ASX Announcement (233) 22 September 2006

$4.1 million Pro-Rata Rights Issue

- **1 new share for 4 existing shares**
- **Price: 17.5 cents per share**
- **Record Date: 3 October 2006**
- **Closing Date: 25 October 2006**

Virax Holdings (ASX: VHL) today announced it had lodged with the ASIC and ASX a prospectus for a 1 for 4 pro-rata rights issue, at 17.5 cents per share, to raise $4.1 million in new capital, if fully subscribed. Tricom Equities Limited has been appointed manager of the issue.

The Offer is to provide funds to enable Virax to progress to the trials of Virax's HIV vaccine, VIR201, in both the developed and the developing world and to commence manufacturing the prostate cancer vaccine, VIR501, for proposed clinical trials.

The current world market for anti-HIV drugs is estimated at US$8 billion and is forecast to grow to US$12 billion by 2010. The growth is driven by an increase in the numbers of people treated. However, those infected by HIV are forecast to grow from 39 million to 80 million by 2010.

The Virax vaccine, VIR201, will, if successful, offer an adjunct or alternative treatment to current anti-HIV drugs.

Virax has secured significant funding pledges from a number of international companies including a cornerstone sponsor, BHP Billiton, to conduct the clinical trials of VIR201 in South Africa. In parallel, for the developed world, further preparations are underway for Phase II trials of VIR201 to be conducted in Australia, the United States and probably Europe and Thailand.

"The rights issue is part of our planned international capital raising program amounting to approximately $16.5 million. It will ensure the company has sufficient capital to maintain its core trial preparation activities in both South Africa and Australia and the US", said Virax's chairman, Dr Tom Quirk.

"The balance of the capital raising will be dedicated to the conduct of the VIR201 trial in the developed world. The VIR201 developing world trial will be funded separately by the sponsoring syndicate Virax is attracting to the project", Dr Quirk said.

The Record date, being the date to determine shareholder entitlements is 3 October 2006. The Closing Date for the acceptance of the Offer is 25 October 2006.

About Virax

Headquartered in Melbourne, Virax Holdings Limited is a biotechnology company engaged in the development of some of the world's most promising treatments for diseases such as HIV/AIDS, prostate cancer, hepatitis B and other infectious and autoimmune diseases.

Virax's focus is on technology that underpins the development of immune-based therapies (immunotherapy) – therapies that use biological signals to direct the immune system to treat disease.

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For further information contact:

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Investors:
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VIRAX HOLDINGS LIMITED

ABN 56 006 569 106

PROSPECTUS

Non-Renounceable Pro Rata Issue

of

1 New Share for every 4 Ordinary Shares

at

$0.175 (17.5 cents) per New Share

to

Raise approximately $4.1 million (before expenses)

CLOSING DATE: 25 October 2006

Offer Manager: Tricom Equities Limited

This Offer is not underwritten and the directors reserve the right to issue any Shortfall at their discretion.

This document is important and requires your immediate attention. Read this Prospectus carefully in full and consult your stockbroker, solicitor, accountant or other financial adviser if you are in any doubt as to how to deal with it. Any investment in Virax should be considered as speculative.

Table of Contents

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Checking Your Share Holdings

Your current Virax shareholdings can be viewed by going to the Computershare website (www.computershare.com.au).

Brokerage

The Company will pay a brokerage fee of 3% on the total amount payable on each Entitlement and Acceptance Form stamped and lodged by participating ASX brokers and licensed securities dealers.

Summary of Key Dates*

Announcement of Pro Rata Issue	22 September 2006
Ex Date	26 September 2006
Record Date to determine entitlements	3 October 2006
Anticipated despatch of Prospectus and Entitlement and Acceptance Forms	6 October 2006
Closing Date for acceptances	25 October 2006
Anticipated despatch of holding statements for New Shares	30 October 2006
Anticipated trading of New Shares commences	31 October 2006
Partly Paid Shares – Second and Final Instalment	19 December 2006

*Shareholders are advised that these dates and the dates referred to throughout this Prospectus (except the date of this Prospectus) are indicative only and Virax, in consultation with ASX (if necessary), reserves the right to change them without prior notice. In particular, Virax reserves the right, subject to the *Corporations Act* 2001 and the ASX Listing Rules, to extend the Closing Date or withdraw the Offer without prior notice. Any extension of the Closing Date will have a consequential effect on the date for the issue of New Shares.

Important Notice

This Prospectus is dated 22 September 2006. A copy of this Prospectus was lodged with ASIC on 22 September 2006. ASIC and ASX take no responsibility for the contents of this Prospectus. No securities will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus, being the expiry date of this Prospectus. This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Definitions of certain terms used in this Prospectus appear in section 7 below.

Important Document

It is important that you carefully read this Prospectus in its entirety before deciding to invest in Virax and, in particular, that you consider the risk factors that could affect the financial performance of Virax. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest.

The risk factors are set out in section 5 below.

Overseas Shareholders

The Offer is not being made to any Excluded Shareholders (being Shareholders with registered addresses in places outside Australia and New Zealand).

The Company has decided that it is unreasonable to make the Offer to Excluded Shareholders, having regard to the number of Excluded Shareholders, the number and value of New Shares they would be offered, and the costs of complying with the regulatory requirements in those places.

Application for New shares

If you wish to apply for New Shares, you must complete and return the personalised Entitlement and Acceptance Form which accompanies this Prospectus together with payment by 5:00pm Melbourne time on the Closing Date. If you have not received a personalised Entitlement and Acceptance Form, please contact Computershare Investor Services Pty Limited on 1300 726 048.

Privacy Disclosure

The Company collects information about each qualifying Shareholder provided on the Entitlement and Acceptance Form for the purpose of processing Entitlement and Acceptance Forms, and, if the application of the qualifying Shareholder is successful, to administer the qualifying Shareholder's security holding in the Company.

By submitting an Entitlement and Acceptance Form, each qualifying Shareholder agrees that the Company may use the information provided on an Entitlement and Acceptance Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Company's share registry, related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to the ASX and other regulatory authorities.

The *Corporations Act* 2001 requires the Company to include information about the security holder (including name, address and details of the securities held) in its public register. The information contained in the Company's public registers must remain there even if that person ceases to be a security holder of the Company. Information contained in the Company's register is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on an Entitlement and Acceptance Form, the Company may not be able to accept or process the Form.

A qualifying Shareholder has a right to gain access to the information that the Company holds about that person subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the Company's registered office.

Letter from the Chairman

22 September 2006

Dear Shareholder,

On behalf of the directors, I am pleased to offer you the opportunity to invest in Virax through this Rights Issue.

When fully subscribed, this Rights Issue will raise approximately $3.8 million, net of expenses. I am delighted that Tricom Equities Limited are acting as manager of the issue as they have previously provided valuable support to Virax. While you will find a detailed description of the use of funds outlined in section 3 of this Prospectus, I would like to point out the strategic context for Virax of this Rights Issue and its purpose.

This Offer is to enable Virax to progress to the trials of VIR201 in both the developed and the developing world, and to commence manufacturing the prostate cancer vaccine, VIR501 for proposed clinical trials,

The current world market for anti-HIV drugs is estimated at US$8 billion and is forecast to grow to US$12 billion by 2010. This growth is driven by the increase in the numbers of people treated. However those infected by HIV are forecast to go from 39 million worldwide to 80 million by 2010. Our HIV vaccine, VIR201 will, if successful, offer an adjunct or alternative treatment to current anti-HIV drugs.

Virax has secured significant funding pledges from seven international companies, including the cornerstone investor, BHP Billiton, to conduct clinical trials of VIR201 in South Africa. Virax has pursued this strategy in the expectation that, if successful, VIR201 could become available in the developing world years earlier than would normally be the case were the vaccine to be released in the developing world after the developed world. An application for approval of the trial has been lodged with the South African Medicines Control Council and the Company is to continue preparations for trial sites and support activities.

