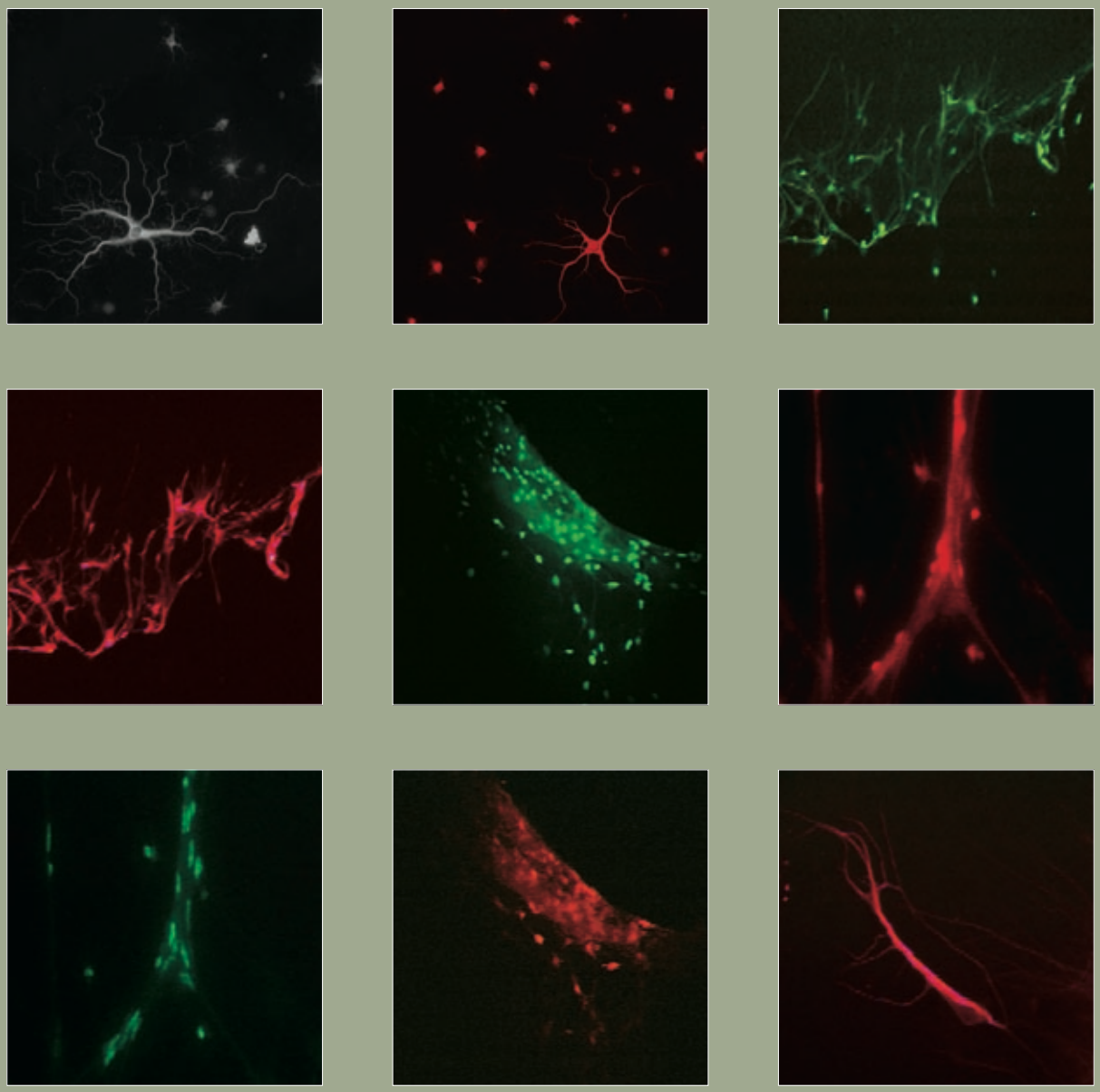
ANNUAL REPORT 2006

Neuren Pharmaceuticals Limited

ARBN 111 496 130



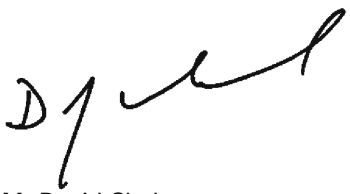
neuren
pharmaceuticals

Contents

The Board of Directors is pleased to present the Annual Report of Neuren Pharmaceuticals Limited for the year ended 31 December 2006, authorised by it on 12 March 2007.

For, and on behalf of, the Board

Dr Robin Congreve
Chairman



Mr David Clarke
Director

12 March 2007

Corporate Directory

Company
Neuren Pharmaceuticals Limited
ARBN 111 496 130

Corporate Head Office
Level 1, 103 Carlton Gore Road,
Newmarket, Auckland, New Zealand
Tel: +64 9 529 3940

Australian Registered Office
Level 13, 122 Arthur Street,
North Sydney NSW 2060
Australia
Tel: +61 2 9956 8500

Directors
Dr Robin Congreve
Mr Tom Amos
Mr David Clarke
Dr Graeme Howie
Mr Trevor Scott
Dr Douglas Wilson

Company Secretary
Mr Robert Waring

Auditors
PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland, New Zealand

Share Registry
Link Market Services Limited
Level 9, 333 Collins Street
Melbourne, Victoria 3000
Australia
Tel: +61 3 9615 9800
Fax: +61 3 9615 9900

Stock Exchange Listing
Australian Stock Exchange Limited
ASX Code: NEU

Website
www.neurenpharma.com

Chief Executive's Report

Throughout 2006 Neuren continued to focus its energies on progressing its first two lead candidates Glypromate® and NNZ-2566 through the clinic. Our internal clinical development resource was substantially increased during the year and successfully filed an Investigational New Drug application ("IND") with the US Food and Drug Administration ("FDA") in December 2006 for a Phase 3 trial of Glypromate®. The granting of the IND is a significant milestone for the Company and a significant achievement for an Australasian biotechnology company. NNZ-2566 is currently in Phase 1b, and planning is underway for a Phase 2 trial in moderate traumatic brain injury ("TBI") patients. During the year NNZ-2591 was also selected as a third lead candidate to progress to the clinic, potentially targeting diseases such as Parkinson's Dementia.

Due to Neuren's extensive pipeline we are also seeking out-licensing opportunities for our drug candidates. These include:

- NNZ-2566 (oral) – targeting sub-acute brain disease e.g. stroke recovery
- NNZ-4921 – targeting peripheral neuropathy
- NNZ-8000 – targeting breast cancer
- NNZ-3600 – targeting obesity

We have already received interest in our pipeline from a number of parties.

Glypromate® Clinical Development Programme
The 33 patient Phase 2a trial of Glypromate® to confirm the safety and pharmacokinetics of the drug in patients was completed in early 2006 and the successful safety results and study details were published in August 2006, allowing us to move forward to Phase 3. As noted above the IND was filed with the US FDA in December 2006 and accepted in January 2007, authorising the Company to proceed with the trial using Glypromate® to reduce or prevent cognitive decline associated with major cardiac surgery. Neuren intends this to be the first of two studies necessary to file a new drug application ("NDA") for registration of the drug in the US and other jurisdictions.

OUR PORTFOLIO

- Glypromate® – targeted at reducing or preventing cognitive decline associated with major cardiac surgery
- NNZ-2566 – intravenous and oral formulations targeting acute and sub-acute brain injury
- NNZ-2591 – an oral macrocyclic formulation targeted towards Parkinson's Disease and other dementias
- NNZ-4921 – a Neural Regeneration Peptide ("NRP") being assessed for the prevention or reversal of peripheral neuropathy (nerve damage)
- NNZ-8000 – antibodies targeted against major cancers
- NNZ-3600 – a growth hormone with unique fat reducing properties without the normally associated side effects

Since being granted the IND we have been finalising details with the selected clinical sites in the United States, Australia and New Zealand and have completed the manufacture and delivery of the trial drug supply. We have also had continuing discussions with the US FDA on various technical details of the study utilising the FDA's extensive experience in such matters.

We believe that authorisation from the FDA to proceed with the planned trial confirms that Neuren's clinical development program meets international standards and positions Glypromate® to be first in a market estimated at US$1 billion. We also believe that the combination of the drug's unique attributes and the advantages of targeting cognitive impairment in cardiac surgery patients gives Glypromate® a significantly improved chance of a successful outcome compared with neuroprotective therapies targeted at stroke. In multiple studies in animals we have demonstrated that Glypromate® can significantly reduce brain damage when it is administered up to 7-11 hours after the initial injury, an important advantage in preventing brain damage. Glypromate® also protects multiple types of brain cells via a unique set of biological actions, protecting the physical structure around the brain's neurons as well as the neurons themselves. This is now thought to be a major factor in reducing brain damage.

