Neuren Pharmaceuticals Limited

Appendix 4D Half-Year Financial Report

30 June 2006

Name of entity

Neuren Pharmaceuticals Limited

ARBN

111 496 130

Half-year ended

30 June 2006

1. Neuren Pharmaceuticals Limited ("Neuren" or the "Company") presents this financial report, including the interim financial statements, for the six months ended 30 June 2006.

   The interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand, NZ IAS 34 *Interim Financial Reporting*. These are the Company's first interim financial statements prepared in accordance with NZ IAS 34 Interim Financial Statements and accordingly NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied.

   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 interim financial report for the six months ended 30 June 2006, certain accounting and valuation methods applied in the previous NZ FRS financial statements have been amended to comply with NZ IFRS.

   All amounts shown are in NZ$'000s unless otherwise stated.

2. Results for announcement to the market

	30 June 2006 NZ$'000	30 June 2005 NZ$'000	% Change
2.1 Operating revenue	1,092	1,195	-8.6%
2.2 Loss after tax from ordinary activities	(3,936)	(4,418)	-10.9%
2.3 Net loss from ordinary activities	(3,936)	(4,418)	-10.9%
2.4 Dividends and franked amount per security	nil	nil	n/a
2.5 Dividend record date	n/a	n/a	n/a

2.6 Explanation of results:

During the period Neuren continued to make good progress in its preclinical and clinical programs. Research and development costs were higher than the 2005 comparative period, reflecting the fact that two clinical trials were underway in the six months to 30 June 2006. The net loss for the period was NZ$3.9 million, and at 30 June 2006 net assets were NZ$17.4 million with NZ$9.1 million cash. These results were in line with the Company's expectations. Research and development costs have increased from $3.3 million to $4.1 million as a result of having two clinical trials underway in the period. As the Company holds its cash balances predominantly in the expected currency of future expenditure, a significant depreciation of the New Zealand dollar against most major currencies in the six months ended 30 June 2006 has resulted in the recognition of a $1.2 million foreign exchange gain on cash balances. A more detailed discussion of the activities undertaken in the period is set out in the Chief Executive's Report contained in the attached Interim Report to shareholders.

+ See chapter 19 for defined terms.

3. Net Tangible Assets per Security

	Current period	Comparative period
Net tangible assets per share	NZ$ 0.06	NZ$ 0.09

4. Entities over which control has been gained or lost during the period:

None.

5. Details of dividends

Not applicable.

6. Details of dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

None.

8. Accounting standards

The interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand, NZ IAS 34 *Interim Financial Reporting*. These are the Company's first interim financial statements prepared in accordance with NZ IAS 34 *Interim Financial Statements* and accordingly NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied.

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 interim financial report for the six months ended 30 June 2006, certain accounting and valuation methods applied in the previous NZ FRS financial statements have been amended to comply with NZ IFRS.

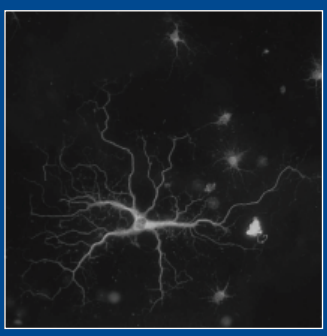
9. Audit dispute or qualification

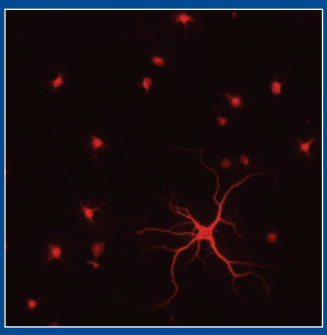
The interim financial statements have been subject to independent review by the Company's auditors. The unqualified review report is included in the attached Interim Report.

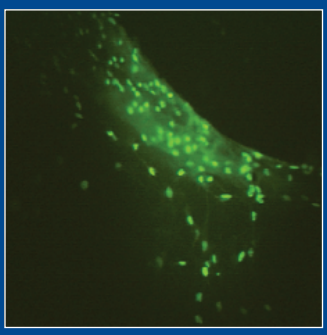
[+] See chapter 19 for defined terms.

