

ECHO TECHNOLOGIES LIMITED
ANNOUNCEMENT TO THE AUSTRALIAN STOCK EXCHANGE
06 August 2004

PHARMACEUTICAL MANUFACTURING TRANSACTION

Further to the Announcement made on 21 June 2004, Echo Technologies Limited ("**Echo**") is pleased to announce that it and its new wholly owned subsidiary, PharmAust Pty Ltd ("**PharmAust**") have executed a conditional Sale of Business Assets Deed and a Land Sale Agreement with the owners and interested parties ("**Ramprie Parties**") of Ramprie Laboratories, a generic pharmaceutical manufacturer, to acquire the business assets of Ramprie Laboratories and buildings and land on which that business is conducted.

OVERVIEW

- Ramprie Laboratories's business is located in Welshpool, Western Australia and has a long history of producing licensed pharmaceutical products.
- Echo is interested in the pharmaceutical manufacturing opportunity as it will lead to vertical integration with the business of Epichem Pty Ltd ("**Epichem**") an 80% owned subsidiary of Echo. Epichem both provides specialised chemistry services on a contract basis to International and Australian drug development and biotechnology companies and further develops its own suite of intellectual property generating research and development in pre-clinical drug discovery.
- Ramprie Laboratories is currently undertaking a process of rebuilding its premises and laboratories, which were significantly damaged in an accidental fire in September 2003, so as to regain a fully operational TGA (Therapeutic Goods Authority) licence and the validation of its 95 TGA approved products.
- Under Echo's management, the pharmaceutical manufacturing business (to be conducted by PharmAust) will pursue a rapid growth strategy that seeks to diversify and expand its base of supply contracts, customers and markets so that it is not reliant on any one product, customer or market. As such, PharmAust will expand its operations through two way channel partnerships in South East Asia. Echo and PharmAust are in advanced stages of the development of a channel partnership agreement with Apex Health Care in Malaysia, which will enable PharmAust to take advantage of patent arbitrage opportunities between Malaysia and Australia for the production of patent expired medicines.
- Echo will undertake a capital consolidation (which is intended on a 1 for 5 basis) and proposes to raise \$5,500,000 in new capital at 20 cents per share (post consolidation). These funds will be used for two purposes:
 - to acquire the business assets and buildings and land from the Ramprie Parties and progress the PharmAust opportunity; and

- for general working capital of the company, including the existing Epichem business.
- The Ramprie Parties' vendor consideration is \$3,100,000 plus GST, consisting of \$2,300,000 plus GST for the land and buildings and \$800,000 plus GST for the business assets (subject to a stock valuation).
- Dr Wayne Best of Epichem will join the Board of Directors of Echo. Otherwise the Board of Directors of Echo and of its subsidiary Epichem will remain unchanged following this proposed acquisition, as the current Boards have skills and experience appropriate to the opportunity presented.
- The proposed transaction is subject to shareholder approval and other regulatory approvals required under the ASX Listing Rules, the Corporations Act and other applicable regulatory requirements. The Board of Directors anticipates completion by November 2004.
- Further details of the proposed transaction are contained in this Announcement, which should be read in its entirety.

PHARMACEUTICAL MANUFACTURING OPPORTUNITY

Ramprie Laboratories is a generic pharmaceutical manufacturer located in Welshpool, Western Australia with a long history of producing licensed products. A fire in September 2003 led to significant damage to the buildings and laboratories upon the premises. This further led to a voluntary suspension of the TGA licence that is held by Ramprie Laboratories.

Ramprie Laboratories is currently undertaking the process of rebuilding its premises and laboratories so as to regain a fully operational TGA license and the validation of various TGA approved products.

The strategy for the new PharmAust business under Echo's management will be two fold. PharmAust will seek to commence manufacturing from its existing base of 95 products on the Australian Register of Therapeutic Goods as well as looking to manufacture over 200 non-therapeutic products. PharmAust will also develop, manufacture and market generic pharmaceutical products for the Australian market. This will include:

- Pharmaceutical Benefits Scheme (PBS) drugs, with a focus on patent-expired medicines;
- Private prescription drugs (non-PBS Products); and
- Over the Counter (OTC) products;
- Specialist Hospital lines;
- Prescription lines novel to the Australian market.

