

The cash flow statement illustrates that there was a decrease in cash and cash equivalents in the year ended 30 June 2006 of $8,720,000 (2005: increase of $31,259,000). The remaining cash instalment of $20,000,000, from the convertible bondholders, was received in July 2005, increasing the total balance received from the bondholders to $60,000,000.

Share issues during the year

There were 107,663 shares issued during the year, increasing equity by $129,000. The ordinary shares issued were for the exercise of options, the payment for services rendered by the Directors' and the issue of 1,000 shares to each full-time employee of the Company.

Capital expenditure

There has been a significant decrease in the cash used to purchase plant and equipment for 30 June 2006 to $3,217,000 from $13,244,000. This was due to the completion of the construction of the manufacturing facility in 2005. Further capital commitments of $900,000 existed at the balance sheet date, principally relating to the procurement and installation of plant at the manufacturing facility.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company has vigorously reviewed the strategic objectives of the business, and as such has identified the necessity to focus on the core strengths of the operations. The previous strategy focused on the development, manufacture and distribution of one product, CHEMEQ® polymeric antimicrobial for pigs and chickens. The Company determined that this focus could be assisted by the pursuit of strategic partnerships. The strategy going forward is to make use of new strategic alliances and partnerships in two ways; firstly to undertake some aspects of the production and secondly to take advantage of key commercialisation chains in certain target markets to maximise the depths of commercialisation for all aspects of the underlying technology.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 24 July 2006 the Company reached a settlement with the Australian Securities and Investments Commission in relation to proceedings against the Company for alleging contraventions of the continuous disclosure requirements of the Corporations Act. The Federal Court determined a total penalty of $500,000, in relation to the two agreed contraventions of the Corporations Act, which was accrued for at 30 June 2006.

On 5 September 2006 the Company implemented a major reorganisation of its business to match its new corporate strategy. The reorganisation resulted in the retrenchment of approximately 50 full-time staff, at an estimated cost of $1,200,000, which was not provided for at 30 June 2006.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity would, in the opinion of the Directors, be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity is subject to a range of environmental regulations. During the financial year, all reporting requirements under all relevant legislation were met.

SHARE OPTIONS

Unissued Shares

As at the date of this report, there were no unissued ordinary shares under options.

Shares issued as a result of the exercise of options

During the financial year, there were 3,661 (2005: 3,707) ordinary shares issued as a result of the exercise of options.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Company has paid premiums in respect of a contract insuring all the Directors of Chemeq Ltd against legal costs incurred in defending proceedings for conduct involving a wilful breach of duty; or a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*. The insurance contract specifically prohibits disclosure of the premiums paid.

Directors' Report

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for Directors and executives of Chemeq Ltd.

Remuneration philosophy

The performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives. To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value; and
- Have a portion of executive remuneration 'at risk', dependant upon meeting pre-determined performance benchmarks.

Remuneration committee

The Remuneration committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for Directors, the Executive Director and the executive team.

The Remuneration committee assess the appropriateness of the nature and amount of remuneration of Directors and all executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a highly qualified Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive Director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the annual general meeting held on 29 November 2004 when shareholders approved an aggregate remuneration of $430,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each Director received a fee for being a Director of the Company. An additional fee is also paid for each Board committee on which a Director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by Directors who serve on one or more sub-committees.

The remuneration of non-executive directors for the year ended 30 June 2006 is detailed in Table 1 of this report.

Executive Director and executive remuneration

Objective

The Company aims to reward the Executive Director and executives with a level and mix of remuneration commensurate with their position and responsibility within the Company, to reward executives for Company, business unit and individual performance against targets by reference to appropriate benchmarks; align the interests of executives with those of shareholders; link reward with the strategic goals and performance of the Company; and ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of the Executive Director and executive remuneration, the Remuneration committee obtains advice detailing market levels of remuneration for comparable roles.

Remuneration comprises fixed remuneration and variable remuneration split between short term and long term incentives.

Directors' Report

The proportion of fixed remuneration and variable remuneration has been established for each executive by the Remuneration committee. Table 2 of this report details the fixed and variable components (%) of the five most highly remunerated executives of the Company.

Fixed remuneration

Objective

Fixed remuneration is reviewed annually by the Remuneration committee. The process consists of a review of Companywide, division and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on polices and practices. As noted earlier, the committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company. The fixed component of the five most highly remunerated executives of the consolidated entity is detailed in Table 2 of this report.

Variable remuneration – Short term incentive (STI)

Objective

The objective of STI's is to link the achievement of the Company's operational targets with the remuneration received by the Executive Director and nominated executives charged with meeting those targets. The total potential STI available is set at a level to provide sufficient incentive to the executives to achieve the operational targets so that the cost to the Company is reasonable in the circumstances.

Structure

The actual STI payments granted to the Executive Director and nominated executives depends on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of key performance indicators covering both financial and non-financial measures of performance. Typically included are measures such as contribution to net profit after tax, risk management, product management, and leadership/team contribution. Payments are usually delivered as a cash bonus.

Variable remuneration – Long term incentive (LTI)

Objective

The objective of the LTI's is to reward the Executive Director in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such LTI grants are only made to the Executive Director who is able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdles.

Structure

LTI grants to the Executive Director are delivered in the form of shares. The Company uses the volume weighted average price ("VWAP") of ordinary shares as the performance hurdle for the LTI plan. The use of a relative VWAP based hurdle is currently market best practice as it ensures an alignment between comparative shareholder return and reward for the Executive Director.

Relationship of rewards to performance

The Remuneration committee in conjunction with the Executive Director review the performance of the executives, at least annually, in line with the short term incentives established as part of the executives' remuneration.

Employment contracts

Except as disclosed below all Directors and executives are employed under contracts of employment with standard commercial terms, such as having no fixed term of expiry, notice periods of between one and three months and termination payments in lieu of notice.

The Chief Executive Officer, Mr LDH Williams is employed under contract. The current employment contract has a fixed term of two years ending 31 July 2007. The terms of the contract are as follows:-

- The remuneration package provided under the agreement provides a base salary, in addition to an annual bonus in the form of cash and/or ordinary shares according to the achievement of nominated short term and long term incentive targets.
- Mr Williams may terminate his contract of employment upon giving six months written notice to the Company.

- The Company may terminate the agreement during the last fourteen months of the two year term on the payment of an amount in lieu of services until the end of the two year term.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

The Chief Financial Officer and Company Secretary, Mr BF Mangano is employed under contract. The current employment contract has a fixed term of two years ending 4 May 2008. The terms of the contract are as follows:-

- The remuneration package provided under the agreement provides a base salary, in addition to an annual bonus according to the achievement of nominated incentive targets.
- Mr Mangano may terminate his contract of employment upon giving three months written notice to the Company.
- The Company may terminate the agreement upon payment of an amount equal to three months of Mr Mangano's remuneration package.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

The Commercial General Manager, Mr W McHenry is employed under contract. The current employment contract has a fixed term of two years ending 7 May 2008. The terms of the contract are as follows:-

- The remuneration package provided under the agreement provides a base salary, in addition to an annual bonus according to the achievement of nominated incentive targets.
- Mr McHenry may terminate his contract of employment upon giving three months written notice to the Company.
- The Company may terminate the agreement upon payment of an amount equal to three months of Mr McHenry's remuneration package.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

The Operations General Manager, Mr AC Gunst is employed under contract. The current employment contract has a fixed term of two years ending 26 February 2008. The terms of the contract are as follows:-

- The remuneration package provided under the agreement provides a base salary, in addition to an annual bonus according to the achievement of nominated incentive targets.
- Mr Gunst may terminate his contract of employment upon giving three months written notice to the Company.
- The Company may terminate the agreement upon payment of an amount equal to six months of Mr Gunst's remuneration package.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

REMUNERATION OF DIRECTORS AND EXECUTIVES

Table 1 Directors' remuneration for the year ended 30 June 2006

		Short-term				Post Employment	Total	Performance Related
		Salary & fees	Bonus	Share Based Payments	Other	Superannuation		
		$	$	$	$	$	$	%
JD Hopkins (1)	2006	51,708	–	–	–	4,654	56,362	–
Non-executive Chairman	2005	–	–	–	–	–	–	–
LDH Williams	2006	348,622	–	–	–	32,083	380,705	–
Chief Executive Officer	2005	–	–	–	–	–	–	–
RC Barnett (2)	2006	26,665	–	–	–	2,340	29,005	–
Non-executive	2005	40,000	–	20,000	–	5,400	65,400	–
ACG Davies	2006	72,020	–	–	–	6,482	78,502	–
Non-executive	2005	7,233	–	–	–	651	7,884	–
PA Grujic (3)	2006	–	–	–	–	–	–	–
Non-executive	2005	22,934	–	–	–	2,064	24,998	–
GA Major (4)	2006	–	–	–	–	–	–	–
Non-executive	2005	23,956	–	–	–	2,156	26,112	–
GJH Melrose (5)	2006	322,703	–	–	–	24,209	346,912	–
Non-executive	2005	489,513	–	–	62	44,056	533,631	–
JR Nicholls	2006	66,945	–	–	–	6,025	72,970	–
Non-executive	2005	6,630	–	–	–	597	7,227	–
RV Steffanoni	2006	66,573	–	–	–	5,992	72,565	–
Non-executive	2005	45,000	–	20,000	–	5,850	70,850	–