The Phase 3 trial is expected to take 18 months to complete at a cost of A$10 million, which in international terms is regarded as very cost-effective. We are also continuing to explore the feasibility of a second study with Glypromate® in collaboration with the Madigan Army Medical Center to evaluate Glypromate®'s ability to reduce neurological impairment in cardiac arrest patients.

NNZ-2566 Development Programme
The Phase 1 trial of intravenous NNZ-2566 to assess the initial safety on humans commenced in March 2006 and the results were published in January 2007. The trial involved 28 healthy volunteers in four groups who received one of four escalating doses of NNZ-2566 (0.1,1.0,10.0, and 20.0 mg/kg) and was conducted at the Centre for Clinical Studies, Alfred Hospital in Melbourne. It showed the drug was safe and well tolerated. An extension of the NNZ-2566 Phase 1 trial is now underway to evaluate safety and pharmacokinetics with longer infusions of 12, 24 and 72 hours.

Recent studies by Neuren and the US Army's Walter Reed Army Institute of Research ("WRAIR") have provided consistent evidence of NNZ-2566's ability to reduce loss of brain function in animal models of TBI. They have also provided insights into the compound's mode of action. NNZ-2566 is shown to have multi-faceted action significantly reducing both cell death and inflammation, protecting both the neurons and their surrounding infrastructure. The ability of NNZ-2566 to reduce non-convulsive seizures is a further feature of the drug that has been shown by the WRAIR. Non-convulsive or silent brain seizures occur frequently in TBI patients and are associated with poor clinical outcomes. In addition to studies conducted by the WRAIR, the protective efficacy of NNZ-2566 in TBI has received further support from a separate successful preclinical study of the drug conducted by the Finnish contract research company, Cerebricon. In this study NNZ-2566 was shown to improve cognitive outcome in brain-injured rats.

In 2007 we plan to initiate a Phase 2 study of NNZ-2566 as a single dose acute treatment for moderate TBI. This study will seek to determine whether the drug can improve neurocognitive and neuropsychological outcomes for patients who experience a TBI with moderate damage which results in hospitalization, but not so severe as to be life-threatening or to result in permanent severe

neurological deficits. Design of the study protocol and recruitment of clinical sites and investigators for the study has begun and the study is expected to be initiated in the second half of 2007.

We are also working with the US Army to undertake a second NNZ-2566 Phase 2 study in more severely brain-injured patients. This study is expected to be a modestly-sized, open-label study utilising experimental biochemical and electroencephalographic markers as well as traditional clinical outcome measures and will be designed to maximize the opportunity of an early cost effective signal in man.

NNZ-2591: A New Clinical Candidate
During 2006 we selected the diketopiperazine NNZ-2591 as a lead candidate for development based on its efficacy in preclinical models of Parkinson's disease (PD) and cognitive dysfunction.

NNZ-2591 has been observed to have a beneficial effect on locomotor behaviour in Parkinsonian animals. This remained for weeks after the cessation of drug treatment, suggesting that the compound produces a long-term benefit in a model of PD rather than just temporary symptomatic relief. In a separate study, oral administration of NNZ-2591 was also shown to successfully reverse experimental memory loss in an animal model. Taken together, these studies indicate that NNZ-2591 may be of use in treating Parkinson's disease and dementia. Given that many Parkinsonian patients exhibit varying degrees of dementia as the disease progresses, NNZ-2591 may be of benefit in treating both the motor disturbance and cognitive impairments in these patients

The primary focus of preclinical work in 2007 will be to validate and further characterise the actions of the NNZ-2591 in animal models of both Parkinson's disease and memory impairment/dementia. This strategy of confirming potential applicability in multiple indications will provide a wider range of options for subsequent clinical development and will expand both the number of potential partners and their level of interest. Work has begun and will continue to demonstrate the safety and toxicology profile of the molecule. To date, safety studies have revealed no concerns and the drug appears to be free of toxicity when given in high doses to rats.

Neural Regeneration Peptides (NRPs) Research Programme
As noted in the Interim Report, promising results in an animal model designed to test the ability of the NRP NNZ-4921 to prevent or reverse peripheral neuropathy (nerve damage) were obtained in 2006. The effectiveness of NNZ-4921 when given at a low dose, once per day, positively indicated that the compound has good potential as a neurotherapeutic drug.

Studies to further characterise the compound in neuropathies and other disease conditions are continuing, as well as additional studies to identify other novel NRP molecules that may share these characteristics. Once these studies have been successfully concluded, a formal preclinical safety and toxicity programme will be initiated.

Cancer Programme
Significant progress was made in 2006 in identifying two extra-cellular proteins called Trefoil Factors (TFFs) 1 and 3 which have been linked to the effects of growth hormone in cancer cells. Studies conducted in the latter part of 2006 have shown that these TFFs are critical for cancer cell survival and that their inhibition is the basis of a new therapeutic opportunity for Neuren. The rate of growth and spread of breast cancer and other common cancers, including colon, lung and prostate cancer has been significantly reduced in-vitro using antibody fragments directed against TFFs.

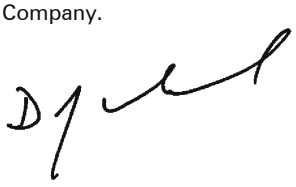
Our studies have also shown that the inhibition of TFFs in animal models causes almost complete regression of human breast cancers. The targeting of the TFFs also overcame Tamoxifen resistance which is a clinical problem for many patients undergoing this standard treatment for breast cancer.

Preclinical studies on the TFFs and antibodies targeted to them will continue through 2007 while we seek to out-license this product.

Financial Review
As in 2005, contract revenue decreased as we continued to focus more on clinical development. Grants related to the Glypromate® Phase 2 trial and manufacturing and scale-up of NNZ-2566 also completed during 2006 leading to a decrease in grant revenue from $1,714,000 to $1,295,000. The level of interest income in 2006 was consistent with slightly lower average cash balances across the year compared with 2005. Neuren had $10,609,000 in cash deposits as at 31 December 2006.

The increase in research and development costs in 2006 of $1,573,000 over 2005 was entirely attributable to clinical development activities, reflecting two clinical trials for Glypromate® and NNZ-2566, preparation of the Glypromate® Phase 3 IND and preparation of drug supply for the Glypromate® Phase 3 and NNZ-2566 Phase 1b trials anticipated for early 2007.

International Financial Reporting Standards ("IFRS") were adopted for 2006. Adjustments arising from this are set out in note 20 of the accompanying financial statements and were largely related to the recognition of the non-cash cost of share options issued by the Company.



Mr David Clarke
Chief Executive Officer

Principal Activities

Neuren Pharmaceuticals Limited (the "Company") is a publicly listed biopharmaceutical company focusing on the development of therapeutics for conditions associated with brain injury and neurodegeneration, including acute indications such as cognitive impairment resulting from cardiac surgery, traumatic brain injury and stroke, as well as chronic conditions such as Alzheimer's and Parkinson's diseases. In addition, the Company is engaged in research and development in metabolic disorders such as obesity, growth disturbances and cancers related to the functions of growth hormone.

Performance Overview

During 2006, Neuren completed a Phase 2 trial for its lead compound Glypromate® and also commenced a Phase 1 safety study for its second lead candidate, NNZ-2566. The Company also achieved a significant milestone in filing an IND with the US Food and Drug Administration in December 2006 for a Phase 3 trial of Glypromate®, which was accepted in early 2007. The Company's operations for 2006 are described further in the Chief Executive's Report on pages 1 and 2.

All amounts are shown in New Zealand dollars unless otherwise stated.

The net loss for the year ended 31 December 2006 was $11,346,000 (2005: $9,370,000). The detailed financial statements are presented on pages 11 to 28.

The net deficit per share of $0.10 (2005: $0.10) is based on 116,801,208 weighted average number of shares outstanding (2005: 98,109,589).

No ordinary share dividends were paid in the year and the Directors recommend none for the year.

Directors

Dr Robin Congreve, LLM, PhD (Chairman)
Dr Congreve was for many years a partner in Russell McVeagh McKenzie Bartleet & Co specialising in taxation and business law. He was subsequently on the Boards of or chaired a number of public and private companies including NZ Railways Corporation, BNZ, Comalco NZ Limited, Lion Nathan Limited and TruTest Limited. He is a principal of Oceania & Eastern Group, a New Zealand private equity group which has provided private equity funding to both Neuren's predecessor companies, NeuronZ and EndocrinZ. Dr Congreve was founding Chairman of the Auckland Medical School Foundation which led to the formation of NeuronZ within the University of Auckland and subsequently to the introduction of private equity into that company and EndocrinZ.

