

**PEPLIN LIMITED**  
**ABN 55 090 819 275**  
**INTERIM FINANCIAL REPORT**  
**31 DECEMBER 2006**

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 2006 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*.

## PEPLIN LIMITED AND CONTROLLED ENTITIES

### DIRECTORS' REPORT

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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 2006.

#### 1. Directors

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

C Hirst  
MDA Aldridge  
GW Pace  
MR Spooner  
EA Bauer  
JP Scopa

#### 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 2006. The company completed the period with a cash position of \$39.5 million. It reported a net loss before and after tax for the six months to 31 December 2006 of \$10.4 million compared with a net loss of \$5.9 million for the corresponding period last year. The company continues to invest actively in the development of its lead product candidates: PEP005 Topical for actinic (solar) keratosis and PEP005 Topical for basal cell carcinoma, and the enhancement of its product development capabilities, particularly in the US.

As of the date of this report the company has four phase II clinical trials in progress (compared with two as at this time last year). Two of these trials are based in the US and two in Australasia. The trials are targeting actinic (solar) keratosis (AK), a common skin condition which can progress to skin cancer, basal cell carcinoma (BCC), the most common form of skin cancer and squamous cell carcinoma *in situ*, a non-metastatic form of squamous cell skin cancer. In addition it is pursuing an active program of building its late stage product development capabilities through the focused recruitment of key individuals primarily in the US; the company presently employs 24 full time individuals (compared with 11 as at this time last year).

The company expects its present cash balance will be sufficient to fund all its currently planned phase II development of its topical product candidates, to complete phase I/II testing of PEP005IV for leukaemia and ensure adequate funds are then available to plan for future capital requirements.

Highlights of the reported period include:

#### **Completion of major international financing**

During the period the company successfully completed an international placement together with an entitlement offering to all Peplin shareholders. This financing was initially announced on 24 May 2006 and was made possible by the positive results in its early phase II clinical development program for AK and BCC. The combined financing raised approximately \$40.5 million through the issuance of 57.1 million shares at \$0.71 per share together with 17.1 million options exercisable at \$0.84 per share.

The investors in the international placement comprised MPM Capital, Deerfield, AMP, Orbis and First Choice and Peplin non-executive director, Dr Gary Pace. With the exception of the investment by Dr Pace which was in a single tranche, the international component of the financing was structured in two equal tranches.

The second tranche was subject to Peplin satisfying certain performance pre-conditions, including the successful completion of a skin sensitisation clinical safety study. Peplin announced in October 2006 the favourable results of that study in 220 volunteers and thus satisfied the final pre-condition to the completion of the second tranche. Following the closing

of the second tranche of the international offering Peplin had on issue 184.5 million ordinary shares and 17.1 million exchange traded options, which trade on ASX under the ticker symbol PEPO.AX.

#### **Positive results from phase IIa nBCC trial**

In July 2006 Peplin announced positive results of its phase IIa clinical trial of patients with nodular forms of basal cell carcinoma (nBCC). Basal cell carcinoma is the most common form of skin cancer.

This Australian based, 60 patient, multi-centre phase IIa clinical trial's objectives were to evaluate the safety and efficacy of two days application to a nBCC tumour of PEP005 Topical.

The trial demonstrated a favourable safety profile for the drug. Tumour clearance rates were dose dependent, the highest concentration of PEP005 Topical was the most effective.

#### **Completion of enrolment in SCC pilot clinical trial**

In October 2006 Peplin announced that it had completed enrolment of patients in its Australian pilot phase II clinical trial of its proprietary product PEP005 Topical for the treatment of cutaneous squamous cell carcinoma *in situ* (SCCIS).

Squamous cell carcinoma (SCC) is the second most common form of skin cancer and is most common in people aged over 50. SCCIS is a non-metastatic or localized form of SCC.

This pilot trial will evaluate the safety and efficacy of PEP005 Topical in a form of non-melanoma skin cancer which is amenable to topical treatment. Peplin expects preliminary results of this study in the first quarter of 2007.

#### **Publication of PEP005's novel anti-skin cancer mechanism**

In December 2006, Peplin published research demonstrating the novel anti-cancer mechanism of Peplin's lead compound, PEP005. This research was published in the high profile, *Journal of Immunology*, the international, peer-reviewed journal of the American Association of Immunologists.