INTERIM REPORT 2006

Neuren Pharmaceuticals Limited
ARBN 111 496 130







neuren
pharmaceuticals

The directors submit the financial report of Neuren Pharmaceuticals Limited for the six months ended 30 June 2006.

Directors' details

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

Dr Robin Congreve (Chairman)
Mr Tom Amos
Mr David Clarke
Dr Graeme Howie
Mr Trevor Scott
Dr Douglas Wilson

Review of operations

During the period Neuren continued to make good progress in its preclinical and clinical programmes. Research and development costs were higher than the 2005 comparative period, reflecting the fact that two clinical trials were underway in the six months to 30 June 2006. The net loss for the period was NZ$3.9 million, and at 30 June 2006 net assets were NZ$17.4 million with NZ$9.1 million cash. These results were in line with the Company's expectations. A more detailed discussion of the activities undertaken in the period is set out in the Chief Executive's Report.

Corporations Act, Australia - Directors' declaration

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

1. The accompanying financial statements of Neuren and its subsidiaries for the six months ended 30 June 2006 and the notes to those financial statements:
   a. comply with the accounting standards issued by the New Zealand Accounting Standards Review Board; and
   b. give a true and fair view of the financial position as at 30 June 2006 and of the performance for the six months 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 report is signed and declaration made in accordance with a resolution of the Board of Directors dated 4 September 2006.

On behalf of the Board

Dr Robin Congreve
Chairman

Dear Shareholders

In the last six months we again continued to make good progress in the development of all aspects of our portfolio, progressing Glypromate® and NNZ-2566 through clinical trials and selecting NNZ-2591 as a third lead candidate for clinical development.

Since listing in early 2005 we have achieved many milestones which have included:

- Formalising both the Neural Regeneration Peptides (NRP) collaboration with Metabolic Pharmaceuticals and the NNZ-2566 collaboration with the US Army Walter Reed Army Institute of Research (WRAIR)
- In conjunction with the US Army, demonstrating reduced functional deficit from traumatic brain injury with NNZ-2566
- Successful completion of the additional pre-clinical requirements outlined by the FDA in order to accelerate Glypromate® into Phase 3 clinical trials
- Completion of the Phase 2a clinical trial confirming the safety of Glypromate®
- Obtaining two US patents for the Glypromate® family in Parkinson's disease
- Completion of NNZ-2566 pre-clinical toxicology studies and commencement of a Phase 1 safety study
- Positive results in an animal model indicating that the NRP NNZ-4921 has strong potential to treat conditions such as chemotherapy-induced neuropathies, HIV-induced neuropathy, diabetic neuropathy, and similar conditions
- Confirmation that NNZ-2566 is orally available and therefore a candidate for oral formulation and administration in chronic neurological disorders
- Selection of NNZ-2591 as a third lead candidate following preclinical efficacy and oral availability in animal models of Parkinson's disease
- Commencement of anti-cancer research under the growth and metabolism programme
- Filing for a joint patent with the US Army based on results for NNZ-2566 in reducing non-convulsive seizures following traumatic brain injury (TBI)

This is impressive progress in 18 months, and demonstrates the ability of the team at Neuren, and the depth and promise of our pipeline.

Looking forward to 2007 we are implementing a "4 x 4" strategy with four clinical trials underway and four other compounds in out-licensing programmes. The trials will be for Glypromate® Phase 3 in cognitive impairment and Phase 2 in cardiac arrest, and NNZ-2566 in severe TBI and also mild/moderate TBI. All of the clinical trials will be under FDA approved IND, and three will be supported by the US Army. We believe this combination of later stage trials and multiple licensing opportunities makes Neuren a unique and attractive proposition in the CNS industry.

In getting to this position we have applied a three tiered risk management strategy for which we are now seeing the benefits:

- Science level: we select molecules for development only after rigorous qualification against CNS drug criteria
- Clinical trials level: we have analysed previous CNS clinical trials and carefully considered the design of our own trials so as to meet necessary criteria in terms of patient numbers and end-points
- Company level: we have diversified our portfolio such that our operations now span the research and development pathway to commercialisation, with opportunities to out-license at various stages.