Mr Tom Amos, BEng (Non-Executive Director)
Mr Amos founded what became one of Australia's leading specialised technology consultancies, Amos Aked Swift (AAS), in 1983. Over the period until he stepped down in 2000 he built AAS into a highly successful, broad based consultancy and new venture business that now operates throughout Asia with offices in Australia, New Zealand and Indonesia. Mr Amos is a Principal of Wave Link Systems Pty Ltd, a company that invests and assists in technology related areas. The company has a portfolio of interests and investments spanning the range from start up to mature public companies. Since founding AAS he has been a managing partner, managing director, CEO and director of a number of public and private companies. Mr Amos is a director of Amos Aked Swift (NZ) Limited, FlowCom Limited, Ambertech Limited and Macquarie Technology Ventures Pty Limited. Mr Amos holds a degree in Electrical Engineering from the University of Sydney.

Mr Trevor Scott, BCom, FCA (PP), FNZIM, F Inst D (Non-Executive Director)
Mr Scott is founder of T.D. Scott and Co., an accountancy and consulting firm, which he formed in 1988. He is an experienced advisor to companies across a variety of industries. Mr Scott serves on numerous corporate boards and is chairman of several, including Pacific Edge Biotechnology Limited, Mercy Hospital Dunedin Limited and Arthur Barnett Limited. He is also a director of Hirequip Limited, Scott Technology Limited and ING Property Trust Limited, all of which are listed on the New Zealand Stock Exchange. Mr Scott is a member of the board of the New Zealand Seed Fund.

Dr Douglas Wilson, MB, ChB, PhD (Director and Chief Medical Officer)
Dr Wilson was originally a medical academic with postgraduate experience in Auckland, London, Oxford and Walter and Eliza Hall Institute, Melbourne. He then spent many years in the international pharmaceutical industry, firstly as Senior Vice-President for Boehringer Ingelheim USA. Dr Wilson was responsible for all drugs and clinical development and all interactions with the FDA. He then carried these responsibilities worldwide at Boehringer Ingelheim Head Office in Germany. He has overseen multiple drugs at all phases of development including bringing many drugs successfully to the market in the USA. Dr Wilson is now a consultant to the biotechnology sector.

Dr Graeme Howie, BSc (Hons), PhD (Non-Executive Director)
Dr Howie has over 27 years of management experience in the international pharmaceutical industry with a strong and diverse background in research and development, product development, manufacturing and commercial fields. His most recent experience is in recombinant biotech product development and was until December 2004 a senior executive at Pfizer Inc., based in New York. Dr Howie has extensive international experience in technical and commercial due diligence activities, including in-licensing. He also led and was responsible for new delivery route feasibility studies on human growth hormone and has been responsible for the development and registration of various products throughout the USA, Europe, Australia and Asia.

Mr David Clarke, BE (Hons), ME, BBS, MBA, FNZIM (Managing Director and Chief Executive Officer)
Mr Clarke has significant commercial experience at Director and Managing Director level in Health, IT and Biotechnology and brings strong organisational skills to Neuren. He stepped into the New Zealand health sector in 1991 from a background in engineering, finance, marketing and sales with previous positions in the steel and food industries. For the five years prior to joining Neuren, he was Chief Executive Officer of South Auckland Health Limited, one of the leading clinical and research centres and health providers in New Zealand. This centre specialises in providing tertiary healthcare, teaching and research, has a staff of 4,000 people and revenue of $500 million, centred around a 900-bed hospital – the largest acute surgical hospital in NZ/Australia. Mr Clarke also worked extensively with Neuren's CSO in developing the research and academic capabilities of South Auckland Health Limited. In addition to his current role as Managing Director of Neuren, he is also a director of two privately held companies, and is a Fellow of the New Zealand Institute of Management, a member of the Royal Society and a member of the NZ Institute of Directors.

Interests Register

The Company is required to maintain an interests register in which particulars of certain transactions and matters involving Directors must be recorded. Details of the entries in this register for each of the Directors are as follows:

Dr R L Congreve
Dr Congreve is a director of Oceania & Eastern Biotech Limited, EndocrinZ Founders Limited, Hazardous Investments Limited and until 21 February 2006 NeuronZ Limited, all shareholders of the Company. Dr Congreve does not have any other interests considered to cause any potential conflict of interests.

Mr TR Amos
Mr Amos is a representative of the Macquarie Technology Funds 1A and 1B, both shareholders of the Company. Mr Amos does not have any other interests considered to cause any potential conflict of interests.

Mr T D Scott
Mr Scott is a director of New Zealand Seed Fund Management Limited and Centralo Limited, both shareholders of the Company. Mr Scott is also the chairman or a director for Pacific Edge Biotechnology Limited and Mercy Hospital Dunedin Limited which also operate in the biotechnology/pharmaceutical industry. He is also a director of NZX listed ING Property Trust Limited which is the owner of the Company's former leased premises. Mr Scott does not have any other interests considered to cause any potential conflict of interests.

Dr J D Wilson
Dr Wilson does not have any disclosed interests considered to cause any potential conflict of interests.

Dr GB Howie
Dr Howie does not have any disclosed interests considered to cause any potential conflict of interests.

Mr D J Clarke
Mr Clarke does not have any disclosed interests considered to cause any potential conflict of interests.

The details of each Director's relevant interests in securities of the Company are disclosed in the "Other Information" section of this Annual Report.

Information used by Directors
During the year the Board received no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would not otherwise have been available to them.

Indemnification and Insurance of Directors and Officers
Neuren has arranged Directors and Officers Liability Insurance that provides that generally Directors and Officers will incur no monetary loss as a result of actions undertaken by them as Directors and Officers. The insurance does not cover liabilities arising from criminal activities or deliberate or reckless acts or omissions.

Remuneration of Directors

	Directors' Fees 31 December 2006 $'000	Other Remuneration 31 December 2006 $'000	Directors' Fees 31 December 2005 $'000	Other Remuneration 31 December 2005 $'000
Dr Robin Congreve	60	-	60	-
Mr Tom Amos	35	-	35	-
Mr David Clarke	-	450	-	450
Dr Graeme Howie	38	14	32	18
Mr Trevor Scott	40	-	35	-
Dr Doug Wilson	-	263	-	216

Executive Remuneration

The number of employees, not being directors of the Company, who received remuneration and benefits above $100,000 per annum are as follows:

	31 December 2006 $'000	31 December 2005 $'000
$100,000 - $109,999	3	1
$110,000 - $119,999	1	3
$120,000 - $129,999	-	1
$130,000 - $139,999	1	-
$140,000 - $149,999	1	-
$150,000 - $159,999	1	-
$170,000 - $179,999	1	-

Donations

The Company made no donations during the year (2005: nil).

Auditors

PricewaterhouseCoopers are the auditors of the Company. Audit fees in relation to the annual and interim financial statements were $58,000 (2005: $56,000). During 2006 PricewaterhouseCoopers also received $3,000 (2005: $11,000) in relation to other financial advice.

The Directors have adopted practices and procedures for the good corporate governance of the Company. These practices and procedures establish the framework of how the Directors carry out their duties and discharge their obligations.

The Company was admitted to the official list of the Australian Stock Exchange Limited ("ASX") on 3 February 2005 and has adopted appropriate policies and practices as provided by the ASX Listing Rules and the "Principles of Good Corporate Governance and Best Practice Recommendations" issued by the ASX Corporate Governance Council ("Council") which are as follows:

Principle 1. Lay solid foundations for management and oversight
Principle 2. Structure the Board to add value
Principle 3. Promote ethical and responsible decision-making
Principle 4. Safeguard integrity in financial reporting
Principle 5. Make timely and balanced disclosure
Principle 6. Respect the rights of shareholders
Principle 7. Recognise and manage risk
Principle 8. Encourage enhanced performance
Principle 9. Remunerate fairly and responsibly
Principle 10. Recognise the legitimate interests of stakeholders

Neuren's corporate governance practices were fully compliant with the Council's best practice recommendations apart from the following recommendations:

Recommendation 2.1: A majority of the Board should be independent directors
The Board is presently comprised of six directors, three of which are independent (the independent directors are noted below). At the time of his appointment, Dr Wilson was considered an independent director, however he has since been appointed Chief Medical Officer for the Company resulting in only half of the Board now being independent as defined by the Principles of Good Corporate Governance and Best Practice Recommendations. Dr Wilson has considerable global pharmaceutical industry experience and in addition to his input to the Company's clinical development, the Board considers that the Company would be best served by retaining him as a non-independent Director.

As noted below, for the purposes of the proper performance of their duties, Directors are entitled to seek independent professional advice at the Company's expense on prior approval of the Chairman.

Recommendation 2.4: The Board should establish a nomination committee
The Board has considered establishing a Nomination Committee, however due to the small number of Directors the Board considers it more efficient for the selection and appointment of Directors to be considered by the Board itself. It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive Directors on a case by case basis and in conformity with the requirements of the Listing Rules. The Board may also engage an external consultant where appropriate to identify and assess suitable candidates who meet the Board's specifications.