The research is significant in that it illustrates that PEP005 kills tumours efficiently using two distinct and complimentary mechanisms. The first is direct cellular cyto-toxicity, and the second is via activation of the immune system, which results in the identification and destruction of any residual cancer cells. Peplin believes these combined mechanisms deliver the rapid and long term clearance of tumours observed with PEP005 treatment.

#### **Established US presence**

In September 2006 Peplin announced it had appointed Philip Moody as Chief Financial Officer and Vice President, Finance and Operations. Mr Moody brings enormous experience to Peplin's executive team, and was previously Vice President, Finance and Operations at Chiron Corporation in California.

Mr Moody, along with the earlier appointments of Cheri Jones as Vice President, Regulatory Affairs and Dr Gary Patou as Chief Medical Officer, are based in Peplin's newly opened Emeryville office in the San Francisco bay area. Michael Aldridge, Peplin's CEO, has relocated to San Francisco and will work closely with the executive team to build Peplin's US capabilities at this critical juncture in Peplin's growth and development.

Peplin is an Australian company headquartered in Brisbane. Its core research, primary manufacturing and administrative functions remain and are expected to grow in Australia; its critical late stage development activities will be conducted in the US.

## PEPLIN LIMITED AND CONTROLLED ENTITIES

### DIRECTORS' REPORT

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#### 2. Review of operations and results (cont)

##### **Opening of GMP manufacturing facility**

During July 2006 the official opening of Peplin's new state-of-the-art commercial scale manufacturing facility for the production of PEP005, its lead investigational agent for the treatment of skin cancer and leukemia, took place in Southport, Queensland. The opening of this facility is a major step towards launching a global product.

Australian Minister for Industry, Tourism and Resources, the honorable Ian Macfarlane MP, formally opened the plant in the presence of Peplin Chairman, Dr Cherrell Hirst and shareholders, research analysts, brokers and dermatologists.

In October 2006 Peplin announced that it had taken steps to assume operation of the facility. The transfer of operations at the facility to Peplin occurred over the course of November 2006.

##### **Financial results**

Peplin's net loss before and after tax for the six months to 31 December 2006 was \$10,448,747 compared with a net loss of \$5,867,392 for the corresponding period last year.

Revenue and other income for the six months to 31 December 2006 was \$1,290,801, up from \$329,412 in the corresponding period last year. The current period includes \$1,009,174 interest compared with \$303,742 for the corresponding period last year.

Research and development expenses increased to \$9,349,062 in the six month period to 31 December 2006 from \$4,992,022 in the comparable period of the previous year. Research and development expenses during the half-year to 31 December 2006 were mainly for the conduct of phase II clinical trials and related activities and the establishment of Peplin's Regulatory Affairs and Medical functions. Expenses for production of purified PEP005 are higher in the current half-year due to the commencement of operations at its recently constructed manufacturing facility.

General and administrative expenses increased to \$2,390,486 in the six month period to 31 December 2006 from \$1,204,782 in the comparable period of the previous year, primarily due to increased staff numbers and the establishment of the US office.

Peplin's cash balances and term deposits at 31 December 2006 were \$39,532,535 (June 2006: \$31,191,459) with current liabilities of \$4,857,332 (June 2006: \$11,879,181).

##### **Future developments**

Peplin is continuing enrollment in its US phase IIb AK study (PEP005-006) and expects to announce the results of this study in mid-2007. Peplin commenced an additional phase IIb AK study (PEP005-007) in January 2007. This study compliments the PEP005-006 study and is focused on treatment of the face and scalp.

Following the successful completion of these phase IIb AK studies and subject to regulatory approval, Peplin expects to begin a phase III study in larger patient populations to progress the product to market as quickly as possible.

Peplin has announced the initiation of a second phase II clinical trial to further evaluate the safety and efficacy of PEP005 Topical for the treatment of superficial forms of BCC, the most common form of skin cancer.

The clinical trial, which will be conducted at multiple sites in the US, will assess several dose levels of PEP005, using a dose escalation format and has the goal of optimising the dose of PEP005 Topical for this disease. Peplin intends to select an optimal dose to be evaluated in a subsequent phase III clinical trial based on an evaluation of clearance rates and local skin responses observed in this trial and subject to regulatory approval.

**PEPLIN LIMITED AND CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

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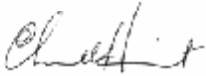
**2. Review of operations and results (cont)**

Peplin is also progressing its pre-clinical program focused on developing PEP005 IV for leukemia.

