SelectVaccines
LIMITED

SELECT VACCINES LIMITED AND CONTROLLED ENTITIES

ABN: 25 062 063 692

ANNUAL REPORT

FOR THE YEAR ENDED
31st DECEMBER 2006

SELECT VACCINES LIMITED 25 062 063 692
AND CONTROLLED ENTITIES
LETTER FROM THE CHAIRMAN AND MANAGING DIRECTOR

Dear Shareholders,

Over the past year the Company has made solid progress and we have moved forward in all programs in our R&D pipeline. It was also particularly pleasing to announce recently that we had entered into a collaboration and licensing agreement with AVANT Immunotherapeutics, Inc. ("AVANT"), a company based in Boston, USA. AVANT has considerable vaccine development expertise and significant resources which will be added, in the first instance, to the 'flu vaccine program. We could not have found a more appropriate partner for our vaccine program and we look forward to building a valuable partnership with them over the years to come.

We have advanced our virus-like particle (VLP) vaccine programs further through the pre-clinical development phase and have identified qualified manufacturers of our hepatitis C VLP vaccine with whom we will need to work in preparation for clinical studies. We have also completed the development, to early prototype or proof-of-concept stage, of two new rapid diagnostic tests and we have made some very important advances in our anti-viral program.

Our hepatitis C vaccine program continues to produce very positive results and, following the successful studies conducted using our first generation hepatitis C vaccine candidate, we have produced a newer form of this vaccine that produces a strong immune response and is potentially a better vaccine candidate against hepatitis C. Our focus now is to conclude a partnership agreement for this program aimed at: (i) developing a simple system for the production of this vaccine for use in the planned safety and toxicology studies, and (ii) conducting pre-clinical studies and clinical studies using this vaccine.

It should be pointed out that since the last annual report we developed an improved vaccine candidate over which we have an even stronger intellectual property position with the potential to be more effective. Therefore, we elected not to target a clinical trial with the first generation hepatitis C vaccine. While this has resulted in a delay in the initiation of clinical studies we are confident we will now be taking a higher quality candidate vaccine into the studies we undertake. We remain focused on moving our hepatitis C vaccine toward a clinical trial and we are reviewing all options that can help us achieve that goal faster.

We have also developed a malaria VLP vaccine candidate and shown that elicits a very strong immune response in small animals. We will seek external support for this program from major public agencies that have made a commitment to funding malaria vaccine development on a basis that is still attractive to the private sector. We will use their support to show the broader applicability of the VLPs across other vaccine candidates. This is consistent with our previously stated intentions of progressing other VLP vaccines without hampering the progress of our lead product.

Additionally, our research partner, the Burnet Institute, has been working on developing an influenza VLP vaccine. This program is at the very early stages of R&D and results from this program are expected through 2007.

We have been working across a range of new tests in our diagnostics program during the year and it is pleasing to report that we have developed two new rapid tests (HIV and Syphilis) to a stage where we can demonstrate their utility and effectiveness to potential commercial partners. At the time of writing this report sample tests were being produced for a series of evaluations.

In the coming year the Company will focus its efforts on vaccine development. It will scale back efforts to develop new diagnostic tests and, instead, focus on securing third party licensees and manufacturing partners for diagnostic products which can access the best market opportunities. HIV is a disease of massive proportion and opportunities still exist for new rapid assays to enter this market. Syphilis is a disease that is rapidly re-emerging and becoming problematic again in developed countries. Our antiviral program is now reaching a stage where it is ready for a collaboration with a drug development partner.

In the foreseeable future our vaccine development work will be undertaken by the Company's Chief Scientific Officer, Associate Professor David Anderson and his team of researchers at the Burnet Institute. Associate Professor Steve Petrou at the Howard Florey Institute will undertake further research into our anti-viral compounds and the target for these compounds and we are actively seeking a drug development partner to help support this program. These institutes are extremely capable research partners for the company and have provided excellent R&D facilities in which our programs have been conducted.

During the year the Company completed two capital raisings through pro rata rights issues to shareholders. These two offerings secured additional capital of $4.0m after costs. The first rights issue was completed in February and reported in the 2005 annual report. The second rights issue was fully underwritten by Shaw Corporate Finance and was completed in December (raising $3.3m before costs).

We continue to monitor our operating costs and overheads and in the past year we have been able to achieve significant reductions in expenditure across all aspects of our operations. While our cost containment program will continue, we will need to increase expenditure on R&D and the associated costs of these activities as our technologies develop further and our programs are advanced. We will investigate all opportunities for both equity and grant funding to continue to ensure we can fund the advances that will generate greater shareholder value.

As we make improvements to our technologies and advance our products under development we also continue to make new discoveries. These discoveries result in growth in our intellectual property portfolio, which builds value in the company. We are committed to building this portfolio and to maintaining our patent applications as they progress through the patent offices in various jurisdictions. Later in this report you will find a status report covering our IP portfolio.

During the year Peter Marks, the Company's longest serving Director, retired to focus on other business interests. We thank Peter for his contribution to the Company over several years.

In closing, we thank our hard working and highly motivated management team and Board for the contribution they have made over the year. We would also like to thank our Shareholders for their continued support of the Company.

Yours faithfully,

Robin Beaumont
Chairman

Martin Soust
Managing Director

REVIEW OF OPERATIONS

1. Vaccines

Our lead VLP vaccine candidates are aimed at hepatitis C (envelope proteins), malaria (MSP2 protein and other targets in the future) and influenza (haemagglutinin).

Hepatitis C VLPs - At the end of 2005, we completed dose-response studies that showed our first hepatitis C VLP vaccine, the E2-VLP, produced in yeast was highly immunogenic without adjuvant even at the lowest doses tested. Both antibody and T-cell responses were detected and this led to plans to aim for a clinical trial with this vaccine candidate. Shortly thereafter we obtained promising early results from the next generation hepatitis C VLP vaccine, the E1E2-VLP, which has a stronger intellectual property position (through a new patent application that was filed on 31 August 2006) than the first generation vaccine and it has the potential to be more effective. We took the rational decision to shift our focus away from the E2-VLP vaccine and apply our resources to the E1E2-VLP vaccine.

Malaria VLPs - We have made VLPs containing a leading malaria vaccine candidate antigen, MSP2. Very high antibody levels were produced in 6 of 6 mice and 6 of 6 rabbits using this vaccine candidate. The MSP2-VLPs are produced more efficiently in yeast than any other VLP we have made, and they are being used for pilot studies on process/purification development.

Influenza VLPs - Production of the first functional version of a 'flu VLP vaccine proved to be more problematic than we had originally anticipated. We have made some changes to the antigen being incorporated in our VLPs, and we expect to find improvements in their function. Further analytical studies of these VLPs will be undertaken before commencing testing in animals. There is no doubt that a new vaccine against 'flu holds considerable commercial value for the company. Therefore, we want to move this program forward as quickly as possible. However, in our opinion considerable resources and additional expertise must be invested in this program for it to remain competitive so a high priority in the 'flu VLP vaccine program is to enter into a collaboration with a capable development partner. The recently announced collaboration agreement with AVANT Immunotherapeutics, Inc. achieves these objectives and we look forward to working with this very capable company in the development of new vaccines.

2. Diagnostic Tests

Work on our diagnostic products in 2006 focused on completion of the clinical evaluation of the HCV IgM assay, stability studies of the licensed hepatitis A virus (HAV) IgM rapid test, pilot studies of HIV total antibody rapid test and development of world-first, Syphilis IgM rapid test, and development of a rapid test for differentiation of human and avian influenza.

In light of the lengthier than expected approval process of our licensed products and the resulting lack of revenues arising from these licenses the Company has chosen to scale back further development work in this area and focus resources towards the identification of commercial partners for the products that have been developed. In the first instance our efforts will be focused on finding a suitable partner or partners for the HIV and Syphilis tests.

Hepatitis C IgM Assay - The HCV IgM ELISA was developed as a product for two indications: diagnosis of acute hepatitis C, and prognosis for responding to antiviral treatment. Our HCV IgM ELISA and the existing (competitor) product (Cortez IgM ELISA) showed similar results in the trial that was conducted during 2006 and could not clearly discriminate between acute and chronic patients. Consequently, the Company does not plan to undertake any further work on this assay.

Hepatitis A IgM: licensed to Rapid Medical Corporation - Ongoing stability and sensitivity/specificity studies have been undertaken to support our licensee in product development with excellent results in all tests. We will complete the stability studies but no other work is required to be undertaken by the Company.

HIV Total Antibody Test – A pilot study was completed with a proprietary antigen sourced from BioProcess Ltd. The test showed good sensitivity and good specificity. No further activities are planned to be undertaken until a commercial partner can be identified.

Syphilis IgM Test – The pilot study of our rapid test for Syphilis shows very promising results with the "standard" Select format for IgM tests, similar to the test we have developed for the detection of hepatitis A virus infection and Hepatitis E Virus infection. A synopsis of results has been provided to companies that have expressed an interest in the test and we expect to ship some sample tests for evaluation.

3. Antiviral Compounds

Our antiviral R&D program has been directed into two areas: identification of molecular targets in the picornavirus family, and limited structure-function analysis of our anti-viral compounds as a prelude to potential medicinal chemistry studies aimed at the creation of a lead compound for drug development.

We have completed testing the activity of a portfolio of compounds which appeared to fit the criteria we set and which could help determine the best lead compounds for this program. Analysis of the results has suggested a revised strategy for medicinal chemistry going forward, which is considered to have better chance of success given the preliminary data.

To date our studies have shown the target viral protein to be a RNA polymerase, which is a novel mechanism of action (different to existing drugs and those in development for picornaviruses). The crystal structure of the polymerase is known and this now allows us to use molecular modeling as an alternative pathway to drug refinement. A new provisional patent was filed in December on the basis of these discoveries.

Discussions have been held with our existing commercial supporter of this program. We are hopeful we can expand this relationship and enter into an expanded joint R&D agreement with them in order to accelerate our discovery program for small molecule anti-picornavirus drugs. A key milestone for this program over the next 12 months will be moving this program to the point where we have begun a targeted search for lead compounds that could then be optimised over the course of 2008 in preparation for subsequent pre-clinical studies.

Commercial Partners

The Company is actively involved in discussions with potential commercial partners that have expressed an interest in our technologies. The nature of these discussions and, in some cases, the complexity of the technology makes it very difficult to predict the nature and timing of the outcomes but over the next year we plan to step up our efforts to engage commercial partners in our programs. It is these types of partnerships that can lead to faster development of the technology and improved chances of successful commercialisation of the resulting products.