Glypromate® clinical development programme

Since the 2005 Annual Report we have completed and recently reported on the results of the 33 patient Phase 2a trial of Glypromate® which investigated the safety, tolerability and pharmacokinetics of a 4-hour infusion. Twelve patients received 3.0 mg/kg/hr, 11 patients received 1.0 mg/kg/hr and 10 patients received placebo. The study confirmed a linear relationship between dose and exposure, such that a 3-fold increase in dose corresponded to a 3-fold increase in exposure of the patient to the drug. This type of relationship is desirable because it enables clinicians to predict the exposure of the patient to different doses of the drug. Non-linear pharmacokinetics can lead to poor predictability of exposure to a particular dose.

At both doses, Glypromate® displayed an elimination half-life of 2 to 3 minutes, meaning that the concentration of Glypromate® in the blood halved every 2 to 3 minutes. This is in line with previous predictions and adds to the safety profile of the drug in that it departs the body rapidly after the time it is needed. Further detail regarding the design and results of the Phase 2a trial are available on our website.

Based on the trial data, the independent Data Safety Monitoring Committee (DSMC) determined that there were no major concerns regarding the safety of Glypromate®. These results allow us to move forward into Phase 3 later this year. We are in the final stages of selecting the key centres that will participate in the Phase 3 clinical trial, which will be conducted in the USA, Australia and New Zealand.

NNZ-2566 development programme

Development of NNZ-2566 in both intravenous and oral forms has progressed significantly in the last six months.

In March 2006 we commenced a Phase 1 trial of intravenous NNZ-2566 to assess the initial safety on humans. The trial will involve 35 healthy volunteers and is expected to be completed by the end of calendar year 2006. Planning for a second stage of the Phase 1 study to confirm safety and evaluate pharmacokinetics with longer infusion times is also nearing completion.

These two studies will provide maximum flexibility in determining the optimal dose and duration of therapy in subsequent clinical trials in patients. We believe that the drug's safety profile will permit dosing at levels sufficient to achieve the best possible therapeutic effect. Previous studies in traumatic brain injury (TBI) have been significantly hampered by dose-related toxicity and the consequent limitations in dosing. This study design will also afford us a wider range of potential future target conditions in addition to TBI.

In this regard, our strategy for the Phase 2 trialling of NNZ-2566 was recently presented to the US Department of Defense's Advanced Technology Applications for Combat Casualty Care (ATACCC) conference. The ATACCC conference is the premier scientific meeting that addresses critical advances in trauma medicine, and is attended by senior scientists and physicians who represent the military's leadership in trauma medicine.

At the conference we detailed the clinical trial design of two Phase 2 trials for TBI - one in severely brain injured patients and one in those with mild to moderate injuries - scheduled for commencement in 2007. The trials are being developed in collaboration with WRAIR and leading civilian experts in brain injury, including leading researchers from UCLA and the University of Florida McKnight Brain Institute.

Building on our intravenous NNZ-2566 development programme, work on oral NNZ-2566 has demonstrated significant neuroprotection in animal models at various doses with almost total protection (95% reduction in injury size) being obtained with the highest dose. As a result we intend to further expand the research and development programme for the oral administration of NNZ-2566 to include a number of chronic neurological disorders, such as Alzheimer's disease or Parkinson's disease, as well as the long-term preventative treatment in patients at risk of TIAs (transient ischaemic attacks) and others.

Diketopiperazines (DKP) and Macrocyclic research programmes

Recently we selected NNZ-2591, from the diketopiperazine (DKP) family, as a lead candidate for development based on efficacy in a preclinical model of Parkinson's disease (PD) and in other animal models of brain injury. This is now Neuren's third lead candidate, after Glypromate® and NNZ-2566.

