

ASX Release

13 February 2007

MERGER PROPOSAL WITH ADVANCE HEALTHCARE GROUP LIMITED

PharmAust Limited (ASX:PAA) (**PharmAust**) announced today that it has made the decision that it will not be proceeding with an offer in respect of the ordinary fully paid shares in AHG.

The announcement of PharmAust on 5 January 2007 advised that any intended bid would be conditional on:

- (a) 90% minimum acceptance;
- (b) PharmAust receiving all approvals as required by law or by any regulatory authority with such approvals remaining in force until in effect until completion;
- (c) the capital structure (including number and type of all outstanding equity, debt and hybrid securities on issue and any loans or other financial accommodation provided in) of AHG remaining unaltered until completion;
- (d) AHG providing full details including relevant legal documentation in respect of the loans and other financial accommodation (including equity or hybrid security investments) provided to it by Hawkesbridge Limited and its associates; and
- (e) no material adverse change to AHG.

On 8 January 2007 AHG announced amongst other things that Hawkesbridge had provided an additional loan facility of \$2,000,000.00 to assist with AHG's ongoing funding. Such loan proposal is contrary to the bid condition related to the capital structure of AHG.

On 22 January 2007 AHG announced it had resolved to make a placement of 20,000,000 fully paid ordinary shares at the issue price of \$0.02 per share to raise \$400,000.00 and undertake an entitlements issue at the same price. Such action by AHG would be in breach of the bid condition in relation to the capital structure.

On 24 January 2007 AHG advised that shareholders that represented over 40% of the issued share capital of the company will not accept any offer of PharmAust on the terms proposed. The non acceptance of any bid by the majority shareholders would result in the 90% minimum acceptance condition failing to be satisfied.

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Finally, PharmAust has been involved in Supreme Court proceedings in relation to conduct of the AGM of AHG in August 2006 and the resulting issue of certain securities from the resolutions put to shareholders. Such matter was set down for trial on 14 February 2007. This trial has been vacated. The vacation of the trial date to a time after the completion of any bid by PharmAust means that this issue is unlikely to be resolved prior to the completion of a bid by PharmAust and in a time satisfactory to PharmAust. Further, ratification of the tainted resolutions will reduce the prospects at trial of unwinding the convertible securities and shares issued. These factors amount to a material adverse change in AHG.

Due to all, or a combination of the above, PharmAust does not intend to make a bid for the shares of AHG.

About PharmAust Limited

PharmAust Limited (ASX: PAA) is an Australian-owned diversified business focused on the manufacture and distribution of pharmaceutical & healthcare products and the provision of contract chemistry and drug discovery services.

- **PharmAust Manufacturing Pty Ltd (PharmAust 100%)** manufactures and markets therapeutic and non-therapeutic pharmaceutical products for Australian and overseas markets.
- **Epichem Pty Ltd (PharmAust 100%)** provides contract chemistry services alongside its own intellectual property-generating research activities.
- **Commonwealth Biotechnologies Inc (PharmAust 39.5%)** provides contract research services to the global drug discovery and development industry. CBTE specialises in pre-clinical biological and chemistry research services. Commonwealth Biotechnologies is listed on the NASDAQ: (CBTE).

Further Comments:
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