PATENT APPLICATIONS
STATUS REPORT

a. **Hepgenics Pty Ltd Patent Portfolio** - "Viral vector", "Viral vector – II"

Our Ref	Country	Application No.	Status as at 13 February 2007	Comments
12437050	International (PCT)	PCT/AU2004/00511 Published as WO 2004/092387	International Phase completed	National/Regional Phase entered - 30 month date 17 October, 2005
12442820	Australia	2004231119	Live - pending	Examination requested
12442840	Europe	04727789.2	Live – pending	Supplementary European Search Report will issue in due course
12671230	People's Republic of China	200480013729.7	Live – pending	An Examination Report may issue in the next 12 months
12442870	United States	10/553,683	Live - pending	A Restriction Requirement may issue in the next 12 months

Our Ref	Country	Provisional No.	Filing date	Comments
12823550 12828700	Australia	2006904731 2006904757	30 August 2006 31 August 2006	Due for completion by 30 August 2007

The invention relates to modified virus-like particles (VLPs) derived from avian hepadnaviruses. The VLPs are capable of incorporating large amounts of foreign polypeptides and are useful, for example, as vaccines.

b. **Hepgenics Pty Ltd Patent Portfolio** - "Binding assay components"

Our Ref	Country	Application No.	Status as at 13 February 2007	Comments
12531680	International (PCT)	PCT/AU2004/001522		Clear Written Opinion issued 25 October, 2005 Instructions forwarded to proceed with National/Regional Phase – 30 month date 7 May, 2006
12545260	Australia		Live - Pending	
12759950	Brazil		Live – Pending	
12545280	Europe		Live – Pending	
12545290	Japan		Live – Pending	
12759960	People's Republic of China		Live – Pending	Examination requested
12545310	United States		Live – Pending	

The invention relates to the detection of marker-antigen complexes for use in antibody detection assays and kits.

c. **Hepgenics Pty Ltd Patent Portfolio** - "Peptides and methods of using same"

Our Ref	Country	Application No.	Status
12690490	International (PCT)	PCT/AU2005/001775	Clear Written Opinion issued 7 March 2006 Due to enter National/Regional Phase – 30 month date 23 May, 2007

The invention discloses adhesive peptides, methods of modifying a polymeric surface with a molecule of interest comprising attaching the molecule of interest to the adhesive peptide and then contacting the surface with the adhesive peptide, methods of optimising coatings for polymeric substances using the adhesive peptide, and the use of the adhesive peptide to attach a molecule of interest to a polymeric substance.

d. **Hepgenics Pty Ltd US Patent Application** - "Method of diagnosis and kit therefor"

Our Ref	Country	Application No.	Status as at 13 February 2007	Comments
30133671	United States	11/604,169	Live – Pending	

Discloses methods for diagnosis or monitoring an infection with a virus by detecting the presence of an antibody to the virus in a test sample from a subject.

e. **Picoral Pty Ltd Patent Portfolio** – "Anti-viral compounds", "A method of drug design"

Our Ref	Country	Application No.	Status as at 13 February 2007	Comments
2609498	International (PCT)	PCT/AU03/00093	International phase compete	National/Regional phase entered - 30 month date 31 July 2005
12173030	Australia	2003202298	Live – Pending	Official report forwarded 21 November 2006
12173040	Canada	2474821	Live – Pending	
12173050	Europe	03700694.7	Live – Pending	
12173060	Japan	2003-563559	Abandoned	
12478110	New Zealand	534292	Live – Pending	Examination Report forwarded 30 March 2006
12478100	People's Republic of China	03804954.6	Live – Pending	Response filed
12173070	United States of America	10/503,324	Live – Pending	

f. **Picoral Pty Ltd provisional patent application** - "A method of drug design"

Our Ref	Country	Provisional No.	Filing date	Comments
30145046	Australia	2006906948	13 December 2006	Due for completion by 13 December 2007

Relates to methods of anti-viral drug design or testing based on the observation that amiloride-like compounds bind to and modify viral RNA dependent RNA polymerase.

CORPORATE GOVERNANCE

A review of the Company's 'Corporate Governance Framework' is performed on a periodic basis to ensure that it is relevant and effective in light of the changing legal and regulatory requirements. The Board of Directors continues to adopt a set of Corporate Governance Practices and a Code of Conduct appropriate for the size, complexity and operations of the Company and its subsidiaries.

Unless otherwise stated all Policies and Charters meet the ASX Corporate Governance Best Practice Recommendations. All Charters and Policies are available from the Company or on its Website www.selectvaccines.com.au

Role of the Board and Management

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The Board's responsibilities are detailed in its Board Charter and cover the following broad categories:

1 Leadership of the organisation
2 Strategy formulation
3 Overseeing planning activities
4 Shareholder liaison
5 Monitoring, compliance and risk management
6 Company finances
7 Human resources
8 Health, safety and well-being of Directors, Officers and Contractors
9 Delegation of authority
10 Remuneration policy
11 Nomination policy

Structure and Composition of the Board

The Board has been formed so that it has an effective mix of personnel who are committed to adequately discharging their responsibilities and duties, and being of value to the Company.

The names of the Directors, their independence, qualifications and experience are stated on pp. 9-11 along with the term of office held by each.

The Board believes that the interests of all Shareholders are best served by:

- Directors having the appropriate skills, experience and contacts within the Company's industry.
- The Company striving to have a number of Directors being independent as defined in the ASX Corporate Governance Guidelines.
- Some major Shareholders being represented on the Board.

There is a majority of Directors classified as being 'Independent'. The Board believes that it can continue to attract Directors with the appropriate industry experience.

However, where any Director has material personal interest in a matter and, in accordance with the Corporations Law, the Director will not be permitted to be present during discussion or to vote on the matter. The enforcement of this requirement aims to ensure that the interest of Shareholders, as a whole, is pursued and that their interest or the Director's independence is not jeopardised.

Directors collectively or individually have the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities. All advice obtained is made available to the Full Board.

Ethical and Responsible Decision-Making

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company has a share trading policy that regulates the dealings by Directors, Officers and Employees, in shares, options and other securities issued by the Company.

The policy has been formulated to ensure that Directors, Officers, Employees and Consultants who work on a regular basis with the Company are aware of the legal restrictions on trading in Company securities while in possession of unpublished price-sensitive information.

Integrity in Financial Reporting

In accordance with the Board's policy, the CEO and CFO have made attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing this Annual Report.

The Company has a duly constituted Audit, Risk and Compliance Committee. The current members of the Committee, as at the date of this report, and their qualifications are detailed in the Directors' Profiles on pp. 9-11.

The Committee holds a minimum of two meetings a year. Details of attendance of the members of the Audit, Risk & Compliance Committee are contained on page 15.

Timely and Balanced Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and co-ordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with ASX 'Listing Rules', the Company immediately notifies the ASX of information concerning the Company:

1 That a reasonable person would or may expect to have a material effect on the price or value of the Company's securities; and
2 That would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Rights of Shareholders

The Company respects the rights of its Shareholders, and to facilitate the effective exercise of the rights, the Company is committed to:

1 Communicating effectively with Shareholders through ongoing releases to the market via ASX information and General Meetings of the Company;
2 Giving Shareholders ready access to balanced and understandable information about the Company and Corporate Proposals;
3 Making it easy for Shareholders to participate in General Meetings of the Company; and
4 Requesting the External Auditor to attend the Annual General Meeting and be available to answer Shareholder's questions about the conduct of the audit, and the preparation and content of the Auditor's Report.

Any shareholder wishing to make inquiries of the Company is advised to contact the registered office. All public announcements made by the Company can be obtained from the ASX's website www.asx.com.au

Recognise and Manage Risk

The Audit, Risk & Compliance Committee has established a policy for risk oversight and management within the Company. This is periodically reviewed and updated.

The CEO and CFO have given a statement to the Board that:

a) In accordance with 'Best Practice Recommendation 4.1', that the Financial Statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
b) The Company's 'Risk Management and Internal Compliance and Control System', in so far as it relates to financial risk, is operating effectively in all material respects.

Encourage Enhanced Performance

A 'Performance Evaluation Policy' has been established to evaluate the performance of the Board, individual Directors and Executive Officers of the Company. The Board is responsible for conducting evaluations on an annual basis in line with these policy guidelines.

During the reporting period, questionnaires were circulated to all members of the Board to conduct individual and group performance evaluations. These questionnaires were collated and analysed, providing the Board with valuable feedback and evaluation for future development.

During the year, all Directors have full access to all Company records and receive Financial and Operational Reports at each Board Meeting.

All new Directors undergo an induction program.

Remunerate Fairly and Responsibly

Profiles of members and details of meetings of the Remuneration and Nomination Committee are detailed on pp. 9-11 & 15 of the Directors' Report.

The Committee is responsible for, but not limited to :

- Setting the remuneration and conditions of service of all Executive and Non-Executive Directors, Officers and Employees of the Company.
- Approving the design of Executive & Employee incentive plans (including equity-based plans) and proposed payments or awards under such plans.
- Reviewing performance hurdles associated with incentive plans.
- Making recommendations to the Board on the remuneration of Non-Executive Directors within the aggregate approved by Shareholders at General Meetings from time to time.
- Consulting appropriately qualified Consultants for advice on remuneration and other conditions of service.
- Succession planning for the CEO and Senior Executive Officers.
- Performance assessment of the CEO and Senior Executives.
- Recommending policy on the selection of Board Members.
- Recommending prospective Board Members to the Full Board of the Company.

The Company is committed to remunerating its Senior Executives in a manner that is market-competitive and consistent with 'Best Practice' as well as supporting the interests of Shareholders. Senior Executives may receive a remuneration package based on fixed and variable components, determined by their position and experience. Shares and/or Options may also be granted based on an individual's performance, with those granted to Directors subject to Shareholder approval.

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by Shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in Equity Schemes of the Company without prior Shareholder approval.

Current remuneration is disclosed in Note 5: Key Management Personnel Compensation.

Legitimate Interests of Stakeholders

The Board acknowledges the legitimate interests of various stakeholders such as Employees, Clients, Customers, Government Authorities, Creditors and the Community as a whole. As a good Corporate Citizen, it encourages compliance and commitment to appropriate corporate practices that are fair and ethical via its 'Code of Conduct Policy'.

Your Directors present their report on the Company and its controlled entities for the financial year ended 31 December 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. Directors were in office for this entire period unless otherwise stated.

Robin Beaumont	—	Chairman, Independent
Qualifications	—	Dip. App. Chem, MBA
Experience	—	Board member since 9 June 2005, appointed Chairman 17 August 2005, Mr Beaumont (aged 65) was Managing Director of the Advent venture capital and private equity group until 1988 and represented Advent's interests as a director of five investee companies - Primary Health Care, Benchmark Mutual Hospital Group, The Preston Group, Tower Technology and the Ayers Rock Resort Company. Prior to joining Advent he had more than ten years of strategy consulting experience, preceded by senior management positions in the Pacific Dunlop group. Mr Beaumont has also been the Chairman of Primegro Limited since 2003 and the Cooperative Research Centre for Diagnostics since 2004 and is a former Director of Ruralco Limited.
Interest in Shares and Options	—	4,274,873 Ordinary Shares: 525,000 Options over Ordinary Shares.
Directorships in listed public companies over the past 3 years.	—	Director of EvoGenix Limited since 2004 and Gropep Limited from 1999 until December 2006.
Special Responsibilities	—	Member of the Audit, Risk & Compliance Committee and the Remuneration & Nomination Committee.

Martin Soust	—	Managing Director
Qualifications	—	BSc (Hons), MBA, PhD
Experience	—	Board member since 1 April 2003, Dr Soust (aged 46) has managed technology businesses for several years. Prior to that he focussed on the provision of management consulting services to small/medium sized enterprises in the biomedical sciences field and consulted on commercialisation of several R&D projects. He has held senior management positions and has acquired extensive experience in commercial negotiations, R&D planning, and technical and commercial management of complex projects. Dr Soust has been Managing Director of Select Vaccines since 2003.
Interest in Shares and Options	—	798,124 Ordinary Shares: 800,229 Options over Ordinary Shares.
Directorships in listed public companies over the past 3 years.	—	Director of Premier Bionics Limited from 2001 to 2005.
Special Responsibilities	—	Nil

George Weber	—	Non-Executive Director, Independent
Qualifications	—	Associate of Arts Degree, University of Minnesota
Experience	—	Board member since 19 May 2004, Mr Weber (aged 63) has a strong background in the commercialisation of life sciences. Originally from the United States, Mr Weber worked with Eli Lilly and Johnson & Johnson in a variety of sales and management functions that included responsibility for the marketing and sales of pharmaceutical, instrumentation, implant and diagnostic products. The latter included responsibility for Hepatitis C tests marketed by Ortho-Clinical Diagnostics (a division of Johnson & Johnson) in conjunction with Chiron Inc. Since the early 1990's Mr Weber has run his own medical marketing consultancy. Clients have included ResMed Ltd, Universal Biosensors Pty Ltd and Chiron Inc. In July 2003, Mr Weber was appointed Managing Director of Chiron Vaccines Australia. Since its takeover by Novartis he has remained on as Country Manager, Australia, Novartis Vaccines.
Interest in Shares and Options	—	480,000 Ordinary Shares: 500,000 Options over Ordinary Shares.
Directorships in listed public companies over the past 3 years.	—	Nil Directorships held.
Special Responsibilities	—	Chairman of the Audit, Risk & Compliance Committee and the Remuneration & Nomination Committee.

