

**HALF-YEAR REPORT**  
**PEPLIN LIMITED**  
**(FORMERLY PEPLIN BIOTECH LIMITED)**  
**ABN 55 090 819 275**  
**31 DECEMBER 2004**

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**DIRECTORS' REPORT**

---

Your directors present their report on the consolidated entity consisting of Peplin Limited (Peplin) and the entities it controlled at the end of, or during, the half-year ended 31 December 2004.

**1. Directors**

The following persons were directors of Peplin during the whole of the half-year and up to the date of this report, except as noted:

C Hirst  
MDA Aldridge  
JH Aylward (resigned 28 September 2004)  
WK Goss  
GW Pace  
MR Spooner

**2. Review of Operations and Results**

Significant progress was made by Peplin on a number of fronts during the six month period to 31 December 2004. Highlights included:

**Control of PEP005 Topical development process reassumed**

In November 2002, Peplin licensed PEP005 Topical, its proprietary product for the treatment of actinic keratosis (AK) and non-melanoma skin cancer to Allergan, Inc. of Irvine California. In early October 2004, it became apparent to Peplin that Allergan was not in a position to commit unequivocally the resources required for the continued development of PEP005 Topical. In view of this Peplin reached agreement with Allergan for Peplin to assume immediate control of the global development and commercialisation of PEP005 Topical to ensure the product's scheduled progression to phase II clinical trials during 2005 and the earliest possible commercialisation. All rights for the development and commercialization of PEP005 Topical have been returned to Peplin together with all rights to scientific data, intellectual property and regulatory filings. At the time Allergan stated that its decision had not been made on the basis of any safety or efficacy concerns. The results of the phase I trial were not available at that time.

Peplin received approximately US\$1.3 million in satisfaction of outstanding obligations from Allergan and Allergan completed the US based phase I clinical study in AK and transferred all data and clinical results to Peplin.

**Successful completion of PEP005 Topical phase I trial**

In late October 2004, Peplin announced the successful completion of the US based phase I clinical trial ahead of schedule. The double blind, placebo controlled trial was conducted under an investigational new drug application filed with the US Food and Drug Administration (FDA) in June 2004, and evaluated the safety and tolerability of a single application of PEP005 Topical gel on AK lesions.

Subsequent to the end of the half-year we reported that the phase I clinical trial proved a single application of PEP005 Topical gel had a favourable safety profile with local skin responses all mild and as expected. In addition, the trial also demonstrated positive indications of PEP005 Topical's ability to clear lesions with 40% of treated lesions either completely cleared or almost cleared compared with 15% of lesions treated with vehicle gel.

On the basis of this achievement, Peplin plans to initiate three phase II clinical studies in March 2005 to study AK and two forms of basal cell carcinoma (BCC) the most common form of non-melanoma skin cancer. These trials will be undertaken in Australia which is, given the high prevalence of the disease and the high profile that it has in this country, an attractive location to conduct skin cancer clinical trials. The completion of the initial phase II trials should be a key validating step in defining the product's market potential.

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**DIRECTORS' REPORT**

---

**2. Review of Operations and Results (cont)**

**Successful financing**

In December 2004, Peplin closed a fully underwritten renounceable pro rata issue to shareholders on a one for three basis. In total Peplin issued 24,294,356 new shares at \$0.42 per share raising net proceeds of \$9.5 million primarily to fund phase II clinical studies of PEP005 Topical and general and administrative expenses, including those for ongoing discussions with potential partners for this product.

Shareholders subscribed approximately 75% of the new shares to be issued. A number of institutional investors who have indicated a long-term interest in the company have taken up the balance of the offer.

**Peplin's product pipeline**

In addition to PEP005 Topical, Peplin has two product candidates at a pre-clinical stage of development. These comprise:

- PEP005 IC: an intra-cavitary or intravesical product in development for the treatment of superficial bladder cancer; and
- PEP005 IV: an intravenous product in development for the treatment of leukaemia and other blood borne malignancies.

