

## **ASX Announcement and Media Release**

Date: 3 December 2002

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### **MANAGING DIRECTOR'S COMMENTARY ON RESULTS**

Even though we have received recent correspondence from Centocor, the year ended 30 September 2002 has delivered some real achievements. Royalty income in the year more than doubled to \$2.2 million. Peptech also received, in accordance with a licence agreement, a milestone payment from Abbott Laboratories Inc when Humira (previously known as D2E7) was submitted for registration in Europe. During the year Peptech received Notices of Allowance in the USA for four TNF patents, three of which have been issued with the fourth currently being processed by the US patent office.

However, in spite of these achievements, the result for the year was a net loss after tax of \$8.9 million compared with a net profit of \$30.7 million in 2001. The prior year result included a number of one off income items including milestone receipts (\$25.5 million), gains on sale of assets (\$4.7 million), foreign exchange gains (\$3.2 million) and an income tax benefit of \$1.7 million. By contrast, the current year result includes significant one off expense items, being the reversal of the group's future income tax benefit (\$1.7 million) and provision for surplus lease space and asset write offs (\$0.3 million). The result also includes a \$4.6 million charge in relation to the Domantis research collaboration, and a foreign exchange loss of \$0.9 million.

Furthermore the Directors have, despite receiving strong legal advice that this was unnecessary, taken a very cautious view in not accruing royalty income from Centocor Inc for the quarter ended 30 September 2002 payable for sales of Remicade in Europe, Australia, Canada and the US, pending resolution of the dispute with Centocor Inc.

Expenditure during the year included the Domantis research collaboration expense of \$4.6 million, compared to \$1.6 million in 2001. While the benefits of the Domantis research agreement will accrue in future years, Peptech has chosen a conservative policy of writing the payments off over the three year period of the agreement. Peptech holds a 30.3% share in Domantis and this will increase to 36.1% (31.5% on a diluted basis) when the third and final equity contribution is paid in April 2003. During the year Peptech invested a further \$8.5 million in relation to its arrangements with Domantis represented by a research payment of \$5.0 million and an equity investment of \$3.5 million.

The animal health division performed well with sales of Ovuplant increasing by 32.7% to \$1.9 million.

Peptech incurred foreign exchange losses of \$0.9 million, compared with gains of \$3.1 million in 2001. While the company is exposed to foreign currency gains and losses, procedures have been put in place to minimise the impact of movements in the Australian dollar.

As I stated in my recent letter to shareholders, it is disappointing that the excellent progress that Peptech has made, and continues to be making, has been overtaken by the events surrounding Centocor. Our important Research Program with Domantis is ahead of schedule with advanced lead domain antibodies against TNF anticipated to commence testing in disease models in Q2, 2003. The work that Domantis is doing on single domain antibodies promises to lay the foundations for a series of next generation products in the fast growing field of protein therapeutics. TNF remains one of the best validated targets for protein therapeutics. The research collaboration agreement recently entered into by Domantis with Abbott Laboratories further validates the Domantis business model.

The domestic companion animal contraceptive programme continues to progress in line with the business plan. The 6 month male dog contraceptive product was submitted on schedule for registration in Australia and New Zealand. Regulatory approval in Australia is expected in the middle of 2003. Trials for the 12 month product are nearing the end of their programme.

I again confirm the Board's determination to resolve the Centocor matter speedily and in our favour so that Peptech can continue to build upon the exciting progress we are making in both our human and animal health businesses.

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