In parallel, preparations for the developed world Phase II trials of VIR201 to be conducted in Australia, the United States, and probably Europe and Thailand, are well underway. The Company expects to lodge an Investigational New Drug application with the US Food and Drug Administration this coming quarter. Following this, trial site preparation will commence and further necessary approvals sought from other regulatory authorities. The vaccine production is complete but the vaccine will not be released for use until quality control and toxicology reports are finalised.

For VIR501, the prostate cancer vaccine, our German collaborator has commenced manufacture of the master seed stocks as a prelude to the manufacture of the vaccine for use in clinical trials.

The Rights Issue is part of our planned international capital raising program amounting to approximately $16.5 million. It will ensure the Company has sufficient capital to maintain its core trial preparation activities while the remainder of the capital raising will be dedicated to the conduct of the VIR201 trial in the developed world itself. The VIR201 developing world trial will be funded by corporate sponsors Virax is attracting to the project.

Directors believe that the Company has made significant progress in adding value during the year. In the past 10 trading days the average price of Virax shares has been 18.5 cents. As a result, the prospects for the capital raising are attractive.

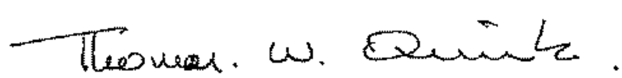
We believe that this Offer provides an additional opportunity for Shareholders to benefit from the increased value within the Company and the significant leverage that would follow the successful development of our HIV vaccine VIR201.

To apply for New Shares under the Offer, you must complete the Entitlement and Acceptance Form accompanying this Prospectus. The closing date for acceptance and payment is 25 October 2006. If you have any questions concerning the Entitlement and Acceptance Form, please contact Computershare on 1300 726 048 (within Australia) or +61 3 9415 4365 (outside Australia).

This Prospectus contains full details of the Offer. Please read it carefully before deciding to invest. If you have any questions concerning the Prospectus, you should consult your professional adviser.

On behalf of the Board and myself I do thank all Shareholders for their loyalty and past support.

Yours sincerely,



Dr Thomas W Quirk
Chairman

1. Details of this Pro Rata Issue

1.1 This Pro Rata Issue

Virax is making a non-renounceable pro rata Offer of New Shares on the basis of 1 New Share for every 4 Shares held at a price of 17.5 cents per New Share to holders of Shares who were registered as at 5:00 pm Melbourne time on the Record Date, which is 3 October 2006.

1.2 Your Entitlement

The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form. Fractional entitlements to New Shares have been rounded up to the nearest whole number. The Closing Date and time for acceptance and payment is 5:00 pm Melbourne time on 25 October 2006. The Company reserves the right to extend the Closing Date.

1.3 Deferred Payment - 50% On Application and the balance on 19 December 2006

You may choose to pay for your New Shares in full on application or pay 50% of the total price of New Shares at the time of application, in which case the balance must be paid at any time prior to 5:00pm Melbourne time on 19 December 2006. Details are shown in section 2 below.

1.4 Applying for Additional New Shares

How to Apply

Having applied for your full entitlement, you may wish to apply for more New Shares than the number shown on your Entitlement and Acceptance Form. That is, you may wish to apply for "Additional Shares". To do this, complete the *"Additional Shares"* section provided on the Entitlement and Acceptance Form.

Choice of Payment

The same payment terms you chose for your New Shares apply to applications for Additional Shares. That is, if you pay in full for your New Shares then you must pay in full for your Additional Shares. If you part pay an application for your New Shares then you must only part pay for any Additional Shares.

1.5 ASX Listing of Shares

Virax will apply for the New Shares that have been paid for in full to be listed for quotation on the Official List of the ASX within 7 days of the date of this Prospectus.

The fact that ASX may grant official quotation of New Shares is not to be taken in any way as an indication of the merits of Virax or the New Shares issued under this Offer.

If approval for quotation is not granted by the ASX within three (3) months after the date of this Prospectus, Virax will not issue any New Shares and will repay all application monies without interest within the time prescribed under the *Corporations Act* 2001.

Shares paid for on a deferred payment basis will be partly paid Shares until the balance is paid. Partly paid shares will not be listed on the ASX and therefore will not be tradeable on the ASX. Once the outstanding balance is paid such Shares will become fully paid Shares and thus they will be tradeable on the ASX. Refer to section 2.2 regarding the payment terms and conditions of partly paid Shares.

1.6 Total Number of Shares to be issued

The total number of New Shares to be issued pursuant to this Offer, if fully subscribed, will be approximately 23,298,000 (the exact number depends on rounding-up of individual holdings). The proceeds (after costs) of this Offer will be approximately $3.8 million. Expenses are expected to be approximately $300,000.

1.7 Underwriting

The Offer will not be underwritten. The directors reserve the right to arrange underwriting, in part or in full, subsequent to the date of this Prospectus. If such underwriting is arranged then details will be announced prior to the Closing Date of acceptances.

1.8 Shortfall

The directors reserve the right to issue any Shortfall at their discretion. As set out in section 1.4, Shareholders may apply for Additional Shares which may become available in the case of a Shortfall, and the directors intend to actively seek to place the full extent of any Shortfall.

1.9 Use of funds

Details as to the use of funds raised under this Offer are to be found in section 3 below.

1.10 Minimum Subscription

This Offer will have a minimum subscription of $750,000.

The directors reserve the right to issue any Shortfall at their discretion. The issue of any Shortfall by the directors may form part of the minimum subscription.

If the minimum subscription is not achieved, application moneys will be returned and the directors may scale back the Company's operations as outlined in section 3 until further funding is obtained or Company assets may be sold. If the minimum subscription is achieved but the Offer is not fully subscribed, the Company may have to reduce or delay expenditure on various activities, but will seek to continue operations generally.

Except as provided above, funds raised will be used to proceed with the Company's activities as detailed in section 3.

1.11 Your Entitlement to Participate in the Offer and the Record Date

The Record Date for the purpose of the Offer is 3 October 2006. Persons who, at 5:00 pm Melbourne time on the Record Date, are registered as the holders of Shares, will be entitled to participate in the Offer. If a person purchased Shares before 26 September 2006 (the Ex-entitlement Date) the Company will recognise the entitlement of that person to participate in the Offer in respect of those Shares in accordance with ASX Listing Rule 7.12. That Rule says the Company must accept evidence of entitlement constituted by copies of certified contract notes from market participants of the ASX. The notes must show that the Shares had been acquired by the market participant's client on a "cum" basis.

The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form (fractional entitlements have be rounded up).

Shareholders may apply for New Shares in excess of their entitlement, which may become available to the extent that existing Shareholders do not take up their full entitlements. If you wish to apply for New Shares in excess of your entitlement, you should indicate the additional number of New Shares ("Additional Shares") you wish to apply for in the place provided on the Entitlement and Acceptance Form. Payment for the Additional Shares must accompany the Entitlement and Acceptance Form. Payment terms are detailed in section 2. The directors reserve the right to issue any Shortfall at their discretion.

1.12 Closing Date

The Company will accept applications from the date of this Prospectus until 5:00 pm Melbourne time on the Closing Date, which is 25 October 2006 or such later date as the directors in their absolute discretion may determine subject to the requirements of the ASX Listing Rules.

1.13 Ranking and distributions

The New Shares will rank equally with existing Shares from the time they are issued. A summary of the rights attaching to the New Shares is set out in section 6.4 of this Prospectus.

1.14 Checking Your Share Holdings

Your current Virax share holdings can be viewed by going to the Computershare website (www.computershare.com.au).