NNZ-2591 was administered after onset of Parkinsonian symptoms and the beneficial effect in the behavioural tests remained for weeks after the cessation of drug treatment. This suggests the compound produced a long-term benefit in this model of the disease, rather than just temporary symptomatic relief. In addition NNZ-2591 did not show any liability for drug-drug interactions or any safety concerns following wide screening and did not display any adverse or unwanted pharmacological effects when orally administered at doses over 15 times higher than the effective dose for neuroprotection. In an experimental model of stroke, NNZ-2591 has also been shown to reduce brain damage when given orally, an important feature for chronic neurodegenerative diseases where treatment is usually prolonged.

These observations have lead to the selection of oral NNZ-2591 as a lead candidate to treat chronic neurological disorders, such as Parkinson's disease and other neurological diseases, such as Alzheimer's disease. NNZ-2591 is now in manufacturing scale-up as a precursor to formal toxicology.

Neural Regeneration Peptides (NRPs) research programmes

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. 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 and has lead to publication in the international science journal "Experimental Cell Research".

The next steps, in preparation for human testing, will be to conduct further studies to characterise the compound. Once these issues have been addressed, the obligatory formal preclinical safety and toxicity programme will be initiated.

Growth and Metabolism research programmes

As previously noted, a promising partial agonist of Growth Hormone (GH) has been synthesised and in vivo data has been confirmed. Neuren now plans to out-licence this technology or seek a partner for development of this molecule before initiating any clinical development activities.

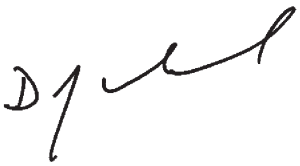
Neuren is also developing monoclonal antibodies against proteins that are involved in controlling the production of growth hormone by cancer cells (autocrine growth hormone). Autocrine growth hormone exerts a significant effect on the rate of growth, spread and sensitivity to anticancer therapies of a number of cancers including

cancers of the breast, lung and digestive tract. The Company is presently evaluating antibody fragments and polyclonal antibodies on cancer cells grown in cell culture as well as in experimental animal models to establish proof of concept before committing to develop monoclonal antibodies that would be the actual therapeutic molecules. Neuren would most likely seek to out-license this product while it is in preclinical development.

Financial position

The financial results presented in this report are consistent with the Company's expectations for the period, with closing cash at 30 June 2006 of $9 million. As the Company holds its cash balances predominantly in the expected currency of future expenditure, a significant depreciation of the New Zealand dollar against most major currencies in the six months ended 30 June 2006 has resulted in the recognition of a $1.2 million foreign exchange gain on cash balances. Research and development costs have increased from $3.3 million to $4.1 million as a result of having two clinical trials underway in the period.

I would also like to take this opportunity to welcome Dr Parmjot Bains to the Neuren team as Chief Operating Officer. Parmjot will be responsible for the operation of the clinical trial programmes, ensuring overall responsibility for the budgets and milestones and also that all manufacturing, monitoring and reporting objectives are met. She will also provide the overall coordination and management of this programme with the CMO, Dr Doug Wilson providing strategic input and the FDA regulatory interface.



Mr David Clarke
Chief Executive Officer

Company and Group		Six months Jun 2006 NZ$'000	Six months Jun 2005 NZ$'000
Revenue	- interest income	285	344
	- contract research revenue	136	245
		421	589
Other income	- grants	671	606
Total revenue and other income		1,092	1,195
Depreciation and amortisation expense		(441)	(438)
Research and development costs		(4,113)	(3,309)
Patent costs		(417)	(192)
Share option compensation expense		(35)	(397)
Foreign exchange gain (loss)		1,216	(144)
Corporate and administrative costs		(1,238)	(1,114)
Loss before income tax		(3,936)	(4,399)
Income tax expense		-	(19)
Loss after income tax		$ (3,936)	$ (4,418)
Basic and diluted loss per share		$ (0.04)	$ (0.05)

The accompanying notes form part of this financial report.

