



## **NEWS RELEASE**

29 June 2006

### **GROPEP PROVIDES AN UPDATE ON ITS STRUCTURE REVIEW AND EARNINGS OUTLOOK**

*Adelaide-based biotechnology company, GroPep Limited, has announced the completion of a review of the Company's operating and corporate structure.*

*As recommended by the review, GroPep will examine the divestment of the Company's Biopharmaceutical Development division – through a spin-out from GroPep or a trade sale.*

*The restructure will remove further funding requirements for the Biopharmaceutical Development division and allow GroPep to focus on building its highly profitable Biological Products division.*

### **UPDATE ON STRUCTURE REVIEW**

Leading ASX listed biopharmaceutical company GroPep Limited (ASX: GRO) is pleased to provide an update on the progress of its operating and corporate structure review, as announced in February 2006.

The Board of Directors previously advised shareholders that Ernst & Young had been engaged to examine the appropriateness of the Company's existing business model and alternative operating and corporate structures, with a view to enhancing growth and maximising shareholder value. Ernst & Young has now concluded its review and the Board has evaluated the contents of the report.

The report clarified and reinforced several initiatives which have been under consideration by the Board. Chief among these were the possible divestment of GroPep's Biopharmaceutical Development division and the possible sale of the Company in its entirety.

After careful consideration, the Board has resolved that it is in the best interests of shareholders to modify the Company's existing business model and strategy. The Board is of the view that shareholder value is not being maximised at present through the existing business model, whereby profits and cash flow generated from GroPep's Biological Products division are invested in biopharmaceutical research and development.

#### ***Biopharmaceutical Development***

With its lead infertility drug PV903 nearing completion of a Phase I clinical trial, GroPep has developed its biopharmaceutical research and development activities to the point where it believes that this division should support a stand alone business case for the commercialisation of its projects. Accordingly, the Board advises that it has retained eG Capital to examine the possible divestment of the Company's Biopharmaceutical Development division – most likely through a spin-out from GroPep or a trade sale.

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The Board is committed to increasing the profitability of the Company and, subject to the outcome of the divestment process, GroPep will independently restructure its biopharmaceutical research and development activities and reduce corporate overheads. This will decrease substantially the Company's future funding requirements for the Biopharmaceutical Development division.

### ***Biological Products***

GroPep's Biological Products division, particularly its growth factor products for Cell Culture, is a highly successful and profitable business with excellent long term growth prospects. It operates in the global cell culture market which is dynamic and experiencing rapid rates of growth.

GroPep is committed to maximising shareholder value from this business. The Board believes that this will be best achieved if the Company focuses primarily on the development and expansion of its Biological Products business, either in its present form or under a new corporate or ownership structure. Accordingly, the Board advises that it has appointed TC Corporate to assist it with this objective.

### ***Capital Management***

Shareholders in GroPep will be aware that the Company had net cash reserves of approximately \$12 million as at 31 December 2005. The Board also intends to increase shareholder value through the consideration and implementation of appropriate capital management initiatives. The Board will take into account GroPep's specific circumstances, including any restructuring which is undertaken by the Company, in determining appropriate capital management strategies.

### ***Board Composition***

At the time of announcing the half-year results in February 2006, the Company indicated that it was considering the appointment of one or more additional directors. Given the pending restructure of the Company, no changes to the composition of the Board are now expected until the form of the restructure is confirmed.

### ***Summary***

In summary, the Board will pursue the restructuring initiatives outlined above to ensure that both of the Company's business divisions are afforded every opportunity to maximise their potential. To this end, the Board will progress the restructuring initiatives simultaneously to achieve an optimal outcome for the Company and its shareholders.

The Board expects that this process will be conducted expeditiously. It anticipates that further information will be provided when the year-end financial results are reported in August 2006.

## **FUTURE OUTLOOK**

In line with prior guidance, the Board of Directors confirms its previous forecast that GroPep's net profit before tax for the 2005-06 financial year should be approximately \$4.0 million. This compares with the Company's AIFRS adjusted net profit before tax of \$2.7 million in the 2004-05 financial year, representing an increase of around 45%.

The Board further wishes to advise that following its annual budget review process, it expects net profit before tax for the 2006-07 financial year to be approximately \$5.4 million, an increase of 35% over the prior year. This forecast has been prepared on an annualised proforma basis, and excludes expenditures associated with the Biopharmaceutical Development division, as if it were divested on 1 July 2006.

That is, the forecast excludes all expenditures that will be incurred by the Biopharmaceutical Development division prior to the implementation of the restructure. Reported earnings for 2006-07 will therefore include these expenditures; however, at this point the impact on the 2006-07 result is uncertain as it will depend upon the nature and timing of the restructure. Furthermore, it is expected that the impact on reported earnings of ongoing Biopharmaceutical Development division expenditures will occur predominantly within the first half of 2006-07.

The forecast also excludes possible one-off restructuring costs associated with this scenario. However, the forecast does not take into account the potentially favourable impacts of the possible divestment of the Biopharmaceutical Development division or corporate initiatives with respect to the Biological Products business.

Shareholders should note that revenues from the Cell Culture Products business in the 2006-07 financial year are subject to considerable uncertainty. Recent developments in the market for these products have led us to form the view that a reduction in total demand is possible in 2006-07. The impact of these developments, which would result in a short term reduction in volumes, is not anticipated before the end of 2006.

Given this situation, in formulating the 2006-07 budget the Board has taken a prudent approach and assumed a decline in the underlying profitability of the Cell Culture Products business, before an expected modest resumption of profit growth in the years immediately following.

More importantly, the longer term outlook for the Cell Culture Products business remains very favourable. The number of new product referrals and new product evaluations continues to increase. Furthermore, GroPep believes that its leading product, LONG<sup>TM</sup>R<sup>3</sup>, will be used in commercial production in the future by a number of new pharmaceutical products currently in the late stages of clinical trials.

In addition to these new sales opportunities, the Company is developing new product and marketing opportunities that are expected to make a significant contribution to Cell Culture Product sales and profits in the medium to long term.

The Company expects to launch a new liquid formulation of LONG<sup>TM</sup>R<sup>3</sup> during the first half of 2007. The product will be much easier for customers to use and can be customised to meet the specific handling requirements of individual major customers. This is expected to further embed our product in customer production processes and improve our competitive position.

GroPep will also continue to benefit from favourable long term industry trends. As highlighted in the Company's news release on 1 May 2006, recent changes to the supply of the competitor product, recombinant insulin, have provided an opportunity for GroPep and its marketing partner, SAFC Biosciences, to emphasise the benefits of LONG<sup>TM</sup>R<sup>3</sup> as a superior alternative to insulin. This is particularly relevant when targeting existing users of recombinant insulin and provides potential for additional sales in the medium term.

Overall, the Board is confident that shareholder value will increase as a result of the corporate initiatives outlined above and the sustained long term growth that is expected to be achieved when the Company is focused on its core Cell Culture Products business. The Board looks forward to providing shareholders with further information concerning these initiatives in due course.

### **About GroPep**

GroPep is a world leader in the development, manufacture and commercialisation of biologically active proteins for cell culture and biomedical research. The Company has an active biopharmaceutical development program that establishes proof of concept for products in humans and partners the later stages of product development and marketing with major pharmaceutical companies. GroPep is listed on the Australian Stock Exchange Limited (ASX code: GRO).

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