

**PRANA BIOTECHNOLOGY  
LIMITED  
ABN 37 080 699 065**

**4D  
HALF YEARLY FINANCIAL  
REPORT**

**for the half year ending  
31 December 2003**

# DIRECTORS REPORT

Your directors submit the financial report of the company for the half-year ended 31 December 2003.

## Directors

The names of directors who held office during or since the end of the half-year:

Geoffrey Kempler	Executive Chairman	appointed 11 November 1997
Colin Masters	Executive Director	appointed 9 December 1999
Brian Meltzer	Non-Executive Director	appointed 9 December 1999
George Mihaly	Non-Executive Director	appointed 9 December 1999

## Review of Operations

### Highlights:

- PBT-1 publication of successful Phase-2 clinical trials in peer reviewed international science journal "Archives of Neurology"
- New lead drug candidate identified, preclinical results show PBT-2 exceeds performance of PBT-1. PBT-2 scheduled for Phase-1 clinical trials in third quarter of 2004
- Collaboration with Panvax Limited and University of Melbourne to discover world's first Alzheimer's Vaccine
- Awarded \$1.35 million R&D Start Grant to take PBT-2 through safety testing and Phase 1 clinical trials
- Successful \$5 million capital raising at 70 cents per share

### Scientific Milestones:

During December 2003 the company announced publication of the successful pilot Phase 2 trial of PBT-1, in the international peer reviewed scientific journal "Archives of Neurology". The published trial data indicated that the inactivation of toxic beta amyloid protein in the human brain can significantly slow progress of neurodegenerative diseases such as Alzheimer's disease.

The completion of the trial and subsequent publication of its results has provided a critical basis for advancing the clinical development of Prana's suite of new proprietary Metal Protein Attenuating Compounds ("MPACs"). From this library a compound code name PBT-2 has been selected. PBT-2 has outperformed PBT-1 in all scientific evaluation undertaken to date and is currently undergoing toxicity tests, and it is planned to enter a Phase 1 clinical trial later this year.

During the period in review, Prana formed collaboration with Panvax Limited and the University of Melbourne to develop a vaccine for Alzheimer's disease.

### Financial Milestones:

In September of 2003, Prana completed the successful Private Placement of approximately 7.15 million new shares at a subscription price of \$0.70 each, to raise \$5m for the company. Funds raised are being predominately applied towards the development of PBT-2, examining potential licensing opportunities for the company and the advancement of other disease targets within Prana's existing areas of interest.

Prana was awarded a second R&D Start grant of \$1.35 million to be applied towards the clinical development of PBT-2.

## Review of Results

Net loss attributable to members of the company was \$4,037,914 (2002 loss: \$3,138,115).

NTA	31 December 2003	30 June 2003
Net Assets	16,572,843	15,823,703
Intangible Assets	12,038,345	12,588,347
Number of Shares on Issue	73,485,924	66,187,3030
Net Tangible Asset Backing (cents)	6.17	4.89

This report is signed in accordance with a resolution of the Board of Directors.



Director  
Geoffrey Kempler

Dated this 24<sup>th</sup> day of February 2004

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenues from ordinary activities	up	113.33%	to	1,123,587		
Loss from ordinary activities after tax attributable to members	up	28.66%	to	(4,037,914)		
Net loss for the period attributable to members	up	28.66%	to	(4,037,914)		
<b>Dividends (distributions)</b>	Amount per security		Franked amount per security			
Final dividend	n/a		n/a			
Previous corresponding period	n/a		n/a			
<sup>†</sup> Record date for determining entitlements to the dividend, (in the case of a trust, distribution) <table border="1" style="float: right; margin-left: 20px;"> <tr> <td style="width: 100px; height: 20px;"></td> <td style="text-align: right; padding-right: 5px;">n/a</td> </tr> </table>						n/a
	n/a					
Explanation of the above information:						
n/a						

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2003**

	COMPANY	
	31 December 2003 \$	30 June 2003 \$
<b>CURRENT ASSETS</b>		
Cash assets	5,620,156	3,463,783
Receivables	454,612	143,823
Other	40,465	52,362
<b>TOTAL CURRENT ASSETS</b>	6,115,233	3,659,968
<b>NON-CURRENT ASSETS</b>		
Plant and Equipment	106,439	141,611
Intangible assets	12,038,345	12,588,347
<b>TOTAL NON-CURRENT ASSETS</b>	12,144,784	12,729,958
<b>TOTAL ASSETS</b>	18,260,017	16,389,926
<b>CURRENT LIABILITIES</b>		
Payables	1,631,520	541,217
Provisions	48,762	23,831
<b>TOTAL CURRENT LIABILITIES</b>	1,680,282	565,048
<b>NON-CURRENT LIABILITIES</b>		
Provisions	6,892	1,175
<b>TOTAL NON-CURRENT LIABILITIES</b>	6,892	1,175
<b>TOTAL LIABILITIES</b>	1,687,174	566,223
<b>NET ASSETS</b>	16,572,843	15,823,703
<b>EQUITY</b>		
Contributed equity	21,528,077	16,741,023
Reserves	14,661,942	14,661,942
Accumulated losses	(19,617,176)	(15,579,262)
<b>TOTAL EQUITY</b>	16,572,843	15,823,703

The accompanying notes form part of these financial statements.