(1) Appointed 27 January 2006 (2) Resigned 24 November 2005 (3) Resigned 15 December 2004 (4) Resigned 29 November 2004 (5) Resigned 23 August 2006

Table 2 Remuneration of the five named executives who received the highest remuneration for the year ended 30 June 2006

		Short-term				Post Employment	Total	Performance Related
		Salary & fees	Bonus	Share Based Payments	Other	Superannuation		
		$	$	$	$	$	$	%
J Geldart	2006	165,138	–	1,000	–	14,862	181,000	–
Sales & Marketing executive	2005	144,495	–	1,000	19,020	13,004	177,519	–
DM Gregory	2006	198,630	–	1,000	21,826	17,876	239,332	–
Manufacturing executive	2005	188,197	–	1,000	18,838	16,937	224,972	–
BF Mangano (1)	2006	175,853	30,000	1,000	–	11,718	218,571	13.72
Chief Financial Officer and Company Secretary	2005	32,242	–	–	–	2,604	34,846	–
DMG Tilbrook	2006	168,578	–	1,000	20,608	15,172	205,358	–
Research & Development executive	2005	162,557	–	1,000	20,608	14,630	198,795	–
SJ Walton	2006	182,301	–	1,000	13,994	16,407	213,702	–
Compliance executive	2005	176,309	–	1,000	9,083	15,868	202,260	–

(1) Appointed 5 May 2005

Directors' Report

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	Directors	Audit & Risk	Remuneration	Nomination	Non-Executive
Number of meetings held:	21	7	2	2	1
Number of meetings attended:					
JD Hopkins	6	N/A	1	2	N/A
LDH Williams	17	N/A	N/A	N/A	N/A
RC Barnett	8	N/A	1	N/A	1
ACG Davies	21	7	1	N/A	1
GJH Melrose	21	N/A	N/A	2	N/A
JR Nicholls	20	7	2	N/A	1
RV Steffanoni	21	7	1	2	1

All Directors were eligible to attend all meetings held, except for JD Hopkins, who was eligible to attend 6 Directors meetings, LDH Williams 17 Directors meetings, and RC Barnett, who was eligible to attend 10 Directors meetings.

Committee membership

As at the date of this report, the Company had an Audit and Risk, a Remuneration and a Nomination committee of the Board of Directors.

Members acting on the committees of the Board during the year were:

	Audit & Risk	Remuneration	Nomination	Non-Executive
JD Hopkins (1)	–	Member	Member	–
LDH Williams	–	–	–	–
RC Barnett (2)	–	Chairman	Member	Chairman
ACG Davies	Chairman	Member	–	Member
GJH Melrose (3)	–	–	Member	–
JR Nicholls (4)	Member	Chairman	–	Member
RV Steffanoni (5)	Member	Member	Chairman	Member

(1) Appointed 28 February 2006
(2) Resigned 24 November 2005
(3) Appointed 28 February 2006, resigned 23 August 2006
(4) Appointed 20 December 2005 as chairman of Remuneration committee
(5) Resigned 28 February 2006 as a member of the Remuneration committee

The non-executive committee was disbanded on 31 January 2006.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Directors' Report

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received the following declaration from the Auditor of Chemeq Ltd.

Auditor's Independence Declaration to the Directors of Chemeq Ltd

In relation to our audit of the financial report of Chemeq Ltd for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the Auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

GH Meyerowitz
Partner
Perth, 29 September 2006

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's Auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that Auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services	$25,459
Other non-audit services	$6,900

Signed in accordance with a resolution of the Directors.

JD Hopkins
Chairman
29 September 2006

Income Statement

Year Ended 30 June 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Continuing operations					
Sale of goods	3(a)	**1,785**	154	**1,785**	154
Finance revenue	3(a)	**2,333**	962	**2,333**	962
Revenue	3(a)	**4,118**	1,116	**4,118**	1,116
Production expenses		**(13,681)**	(15,403)	**(13,681)**	(15,403)
Gross loss		**(9,563)**	(14,287)	**(9,563)**	(14,287)
Other income	3(b)	**15**	–	**15**	–
Research and development expenses		**(1,590)**	(2,517)	**(1,590)**	(2,517)
Sales and marketing expenses		**(733)**	(891)	**(733)**	(891)
Corporate and administration expenses		**(7,522)**	(7,212)	**(7,522)**	(7,212)
Impairment of plant and equipment		**(6,421)**	(31,122)	**(6,421)**	(31,122)
Other expenses from ordinary activities	3(c)	**(1,167)**	(1,940)	**(1,167)**	(1,940)
Finance costs	3(d)	**(5,636)**	(2,796)	**(5,636)**	(2,796)
Loss before income tax		**(32,617)**	(60,765)	**(32,617)**	(60,765)
Income tax benefit	4	**809**	–	**809**	–
Loss after tax benefit from continuing operations	16	**(31,808)**	(60,765)	**(31,808)**	(60,765)
Loss attributable to members of the parent entity		**(31,808)**	(60,765)	**(31,808)**	(60,765)
Basic loss per share (cents)	5	**(31.2)**	(63.5)		
Diluted loss per share (cents)	5	**(31.2)**	(63.5)		

Balance Sheet

Year Ended 30 June 2006

	Notes	Consolidated		Parent	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
Assets					
Current Assets					
Cash and cash equivalents	6	**28,846**	37,566	**28,845**	37,565
Trade and other receivables	7	**2,184**	695	**2,184**	695
Inventories	8	**1,100**	285	**1,100**	285
Prepayments		**490**	318	**490**	318
Total Current Assets		**32,620**	38,864	**32,619**	38,863
Non-Current Assets					
Receivables	7	**–**	–	**2**	2
Other financial asset	9	**–**	–	**–**	–
Property, plant and equipment	10	**29,963**	33,024	**29,963**	33,024
Intangible assets	11	**2,715**	2,334	**2,715**	2,334
Total Non-Current Assets		**32,678**	35,358	**32,680**	35,360
Total Assets		**65,298**	74,222	**65,299**	74,223
Liabilities					
Current Liabilities					
Trade and other payables	12	**3,517**	2,380	**3,517**	2,380
Interest bearing loan	13	**–**	10	**–**	10
Provisions	14	**408**	615	**408**	615
Total Current Liabilities		**3,925**	3,005	**3,925**	3,005
Non-Current Liabilities					
Interest bearing loans	13	**60,000**	40,024	**60,000**	40,024
Total Non-Current Liabilities		**60,000**	40,024	**60,000**	40,024
Total Liabilities		**63,925**	43,029	**63,925**	43,029
Net Assets		**1,373**	31,193	**1,374**	31,194
Equity					
Contributed equity	15	**116,974**	116,872	**116,974**	116,872
Asset revaluation reserve	17	**1,886**	–	**1,886**	–
Accumulated losses	16	**(117,487)**	(85,679)	**(117,486)**	(85,678)
Total Equity		**1,373**	31,193	**1,374**	31,194

Statement of Changes in Equity

Year Ended 30 June 2006
CONSOLIDATED

	Notes	Attributable to equity holders of the parent entity			
		Issued Capital $'000	**Accumulated Losses $'000**	**Reserves $'000**	**Total $'000**
Balance at 1 July 2004		88,822	(24,914)	–	63,908
Loss for the period	27(b)	–	(60,765)	–	(60,765)
Total income and expense for the period		–	(60,765)	–	(60,765)
Issue of capital	15	30,273	–	–	30,273
Capital raising costs	15	(2,223)	–	–	(2,223)
Balance at 30 June 2005		**116,872**	**(85,679)**	**–**	**31,193**
Balance at 1 July 2005		116,872	(85,679)	–	31,193
Revaluation of land		–	–	2,695	2,695
Tax impact of revaluation		–	–	(809)	(809)
Total income and expense for the period recognised directly in equity	17	–	–	1,886	1,886
Loss for the period		–	(31,808)	–	(31,808)
Total income and expense for the period		–	(31,808)	1,886	(29,922)
Issue of capital	15	9	–	–	9
Share based payment costs	15	120	–	–	120
Capital raising costs	15	(27)	–	–	(27)
Balance at 30 June 2006		**116,974**	**(117,487)**	**1,886**	**1,373**