Company and Group	Paid-in Capital Shares 000's	Paid-in Capital NZ$'000	Other Reserves NZ$'000	Accumulated Deficit NZ$'000	Total Equity NZ$'000	Recognised Income (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	
IPO costs expensed		(1,882)			(1,882)	
Share option grants for services			397		397	
Loss for the period				(4,418)	(4,418)	(4,418)
Total recognised income and expenses						$ (4,418)
Shareholders' equity as at 30 June 2005	100,000	$ 35,585	$ 406	$ (16,121)	$ 19,870	
Shares issued in private placement	12,000	6,687			6,687	
Share issue costs expensed		(395)			(395)	
Share option grants for services			78		78	
Loss for the period				(4,952)	(4,952)	(4,952)
Total recognised income and expenses						$ (9,370)
Shareholders' equity as at 31 December 2005	112,000	$ 41,877	$ 484	$ (21,073)	$ 21,288	
Share issue costs expensed		(2)			(2)	
Share option grants for services			35		35	
Loss for the period				(3,936)	(3,936)	(3,936)
Total recognised income and expenses						$ (3,936)
Shareholders' equity as at 30 June 2006	112,000	$ 41,875	$ 519	$ (25,009)	$ 17,385	

The accompanying notes form part of this financial report.

Company and Group	As at Jun 2006 NZ$'000	As at Dec 2005 NZ$'000	As at Jun 2005 NZ$'000
ASSETS			
Current Assets:			
Cash and cash equivalents	9,068	12,499	11,004
Trade and other receivables	813	978	695
Other current assets	256	185	291
Total current assets	10,137	13,662	11,990
Non-current assets:			
Property, plant and equipment	71	78	53
Intangible assets	10,392	10,809	11,201
Total non-current assets	10,463	10,887	11,254
TOTAL ASSETS	$ 20,600	$ 24,549	$ 23,244
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade and other payables	3,215	3,261	3,374
Total current liabilities	3,215	3,261	3,374
SHAREHOLDERS' EQUITY			
Share capital	41,875	41,877	35,585
Other reserves	519	484	406
Accumulated deficit	(25,009)	(21,073)	(16,121)
Total shareholders' equity	17,385	21,288	19,870
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 20,600	$ 24,549	$ 23,244

The accompanying notes form part of this financial report.

Interim Cash Flow Statement (Unaudited)

Company and Group	Six months Jun 2006 NZ$'000	Six months Jun 2005 NZ$'000
Cash flows from operating activities:		
Receipts from customers	-	504
Receipts from grants	883	529
Interest received	284	343
GST refunded	117	158
Payments to employees	(1,115)	(889)
Income taxes (paid) refunded	-	(24)
Payments to other suppliers	(4,742)	(4,673)
Net cash used in operating activities	(4,573)	(4,052)
Cash flows from investing activities:		
Purchase of plant and equipment	(16)	(4)
Purchase of software	(8)	-
Net cash used in investing activities	(24)	(4)
Cash flows from financing activities:		
Proceeds from the issue of shares	-	16,309
Payments for share issue expenses	(49)	(1,524)
Net cash from (used in) financing activities	(49)	14,785
Net increase (decrease) in cash held	(4,646)	10,729
Effect of exchange rate changes on cash balances	1,215	(68)
Cash at the beginning of the period	12,499	343
Cash at the end of the period	$ 9,068	$ 11,004
Reconciliation with loss after income tax:		
Loss after income tax	$ (3,936)	$ (4,418)
Non-cash items requiring adjustment:		
Depreciation and amortisation	441	438
Share option compensation expense	35	397
Foreign exchange loss (gain)	(1,216)	144
Movements in working capital	103	(613)
Net cash used in operating activities	$ (4,573)	$ (4,052)

The accompanying notes form part of this financial report.

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 2-6 Park Ave, Grafton, 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 interim financial statements have been approved for issue by the Board of Directors on 4 September 2006.

2. Summary of significant accounting policies

These general-purpose interim financial statements are for the six months ended 30 June 2006 and have been prepared in accordance with generally accepted accounting practice in New Zealand, NZ IAS 34 *Interim Financial Reporting*.

(a) Basis of preparation

Entities Reporting

These interim 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 30 June 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.

The 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 interim financial statements prepared in accordance with NZ IAS 34 *Interim Financial Statements* and accordingly NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied. While these financial statements comply with IFRS and NZIFRS as they relate to interim financial statements, they do not include all of the information required for full annual financial statements. In addition these interim 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 (August 2006). The IFRS standards and interpretations that will be applicable at 31 December 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

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 this interim financial report for the six months ended 30 June 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 11.