Role of the Board

The Board is responsible for the overall corporate governance of the Company. The Board acts on behalf of and is accountable to the shareholders. The Board seeks to identify the expectations of shareholders as well as other regulatory and ethical expectations and obligations. The Board is responsible for identifying areas of significant business risk and ensuring mechanisms are in place to manage those risks adequately. In addition, the Board sets the overall strategic goals and objectives, and monitors achievement of goals.

The Board appoints the Chief Executive Officer and the responsibility for the operation and administration of the Company has been delegated to the Chief Executive Officer and senior management. The Board ensures this team is appropriately qualified to discharge their responsibilities and reviews the performance of the Chief Executive Officer annually. The Chief Executive Officer is responsible for reviewing annually the performance of senior management.

The Board ensures management's objectives and activities are aligned with the expectations and risks identified by the Board through a number of mechanisms including the following:

- establishment of the overall strategic direction and leadership of the Company;
- approving and monitoring the implementation by management of the Company's strategic plan to achieve those objectives;
- reviewing performance against its stated objectives, by receiving regular management reports on business situation, opportunities and risks;
- monitoring and review of the Company's controls and systems including those concerned with regulatory matters to ensure statutory compliance and the highest ethical standards; and
- review and adoption of the annual budget and monitoring the results against stated targets.

The Board reviews its corporate strategy and financial targets in terms of shareholder expectations, performance and potential in the interests of creating long-term value for shareholders.

The Board considers corporate governance to be an important element of its responsibilities. It meets regularly throughout the year.

Board Composition

The Company must have between 3 and 9 Directors. The independence and tenure of each Director at the date of this report is as follows:

Director	Position	Independence	Term in Office
Dr Robin Congreve	Chairman – Non-executive director	Non-independent	5
Mr Tom Amos	Non-executive director	Independent	2
Mr David Clarke	Chief Executive Officer – Executive director	Non-independent	3
Dr Graeme Howie	Non-executive director	Independent	2
Mr Trevor Scott	Non-executive director	Independent	4
Dr Doug Wilson	Chief Medical Officer – Executive director	Non-independent	3

The composition of the Board, its performance, and the independence of Directors are regularly reviewed to ensure that the Board has the appropriate mix of independence, expertise and experience. Mr Amos, Dr Howie and Mr Scott are independent Directors. The Board has considered establishing a Nomination Committee, however due to the small number of Directors the Board considers it more efficient for the selection and appointment of Directors to be considered by the Board itself.

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive Directors on a case by case basis and in conformity with the requirements of the Listing Rules. The Board may also engage an external consultant where appropriate to identify and assess suitable candidates who meet the Board's specifications.

The relevant skills, experience and expertise of each Board member are set out in the Directors' Report.

For the purposes of the proper performance of their duties, Directors are entitled to seek independent professional advice at the Company's expense on prior approval of the Chairman.

Board Committees

It is the Board's policy that the various Committees it has established should:

- be entitled to obtain such resources and information from the Company including direct access to employees of and advisers to the Company as it may require; and
- operate in accordance with the terms of reference established by the Board.

Remuneration and Audit Committee

The Remuneration and Audit Committee must have a minimum of 2 non-executive directors. Currently the Committee members are Mr Scott (Chair), Dr Congreve and Mr Amos. The Committee operates under terms of reference approved by the Board. It is responsible for undertaking a broad review of, ensuring compliance with, and making recommendations in respect of, the Company's internal financial controls, legal compliance obligations and remuneration policies. It is also responsible for:

- review of audit assessment of the adequacy and effectiveness of internal controls over the Company's accounting and financial reporting systems, including controls over computerised systems;
- review of the audit plans and recommendations of the external auditors;
- evaluating the extent to which the planned scope of the audit can be relied upon to detect weaknesses in internal control, fraud and other illegal acts;
- review of the results of audits, any changes in accounting practices or policies and subsequent effects on the financial statements and make recommendations to management where necessary and appropriate;
- review of the performance and fees of the external auditor;
- audit of legal compliance including trade practices, corporations law, occupational health and safety and environmental statutory compliance , and compliance with the Listing Rules of the ASX;
- supervision of special investigations when requested by the Board;
- setting and reviewing compensation policies and practices of the Company;
- setting and reviewing remuneration of the Directors, Chief Executive Officer and members of the executive team; and
- setting and reviewing the Company's equity plans for employees and/or Directors.

All members of the Committee meet twice during the year in each of its Remuneration and Audit capacities. In undertaking these tasks the Remuneration and Audit Committee meets separately with management and external auditors where required. The Committee also seeks assurances from the Chief Executive Officer and Chief Financial Officer in respect of the accuracy and compliance of the Company's annual and half-year financial statements.

Ethical Standards and Share Trading

The Company recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity or share trading.

The Constitution permits Directors to acquire shares in the Company. The Company's share trading policy prohibits Directors, executives and employees from acquiring or disposing of securities unless this occurs during a 42 day period commencing 24 hours after the announcement to the ASX of the quarterly, half-yearly and annual results and/or after the conclusion of the Company's Annual General Meeting and provided that the person is not in possession of price sensitive information and the trading is not for short-term or speculative gain. Other trading may only occur with Board approval.

Continuous Disclosure

As a listed company, Neuren is required to comply with the continuous disclosure requirements as set out in the ASX Listing Rules. The Company discloses to the ASX any information concerning the Company which a reasonable person would expect to have a material effect on the price or value of securities of the Company, unless certain exemptions from the obligation to disclose apply.

All relevant information provided to the ASX is also posted onto the Company's corporate website www.neurenpharma.com, in compliance with the continuous disclosure requirements of the Listing Rules.

Rights of Shareholders

The Board strives to communicate regularly and clearly with shareholders, the principal methods being through the Company's annual and half-year reports, and Company announcements posted on the Company's website. Shareholders are encouraged to attend and participate at general meetings, which the Auditors are also invited to attend.

Identification and Management of Significant Business Risk

The Board has identified the significant areas of potential business and legal risk for the Company.

The identification, monitoring and, where appropriate, the reduction of significant risk to the Company are monitored by the Board. The Board reviews and monitors the parameters under which such risks will be managed.

The Board has identified the Company's activities in conducting clinical trials on humans as a significant area of risk. The Board has established the Clinical Development and Ethics Committee to assist the Board in discharging its responsibilities regarding this specific area of risk including ensuring:

- risk management strategies are in place (such as insurance) and that variances in such strategies are reported;
- staff involved in this area are sufficiently experienced and skilled;
- appropriate procedures are in place for the selection and remuneration of external contractors;
- compliance with regulatory obligations including manufacturing, testing, analysis and FDA/Med Safe and Ethics.

Similar risk management procedures are adopted for other areas of identified risk.

The Remuneration and Audit Committee also assists the Board in its monitoring of financial and operational risk.

Both Committees ensure adequate and timely reporting of their findings and activities to the Board.

Remuneration

Neuren believes having highly skilled and motivated people will allow the organisation to best pursue its mission and achieve its goals for the benefit of shareholders and stakeholders more broadly. The ability to attract and retain the best people is critical to the Company's future success. The Board believes remuneration policies are a key part of ensuring this success.

The Remuneration and Audit Committee of the Board is responsible for determining and reviewing compensation arrangements for the Directors, the Managing Director (Chief Executive Officer) and members of the executive team. The Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. To assist in achieving these objectives, the Remuneration and Audit Committee links the nature and amount of executive Directors' and Officers' emoluments to the Company's performance.

Remuneration of Executives comprises base salary and an "at-risk" (bonus) component, the payment of which is dependent upon individual, team and Company performance relative to specific targets. Executive performance and remuneration is reviewed formally each year.

Long-term incentive arrangements have been provided by participation in a share option plan to ensure key employees maintain a long-term interest in the growth and value of the Company.

Non-executive Director fees are determined by the Board within the aggregate limit for Directors' fees approved by shareholders. The current remuneration level for the Chair is $60,000 and for non-executive Directors is $25,000 per year with an additional $10,000 for committee membership and $5,000 for committee Chairs. Executive Directors do not receive Directors fees. Directors and Executives receive no retirement allowances. New Zealand Companies Act disclosures with regard to Directors' Fees and Executives' remuneration are set out in the Directors' Report.