**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.



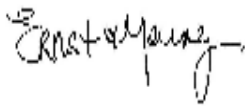
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Cherrell Hirst  
Chairman

Brisbane, Queensland  
Dated this 13th day of February, 2007

**Auditor's Independence Declaration to the Directors of Peplin Limited**

In relation to our review of the financial report of Peplin Limited for the half-year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Winna Brown  
Partner  
13 February 2007

**PEPLIN LIMITED AND CONTROLLED ENTITIES**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Note	Half-year	
		31 Dec 2006 \$	31 Dec 2005 \$
Revenue			
Interest		1,009,174	303,742
Other income		281,627	25,670
Total revenues and other income		<u>1,290,801</u>	<u>329,412</u>
Expenses			
Research and development		(9,349,062)	(4,992,022)
General and administrative		<u>(2,390,486)</u>	<u>(1,204,782)</u>
<b>Loss before income tax</b>		<b>(10,448,747)</b>	<b>(5,867,392)</b>
Income tax		-	-
<b>Loss for the half-year</b>		<b><u>(10,448,747)</u></b>	<b><u>(5,867,392)</u></b>
Basic earnings per share (loss)		(6.1)¢	(5.3)¢
Diluted earnings per share (loss)		(6.1)¢	(5.3)¢

The above consolidated income statement should be read in conjunction with the accompanying notes.

**PEPLIN LIMITED AND CONTROLLED ENTITIES**

**CONSOLIDATED BALANCE SHEET**

**AS AT 31 DECEMBER 2006**

	<b>Note</b>	<b>31 December 2006 \$</b>	<b>30 June 2006 \$</b>
<b>Current assets</b>			
Cash and cash equivalents	5	39,532,535	31,191,459
Other receivables		833,896	860,158
<b>Total current assets</b>		<b>40,366,431</b>	<b>32,051,617</b>
<b>Non-current assets</b>			
Property, plant and equipment	6	2,169,653	2,078,023
Other receivables		204,873	-
<b>Total non-current assets</b>		<b>2,374,526</b>	<b>2,078,023</b>
<b>Total assets</b>		<b>42,740,957</b>	<b>34,129,640</b>
<b>Current liabilities</b>			
Trade and other payables		4,742,956	11,788,402
Provisions		114,376	90,779
<b>Total current liabilities</b>		<b>4,857,332</b>	<b>11,879,181</b>
<b>Total liabilities</b>		<b>4,857,332</b>	<b>11,879,181</b>
<b>Net assets</b>		<b>37,883,625</b>	<b>22,250,459</b>
<b>Equity</b>			
Contributed equity	7	82,495,263	57,138,628
Reserves		1,577,533	852,256
Accumulated losses		(46,189,171)	(35,740,425)
<b>Total equity</b>		<b>37,883,625</b>	<b>22,250,459</b>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

**PEPLIN LIMITED AND CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Note	Half-year	
		31 Dec 2006 \$	31 Dec 2005 \$
<b>Total equity at the beginning of the half-year</b>		<b>22,250,459</b>	<b>8,456,773</b>
Net expense recognised directly in equity – foreign currency translation reserve		(16,984)	-
Loss for the half-year		(10,448,747)	(5,867,392)
Total recognised income and expense for the half-year		<b>(10,465,731)</b>	<b>(5,867,392)</b>
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs	7	25,356,635	14,677,635
Employee share options	10	742,262	85,736
<b>Total equity at the end of the half-year</b>		<b>37,883,625</b>	<b>17,352,752</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**PEPLIN LIMITED AND CONTROLLED ENTITIES**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Note	Half-year	
		31 Dec 2006	31 Dec 2005
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from operating activities (inclusive of goods and services tax)		950,295	54,262
Payments to suppliers and employees (inclusive of goods and services tax)		(10,179,023)	(5,472,344)
Interest received		791,152	306,986
<b>Net cash outflow from operating activities</b>		<b>(8,437,576)</b>	<b>(5,111,096)</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(221,300)	(328,561)
Payments for financial assets – term deposits		-	(4,000,000)
Proceeds from disposal of plant and equipment		-	-
<b>Net cash outflow from investing activities</b>		<b>(221,300)</b>	<b>(4,328,561)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		18,809,029	15,457,440
Share issue transaction costs		(1,809,077)	(849,297)
<b>Net cash inflow from financing activities</b>		<b>16,999,952</b>	<b>14,608,143</b>
Net increase in cash and cash equivalents		8,341,076	5,168,486
Cash and cash equivalents at the beginning of the half-year		31,191,459	9,245,368
<b>Cash and cash equivalents at the end of the half-year</b>	<b>5</b>	<b>39,532,535</b>	<b>14,413,854</b>