In August 2004 Peplin met the FDA to discuss the company's plans for the clinical development of PEP005 IC and PEP005 IV. Each of these products is near the final stage of pre-clinical development prior to entering the human stage of testing. However, we plan to secure further funding through either licensing discussions on PEP005 Topical or additional equity issues before initiating a clinical development program for one or both of these products. Peplin will remain open to discussions with potential partners for each of these products.

In addition, Peplin has its research portfolio of engineered polyunsaturated fatty acid (EPUFA) products which address opportunities in cancer and pain. In addition, the portfolio adds candidates to our product pipeline for cardiovascular disease, inflammation and diabetic complications.

**New name and corporate identity**

During the period, Peplin adopted a new corporate identity to more closely align the company with its mission. The new identity comprises two elements: the adoption of a new brand statement "Pharmaceuticals for Life" and following approval by the shareholders at the AGM held on 28 September 2004, the change of name from Peplin Biotech Limited to Peplin Limited. The new identity reflects Peplin's major focus on building and advancing its product pipeline.

**Financial results**

Peplin's net loss before and after tax for the six months to 31 December 2004 was \$4,148,505 compared with a net loss of \$3,938,054 for the corresponding period last year.

Revenue for the six months to 31 December 2004 was \$3,083,912 up \$884,485 from the corresponding period last year. The current period includes \$1,760,143 (US\$1,289,657) from Allergan in satisfaction of outstanding obligations upon termination of the Collaboration and License Agreement.

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**DIRECTORS' REPORT**

---

**2. Review of Operations and Results (cont)**

**Financial results (cont.)**

Research & development expenses increased to \$6,227,115 in the six month period to 31 December 2004 from \$5,303,343 in the comparable period of the previous year. This reflects the significant step up in investment made during this period and arises principally from work and expenditure on:

- analysis of PEP005 Topical phase I data and preparations for phase II trials;
- increased contract R&D activities primarily relating to PEP005 IC and IV pre-clinical toxicology and pharmacology to bring each of these products near to the final stage of pre-clinical development;
- PEP005 Topical product formulation and manufacturing process development and optimization; and
- production of PEP005 active pharmaceutical ingredient ahead of use during 2005 in research and development activities.

General and administrative expenses increased by \$171,891 to \$1,005,302 primarily due to increased staff numbers and associated costs.

Peplin's cash balance at 31 December 2004 was \$12,960,111 (June 2004: \$7,603,430) with current liabilities of \$1,548,995 (June 2004: \$2,546,003).

**Future developments**

As noted above, Peplin has reassumed control of the PEP005 Topical development program and made plans to conduct and fund the phase II clinical trials of this product for AK and BCC during 2005.

Peplin has initiated discussions with potential pharmaceutical partners which will continue in parallel with ongoing Peplin sponsored clinical trials. To capitalise on the success of clinical trials to date, our priority is the ongoing development of PEP005 Topical which means keeping the program on schedule and ensuring we secure the most attractive collaboration with the most capable partner.

The successful formation of a collaboration could deliver important and valuable benefits to Peplin including:

- upfront or milestone-based payments in recognition of the value of PEP005 Topical; and
- contributions by a partner to the management and funding of the skin cancer development program going forward.

The combination of these factors should provide Peplin with capital and release management resources to enable us to progress our other product candidates, in particular for leukaemia and bladder cancer, into clinical trials.

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**DIRECTORS' REPORT**

---

**3. Auditor's independence declaration**

A copy of the auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* accompanies this report.

This report is made in accordance with a resolution of the directors.