Statement of Changes in Equity

Year Ended 30 June 2006

PARENT	**Notes**	**Attributable to equity holders of the parent entity**			
		Issued Capital $'000	**Accumulated Losses $'000**	**Reserves $'000**	**Total $'000**
Balance at 1 July 2004		88,822	(24,913)	–	63,909
Loss for the period	27(b)	–	(60,765)	–	(60,765)
Total income and expense for the period		–	(60,765)	–	(60,765)
Issue of capital	15	30,273	–	–	30,273
Capital raising costs	15	(2,223)	–	–	(2,223)
Balance at 30 June 2005		**116,872**	**(85,678)**	**–**	**31,194**
Balance at 1 July 2005		116,872	(85,678)	–	31,194
Revaluation of land		–	–	2,695	2,695
Tax impact of revaluation		–	–	(809)	(809)
Total income and expense for the period recognised directly in equity	17	–	–	1,886	1,886
Loss for the period		–	(31,808)	–	(31,808)
Total income and expense for the period		–	(31,808)	1,886	(29,922)
Issue of capital	15	9	–	–	9
Share based payment costs	15	120	–	–	120
Capital raising costs	15	(27)	–	–	(27)
Balance at 30 June 2006		**116,974**	**(117,486)**	**1,886**	**1,374**

Cash Flow Statement

Year Ended 30 June 2006

	Notes	Consolidated		Parent	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
Cash flows from operating activities					
Receipts from customers		**273**	38	**273**	38
Payments to suppliers and employees		**(22,845)**	(21,949)	**(22,845)**	(21,949)
Interest received		**2,794**	501	**2,794**	501
Interest paid		**(5,101)**	(1,523)	**(5,101)**	(1,523)
Net cash flows used in operating activities	6	**(24,879)**	(22,933)	**(24,879)**	(22,933)
Cash flows from investing activities					
Proceeds from sale of plant and equipment		**22**	–	**22**	–
Purchase of plant and equipment		**(3,217)**	(13,244)	**(3,217)**	(13,244)
Payments for intangible assets		**(621)**	(521)	**(621)**	(521)
Net cash flows used in investing activities		**(3,816)**	(13,765)	**(3,816)**	(13,765)
Cash flows from financing activities					
Proceeds from issue of ordinary shares		**9**	30,188	**9**	30,188
Payments for issue of ordinary shares		**–**	(2,224)	**–**	(2,224)
Repayment of borrowings		**(34)**	(7)	**(34)**	(7)
Proceeds from borrowings		**20,000**	40,000	**20,000**	40,000
Net cash flows from financing activities		**19,975**	67,957	**19,975**	67,957
Net (decrease)/increase in cash and cash equivalents		**(8,720)**	31,259	**(8,720)**	31,259
Cash and cash equivalents at the beginning of the period		**37,566**	6,307	**37,565**	6,306
Cash and cash equivalents at the end of the period	6	**28,846**	37,566	**28,845**	37,565

Notes to the Financial Statements

1. CORPORATE INFORMATION

The financial report of Chemeq Ltd for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Directors on 29 September 2006.

Chemeq Ltd is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the group during the financial year were the manufacturing and supply of CHEMEQ® polymeric antimicrobial.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for land which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Company has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 27.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006 are as follows:-

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard *	Application Date for Group
2004-3	AASB 1 First-time Adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 124 Related Party Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-1	AASB 139 Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-4	AASB 1 First-time Adoption of AIFRS AASB 139 Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006

Notes to the Financial Statements

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard *	Application Date for Group
2005-5	AASB 1 First-time Adoption of AIFRS AASB 139 Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3 Business Combinations	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-9	AASB 4 Insurance Contracts AASB 1023 General Insurance Contracts AASB 139 Financial Instruments: Recognition and Measurement AASB 132 Financial Instruments: Presentation and Disclosure	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132 Financial Instruments: Presentation and Disclosure AASB 101 Presentation of Financial Statements AASB 114 Segment Reporting AASB 117 Leases AASB 133 Earnings Per Share AASB 139 Financial Instruments: Recognition and Measurement AASB 1 First-time Adoption of AIFRS AASB 4 Insurance Contracts AASB 1023 General Insurance Contracts AASB 1038 Life Insurance Contracts	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
2006-1	AASB 121 The Effects of Change in Foreign Currency Rates	No change to accounting policy required. Therefore no impact.	1 July 2006	1 July 2007
New standard	AASB 7 Financial Instrument Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the table above.

Notes to the Financial Statements

The following amendments are not applicable to the group, therefore have no impact:-

New or Revised Standard/UIG affected Standard	Nature of Change to Accounting Policy	Application Date of Standard	Application Date for Group
AASB 119 Employee Benefits	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG 4 Determining whether an Arrangement contains a Lease	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG 5 Rights to interests in Decommissioning, Restoration and Environmental Rehabilitation Funds	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	No change to accounting policy required. Therefore no impact.	1 December 2005	1 July 2006
UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies	No change to accounting policy required. Therefore no impact.	1 March 2006	1 July 2006
UIG 8 Scope of AASB 2	No change to accounting policy required. Therefore no impact.	1 May 2006	1 July 2006
UIG 9 Reassessment of Embedded Derivatives	No change to accounting policy required. Therefore no impact.	1 June 2006	1 July 2006

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Chemeq Ltd and its subsidiary as at 30 June each year (the group). The financial statements of the subsidiary are prepared for the same reporting period as the parent entity, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

d) Significant accounting estimates and assumptions

The carrying amounts of certain assets are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets within the next annual reporting period are the impairment of intangibles.

The group determines whether property, plant and equipment are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the property, plant and equipment with finite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of the property, plant and equipment are discussed in note 10. The group determines the depreciation rate to be adopted based on estimates of the useful life of the asset.

Notes to the Financial Statements

The group determines whether intangibles are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the intangibles with finite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of the intangibles are discussed in note 11. The group determines the amortisation rate to be adopted based on estimates of the useful life of the asset.

e) Revenue recognition

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest income

Accounting policy for the year ending 30 June 2006

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

Accounting policy for the year ending 30 June 2005

Revenue is recognised when the group's right to receive the payment is established.

f) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

g) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

h) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

i) Trade and other receivables

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the group will not be able to collect the debts. Bad debts are written off when identified.

Accounting policies applicable for the year ending 30 June 2005

Trade receivables were recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

Notes to the Financial Statements

j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- Raw materials - purchase cost on a first-in first-out basis; and
- Finished goods and work-in-progress – cost of direct material and labour and a proportion of manufacturing overheads based on normal operating activity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

k) Investment in controlled entity

The investment in the controlled entity is carried at the lower of cost and recoverable amount.

l) Foreign currency translation

Both the functional and presentation currency of Chemeq Ltd and its Australian subsidiary are Australian dollars ($). Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transaction. Monetary items denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences in the consolidated financial report are taken to profit or loss.

m) Income tax

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

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

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

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

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

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

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Notes to the Financial Statements

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

n) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

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

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

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

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

o) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land is measured at fair value less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Land – not depreciated
- Freehold buildings – 40 years
- Plant and equipment – 1 to 15 years
- Plant and equipment under lease – Lease term or the estimated useful life

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value. Impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any subsequent accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the balance sheet date.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

p) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Research and development costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or when in use, when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

A summary of the policies applied to the group's intangible assets is as follows:

	Patents & Licenses	Development Costs
Useful lives	Finite	Finite
Method used	20 years - Straight Line	15 years - Straight Line
Internally generated/acquired	Acquired	Acquired
Impairment test/recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

q) Impairment of assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

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

r) Trade and other payables

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ending 30 June 2005

Liabilities for trade creditors and other amounts are carried at costs which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

s) Interest bearing loans

Accounting policies applicable for the year ending 30 June 2006

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised costs are calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised and as well through the amortisation process.

When financial instruments, such as convertible bonds issued by the Company, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation. Interest on convertible bonds is recognised as borrowing cost expensed in the income statement until such time as the liability is extinguished.

Notes to the Financial Statements

Accounting policies applicable for the year ending 30 June 2005

When financial instruments, such as convertible bonds issued by the Company give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation. Interest on the convertible bonds are recognised as borrowing costs expensed in the income statement until such time the liability is extinguished.

t) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense in relation to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

u) Employee Leave Benefits

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employee's services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long Service Leave

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

v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

w) Earnings per share

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

Diluted earnings per share are calculated as net loss attributable to members, adjusted for:-

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

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

x) Share based payment transactions

The consolidated entity provides benefits to employees of the consolidated entity in the form of share based payment transactions, whereby employees render services in exchange for shares or over shares ('equity settled transactions').

There are currently two plans in place to provide these benefits:

- the Employee Share Acquisition Plan (ESAP), which provides benefits to all employees, and
- the Employee Share Saving Plan (ESSP), which provides benefits to all employees.

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing the equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Chemeq Ltd ('market conditions').