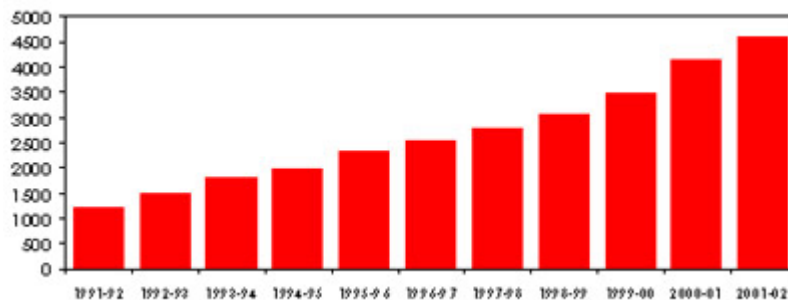
PharmAust will benefit from the medicinal chemistry expertise and development program of Epicchem for analytical and new product development applications. It is anticipated that there will be a number of products added to PharmAust's range, generated through Epicchem's research and development program and PharmAust's channel partnerships. It is intended that PharmAust will have a dynamic pipeline of generic formulations in development to satisfy market demand.

The Market

Reuters Insight Study (2003) predicted that the global market for generic medicines will grow by 10-15% per year as many innovator patents begin to expire. In Australia alone, patents for approximately 33 medicines listed on the PBS will expire between now and the end of 2005 and a further 100 between January 2006 and December 2010. This represents a growth potential in Australia for an increase in this market, which is estimated currently to be worth approximately \$600 million a year.

The rising cost to the Australian government from the PBS is becoming a priority funding concern. Over the five decades since its inception, the cost to the Government of the PBS has increased markedly. PBS published data indicates that Government expenditure on the PBS more than tripled to over \$4.2 billion per annum over the decade of the 1990's (see Graph 1). Over that time, the PBS expenditure grew by an average of around 14% (source: Australian Department of Health and Ageing; Fact Sheet 1: Securing the Future of the Pharmaceutical Benefits Scheme). In the year ending 31 December 2001 the government expenditure on the PBS increased by 17.4% over the previous year (Source: The Australian Department of Health and Ageing; Summary of PBS Processing 2001).

Graph 1. Pharmaceutical Benefits Scheme Costs: 1991 - 2002



(Statistics from the Health Insurance Commission, 2003)

EXISTING EPICHEM BUSINESS

Epicchem Pty Ltd provides highly specialised chemistry services on a contract basis to international and Australian drug development and biotechnology companies. Importantly, it is also developing its own suite of intellectual property generating research and development in pre-clinical drug discovery. Echo owns 80% of Epicchem.

Epicchem's first six months of operations have been successful and has led to Echo actively seeking complimentary projects, which has led to the Ramprie opportunity. Epicchem is also looking to expand its laboratory areas.

Epichem will look to take advantage of and value add to the pharmaceutical manufacturing opportunity presented.

SALE OF BUSINESS ASSETS DEED AND LAND SALE AGREEMENT

The transaction documents by which PharmAust is to acquire the assets of Ramprie Laboratories and Echo the land on which the business is conducted are a Sale of Business Assets Deed ("**Sale Deed**") and a Land Sale Agreement. Each of these agreements are interdependent on one another.

The Sale Deed between PharmAust (as purchaser), Echo (as guarantor) and the Ramprie Parties is conditional upon:

- the approval of Echo's shareholders to the transaction, in accordance with the ASX Listing Rules and other applicable laws and regulatory requirements;
- subject to Echo's election (described below), the rebuilding by Charon Investments Pty Ltd ("**Charon**") (one of the Ramprie Parties), at its cost of all damaged buildings and the construction of other improvements on the land in accordance with plans and specifications agreed between Echo and the Ramprie Parties;
- completion of a capital raising by Echo to fund the transaction;
- Echo complying with the admission requirements of the ASX Listing Rules or any other requirements necessary for the Echo shares issued in the capital raising to be quoted on the ASX; and
- the Ramprie Parties ensuring the business remains operational until Completion.