Historical cost convention
These interim financial statements have been prepared under the historical cost convention.

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 the periods 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.

(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 interim 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 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 interim 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

(a) Application of NZ IFRS 1

Neuren's financial statements for the six months ended 30 June 2006 are the first interim financial statements that comply with NZ IAS 34 *Interim Financial Statements*. The Company has applied NZ IFRS 1 in preparing these interim 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 30 June 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 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.

Six months ended 30 June 2006 (Unaudited)

(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 11 provide a quantification of the effect of the transition to NZ IFRS.

4. Loss before income tax

The loss before income tax includes:

Company and Group	Six months Jun 2006 NZ$'000	Six months Jun 2005 NZ$'000
Depreciation	(25)	(23)
Amortisation of intangible assets		
- Intellectual property	(415)	(415)
- Software	(1)	-

5. Share capital

On 31 January 2005, the Company accepted share subscriptions under its IPO amounting to A$15 million for 37,500,000 new ordinary shares, and on 3 February 2005 was admitted to the Official List of the Australian Stock Exchange Limited. A further 12,000,000 ordinary shares were issued in a private placement in December 2005 for net proceeds of A$6 million. All ordinary shares rank equally as to dividends and liquidation with one vote attached to each fully paid ordinary share.

Costs of $1,882,000 and $397,000 incurred in relation to the above share issues have been offset within equity against capital raised.

6. Related party transactions

Auckland UniServices Limited is a related party of the Company by virtue of its holding of ordinary shares in NeuronZ Limited, a shareholder of Neuren. Auckland UniServices Limited is the supplier of Auckland University services to the Company under contractually agreed terms. Services received in the period to 30 June 2006 were $707,000 (June 2005: $1,057,000; Dec 2005: $1,847,000). As at 30 June 2006 $462,000 (June 2005: $593,000; Dec 2005: $380,000) was due to Auckland UniServices Limited.

7. Contingent liabilities

There are no contingent liabilities as at 30 June 2006 (30 June 2005 and 31 December 2005: nil).

8. Commitments

Company and Group	Jun 2006 NZ$'000	Dec 2005 NZ$'000	Jun 2005 NZ$'000
Non-cancellable operating lease commitments			
Within one year	346	370	383
One to five years	1,156	208	416
Beyond five years	336	-	-
	$ 1,838	$ 578	$ 799

9. Segment information

Neuren operates predominantly 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.

10. Subsequent events

There are no events subsequent to 30 June 2006 to report for the Company or its subsidiaries as at 4 September 2006.

11. 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		Six months Jun 2005			Year ended Dec 2005		
	Note	NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000	NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	NZ IFRS NZ$000
Revenue - interest income		344	-	344	619	-	619
- contract research		245	-	245	460	-	460
		589	-	589	1,079	-	1,079
Other income - grants		606	-	606	1,714	-	1,714
Total revenue and other income		1,195	-	1,195	2,793	-	2,793
Depreciation and amortisation expense		(438)	-	(438)	(878)	-	(878)
Research and development costs		(3,309)	-	(3,309)	(8,461)	-	(8,461)
Patent costs		(192)	-	(192)	(500)	-	(500)
Share option compensation expense	b	-	(397)	(397)	-	(475)	(475)
Corporate and administrative costs		(1,258)	-	(1,258)	(1,830)	-	(1,830)
Loss before income tax		(4,002)	(397)	(4,399)	(8,876)	(475)	(9,351)
Income tax expense		(19)	-	(19)	(19)	-	(19)
Loss after income tax		(4,021)	(397)	(4,418)	(8,895)	(475)	(9,370)
Basic and diluted loss per share		$ (0.04)	$ (0.01)	$ (0.05)	$ (0.09)	$ (0.01)	$ (0.10)