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

y) AASB 1 Transitional exemptions

The consolidated entity has made its election in relation to the transitional exemptions allowed by AASB 1 'First time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Share based payment transactions

AASB 2 'Share Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before January 2005.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
3. REVENUE AND EXPENSES				
Revenue and expenses from continuing operations				
(a) Revenue				
Sale of goods	**1,785**	154	**1,785**	154
Finance revenue	**2,333**	962	**2,333**	962
	4,118	1,116	**4,118**	1,116
(b) Other income				
Government grant	**15**	–	**15**	–
	15	–	**15**	–
(c) Other expenses				
Loss on sale of equipment	**12**	–	**12**	–
Litigation settlement	**670**	–	**670**	–
Executive expenses	**485**	1,940	**485**	1,940
	1,167	1,940	**1,167**	1,940
(d) Finance costs				
Finance charges payable under finance leases	**1**	3	**1**	3
Convertible bonds	**5,635**	2,535	**5,635**	2,535
Other loans	**–**	258	**–**	258
Total finance costs	**5,636**	2,796	**5,636**	2,796
(e) Depreciation and amortisation included in the income statement				
Included in production expenses				
Depreciation	**3,255**	6,151	**3,255**	6,151
Included in research and development expenses				
Amortisation	**191**	137	**191**	137
(f) Lease payments included in the income statement				
Included in corporate and administration expenses				
Minimum lease payment – operating lease	**407**	472	**407**	472
(g) Inventory expense				
Inventory written off	**995**	–	**995**	–
(h) Employee benefits expense				
Wages and salaries	**7,819**	7,218	**7,819**	7,218
Superannuation	**692**	608	**692**	608
Annual leave provision	**(44)**	41	**(44)**	41
Long service leave provision	**(46)**	9	**(46)**	9
	8,421	7,876	**8,421**	7,876

4. INCOME TAX

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
The major components of income tax benefit are				
Income statement				
Current income tax:				
Current income tax benefit	**–**	–	**–**	–
Adjustments in respect of current income tax of previous years	**–**	–	**–**	–
Deferred income tax:				
Relating to origination and reversal of temporary differences	**(9,779)**	(19,314)	**(9,779)**	(19,314)
Deferred tax assets not brought to account as realisation is not considered probable	**8,970**	19,314	**8,970**	19,314
Income tax benefit reported in the income statement	**(809)**	–	**(809)**	–
A reconciliation between tax benefit and the product of accounting profit before income tax multiplied by the group's applicable income tax rate is as follows:				
Accounting loss before income tax	**(32,617)**	(60,675)	**(32,617)**	(60,675)
At the group's statutory income tax rate of 30% (2005: 30%)	**(9,785)**	(18,203)	**(9,785)**	(18,203)
Expenditure not allowable for income tax purposes	**6**	3	**6**	3
Research and development uplift	**–**	(1,114)	**–**	(1,114)
Deferred tax assets not brought to account as realisation is not considered probable	**8,970**	19,314	**8,970**	19,314
Income tax benefit reported in the income statement	**(809)**	–	**(809)**	–

	Balance Sheet 2006 $'000	Balance Sheet 2005 $'000	Income Statement 2006 $'000	Income Statement 2005 $'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED AND PARENT				
Deferred tax liabilities				
Intangibles	**460**	454	**6**	(8)
Land	**839**	30	**–**	–
Other	**67**	222	**(155)**	139
Gross deferred tax liabilities	**1,366**	706		
Deferred tax assets				
Plant, buildings and equipment	**10,069**	8,700	**(1,369)**	(8,700)
Equity raising costs	**794**	1,144	**350**	217
Losses available to offset against future taxable income	**25,681**	17,878	**(7,803)**	(10,337)
Provision for employee entitlements	**122**	184	**62**	(21)
Other	**1,378**	508	**(870)**	(604)
Deferred tax assets not brought to account as realisation is not regarded as probable	**(36,678)**	(27,708)		
Gross deferred tax assets	**1,366**	706		
Deferred tax income			**(9,779)**	(19,314)
Net deferred tax recognised in the balance sheet	**–**	–		

The group has further tax losses arising in Australia of $85,603,000 (2005: $59,594,000) that are available indefinitely. The group has not recognised a deferred income tax asset in relation to these losses as realisation of the benefit is not regarded as probable.

5. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated as net loss attributable to members, adjusted for:-

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

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

There have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

Notes to the Financial Statements

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
The following reflects the income and share data used in the basic and diluted earnings per share computations:				
Net loss attributable to ordinary equity holders of the parent used in calculating basic and dilutive earnings per share	**(31,808)**	(60,765)		
Weighted average number of ordinary shares for basic and dilutive earnings per share	**101,853,964**	95,626,195		

6. CASH AND CASH EQUIVALENTS

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Cash at bank and in hand	**2,578**	2,483	**2,577**	2,482
Short term deposits	**26,268**	35,083	**26,268**	35,083
	28,846	37,566	**28,845**	37,565

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods from one day to three months, depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates.

Reconciliation to cash flow statement

For the purposes of the cash flow statement , cash and cash equivalents comprise the following at 30 June:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Cash at hand and in hand	**2,578**	2,483	**2,577**	2,482
Short term deposits	**26,268**	35,083	**26,268**	35,083
	28,846	37,566	**28,845**	37,565

Reconciliation of net loss after tax to cash flows used in operations

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Net loss	**(31,808)**	(60,765)	**(31,808)**	(60,765)
Adjustments for:-				
Depreciation	**3,255**	6,155	**3,255**	6,155
Amortisation	**191**	170	**191**	170
Research and development expenditure write-off	**–**	140	**–**	140
Change in employee provisions	**–**	4	**–**	4
Issue of ordinary shares for services	**40**	12	**40**	12
Impairment of property, plant and equipment	**6,421**	31,122	**6,421**	31,122
Loss on disposal of plant and equipment	**14**	–	**14**	–
Changes in assets and liabilities:-				
Trade and other receivables	**(1,489)**	(79)	**(1,489)**	(79)
Other assets	**(981)**	113	**(981)**	113
Inventories	**(815)**	(87)	**(815)**	(87)
Trade and other payables	**293**	286	**293**	286
Net cash flow used in operating activities	**(24,879)**	(22,933)	**(24,879)**	(22,933)

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Financing facilities available				
Convertible bonds - accessible	**60,000**	40,000	**60,000**	40,000
Convertible bonds - issued	**60,000**	40,000	**60,000**	40,000
	–	–	**–**	–
7. TRADE AND OTHER RECEIVABLES				
Current				
Trade receivables	**2,184**	695	**2,184**	695
Non-Current				
Receivables	**–**	–	**2**	2

Trade receivables are interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
8. INVENTORIES				
Raw materials (at cost)	**509**	283	**509**	283
Finished goods (at net realisable value)	**591**	2	**591**	2
Total inventories a the lower of cost and net realisable values	**1,100**	285	**1,100**	285
9. OTHER FINANCIAL ASSET				
Shares in controlled entity	**–**	–	**163**	163
Provision for impairment	**–**	–	**(163)**	(163)
	–	–	**–**	–

The consolidated financial statements include the financial statements of Chemeq Ltd and the subsidiary, Chemeq (Australia) Ltd. Chemeq (Australia) Ltd is incorporated in Australia and is 100% owned by Chemeq Ltd.

	Consolidated			Parent		
	Freehold land and buildings $'000	Plant and equipment $'000	Total $'000	Freehold land and buildings $'000	Plant and equipment $'000	Total $'000
10. PROPERTY, PLANT AND EQUIPMENT						
Year ended 30 June 2006						
At 1 July 2005, net of accumulated depreciation and impairment	13,112	19,912	33,024	13,112	19,912	33,024
Additions	–	3,954	3,954	–	3,954	3,954
Disposals	–	(34)	(34)	–	(34)	(34)
Revaluation	2,695	–	2,695	2,695	–	2,695
Impairment	(1,845)	(4,576)	(6,421)	(1,845)	(4,576)	(6,421)
Depreciation charge for the year	(462)	(2,793)	(3,255)	(462)	(2,793)	(3,255)
At 30 June 2006, net of accumulated depreciation and impairment	13,500	16,463	29,963	13,500	16,463	29,963
At 1 July 2005						
Cost or fair value	27,350	43,444	70,794	27,350	43,444	70,794
Accumulated depreciation and impairment	(14,238)	(23,532)	(37,770)	(14,238)	(23,532)	(37,770)
Net carrying amount	13,112	19,912	33,024	13,112	19,912	33,024
At 30 June 2006						
Cost or fair value	30,045	46,866	76,911	30,045	46,866	76,911
Accumulated depreciation, revaluation and impairment	(16,545)	(30,403)	(46,948)	(16,545)	(30,403)	(46,948)
Net carrying amount	13,500	16,463	29,963	13,500	16,463	29,963

Revaluation of land

CB Richard Ellis was engaged as an accredited independent valuer to determine the fair value of the land and buildings. Fair value is determined directly by reference to market-based evidence, which are the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The effective date of the revaluation was 30 June 2006.

Impairment of buildings, plant and equipment

An impairment loss of $6,421,000 in total was recognised to reduce the carrying amount of those assets to the recoverable amount. The recoverable amount estimation was based on fair value less costs to sell and was determined at the cash-generating unit level, being the manufacturing facility.