---

Michael Aldridge  
Managing Director and Chief Executive Officer

Brisbane, Queensland  
Dated this eighth day of February, 2005

Chartered Accountants

Floor 5 National Bank House  
255 Adelaide Street Brisbane Q 4000  
GPO Box 1144 Brisbane Q 4001  
Ph 07 3222 8444 / Fax 07 3221 7779  
Website [www.jr.com.au](http://www.jr.com.au)  
Email [jr@jr.com.au](mailto:jr@jr.com.au)

The Directors  
Peplin Limited  
Level 2, Brisbane Portal  
1 Breakfast Creek Road  
NEWSTEAD QLD 4006

#### **Auditor's Independence Declaration**

As lead engagement partner for the review of the half-year financial report of Peplin Limited for the half-year ended 31 December 2004, I declare that, to the best of my knowledge and belief, there have been:

- i. no contraventions of the independence requirements of the Corporations Act 2001 in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

**JOHNSTON RORKE**  
Chartered Accountants



**R.C.N. Walker**  
Partner

Brisbane, Queensland  
8 February 2005

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

	Note	Half-year	
		31 Dec 2004 \$	31 Dec 2003 \$
Revenues from ordinary activities			
Grants		162,400	577,087
Interest		141,591	147,916
Licence fees	3 (a)	2,470,060	764,526
Product development charges	3 (b)	309,861	688,970
Other income		-	20,928
Total revenues from ordinary activities		<u>3,083,912</u>	<u>2,199,427</u>
Expenses from ordinary activities			
Research and development	3 (c)	(6,227,115)	(5,303,343)
General and administrative		(1,005,302)	(833,411)
Borrowing costs		-	(727)
Total expenses from ordinary activities		<u>(7,232,417)</u>	<u>(6,137,481)</u>
<b>Loss from ordinary activities before income tax expense</b>		<b>(4,148,505)</b>	<b>(3,938,054)</b>
Income tax expense		-	-
<b>Net loss</b>		<b><u>(4,148,505)</u></b>	<b><u>(3,938,054)</u></b>
Basic earnings per share (loss)		(5.3)¢	(5.5)¢
Diluted earnings per share (loss)		(5.3)¢	(5.5)¢

The above consolidated statement of financial performance should be read in conjunction with the accompanying notes.

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2004**

	Note	31 December 2004 \$	30 June 2004 \$
<b>Current Assets</b>			
Cash assets		12,960,111	7,603,430
Receivables		172,227	1,074,722
Other assets		93,530	201,155
Total Current Assets		<u>13,225,868</u>	<u>8,879,307</u>
<b>Non-Current Assets</b>			
Property, plant and equipment		649,237	471,648
Intangible assets		3,492,738	3,627,684
Total Non-Current Assets		<u>4,141,975</u>	<u>4,099,332</u>
<b>Total Assets</b>		<u>17,367,843</u>	<u>12,978,639</u>
<b>Current Liabilities</b>			
Payables		1,481,705	2,482,590
Provisions		67,290	63,413
Total Current Liabilities		<u>1,548,995</u>	<u>2,546,003</u>
<b>Total Liabilities</b>		<u>1,548,995</u>	<u>2,546,003</u>
<b>Net Assets</b>		<u>15,818,848</u>	<u>10,432,636</u>
<b>Equity</b>			
Contributed capital	4	34,619,909	25,085,192
Accumulated losses		<u>(18,801,061)</u>	<u>(14,652,556)</u>
<b>Total Equity</b>		<u>15,818,848</u>	<u>10,432,636</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

	Half-year	
	31 Dec 2004	31 Dec 2003
	\$	\$
<b>Cash Flows from Operating Activities</b>		
Cash receipts in the course of operations	3,934,324	1,817,881
Cash payments in the course of operations	(8,071,991)	(4,483,949)
Interest received	196,667	119,158
Borrowing costs paid	-	(727)
<b>Net cash used in operating activities</b>	<u>(3,941,000)</u>	<u>(2,547,637)</u>
<b>Cash Flows from investing Activities</b>		
Payments for plant and equipment	(237,786)	(203,302)
Proceeds from disposal of plant and equipment	750	20,928
Payments for intellectual property	-	(225,000)
<b>Net cash used in Investing activities</b>	<u>(237,036)</u>	<u>(407,374)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from issues of shares	10,226,630	6,011,500
Share issue transaction costs	(691,913)	(288,801)
Repayment of borrowings	-	(23,079)
<b>Net cash provided by financing activities</b>	<u>9,534,717</u>	<u>5,699,620</u>
<b>Net increase in cash held</b>	5,356,681	2,744,609
<b>Cash at the beginning of the reporting period</b>	<u>7,603,430</u>	<u>6,399,620</u>
<b>Cash at the end of the reporting period</b>	<u>12,960,111</u>	<u>9,144,229</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