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

**PEPLIN LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

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**1. Corporate information**

The financial report of Peplin Limited and its controlled entities ("Group") for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of directors on 13 February 2007. Peplin Limited is a company incorporated in Australia and limited by shares, which are publicly traded on Australian Securities Exchange.

**2. Summary of significant accounting policies**

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 2006 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*.

**(a) Basis of preparation of half-year financial report and statement of compliance**

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with and complies with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

*Historical cost convention*

These financial statements have been prepared under the historical cost convention.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

**PEPLIN LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

**2. Summary of significant accounting policies (cont)**

**(b) Significant accounting policies**

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2006, none of which had an impact on this half-year financial report.,

**(c) Changes in accounting policy**

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 31 December 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

<b>AASB Amendment/New Standard</b>	<b>Affected Standard (s)</b>	<b>Application date of standard</b>	<b>Application date for Group</b>
2005-10	<i>AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time adoption of AIFRS, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts, AASB 138 Life Insurance Contracts</i>	1 January 2007	1 July 2007
AASB 7	<i>AASB 7 Financial Instruments: Disclosures</i>	1 January 2007	1 July 2007

It has been assessed that the implementation of the above AASB amendment and new AASB standard will not affect the Group's accounting policies; however, from adoption, they will result in changes to the financial instrument disclosures included in the Group's annual financial reports.

**3. Segment information**

The Group predominantly operates in one business segment. Its activities comprise research and development of therapeutic products for the treatment of skin conditions and other diseases.

The Group also predominantly operates in one geographical segment, being Australia.

**PEPLIN LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

**4. Loss for the half-year**

	<b>Consolidated Half-year</b>	
	<b>31 Dec 2006</b>	<b>31 Dec 2005</b>
	<b>\$</b>	<b>\$</b>
Loss for the half-year includes the following items that are unusual because of their nature, size or incidence		
Other income:		
Government grants	281,627	25,670
Other expenses:		
Foreign currency losses *	(368,155)	(21,264)

\* It is the group's policy to minimise the use of financial derivatives and achieve risk mitigation through natural hedges. These natural hedges include the maintenance of a US dollar bank account to primarily facilitate the payment of research and development activities denominated in US dollars. The foreign currency losses for the period primarily arise on translation of the US dollar bank account at 31 December 2006 exchange rates.

**5. Cash and cash equivalents**

	<b>Consolidated</b>	
	<b>31 Dec 2006</b>	<b>30 June 2006</b>
	<b>\$</b>	<b>\$</b>
For the purpose of the half-year cash flow statement and balance sheet, cash and cash equivalents are comprised of the following:		
Cash at bank	39,532,535	22,608,848
Short-term deposits	-	8,582,611
	<u>39,532,535</u>	<u>31,191,459</u>

**6. Property, plant and equipment**

**Acquisitions and disposals**

During the half-year ended 31 December 2006, the Group acquired assets with a cost of \$221,300 (2005: \$328,561). No assets were disposed of by the Group during the period.

**PEPLIN LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

**7. Contributed equity**

	<b>Consolidated</b>	
	<b>31 Dec 2006</b>	<b>30 June 2006</b>
	<b>\$</b>	<b>\$</b>
<b>Share capital</b>		
184,530,496 ordinary shares fully paid		
(30 June 2006: 146,268,930)	82,495,263	57,138,628

*Movement in ordinary shares on issue:*

		<b>Number of shares</b>	<b>Issue price</b>	<b>Consolidated \$</b>
1 January 2006	Opening balance	127,344,096		44,916,403
11 April 2006	Options exercised	31,667	\$0.69	21,850
11 April 2006	Options exercised	50,667	\$0.44	22,293
26 June 2006	Issue of ordinary shares under international offer – 1 <sup>st</sup> tranche	18,657,500	\$0.71	13,246,825
30 June 2006	Issue of ordinary shares	185,000	\$0.71	131,350
	Less: Transaction costs arising from share issues	-		(1,200,093)
30 June 2006	Balance	146,268,930		57,138,628
3 July 2006	2 for 13 Entitlement offer	19,604,066	\$0.71	13,918,887
1 November 2006	Issue of ordinary shares under international offer – 2nd tranche	18,657,500	\$0.71	13,246,825
	Less: Transaction costs arising from share issues	-		(1,809,077)
<b>31 December 2006</b>	<b>Balance</b>	<b>184,530,496</b>		<b>82,495,263</b>