Company and Group	Note	1 Jan 2005 NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	1 Jan 2005 NZ IFRS NZ$000	30 Jun 2005 NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	30 Jun 2005 NZ IFRS NZ$000	31 Dec 2005 NZ GAAP NZ$000	Effect of transition to NZ IFRS NZ$000	31 Dec 2005 NZ IFRS NZ$000
ASSETS										
Current Assets:										
Cash and cash equivalents		343	-	343	11,004	-	11,004	12,499	-	12,499
Trade and other receivables		1,066	-	1,066	695	-	695	978	-	978
Deferred equity raising costs		880	-	880	-	-	-	-	-	-
Other current assets		33	-	33	291	-	291	185	-	185
Total current assets		2,322	-	2,322	11,990	-	11,990	13,662	-	13,662
Non-current assets:										
Property, plant and equipment	c	72	-	72	53	-	53	86	(8)	78
Intangible assets	c	11,616	-	11,616	11,201	-	11,201	10,801	8	10,809
Total non-current assets		11,688	-	11,688	11,254	-	11,254	10,887	-	10,887
TOTAL ASSETS		14,010	-	14,010	23,244	-	23,244	24,549	-	24,549
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities:										
Trade and other payables		4,546	-	4,546	3,374	-	3,374	3,261	-	3,261
Total current liabilities		4,546	-	4,546	3,374	-	3,374	3,261	-	3,261
SHAREHOLDERS' EQUITY										
Share capital		21,158	-	21,158	35,585	-	35,585	41,877	-	41,877
Other reserve	b	-	9	9	-	406	406	-	484	484
Accumulated deficit	b	(11,694)	(9)	(11,703)	(15,715)	(406)	(16,121)	(20,589)	(484)	(21,073)
Total shareholders' equity		9,464	-	9,464	19,870	-	19,870	21,288	-	21,288
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		14,010	-	14,010	23,244	-	23,244	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 January 2005 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 six months ended 30 June 2005
An increase in both other reserves and share option compensation expense of $397,000.

(iii) 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 and 30 June 2005. While the amount previously depreciated on software is unchanged, it is now classified as amortisation.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Private Bag 92162
Auckland, New Zealand
Telephone +64 9 355 8000
Facsimile +64 9 355 8001
www.pwc.com/nz

Accountants' Report
To the shareholders of Neuren Pharmaceuticals Limited

We have reviewed the interim financial statements ("financial statements") on pages 5 to 16. The financial statements provide information about the past financial performance and cash flows of the Group, comprising Neuren Pharmaceuticals Limited and its subsidiaries for the half year ended 30 June 2006 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 9 to 13.

Directors' responsibilities
The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 June 2006 and its financial performance and cash flows for the half year ended on that date.

Accountants' responsibilities
We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

Basis of opinion
A review is limited primarily to enquiries of Company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the half year ended 30 June 2006 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We have no relationship with or interests in Neuren Pharmaceuticals Limited or its subsidiaries other than in our capacities as accountants conducting this review, auditors under the Companies Act 1993, tax and accounting advisers.

Review opinion
We have reviewed the financial performance and cash flows of the Group for the half year ended 30 June 2006 and its financial position as at that date.

Based on our review nothing has come to our attention that causes us to believe that the financial statements do not present fairly the financial position of the Group as at 30 June 2006 and its financial performance and cash flows for the half year ended on that date in accordance with both International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34, Interim Financial Reporting and International Financial Reporting Standard 1 and New Zealand Equivalent to International Financial Reporting Standard 1, First-time Adoption of International Financial Reporting Standards.

Our review was completed on 4 September 2006 and our review opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Auckland

Company
Neuren Pharmaceuticals Limited
ARBN 111 496 130

Corporate Head Office
Level 3, 2-6 Park Avenue,
Grafton, Auckland
PO Box 9923, Newmarket
New Zealand
Tel: +64 9 367 7167

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 4, 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

INTERIM REPORT 2006

Neuren Pharmaceuticals Limited
ARBN 111 496 130
Level 3, 2-6 Park Avenue
Grafton, Auckland
New Zealand

Tel: +64 9 367 7167
Email: enquiries@neurenpharma.com

www.neurenpharma.com

neuren
pharmaceuticals