FINANCIAL STATEMENTS

for the year ended 31 December 2006

for the year ended 31 December 2006

Company and Group	Notes	2006 NZ$'000	2005 NZ$'000
Revenue - interest income		563	619
- contract research revenue		194	460
		757	1,079
Other income - grants		1,295	1,714
Total revenue and other income		2,052	2,793
Depreciation and amortisation expense		(882)	(878)
Research and development costs		(9,534)	(7,961)
Patent costs		(582)	(500)
Share option compensation expense		(102)	(475)
Foreign exchange gain		455	63
Corporate and administrative costs		(2,753)	(2,393)
Loss before income tax	5	(11,346)	(9,351)
Income tax expense	6	-	(19)
Loss after income tax		$ (11,346)	$ (9,370)
Basic and diluted loss per share	7	$ (0.10)	$ (0.10)

The notes on pages 15 to 28 form part of these financial statements

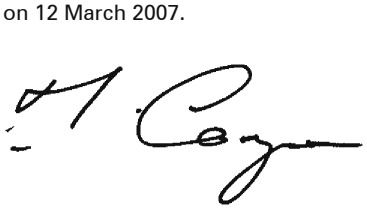
Balance Sheet

as at 31 December 2006

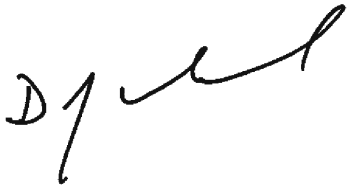
Company and Group	Notes	2006 NZ$'000	2005 NZ$'000
ASSETS			
Current assets:			
Cash and cash equivalents	8	10,609	12,499
Trade and other receivables	9	994	1,157
Income taxes receivable		6	6
Total current assets		11,609	13,662
Non-current assets:			
Property, plant and equipment	10	303	78
Intangible assets	11	9,986	10,809
Total non-current assets		10,289	10,887
TOTAL ASSETS		$ 21,898	$ 24,549
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade and other payables	12	3,698	3,261
Lease incentive – short term		15	-
Total current liabilities		3,713	3,261
Non-current liabilities:			
Lease incentive – long term		75	-
Total liabilities		3,788	3,261
SHAREHOLDERS' EQUITY			
Share capital	13	49,943	41,877
Other reserves		586	484
Accumulated deficit		(32,419)	(21,073)
Total shareholders' equity		18,110	21,288
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 21,898	$ 24,549

The notes on pages 15 to 28 form part of these financial statements

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 12 March 2007.



Dr Robin Congreve
Chairman



Mr David Clarke
Director

Statement of Changes in Equity

for the year ended 31 December 2006

Company and Group	Paid-in Capital Shares 000's	Paid-in Capital Amount NZ$'000	Other Reserves NZ$'000	Accumulated Deficit NZ$'000	Total Equity NZ$'000	Recognised Revenues and Expenses NZ$'000
Shareholders' equity as at 1 January 2005	62,500	$ 21,158	$ 9	$ (11,703)	$ 9,464	
Shares issued in initial public offering ("IPO")	37,500	16,309			16,309	
Shares issued in private placement	12,000	6,687			6,687	
Share issue costs expensed		(2,277)			(2,277)	
Share option grants for services			475		475	
Loss for the year				(9,370)	(9,370)	$ (9,370)
Total recognised revenues and expenses						$ (9,370)
Shareholders' equity as at 31 December 2005	112,000	$ 41,877	$ 484	$ (21,073)	$ 21,288	
Shares issued in private placement	15,000	6,705			6,705	
Shares issued in Share Purchase Plan	4,094	1,871			1,871	
Share issue costs expensed		(510)			(510)	
Share option grants for services			102		102	
Loss for the year				(11,346)	(11,346)	(11,346)
Total recognised revenues and expenses						$ (11,346)
Shareholders' equity as at 31 December 2006	131,094	$ 49,943	$ 586	$ (32,419)	$ 18,110	

The notes on pages 15 to 28 form part of these financial statements

Cash Flow Statement

for the year ended 31 December 2006

Company and Group	2006 NZ$'000	2005 NZ$'000
Cash flows from operating activities:		
Receipts from grants	1,438	1,199
Receipts from customers	-	737
Interest received	563	619
GST refunded	260	281
Income taxes refunded (paid)	-	(24)
Payments to employees	(2,167)	(1,902)
Payments to other suppliers	(10,346)	(9,895)
Net cash used in operating activities	(10,252)	(8,985)
Cash flows from investing activities:		
Purchase of plant and equipment	(226)	(49)
Purchase of intellectual property	-	(15)
Purchase of other intangible assets	(20)	-
Net cash used in investing activities	(246)	(64)
Cash flows from financing activities:		
Proceeds from the issue of shares	8,576	22,996
Payments of share issue expenses	(538)	(1,901)
Lease incentive received	92	-
Net cash provided from financing activities	8,130	21,095
Net (decrease) increase in cash	(2,368)	12,046
Effect of exchange rate changes on cash balances	478	110
Cash at the beginning of the year	12,499	343
Cash at the end of the year	10,609	12,499
Reconciliation with loss after income tax:		
Loss after income tax	(11,346)	(9,370)
Non-cash items requiring adjustment:		
Depreciation of property, plant and equipment	47	48
Property, plant and equipment written off	11	-
Amortisation of intangible assets	835	830
Share option compensation expense	102	475
Foreign exchange loss (gain)	(455)	(63)
Lease incentive amortisation	(1)	-
Changes in working capital:		
Trade and other receivables	155	(116)
Trade and other payables	400	(789)
Net cash used in operating activities	(10,252)	(8,985)

The notes on pages 15 to 28 form part of these financial statements

1. Nature of business

Neuren Pharmaceuticals Limited (Neuren or the Company) is a publicly listed biopharmaceutical company focusing on the development of therapeutics for conditions associated with brain injury and neurodegeneration, including acute indications such as cognitive impairment resulting from cardiac surgery, traumatic brain injury and stroke, as well as chronic conditions such as Alzheimer's and Parkinson's diseases. In addition, the Company is engaged in research and development in metabolic disorders such as obesity, growth disturbances and cancers related to the functions of growth hormone. Neuren operates predominantly from New Zealand.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office in New Zealand is Level 1, 103 Carlton Gore Road, Newmarket, Auckland, and in Australia Level 13, 122 Arthur Street, North Sydney. Neuren has its primary listing on the Australian Stock Exchange (ASX code: NEU).

These consolidated financial statements have been approved for issue by the Board of Directors on 12 March 2007.

Inherent Uncertainties

- There are inherent uncertainties associated with assessing the carrying value of the acquired intellectual property. The ultimate realisation of the carrying values of intellectual property totalling $9,970,000 (after amortisation) is dependent on the Company successfully developing its products, on licensing the products, or divesting the intellectual property so that it generates future economic benefits to the Company.

- The Company's research and development activities involve inherent risks. These risks include, among others: dependence on, and the Company's ability to retain key personnel; the Company's ability to protect its intellectual property and prevent other companies from using the technology; the Company's business is based on novel and unproven technology; the Company's ability to sufficiently complete the clinical trials process; and technological developments by the Company's competitors may render its products obsolete.

- The Company has a business plan which will require a high level of expenditure until product revenue streams are established and therefore expects to continue to incur additional net losses until then. In the future, the Company will need to raise further financing through other public or private equity financings, collaborations or other arrangements with corporate sources, or other sources of financing to fund operations. There can be no assurance that such additional financing, if available, can be obtained on terms reasonable to the Company. In the event the Company is unable to raise additional capital, future operations will need to be curtailed or discontinued.

2. Summary of significant accounting policies

These general-purpose financial statements are for the year ended 31 December 2006 and have been prepared in accordance with generally accepted accounting practice in New Zealand and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

(a) Basis of preparation

Entities Reporting

These financial statements are for the Company and the Group (comprising the Company and its subsidiaries) which are designated as profit-oriented entities for financial reporting purposes. At 31 December 2005 and 2006 the subsidiary companies had no material operations.

Statutory Base

Neuren is registered under the New Zealand Companies Act 1993 and is an issuer in terms of the New Zealand Securities Act 1978. Neuren is also registered as a foreign company under the Australian Corporations Act 2001. These financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Application of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards

These are the Company's first annual financial statements prepared in accordance with NZ IFRS and accordingly NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied. These financial statements have been prepared in accordance with those NZ IFRS standards and interpretations issued and effective or issued and early adopted as at the time of preparing these statements (February 2007).

The financial statements of Neuren until 31 December 2005 had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS) which differ in certain respects from NZ IFRS. When preparing the financial statements for the year ended 31 December 2006, certain accounting and valuation methods applied in the previous NZ FRS financial statements have been amended to comply with NZ IFRS.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the Company's equity and its losses are given in note 20.

Historical cost convention
These financial statements have been prepared under the historical cost convention as modified by certain policies below.

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Company to exercise its judgement in the process of applying the Company's accounting policies. Actual results may differ from those estimates.

The policies set out below have been consistently applied to all of the years presented. The Company has made use of the exemption available under NZ IFRS 1 to only apply NZ IFRS 2 (with respect to non-vested options) and NZ IFRS 3 from 1 January 2005 (see note 3).