**1. Basis of Preparation of Half-Year Financial Report**

This general purpose financial report for the interim half-year reporting period ended 31 December 2004 has been prepared in accordance with Accounting Standard AASB 1029: *Interim Financial Reporting*, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2004 and any public announcements made by Peplin Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the most recent annual financial report.

**2. Segment Information**

The consolidated entity predominantly operates in one business segment. Its activities comprise research and development of therapeutic products for the treatment of cancers and other diseases.

The consolidated entity predominantly operates in one geographical segment, being Australia.

**3. Individually Significant Items**

Individually significant items included in revenues and expenses from ordinary activities:

	<b>Half-year</b>	
	<b>31 Dec 2004</b>	<b>31 Dec 2003</b>
	<b>\$</b>	<b>\$</b>
3 (a) Licence fees:		
Fourth quarterly instalment of development payment (US\$500,000)	709,917	764,526
Final payment upon termination of the Collaboration and License Agreement with Allergan (US\$1,289,657)	1,760,143	-
	2,470,060	764,526
3 (b) Product development charges:		
Payments by licensee for pre-clinical product development	309,861	688,970
3 (c) R&D includes amortisation of patents purchased during period	-	383,000

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

**4. Equity Securities Issued**

Movements in contributed capital during the half-year were as follows:

Details	Note	No. of Shares	Issue Price	\$
Balance – 30/06/04		72,825,568		25,085,192
Exercise of options	(a)	57,500	40¢	23,000
Entitlement issue	(b)	24,294,356	42¢	10,203,630
Transaction costs arising from entitlement issue				(691,913)
Balance – 31/12/04		97,177,424		34,619,909

- (a) During the half-year 57,500 options for ordinary shares were exercised for cash at an issue price of 40 cents for each fully paid ordinary share.
- (b) During December 2004, 24,294,356 new ordinary shares were placed with shareholders and investors at 42 cents per share fully paid pursuant to a one for three renounceable entitlement issue, raising \$10,203,630 before costs.

**5. Contingent Liabilities**

The collaboration with Allergan, Inc. for the development of PEP005 Topical discontinued in October 2004. Under the terms of an agreement to terminate the collaboration, should Peplin relicence PEP005 Topical to another party the consolidated entity will pay to Allergan 25% of pre-commercialization payments in the nature of licence fees it receives subject to a cap of US\$3 million, and 25% of post commercialization royalties and similar revenue subject to a cap of US\$4 million but including the aforementioned licence fee payments. Alternatively, if Peplin itself markets PEP005 Topical in North and South America, the consolidated entity will pay Allergan up to US\$4 million by way of a 10% royalty.

In 2001, the consolidated entity engaged Burrill & Company to provide services in relation to securing a collaboration and license with Allergan. Under the terms of this service agreement, the consolidated entity agreed to pay royalties of 4.5% - 5% on future licensing payments received from Allergan. As a result of the discontinuation of the Collaboration and License Agreement with Allergan and final payments of royalties to Burrill & Company, there will be no further obligations to Burrill & Company under this service agreement.

The consolidated entity undertakes projects in accordance with agreements with various government authorities. In return the consolidated entity receives grants from these authorities.