Ian Cooke	—	Non-Executive Director, Independent
Qualifications	—	BSc (Hons), PhD, M IP Law, MBA
Experience	—	Board member since 19 May 2004. Dr Cooke (aged 51) is the currently the Managing Director of CNSBio Pty Ltd, a new venture capital-funded biotechnology company specialising in the development of combination therapies for the treatment of pain. He was formerly an Associate Director (Research & Development) at the Macfarlane Burnet Institute for Medical Research and Public Health where he was responsible for the overall management of the Burnet Institute's major research activities, with a particular focus on the commercialisation of emerging technologies developed by the Institute's scientists. Dr Cooke also holds the part-time position of Principal Analyst at Foursight Associates Pty Ltd, a Melbourne-based life sciences and technology consultancy, where he provides advice to private equity funds and other clients regarding potential investments in the biotechnology arena. Prior to joining the Burnet Institute in 1997, Dr Cooke was Associate Professor of Biology at Deakin University, following postdoctoral research fellowships at Princeton University and AT&T Bell Laboratories in the USA and a Queen Elizabeth II Research Fellowship at Monash University. Dr Cooke is also a director of Human Genome Sciences Pacific Pty Ltd, the Australian subsidiary of the NASDAQ-listed biopharmaceutical company Human Genome Sciences Inc.
Interest in Shares and Options	—	56,000 Ordinary Shares: Nil Options over Ordinary Shares.
Directorships in listed public companies over the past 3 years.	—	Nil Directorships held.
Special Responsibilities	—	Member of the Audit, Risk & Compliance Committee

Peter Marks	—	Non-Executive Director (retired)
Experience	—	Board member since 21 December 2001, Mr Marks retired from the Select Vaccines Ltd Board on 9 August, 2006. Mr Marks (aged 51) has 25 years experience advising listed and unlisted companies on issues ranging from corporate and company structure, valuations, business strategies, acquisitions and international opportunities. He has specialist experience in the areas of capital raisings, underwritings, IPO's and venture/private capital transactions. Mr Marks is also a Director of Peregrine Corporate Ltd and Microfuze International Plc (listed on AIM, UK).
Interest in Shares and Options	—	327,916 Ordinary Shares: 1,042,777 Options over Ordinary Shares.
Directorships in listed public companies over the past 3 years.	—	Chairman of Premier Bionics Limited since 2003 and Chairman of ASX listed Karmelsonix Ltd. Director of Prana Biotechnology Ltd since 2005 and Director of Microfuze International Plc.

Company Secretary

The name and details of the Company Secretary in office during the financial year and until the date of this report is as follows. The Company Secretary was in office for this entire period unless otherwise stated.

Phillip Hains	—	Company Secretary & Chief Financial Officer
Qualifications	—	BBus, CA, MBA
Experience	—	Mr Hains is a Chartered Accountant and specialist in the public company environment. He has served the needs of a number of public company boards of directors and related committees. He has over 21 years experience in providing accounting, administration, compliance and general management services. He holds a Masters of Business Administration from RMIT and a Public Practice Certificate from the Institute of Chartered Accountants.

Management

Dr Martin Soust, Managing Director
(See Directors)

Earnings per Share

	2006	2005
Basic earnings/(loss) per share	(4.14) cents	(12.10) cents
Diluted earnings/(loss) per share	(4.14) cents	(12.10) cents

Dividends

No dividend is recommended for the year. No dividends were paid during the year.

Corporate Information

Corporate Structure

Select Vaccines Limited is a company limited by shares that is incorporated and domiciled in Australia.

Principal Activities

The principal activities of the economic entity during the financial year were the development and commercialisation of products addressing unmet medical needs in the field of infectious diseases.

Employees

The company had 1 employee as at 31 December 2006 (2005: 1 employee).

Operating Results & Review of Operations

The consolidated loss of the economic entity after providing for income tax and eliminating outside equity interests amounted to $2,517,023 (2005: loss of $4,937,706).

Refer to the Review of Operations section of the Annual Report for further details of the review of operations and future developments of the Company.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company during the financial year under review not otherwise disclosed in this annual report.

After Balance Date Events

On 8 January 2007 applications were lodged with the Australian Securities & Investments Commission for voluntary deregistration of two non-operating wholly owned subsidiaries, Privilege Holdings Pty Ltd and Select-Tel Communications Pty Ltd.

The research agreements under which the Company's research & development programs were conducted by their partners, the Burnet Institute and the Howard Florey Institute, expired on or prior to 31 December 2006. Discussions are progressing regarding research contracts for 2007. For the foreseeable future, much of the Company's research will still be performed by these institutes. For the 12 months ending 31 December 2007, the Company intends to fund further research work at both institutes which, when contracts are finalised, may commit the Company to expenditure in the vicinity of $900,000, including work as a consequence of the AVANT Immunotherapeutics, Inc. ("AVANT") licensing agreement.

On 12 February 2007 the Company announced that it had entered into a collaboration and worldwide licensing agreement with AVANT Immunotherapeutics, Inc. ("AVANT"), a Nasdaq listed biotechnology company, of Needham, MA, USA, to develop and commercialise up to three products using Select Vaccines' novel VLP vaccine technology. The main features of this agreement are:

(a) Grant of an exclusive worldwide license to AVANT to develop up to three products using Select Vaccines' VLP technology.
(b) An immediate equity investment in the Company of US$735,000 by AVANT , subject to shareholder approval.
(c) Research funding by AVANT over two years towards development of influenza vaccines.
(d) Future milestone payments are to be paid to Select Vaccines on positive progress – for the first product the potential milestone payments could total US$34m over time.
(e) Royalty payments and sublicense fees are due to Select Vaccines on product sales.

Environmental Issues

The economic entity's operations are not subject to significant environmental regulation under the law of the Commonwealth and State.

Remuneration Report

This report details the nature and amount of remuneration for each Director of Select Vaccines Limited.

Remuneration Policy

Remuneration of all Executive and Non-Executive Directors, Officers and Employees of the Company is determined by the Remuneration and Nomination Committee in conjunction with the Board.

The Remuneration and Nomination Committee, consisting a Non-Executive Director and the Chair, has been established and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other senior executives and, within amounts approved by shareholders, Non-Executive Directors. Details of the Remuneration Committee's charter are outlined in Select Vaccines Ltd's Corporate Governance Statement.

Non-Executive Director's fees are set at a rate that is comparable to other biotechnology companies. In addition to fees paid, options over shares in the Company are issued, subject to shareholder approval, to Non-Executive Directors in order to align the interests of the Directors with the objectives of the Company and its shareholders. The quantum of options issued is based on a recommendation made by the Remuneration and Nomination Committee. The base fee for the Chairman is set at twice the rate of other Non-Executive Directors.

Executive Directors' remuneration and other terms of employment are reviewed annually by the Remuneration and Nomination Committee having regard to performance against goals set at the start of the year, relevant comparative information and, if required, independent expert advice.

The board undertakes an annual review of its performance and the performance of the board committees against goals set at the start of the year.

The company's remuneration policies are designed to align Executive Directors' and other Executives' ("Executives") remuneration with the interests of shareholders. Accordingly, the Executive remuneration and reward framework has four components:

Base Remuneration
Executives are offered competitive base remuneration which is reviewed annually to ensure it is competitive with market rates. There are no guaranteed increases fixed in any Executive's contracts.

Performance Related Bonuses
The amount of the possible bonus awarded to Executives is determined by the Remuneration and Nomination Committee with reference to:

- the Company's share price performance relative to the overall market and biotechnology sectors
- the Company's share price performance relative to comparable companies within the biotechnology sector
- specific milestones for the Company.

As the Company is in a research and development phase, Executive reward has not taken into account the earnings of the Company.

Select Vaccines Ltd Share and Option Plan ("SVESOP")
Directors (subject to shareholder approval) and other Executives are entitled to participate in the SVESOP. Details of the SVESOP have previously been detailed and approved by shareholders at the 2005 Annual General Meeting. Details of options issued under this plan in the year ended 31 December 2006 are detailed in Note 22 of the financial statements.

Retirement Benefits
The Company meets its obligations to employees under the Superannuation Guarantee Legislation and may contribute additional superannuation at the direction of Executives. No other retirements benefits are payable.

Remuneration Policy versus Company Financial Performance

The Company's Remuneration Policy is not directly based on its performance, rather on industry practice.

The Company's primary focus is research activities with a long term objective of developing and commercialising its research & development results.

The Company believes performance is best measured against R&D outcomes which represent a significant Company expense resulting in losses but translates into share price movement.

Details of remuneration for the year ended 31st of December 2006

Director	Base Fee	Superannuation	Other	Equity [2]	Total
Robin Beaumont	$ 80,000	$ -	$ -	$ 9,000	$ 89,000
Martin Soust	$ 225,000	$ -	$ 25,070	$ -	$ 250,070
George Weber	$ 40,000	$ -	$ -	$ -	$ 40,000
Ian Cooke	$ 40,000	$ -	$ -	$ -	$ 40,000
Peter Marks[1]	$ 30,000	$ -	$ 7,000	$ -	$ 37,000

Specified Executive	Base Fee	Superannuation	Other	Equity	Total
Phillip Hains	$ 15,000	$ -	$ 105,600	$ -	$ 120,600

[1] Retired/resigned during the year.

[2] This equity was issued to the Director upon a resolution of the 2006 AGM. All equity issued as part of remuneration was valued based on the Black-Scholes valuation model, adjusted for escrow and the unlisted nature of the options. The inputs for this model are as stated below.

Implied volatility was calculated taking into consideration the historical volatility of the Company's share price in the six months prior to the issue of the options.

Issue date	7/04/2006
Share price	$0.100
Exercise price	$0.300
Implied volatility	83.0%
Option life	2 yrs
Expected dividends	Nil
Risk-free interest rate	5.3%
Escrow period	Nil
Adjustment for escrow	Nil
Adjustment for unlisted nature	5% pa

Performance income as a proportion of total remuneration

All Executives are eligible to receive incentives whether through employment contracts or by the recommendation of the Board. Their performance payments are based on a set monetary value or as a proportion of their base salary. Therefore there is no fixed proportion between incentive & non-incentive remuneration.

Non-Executive Directors are not entitled to receive bonuses.

Equity issued as part of remuneration for the year ended 31st of December 2006

This section only refers to those shares and options issued as part of remuneration. As a result they may not indicate all shares and options held by a Director or Senior Executive.

Shares

No shares were issued to Directors or Executives during the year as part of their remuneration.

Options

Director	Balance 1 January 2006	Granted as Remuneration	Options Exercised	Disposal/Lapsed	Balance 31 December 2006
	Qty	Qty	Qty	Qty	Qty
Robin Beaumont[1]	-	500,000	-	-	500,000
Martin Soust	750,000	-	-	-	750,000
George Weber	500,000	-	-	-	500,000
Ian Cooke	-	-	-	-	-
Peter Marks[2]	750,000	-	-	-	750,000

Director		Granted as Remuneration [2]	Options Exercised	Disposal/Lapsed [2]	
		$	$	$	
Robin Beaumont		9,000	-	-	
Martin Soust		-	-	-	
George Weber		-	-	-	
Ian Cooke		-	-	-	
Peter Marks		-	-	-	

[1] This equity was issued to the Director upon a resolution of the 2006 AGM. All equity issued as part of remuneration was valued based on the Black-Scholes valuation model, adjusted for escrow and the unlisted nature of the options. The inputs for this model are as stated above.