Year ended 30 June 2005

	Consolidated			Parent		
	Freehold land and buildings $'000	**Plant and equipment $'000**	**Total $'000**	**Freehold land and buildings $'000**	**Plant and equipment $'000**	**Total $'000**
At 1 July 2004, net of accumulated depreciation and impairment	27,350	38,794	66,144	27,350	38,794	66,144
Additions	–	4,157	4,157	–	4,157	4,157
Disposals	–	–	–	–	–	–
Revaluation	–	–	–	–	–	–
Impairment	(13,228)	(17,894)	(31,122)	(13,228)	(17,894)	(31,122)
Depreciation charge for the year	(1,010)	(5,145)	(6,155)	(1,010)	(5,145)	(6,155)
At 30 June 2005, net of accumulated depreciation and impairment	13,112	19,912	33,024	13,112	19,912	33,024
At 1 July 2004						
Cost or fair value	27,350	39,287	66,637	27,350	39,287	66,637
Accumulated depreciation and impairment	–	(493)	(493)	–	(493)	(493)
Net carrying amount	27,350	38,794	66,144	27,350	38,794	66,144
At 30 June 2005						
Cost or fair value	27,350	43,444	70,794	27,350	43,444	70,794
Accumulated depreciation and impairment	(14,238)	(23,532)	(37,770)	(14,238)	(23,532)	(37,770)
Net carrying amount	13,112	19,912	33,024	13,112	19,912	33,024

Impairment of buildings, plant and equipment

An impairment loss of $31,122,000 in total was recognised to reduce the carrying amount of those assets to the recoverable amount. The recoverable amount estimation was based on fair value less costs to sell and was determined at the cash-generating unit level, being the manufacturing facility.

Assets pledged as security

Included in the balance of property, plant and equipment are assets over which a fixed and floating charge has been granted as security for the convertible bonds. The value of the assets pledged as security is $29,963,000 (2005: $32,990,000). The terms and conditions of the convertible bonds preclude the assets being sold or being used as security without the permission of the convertible bondholder. The terms of the convertible bond also require the property, plant and equipment that form part of the security to be insured at all times. Assets under lease are pledged as security for associated lease liabilities.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
If land and buildings were measured using the cost model the carrying amounts would be as follows:				
Cost	**27,350**	27,350	**27,350**	27,350
Accumulated depreciation and impairment	**(16,545)**	(14,238)	**(16,545)**	(14,238)
Net carrying amount	**10,805**	13,112	**10,805**	13,112

11. INTANGIBLE ASSETS

	Consolidated			Parent		
	Regulatory costs $'000	Patents and licenses $'000	Total $'000	Regulatory costs $'000	Patents and licenses $'000	Total $'000
Year ended 30 June 2006						
At 1 July 2005, net of accumulated amortisation and impairment	1,043	1,291	2,334	1,043	1,291	2,334
Additions	380	192	572	380	192	572
Amortisation charge for the year	(100)	(91)	(191)	(100)	(91)	(191)
At 30 June 2006, net of accumulated amortisation and impairment	1,323	1,392	2,715	1,323	1,392	2,715
At 1 July 2005						
Cost or fair value	1,406	1,802	3,208	1,406	1,802	3,208
Accumulated amortisation and impairment	(363)	(511)	(874)	(363)	(511)	(874)
Net carrying amount	1,043	1,291	2,334	1,043	1,291	2,334
At 30 June 2006						
Cost or fair value	1,786	1,994	3,780	1,786	1,994	3,780
Accumulated amortisation and impairment	(463)	(602)	(1,065)	(463)	(602)	(1,065)
Net carrying amount	1,323	1,392	2,715	1,323	1,392	2,715
Year ended 30 June 2005						
At 1 July 2004, net of accumulated amortisation and impairment	984	1,070	2,054	984	1,070	2,054
Additions	148	302	450	148	302	450
Amortisation charge for the year	(89)	(81)	(170)	(89)	(81)	(170)
At 30 June 2005, net of accumulated amortisation and impairment	1,043	1,291	2,334	1,043	1,291	2,334
At 1 July 2004						
Cost or fair value	1,258	1,500	2,758	1,258	1,500	2,758
Accumulated amortisation and impairment	(274)	(430)	(704)	(274)	(430)	(704)
Net carrying amount	984	1,070	2,054	984	1,070	2,054
At 30 June 2005						
Cost or fair value	1,406	1,802	3,208	1,406	1,802	3,208
Accumulated amortisation and impairment	(363)	(511)	(874)	(363)	(511)	(874)
Net carrying amount	1,043	1,291	2,334	1,043	1,291	2,334

Developments costs are studies conducted into the advancement of the Company's core technologies. Patents and licenses are costs incurred in the protection of these core technologies. The recoverable amount of the development costs and patents and licenses has been determined on a basis of future cash flow projections.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
12. TRADE AND OTHER PAYABLES				
Trade payables	**3,296**	1,937	**3,296**	1,937
Interest payable	**221**	443	**221**	443
	3,517	2,380	**3,517**	2,380

Trade payables are non-interest bearing and are normally settled on 30-day terms. Interest payable is the amount due on the convertible bonds, calculated at 8.5% per annum and payable quarterly in arrears.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
13. INTEREST BEARING LOANS				
Current				
Obligations under finance lease	**–**	10	**–**	10
Non-Current				
Obligations under finance lease	**–**	24	**–**	24
Convertible bonds	**60,000**	40,000	**60,000**	40,000
	60,000	40,024	**60,000**	40,024

At 30 June 2006, there are 60,000 convertible bonds on issue (2005: 40,000). Each bond has a nominal value of $1,000 and is convertible at the option of the bondholder into ordinary shares at any time between 1 April 2005 and 30 March 2008 at a conversion price between $0.60 and $1.20.

Assets pledged as security

The carrying amount of assets pledged as security for non-current interest bearing liabilities are:

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Floating charge				
Cash and cash equivalents	**28,846**	37,566	**28,845**	37,565
First mortgage				
Property, plant and equipment	**29,963**	32,990	**29,963**	32,990

Terms and conditions of convertible bonds

The bonds are convertible into ordinary shares of Chemeq at the option of the holder, and are convertible at any time between 1 April 2005 and 30 March 2008 at a conversion price between $0.60 and $1.20. If the bonds are not converted the amount raised is repayable on the 30 March 2008. The bonds will automatically convert to ordinary shares if the 90 day variable weighted average price exceeds $4.00. Interest will accrue on the outstanding bond balance of 8.5% per annum payable quarterly in arrears. The bondholders were granted a fixed and floating charge over the Company's assets on 14 April 2005.

As long as the convertible bonds remain outstanding, the Company is required to not incur any unsecured financial indebtedness other than that up to an aggregate maximum of $200,000 at any one time.

Notes to the Financial Statements

In relation to the convertible bonds issued on 30 March 2005 certain covenants to the bonds have been amended as follows:

On the 27 October 2005, a Heads of Agreement was agreed between Chemeq Ltd, Stark Trading and Shepherd Investments International Ltd. The agreement is conditional upon Stark reaching a binding unconditional agreement with Mizuho by 31 December 2005 for the transfer of the 30,000 Mizuho bonds to Stark (and/or to any affiliates of Stark). Chemeq Ltd was advised of the satisfaction of this clause on 1 November 2005.

Variations to the milestone covenants under the original convertible bond subscription agreement were made, and are as follows:-

- The removal of the requirement that Chemeq Ltd obtain APVMA approval to the supply of CHEMEQ® polymeric antimicrobial (for pigs) in Australia by 30 April 2006.
- The insertion of the requirement that while the aggregate face value of the convertible bonds which the initial bondholders hold in aggregate is greater than 50% of the aggregate face value of all convertible bonds then on issue, the issuer undertakes to (a) achieve total gross revenue from all sources of at least $4,000,000 for the financial year ended 30 June 2006; and (b) to hold liquid assets of at least $24,000,000 on 30 June 2006.

For further details regarding the terms and conditions of the convertible bond subscription agreement milestone covenants please refer to note 16, non-current liabilities – interest bearing liabilities of 30 June 2005 annual report.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
14. PROVISIONS				
Annual leave provisions	**408**	615	**408**	615

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
15. CONTRIBUTED EQUITY				
Issued and fully paid ordinary shares	**116,974**	116,872	**116,974**	116,872

Effective 1 July 1998 the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly the parent does not have authorised capital or par value in respect of its issued shares.

	'000	**$'000**
Movement in ordinary shares on issue		
As at 1 July 2004	89,156	88,822
Issued 1 July 2004 – employee share plan	4	16
Issued 27 August 2004 – share placement	4,100	9,840
Issued 27 August 2004 – rights offer	8,478	20,347
Issued 16 November 2004 – option conversion	–	–
Issued 16 November 2004 – employee share plan	23	58
Issued 8 February 2005 – lieu of services	4	6
Issued 3 March 2005 – lieu of services	4	6
Transaction costs on share issue		(2,223)
As at 30 June 2005	101,769	116,872
Issued 1 July 2005 – option conversion	4	9
Issued 26 July 2005 – lieu of services	34	40
Issued 17 October 2005 – employee share plan	70	80
Transaction costs on share issue		(27)
As at 30 June 2006	101,877	116,974

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
16. ACCUMULATED LOSSES AND DIVIDENDS				
Accumulated losses	**(117,487)**	(85,679)	**(117,486)**	(85,678)
Movement in accumulated losses				
As at 1 July	**(85,679)**	(24,914)	**(85,678)**	(24,913)
Loss attributable to members	**(31,808)**	(60,765)	**(31,808)**	(60,765)
As at 30 June	**(117,487)**	(85,679)	**(117,486)**	(85,678)

No dividends were paid or provided for during the year (2005: nil). No franking credits were available at 30 June 2006 (2005: $nil).