During the current period, a grant of approximately \$162,000 (2003: \$572,000) was recognised as revenue (resulting in a total to 31 December 2004 of approximately \$3,638,000). As part of the standard agreements with the government authorities, under certain circumstances the grants together with interest may be repayable. These circumstances can include the consolidated entity breaching the agreements or an insolvency event occurring. The directors do not expect that any amount will be required to be repaid.

There have been no other material changes in contingent liabilities since 30 June 2004.

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

---

**6. International Financial Reporting Standards**

Peplin Ltd has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company has allocated internal resources to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. External consultants will also be engaged where necessary. As a result of these procedures, Peplin has identified specific areas to be addressed in the transition to IFRS. As Peplin has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with the new AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Peplin prepares its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas identified at this time where accounting policies may change and have an impact on the financial report of Peplin. This summary should not be considered an exhaustive list of all differences that may be identified. At this stage, the company has not been able to reliably quantify the impacts on the financial report.

*Share based payments*

Under the new standard AASB 2 *Share Based Payments*, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity-based remuneration. The existing policy is not to recognize remuneration expense for the fair value of options granted.

*Income tax*

Under the new standard AASB 112 *Income Taxes*, there is a requirement that the company adopt a balance sheet approach to income tax accounting rather than the current income statement approach. Additionally, the tests for the recognition of deferred tax assets, such as future income tax benefits, will be based on where realisation of the benefit is "probable" rather than where realisation of the benefit can be regarded as being assured beyond any reasonable doubt or virtually certain. The company does not currently recognise deferred tax assets as these are not considered virtually certain. Adoption of the new standard may result in recognition of deferred tax assets earlier than under the current standard.

*Impairment of assets*

Under the new standard AASB 136 *Impairment of Assets*, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. Where applicable, value in use will be determined on a discounted cash flow basis. The existing policy is to assess the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognized earlier.

*Intangible assets*

Under the new standard AASB 138 *Intangible Assets*, acquired patents and intellectual property will continue to be carried at cost and amortised over their useful life. Internally generated intangible assets, if any, are required to be derecognised if they do not satisfy certain recognition criteria. The patents and intellectual property carried in the statement of financial position at 31 December 2004 were recognised on establishment of the Peplin group in a prior year. At this stage the company is assessing the initial recognition of these assets in terms of the application of the new Accounting Standards. The carrying value of intangible assets will also be assessed in accordance with AASB 136 *Impairment of Assets*.

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

---

**6. International Financial Reporting Standards (cont.)**

*Research and development*

Under AASB 138 *Intangible Assets*, expenditure on research is recognised as an expense when it is incurred. Further, an intangible asset arising from development is to be recognised if certain specified criteria are met. The current accounting standard requires research and development costs be expensed except that they are to be deferred to future financial years when they are expected beyond any reasonable doubt to be recoverable. The company currently expenses all research and development expenditure. Accordingly, the company will have to assess the stage of each project (research phase versus development phase) and the criteria requiring recognition of an intangible asset.

**PEPLIN LIMITED AND CONTROLLED ENTITIES  
(FORMERLY PEPLIN BIOTECH LIMITED)**

**DIRECTORS' DECLARATION**

---

In the opinion of directors the attached financial statements and notes:

- (a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and
- (b) there are reasonable grounds to believe that Peplin Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



---

Michael Aldridge  
Managing Director and Chief Executive Officer

Brisbane, Queensland  
Dated this eighth day of February, 2005

**INDEPENDENT REVIEW REPORT**

**To the Members of Peplin Limited**

**Scope**

We have reviewed the financial report being the Directors' Declaration, Consolidated Statements of Financial Performance, Financial Position and Cash Flows and Notes to the Consolidated Financial Statements of Peplin Limited (the company) for the half-year ended 31 December 2004. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: *Interim Financial Reporting* and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Peplin Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029: *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

**JOHNSTON RORKE**  
Chartered Accountants



**RCN WALKER**  
Partner

Brisbane, Queensland  
8 February 2005