[2] Balance of Mr Marks's equity on retirement from the Company.

Specified Executive	Balance 1 January 2006	Granted as Remuneration	Options Exercised	Disposal/Lapsed	Balance 31 December 2006
	Qty	Qty	Qty	Qty	Qty
Phillip Hains	150,000	-	-	-	150,000

Employment contracts of directors and senior executives

No Directors or Executives were under employment contracts as at 31 December 2006.

Meetings of Directors

During the financial year, 10 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were:

	Directors' Meetings		Committee Meetings Audit , Risk & Compliance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Robin Beaumont	8	8	2	2
Martin Soust	8	8	-	-
George Weber	8	8	2	2
Ian Cooke	8	8	2	1
Peter Marks	4	3	-	-

Indemnifying Officers or Auditors

During the financial year the Company entered into a policy to indemnify Directors and Officers against certain liabilities incurred as a Director or Officer, including costs and expenses associated in successfully defending legal proceedings. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or an auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Options

As at the date of this report the unissued ordinary shares of Select Vaccines Limited under options are as follows:

Code	Date of expiry	Exercise price	Number under option
SLTOA	31/05/2008	$0.200	23,479,265
SLTAO	30/04/2008	$0.300	3,520,000
SLTAP	31/05/2008	$0.300	1,000,000
SLTAQ	30/10/2008	$0.300	500,000
SLTAS	29/04/2009	$0.440	2,000,000
SLTAU	29/04/2008	$0.435	1,000,000
			31,499,265

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-Audit Services
The Board of Directors, in accordance with advice from the Audit, Risk & Compliance Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services did not compromise the external auditor's independence because the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence. During the year ended 31 December 2006 the economic entity paid $ 11,575 (2005: $12,279) to the external auditors for taxation compliance advice.

Auditor's Independence Declaration
The lead auditor's independence declaration for the year ended 31 December 2006 has been received and can be found on page 17 of the directors' report.

Signed in accordance with a resolution of the Board of Directors.

Robin Beaumont	***Martin Soust***
Chairman	**Managing Director**

Dated this 14 th day of February 2007

Hall Chadwick
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Sydney
Adelaide
Perth
Brisbane
Gold Coast
Darwin

**LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

To: The Directors of Select Vaccines Limited

I declare that, to the best of my knowledge and belief, in relation to the year end audit for the year ended 31 December 2006, there have been:

a) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

b) No contraventions of any applicable code of professional conduct in relation to the audit.

Hall Chadwick

Hall Chadwick
Chartered Accountants

Robert Yeo

Robert Yeo
Partner

Melbourne
14 February 2007

National Association
Hall Chadwick

International Association
AGN International

Associations of
Independent Firms

SELECT VACCINES LIMITED 25 062 063 692
AND CONTROLLED ENTITIES
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Revenue	2	87,148	143,674	554,883	237,881
Depreciation	3	(22,803)	(20,859)	(13,895)	(15,090)
Audit fees	6	(43,575)	(40,679)	(37,075)	(34,745)
Bad & doubtful debts	3	-	(2,945)	-	-
Compliance costs	3	(62,534)	(82,670)	(61,915)	(82,516)
Research & development	3	(941,624)	(1,547,733)	-	-
Directors' fees		(199,000)	(381,622)	(199,000)	(381,622)
Loss on sale of investments		-	(8,419)	-	-
Consulting/professional fees		(868,431)	(1,180,293)	(848,431)	(1,088,467)
Travel		(84,376)	(114,690)	(4,434)	(114,690)
Patents		(88,804)	(66,580)	-	-
Loss borne by parent		-	(756,482)	-	-
Impairment of assets	3	(69,000)	(937,588)	(3,582,952)	(1,637,051)
Other expenses		(224,024)	(220,867)	(150,400)	(149,075)
Loss before income tax expense		(2,517,023)	(5,217,753)	(4,343,219)	(3,265,375)
Income tax expense	4	-	-	-	-
Loss for the year		(2,517,023)	(5,217,753)	(4,343,219)	(3,265,375)
Net loss attributable to minority equity interests		-	280,047	-	-
Net loss attributable to members of the parent entity		(2,517,023)	(4,937,706)	(4,343,219)	(3,265,375)
Basic earnings per share (cents per share)	7	(4.14)	(12.10)		
Diluted earnings per share (cents per share)	7	(4.14)	(12.10)		

The accompanying notes form part of these financial statements.

SELECT VACCINES LIMITED 25 062 063 692
AND CONTROLLED ENTITIES
BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Current assets					
Cash and cash equivalents	8	2,542,886	512,525	2,541,797	510,903
Trade and other receivables	9	60,416	118,826	12,639	62,462
Other current assets	14	33,938	33,931	33,938	33,931
Total current assets		2,637,240	665,282	2,588,374	607,296
Non-current assets					
Trade and other receivables	9	-	-	-	2,216,171
Financial assets	10	31,000	100,000	31,000	100,000
Plant and equipment	12	54,349	63,713	14,283	14,739
Intangible assets	13	-	-	-	-
Total non-current assets		85,349	163,713	45,283	2,330,910
Total assets		2,722,589	828,995	2,633,657	2,938,206
Current liabilities					
Trade and other payables	15	564,559	245,709	344,856	113,973
Provisions	16	4,379	-	-	-
Total current liabilities		568,938	245,709	344,856	113,973
Non-current liabilities					
Payables	15	-	-	-	279,373
Provisions	16	228	-	-	-
Total non-current liabilities		228	-	-	279,373
Total liabilities		569,166	245,709	344,856	393,346
Net assets		2,153,423	583,286	2,288,801	2,544,860
Equity					
Contributed equity	17	35,199,025	31,111,865	35,199,025	31,111,865
Accumulated losses		(33,045,602)	(30,528,579)	(32,910,224)	(28,567,005)
Total equity		2,153,423	583,286	2,288,801	2,544,860

The accompanying notes form part of these financial statements.

SELECT VACCINES LIMITED 25 062 063 692
AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	Economic Entity			
	Contributed Equity	Accumulated Losses	Minority Equity Interests	Total
	$	$	$	$
Balance at 1/1/2005	27,008,495	(25,590,873)	62,177	1,479,799
Equity issued during the year	4,103,370	-	-	4,103,370
Loss attributable to members of parent entity	-	(4,937,706)	-	(4,937,706)
Loss attributable to minority shareholders	-	-	(280,047)	(280,047)
Goodwill on acquisition of subsidiary entity	-	-	(538,612)	(538,612)
Loss borne by parent	-	-	756,482	756,482
Balance at 31/12/2005	31,111,865	(30,528,579)	-	583,286
Equity issued during the year	4,087,160	-	-	4,087,160
Loss attributable to members of parent entity	-	(2,517,023)	-	(2,517,023)
Balance at 31/12/2006	35,199,025	(33,045,602)	-	2,153,423

	Parent Entity			
	Contributed Equity	Accumulated Losses	Minority Equity Interests	Total
	$	$	$	$
Balance at 1/1/2005	27,008,495	(25,301,630)	-	1,706,865
Equity issued during the year	4,103,370	-	-	4,103,370
Loss attributable to members of parent entity	-	(3,265,375)	-	(3,265,375)
Balance at 31/12/2005	31,111,865	(28,567,005)	-	2,544,860
Equity issued during the year	4,087,160	-	-	4,087,160
Loss attributable to members of parent entity	-	(4,343,219)	-	(4,343,219)
Balance at 31/12/2006	35,199,025	(32,910,224)	-	2,288,801

The accompanying notes form part of these financial statements.

SELECT VACCINES LIMITED 25 062 063 692
AND CONTROLLED ENTITIES

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Cash flows from operating activities					
Receipts from customers		16,366	25,847	-	-
Payments to suppliers and employees		(2,123,758)	(3,014,508)	(1,080,265)	(1,218,686)
Interest received		38,550	45,590	38,101	45,206
Other		51,966	18,893	48,823	18,893
Net cash used in operating activities	21a	(2,016,876)	(2,924,178)	(993,341)	(1,154,587)
Cash flows from investing activities					
Purchase of plant and equipment		(13,439)	(2,710)	(13,439)	(2,710)
Proceeds from sale of equity investments		90,405	98,652	-	-
Purchase of equity investments		(58,489)	-	(991,086)	-
Advances to related parties		-	-	-	(1,762,260)
Advances repaid by related parties		-	-	-	98,550
Net cash provided by (used in) investing activities		18,477	95,942	(1,004,525)	(1,666,420)
Cash flows from financing activities					
Proceeds from issue of shares		4,371,619	2,195,350	4,371,619	2,195,350
Capital raising costs		(342,859)	(183,829)	(342,859)	(183,829)
Net cash provided by financing activities		4,028,760	2,011,521	4,028,760	2,011,521
Net increase (decrease) in cash held		2,030,361	(816,715)	2,030,894	(809,486)
Cash and cash equivalents at beginning of year		512,525	1,329,240	510,903	1,320,389
Cash and cash equivalents at end of year	8	2,542,886	512,525	2,541,797	510,903

The accompanying notes form part of these financial statements.

Note 1 Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Select Vaccines Limited and the controlled entities, being the economic entity. Select Vaccines Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Select Vaccines Limited and controlled entities, being the economic entity, comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

Adoption of Australian Equivalents to International Financial Reporting Standards

Select Vaccines Limited and controlled entities, being the economic entity, have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (IFRS) from 1 January 2005.

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting policies

a. **Principles of consolidation**

A controlled entity is any entity controlled by Select Vaccines Limited. Control exists where Select Vaccines Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Select Vaccines Limited to achieve the objectives of Select Vaccines Limited. A list of controlled entities is contained in Note 11 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Minority interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

b. Income tax

The charge for current income tax expenses is based on the profit or loss for the year adjusted for any non-assessable or non-deductible items. It is calculated using tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. Property, plant and equipment

Each class of property and plant is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is calculated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

Class of fixed asset	Depreciation rate
Plant and equipment	33%
Office Furniture	7.5-20%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount would otherwise be greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

d. Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of the operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Finance Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the lessee are classified as finance leases.

Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are amortised on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

e. Financial instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when then related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

Investments

Investments held for trading are recorded at fair value and classified as current assets. All other investments are recorded at fair value and either classified as current or non-current assets. The gains or losses, whether realised or unrealised, are included in profit before income tax.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for quoted investments at reporting dates. Valuation techniques are applied to determine the fair value for unlisted securities including; recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

f. Research and development expenditure

Research and Development costs are charged to profit before income tax as incurred.

g. Intangibles

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Other

Other intangibles are recorded at cost of acquisition and amortised over their deemed useful life. They are tested annually for impairment and carried at cost less accumulated losses.

h. Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value.

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 3 months, net of outstanding bank overdrafts.

i. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

j. Trade and other receivables

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

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

k. Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost 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.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

l. Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

m. Share-based payments

Equity-settled payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability or exercise restrictions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

n. Share capital

Ordinary share capital is recognised as the fair value of the consideration received by the Company.

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

o. Earnings per share

Basic earnings per share is determined by dividing the loss after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year.

p. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables and payables.