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF YEAR  
ENDED 31 DECEMBER 2003**

	<b>COMPANY</b>	
	31 December 2003	31 December 2002
	\$	\$
<b>REVENUES FROM ORDINARY ACTIVITIES</b>	1,123,587	526,700
Personnel	(1,071,308)	(749,757)
Research and Development	(2,617,876)	(1,060,928)
Intellectual Property	(287,831)	(684,248)
Financial	(133,645)	(137,252)
Amortisation	(550,002)	(550,000)
Computer	(6,828)	(19,107)
Depreciation	(47,930)	(38,982)
Insurance	(31,980)	(33,987)
Office	(73,830)	(66,567)
PR & Marketing	(119,274)	(34,364)
Travelling	(125,239)	(191,912)
Other expenses from ordinary activities	(95,758)	(97,711)
<b>(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>	<b>(4,037,914)</b>	<b>(3,138,115)</b>
<b>INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE</b>	<b>(4,037,914)</b>	<b>(3,138,115)</b>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>	<b>(4,037,914)</b>	<b>(3,138,115)</b>
<b>BASIC EARNINGS PER SHARE</b>		
(cents per share)	(5.5)	(5.3)
<b>DILUTED EARNINGS PER SHARE</b>		
(cents per share)	(5.5)	(5.3)

The accompanying notes form part of these financial statements.

**STATEMENT OF CASHFLOW FOR THE HALF YEAR ENDED  
31 DECEMBER 2003**

	COMPANY	
	31 December 2003 \$	31 December 2002 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(3,551,117)	(2,725,319)
Interest received	163,692	57,483
AusIndustry grants	65,746	467,945
Neuroscience Victoria	787,500	-
Other	446	-
	<hr/>	<hr/>
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	(2,533,733)	(2,199,891)
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment for purchases of plant and equipment	(12,757)	(87,812)
	<hr/>	<hr/>
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	(12,757)	(87,812)
	<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares & other equity securities	5,034,495	148,714
Capital Raising Costs	(296,978)	-
	<hr/>	<hr/>
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	4,737,517	148,714
	<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH HELD	2,191,027	(2,138,989)
Opening Cash Balance	3,463,783	3,585,014
Exchange Rate adjustments	(34,654)	-
	<hr/>	<hr/>
Closing Cash Balance	5,620,156	1,446,025
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form part of these financial statements.

# NOTES TO ACCOUNTS

## 1. Basis of Preparation

The half-year financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards AASB 1029: Interim Financial Reporting, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2003 and any public announcements made by Prana Biotechnology Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the company and are consistent with those applied in the 2003 annual report.

The half-year report does not include full disclosures of the type normally included in the annual financial report.

## 2. Going Concern

As at 31 December 2003, the company had cash assets of \$5,620,156, recorded a net loss of \$4,037,914 for the 6 month period ending 31 December 2003 and a net cash outflow from operating activities for the 6 month period ending 31 December 2003 of \$2,533,733. Notwithstanding the net loss and negative cash flow from operations, the directors consider that the going concern basis of accounting is appropriate for the following reasons:

- the most recently prepared cash flow forecasts prepared by management and reviewed by the directors indicate that the company will have sufficient cash to meet their operating requirements until at least the date of signing the directors' declaration for the year ending 30 June 2004;
- the company has 20,000,000 share options on issue with an exercise price of \$0.50 which expire 1 December 2004. The directors are confident that a significant portion of these options will be exercised (which have not been included within the company's cash flow forecasts) on the basis that the company expects to have satisfied a number of its predetermined scientific and business milestones during the course of the next 6 months;
- the company has consistently raised capital as and when required for its operations and anticipates that it will remain in a position to do so in the future.

## 3. Dividends

The company resolved not to declare any dividends in the period ending 31 December 2003.

## 4. Segment Information

The company's activities are predominately within Australia and cover research into Alzheimer's Disease and other major age-related degenerative disorders.

## 5. Contingent Liabilities

There has been no change in contingent liabilities since the last annual reporting date.

## 6. Events Subsequent to Reporting Date

There have been no events after reporting date that have a material effect on this report.



## DIRECTORS DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out in pages 4 to 8
  - a. Comply with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations; and
  - b. Give a true and fair view of the company's financial position as at 31 December 2003 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the 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 Board of Directors.



Director  
Geoffrey Kempler

Melbourne

Dated this 24<sup>th</sup> day of February 2004

## INDEPENDENT REVIEW REPORT TO THE MEMBERS OF PRANA BIOTECHNOLOGY LIMITED

### Scope

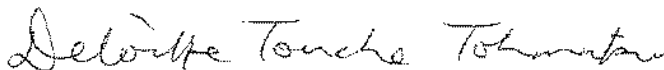
We have reviewed the attached financial report of Prana Biotechnology Limited for the half-year ended 31 December 2003 as set out on pages 5 to 9. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state 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 disclosing entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and 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 the entity's 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 given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

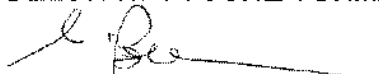
### Statement

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 Prana Biotechnology Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the disclosing entity's financial position as at 31 December 2003 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.



DELOITTE TOUCHE TOHMATSU



Chris Biermann  
Partner  
Chartered Accountants

Melbourne, 24 February 2004

Member of  
Deloitte Touche Tohmatsu