



12 September, 2007

The Manager
Company Announcements
Australian Stock Exchange Limited
Via Electronic Lodgement

Rights Issue

As announced on 29 August 2007, the Company is proposing to undertake an entitlement issue. The Board has now settled the terms of that issue to be a 1 for 1 entitlement issue at 3 cents per Share to raise approximately \$3,550,618 (Issue).

In resolving to proceed with the Issue (on the timetable set out below), the Board notes that it comes at a very difficult time in the Company's development. Recently, the majority of Board members that have guided the Company over the last couple of years, and in particular its Managing Director, have resigned.

As shareholders would be aware the Company operates two businesses, PharmAust Manufacturing Pty Ltd ("PAM") and Epichem Pty Ltd ("Epichem"). Whilst the Epichem business has continued to be largely self-sustaining over the last 6 months or so, it still requires periodic cash-flow support and additional capital expenditure to achieve consistent and material profitability. PAM on the other hand continues to operate at a loss and still requires significant capital if it is to achieve its potential or to realise the value of the funds that have been invested into it to date in any other form.

The Company also owns 40% of Commonwealth Biotechnologies Inc ("CBI"), for whom Dr D' Sylva continues to act as Managing Director that required his residency in the United States for the 6 months or so prior to his resignation. CBI acquired the Mimotopes business from the Company in February 2007 and has recently reported a loss for the 6 months to 30 June 2007 of a little over US\$1M.

The Company currently has few cash reserves and is operating upon a limited working capital facility that was put in place recently in conjunction with the re-financing of its expired, and fully drawn, credit facility with the National Australia Bank.

Review of the Company's position, outlined in the Company's recently published Preliminary Final Report, and a review of budget requirements into the new year has confirmed the Board's view as to the quantum of funds required by the Company in order to reinvigorate the Company's businesses and realise its potential.

The Board has considered a number of different funding options, including one presented by Dr D' Sylva. Whilst the rejection of this proposal resulted in Dr D' Sylva's resignation, neither this proposal, nor any of the other alternatives canvassed by the Board, have presented either sufficient capital, or have been on terms as equitable to shareholders as the Issue now proposed.

A large rights issue is never a decision that a board welcomes in the shadow of a share price that has fallen by around 300% over the last 12 months. We have formed the view, however, that if funds are to be raised at an historically low level, they should be done on a basis that affords all shareholders with the first option to participate.

A number of further difficult decisions flowed from this initial conviction.

To realise the full potential of PAM over the next 12-24 months requires a significant amount of capital. Equally, the Board has taken the view that to merely maintain the status quo would not provide any meaningful return on the further use of shareholder funds.

Consequently, the budget aims at bringing PAM to the next level of scale and efficiency as well as realising value for significant sums that have been previously 'sunk' in areas such as generic pharmaceutical medicines. Whilst not bringing this business necessarily to "break-even", we envisage that the funds raised from the Issue will considerably reduce losses and significantly improve the value of the enterprise in a general sense.

Having said this, the practical constraints placed upon the Company in raising capital at the maximum entitlement level, and at the price determined, do not permit the Board to plan further than 6 months into the future.

As such the Board has already begun the process of assessing the longer-term value and future of all of the Company's assets, a process which will continue during and after the completion of the Issue. Every effort has been, and will continue to be, made, to ensure that funds are applied in a fashion that will provide value to shareholders.

Unfortunately, in light of recent action from a group of shareholders, including Dr D' Sylva, our budget has also had to include significant costs associated with the inevitable corporate, legal and administrative activities implicit in dealing with these matters.

Pricing of the Issue has also, understandably, been a vexed issue. Whilst wishing to raise the required capital in as effective manner as possible, a number of factors had to be weighed against the broader, and longer-term, interests of shareholders. Ultimately, the Directors desire for maximum take-up, as well as the imperative that the Issue be fully underwritten, left the Board with the unenviable decision to price the Issue at the lower end of the range it had considered. Moreover, the Board has had to be mindful of the volatility and unpredictability of the Australian and international capital markets in seeking to ensure that the Issue proceeds with the minimum possible risk.

We do not underestimate the disappointment that this may bring to some members, however, the Directors' view is that restoring shareholder value will not be assisted by further volatility in the market price, even at the current unacceptable levels.

Whilst we have priced the Issue in the hope that as many members as possible accept their entitlement, we also acknowledge that the take-up may fall short of our expectations. Given the Company's capital requirements the Company has secured an underwriter to the Issue.

The Board canvassed a number of potential underwriters and proposes to enter into an underwriting agreement with an Eastern States securities dealer and corporate advisor, Cardrona Capital Pty Ltd ("Cardrona"). The Board considers that other than the obvious benefit that a fully underwritten Offer brings, an additional benefit is that any shortfall from the Issue will be managed by an independent party which is unrelated to the Company, especially given the potential introduction of a number of new investors into the Company discussed further below. Whilst the proposed Underwriting Agreement will give Cardrona discretion over the placement of shortfall, the Board has negotiated that all requests for shortfall received from shareholders will be forwarded to Cardrona for consideration in conjunction with requirements from sub-underwriters.

A final, and inevitable, consequence of the terms that the Board has reluctantly arrived at is the potential introduction of a number of new investors into the Company should there be a significant shortfall. The significance of this is impossible to canvas at this point in time. In any event, the terms of the Underwriting Agreement strictly avoid any one (underwriter or sub-underwriter) assuming 20% or more of the Company's issued capital as a result of the placement of any shortfall.

Within the context of this sobering Company update, the Board wishes to confirm its commitment to do all things possible to restore value to the shareholders and to encourage the acceptance of the entitlements offered pursuant to the Issue which is proposed to be made by way of a prospectus which is anticipated to be lodged with the Australian Securities and Investments Commission later today. The indicative timetable for the Issue is set out below.

Lodgement of Prospectus with the ASIC	12 September 2007
Notice to Shareholders	14 September 2007
Ex Date	17 September 2007
Record Date for determining Shareholder entitlements	21 September 2007
Opening Date and despatch of Prospectus to Shareholders	25 September 2007
Closing Date of Offers	10 October 2007
Shares quoted on a deferred settlement basis	11 October 2007
Allotment and dispatch of holding statements	18 October 2007

In a separate matter the Board wishes to inform shareholders that the Company has been served with an Originating Motion by a party (the "Applicant") associated with those shareholders who voted against the motion put to the Company's recent Extraordinary General Meeting (the "EGM"). Members of the same group have also issued requisitions for a further Extraordinary General Meeting to remove 2 of the current Directors. The proceedings seek to obtain discovery of all proxies recorded at the recent EGM notwithstanding that all requisite disclosure has been made and the shareholder motion was not put to a poll.

The Company has received legal advice that the proceedings are ill-conceived and will be opposed accordingly.