

Shareholder Update

December 2007



Dear Shareholder

As the first half of the 2008 financial year draws to an end, I write to you on behalf of the Board of Directors at GenePharm Australasia Limited to reflect on our company's recent performance and to restate our strategies to improve returns to shareholders.

The Board and senior management at GenePharm are very conscious of the recent decline in our share price. Whilst our share price is influenced by many factors beyond our control, I want to assure you that we are doing all we can to restore shareholder value. In this regard, I wanted to highlight some of the initiatives that are currently underway at GenePharm:

- In response to increased competition and regulatory change in the Australian generic pharmaceutical sector, GenePharm has pursued a strategy to diversify its business by supplying a broader range of pharmacy products, rather than rely only on generics. This includes an ever increasing range of cosmeceuticals, nutraceuticals and OTC products. This strategy is expected to make a significant contribution to GenePharm's profitability and strengthen the relationship with our customers.
- GenePharm believes the longer term outlook for generics remains favourable and is committed to strengthening its market position. Last year, GenePharm emerged as the equal 3rd largest player in the Australian market, growing our market share in generics from 6% to 11%. We continue to grow our market share, but are doing so in such a way as to preserve our profitability. While we must always remain competitive on price, GenePharm is focused on establishing enduring customer relationships based on superior service from our expanded sales force and enhanced product offerings.
- Sustainable growth in profitability also requires a constant focus on securing high quality products from the most reliable suppliers, at the most competitive prices. As one of the largest independent generic pharmaceutical distribution companies in Australia, we are well placed to negotiate the most favourable terms with our suppliers and continually investigate alternative sources of supply for our products.
- New product development is critical to our business. At the end of the last financial year, GenePharm had compiled a generic portfolio of over 65 leading PBS drugs with a total dispensed value through Australian pharmacies of over A\$1.5 billion and a strong pipeline of new off-patent drugs still to come. In the year-to-date, GenePharm has already begun marketing a number of new blockbuster generic drugs including Omeprazole, Perindopril and Meloxicam, with combined PBS sales in excess of A\$200 million. The company is expecting to launch 5 other major drugs in the second half of this year with combined dispensed value in excess of A\$150 million and will be targeting a representative market share in each of these products.
- At release of the full-year results, GenePharm gave guidance that it would achieve 25% growth in net profit after tax (before non-recurring items). As an update, our Managing Director, Mr Dennis Bastas, reported at the Annual General Meeting that the company's strong growth has continued in the four month period to 31st October 2007 over the previous corresponding period, achieving:
 - 26% net sales growth
 - 27% gross profit growth

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This growth in sales has been achieved from new product launches and new customers and, although the market remains highly competitive and pricing pressure continues, we have maintained gross profit margins. First half expenses will be higher than second half due to higher marketing and launch costs, but we remain on-track with our full-year guidance.

- As part of managing the growth in our business, Genepharma is reviewing its cost structures to better align the cost of operations across the business units. This includes a shared willingness by our executive directors to contribute towards cost savings by agreeing to forego qualification for short term operational bonus payments this financial year and to return their base salaries to the same levels as last year, effective 1st January 2008. The Board and its Remuneration Committee recognises that remuneration policies should properly incentivise our management team. However in the interests of contributing to cutting costs there is shared willingness for this freezing of salaries and bonuses.
- The Board shares the very strong shareholder concerns about Genepharma's share price levels. In this regard, we embarked on an intensive investor relations program over the past six months, conducting numerous investor and analyst briefings to educate the market on the company's performance and strategy. We also initiated an on-market share buy-back reflecting our confidence on the company's outlook. These initiatives will continue, and we will look at new ways to restore value to our share price and increase returns to shareholders. Most importantly in this regard, we announced at the Annual General Meeting that Genepharma expects to pay a final dividend for this financial year.
- The Board also announced that following the resignation of Mr Achilles Vigopoulos, it would seek the appointment of new independent non-executive directors to assist in maintaining the highest standards of corporate governance. In line with this strategy, Mr Kip Harding has offered to retire as a director upon the appointment of a new independent non-executive director early in the New Year.

On behalf of the Board and senior management at Genepharma, I can assure you that we are all fully committed to delivering improved results from successful implementation of the initiatives outlined above. As a Board we have listened to shareholder sentiment and responded unanimously in good faith.

We would like to thank you for your continuing support of the company and wish you the best for the festive season.

Yours faithfully,



Thomas J.R. O'Brien
Chairman

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