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
17. RESERVE				
Asset revaluation reserve	**1,886**	–	**1,886**	–
Movement in asset revaluation reserve				
As at 1 July	**–**	–	**–**	–
Revaluation of land, net of tax	**1,886**	–	**1,886**	–
As at 30 June	**1,886**	–	**1,886**	–

Nature and purpose of the asset revaluation reserve

The asset revaluation reserve is used to record increases in the fair value of land and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity. Please refer to note 10 for further details on the asset revaluation reserve.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's principal financial instruments are cash, short term deposits and convertible bonds. The main purpose of these financial instruments is to raise finance for the group's operations. The group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The group does not enter into derivative transactions. The main risks arising from the group's financial instruments are foreign currency risk, interest rate risk and credit risk.

Foreign currency risk

The group's exposure to foreign currency risk is minimal.

Credit risk

The group only trades with recognised, creditworthy third parties. It is in the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the results that the group's exposure to bad debts is not significant.

19. FINANCIAL INSTRUMENTS

Fair values

The carrying value of financial assets and liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with accounting policies in note 2.

Interest rate risk

The group's exposure to the risk of changes in market interest rates, relates primarily to cash assets held at floating interest rates. The consolidated entity does not enter into interest rates swaps, forward rate agreements, interest rate options or similar derivatives.

Consolidated

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:	Less than 1 year	Greater than 1 year but less than 5 years	Non-interest bearing	Total	Weighted average effective interest rate
	$'000	$'000	$'000	$'000	
Year ended 30 June 2006					
Financial assets					
Floating rate					
Cash assets	28,846	–	–	28,846	5.75%
Receivables	–	–	2,184	2,184	–
	28,846	–	2,184	31,030	
Weighted average effective interest rate	5.75%	–	–		
Financial liabilities					
Fixed rate					
Convertible bonds	–	60,000	–	60,000	8.50%
Payables	–	–	3,517	3,517	–
	–	60,000	3,517	63,517	
Weighted average effective interest rate	–	8.50%	–		
Year ended 30 June 2005					
Financial assets					
Floating rate					
Cash assets	37,566	–	–	37,566	5.91%
Receivables	–	–	695	695	–
	37,566	–	695	38,261	
Weighted average effective interest rate	5.91%	–	–		
Financial liabilities					
Fixed rate					
Finance lease	10	24	–	34	7.95%
Convertible bonds	–	40,000	–	40,000	8.50%
Payables	–	–	2,380	2,380	–
	10	40,024	2,380	42,414	
Weighted average effective interest rate	7.95%	8.50%	–		

Parent

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

	Less than 1 year $'000	Greater than 1 but less than 5 years $'000	Non-interest bearing $'000	Total $'000	Weighted average effective interest rate
Year ended 30 June 2006					
Financial assets					
Floating rate					
Cash assets	28,846	–	–	28,846	5.75%
Receivables	–	–	2,186	2,186	–
	28,846	–	2,186	31,032	
Weighted average effective interest rate	5.75%	–	–		
Financial liabilities					
Fixed rate					
Convertible bonds	–	60,000	–	60,000	8.50%
Payables	–	–	3,517	3,517	–
	–	60,000	3,517	63,517	
Weighted average effective interest rate	–	8.50%	–		
Year ended 30 June 2005					
Financial assets					
Floating rate					
Cash assets	37,566	–	–	37,566	5.91%
Receivables	–	–	697	697	–
	37,566	–	697	38,263	
Weighted average effective interest rate	5.91%	–	–		
Financial liabilities					
Fixed rate					
Finance lease	10	24	–	34	7.95%
Convertible bonds	–	40,000	–	40,000	8.50%
Payables	–	–	2,380	2,380	–
	10	40,024	2,380	42,414	
Weighted average effective interest rate	7.95%	8.50%	–		

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000

20. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The group has entered into commercial leases on certain properties and items of equipment. These leases have an average life of one year with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:-

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Within one year	**248**	331	**248**	331
After one year but not more than five years	**29**	135	**29**	135
	277	466	**277**	466

Finance lease commitments

The group had a finance lease on a motor vehicle.

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows for both the group and the parent.

	2006 Present value of lease payments	**2006 Minimum lease payment**	2005 Present Value of lease payments	2005 Minimum lease payment
Within one year	**–**	**–**	10	13
After one year but not more than five years	**–**	**–**	24	25
Total minimum lease payments	**–**	**–**	34	38
Less amounts representing finance charges	**–**	**–**	–	(4)
Present value of minimum lease payments	**–**	**–**	34	34

Capital commitments

At 30 June 2006 the group has commitments of $900,000 (2005: $258,000) principally relating to the acquisition of plant and equipment.

Commitments contracted for at reporting date but not recognised as liabilities are as follows:

Within one year	**900**	**258**	900	258

21. RELATED PARTY DISCLOSURE

Chemeq Ltd is the ultimate Australian parent company.

Wholly owned group transactions – Loans

Chemeq has an amount due from the controlled entity of $2,000 (2005: $2,000). This amount has been advanced on interest free terms and has no fixed repayment date.

22. EVENTS AFTER THE BALANCE SHEET DATE

On 24 July 2006 the Company had reached a settlement with the Australian Securities and Investments Commission in relation to proceedings against the Company for alleging contraventions of the continuous disclosure requirements of the Corporations Act. The Federal Court determined a total penalty of $500,000, in relation to the two agreed contraventions of the Corporations Act, which was accrued for at 30 June 2006.

On 5 September 2006 the Company implemented a major reorganisation of its business to match its new corporate strategy. The reorganisation resulted in a rationalisation of approximately 50 full time staff, at an estimated cost of $1.2 million, which was not provided for at 30 June 2006.

23. AUDITORS' REMUNERATION

The auditor of Chemeq Ltd is Ernst & Young.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$	$	**$**	$
Amounts received or due and receivable by Ernst & Young (Australia) for:				
An audit or review of the financial report of the entity and any other entity in the consolidated group	**76,806**	79,759	**76,806**	79,759
Tax compliance services in relation to the entity and any other entity in the consolidated group	**25,459**	86,290	**25,459**	86,290
Other non-audit services	**6,900**	–	**6,900**	–
Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:				
Other non-audit services	**10,465**	–	**10,465**	–

24. DIRECTOR AND EXECUTIVE DISCLOSURE

(a) Details of key management personnel

(i) Directors

JD Hopkins	Non-Executive Chairman (appointed 27 January 2006)
LDH Williams	Executive Director and Chief Executive Officer
RC Barnett	Non-Executive Director (resigned 24 November 2005)
ACG Davies	Non-Executive Director
GJH Melrose	Non-Executive Director (resigned 23 August 2006)
JR Nicholls	Non-Executive Director
RV Steffanoni	Non-Executive Director

(ii) Executives

FJ Dilizia	Engineering Executive (resigned 10 March 2006)
J Geldart	Sales & Marketing Executive (contract terminated 13 September 2006)
DM Gregory	Manufacturing Executive (resigned 1 June 2006)
AC Gunst	General Manager Operations (appointed 27 February 2006)
W McHenry	General Manager Commercial (appointed 8 May 2006)
BF Mangano	Chief Financial Officer and Company Secretary
DMG Tilbrook	Research & Development Executive (contract terminated 5 September 2006)
M Thomson	Human Resource Executive (contract terminated 5 September 2006)
SJ Walton	Compliance Executive (resigned 11 August 2006)

(b) Compensation of key management personnel

It is the Company's objective to retain high quality directors and executives. One aspect of achieving this is by remunerating directors and executive officers in a manner consistent with employment market conditions. To assist in achieving this objective, the Company may link the nature and amount of the Executive Director and executives' emoluments to the Company's financial and operational performance.

Where appropriate the Board obtains independent advice on remuneration packages.

Remuneration committee

The Remuneration committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for directors, the Executive Director and the executive team.

The Remuneration committee assess the appropriateness of the nature and amount of remuneration of Directors and all executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a highly qualified Board and management team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive Director and executive remuneration is separate and distinct.

Non-executive Director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the annual general meeting held on 29 November 2004 when shareholders approved an aggregate remuneration of $430,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers the fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Each Director received a fee for being a Director of the Company. An additional fee is also paid for each Board committee on which a Director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by Directors who serve on one or more sub committees.