If each of the above conditions precedent, and the contemporaneous completion of the Land Sale Agreement, does not occur by 31 December 2004, or such later date as PharmAust, Echo and that the Ramprie Parties may agree in writing, the Sale Deed will terminate.

A fire in September 2003 to the premises of Ramprie Laboratories led to significant damage to buildings and laboratories and a voluntary suspension of the TGA licence allowing Ramprie Laboratories to manufacture TGA approved products. Ramprie Laboratories is currently undertaking the process of rebuilding its premises and laboratories so as to regain a fully operational TGA licence and validation of TGA approved products.

The business assets to be sold under the Sale Deed include all stock, plant and equipment, existing contracts and business licences (including the TGA licence) as well as any applicable technology, intellectual property rights or other licences and business names used in the business, but excludes all debts owing to the owner of the business as at the date of the execution of the Sale Deed.

PharmAust paid a non-refundable deposit of \$50,000 to the owner of the business upon execution of the Sale Deed. The deposit is deductible from the purchase price for the Ramprie business assets.

There are a number of warranties in the Sale Deed to facilitate the handover of the business assets. These include a warranty by Narwhal Pty Ltd and Les Ramsay (being Ramprie Parties) to use their reasonable endeavours to reinstate the currently suspended TGA licence held by the owner of the business and to validate TGA approved products that upon validation are allowed to be manufactured.

The Ramprie Parties have the carriage of rebuilding damaged buildings and constructing improvements (including a cleanroom) upon the premises. This rebuilding will be undertaken at the cost of the Ramprie Parties in accordance with agreed plans and specifications.

Although the rebuilding process by the Ramprie Parties is a condition precedent to completion, the parties have agreed that Echo has an election to waive full compliance with this process to enable completion to occur. In such a case Echo will take an assignment of the relevant building contract and will be funded by the Ramprie Parties to complete the building process post-completion. Upon completion of the capital raising and satisfaction or waiver (where possible) of all other conditions, Echo intends to exercise this alternative so it will take an assignment of the relevant building contract on the terms outlined. It is anticipated that after completion Echo and PharmAust will need to complete the process of full restoration of the TGA Licence and validation of products.

The Ramprie Parties have provided a number of warranties and representations in favour of PharmAust and Echo in relation to the business assets.

Mr Les Ramsay, one of the Ramprie Parties and a key person of the Ramprie business, will be restrained from carrying on any business similar to the Ramprie business for a period of one year from completion of the transaction under the Sale Deed.

By the Land Sale Agreement Echo purchases all the land, buildings and improvements for \$2,300,000 plus GST.

The total transaction value for Echo and PharmAust is \$3,100,000 plus GST consisting of \$2,300,000 plus GST for Echo purchasing the land and buildings and \$800,000 plus GST (subject to stock valuation) for the business assets.

IMPLICATIONS FOR ECHO

Board Composition

The Board of Directors of both Echo and Epichem will remain unchanged following the completion of the proposed Ramprie Laboratories transaction. The current Board of both Echo and Epichem have skills and experience appropriate to the opportunity presented and the change in business that will take place. Appropriate management will be engaged to progress the Ramprie opportunity.

The Board of Echo consists of Dr Paul D'Sylva (Chairman), Mr Bryant McLarty (Managing Director), Dr Stuart Gunzburg (Non-Executive Director) and Mr Thomas Picton-Warlow (Non-Executive Director). Dr Wayne Best will join the Board of Echo.

The Board of Epichem consists of Dr John Horton (Chairman), Dr Wayne Best (Managing Director) and each of Professor Valerie Alder, Dr Paul D'Sylva and Dr Stuart Gunzburg as Non-Executive Directors.

The Board of PharmAust consists of Mr Bryant McLarty and Dr Paul D'Sylva.

Capital Structure

Echo intends to seek the approval for a capital consolidation on a 1 for 5 basis (1 share for every 5 shares currently held and 1 option for every 5 options currently held).

Following receipt of shareholder approval Echo intends to issue a prospectus to raise \$5,500,000 by offering shares at 20 cents per share (on a post consolidation basis). It is intended that the funds raised from the prospectus will be used to acquire the business assets and buildings and land from the Ramprrie Parties, to fund the pharmaceutical manufacturing business and to provide general working capital, including for Echo's existing Epichem business.