1.15 Issue of New Shares

Virax expects to issue the New Shares, including any Additional Shares, on or before 31 October 2006. No issue of New Shares will be made until the minimum subscription has been achieved and permission is granted for quotation of the New Shares on the ASX.

Application monies will be held in trust for applicants in a subscription account until New Shares are issued to such applicants.

1.16 No Rights trading

This offer is non-renounceable, which means that your Entitlement cannot be transferred or traded on the ASX. Any portion of your entitlement that you decide not to accept will lapse and become part of the Shortfall.

1.17 Market prices of Shares

The lowest and highest market sale prices of Shares on the ASX during the 3 months immediately preceding the lodgement date of this Prospectus, and the respective dates of those sales, were:

- Highest Price was 23 cents on 7 September 2006
- Lowest Price was 7 cents on 21 June 2006

The last sale price for Shares on the ASX on 21 September 2006, being the day prior to the date of this Prospectus, was 18 cents.

1.18 Management Fee

Tricom Equities Limited has been appointed as the manager of the Offer. The Company will pay Tricom Equities Limited a management fee of 3% of the total amount of the funds raised under the Offer and an additional 3% for any shortfall placed.

1.19 Brokerage

The Company will pay a brokerage fee of 3% on the total amount payable on each Entitlement and Acceptance Form stamped and lodged by participating ASX brokers and licensed securities dealers.

1.20 CHESS

Virax participates in the Clearing House Electronic Sub-register System, known as CHESS. ASX Settlement and Transfer Corporation Pty Ltd (**ASTC**), a wholly owned subsidiary of ASX, operates CHESS in accordance with the Listing Rules and Securities Clearing House Business Rules. Under CHESS, shareholders will not receive a certificate but will receive a holding statement for the New Shares.

2. Action Required by Shareholders

2.1 What you may do

The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form.

You may take up:

- **all** of your entitlement;
- **all** of your entitlement **and** apply for **Additional Shares;**
- **part** of your entitlement and allow the balance to lapse; or
- **none** of your entitlement.

If you wish to take up:

ALL of your entitlement, *or*

ALL of your entitlement **and** apply for **Additional Shares**:

1. Complete the accompanying Entitlement and Acceptance Form in accordance with the instructions set out on the Form.
2. Decide on the method of payment - details are set out in section 2.2 below.
3. Ensure your application is received by Computershare (at the address shown below) by 5:00 pm Melbourne time on the Closing Date. The Closing Date is currently on 25 October 2006, but the Company reserves the right to extend the Offer.

If you wish to take up **PART** of your entitlement and allow the balance to lapse:

1. Complete the accompanying Entitlement and Acceptance Form in accordance with the instructions set out on the Form.
2. Decide on the method of payment - details are set out in section 2.2 below.
3. Ensure your application is received by Computershare (at the address shown below) by 5:00 pm Melbourne time on the Closing Date. The Closing Date is currently on 25 October 2006, but the Company reserves the right to extend the Offer.

   Note: If you decide not to take up all or part of your entitlement to New Shares, the entitlements, to the extent not taken up, will lapse. The directors reserve the right to issue any Shortfall at their discretion and you will receive no benefit.

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067
Telephone: (Within Australia) 1300 726 048
(Outside Australia) 61 3 9415 4365
Facsimile: (03) 9473 2500

If you wish to take up **NONE** of your entitlement and thus allow it to lapse you need do nothing.

2.2 Payment

Acceptance of New Shares and applications for Additional Shares must be accompanied by either:

- **Payment in full** of the total cost of the number of shares for which you have applied.

- **Payment of 50%** of the total cost of the number of Shares for which you have applied on application.

If a shareholder chooses to pay only 50% of the total cost at the time of application, the second and final instalment is payable on or before 5:00 pm Melbourne time, 19 December 2006. A notice will be sent to shareholders who partly pay for New Shares approximately one month prior to 19 December 2006 and such notice will designate the place to which payment is to be made. Even if you fail to receive that letter, payment must be made by the time and date above at the address contained in section 2.1.

Conditions applicable to shares that are paid in two parts:

- Shares that are paid for in two parts will be issued and designated as "Partly Paid Shares".
- Shares that are issued as "Partly Paid Shares' **will not be listed on ASX.**
- The directors recognise that because of rounding when calculating an amount owed at the time of making a part payment it is possible that minor underpayment by a shareholder may occur. Directors reserve the right to forgive such under payment.

Form of Payment

Payments will only be accepted in Australian currency and as follows. Payment may be made by one of the following methods:

- BPAY (only available if you pay in full. i.e. It **should not** be used if you wish to pay only 50% on application. Those who use BPAY **will not need** to return the Entitlement and Acceptance Forms.

  Note: If BPAY is used by an applicant intending to part pay, the result will be that the amount transferred will be treated as a Payment-in-Full and the number of New Shares will be calculated accordingly; or

- Bank cheque drawn on and redeemable at any Australian bank.
- Personal cheque drawn on and redeemable at any Australian bank.
- Cheques or bank cheques should be made payable to "Virax Rights Issue Trust Account" and crossed "Not Negotiable". Shareholders are asked not to forward cash. Receipts for payment will not be provided.

2.3 Enquiries

Enquiries about this Prospectus please contact

Computershare Investor Services Pty Limited

Telephone: (within Australia) 1300 726 048

(Outside Australia) 61 3 9415 4365

Facsimile: (03) 9473 2500
Web: www.computershare.com.au

For further instructions, please refer to the accompanying Entitlement and Acceptance Form.

3. Virax and its Potential

3.1 The Company's Purpose

Virax is an immunotherapeutics company utilising its Co-X-Gene™ and FPV (fowl pox vector) technologies, with a vector construction capability, an immunotherapy manufacturing capability and a comprehensive intellectual property portfolio. It has undertaken pre-clinical and clinical programs for HIV, prostate cancer and hepatitis B. The Company has data from pre-clinical and clinical trials in animals and humans. The directors believe that the combination of these technologies and capabilities for drug discovery and lead candidate development provide significant opportunities in the immune based therapy sector of the pharmaceutical industry.

The directors believe these are strategic assets and with further development they are attractive to both international and Australian companies which are in the business of developing treatments for infectious diseases, cancers and autoimmune diseases. They are the assets Virax aims to use to attract both additional financing and ultimately partners and thereby unlock the value of the technology for shareholders by, for example, the out-licensing of the Company's technology.

The directors also recognise that the very nature of an early stage development company such as Virax is high risk. An investment in such a company is speculative and individual investors should understand that. The risks range from scientific failure to commercial failure but the significant potential reward is the reason for taking the financial risk of investing in the Company. The directors believe, based on their assessment of the Company's results to date and those of others in the immune based therapies field, that the continuation of the development programs is well justified.

3.2 Product development to date

Virax's focus in the Application of Co-X-Gene™ Technology

As with many biotech companies Virax does not have access to large amounts of capital. Therefore the Company's product development focus has to be ordered to maximise the potential value of the Co-X-Gene™ technology. Having regard to the available capital the focus of the Company to date has been on treatment vaccines (i.e. not preventative vaccines) in three diseases:

- VIR201 – HIV
- VIR501 – prostate cancer
- VIR401 – hepatitis B

VIR201 Trials in the Developed and Developing World

Immune based therapies using Co-X-Gene™ technology may have varying affects in different populations. The response of the immune system varies from individual to individual and from population group to population group.

Developed World

Virax conducted Phase I/IIa trials of VIR201 in Australia and obtained encouraging results. The next stage is Phase II trials.