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

q. Comparative figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Note 2 Revenue

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Revenue				
Royalties - medical	-	25,847	-	-
Grants - medical	16,366	50,000	-	50,000
Interest revenue - other persons	38,692	67,827	38,101	45,206
Interest Revenue - subsidiaries	-	-	250,229	142,675
Share trading revenue	31,915	-	-	-
Net gain on write-back of inter-company loans and impairment of shares	-	-	266,378	-
Other	175	-	175	-
Total Revenue	87,148	143,674	554,883	237,881

Note 3 Profit/(loss)

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Loss before income tax has been determined after:				
a. **Expenses**				
Depreciation of non-current assets:				
- Depreciation	22,803	20,859	13,895	15,090
Total Depreciation	22,803	20,859	13,895	15,090
Bad and doubtful debts:				
- Bad debts	-	-	-	-
- Doubtful debts	-	2,945	-	-
Total Bad and Doubtful Debts	-	2,945	-	-
Research and development costs:				
- Research & development	941,624	1,547,733	-	-
Total Research & Development	941,624	1,547,733	-	-
Write-down of assets:				
- Write-off of goodwill	-	937,588	-	-
- Impairment of investments	69,000	-	69,000	
- Impairment of subsidiaries loans	-	-	3,513,952	60,851
- Impairment of investments in subsidiaries	-	-	-	1,576,200
Total Write-down of Assets	69,000	937,588	3,582,952	1,637,051
Other Expenses:				
Audit fees	43,575	40,679	37,075	34,745
Compliance costs	62,534	82,670	61,915	82,516
Directors' fees	199,000	381,622	199,000	381,622
Loss on sale of investments	-	8,419	-	-
Consulting/professional fees	868,431	1,180,293	848,431	1,088,467
Travel	84,376	114,690	4,434	114,690
Patents	88,804	66,580	-	-
Loss borne by parent	-	756,482	-	-
Other expenses	224,024	220,867	150,400	149,075
Total Other Expenses	1,570,744	2,852,302	1,301,255	1,851,115
Total Expenses	2,604,171	5,361,427	4,898,102	3,503,256

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

b. Revenue and net gains

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Net gain on write-back of inter-company loans and impairment of shares:				
- Select Vaccines Ltd gain on write-back of inter-company loan from Privilege Holdings Pty Ltd [1]	-	-	332,701	-
- Select Vaccines Ltd writeback provision for non recovery of loan to Select-Tel Communications Pty Ltd [2]	-	-	924,763	-
- Select Vaccines Ltd - impairment of shares in Select-Tel Communications Pty Ltd [3]	-	-	(991,086)	-
	-	-	266,378	-

[1] On 31 December 2006 Privilege Holdings Pty Ltd forgave an inter-company loan to Select Vaccines Ltd resulting in a $332,701 gain on write back of inter-company loan for Select Vaccines Ltd.

[2] On 31 December 2006 Select-Tel Communications Pty Ltd issued 99,108,500 ordinary shares to Select Vaccines Ltd for total consideration of $991,085 which was offset against an inter-company loan from Select Vaccines Ltd to Select-Tel Communications Pty Ltd. This loan had been fully impaired by Select Vaccines Ltd resulting in a write-back of provision for non-recovery of loan of $924,763.

[3] On 31 December 2006 Privilege Holdings Pty Ltd transferred 1 ordinary share in Select-Tel Communications Pty Ltd to Select Vaccines Ltd for consideration of $1. At year-end Select Vaccines Ltd's investment in Select-Tel Communications Pty Ltd was considered to have a nil carrying value resulting in an impairment loss of $991,086.

On 31 December 2006 Select-Tel Communications Pty Ltd forgave inter-company loans of $362,319 to Privilege Holdings Pty Ltd , $244 to Hepgenics Pty Ltd and $244 to Picoral Pty Ltd.

c. Significant revenues and expenses

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
The following significant revenue and expense items are relevant in explaining the financial performance:				
- Loss on sale of investments	-	8,419	-	-
- Write-off of goodwill	-	937,588	-	-
- Impairment of assets	69,000	-	3,582,952	1,637,051

Note 4 Income tax expense

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
a. The prima facie tax on loss before tax is reconciled to the income tax as follows:				
Prima facie tax payable on loss before income tax at 30% (2005:30%)				
— Economic entity	(755,107)	(1,565,326)		
— Parent entity			(1,302,966)	(979,613)
	(755,107)	(1,565,326)	(1,302,966)	(979,613)
Add:				
Tax effect of:				
Depreciation	6,841	6,258	4,169	4,527
Entertainment	2,504	3,540	2,504	3,541
Write-off of goodwill	-	281,276	-	-
Impairment of assets	20,700	-	1,074,886	491,115
Loss borne by parent	-	226,945	-	-
Deferred tax asset	725,062	1,047,307	221,407	480,430
Income tax expense attributable to profit/loss before income tax	-	-	-	-
b. The Directors estimate that the potential deferred tax asset at 31 December 2006 in respect of tax losses not brought to account is:				
Carried forward losses	3,328,961	5,620,472	1,459,760	3,576,717
Adjustment to bring into line with lodged tax returns	-	(3,016,573)	-	(2,338,364)
	3,328,961	2,603,899	1,459,760	1,238,353

This benefit for tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and

(ii) the losses are transferred to an eligible entity in the consolidated entity; and

(iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iv) no changes in tax legislation adversely affect the economic entity in realising the benefit from the deductions for the losses.

Note 5 Key Management Personnel compensation

a. Names and positions held of Economic & Parent Entity Directors and Specified Executives in office at any time during the financial year are:

Economic & Parent Entity Directors

Robin Beaumont (Chairman, appointed 9/06/05)
Martin Soust (Managing Director, appointed 1/04/03)
George Weber (Non-Executive Director, appointed 19/05/04)
Ian Cooke (Non-Executive Director, appointed 19/05/04)
Peter Marks (Non-Executive Director, retired 9/08/06)

Specified Executives

Phillip Hains - Company Secretary & Chief Financial Officer

b. Compensation of Key Management Personnel

The aggregate compensation made to key management personnel of the Economic & Parent Entity is set out below:

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Short-term employee benefits	**567,670**	589,217	**567,670**	589,217
Post-employee benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Share-based payment	**9,000**	144,700	**9,000**	144,700
	576,670	733,917	**576,670**	733,917

The compensation of each member of the key management personnel of the Economic & Parent Entity is set out on the following page:

c. Economic & Parent Entity Directors' remuneration

2006

	Primary Benefits Base Fee	Other Compensation Benefits	Post Employment Super	Equity Compensation	Total
	$	$	$	$	$
Robin Beaumont	80,000	-	-	9,000	89,000
Martin Soust	225,000	25,070	-	-	250,070
George Weber	40,000	-	-	-	40,000
Ian Cooke	40,000	-	-	-	40,000
Peter Marks	30,000	7,000	-	-	37,000
	415,000	32,070	-	9,000	456,070

2005

	Primary Benefits Base Fee	Other Compensation Benefits	Post Employment Super	Equity Compensation	Total
	$	$	$	$	$
Robin Beaumont	36,922	-	-	-	36,922
Martin Soust	108,335	-	-	-	108,335
George Weber	40,000	-	-	72,350	112,350
Ian Cooke	40,000	-	-	72,350	112,350
Peter Marks	60,000	28,000	-	-	88,000
Jeremy Cooper	60,000	-	-	-	60,000
	345,257	28,000	-	144,700	517,957

The service and performance criteria set to determine remuneration are included per note (i) below.

d. Specified Executives' remuneration

2006

	Primary Benefits Base Fee	Other Compensation Benefits	Post Employment Super	Equity Compensation	Total
	$	$	$	$	$
Phillip Hains	15,000	105,600	-	-	120,600
	15,000	105,600	-	-	120,600

2005

	Primary Benefits Base Fee	Other Compensation Benefits	Post Employment Super	Equity Compensation	Total
	$	$	$	$	$
Phillip Hains	20,000	120,000	-	-	140,000
Anthony Filippis	55,835	-	-	-	55,835
Catriona King	20,125	-	-	-	20,125
	95,960	120,000	-	-	215,960

Mr Hains' " Other Compensation Benefit" fees were paid to The CFO Solution, a Chartered Accounting firm specialising in the provision of outsourced Accounting, Company Secretarial and Administrative services to listed companies, of which Mr Hains is Principal. Through the fees paid to The CFO Solution, Mr Hains was remunerated for his services as CFO.

The service and performance criteria set to determine remuneration are included per note (i) below.

e. Remuneration options

Options granted as remuneration

	Vested No.	Granted Number	Grant Date	Value of Options at Grant Date $	Terms & conditions for each grant: Exercise Price $	First Exercise Date	Last Exercise Date
Economic & Parent Entity Directors							
Robin Beaumont	500,000	500,000	7 April 2006	9,000	$0.300	7 April 2006	31 May 2008
	500,000	500,000					

The unlisted options issued to the Director for Nil consideration were valued based on the Black-Scholes valuation model, adjusted for their escrow and unlisted nature. The inputs for this model are as stated below.

Implied volatility was calculated taking into consideration the historical volatility of the Company's share price in the six months prior to the issue of the options.

Issue Date	7/04/2006
Share Price	$0.100
Exercise Price	$0.300
Implied Volatility	83.0%
Option Life	2 yrs
Expected Dividends	Nil
Risk-free interest rate	5.3%
Escrow Period	Nil
Adjustment for Escrow	Nil
Adjustment for Unlisted Nature	5% pa

f. Shares issued on exercise of remuneration options

Nil

g. Options and rights holdings

Number of options held by Economic & Parent Entity Directors and Specified Executives

2006	Balance 1/1/06	Granted as remuneration	Options exercised	Net change other [2]	Balance 31/12/06	Total vested 31/12/06	Total exercisable 31/12/06	Total unexercisable 31/12/06
Economic & Parent Entity Directors								
Robin Beaumont	-	500,000	-	25,000	525,000	525,000	525,000	-
Martin Soust	782,500	-	-	17,729	800,229	800,229	800,229	-
George Weber	500,000	-	-	-	500,000	500,000	500,000	-
Ian Cooke	-	-	-	-	-	-	-	-
Peter Marks[1]	1,042,777	-	-	-	1,042,777	1,042,777	1,042,777	-
Specified Executives								
Phillip Hains	150,000	-	-	-	150,000	150,000	150,000	-
Total	2,475,277	500,000	-	42,729	3,018,006	3,018,006	3,018,006	-

[1] Closing balance for Mr Marks represents balance on retirement.

[2] The net change other reflected above includes those options that have expired or been issued during the year under review, other than for remuneration, or traded on market.

2005	Balance 1/1/05	Granted as Remuneration	Options Exercised	Net Change Other [2]	Balance 31/12/05	Total Vested 31/12/05	Total Exercisable 31.12.05	Total Unexercisable 31.12.05
Economic & Parent Entity Directors								
Robin Beaumont	-	-	-	-	-	-	-	-
Martin Soust	782,500	-	-	-	782,500	782,500	782,500	-
George Weber	-	500,000	-	-	500,000	500,000	500,000	-
Ian Cooke [3]	-	500,000	-	(500,000)	-	-	-	-
Peter Marks	1,042,777	-	-	-	1,042,777	1,042,777	1,042,777	-
Jeremy Cooper [1]	1,017,500	-	-	-	1,017,500	1,017,500	1,017,500	-
Specified Executives								
Phillip Hains	150,000	-	-	-	150,000	150,000	150,000	-
Total	2,992,777	1,000,000	-	(500,000)	3,492,777	3,492,777	3,492,777	-

[1] Closing balance for Mr Cooper represents balance on retirement.

[2] The net change other reflected above includes those options that have expired, been transferred, or been issued during the year under review, other than for remuneration, or traded on market.