Executive remuneration

Objective

The Company aims to reward the Executive Director and executives with a level and mix of remuneration commensurate with their position and responsibility within the Company, to reward executives for Company, business unit and individual performance against targets by reference to appropriate benchmarks; align the interests of executives with those of shareholders; link reward with the strategic goals and performance of the Company; and ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of the Executive Director and executive remuneration, the Remuneration committee obtains advice detailing market levels of remuneration for comparable roles. Remuneration comprises fixed remuneration and variable remuneration split between short term and long term incentives. The proportion of fixed remuneration and variable remuneration has been established for each executive by the Remuneration committee.

Fixed remuneration

Objective

Fixed remuneration is reviewed annually by the Remuneration committee. The process consists of a review of companywide, division and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on polices and practices. As noted earlier, the committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

Variable remuneration - Short term incentive (STI)

Objective

The objective of STI's is to link the achievement of the Company's operational targets with the remuneration received by the Executive Director and executive charged with meeting those targets. The total potential STI available is set at a level to provide sufficient incentive to the executive to achieve the operational targets so that the cost to the Company is reasonable in the circumstances.

Structure

The actual STI payments granted to the Executive Director and executive depends upon the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of key performance indicators covering both financial and non-financial measures of performance. Typically included are measures such as contribution to net profit after tax, risk management, product management, and leadership/team contribution. Payments are usually delivered as a cash bonus.

Variable remuneration - Long term incentive (LTI)

Objective

The objective of the LTI's is to reward the Executive Director in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such LTI grants are only made to the Executive Director who is able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdles.

Structure

LTI grants to the Executive Director are delivered in the form of shares. The Company uses the volume weighted average price ("VWAP") of ordinary shares as the performance hurdle for the LTI plan. The use of a relative VWAP based hurdle is currently market best practice as it ensures an alignment between comparative shareholder return and reward for the Executive Director.

Relationship of rewards to performance

The Remuneration committee in conjunction with the Executive Director review the performance of the executives, at least annually, in line with the short term incentives established as part of the executive's remuneration.

The following details the nature and amount of compensation of Directors and other key management personnel of the Company and the consolidated entity during the year.

Share based payments

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the group would have adopted if dealing at arm's length.

Notes to the Financial Statements

The following details the nature and amount of compensation of Directors and other key management personnel of the Company and the consolidated entity during the year.

		Short-term				Post Employment	Total	Performance Related
		Salary & fees	Bonus	Share Based Payments	Other	Superannuation		
		$	$	$	$	$	$	%
Non-executive Directors								
JD Hopkins	2006	51,708	–	–	–	4,654	56,362	–
Non-executive Chairman	2005	–	–	–	–	–	–	–
RC Barnett	2006	26,665	–	–	–	2,340	29,005	–
Non-executive	2005	40,000	–	20,000	–	5,400	65,400	–
ACG Davies	2006	72,020	–	–	–	6,482	78,502	–
Non-executive	2005	7,233	–	–	–	651	7,884	–
PA Grujic	2006	–	–	–	–	–	–	–
Non-executive	2005	22,934	–	–	–	2,064	24,998	–
GA Major	2006	–	–	–	–	–	–	–
Non-executive	2005	23,956	–	–	–	2,156	26,112	–
GJH Melrose	2006	322,703	–	–	–	24,209	346,912	–
Non-executive	2005	489,513	–	–	62	44,056	533,631	–
JR Nicholls	2006	66,945	–	–	–	6,025	72,970	–
Non-executive	2005	6,630	–	–	–	597	7,227	–
RV Steffanoni	2006	66,573	–	–	–	5,992	72,565	–
Non-executive	2005	45,000	–	20,000	–	5,850	70,850	–
Executive Director								
LDH Williams	2006	348,622	–	–	–	32,083	380,705	–
Chief Executive Officer	2005	–	–	–	–	–	–	–
Executives								
FJ Dilizia	2006	149,809	–	1,000	5,161	17,449	173,419	–
Engineering executive	2005	168,691	–	1,000	5,477	14,235	189,403	–
J Geldart	2006	165,138	–	1,000	–	14,862	181,000	–
Sales & Marketing executive	2005	144,495	–	1,000	19,020	13,004	177,519	–
DM Gregory	2006	198,630	–	1,000	21,826	17,876	239,332	–
Manufacturing executive	2005	188,197	–	1,000	18,838	16,937	224,972	–
AC Gunst	2006	73,690	–	–	–	6,632	80,322	–
General Manager Operations	2005	–	–	–	–	–	–	–
W McHenry	2006	40,931	–	–	–	3,683	44,614	–
General Manager Commercial	2005	–	–	–	–	–	–	–
BF Mangano	2006	175,853	30,000	1,000	–	11,718	218,571	13.72
Chief Financial Officer and Company Secretary	2005	32,242	–	–	–	2,604	34,846	–
M Thomson	2006	146,789	–	1,000	14,628	13,211	175,628	–
Human Resource executive	2005	108,081	–	1,000	3,637	9,053	121,771	–
DMG Tilbrook	2006	168,578	–	1,000	20,608	15,172	205,358	–
Research & Development executive	2005	162,557	–	1,000	20,608	14,630	198,795	–
SJ Walton	2006	182,301	–	1,000	13,994	16,407	213,702	–
Compliance executive	2005	176,309	–	1,000	9,083	15,868	202,260	–

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Compensation by category				
Salary & fees	**2,605,577**	1,615,838	**2,605,577**	1,615,838
Bonus	**30,000**	–	**30,000**	–
Share based payments	**7,000**	46,000	**7,000**	46,000
Other	**76,217**	76,725	**76,217**	76,725
Post employment	**230,878**	147,105	**230,878**	147,105
	2,949,672	1,885,668	**2,949,672**	1,885,668

(c) Shareholdings of key management personnel

		Ordinary Shares Opening Balance	Granted as Remuneration	Movement	Closing Balance
Non-executive Directors					
JD Hopkins	2006	–	–	–	–
Non-executive Chairman	2005	–	–	–	–
RC Barnett	2006	2,293,296	17,241	(160,403)	2,150,134
Non-executive	2005	2,392,214	–	(98,918)	2,293,296
ACG Davies	2006	–	–	–	–
Non-executive	2005	–	–	–	–
PA Grujic	2006	–	–	–	–
Non-executive	2005	–	–	–	–
GA Major	2006	3,332,915	–	(1,065,200)	2,267,715
Non-executive	2005	5,712,020	–	(2,379,105)	3,332,915
GJH Melrose	2006	26,241,790	–	(11,210,835)	15,030,955
Non-executive	2005	23,717,346	–	2,524,444	26,241,790
JR Nicholls	2006	1,280	–	–	1,280
Non-executive	2005	1,280	–	–	1,280
RV Steffanoni	2006	245,528	17,241	–	245,769
Non-executive	2005	236,120	–	9,408	245,528
Executive Director					
LDH Williams	2006	–	–	–	–
Chief Executive Officer	2005	–	–	–	–

		Ordinary Shares Opening Balance	Granted as Remuneration	Closing Balance
Executives				
FJ Dilizia	2006	756	869	1,625
Engineering executive	2005	359	397	756
J Geldart	2006	580	869	1,449
Sales & Marketing executive	2005	183	397	580
DM Gregory	2006	1,026	869	1,895
Manufacturing executive	2005	629	397	1,026
A Gunst	2006	–	–	–
General Manager Operations	2005	–	–	–
W McHenry	2006	–	–	–
General Manager Commercial	2005	–	–	–
BF Mangano	2006	–	869	869
CFO and Company Secretary	2005	–	–	–
M Thomson	2006	3,195	869	4,064
Human Resource executive	2005	2,798	397	3,195
DMG Tilbrook	2006	968	869	1,837
Research & Development executive	2005	571	397	968
SJ Walton	2006	397	869	1,266
Compliance executive	2005	–	397	397

(d) Other key management benefits

During the year the consolidated entity renewed the directors' and officers' liability insurance policy. The policy ensures the directors' and officers' of the consolidated entity against certain liabilities incurred by them as directors and as officers of the consolidated entity. The contract of insurance prohibits disclosure of the cost and of the nature of the liabilities insured against.

(e) Other transactions with key management personnel

During the year Gadfly Consulting Pty Ltd, of which Mr JR Nicholls is a Director, provided consulting services to the value of $330,000 to the Company.