The preparation for the Phase II trials to be conducted in Australia, USA, and probably Europe and Thailand, is well underway. The manufacture of a large quantity of the vaccine, which is needed for the trials, is complete. Quality assurance and toxicology testing of that vaccine is about to be completed and an application to use the vaccine in the US is shortly to be submitted to the US FDA (Food and Drug Administration). Following such approval, the required applications will be made to other regulatory authorities. These trials will continue the testing of the vaccine in the developed world.

Clinical Trial Phases – Typical for Vaccines such as those being developed by Virax

Phase I:

A safety trial in a small number of participants (say 25-35). (Safety continues to be assessed in all following trials).

Phase IIa:

Usually conducted in association with the Phase I trial to have an early but limited assessment of efficacy

Phase II:

Aimed at showing efficacy for different dose levels in a limited number of participants (say 120-200). A number of Phase II trials might be conducted in different age, ethnic or socioeconomic groups. Immune based drugs, such as Virax's vaccines, could work differently in different populations

Phase III:

Large scale say (300 – 500 people) gather efficacy data prior to applying for regulatory approval of the medicine.

Description of the VIR201 HIV Phase II Trial

The objectives for the VIR201 trial are two-fold. First establishing the safety of the improved manufacturing process for the VIR201 vaccine along with the use of a higher dose. Second establishing the efficacy of the vaccine with an increased number of participants in the trial.

The formal description of the trial is:

> *Randomised, double-blind, placebo-controlled, parallel group Phase I/II study to evaluate the safety and immunogenicity of vaccination with an HIV immunotherapeutic vaccine, VIR201, in HIV-1-infected individuals who interrupt antiretroviral drug therapy (analytical treatment interruption)*
>
> *The trial is to be conducted in a number of sites in Australia, USA and probably Europe and Thailand.*
>
> *The Primary objectives are to:*
>
> - *continue to evaluate the safety, and*
> - *evaluate immunogenicity of VIR201 in terms of defined T-cell mediated anti-HIV specific immune responses*
>
> *The secondary objectives are to:*
>
> - *determine the effect of VIR201 on plasma HIV-1 RNA replication after an analytical treatment interruption (ATI), and*
> - *to conduct further exploratory analyses to evaluate the immunogenicity of VIR201.*

Design and Conduct of the Trial

Because of the criteria for the eligibility to participate in the trial, the numbers of potential participants is limited and so it may be necessary to enlist participants through trial sites in other than Australia and the US.

Up to 160 participants will be enrolled to ensure a minimum data for evaluation of 135 participants who complete the trial (i.e. 15% overage). The trial is structured so an interim report can be prepared on the data gathered from the treatment of the first 60 participants. It is planned that the Interim Report will be available by March 2008.

This date is subject to the granting of the IND and other regulatory approvals being granted in a timely manner so the trial may commence in Quarter 4 2006.

Developing World

In mid 2004 an opportunity was recognised to pursue a strategy to:

- utilise the technical development already created (and paid for) in VIR201 for the developed world, and
- approach a different and complementary market – the developing world.

With sponsorship from BHP Billiton, the Company commenced a project to assess the feasibility of conducting clinical trials with VIR201 in southern Africa. The rationale was that if parallel southern African VIR201 clinical trials could be conducted, at the same time as the developed world trials, and they were successful, then VIR201 might become available in the developing world years earlier than if the development effort was restricted to the traditional "developed world" followed by "developing world" pathway.

A Clinical Trial Application was lodged with the South African Medicines Control Council (MCC) in early September 2006 for approval to conduct a Phase I/IIa trial. A group of South Africa's leading HIV/AIDS clinicians, led by Dr Des Martin, President of the Southern Africa HIV/AIDS Clinicians Society, has assisted in the development of a VIR201 clinical trial protocol suitable for the prevailing South African environment.

While the MCC review process is conducted, Virax continues to work with Quintiles, a contract research organisation, to prepare suitable clinical trial sites and also laboratories to support the trial. It is anticipated that the trial will be conducted in five well-established HIV clinics across South Africa.

Significant funding pledges to support the conduct of the trial have been secured from seven international companies with significant business ties in South Africa. BHP Billiton is the cornerstone contributor. Virax is continuing to complete the total funding of the project. An independent charitable trust has been established to receive the funding, following approval from the MCC for the trial to proceed.

Prostate cancer – manufacturing of vaccine commenced

Late in 2005, on the basis of extensive pre-clinical studies, VIR501 was selected as the lead development candidate for late stage hormone refractory prostate cancer clinical trial.

Encouraged by the excellent results in manufacturing VIR201, Impfstoffwerk Dessau-Tornau GmbH (IDT Germany) has been engaged to manufacture GMP grade VIR501. This early commitment to manufacture has enabled the Company to secure an immediate "manufacturing slot" and it is expected that batches of master seed and working seed stocks should be completed before the end of this calendar year. This will enable the Company to proceed immediately with the manufacture of clinical scale lots for toxicology testing and clinical trials once funding is secured.

Hepatitis B

As previously advised the New York Blood Centre (NYBC) completed the initial pre-clinical work on several hepatitis B therapeutic candidates. The next stage of pre-clinical work requires evaluation in monkeys. The Company has been advised that the NYBC is closing its monkey colony. Because directors believe the cost of trialing at an alternate colony is prohibitive, this project has been suspended.

Exploration of atadenovirus vector system

Several months ago the Company embarked on a small project to explore the potential of another viral vector system to complement our current FPV delivery system.

An immuno-therapeutic approach used in certain applications is "prime and boost". This requires a different biologic vector (i.e. carrier) to be used for the "boost" than the vector used in the first or "prime" administration of the drug or vaccine.

In conjunction with the CSIRO, the properties of a number of genetically modified ovine atadenoviruses (OAdV) are being evaluated in preliminary small animal experiments.

The objective is to establish whether these OAdV vectors, which contain a number of different disease antigens, have properties that would make them suitable as therapeutic vaccines.

If successful, this will be an additional vector to the fowlpox vector currently used. This will provide additional intellectual property as Co-X-Gene™ technology can use many viral vector systems either as a "prime" or a "boost".

3.3 Capital Raising and use of funds

Current capital raising proposals

The Company has been exploring capital raising opportunities in both Australia and the United Kingdom. The current capital raising proposal is in two parts:

- A raising of $4.1 million under this Prospectus; and
- Raisings in the United Kingdom.

The Australian raising is to ensure the Company has sufficient capital to undertake the programs described above other than the conduct of the VIR201 Phase II trial.

It is proposed the UK raising be £5 million (approximately AU$12.5 million). [1] It is proposed to raise this amount in two parts. The first is a placement to raise £1.0 million (AU$2.5 million). The Company will then seek to list on the London Alternative Investment Market (AIM). [2]

Following admission to AIM, the Company proposes to undertake a private placement in UK to raise £4.0 million (approximately AU$10.0 million dollars).

A summary of the intended raisings is:

Raisings			**AU$ million**	**UK£ million**
Australian Raising under this Prospectus			**4.1**	
UK Raising				
Part	1	Private Placement in UK	2.5	1.0
Part	2	Private Placement in UK (following Virax Holdings Limited's admission to AIM)	10.0	4.0
		Gross Total Proposed Raisings	**$16.6**	**£5.0**

[1] The exchange rate is approximately AU$2.50 to UK£1.00

[2] Alternative Investment Market of the London Stock Exchange

Use of Funds

The funds raised are to be used as follows:

<u>The funds raised from this rights issue and the UK £1.0 million Placement</u>

Together with current funds in hand of approximately $2.4 million, the additional $3.8 million, after expenses, is to be used for working capital for general operations of the Company and:

- continuing the necessary activities (both by third parties and the Company's staff) to prepare and lodge the application for IND status with the US FDA for the HIV Vaccine VIR201, other regulatory applications and trial site preparation for the VIR201 Phase II trial in the developed world markets.
- continuing the necessary activities (both by third parties and the Company's staff) to prepare trial sites and ancillary services to conduct the PhaseI/IIa trial of the HIV Vaccine VIR201 in the developing world markets. An application for approval of the trial has been lodged with the South African Medicines Control Council.
- commence the manufacture of the master seed stocks as a prelude to the manufacture of vaccine for trial purposes of Virax's proposed prostate cancer vaccine, VIR501.