(b) Revenue recognition
Grants
Grants received are recognised in the income statement when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Contract research
Where science projects are recognised on an individual project basis and span more than one year, the percentage completion method is used to determine the appropriate amount of revenue to recognise in a given year over the life of the project. Contract revenue is recognised when earned and non-refundable and when there are no future obligations pursuant to the revenue, in accordance with the contract terms. The full amount of an anticipated loss, including that relating to future work on the contract, is recognised as soon as it is foreseen.

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Research and development
Research costs include direct and directly attributable overhead expenses for drug discovery, research and pre-clinical and clinical trials. Research costs are expensed as incurred.

When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the process or products produced, development expenditure is recognised as a development asset when:

- a product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- the technical feasibility of the product or process can be demonstrated;
- the existence of a market for the product or process can be demonstrated and the Company intends to produce and market the product or process;
- adequate resources exist, or their availability can be reasonably demonstrated to complete the project and market the product or process.

In such cases the asset is amortised from the commencement of commercial production of the product to which it relates on a straight-line basis over the years of expected benefit. Research and development costs are otherwise expensed as incurred.

(d) Translation of foreign currency
The financial statements are expressed in New Zealand dollars, the functional currency of the Company. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies arising from operations are translated into New Zealand dollars using closing exchange rates in effect at period-end. Gains and losses due to exchange rate fluctuations on these items are included in the income statement.

(e) Income tax
The income tax expense for the period is the tax payable on the period's taxable income or loss using tax rates enacted at the balance sheet date and adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted at the balance sheet date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(f) Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(g) Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount of a long-lived asset is considered impaired when the recoverable amount from such asset is less than its carrying value. In that event, a loss is recognised in the income statement based on the amount by which the carrying amount exceeds the fair market value of the long-lived asset. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved.

(h) Goods and services tax (GST)
The financial statements have been prepared so that all components are presented exclusive of GST. All items in the balance sheet are presented net of GST, with the exception of receivables and payables, which include GST invoiced.

(i) Intellectual property
Costs in relation to protection and maintenance of intellectual property are expensed as incurred unless the project has yet to be recognised as commenced, in which case the expense is deferred and recognised as contract work in progress until the revenues and costs associated with the project are recognised.

(j) Cash and cash equivalents
Cash and cash equivalents comprises cash and demand deposits held with established financial institutions and highly liquid investments, which are readily convertible into cash and have maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Accounts receivable
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

(l) Property, plant and equipment
Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is determined principally using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Scientific equipment	4 years
Computer equipment	2 years
Office furniture, fixtures & fittings	4 years
Leasehold Improvements	Term of lease

(m) Intangible assets
Intellectual property
Acquired patents, trademarks and licences have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost over the anticipated useful lives, which are aligned with the unexpired patent term or agreement over trademarks and licences.

Acquired software
Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (two years).

(n) Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, bonuses and annual leave expected to be settled within 12 months of the reporting date are recognised in accrued liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Share-based payments

Neuren operates an equity-settled share option plan and awards certain employees and consultants share options, from time to time, on a discretionary basis. The fair value of the services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in other reserve equity over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest and become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(o) Share issue costs

Costs associated with the issue of shares which are recognised in shareholders' equity are treated as a reduction of the amount collected per share.

(p) Financial instruments

Financial instruments recognised in the balance sheet include cash and cash equivalents, accounts receivable and accounts payable. The Company believes that the amounts reported for financial instruments approximate fair value due to their short-term nature.

The Company does not utilise derivative financial instruments.

(q) Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

3. Transition to NZ IFRS

Application of NZ IFRS 1

Neuren's financial statements for the year ended 31 December 2006 are the first annual financial statements that comply with NZ IFRS and IFRS. The Company has applied NZ IFRS 1 in preparing these financial statements as described in note 2(a).

The Company's transition date is 1 January 2005 and the opening NZ IFRS balance sheet is prepared as at that date. The reporting date of these financial statements is 31 December 2006. Neuren's NZ IFRS adoption date is 1 January 2006.

In preparing these financial statements in accordance with NZ IFRS 1, the Company has applied the relevant mandatory exceptions and certain of the optional exemptions from full retrospective application of NZ IFRS.

The Company has elected to apply the following optional exemptions from full retrospective application:

(i) Business combinations exemption

Neuren has applied the business combinations exemption in NZ IFRS 1. Business combinations that took place prior to the 1 January 2005 transition date have not been restated.

(ii) Share-based payment transaction exemption

The Company has elected to apply the share-based payment exemption by applying NZ IFRS 2 only to those options that have been granted since 7 November 2002 but that have not vested by 1 January 2005.

The reconciliations in note 20 provide a quantification of the effect of the transition to NZ IFRS.

4. Segment information

Neuren predominantly operates in one business segment, being the research and development of therapeutic products for the treatment of brain injury and other diseases, and from one geographical location, being New Zealand.

5. Expenses

Company and Group	2006 NZ$'000	2005 NZ$'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Scientific equipment	11	3
Computer equipment	15	16
Fixtures and fittings	12	22
Leasehold improvements	9	7
Total depreciation	47	48
Amortisation		
Intellectual property	831	830
Software	4	-
Total amortisation	835	830
Remuneration of auditors		
Audit fees	58	56
Taxation advisory fees	3	11
Total remuneration of auditors	61	67
Employee benefits expense		
Salaries and wages	2,253	1,824
Share option compensation	102	151
Total employee benefits expense	2,355	1,975
Directors' fees	198	162
Lease expense	130	74

6. Income tax

Company and Group	2006 NZ$'000	2005 NZ$'000
(a) Income tax expense		
Current tax	-	19
Deferred tax	-	-
Income tax expense	-	19
(b) Numerical reconciliation of income tax expense to prima facie tax payable (receivable)		
Loss before income tax	(11,346)	(9,351)
Tax at the New Zealand tax rate of 33%	(3,744)	(3,086)
Tax effect of amounts not deductible (taxable) in calculating taxable income:		
Share option compensation	34	157
Other expenses not deductible for tax purposes	105	79
	(3,605)	(2,850)
Difference in overseas tax rates	-	19
Under (over) provision in prior years	-	-
Deferred tax assets not recognised	3,605	2,850
Income tax expense	-	19

7. Loss per share

Basic net deficit per share is based upon the weighted average number of outstanding ordinary shares. For the years ended 31 December 2006 and 2005, the Company's potentially dilutive ordinary share equivalents (being the options over ordinary shares set out in note 13) have an anti-dilutive effect on loss per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted net deficit per share.

Company and Group	2006 NZ$'000	2005 NZ$'000
Loss after income tax	(11,346)	(9,370)
Weighted average shares outstanding	116,801,208	98,109,589
Basic and diluted loss per share	($0.10)	($0.10)

8. Cash and cash equivalents

Company and Group	2006 NZ$'000	2005 NZ$'000
Cash	357	50
Demand and short-term deposits	10,252	12,449
	10,609	12,499

9. Trade and other receivables

Company and Group	2006 NZ$'000	2005 NZ$'000
Trade receivables	421	471
Prepayments	106	184
Sundry receivables and accruals	467	502
	994	1,157

10. Property, plant and equipment

Company and Group	Scientific Equipment NZ$'000	Computer Equipment NZ$'000	Fixtures & Fittings NZ$'000	Leasehold Improvements NZ$'000	Total NZ$'000
As at 31 December 2004					
Cost	-	237	103	32	372
Accumulated depreciation	-	(220)	(67)	(13)	(300)
Net book value	-	17	36	19	72
Movements in the year ended 31 December 2005					
Opening net book value	-	17	36	19	72
Additions	42	12	-	-	54
Depreciation	(3)	(16)	(22)	(7)	(48)
Closing net book value	39	13	14	12	78
As at 31 December 2005					
Cost	42	249	103	32	426
Accumulated depreciation	(3)	(236)	(89)	(20)	(348)
Net book value	39	13	14	12	78
Movements in the year ended 31 December 2006					
Opening net book value	39	13	14	12	78
Additions	2	37	52	192	283
Depreciation	(11)	(15)	(12)	(9)	(47)
Assets written off	-	-	(2)	(9)	(11)
Closing net book value	30	35	52	186	303
As at 31 December 2006					
Cost	44	67	105	192	408
Accumulated depreciation	(14)	(32)	(53)	(6)	(105)
Net book value	30	35	52	186	303

During the year the Company moved premises and at that time fully depreciated assets and leasehold improvements related to the previous tenancy were written off.