[3] Under the terms of Dr Cooke's employment with The Burnet Institute for Medical Research and Public Health Limited, Dr Cooke assigned all beneficial ownership of options issued to him during the year to the Institute for Nil consideration.

h. Shareholdings

Number of shares held by Economic & Parent Entity Directors and Specified Executives

2006	Balance 1/1/06	Received as remuneration	Options exercised	Net change other [2]	Balance 31/12/06
Economic & Parent Entity Directors					
Robin Beaumont	200,000	-	-	4,074,873	4,274,873
Martin Soust	141,824	-	-	656,300	798,124
George Weber	120,000	-	-	360,000	480,000
Ian Cooke	14,000	-	-	42,000	56,000
Peter Marks [1]	327,916	-	-	-	327,916
Specified Executives					
Phillip Hains	-	-	-	-	-
Total	803,740	-	-	5,133,173	5,936,913

[1] Closing balance for Mr Marks represents balance on retirement.

[2] The net change other reflected above includes those shares issued during the year under review via new equity issue, other than for remuneration, or traded on market.

2005	Balance 1/1/05	Received as remuneration	Options exercised	Net change other [2]	Balance 31/12/05
Economic & Parent Entity Directors					
Robin Beaumont	-	-	-	200,000	200,000
Martin Soust	123,824	-	-	18,000	141,824
George Weber	80,000	-	-	40,000	120,000
Ian Cooke	10,000	-	-	4,000	14,000
Peter Marks	302,916	-	-	25,000	327,916
Jeremy Cooper[1]	275,930	-	-	59,069	334,999
Specified Executives					
Phillip Hains	-	-	-	-	-
Total	792,670	-	-	346,069	1,138,739

[1] Closing balance for Mr Cooper represents balance on retirement.

[2]The net change other reflected above includes those shares issued during the year under review via new equity issue, other than for remuneration, or traded on market.

i. Compensation practices

The company has a Remuneration and Nomination Committee that administers the Company's remuneration policy.

The Company is committed to remunerating its Senior Executives in a manner that is market-competitive and consistent with 'Best Practice' as well as supporting the interests of Shareholders. Senior Executives may receive a remuneration package based on fixed and variable components, determined by their position and experience. Shares and/or Options may also be granted based on an individual's performance, with those granted to Directors subject to Shareholder approval.

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by Shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in Equity Schemes of the Company without prior Shareholder approval.

Note 6 Auditors' remuneration

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Remuneration of the auditor of the parent entity for:				
- an audit or review of the financial report	32,000	28,400	32,000	28,400
- taxation services	11,575	12,279	5,075	6,345
- other services	-	-	-	-
	43,575	40,679	37,075	34,745

Note 7 Earnings per share

	Economic Entity 2006 Cents	Economic Entity 2005 Cents
Basic earnings/(loss) per share	(4.14)	(12.10)
Diluted earnings/(loss) per share	(4.14)	(12.10)
	2006 $	**2005 $**
a. Reconciliation of Earnings to Net Profit or Loss		
Net loss	(2,517,023)	(5,217,753)
Net loss attributable to minority equity interest	-	280,047
Earnings used in the calculation of basic & dilutive EPS	(2,517,023)	(4,937,706)
b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	60,771,408	40,817,207

Note 8 Cash and cash equivalents

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Cash at bank	2,542,886	512,525	2,541,797	510,903
	2,542,886	512,525	2,541,797	510,903

Note 9 Trade and other receivables

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Current				
Trade debtors	-	58,113	-	55,000
Less provision for doubtful debts	-	(2,945)	-	-
	-	55,168	-	55,000
Goods and services tax	60,416	60,515	12,639	7,462
Other debtors	-	3,143	-	-
	60,416	118,826	12,639	62,462
Non-current				
Amounts receivable from:				
- Subsidiary entities	-	-	3,513,952	3,140,934
Less provision for impairment			(3,513,952)	(924,763)
	-	-	-	2,216,171

Note 10 Financial assets

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Non-current					
Unlisted investments:					
Shares in controlled entities, at cost	11	-	-	11,005,923	10,014,837
Less provision for impairment of investments		-	-	(11,005,923)	(10,014,837)
Shares in other corporations, at cost		100,000	100,000	100,000	100,000
Less provision for impairment of investments		(69,000)	-	(69,000)	-
		31,000	100,000	31,000	100,000

Note 11 Controlled entities

	Country of Incorporation	Principle Activity	Percentage Owned (%) 2006	2005
Parent Entity				
Select Vaccines Limited	Australia	Investment		
Subsidiaries of Select Vaccines Limited				
Hepgenics Pty Ltd	Australia	Medical Research	100	100
Picoral Pty Ltd	Australia	Medical Research	100	100
Privilege Holdings Pty Ltd *	Australia	Investment	100	100
Select-Tel Communications Pty Ltd*	Australia	Communications	100	100

* non-operating company

Note 12 Plant and equipment

	Economic Entity 2006	2005	Parent Entity 2006	2005
	$	$	$	$
Plant & equipment				
At cost	110,549	103,935	52,699	46,085
Accumulated depreciation	(62,944)	(40,222)	(45,160)	(31,346)
	47,605	63,713	7,539	14,739
Office furniture				
At cost	6,825	-	6,825	-
Accumulated depreciation	(81)	-	(81)	-
	6,744	-	6,744	-
Total Plant and Equipment	54,349	63,713	14,283	14,739

a. **Movements in Carrying Amounts**

	Economic Entity 2006	2005	Parent Entity 2006	2005
	$	$	$	$
Plant & equipment				
Balance at the beginning of year	63,713	81,862	14,739	27,119
Additions	6,614	2,710	6,614	2,710
Disposals	-	-	-	-
Depreciation expense	(22,722)	(20,859)	(13,814)	(15,090)
Carrying amount at the end of year	47,605	63,713	7,539	14,739
Office furniture				
Balance at the beginning of year	-	-	-	-
Additions	6,825	-	6,825	-
Disposals	-	-	-	-
Depreciation expense	(81)	-	(81)	-
Carrying amount at the end of year	6,744	-	6,744	-

Note 13 Intangible assets

	Economic Entity 2006	2005	Parent Entity 2006	2005
	$	$	$	$
Goodwill at cost	-	937,588	-	-
Write-off of goodwill	-	(937,588)	-	-
	-	-	-	-

Note 14 Other assets

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Current				
Prepayments	32,938	33,931	32,938	33,931
Rental bond	1,000	-	1,000	-
	33,938	33,931	33,938	33,931

Note 15 Trade and other payables

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Current				
Trade creditors	84,029	116,168	6,070	1,257
Sundry creditors and accrued expenses	480,530	129,541	338,786	112,716
	564,559	245,709	344,856	113,973
Non-current				
Amounts payable to:				
- Subsidiary entities	-	-	-	279,373
	-	-	-	279,373

Note 16 Provisions

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Current				
Employee entitlements	4,379	-	-	-
	4,379	-	-	-
Non-current				
Employee entitlements	228	-	-	-
	228	-	-	-

Note 17 Contributed equity

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Ordinary Shares fully paid	17a	32,761,114	28,744,603	32,761,114	28,744,603
Options	17b	2,437,911	2,367,262	2,437,911	2,367,262
		35,199,025	31,111,865	35,199,025	31,111,865

	Note	2006 No. of Shares	2006 $	2005 No. of Shares	2005 $
a. Movement in ordinary shares on issue					
At the beginning of the reporting period		47,061,305	28,744,603	35,239,996	25,405,083
Shares issued during the year	17a(i)	173,771,075	4,371,619	11,491,309	3,424,349
Exercise of options	17b(ii)	-	47,751	330,000	99,000
Transaction costs relating to share issues		-	(402,859)	-	(183,829)
At reporting date		220,832,380	32,761,114	47,061,305	28,744,603

(i)

2005	Details	Number	Issue Price $	$
27-April-2005	Raising of working capital to fund existing development and commercialisation programmes.	3,741,309	$0.420	1,571,349
29-April-2005	Issue of ordinary shares escrowed to 29 April 2007 to Burnet Institute in relation to acquisition of minority interests in Hepgenics & Picoral.[1]	4,000,000	$0.332	1,328,000
19-December-2005	Raising of working capital to fund existing projects and administration costs.	3,750,000	$0.140	525,000
		11,491,309		3,424,349

2006	Details	Number	Issue Price $	$
07-February-2006	Issue of ordinary shares per 22 December 2005 Non-Renounceable Rights Issue Prospectus.	1,395,859	$0.130	181,512
13-February-2006	Issue of ordinary shares to underwriters per 22 December 2005 Non-Renounceable Rights Issue Prospectus.	6,750,931	$0.130	877,621
13-December-2006	Issue of ordinary shares per 10 November 2006 Renounceable Rights Issue Prospectus.	88,842,492	$0.020	1,776,850
21-December-2006	Issue of ordinary shares to underwriters per 10 November 2006 Renounceable Rights Issue Prospectus.	76,781,793	$0.020	1,535,636
		173,771,075		4,371,619

[1] Shares issued to The Burnet Institute on 29 April 2005 were discounted by 10% to the market price due to the escrow conditions attached to the shares, which is in line with the discount applied to the unlisted options also issued to them as part of the acquisition agreement.

	Note	2006 No. of Options	2006 $	2005 No. of Options	2005 $
b. Movements in options on issue					
At beginning of the reporting period		33,463,824	2,367,262	27,093,824	1,603,412
Issued during the year	17b(i)	6,523,428	118,400	6,700,000	763,850
Exercised during the year	17b(ii)	-	(47,751)	(330,000)	-
Expired during the year	17b(iii)	(350,000)	-	-	-
At reporting date		39,637,252	2,437,911	33,463,824	2,367,262

(i)

2005	Details	Number	Issue Price $	$
29-April-2005	Issue of unlisted SLTAS options exercisable @ $0.44 on or before 29 April 2009, escrowed to 29 April 2007, to Burnet Institute in relation to acquisition of minority interests in Hepgenics & Picoral.	2,000,000	$0.074	148,200
29-April-2005	Issue of unlisted SLTAU options exercisable @ $0.435 on or before 29 April 2008, escrowed to 29 April 2006, to Burnet Institute as resolved at the 2005 AGM.	1,000,000	$0.074	73,900
29-April-2005	Issue of unlisted SLTAP options exercisable @ 0.30 on or before 31 May 2008 to directors under the 2005 ASX Plan.	1,000,000	$0.145	144,700
29-April-2005	Issue of unlisted SLTAO options exercisable at $0.30 on or before 30 April 2008 to a consultant in lieu of fees.	1,500,000	$0.145	217,050
25-May-2005	Issue of listed SLTOA options exercisable at @ $0.20 on or before 31 May 2008 to a consultant in lieu of fees.	1,200,000	$0.150	180,000
		6,700,000		763,850

2006	Details	Number	Issue Price $	$
07-February-2006	Issue of free listed SLTOA options exercisable at $0.20 on or before 31 May 2008 attaching 1:2 to shares issued per 22 December 2005 Non - Renounceable Rights Issue Prospectus.	697,962	$0.000	-
13-February-2006	Issue to underwriters of free listed SLTOA options exercisable at $0.20 on or before 31 May 2008 attaching 1:2 to shares issued per 22 December 2005 Non - Renounceable Rights Issue Prospectus.	3,375,466	$0.000	-
07-April-2006	Issue of unlisted SLTAP options exercisable at $0.30 on or before 31 May 2008 to Director under the 2005 ASX plan[1]	500,000	$0.018	9,000
11-July-2006	Issue of listed SLTOA options exercisable at $0.20 on or before 31 May 2008 to consultant in lieu of fees.	1,000,000	$0.060	60,000
11-July-2006	Issue of unlisted SLTAO options exercisable at $0.30 on or before 30 April 2008 to consultants in lieu of fees under the 2005 ASX plan[2]	950,000	$0.052	49,400
		6,523,428		118,400

Unlisted options issued to Director and consultants for Nil consideration were valued based on the Black-Scholes valuation model, adjusted for their escrow and unlisted nature. The inputs for this model are as stated below.

Implied volatility was calculated taking into consideration the historical volatility of the Company's share price in the six months prior to the issue of the options.