<u>UK Placement of £4.0 million</u>

This raising of approximately $10.0 million is to fund the operations of the Company including the VIR201 HIV Phase II clinical trials as described below.

Assuming each of the above raisings are fully subscribed or placements made the funds are believed to be sufficient to undertake the planned activities through to late in the fourth quarter of calendar year 2008 or early in the first quarter of 2009.

<u>Continuation of operations limited or no success in fund raising</u>

The Offer will not proceed unless the minimum subscription of $750,000 is achieved. If the Offer and the proposed capital raising in the United Kingdom do not raise sufficient funds, the Company may scale back its operations until further funds are available, reduce product development activities or seek to realise the value of the Company's assets.

4. Effect of this Offer on Virax

4.1 Capital Structure

As at the date of this Prospectus, Virax has on issue 93,189,981 fully paid Shares. On issue is one class of listed options designated VHLOB. The number of outstanding options are 8,269,455. There are 4,198,083 unlisted options on issue. The details of the listed options are provided in section 6.8 and also referred to in section 4.2 below.

Under this Offer, assuming it is fully subscribed, the following securities will be extant:

	No. of Securities				
	Existing	**New**	**Total**	**Expiry**	**Exercise Price**
Shares	93,189,981	23,297,496	116,487,477		
ASX Listed Options VHLOB	8,269,455		8,269,455	15 Dec 09	$0.20
Unlisted Options	4,198,083		4,198,083	Various (See Sec 6.7)	
	105,657,519	23,297,496	128,955,015		

Fully subscribed, the proceeds from this Offer, before allowing for expenses, will amount to approximately $4.1 million

Expenses of this Offer are estimated to be approximately $300,000.

4.2 Pro Forma Statement of Financial Position

On Virax's balance sheet, the pro forma impact on certain balance sheet items of the fully subscribed Offer, including associated Options and unlisted options, all on a fully diluted basis, would be:

	Share Capital	
	Number of Securities	Amount
Issued ordinary shares as at 22 September 2006	93,189,981	$25,944,730
Shares issued under this Pro Rata Issue*	23,297,496	$3,777,061
Post Pro Rata Issue Ordinary Shares	116,487,477	$29,761,791
Listed Options, in existence at date of Prospectus	8,269,455	$1,653,891
Unlisted Options outstanding as at 22 September 2006	4,198,083	$2,505,829
Fully Diluted Issued Ordinary Shares	128,955,015	$33,881,511

* Net of expenses - $300,000

4.3 Effect of this Offer

The net effect of this Offer, assuming all of the New Shares are taken up, will be to increase the cash held by Virax by approximately $3,777,000 net of expenses and increase Shares currently on issue from 93,189,981 to 116,487,477.

The number of listed options with an exercise price of $0.20 on issue is 8,269,455. In the event that all such options were exercised the Company would receive an additional $1,653,891.

5. Risk Factors

5.1 Introduction

In addition to the information shown below, an explanation of risks can be found on Virax's website (www.virax.com.au).

There are general risks with any investment in the stock market. The value of Shares may rise or fall depending upon a range of factors and stock market conditions which are unrelated to Virax's financial performance. Therefore, if an investor decides to sell Shares, the amount received may be higher or lower than the amount of the original investment.

In addition to the above, there are a number of specific risks concerning the Company of which potential investors should be aware. The following is not an exhaustive summary, but points to some of the risks that are peculiar to an early-stage biotechnology company. Any one or a combination of such risks could affect the Company adversely and thus the value of any investment in the Company. The Board is unable to speculate as to the extent of such adversity, and thus an investment in the Company should be regarded as speculative.

5.2 General risk factors

Economic Conditions - The performance of Virax may be significantly affected by changes in economic conditions, and particularly conditions which affect the biotech industry. Profitability of the business may be affected by factors such as market conditions, interest rates, inflation and consumer demand.

Geo-political Factors - Virax may be affected by the impact that geo-political factors have on the various world economies or the Australian economy or on financial markets and investments generally or specifically.

Australian and Foreign Government Policies & Legislation - Virax may be affected by changes to government policies and legislation, including those relating to the biopharmaceutical and pharmaceutical industry, property, the environment, taxation and the regulation of trade practices and competition, "Start and Commercial Ready Grants" and other incentive schemes.

5.3 Specific risk factors

Change of Control – Currently, the number of shareholders is approximately 3,250 and there are three shareholders that have advised the Company that they are substantial shareholders, in accordance with the definition under the *Corporations Act* 2001. Such shareholders each hold less than 21% of the equity of the Company. Control of the Company could pass to an individual shareholder or group of shareholders through such shareholder(s) acquiring shares in an on market or off market transaction. In the event of such a change of control the Board or the management of the Company could change and the strategic direction could change.

Key Personnel - The success of the Company will depend on its ability to continue to have access to the services of highly qualified scientific, technical and managerial personnel. Competition for such staff is intense. Further, some intellectual property and developed know-how resides in its scientific and other staff or others under contract. The loss of key staff could have a material adverse effect on the Company.

Dependence on Others - Virax depends for its present development on continuing availability of staff and laboratories at other companies and institutions. In some cases Virax depends on manufacture of vaccines and other biological material in its own facilities by non-Virax staff. In other cases, the Company is dependent upon third parties. In these circumstances, Virax does not have full control and is thus dependent upon others. Further, the approval and conduct of clinical trials depends on collaborators who are prepared and qualified to initiate or undertake trials. While Virax believes that its partners or collaborators in such activities have a strong motivation to succeed, progress will be, to a significant extent, in the hands of others.

Technological Uncertainty – Virax has a number of developments that may lead to commercial products, including intellectual property being sold. No assurances can be given that the Company's intellectual property, technology or development know-how will give rise to the Company or any licensees of the Company developing a successful commercial product.

Technological Change and Competition - The pharmaceutical and biotechnology industries are characterised by intense competition and rapid and significant technical change. Virax competitors are worldwide and include major pharmaceutical, biopharmaceutical and chemical companies, universities and other research institutions. It is possible that they may pursue similar or different approaches that may be as successful or more successful than the Company's present or future approach or that of the Company's licensees.

Patents and Proprietary Technology – The Company holds but may need to acquire patents and licences to certain patents and other technology. Patents grant an exclusive right for a fixed period of time and though, under certain conditions, it may be possible to obtain a fixed period extension, as time passes the value of the exclusive right diminishes. Different countries or jurisdictions grant varying periods of exclusive patent rights.

Commercialisation - The commercialisation of technology developed by the Company could require the licensing of technology from other entities. Virax cannot give an assurance that such licences will be obtained or, if obtainable, will be on commercially acceptable terms.

Government and Institutional Regulations - The production and marketing of bio-pharmaceutical products and research and development required in respect of bio-pharmaceutical products is subject to extensive regulation by governments and institutions both in Australia and overseas. There is no assurance that the necessary permissions, licences or authorisations will be available or continue to be available.

Government Grant Terms and Conditions - The Company has in the past, received grants from the Commonwealth Government under the "Start Grant Scheme". Such grants are subject to terms and conditions. Under certain circumstances the Company could be required to repay part or all of the monies received. In such an event the total amount that could be required to be repaid is $1,593,850.