**International offer**

During the 2006 financial year, Peplin Limited entered into agreements for the placement of 37,500,000 shares and 11,250,000 options to international institutional and sophisticated investors in two tranches. In June 2006 the first tranche of shares and options were issued. In November 2006, the second tranche of shares were issued. Options related to the second tranche that were issued in June 2006 and held on trust by Wilson HTM Ltd were transferred to the investors on the issue of the second tranche shares. All shares and options pertaining to the International Offer have now been issued.

**8. Contingent liabilities**

There have been no material changes in contingent liabilities since 30 June 2006, except as noted:

Upon successful completion of certain conditions and milestones associated with the transfer of the operating control of the manufacturing facility, Nutratec Pty Ltd will be entitled to 50,000 shares and 50,000 five year options exercisable at \$0.70.

**PEPLIN LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

**9. Commitments**

At 31 December 2006 the Group has capital commitments of approximately \$205,000 (2005: nil) in relation to the supply and installation of a US regulatory submission management system.

**10. Share-based payments**

**(a) Peplin Limited Employee Share Option Plan**

In December 2006, 1,750,000 options were granted to employees under the Employee Share Option Plan. The exercise price of the options of \$0.86 was based on the weighted average price at which the company's shares were traded on Australian Securities Exchange during the five trading days immediately following the grant date. The options will become exercisable between 1 January 2007 and 31 December 2011.

**(b) Other share-based payment options**

Details of the other share-based payment options granted during the six months to 31 December 2006 are set out below:

*(i) Options granted 12 October 2006*

1,000,000 options were granted to the Chief Executive Officer at an exercise price of \$0.70. The exercise price of the options was based on the weighted average price at which the company's shares were traded on Australian Securities Exchange during the five trading days immediately preceding the date of the Board resolution to seek shareholder approval for the issue. 200,000 options were granted to directors at an exercise price of \$0.77, representing a 10% premium to the market price calculated above. The options will become exercisable between 12 October 2006 and 8 August 2011.

*(ii) Options granted 14 October 2006*

2,690,000 options were granted to employees and senior executives at an exercise price of \$0.70. The exercise price of the options was based on the weighted average price at which the company's shares were traded on Australian Securities Exchange during the five trading days immediately preceding the date of the Board resolution to seek shareholder approval for the issue. The options will become exercisable between 1 January 2007 and 31 December 2011.

**(c) Fair value of options granted**

The fair value of the options granted is estimated as at the date of the grant using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2006:

	<b>ESOP</b>	<b>Other share-based payment options</b>		
	<b>12 Dec 2006</b>	<b>12 Oct 2006</b>	<b>12 Oct 2006</b>	<b>14 Oct 2006</b>
Exercise price	\$0.86	\$0.70	\$0.77	\$0.70
Dividend yield (%)	-	-	-	-
Expected volatility (%)	55-65	55-65	55-65	55-65
Risk-free interest rate (%)	5.86	5.88	5.88	5.91
Expiry period (years)	5	5	5	5

The estimated fair value at grant date of each option during the six months ended 31 December 2006 ranged from 25 – 39 cents (30 June 2006: 26 – 38 cents).

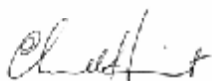
**PEPLIN LIMITED AND CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION**

In the opinion of the directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) give a true and fair view of the financial position as at 31 December 2006 and the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that company 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.



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Cherrell Hirst  
Chairman

Brisbane, Queensland  
Dated this 13th day of February, 2007

To the members of Peplin Limited

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Peplin Limited and the entities it controlled during the half year, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration.

#### *Directors' Responsibility for the half year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Peplin Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

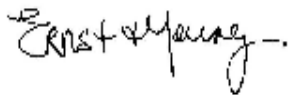
*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Peplin Limited and the entities it controlled during the half year, 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 2006 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Winna Brown  
Partner  
Brisbane  
13 February 2007