The tables below detail the proposed capital structure of Echo assuming approval of the proposed capital consolidation, approval to the contemplated acquisition and a prospectus raising of \$5,500,000 at a share price of 20 cents per share.

| | | Existing Echo Shareholders | Public Share Offer [see note1] | Total |
|-------------------------------|------------------|---------------------------------------|---|--------------|
| No of Shares (unconsolidated) | | 191,106,842 | | |
| No of Shares (Consolidated) | | 38,221,368 | 27,500,000 | 65,721,368 |
| % Owned | | 58% | 42% | 100.0% |
| No of Unlisted Options | (unconsolidated) | 9,200,000 | | |
| | (consolidated) | 1,840,000 | | 1,840,000 |
| No of Listed Options | (Unconsolidated) | 32,400,000 | | |
| | (Consolidated) | 6,480,000 | | 6,480,000 |

Note 1: Based on the issue of shares at a price of 20 cents per share.

Echo has 9,200,000 unlisted options exercisable at 7.5 cents per share (on a pre share consolidation basis) at any time on or before 30 June 2008. After the capital reconstruction, options would be reduced to 1,840,000 options exercisable at 37.5 cents per share.

Echo also has 32,400,000 listed options exercisable at 35 cents per share (on a pre share consolidation basis) at any time on or before 30 June 2005. After the capital reconstruction these options would be reduced to 6,480,000 options exercisable at \$1.75 per share.

Existing Travel Technology

Echo currently has four projects relating to travel and travel technology software being Tardis Travel Pty Ltd, the StarPort Project, Ground Services Ltd and ACElite.

Tardis Travel Pty Ltd

Tardis Travel Pty Ltd, a wholly owned subsidiary, provides travel services to a wide range of corporate businesses. Tardis holds a travel agency licence, approved on 18 March 2003. This licence enables the company to operate as a legal travel agency in the state of Western Australia.

The principal activities of the company are the setting up and gradual acquisition of repeat clients and corporate accounts for the company to build both corporate and leisure travel sales.

Starport Project

The Starport Project involved the development of technology to integrate computer systems of Travel agents for a more efficient and cost effective solution for the management of company data. This model, whilst aimed primarily at travel agents, was not limited to this market.

GroundServices Limited

A former joint venture with Parkside Insurance Brokers, Echo subsidiary GroundServices was appointed as an Authorised Representative for the processing of travel insurance business. The Joint Venture was granted the worldwide distributorship for the Travel Insurance Module. GroundServices explored the possibility of adapting the Galaxy TDS to provide an interface for Retail Travel Agents to book travel insurance products and provide infrastructure to support transactions between Galaxy TDS and the Travel Insurer's Core Operating System.

ACE / ACE lite

ACElite is a research and development software project for travel agents. The ACElite back office accounting solution is suited to smaller through to mid-sized travel agencies, providing more efficient, versatile back-office accounting, whilst interfacing with GDS systems on which travel agents book flights and land content. ACE and ACElite had considerable capital allocated toward them.

Echo will focus on its Epichem business and developing the pharmaceutical manufacturing opportunity. The travel technology software will not be focused upon and Echo will look to maximise returns for shareholders by on-selling the currently operating projects and businesses such as Tardis Travel and the ACE/ACE Lite software package.

Change of Name

Echo will propose a change of name in due course to better reflect its new activities.

Financial Implications

It is not possible to forecast projected cash flow or income related to the Ramprie transaction due to the nature of the proposed business. Following settlement and payment to the Ramprie Parties and assuming full subscription under the proposed prospectus (net of prospectus issue costs) it is anticipated Echo will have approximately \$2,500,000 in cash. The Directors believe that these moneys or the moneys raised under a minimum subscription will be sufficient to provide working capital to enable further development of each of the PharmAust and Epichem businesses.

Regulatory Requirements

The acquisition of business assets and land and buildings from the Ramprie Parties together with securing the Epichem opportunity in October 2003 constitutes a significant change to the nature and scale of Echo's activities.