Manufacturing and Marketing - Virax does not currently manufacture or market any commercial products. It manufactures material for pre-clinical and clinical trial purposes. It does not possess any facilities for manufacture, other than for trial purposes. The regulatory approval process to permit sale of products may take a number of years and requires substantial financial resources. Further there is no certainty that any product developed could be produced in commercial quantities at reasonable costs or be successfully marketed.

Product and Trial Liability Insurance - The testing and marketing of human health care products entail an inherent risk of allegations of product liability. Virax currently has insurance in respect of its products and current clinical trials. Virax cannot give an assurance that claims will not be directed at Virax, its contractors or partners or that the product liability insurance that Virax has in place will be adequate. Because of the uncertainties associated with the insurance industry Virax cannot give an assurance that such insurance will continue to be attainable or, if it is attainable, will be on acceptable terms.

Director and Officer Liability Insurance - The directors and officers of the Company have agreed to act in their respective capacities on the condition that the Company carries "Director and Officer Liability Insurance". Because of the uncertainties associated with the insurance industry Virax cannot give an assurance that such insurance will continue to be attainable or, if it is attainable, will be on acceptable terms. In the event that such insurance is not available, the Company may not be able to retain directors or officers and it may not be able to find persons willing to be appointed directors or officers.

Indemnities - The Company is required to indemnify certain individuals and entities in respect to their activities associated with the Company's product development programs. Such indemnities are backed by product and liability and trial insurance. Virax cannot give an assurance that such insurance will continue to be available for current products or trials or future products or trials. Virax cannot give an assurance that claims will not be directed at Virax, its contractors or partners or that the insurance that Virax has in place will be adequate, or can be maintained on acceptable terms. Because of the uncertainties associated with the insurance industry Virax cannot give an assurance that such insurance will continue to be attainable or if it is attainable it will be on acceptable terms.

Litigation - There is always the risk of litigation against a company. The Board has in place procedures and policies to attempt to limit this risk. At the time of this Prospectus, there was no known litigation against Virax, threatened or otherwise.

Additional Financing Requirements – Except as noted below, the Company anticipates that a fully subscribed raising from this Offer together with existing funds and other capital raising activities referred to section 3 of this Prospectus will be sufficient to maintain operations under the current business plan until the late in the fourth quarter of calendar year 2008 or early in the first quarter of 2009. Further financing will be necessary to continue development of Virax's intellectual property assets. Virax may seek to raise finance by a further pro rata issue share placement(s) or through arrangements with other companies or entities. This could have the effect of diluting the equity holdings of existing or then existing shareholders.

If this offering is less than fully subscribed, income is less than expected, expenses are greater than estimated or further funding actually received is less than required, Virax may have to seek to raise finance by the sale of assets. This could have the effect of diminishing the value of the Company.

Under various circumstances the inability to raise adequate further funds may result in the Company, ultimately, having to be put into voluntary administration or liquidation.

Volatility of Share Price - The stock market price of the Company's ordinary Shares has fluctuated significantly in the past two years. It is likely that the listed price of ordinary Shares will fluctuate in the future. Announcements by the Company and others of scientific discoveries, technological innovation, commercial products, negotiations with third parties, patents or regulatory actions may have a significant effect on the market price of Shares. Further, the sale of a substantial number of Shares could depress the market price or, alternatively the purchase of a material number of Shares could increase the market price.

6. Additional Information

6.1 Disclosing Entity

Virax is a disclosing entity for the purposes of the *Corporations Act* 2001 and, as such, is subject to regular reporting and disclosure obligations. These obligations include compliance with the requirements of the ASX Listing Rules and the *Corporations Act* 2001 concerning notification of information to ASX. Copies of documents lodged at the ASIC in relation to Virax may be obtained from, or inspected at, an office of the ASIC.

6.2 Continuous Disclosure Prospectus

This Prospectus contains information required under the special prospectus content rules for continuously quoted securities pursuant to section 713 of the *Corporations Act* 2001. This section enables disclosing entities to issue a special prospectus in relation to securities in a class of securities that have been quoted by ASX at all times in the 12 months before the issue of the Prospectus.

Apart from formal matters, a continuous disclosure prospectus need only contain information relating to the terms and conditions of the Offer, the effect of the Offer on Virax and the rights attaching to the New Shares. Other general information is not required to be included by a disclosing entity as the periodic reporting and continuous disclosure requirements applicable to disclosing entities mean that all this information should have previously been released to the market.

6.3 Availability of Documents

Financial documents and announcements referenced in this Prospectus can be found on Virax's website (www.virax.com.au).

Virax will provide a copy of any of the following documents free of charge to any person who requires a copy during the offer period in relation to this Prospectus:-

- The Annual Report for Virax for year ended 30 June 2006, including the last audited financial statements;
- Any announcement made by Virax to ASX from 30 June 2006 up to the date of this Prospectus:

Date	Subject
17 August 2006	Full Year Result and Milestone Update
4 September 2006	Virax lodges application to conduct a HIV clinical trial in South Africa
19 September 2006	Annual Report 2006

6.4 Rights and Liabilities attaching to New Shares

The rights and liabilities attaching to the New Shares offered under this Prospectus arise from a combination of Virax's Constitution, statute and general law. The Constitution of Virax may be inspected during normal business hours at the Company's registered office.

A summary of the more significant and relevant rights, liabilities and restrictions attaching to New Shares is set out below. The summary is not exhaustive nor does it constitute a definitive statement of the rights, liabilities and restrictions attaching to Virax's Shares.

The fully paid New Shares, once issued, will have the same rights attaching to them as existing Shares.

The partly paid New Shares will have the same rights attaching to them as existing Shares except they will not be listed on the ASX, the voting and dividend rights are as described below.

Voting at a General Meeting

Subject to any Shares which may in the future be issued with special or preferential rights, every shareholder present in person at a general meeting of Virax or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each fully paid Share held and a fraction of a vote for each partly paid Share. Such fraction is determined in accordance with the Constitution.

Meetings of Members

Each shareholder is entitled to receive notice of, attend and vote at meetings of Virax and to receive all notices, accounts and other documents required to be sent to shareholders under the Constitution, the *Corporations Act* 2001 and the ASX Listing Rules unless, to the extent permitted by law, the shareholder elects not to receive such notices, accounts or other documents.

Dividends

The directors may from time to time determine dividends to be distributed to shareholders according to their rights and interests. The directors may fix the time for distribution and the methods of distribution. Dividends are payable on all Shares in proportion to the amount of the total issue price paid (but not credited) for the Shares. This is subject to any special or preferential rights attached to any class of shares created after the issue of the Shares.

It is not currently intended to pay a dividend on Shares in the near future. The directors consider it prudent to reinvest earnings in Virax's business.

Transfer of Shares

Shares in Virax may be transferred by a proper transfer effected in accordance with the ASTC Settlement Rules, by any other method of transferring or dealing in Shares introduced by ASX and as otherwise permitted by the *Corporations Act* 2001, by a written instrument of transfer in any usual form or in any other form approved by either the directors or ASX and that is otherwise permitted by the *Corporations Act* 2001. The directors may decline to register a transfer of Shares (other than a proper transfer in accordance with the ASTC Settlement Rules) where permitted to do so under the ASX Listing Rules or where the shares are restricted securities during an escrow period unless otherwise prohibited by the ASX Listing Rules. If the directors decline to register a transfer, Virax must, within 5 Business Days after the transfer is lodged with Virax, give the party lodging the transfer written notice of the refusal and the reason for refusal. The directors must decline to register a transfer of Shares when required by law, the ASX Listing Rules or the ASTC Settlement Rules.