	Director [1]	Consultants [2]
Issue date	7/04/06	11/07/06
Share price	$0.100	$0.260
Exercise price	$0.300	$0.300
Implied volatility	83.0%	34.0%
Option life	2 yrs	2.67 yrs
Expected dividends	Nil	Nil
Risk-free interest rate	5.3%	5.2%
Escrow period	Nil	Nil
Adjustment for escrow	Nil	Nil
Adjustment for unlisted nature	5% pa	5% pa

(ii)

2005	Details	Number	Issue Price $	$
23-May-2005	Exercise of SLTAO options @ $0.30.	(330,000)	$0.145	-
		(330,000)		-

2006	Details	Number	Issue Price $	$
	Adjustment to valuation of 330,000 SLTAO options exercised in prior year.	-	$0.145	(47,751)
		-		(47,751)

(iii)

2005	Details	Number	Issue Price $	$
Nil		-		-
		-		-

2006	Details	Number	Issue Price $	$
30-June-2006	Expiration of unlisted SLTAK options exercisable at $0.20 on or before 30 June 2006.	(350,000)	$0.000	-
		(350,000)		-

Note 18 Operating lease commitments

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
a. **Operating lease commitments**				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable				
— not later than 1 year	1,430	-	1,430	-
— later than 1 year but not later than 5 years	-	-	-	-
— later than 5 years	-	-	-	-
	1,430	-	1,430	-

The property lease is a non-cancellable lease with a six-month term, with rent payable monthly in advance. An option exists to renew the lease at the end of the six-month term for an additional term of six months plus a further 12 months option.

b. **Other**

The CFO Solution provides administrative support at a rate of $6,400 per month plus GST. This commitment may be terminated with 3 months' notice from either party.

Note 19 Contingent liabilities

The Company has engaged the services of a consulting firm, BPR LLC, to provide strategic advisory services. Under the terms of this agreement, in consideration for these services, the Company will be required to issue 2.5 million ordinary shares in Select Vaccines Ltd upon the successful raising of new funding of $USD 2 million (or more) from outside Australia. Based on the share price of $0.036 on Wednesday 7 February 2007 the fair value of this share based payment would be $AUD 90,000.

Note 20 Segment reporting

a) Primary reporting - Business segments

	Medical research 2006 $	Investments 2006 $	Tele-communications 2006 $	Economic Entity 2006 $
Revenue				
External sales	16,366	70,782	-	87,148
Unallocated revenue				-
Total revenue				87,148
Result				
Segment result	(1,407,657)	70,782	-	(1,336,875)
Unallocated revenue				-
Unallocated expense				(1,180,148)
Income tax expense				-
Net loss				(2,517,023)
Assets				
Segment assets	88,932	31,000	-	119,932
Unallocated assets				2,602,657
Total assets				2,722,589
Liabilities				
Segment liabilities	224,310	-	-	224,310
Unallocated liabilities				344,856
Total liabilities				569,166
Other				
Depreciation of segment assets	8,908	-	-	8,908

	Medical research 2005 $	Investments 2005 $	Tele-communications 2005 $	Economic Entity 2005 $
Revenue				
External sales	75,847	67,827	-	143,674
Unallocated revenue				-
Total revenue				143,674
Result				
Segment result	(1,033,993)	(8,419)	-	(1,042,412)
Unallocated revenue				-
Unallocated expense				(3,895,294)
Income tax expense				-
Net loss				(4,937,706)
Assets				
Segment assets	103,549	100,268	-	203,817
Unallocated assets				625,178
Total assets				828,995
Liabilities				
Segment liabilities	131,737	-	-	131,737
Unallocated liabilities				113,972
Total liabilities				245,709
Other				
Depreciation of segment assets	5,768	-	-	5,768

b) Secondary reporting — Geographical segments

The economic entity operates only in Australia.

c) The economic entity derived income from medical research and investments.

Note 21 Cash flow information

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
a. Reconciliation of cash flow from operations with loss				
Loss	(2,517,023)	(5,217,753)	(4,343,219)	(3,265,375)
Non-cash movements				
- Depreciation	22,803	20,860	13,895	15,090
- Interest on intercompany loans	-	-	(228,762)	(128,321)
- Write-back intercompany loans and impairment of shares	-	-	(266,378)	-
- Loss borne by parent	-	756,482	-	-
- Writeoff of goodwill	-	937,588	-	-
- Equity issued for nil consideration	118,400	615,650	118,400	615,650
- Impairment of assets	-	-	3,513,952	1,637,051
- Increase/(decrease) in impairment - investments	69,000	(226,211)	69,000	-
- (Profit)/loss of sale of Investments	(31,915)	234,630	-	-
Changes in assets & liabilities				
(Increases)/decreases in trade & other receivables	57,577	(79,978)	48,823	(31,105)
(Increases)/decreases in other current assets	993	8,360	993	8,360
Increases/(decreases) in trade & other payables	258,682	26,194	79,955	(5,937)
Increases/(decreases) in leave provisions	4,607	-	-	-
Cash flows from operations	(2,016,876)	(2,924,178)	(993,341)	(1,154,587)

b. Non-cash financing and investing activities

Issue of shares and options for nil consideration.
Refer to Note 17 Contributed Equity for further information.

c. Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Cash on hand and at bank	14,315	17,189	13,226	15,567
Deposits at call	2,528,571	495,336	2,528,571	495,336
	2,542,886	512,525	2,541,797	510,903

Note 22 Employee share based payments under Share & Option Plan

The Company established the Select Vaccines Employees', Directors' and Consultants' Share and Option Plan on 22 April 2005. All employees, directors and consultants are eligible to participate in the plan.

On 7 April 2006 500,000 unlisted SLTAP options were granted to Robin Beaumont, a Director of the Company, as a sign-on fee to take up ordinary shares at an exercise price of $0.30 each. The options are exercisable on or before 31 May 2008. The options hold no voting or dividend rights. At balance date, none of the share options had been exercised.

On 11 July 2006 950,000 unlisted SLTAO options were granted to consultants to take up ordinary shares at an exercise price of $0.30 each. The options are exercisable on or before 30 April 2008. The options hold no voting or dividend rights. At balance date, none of the share options had been exercised.

The closing share market price of an ordinary share of Select Vaccines Limited on the Australian Stock Exchange at 31 December 2006 was $0.02 (31 December 2005:$0.12).

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	No.	No.	No.	No.
a. Movement in the number of share options held by employees/directors are as follows:				
Opening balance	1,000,000	-	1,000,000	-
Granted during the year	1,450,000	1,000,000	1,450,000	1,000,000
Closing balance	2,450,000	1,000,000	2,450,000	1,000,000

The weighted average exercise price of options issued during the year was $0.30 (2005: $0.30).

b. Details of share options outstanding as at end of year:

Grant Date	Expiry and Exercise Date	Exercise Price	Economic Entity 2006 No.	Economic Entity 2005 No.	Parent Entity 2006 No.	Parent Entity 2005 No.
29/04/2005	31/05/2008	$0.30	1,000,000	1,000,000	1,000,000	1,000,000
7/04/2006	31/05/2008	$0.30	500,000	-	500,000	-
11/07/2006	30/04/2008	$0.30	950,000	-	950,000	-
			2,450,000	1,000,000	2,450,000	1,000,000

c. Valuation of share options

The weighted average fair value of the options granted during the year was $0.0403 (2005: $0.1447).

This price was calculated by using the Black-Scholes option pricing model applying the following inputs:

Issue date	7/04/2006	11/07/2006
Share price	$0.100	$0.260
Exercise price	$0.300	$0.300
Implied volatility	83.0%	34.0%
Option life	2 yrs	2.67 yrs
Expected dividends	Nil	Nil
Risk-free interest rate	5.3%	5.2%
Escrow period	Nil	Nil
Adjustment for escrow	Nil	Nil
Adjustment for unlisted nature	5% pa	5% pa

Implied volatility was calculated taking into consideration the historical volatility of the Company's share price in the six months prior to the issue of the options.

Under Directors fees on the Income Statement is $9,000 which relates, in full, to equity-settled share-based payments made to Directors.

Note 23 Events subsequent to reporting date

On 8 January 2007 applications were lodged with the Australian Securities & Investments Commission for voluntary deregistration of two non-operating wholly owned subsidiaries, Privilege Holdings Pty Ltd and Select-Tel Communications Pty Ltd.

The research agreements under which the Company's research & development programs were conducted by their partners, the Burnet Institute and the Howard Florey Institute, expired on or prior to 31 December 2006. Discussions are progressing regarding research contracts for 2007. For the foreseeable future, much of the Company's research will still be performed by these institutes. For the 12 months ending 31 December 2007, the Company intends to fund further research work at both institutes which, when contracts are finalised, may commit the Company to expenditure in the vicinity of $900,000, including work as a consequence of the AVANT Immunotherapeutics, Inc. ("AVANT") licensing agreement.

On 12 February 2007 the Company announced that it had entered into a collaboration and worldwide licensing agreement with AVANT Immunotherapeutics, Inc. ("AVANT"), a Nasdaq listed biotechnology company, of Needham, MA, USA, to develop and commercialise up to three products using Select Vaccines' novel VLP vaccine technology. The main features of this agreement are:

(a) Grant of an exclusive worldwide license to AVANT to develop up to three products using Select Vaccines' VLP technology.
(b) An immediate equity investment in the Company of US$735,000 by AVANT, subject to shareholder approval.
(c) Research funding by AVANT over two years towards development of influenza vaccines.
(d) Future milestone payments are to be paid to Select Vaccines on positive progress – for the first product the potential milestone payments could total US$34m over time.
(e) Royalty payments and sublicense fees are due to Select Vaccines on product sales.

Note 24 Related party transactions

	Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
	$	$	$	$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with related parties:				
(i) Other related parties				
Loans to subsidiary companies	-	-	-	2,216,171
(ii) Director-related entities				
Peregrine Corporate Limited, an entity associated with former Directors, Jeremy Cooper and Peter Marks, had been engaged to provide corporate & investment advisory services to the Company and its subsidiaries. This engagement ended on 31 December 2005.	-	120,000	-	120,000

(iii) Identification of Related Parties
Ultimate Parent Entity
Select Vaccines Limited is the ultimate parent entity.
Controlled entities
Refer to note 11 for details of controlled entities.

(iv) Key Management Personnel
Details relating to key management personnel, including remuneration paid, are included in note 5.

(v) Loans from related parties included in equity
On 31 December 2006 Privilege Holdings Pty Ltd forgave an inter-company loan to Select Vaccines Ltd of $332,701.

On 31 December 2006 Select-Tel Communications Pty Ltd issued 99,108,500 ordinary shares to Select Vaccines Ltd for total consideration of $991,085 which was offset against an inter-company loan from Select Vaccines Ltd to Select-Tel Communications Pty Ltd. This loan had been fully impaired by Select Vaccines Ltd resulting in a write-back of provision for non-recovery of loan of $924,763 for Select Vaccines Ltd.

On 31 December 2006 Privilege Holdings Pty Ltd transferred 1 ordinary share in Select-Tel Communications Pty Ltd to Select Vaccines Ltd for consideration of $1. At year-end Select Vaccines Ltd's investment in Select-Tel Communications Pty Ltd was considered to have a nil carrying value resulting in an impairment loss of $991,086 for Select Vaccines Ltd.

On 31 December 2006 Select-Tel Communications Pty Ltd forgave inter-company loans of $362,319 to Privilege Holdings Pty Ltd , $244 to Hepgenics Pty Ltd and $244 to Picoral Pty Ltd.