A general meeting of Echo shareholders will be convened as soon as possible after a Notice of Meeting and Explanatory Statement has been prepared. This meeting will consider the approval of various resolutions including a change in the scale and nature of Echo's activities, the consolidation of the existing issued share capital on a one (1) for five (5) basis a change to the name of Echo and the issue of shares under a prospectus. A detailed Explanatory Statement will accompany the Notice of Meeting and will be distributed to all shareholders prior to the meeting. If the proposed change in activities is approved by shareholders, Echo will be required to comply with Chapters 1 and 2 of ASX Listing Rules.

Echo will issue a prospectus that will provide full disclosure of material matters and enable Echo to comply with Chapters 1 and 2 of ASX Listing Rules. Echo will request a voluntary suspension of its securities on the day prior to the general meeting at which shareholder approval of the transaction contemplated will be sought. Once Echo has obtained shareholder approval for the transaction and has complied with Chapters 1 and 2 of ASX Listing Rules, it is anticipated that the securities of Echo will be reinstated for trading.

Echo is pleased to announce Patersons Securities Limited have agreed to be Lead Manager to the prospectus raising.

Summary of Indicative Timetable

The dates below are indicative only. The Directors reserve the right to vary the dates without prior notice, which may have a consequential effect on the other dates.

The expected dates in relation to quotation of the securities on ASX are subject to the determination of ASX.

| 2004 | Event |
|-------------------|---|
| 15 September 2004 | Notice of Meeting dispatched to Echo Shareholders |
| 15 September 2004 | Prospectus lodged with ASIC and ASX |
| 23 September 2004 | Offer under Prospectus opens |

ANNEXURE "A"

UNAUDITED PRO-FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

An unaudited pro-forma consolidated statement of financial position of Echo Technologies Limited taking into account the acquisition of the Ramprie business assets and land and buildings and utilising the unaudited consolidated statement of financial position for the Company as at 30 June 2004 is provided below:

Statement of Financial Position.

As at 30 June 2004

| | <u>Unaudited</u> | <u>Profoma</u> |
|--------------------------------------|-----------------------|-------------------------|
| CURRENT ASSETS | | |
| Cash Assets | 182,288 | 2,646,288 |
| Receivables | 165,978 | 165,978 |
| Inventory | - | 500,000 |
| Total current assets | <u>348,266</u> | <u>3,312,266</u> |
| NON-CURRENT ASSETS | | |
| Other financial assets | 8,500 | 8,500 |
| Plant and equipment | 429,119 | 729,119 |
| Land and Buildings | - | 2,300,000 |
| Intangibles | 119,000 | 119,000 |
| Total non-current assets | <u>556,619</u> | <u>3,156,619</u> |
| TOTAL ASSETS | <u>904,885</u> | <u>6,468,885</u> |
| CURRENT LIABILITIES | | |
| Payables | 125,959 | 125,959 |
| Interest bearing liabilities | 37,903 | 37,903 |
| Total current liabilities | <u>163,862</u> | <u>163,862</u> |
| Non-Current Liabilities | | |
| Interest bearing liability | - | - |
| Non-interest bearing liability | - | - |
| Total non-current liabilities | <u>-</u> | <u>-</u> |
| Total liabilities | <u>163,862</u> | <u>163,862</u> |
| Net Assets | <u>741,023</u> | <u>6,305,023</u> |
| Equity | | |
| Contributed equity | 11,080,254 | 16,644,254 |
| Accumulated losses | -10,421,375 | -10,421,375 |
| Other equity interests | 119,000 | 119,000 |
| Other equity interests share of loss | -36,856 | -36,856 |
| Total equity | <u>741,023</u> | <u>6,305,023</u> |

The pro-forma statement of financial position assumes:

1. Capital raising of \$600,000 (less costs of \$36,000) by way of the placement of 24,000,000 shares (on a pre consolidation basis) completed on 20 July 2004.
2. The acquisition of the Ramprie business assets and land and buildings, to be satisfied by the payment of \$3,100,000 (excluding GST) to the Ramprie Parties.
3. Proposed capital raising of \$5,500,000.
4. Anticipated cost of the proposed capital raising of \$500,000