Issue of Further Shares

The directors may issue, grant options in respect of, or otherwise dispose of, further Shares on such terms and conditions as they see fit. However, the directors must act in accordance with the restrictions imposed by the Constitution, the ASX Listing Rules, the *Corporations Act* 2001 and any rights for the time being attached to the Shares or in any special class of shares.

Winding Up

If Virax is wound up, then subject to any special or preferential rights attaching to any class of shares, shareholders will be entitled to participate in any surplus assets of Virax in proportion to the amount of capital paid up on their shares as compared to the total amount of capital paid up on the entire shareholding of Virax, measured as at the time when the winding up begins.

Share Buy Back

Subject to the provisions of the *Corporations Act* 2001 and the ASX Listing Rules, Virax may buy back its Shares on terms and at times determined by the directors.

Variation of Class Rights

Unless otherwise provided by the Constitution or by the terms of issue of a class of shares, the rights attaching to any class of shares may be varied or abrogated:

- With the consent in writing of the holders of three-quarters of the issued shares included in that class; or
- With the sanction of a special resolution passed by at least three quarters of those present at a separate meeting of the holders of those shares.

In either case, the holders of not less than 10% of the votes in the class of shares the rights of which have been varied or abrogated may apply to a court of competent jurisdiction to exercise its discretion to set aside such a variation or abrogation.

Dividend Reinvestment Plan and Bonus Share Plan

The Constitution authorises the directors to establish and maintain dividend reinvestment plans (whereby any member may elect that dividends payable by Virax be reinvested by way of subscription for fully paid ordinary Shares in Virax) and bonus share plans (whereby any member may elect to forego any dividends that may be payable on all or some of the ordinary Shares held by that member and to receive instead some other entitlement including the issue of fully paid ordinary Shares).

Alteration of Constitution

The Constitution can only be amended by special resolution passed by at least three-quarters of shareholders present and voting at a general meeting of Virax. The Company must give at least 28 days written notice of its intention to propose a resolution as a special resolution.

6.5 Taxation

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them by consulting their own professional tax advisers before investing in New Shares. Taxation consequences will depend on individual circumstances. Neither Virax nor any of its officers, employees, agents and advisers accepts any liability or responsibility in respect of the taxation consequences connected with an investment in Shares in Virax or dealing with an entitlement in this Offer.

6.6 Directors' and Proposed Directors'[(3)] Interests

As at the date of this Prospectus, each of the directors has a relevant interest in Shares and holds options to acquire Shares as set out below:

	Ordinary Shares	Options	
	Fully Paid	Listed[1]	Unlisted[2]
Dr Thomas W Quirk	942,750	0	200,000
Dr David J Beames	1,420,000	66,667	1,250,000
Mr John S Chambers	225,000	30,001	250,000
Mr John Stonier	150,000	5,667	120,000

(1) ASX Code VHLOB - Each option entitles the holder to acquire one Share at the exercise price of 20 cents and as specified in the terms of issue of the option.

(2) Issued pursuant to the Virax Option Plan and subject to vesting provisions. Each option entitles the holder to acquire one Share at the exercise price specified in the terms of issue of the option.

(3) As at the date of this Prospectus there are no persons proposed to be directors

Except as disclosed in this Prospectus, neither Virax nor any director, has had, in the past two years before the date of this Prospectus, any interest:

- in the formation or promotion of Virax;
- in any property acquired or proposed to be acquired by Virax in connection with this Offer; or
- in this Offer.

No amounts have been paid or agreed to be paid and no benefit has been given or agreed to be given to any director or proposed director either to induce him to become, or to qualify him as, a director, or otherwise for services rendered by him in connection with the promotion or formation of Virax or in connection with this Offer.

6.7 Options on issue

The total number of listed options and unlisted options is shown below. The options issued pursuant to the Virax Option Plan are unlisted and have been issued to directors, employees and advisers. Such options issued to directors were approved by shareholders and vest quarterly in arrears upon service. Such options issued to employees are subject to vesting conditions which include service and performance conditions.

Options referred to in the following table are options granted by Virax in respect to the acquisition of unissued Virax ordinary shares.

Options	Approx Issue Date	No. Issued	No. ASX Listed	No. Unlisted	Exercise Price (a)	Expiry Date
		Quoted Options:				
ASX code: VHLOB	Jan-06	8,269,455			$0.20	15/Dec/09
		8,269,455	8,269,455			
Unquoted Options Outstanding at 1 July 2006	Jan-02	1,095,000			$0.95	31/Dec/06
	Jul-02	150,000			$0.95	31/Dec/07
	Aug-02	110,000			$0.95	31/Dec/07
	Aug-02	140,000			$0.45	31/Dec/07
	May-03	168,000			$0.25	01/Jan/09
	Aug-04	371,250			$0.50	30/Jun/09
	Aug-04	250,000			$0.50	31/Dec/09
	Nov-04	250,000			$0.50	31/Dec/10
	Nov-04	250,000			$0.65	31/Dec/09
	Feb-05	422,500			$0.65	31/Dec/09
	Nov-05	250,000			$0.65	31/Dec/11
	Dec-05	641,333			$0.17	31/Dec/11
	Jan-06	100,000			$0.17	31/Dec/11
		4,198,083		4,198,083		
Total of All Options in existence at 12 September 2006				12,467,538		

(a) *These options are subject to a Condition of Issue similar to the condition shown in Annexure A Conditions of Issue – Options at Rule 5.2. The application of this Condition has reduced the original exercise price to those shown.*

6.8 Remuneration

The Constitution of Virax contains the following provision as to the remuneration of directors.

In accordance with the Constitution, the directors shall be paid out of funds of Virax, by way of remuneration for their services as directors, a sum not exceeding $200,000 or such larger amount as the Company in general meeting determines by ordinary resolution.

The remuneration of the directors shall not be increased except pursuant to a resolution passed at a general meeting of Virax where notice of the suggested increase shall have been given to members in the notice convening the meeting.

Such notice referred to above was given and at the Annual General Meeting held on 9 November 2004 and the sum referred to above was increased from $200,000 to $400,000.

Directors' fees for 2006 – Possible Issue of Additional Options to Directors

The following information was published in the Company's Annual Report 2006:

At the AGM in November 2005 the Chairman stated that Directors would reduce the cash component of Non-executive Directors' fees in anticipation of accepting a non-cash fee component by way of a grant of options. As stated at the AGM, the cash component of fees would be no more than 60 per cent of the current nominal annual fee of each Non-executive Director. For the calendar year 2006, Directors have made this reduction in anticipation that shareholders will approve the issue of options at the next general meeting of the Company. The terms proposed for the granting of such options at the 2005 AGM, were:

- *an exercise price of 25 cents, that is a price 25% above the market price current at the time of the AGM;*
- *an exercise period of 4 years; and*
- *an option value of 10 cents, used to set the number of options issued.*

The following table shows the number of options, subject to shareholder approval, to be issued in lieu of the portion of Non-executive Directors' Fees not paid in cash: (i.e. shown as "Non Cash Fee").

Options in lieu of Portion of Non- executive Directors' Cash Fees :

	Nominal Non-executive Director's Fees[1] Per Annum	Calendar Year 2006 Cash Director's Fee	Non Cash Fee	
			Sacrifice of Cash Fee ≥ 40%	No. of Options in lieu of Cash Fee @ Value of 10 cents per Option
T W Quirk	$75,000	$35,000	$40,000	400,000
J S Chambers	$50,000	$30,000	$20,000	200,000
J Stonier	$50,000	$30,000	$20,000	200,000
Total	$175,000	$95,000	$80,000	800,000

1. Not including additional fee for committee chairmanship

Thus, the aggregate number of unlisted options for which approval is to be sought is 800,000, with an exercise price of 25 cents and an expiry date of 31 December 2009.