Note 25 Financial Instruments

a. Interest rate risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted average interest rate	Floating interest rate	Fixed interest 1 year or less	Maturing in 1-5 years	Non-interest bearing	Total
		$	$	$	$	$
	2006	2006	2006	2006	2006	2006
Financial assets						
Cash and cash equivalents	6.06%	2,542,886	-	-	-	2,542,886
Trade and other receivables		-	-	-	60,416	60,416
Financial assets - non-current		-	-	-	31,000	31,000
Total financial assets		2,542,886	-	-	91,416	2,634,302
Financial liabilities						
Trade and other payables		-	-	-	564,559	564,559
Total financial liabilities		-	-	-	564,559	564,559

	Weighted average interest rate	Floating interest rate	Fixed interest 1 year or less	Maturing in 1-5 years	Non-interest bearing	Total
		$	$	$	$	$
	2005	2005	2005	2005	2005	2005
Financial assets						
Cash and cash equivalents	3.90%	512,525	-	-	-	512,525
Trade and other receivables		-	-	-	118,826	118,826
Financial assets - non-current		-	-	-	100,000	100,000
Total financial assets		512,525	-	-	218,826	731,351
Financial liabilities						
Trade and other payables		-	-	-	245,709	245,709
Total financial liabilities		-	-	-	245,709	245,709

b. Credit risk

Credit risk represents the accounting loss that would be recognised if counterparties failed to perform as contracted. The credit risk on financial assets is the carrying amount net of any provision for doubtful debts.

c. Net fair values

The net fair values of listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred.

For other assets and other liabilities the net fair value approximates their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments.

For other assets and other liabilities the net fair value approximates their carrying value.

	2006		2005	
	Carrying amount	Net fair value	Carrying amount	Net fair value
	$	$	$	$
Financial assets				
Cash and cash equivalents	2,542,886	2,542,886	512,525	512,525
Trade and other receivables	60,416	60,416	118,826	118,826
Financial assets	31,000	31,000	100,000	100,000
	2,634,302	2,634,302	731,351	731,351
Financial liabilities				
Trade and other payables	564,559	564,559	245,709	245,709
	564,559	564,559	245,709	245,709

Note 26 Company details

The registered office of the Company is:

Select Vaccines Limited
Suite 1
1233 High Street
Armadale Victoria 3143

The principal place of business is:

Select Vaccines Limited
Suite 15
545 St Kilda Road
Melbourne Victoria 3004

SELECT VACCINES LIMITED 25 062 063 692
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 18 to 45, are in accordance with the Corporations Act 2001:
   a. comply with Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 31 December 2006 and of the performance for the year ended on that date of the Company and economic entity.
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
   a. the financial records of the Company for the year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   b. the financial statements and notes for the financial year comply with the Accounting Standards; and
   c. the financial statements and notes for the financial year give a true and fair view.
3. In the Directors' opinion 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 is made in accordance with a resolution of the Board of Directors.

Robin Beaumont
Chairman

Martin Soust
Managing Director

Dated this 14 th day of February 2007

Hall Chadwick
Chartered Accountants & Business Advisers

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Stan Traianedes

Other firms in:
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Perth
Brisbane
Gold Coast
Darwin

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

Scope

The financial report and directors' responsibility

We have audited the financial report of Select Vaccines Limited ("the company") and its controlled entities for the financial year ended 31 December 2006 as set out on pages 18 to 46.

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the company and the consolidated entity, for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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 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 judgment, 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 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

- 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.

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Hall Chadwick

International Association
AGN International

Associations of
Independent Firms

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Brisbane
Gold Coast
Darwin

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In our opinion, the financial report of the company is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 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 professional reporting requirements in Australia.

Hall Chadwick

Hall Chadwick
Chartered Accountants

Robert Yeo

Robert Yeo **Melbourne**
Partner **14 February 2007**

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SELECT VACCINES LIMITED 25 062 063 692
AND CONTROLLED ENTITIES

SHAREHOLDER INFORMATION

as at 25 January 2007

Number of holders of equity securities

Ordinary Shares

216,832,380 fully paid ordinary shares are held by 1650 individual shareholders.
4,000,000 fully paid ordinary shares escrowed until 29 April 2007, held by 1 individual shareholder.
All ordinary shares carry one vote per share.

Options

7,637,987 SLTO options exercisable @ $0.80 on or before 1 February 2007 are held by 253 individual shareholders.
23,479,265 SLTOA options exercisable @ $0.20 on or before 31 May 2008 are held by 392 individual shareholders.
3,520,000 SLTAO options exercisable @ $0.30 on or before 30 April 2008 are held by 9 individual shareholders.
1,500,000 SLTAP options exercisable @ $0.30 on or before 31 May 2008 are held by 3 individual shareholders.
500,000 SLTAQ options exercisable @ $0.30 on or before 30 October 2008 are held by 1 individual shareholder.
2,000,000 SLTAS options exercisable @ $0.44 on or before 29 April 2009 are held by 1 individual shareholder.
1,000,000 SLTAU options exercisable @ $0.435 on or before 29 April 2008 are held by 1 individual shareholder.

Distribution of holders in each class of equity securities

	Full paid Ordinary Shares
1 - 1,000	578
1,001 - 5,000	239
5,001 - 10,000	149
10,001 - 100,000	417
100,001 - and over	267
Total number of shareholders	1,650
Unmarketable parcels	1044

	SLTO Listed Options
1 - 1,000	102
1,001 - 5,000	64
5,001 - 10,000	20
10,001 - 100,000	48
100,001 - and over	19
Total number of optionholders	253

	SLTOA Listed Options
1 - 1,000	93
1,001 - 5,000	88
5,001 - 10,000	38
10,001 - 100,000	132
100,001 - and over	41
Total number of optionholders	392

as at 25 January 2007

Twenty largest holders of quoted securities

Shareholder		Fully paid ordinary shares Number	%
1	Macfarlane Burnet Institute for Medical Research and Public Health Ltd	15,707,093	7.11
2	MF Custodians Ltd	9,658,130	4.37
3	Taycol Nominees Pty Ltd	8,704,762	3.94
4	Matsarol Pty Ltd	7,953,853	3.60
5	Log Creek Pty Ltd	4,829,064	2.19
6	Ian Stolyar	4,635,902	2.10
7	Robin Beaumont & Helen Shingler	4,274,873	1.94
8	Fulton Grange Pty Ltd	3,750,000	1.70
9	Colowell Pty Ltd	3,518,660	1.59
10	Hooker Cockram Corporation Pty Ltd	3,453,853	1.56
11	Yambali Pty Ltd	3,328,000	1.51
12	Michael Kluske	3,200,000	1.45
13	Mianer Pty Ltd	2,500,000	1.13
14	Milnfam Nominees Pty Ltd	2,500,000	1.13
15	Mousetrap Nominees Pty Ltd	2,424,900	1.10
16	R Warden Pty Ltd	2,414,476	1.09
17	Nefco Nominees Pty Ltd	2,287,000	1.04
18	David Whiting & Susan Whiting	2,232,700	1.01
19	Gary Anderson	2,200,000	1.00
20	Dorica Nominees Pty Ltd	2,000,000	0.91
		91,573,266	41.47

SLTO Optionholders		Options exercisable Number	%
1	Sail Ahead Pty Ltd	1,147,637	15.03
2	UBS Wealth Management Australia Pty Ltd	625,000	8.18
3	David Eggers	560,292	7.34
4	Shuari Investments Pty Ltd	514,815	6.74
5	Jonathan Brett	428,690	5.61
6	Reyer Investments Pty Ltd	367,000	4.80
7	Pacific Union Nominees Pty Ltd	313,753	4.11
8	Margaret Schuitema	274,400	3.59
9	Specialist Computer Applications Pty Ltd	242,737	3.18
10	Invest-Max Pty Ltd	200,000	2.62
11	Alan Chonowitz	173,161	2.27
12	Peter Marks	150,000	1.96
13	Peter & Judith Chappell	146,299	1.92
14	Mark & Faye Koussas	145,020	1.90
15	Brenda Lund	141,832	1.86
16	Peregrine Corporate Ltd	116,249	1.52
17	Stephens Enterprises Pty Ltd	100,000	1.31
18	David Werdiger	88,083	1.15
19	International Business Network (Services) Pty Ltd	80,000	1.05
20	Anthony Fawdon	75,000	0.98
		5,889,968	77.12

SLTOA Optionholders	Options exercisable Number	%
1 Gaetano Cappa	2,675,000	11.39
2 Taycol Nominees Pty Ltd	1,124,254	4.79
3 Sail Ahead Pty Ltd	1,025,403	4.37
4 Chrissie Zaverdinos	1,000,000	4.26
5 Jonathan Brett	828,406	3.53
6 Peter Marks	750,000	3.19
7 Martin Soust	750,000	3.19
8 Jeremy Cooper	750,000	3.19
9 Eli Shellim	592,000	2.52
10 Yambali Pty Ltd	500,000	2.13
11 Louis Khamis & Mary Khamis	500,000	2.13
12 DAR Holdings Pty Ltd	500,000	2.13
13 Carmelo Galipo	400,000	1.70
14 G&G Steelworks Pty Ltd	350,000	1.49
15 Austcan Enterprises Pty Ltd	340,200	1.45
16 Troy Valentine	300,000	1.28
17 David Eggers	250,000	1.06
18 Kimberley Skidmore	242,500	1.03
19 August Incorporated	238,462	1.02
20 Harry & Matilde Capararo	216,000	0.92
	13,332,225	56.77

Unquoted equity securities holdings greater than 20%
There are no unquoted equity securities holding greater than 20%.

Substantial shareholders
The names of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act are:

Macfarlane Burnet Institute for Medical Research & Public Health Limited — 15,707,093 ordinary shares

Shareholder enquiries
Shareholders with enquiries about their shareholdings should contact the Share Registry, Security Transfer Registrars:
770 Canning Highway, Applecross, WA, 6153, Australia
Phone (08) 9315 2333
Fax (08) 9315 2233
Email registrar@securitytransfer.com.au

Change of address, change of name, consolidation of shareholdings
Shareholders should contact the Share Registry to obtain details of the procedure required for any of these changes.

Removal from the annual report mailing list
Shareholders who do not wish to receive the Annual Report should advise the Share Registry in writing. These shareholders will continue to receive all other shareholder information.

Tax file numbers
It is important that Australian resident shareholders, including children, have their tax file number or exemption details noted by the Share Registry.

CHESS
(Clearing House Electronic Subregister System)
Shareholders wishing to move to uncertificated holdings under the Australian Stock Exchange CHESS system should contact their stockbroker.

Uncertificated share register
Shareholding statements are issued at the end of each month that there is a transaction that alters the balance of your holding.

SELECT VACCINES LIMITED 25 062 063 692
AND CONTROLLED ENTITIES

CORPORATE DIRECTORY

Select Vaccines Limited
ABN 25 062 063 692

Directors

Robin Beaumont	Chairman
Martin Soust	Managing Director
George Weber	Non-Executive Director
Ian Cooke	Non-Executive Director

Company Secretary
Phillip Hains

Registered office
Suite 1, 1233 High Street
Armadale, Victoria 3143
Telephone (03) 9824 5254
Facsimile (03) 9822 7735

Principle place of business
Suite 15, 545 St Kilda Road
Melbourne, Victoria, 3004
Telephone (03) 9529 8788
Facsimile (03) 9529 2622

Auditors
Hall Chadwick
Chartered Accountants
Level 12, 459 Collins Street
Melbourne Victoria 3000

Solicitors
Oakley Thompson & Co
Level 17, 500 Collins Street
Melbourne Victoria 3000

Share registry
Security Transfer Registrars
770 Canning Highway
Applecross Western Australia 6153
Telephone (08) 9315 2333
Facsimile (08) 9315 2233
Email: registrar@securitytransfer.com.au

Securities quoted
Australian Stock Exchange

Code	- SLT	Shares
	- SLTOA	Options expiring 31 May 2008, exercisable @ $0.20