11. Intangible assets

Company and Group	Acquired Patents NZ$'000	Purchased Software NZ$'000	Total NZ$'000
As at 31 December 2004			
Cost	12,446	-	12,446
Accumulated amortisation	(830)	-	(830)
Net book value	11,616	-	11,616
Movements in the year ended 31 December 2005			
Opening net book value	11,616	-	11,616
Additions	15	8	23
Amortisation	(830)	-	(830)
Closing net book value	10,801	8	10,809
As at 31 December 2005			
Cost	12,461	8	12,469
Accumulated amortisation	(1,660)	-	(1,660)
Net book value	10,801	8	10,809
Movements in the year ended 31 December 2006			
Opening net book value	10,801	8	10,809
Additions	-	12	12
Amortisation	(831)	(4)	(835)
Closing net book value	9,970	16	9,986
As at 31 December 2006			
Cost	12,461	20	12,481
Accumulated amortisation	(2,491)	(4)	(2,495)
Net book value	9,970	16	9,986

12. Trade and other payables

Company and Group	2006 NZ$'000	2005 NZ$'000
Trade payables	2,454	1,663
Accruals	204	451
Employee benefits	467	380
Payment on account	573	767
	3,698	3,261

13. Share capital

Company and Group	2006 Shares	2005 Shares	2006 NZ$'000	2005 NZ$'000
Issued share capital				
Ordinary shares on issue at beginning of year	112,000,000	62,500,000	41,877	21,158
Shares issued for cash in Initial Public Offering	-	37,500,000	-	16,309
Shares issued for cash in private placements	15,000,000	12,000,000	6,705	6,687
Shares issued for cash under Share Purchase Plan	4,093,810	-	1,871	-
Share issue expenses	-	-	(510)	(2,277)
Ordinary shares on issue at end of year	131,093,810	112,000,000	49,943	41,877

(a) Ordinary Shares
The ordinary shares have no par value and all ordinary shares are fully paid-up and rank equally as to dividends and liquidation, with one vote attached to each fully paid ordinary share.

(b) Share Options
On 19 May 2005 the Company granted 3,000,000 options ("May 2005 Options") for future consulting services related to capital raising and financing activities. The options are exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.50 per share. The options expire on 31 May 2007.

Oceania & Eastern Biotech Limited is an investment company associated with interests of Dr Robin Congreve and holds 1,528,892 options (the "O&E Options"). The O&E Options' exercise price is a fixed sum of NZ$600,000, exercisable into 1,528,892 ordinary shares (equivalent to NZ$0.392 per share). The options may be exercised at any time up to and including 31 March 2009.

Auckland UniServices Limited ("UniServices") is the commercial research and knowledge transfer company for the University of Auckland and holds 1,872,892 options ("UniServices Options"). The UniServices Options' exercise price is a fixed sum of NZ$735,000, exercisable into 1,872,892 ordinary shares (equivalent to NZ$0.392 per share). The UniServices Options may be exercised at any time up to the earlier of two years following the termination of the Research Deed (or any further such deed entered into between the Company and UniServices Limited) and 31 March 2009.

The above options were otherwise issued on terms and conditions not materially different to those of the Share Option Plan described below.

The Company has established a Share Option Plan to assist in the retention and motivation of senior employees of, and certain consultants to, the Company ("Participants"). Under the Share Option Plan, options may be offered to Participants by the Remuneration and Audit Committee. The maximum number of options to be issued and outstanding under the Share Option Plan was amended by shareholders in 2005 to 15% of the issued ordinary shares of the Company at any time. No payment is required for the grant of options under the Share Option Plan. Each option is an option to subscribe in cash for one ordinary share, but does not carry any right to vote. Upon the exercise of an option by a Participant, each ordinary share issued will rank equally with other ordinary shares of the Company. Options granted under the Share Option Plan generally vest over three years service by the Participant and lapse five years after grant date.

Movements in the number of share options are as follows:

	Options	Weighted Average Exercise Price (NZ$)	Exercisable	Weighted Average Exercise Price (NZ$)
Outstanding at 31 December 2004	17,537,627	$ 0.392	16,406,502	$ 0.392
Granted	3,720,000	$ 0.502	-	-
Expired/forfeited/exercised	-	-	-	-
Outstanding at 31 December 2005	21,257,627	$ 0.412	20,192,065	$ 0.413
Granted	600,000	$ 0.472	-	-
Expired/forfeited/exercised	-	-	-	-
Outstanding at 31 December 2006	21,857,627	$ 0.417	20,924,295	$ 0.415

The weighted average remaining contractual life of outstanding share options is as follows:

Exercise price range	2006 Options	2006 Weighted Average Remaining Contract Life (years)	2005 Options	2005 Weighted Average Remaining Contract Life (years)
NZ$0.392 – NZ$0.472	18,857,627	2.3	18,257,627	3.3
A$0.50	3,000,000	0.4	3,000,000	1.4
	21,857,627	2.1	20,924,295	3.0

The weighted average assessed fair value of options granted during the year determined using the Black-Scholes valuation model was NZ$0.22 per option (2005: NZ$0.11). The significant weighted average inputs into the model were a grant date share price of NZ$0.472 (2005: NZ$0.345), volatility of 65% (2005: 66%), dividend yield of 0% (2005: 0%), an expected option life of three years (2005: 2.4 years), and an annual risk-free interest rate of 5.95% (2005: 6.14%). The expected price volatility was derived by analysing the historic volatility of the Company's shares since listing on the ASX.

14. Deferred tax

Company and Group	2006 NZ$'000	2005 NZ$'000
Deferred tax asset (liability)		
Amounts recognised in profit or loss:		
Provisions and accruals	106	80
Property, plant and equipment	12	22
Intangible assets	376	203
Tax losses	6,583	3,167
	7,077	3,472
Unrecognised deferred tax assets	(7,077)	(3,472)
Deferred tax asset (liability)	-	-
Movements		
Deferred tax asset (liability) at the beginning of the year	-	-
Credited (charged) to the income statement (note 6)	3,605	2,850
Change in unrecognised deferred tax assets (note 6)	(3,605)	(2,850)
Deferred tax asset (liability) at the end of the year	-	-

15. Group financial statements and investments in subsidiaries

Neuren Pharmaceuticals Limited has the following subsidiaries:

Name of entity	Date of incorporation	Principal activities	Interest held	Domicile
AgVentures Limited	7 October 2003	Dormant	100%	New Zealand
NeuroendocrinZ Limited	10 July 2002	Dormant	100%	New Zealand
Neuren Pharmaceuticals Inc.	20 August 2002	US Based Office	100%	USA
Neuren Pharmaceuticals (Australia) Pty Ltd	9 November 2006	Dormant	100%	Australia

All subsidiaries have a balance date of 31 December. The subsidiaries have had no material impact on the financial performance or position of the Company or Group to 31 December 2006.

16. Commitments and contingencies

(a) Operating leases
The following aggregate future non-cancellable minimum lease payments for premises (and scientific equipment in 2005) have been committed to by the Company, but not recognised in the financial statements. The premises commitment is for a six year lease, with two three year rights of renewal and three yearly rental reviews.

Company and Group	2006 NZ$'000	2005 NZ$'000
Non-cancellable operating lease commitments		
Not later than one year	237	370
Later than one year and not later than five years	948	208
Later than five years	217	-
	1,402	578

(b) Legal claims
The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 31 December 2006 (2005: Nil).

(c) Capital commitments
The Company is not committed to the purchase of any property, plant or equipment as at 31 December 2006 (2005: Nil).

17. Related party transactions

(a) Key management and personnel compensation
The key management personnel include the directors of the Company and the direct reports to the Managing Director (CEO). Compensation was as follows:

Company and Group	2006 NZ$'000	2005 NZ$'000
Short-term benefits	1,626	1,352
Share-based payments	102	151
	1,728	1,503

(b) Subsidiaries
Interests in subsidiaries are set out in note 15.

18. Events after balance date

As at the date of these financial statements there were no events arising since 31 December 2006 which require disclosure.

19. Financial Instruments

The Company and its subsidiaries are subject to a number of financial risks which arise as a result of its activities.

Currency Risk
During the normal course of business the Company and its subsidiaries enter into contracts with overseas customers or consultants that are denominated in foreign currency. As a result of these transactions there is exposure to fluctuations in foreign exchange rates.

At 31 December 2006 the unrecognised notional or principal contract amount of foreign exchange instruments outstanding was $nil (31 December 2005: $nil).

Interest Rate Risk
The following disclosures identify the periods in which interest rates are subject to review on interest bearing financial assets. Interest on short-term deposits is at variable rates which are frequently reviewed.

The effective interest rates on short term deposits at 31 December 2006 were New Zealand dollar denominated deposits of NZ$369,000 at 7.3%, Australian dollar denominated deposits of A$6,314,000 at 6.0%, British pound denominated deposits of £176,000 at 4.8%, and US dollar denominated deposits of US$1,699,000 at 5.2% (31 December 2005: NZ$2,600,000 at 7.5%, A$3,382,000 at 5.4%, £401,000 at 4.6%, and US$2,300,000 at 4.2%).

