

HALF-YEAR REPORT
PEPLIN BIOTECH LIMITED

A.B.N. 55 090 819 275

31 DECEMBER 2002

PEPLIN BIOTECH LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Peplin Biotech Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2002.

1. Directors

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

C Hirst
GL Redlich
JH Aylward
WK Goss
JBL Heading

2. Review of Operations

Summary of Achievements

Peplin Biotech's mission is to discover, develop and commercialise new drugs for the treatment of cancer. The past six months has seen important progress in pursuit of this mission. We have:

- Achieved of our first major commercialisation target, a US\$23m collaboration and licensing deal with Allergan, Inc. for the topical and intralesional applications in skin and eye diseases in the Americas using our lead anti-cancer drug PEP005;
- Successfully scaled up production of this drug to support final development and clinical studies;
- Contracted the final phase of pre-clinical development of PEP005 (including formulation and toxicology studies) with international contract research organizations to support the filing of an Investigative New Drug (IND) application with the US Food and Drug Administration in mid-2003;
- Entered our lead drug PEP005 into *in vivo* testing against a range of important human tumour types at the US National Cancer Institute (NCI);
- In-licensed ten promising new anti-cancer compounds for evaluation from the US National Cancer Institute;
- Attained three granted patents in Australia (*Anti-cancer compounds I* and *Anti-cancer compounds III* and *Therapeutic agents III*) and one in Singapore (*Anti-cancer compounds*), and acceptance of a further two patents in Australia (*Therapeutic Agents I-II*).

Hallmark Deal of the Year

Described in Australian Biotechnology News as "the hallmark deal of the year" for the sector, benefits of the Allergan deal stretch beyond the obvious value of more than \$40m in milestone payments to Peplin over the coming several years. Importantly, the deal provides for a market-rate royalty in a large and growing market, and also timely third party validation by a respected international pharmaceutical company of Peplin's core technology.

In particular, the latter benefit will be of great value in future licensing negotiations for rights to other territories for the same diseases, and for possible new applications of the same drug against the other cancers which are of greater therapeutic and commercial interest. Results from our many research collaborations around the world, including that with the US NCI, continue to encourage us in our evaluation of colorectal, prostate and breast cancer, leukemia and lymphoma as possible targets for this drug.

PEPLIN BIOTECH LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

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

Cash Position

The successes of the past half-year have been achieved while maintaining tight control over the company's finances. Nevertheless, such productive R&D is expensive, and so we were delighted with shareholder response to our August rights issue which contributed a nett \$4.1m to our cash reserves, strengthening our hand in critical licensing negotiations then underway.

Including the initial payment of US\$1m from Allergan which followed in November, we concluded the half year with \$5.7m in cash. This balance comfortably allows us to complete our remaining pre-clinical development obligations with Allergan, and to further additional research through 2003 towards our goal of making a real difference to the lives of cancer patients in the years to come.

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



Director

Brisbane, Queensland
Dated this 10th day of February, 2003

PEPLIN BIOTECH LIMITED AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF-YEAR ENDED 31 DECEMBER 2002

	Half-year	
	2002	2001
	\$	\$
Revenues from ordinary activities		
Grants	502,701	621,535
Interest	93,600	78,446
Licence fee	1,781,890	-
Total revenues from ordinary activities	2,378,191	699,981
Expenses from ordinary activities		
Research and development	(1,695,578)	(861,180)
Commercialisation and marketing	(372,247)	(157,307)
Corporate	(286,457)	(344,468)
Administration	(285,376)	(218,781)
Borrowing costs	(3,246)	(4,273)
Other expenses	-	(156,061)
Total expenses from ordinary activities	(2,642,904)	(1,742,070)
Loss from ordinary activities before income tax expense	(264,713)	(1,042,089)
Income tax expense	-	-
Net loss	(264,713)	(1,042,089)
Basic earnings per share (loss)	(0.5)¢	(1.9)¢

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

PEPLIN BIOTECH LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2002

	31 Dec 2002 \$	30 June 2002 \$
Current Assets		
Cash assets	5,757,843	2,168,055
Receivables	82,486	65,734
Total Current Assets	<u>5,840,329</u>	<u>2,233,789</u>
Non-Current Assets		
Property, plant and equipment	232,402	249,611
Intangible assets – patents and intellectual property	4,032,522	4,167,468
Total Non-Current Assets	<u>4,264,924</u>	<u>4,417,079</u>
Total Assets	<u>10,105,253</u>	<u>6,650,868</u>
Current Liabilities		
Payables	314,397	554,856
Interest-bearing liabilities	63,463	19,376
Provisions	58,306	57,798
Other	-	206,690
Total Current Liabilities	<u>436,166</u>	<u>838,720</u>
Non-Current Liabilities		
Interest-bearing liabilities	-	51,950
Total Non-Current Liabilities	<u>-</u>	<u>51,950</u>
Total Liabilities	<u>436,166</u>	<u>890,670</u>
Net Assets	<u>9,669,087</u>	<u>5,760,198</u>
Equity		
Contributed capital	15,842,598	11,668,996
Accumulated losses	(6,173,511)	(5,908,798)
Total Equity	<u>9,669,087</u>	<u>5,760,198</u>

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

PEPLIN BIOTECH LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2002

	Half-year	
	2002	2001
	\$	\$
Cash Flows from Operating Activities		
Cash receipts in the course of operations	2,117,651	771,279
Cash payments in the course of operations	(2,770,721)	(1,757,791)
Interest received	87,368	46,885
Borrowing costs paid	(3,246)	(4,273)
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Net cash used in operating activities	(568,948)	(943,900)
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Cash Flows from Investing Activities		
Payments for plant and equipment	(7,003)	(10,440)
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Net cash used in investing activities	(7,003)	(10,440)
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Cash Flows from Financing Activities		
Proceeds from issues of shares	4,388,500	72,000
Share issue transaction costs	(214,898)	-
Repayment of borrowings	(7,863)	(11,465)
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Net cash provided by financing activities	4,165,739	60,535
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Net increase/(decrease) in cash held	3,589,788	(893,805)
Cash at the beginning of the reporting period	2,168,055	4,104,655
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Cash at the end of the reporting period	5,757,843	3,210,850
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The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

PEPLIN BIOTECH LIMITED AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2002

1. Basis of Preparation of Half-Year Financial Report

This general purpose financial report for the interim half-year reporting period ended 31 December 2002 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 2002 and any public announcements made by Peplin Biotech 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 previous financial year and corresponding interim reporting period unless otherwise stated.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current half-year.