In the event that shareholders do not approve the grant of options as described above, the Company will be liable to pay the amount foregone and thus up to $80,000 could become due and payable, $40,000 relating to the 05/06 financial year and $40,000 to the 06/07 financial year.

6.9 Directors' Indemnity

The Company has agreed to indemnify present and former directors of Virax out of the assets of Virax to the relevant extent against any liability incurred by that director in the discharge of the duties of that director to Virax unless the liability arises out of conduct involving fraud or a lack of good faith.

The Company has also agreed to indemnify present and former directors of Virax against any liability for costs and expenses incurred by that director in defending any proceedings, whether civil or criminal, in which judgement is given in favour of the director, or on which the director is acquitted, or in connection with any application in relation to those proceedings in which the court grants relief to that director under the *Corporations Act* 2001.

6.10 Expenses

Virax estimates that the expenses incurred by it to complete the Offer, including fees and commissions payable to brokers and other licensed securities dealers (if any), ASX fees, adviser, legal and accounting fees and registry costs, will amount to approximately $300,000. This estimate includes the lodgement fee referred to below and other expenses including fees and commissions payable to brokers and other securities dealers which Virax may incur in the placement of any Shortfall.

The Company will pay a brokerage fee of 3% on the total amount payable on each Entitlement and Acceptance Form stamped and lodged by participating ASX brokers and licensed securities dealers.

6.11 Directors' consents

Each director of Virax has given, and not withdrawn as at the date of this Prospectus, his consent to the lodgement of the Prospectus.

6.12 Consents

The following parties have given and not withdrawn written consents to be named in this Prospectus in the form and context in which they are named:

- Tricom Equities Limited (Offer Manager)
- Deacons (Solicitors to the Offer);
- Computershare Investor Services Pty Limited (Registry); and

None of those named parties has authorised or caused the issue of this Prospectus. None of them takes any responsibility for any part of this Prospectus.

Interests of other persons named in this Prospectus as performing a function in a professional, capacity in connection with the preparation or distribution of the Prospectus are as follows:

Deacons, as lawyers to Virax have advised the Company on legal matters in relation to this Offer and have participated in reviewing various drafts of this Prospectus. Deacons do not make or purport to make any statement in this Prospectus. Deacons' fees for work in relation to this Offer up to the date of lodgement of this Prospectus will be approximately $30,000. Deacons will receive further fees for additional work done determined on the basis of time spent and hourly rates agreed with Virax.

Computershare Investor Services Pty Limited has performed work in its capacity as the Company's share registry in connection to providing data for the distribution of this Prospectus.

Tricom Equities Limited has been appointed as the manager of the Offer. The Company will pay Tricom Equities Limited a management fee of 3% of the total amount of the funds raised under the Offer and an additional 3% for any shortfall placed. The Company will pay a brokerage fee of 3% on the total amount payable on each Entitlement and Acceptance Form stamped and lodged by participating ASX brokers and licensed securities dealers. Tricom Equities Limited may become entitled to brokerage.

Members and staff of the above companies and advisory firms may be eligible as Shareholders to participate in the Offer.

The above amounts payable to the Company's legal and financial advisers and share registry are exclusive of any GST, which GST will be paid by Virax.

Except as disclosed in this Prospectus, no adviser to the Offer has, or in the past two years has had, before the date of this Prospectus any interest in:

- the formation or promotion of Virax;
- any property acquired or proposed to be acquired by Virax in connection with this Offer; or
- this Offer.

No amounts have been paid or agreed to be paid and no benefit has been given or agreed to be given to any adviser for services rendered by him in connection with the promotion or formation of Virax or in connection with this Offer except as disclosed in this Prospectus.

6.13 Documents available for inspection

The following documents are available for inspection without charge during normal business hours at the registered office of:

Virax Holdings Limited
Suite 220,
Kew Junction Tower,
89 High Street,
Kew, Victoria.

- Constitution of Virax .
- Consents referred to in section 6.12.

- Any announcement made by Virax to ASX from 30 June 2006 up to the date of this Prospectus as detailed in section 6.3.

6.14 Directors' Authorisation

This Prospectus is authorised by each of the directors of Virax.

Signed on behalf of Virax on 22 September 2006, pursuant to a resolution of the Board on 21 September 2006.

Thomas. W. Quirk

Dr Thomas W Quirk
Chairman

7. Definitions

$	Australian dollars (and references to cents are to Australian cents) unless otherwise indicated.
Additional Shares	New Shares issued following an application for Shares in addition to the number shown on a Shareholder's Entitlement and Acceptance Form.
AEST	Australian Eastern Standard Time.
ASIC	Australian Securities and Investments Commission.
ASTC	ASX Settlement and Transfer Corporation Pty Ltd
ASX	Australian Stock Exchange Limited ABN 98 008 624 691.
ASX Listing Rules	The official listing rules of ASX.
Board or directors	The board of directors of Virax.
Business Day	An Australian business day that is not a Saturday, Sunday, or any other day which is a public holiday or bank holiday in the place where an act is to be performed or a payment is to be made or is not a trading day in accordance with ASX Listing Rules.
Closing Date	25 October 2006 (unless extended).
Constitution	The constitution (articles of association) of Virax as amended from time to time.
Entitlement & Acceptance Form or Form	The entitlement and acceptance form that is attached to this Prospectus.
Excluded Shareholders	Shareholders of the Company with registered addresses in places outside Australia and New Zealand.
Ex Date or Ex entitlement Date	The day after the last date on which a buyer of the Virax Shares can acquire a right to participate in the Offer.
GST	Goods and services or similar tax.
New Share or New Shares	The Shares to be issued pursuant to this Prospectus at 17.5 cents per Share.
Non product Development Activity	Those activities not being Product Development Activity the costs of which are classified as salary, administrative and corporate costs.
Offer and Rights Issue	The offer of New Shares under this Prospectus.
Product Development Activity	Those activities associated with the development of products based on the Company's intellectual property.
Prospectus	This prospectus dated 22 September 2006.
Partly Paid Shares	New Shares for which the Company has received only part payment pursuant to section 2.2.
Record Date	3 October 2006. The date at which entitlements to participate in the Offer are determined.

Shareholder	A person who holds Shares.
Shares	Ordinary shares in the capital of Virax.
Shortfall or Shortfall Shares	Those New Shares not subscribed for by way of an application pursuant to this Prospectus by 5:00 pm Melbourne time on the Closing Date.
Virax or Company	Virax Holdings Limited ABN 56 006 569 106.
VIR201 Phase II trials	The Phase II clinical trials required to provide further data for commercialisation of the Company's drug (vaccine) known as VIR201 and its use as a HIV therapeutic.

8. Corporate Directory

Directors of Virax

Dr Thomas William Quirk – Chairman
Dr David John Beames – Chief Executive Officer
Mr John Sydney Chambers – Non-Executive Director
Mr John Stonier – Non-executive Director

Company Secretary

Mr Richard de Lautour

Registered Office

Suite 220,
Kew Junction Tower
89 High Street,
KEW VIC 3101
Telephone: (03) 9854 6230
Facsimile: (03) 9853 5134
www.virax.com.au

Offer Manager

Tricom Equities Limited
Level 10 Exchange House
10 Bridge Street
SYDNEY NSW 2000
Telephone: +61 (0)2 9210 7889
Facsimile: +61 (0)2 9210 7833
www.tricom.com.au

Solicitors

Deacons
RACV Tower
485 Bourke Street
MELBOURNE VIC 3000
Telephone: (03) 8686 6000
Facsimile: (03) 8686 6505
www.deacons.com.au

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067
Telephone: Within Australia 1300 726 048
Outside Australia 61 3 9415 4365
Facsimile: (03) 9473 2500
www.computershare.com.au