Trade receivables and payables are not interest rate sensitive.

Credit Risk
The Company and its subsidiaries incur credit risk from transactions with trade receivables and financial institutions in the normal course of its business.

The Company and its subsidiaries do not require any collateral or security to support transactions with financial institutions. The counterparties used for banking and finance activities are financial institutions with high credit ratings.

Fair Values
Cash at bank, receivables, and accounts payable have a fair value equivalent to the carrying value in the financial statements.

20. Explanation of transition to NZ IFRS

(a) Reconciliation of previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to New Zealand equivalents to IFRS (NZ IFRS)

Company and Group	Note	Year ended Dec 2005 Previous NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000
Revenue - interest income		619	-	619
- contract research		460	-	460
		1,079	-	1,079
Other income		1,714	-	1,714
Total revenue and other income		2,793	-	2,793
Depreciation and amortisation expense		(878)	-	(878)
Research and development costs		(7,961)	-	(7,961)
Patent costs		(500)	-	(500)
Share option compensation expense	(b)	-	(475)	(475)
Corporate and administrative costs		(2,330)	-	(2,330)
Loss before income tax		(8,876)	(475)	(9,351)
Income tax expense		(19)	-	(19)
Loss after income tax		$ (8,895)	$ (475)	$ (9,370)
Basic and diluted loss per share		$ (0.09)	$ (0.01)	$ (0.10)

Company and Group	Note	1 Jan 2005 Previous NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000	31 Dec 2005 Previous NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000
Assets							
Current Assets:							
Cash and cash equivalents		343	-	343	12,499	-	12,499
Trade and other receivables		1,099	-	1,099	1,157	-	1,157
Deferred equity raising costs		880		880	-	-	-
Income taxes receivable		-	-	-	6	-	6
Total current assets		2,322	-	2,322	13,662	-	13,662
Non-current assets:							
Property, plant and equipment	(c)	72	-	72	86	(8)	78
Intangible assets	(c)	11,616	-	11,616	10,801	8	10,809
Total non-current assets		11,688	-	11,688	10,887	-	10,887
Total assets		14,010	-	14,010	24,549	-	24,549
Liabilities and shareholders' equity							
Current liabilities:							
Trade and other payables		4,546	-	4,546	3,261	-	3,261
Total current liabilities		4,546	-	4,546	3,261	-	3,261
Shareholders' equity							
Share capital		21,158	-	21,158	41,877	-	41,877
Other reserve	(b)	-	9	9	-	484	484
Accumulated deficit	(b)	(11,694)	(9)	(11,703)	(20,589)	(484)	(21,073)
Total shareholders' equity		9,464	-	9,464	21,288	-	21,288
Total liabilities and shareholders' equity		14,010	-	14,010	24,549	-	24,549

There were no impacts on previously presented cash flow statements as a result of the transition to NZ IFRS.

(b) Share-based payments

Under NZ IFRS 2 Share-Based Payment from 1 July 2004, the Company is required to recognise an expense for options that were granted after 7 November 2002 and which had not vested by 1 January 2005. The effect of this is as follows:
(i) At 1 January 2005
An increase in both other reserves and accumulated deficit by $9,000.
(ii) For the year ended 31 December 2005
An increase in both other reserves and share option compensation expense of $475,000.

(c) Reclassification of software

Under NZ IFRS, software is classified as part of intangible assets rather than property, plant and equipment. This has resulted in intangible assets increasing and property, plant and equipment decreasing as at 31 December 2005 by $8,000. There were no material amounts related to software to reclassify as at 1 January 2005. While the amount previously depreciated on software is unchanged, it is now classified as amortisation.

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Auditors' Report

to the Shareholders of Neuren Pharmaceuticals Limited

We have audited the financial statements on pages 11 to 28. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 December 2006 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 15 to 18.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 December 2006 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
(b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors and taxation advisers.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:
(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
(b) the financial statements on pages 11 to 28:
    (i) comply with generally accepted accounting practice in New Zealand;
    (ii) comply with International Financial Reporting Standards; and
    (iii) give a true and fair view of the financial position of the Company and Group as at 31 December 2006 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 12 March 2007 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Auckland

Equity Securities Held by Directors as at 16 March 2007

	Interests in Ordinary Shares		Interests in Options	
Director	**Direct**	**Indirect**	**Direct**	**Indirect**
R L Congreve	-	11,290,217	-	1,528,892
T D Scott	-	1,087,879	-	-
T R Amos	-	9,624,118	-	-
J D Wilson	-	135,000	-	-
G B Howie	50,000	55,000	-	-
D J Clarke	-	-	4,241,888	-

Shareholding

Each ordinary share is entitled to one vote when a poll is called; otherwise on a show of hands at a general meeting every member present in person or by proxy has one vote.

The number of ordinary shareholdings held in less than marketable parcels at 16 March 2007 was 73, holding 41,307 ordinary shares.

The following information is presented based on share registry information processed up to and including 16 March 2007.

Distribution of Shareholders Analysis of numbers of ordinary shares by size of holding:	**Number of Shareholders**	**Number of Ordinary Shares**
1 – 1,000	70	38,178
1,001 – 5,000	444	1,701,545
5,001 – 10,000	373	3,270,697
10,001 – 100,000	652	19,537,874
100,001 and over	96	106,565,516
	1,635	131,113,810

Distribution of Optionholders Analysis of numbers of options by size of holding:	**Number of Optionholders**	**Number of Options**
1 – 1,000	-	-
1,001 – 5,000	4	20,000
5,001 – 10,000	2	12,442
10,001 – 100,000	10	626,532
100,001 and over	18	22,978,653
	34	23,637,627

Substantial Security Holders who have notified the Company as at 16 March 2007 are:	**Number of Ordinary Shares**
NeuronZ Limited	12,345,898
K One W One Limited	9,620,577
Pfizer Inc.	8,081,438

There are no securities subject to escrow.

Twenty Largest Holders of ordinary shares:	**Number of Ordinary Shares**	**% Holding**
NeuronZ Limited	12,345,898	9.42
K One W One Limited	9,620,577	7.34
Pfizer Inc.	8,081,438	6.16
National Nominees Limited	7,152,602	5.46
UCA Growth Fund	5,500,000	4.19
Perpetual Trustee Company (Canberra) Limited <Macquarie Technology Fund 1A A/C>	4,812,059	3.67
Perpetual Trustee Company (Canberra) Limited <Macquarie Technology Fund 1B A/C>	4,812,059	3.67
ANZ Nominees Limited <Cash Income A/C>	4,335,009	3.31
TAC Murray & Quartet Equities Limited <The Congreve Family A/C>	3,704,244	2.83
J P Morgan Nominees Australia Limited	3,634,451	2.77
Equity Trustees Limited <SGH PI Smaller Cos Fund>	3,321,824	2.53
Hazardous Investments Limited	3,293,711	2.51
Oceania & Eastern Biotech Limited	2,686,926	2.05
Mr Gnanalingam Lingam Gunanath	1,892,000	1.44
Janik Enterprises	1,646,856	1.26
EndocrinZ Founders Limited	1,605,336	1.22
Savage Group Limited	1,524,076	1.16
Metabolic Pharmaceuticals Limited	1,250,000	0.95
Irrewarra Investments <ST A/C>	1,210,000	0.92
Asia Union Investments Pty Limited	1,160,000	0.88
	83,589,066	63.75

Australian Stock Exchange Disclosures

Neuren Pharmaceuticals Limited is incorporated in New Zealand under the Companies Act 1993.

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act, Australia, dealing with the acquisition of shares (such as substantial holdings and takeovers).

Limitations on the acquisition of shares are imposed by the following New Zealand legislation: Companies Act 1993, Securities Act 1978, Securities Amendment Act 1988, Takeovers Act 1993, Overseas Investment Act 1973, Commerce Act 1986 and various regulations and codes promulgated under such Acts.

Corporations Act, Australia - Directors' declaration

The Directors of Neuren Pharmaceuticals Limited ("Neuren") declare that:

1. The financial statements on pages 11 to 28 of Neuren and its subsidiaries for the year ended 31 December 2006 and the notes to those financial statements:
   (a) comply with the accounting standards issued by the Institute of Chartered Accountants of New Zealand; and
   (b) give a true and fair view of the financial position as at 31 December 2006 and of the performance for the year ended on that date of Neuren and its subsidiaries.
2. In the Directors' opinion there are reasonable grounds to believe that Neuren 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 dated 12 March 2007.

On behalf of the Board

Dr Robin Congreve
Chairman

ANNUAL REPORT 2006

neuren pharmaceuticals

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