(f) Employment contracts

The Chief Executive Officer, Mr LDH Williams is employed under contract. The current employment contract has a fixed term of two years ending 31 July 2007. The terms of the contract are as follows:-

- The remuneration package provided under the agreement provides a base salary, in addition to an annual bonus in the form of cash and/or ordinary shares according to the achievement of nominated short term and long term incentive targets.
- Mr Williams may terminate his contract of employment upon giving six months written notice to the Company.
- The Company may terminate the agreement during the last fourteen months of the two year term on the payment of an amount in lieu of services until the end of the two year term.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

The Chief Financial Officer and Company Secretary, Mr BF Mangano is employed under contract. The current 4 May 2008. The terms of the contract are as follows:-

- The remuneration package provided under the agreement provides a base salary, in addition to an annual bonus according to the achievement of nominated incentive targets.
- Mr Mangano may terminate his contract of employment upon giving three months written notice to the Company.
- The Company may terminate the agreement upon payment of an amount equal to three months of Mr Mangano's remuneration package.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

The Commercial General Manager, Mr W McHenry is employed under contract. The current employment contract has a fixed term of two years ending 7 May 2008. The terms of the contract are as follows:-

- The remuneration package provided under the agreement provides a base salary, in addition to an annual bonus according to the achievement of nominated incentive targets.
- Mr McHenry may terminate his contract of employment upon giving three months written notice to the Company.
- The Company may terminate the agreement upon payment of an amount equal to three months of Mr McHenry's remuneration package.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

The Operations General Manager, Mr AC Gunst is employed under contract. The current employment contract has a fixed term of two years ending 26 February 2008. The terms of the contract are as follows:-

- The remuneration package provided under the agreement provides a base salary, in addition to an annual bonus according to the achievement of nominated incentive targets.
- Mr Gunst may terminate his contract of employment upon giving three months written notice to the Company.
- The Company may terminate the agreement upon payment of an amount equal to six months of Mr Gunst's remuneration package.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
25. Employee benefits and superannuation commitments				
(a) Employee benefits recognised				
Aggregate employee benefits liability	**408**	615	**408**	615
	2006	2005	**2006**	2005
The number of full time equivalents employed as at balance date	**90**	77	**90**	77

(b) Superannuation commitments

The consolidated entity does not maintain its own in-house superannuation plan. Contributions as required by the superannuation guarantee levy are paid to complying superannuation funds. As at 30 June 2006 contributions totalling $208,000 (2005: $168,000) remained outstanding, in the normal course of business.

(c) Shares issued to employees

Chemeq Employee Share Acquisition Plan

Chemeq annually offers shares to all its employees under the Chemeq Employee Share Acquisition Plan. Ordinary shares are issued to employees to the value of $1,000 each for $nil consideration. During the financial year 69,520 (2005: 23,423) ordinary shares were issued to employees under this plan at an average price of $1.15 (2005: $2.51) representing a total value of $79,948 (2005: $59,000) for $nil consideration.

Chemeq Employee Share Savings Plan

Chemeq periodically offers all of its employees the opportunity to save money from their after tax salary over a period of time. At the end of the period, the money may, at the Company's discretion be applied towards a subscription of new shares, issued at a maximum discount of 15%. During the financial year no (2005: nil) shares were issued to employees under this plan.

26. Segment information

The consolidated entity is involved in the production of pharmaceuticals, operates predominately within one business segment, manufacturing and in one geographical segment, Australia.

27. TRANSITION TO AIFRS

(a) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Consolidated 30 June 2005 $'000	Consolidated 1 July 2004 $'000	Parent 30 June 2005 $'000	Parent 1 July 2004 $'000
Total equity under AGAAP	**31,359**	63,979	**31,360**	63,980
Adjustments to equity:				
Derecognition of intangible assets (i)	**(166)**	(71)	**(166)**	(71)
Total equity under AIFRS	**31,193**	63,908	**31,194**	63,909

(i) Under AASB 138 Intangible Assets: An intangible asset is an identifiable non-monetary asset without physical substance. The intangible assets in relation to external development, experimental trials and marketing trials fail the identifiable criteria and hence are derecognised under AIFRS.

(b) Reconciliation of loss after tax under AGAAP to that under AIFRS

	Consolidated 2005 $'000	Parent 2005 $'000
Net loss reported under AGAAP	**(60,670)**	**(60,670)**
Derecognition of intangible assets (i)	**(95)**	**(95)**
Net loss reported under AIFRS	**(60,765)**	**(60,765)**

(i) Under AASB 138 Intangible Assets: An intangible asset is an identifiable non-monetary asset without physical substance. The intangible assets in relation to external development, experimental trials and marketing trials fail the identifiable criteria and hence are derecognised under AIFRS.

(c) Explanation of material adjustments to the cash flow statements

There is no material differences between the cash flow statements presented under AIFRS to those presented under AGAAP.

Directors' Declaration

In accordance with a resolution of the Directors of Chemeq Ltd, I state that:

In the opinion of the Directors:

The financial statements and notes of the Company and the consolidated entity are in accordance with the *Corporations Act 2001*, including:

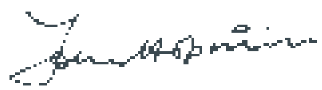
i. giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

ii. complying with Accounting Standards and Corporation Regulations 2001; and

there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2006.

On behalf of the Board



JD Hopkins
Chairman
29 September 2006

Independent Audit Report to Members of Chemeq Ltd

Scope

The financial report and Directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the Directors' Declaration for Chemeq Ltd (the Company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the Company and the entity it controlled during that year.

The Directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgment of the appropriateness or reasonableness of the business plans or strategies adopted by the Directors and management of the Company.

Independence

We are independent of the Company, and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the Directors of the Company a written Auditor's Independence Declaration, of copy of which is included in the Directors' Report.
In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Qualifications

1. We have been unable to verify whether it is probable that economic benefits associated with sales of goods disclosed in the Company and consolidated income statement in the sum of $1,469,895 will be realised. There is currently a dispute as to whether the terms of the sales agreement has been varied, which raises doubt as to the appropriate timing for the recognition of these sales. There are no alternative audit procedures which can be employed to verify the timing of recognition of these sales transactions. We

Independent Audit Report to Members of Chemeq Ltd

are therefore unable to determine whether the sales recognised by the Company and consolidated entity of $1,469,895 are fairly stated for the year ended 30 June 2006. Furthermore, if these sales did not qualify for recognition, the Company and consolidated entity would be in default of one of the milestone covenants under agreements with bondholders.

2. We have been unable to verify the recoverable amount of the receivable associated with the sales referred to in Qualification Paragraph 1 above. The Directors believe that it is appropriate to carry this asset at its stated value in the Company and consolidated balance sheet. We have been unable to determine the recoverable amount of this receivable. In our opinion, the carrying value of this asset may exceed its recoverable amount and a provision for non recovery may be required up to the carrying amount of $1,469,895. Had this impairment loss been recognised to write down the receivable to recoverable amount during the current period, the Company and consolidated operating loss after tax would have increased from $31,808,245 to $33,278,140.

Qualified Audit Opinion

In our opinion, because of the existence of the limitations on the scope of our work as described above and the effects of such adjustments, if any, as might have been determined to be necessary had the limitations not existed, we are unable to, and do not, express an opinion as to whether the financial report of Chemeq Ltd is in accordance with:

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the financial position of Chemeq Ltd and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

GH Meyerowitz
Partner
Perth, 29 September 2006

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 August 2006.

Distribution of equity securities

Ordinary share capital

101,876,896 fully paid ordinary shares are held by 7,446 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders, by size of holdings is:-

Holding From	Holding To	Fully paid ordinary shares
1	1,000	1,907
1,001	5,000	3,105
5,001	10,000	1,100
10,001	100,000	1,248
100,001	And over	86
Less than a marketable parcel		2,253

Substantial shareholders

	Fully paid ordinary shares	%
ANZ Nominees Limited	14,087,205	13.8
Link Traders (Aust) Pty Ltd	4,123,811	4.0
Fortis Clearing Nominees PL	3,438,739	3.4
Chimaera Capital Limited	2,540,384	2.5
Mr Russell Chilton Barnett	2,095,134	2.1
Total	**26,285,273**	**25.8**

ASX Additional Information

Twenty largest holders

	Fully paid ordinary shares	%
ANZ Nominees Limited	14,087,205	13.8
Link Traders (Aust) Pty Ltd	4,123,811	4.0
Fortis Clearing Nominees P/L	3,438,739	3.4
Chimaera Capital Limited	2,540,384	2.5
Mr Russell Chilton Barnett	2,095,134	2.1
Mr Graeme Alexander Major	1,700,000	1.7
Hurst Pollock Noms Pty Ltd	1,170,000	1.1
HSBC Custody Nominees (Australia) Limited	1,056,050	1.0
Mr James Salvatore Parise	1,037,000	1.0
Keith Alan Ridge Fay Patricia Ridge	1,017,125	1.0
Greenglobe Technologies & Trading Ltd	940,000	0.9
Catholic Church Insurances Limited	899,141	0.9
CS Forth Nominees Pty Ltd	736,926	0.7
Ms Heather Glenis Westenhaver	736,083	0.7
Euan Saunders Brett Gould	682,878	0.7
Mr Dimitrios Papadimitriou	644,200	0.6
Rodney John Greville-Collins	496,831	0.5
Miss Juliane Eckersley	450,852	0.4
Mr Charles Mackey	400,000	0.4
Mrs Jillian Patricia Andrews	363,600	0.4
Total	**38,615,959**	**37.8**

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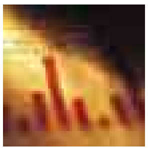

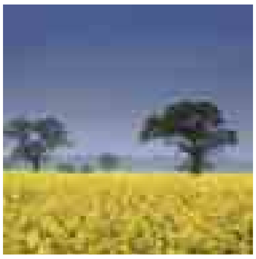

Chemeq

Report to shareholders 2005–2006