Consistent with the classification adopted in the financial statements for the year ended 30 June 2002 this half-year the statement of financial performance has been prepared using a classification of expenses by function. The prior half-year financial statements were prepared using a classification of expenses by nature. The directors believe the change in method of classification provides more relevant information.

Revenue Recognition

Licence fee revenue is recognised on an accruals basis when the consolidated entity has the right to receive the payment under the relevant agreement and has performed its obligations.

Employee Benefits and Provisions

Amended Accounting Standard AASB 1028 Employee Benefits and new Accounting Standard AASB 1044 Provisions, Contingent Liabilities and Contingent Assets were adopted with effect from 1 July 2002. Neither of these Accounting Standards has had a material effect on the consolidated entity's financial statements.

2. Segment Information

The consolidated entity predominantly operates in one business segment. Its activities comprise research and development of intellectual property associated with microbiology and medical research of compounds for treatment of cancers.

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

PEPLIN BIOTECH LIMITED AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2002

3. Individually Significant Items

Individually significant items included in expenses from ordinary activities:

	Half-year	
	2002	2001
	\$	\$
Consulting services in respect of a proposed implementation of an American Depository Receipt programme	-	156,061
Consulting services in respect of investigating partnering opportunities to enhance the commercialisation of the consolidated entity's research and development programme and subsequent success fee	231,617	119,803

4. Research Collaboration and License Agreement

During the half-year the consolidated entity ("Peplin") entered into a research collaboration and license agreement with Allergan Inc. (a company based in the USA) for the right to develop and commercialise Peplin's lead compound PEP005 for the topical treatment of non-melanoma skin cancer and actinic keratosis.

Under the terms of the agreement, Allergan has been granted an exclusive license to develop and commercialise PEP005 for the topical and intralesional treatment of skin and eye conditions in North and South America for the term of Peplin's US patent. In return, Peplin has received an up-front payment of US\$1,000,000 (AU\$1,781,890) and may receive up to US\$22,000,000 including milestone payments and development payments. Upon commercialisation Peplin will receive a market-rate royalty on net sales.

The consolidated entity continues to be responsible for the pre-clinical work on PEP005. This work is required to trigger the milestone payments.

5. Equity Securities Issued

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

Details	Note	No. of Shares	Issue Price	\$
Balance – 30/06/02		53,840,000		11,668,996
Issue of ordinary shares for cash	(a)	35,000	40¢	14,000
Issue of ordinary shares under rights issue	(b)	6,730,000	65¢	4,374,500
Transaction costs arising from rights issue		-		(214,898)
Balance – 31/12/02		60,605,000		15,842,598

(a) During the half-year 35,000 ordinary shares were issued for cash on the exercise of options.

(b) On 4 September 2002, 6,730,000 ordinary shares were issued at 65 cents per share fully paid pursuant to a 1 for 8 renounceable issue, raising \$4,374,500.

PEPLIN BIOTECH LIMITED AND CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2002

6. Contingent Liability

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

As at 30 June 2002 the total grants received by entities in the consolidated entity (including amounts received by Peplin Trust prior to its acquisition) were approximately \$1,808,000 (2001: \$390,000) of which \$207,000 was included in unearned revenue. A further grant of approximately \$296,000 (2001: \$621,000) was received during the half-year (resulting in the total grants received to 31 December 2002 being approximately \$2,104,000 (2001: \$1,011,000).

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.

7. Commitments

In December 2001 Peplin Biotech Limited entered into an agreement with Burrill and Company to provide services in respect of investigating partnering opportunities to enhance the commercialisation of the consolidated entity's research and development programme. Burrill and Company was paid a monthly retainer to November 2002 when the agreement with Allergan was entered into (refer note 4). At this time Burrill and Company was entitled to a success fee. The success fee included an amount of US\$45,000, which was paid prior to 31 December 2002, plus the issue of options to purchase 538,300 ordinary shares in Peplin Biotech Ltd. The options will have an exercise price of \$0.95 per share and an expiry date of 21 December 2006. The options had not been issued at 31 December 2002.

PEPLIN BIOTECH LIMITED AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The directors declare that 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 2002 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 there are reasonable grounds to believe that Peplin Biotech 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.

A handwritten signature in black ink, appearing to read "Gary Redlich", written over a horizontal line.

Director

Brisbane, Queensland

Dated this 10th day of February, 2003

INDEPENDENT REVIEW REPORT

To the Members of Peplin Biotech 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 Biotech Limited (the company) for the half-year ended 31 December 2002. The company's directors are responsible for the financial report which includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of, or during, the half-year. We have performed an independent review of the financial report in order for the company to lodge the financial report with the Australian Securities & Investments Commission. This review was performed 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 the Corporations Act 2001, 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.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The 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 financial report of the company 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 2002 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029: *Interim Financial Reporting* in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

JOHNSTON RORKE
Chartered Accountants



R C N Walker
Partner

Brisbane, Queensland
10 February 2003