

Neuren Pharmaceuticals Limited

(Formerly EndocrinZ Limited)

Directors Report & Interim Financial Statements

For the six months ended 30 June 2004

Neuren Pharmaceuticals Limited
Director's Report & Financial Statements
For the six months ended 30 June 2004

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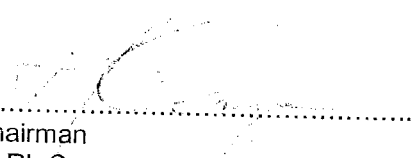
Neuren Pharmaceuticals Limited

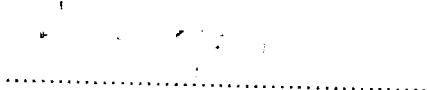
Director's Report


For the six months ended 30 June 2004

The Board of Directors is pleased to present their report of Neuren Pharmaceuticals Limited which includes all information required to be disclosed under the Companies Act 1993, incorporating the financial statements and auditors' report, for the six months ended 30 June 2004.

The director's report presented on pages 1 to 3 and the financial statements presented on pages 6 to 26 are signed for and on behalf of the Board and were authorised for issue on the date below.


.....
Chairman
Dr RL Congreve


.....
Director
Mr TD Scott


.....

Neuren Pharmaceuticals Limited

Director's Report

For the six months ended 30 June 2004

Principal Activities

Neuren Pharmaceuticals Limited (the "Company") is a bioscience company operating from New Zealand with activities in New Zealand, Australia and the USA. The Company's principal business function is the facilitation of the discovery and development of human therapeutics.

Performance Overview

The Company acquired the assets, liabilities and business as a going concern of a related entity, NeuronZ Limited, with effect from 1 January 2004. The acquisition of the business of NeuronZ Limited has enhanced the Company's core scientific and developmental pipeline whilst building upon operational and managerial capabilities.

During the period the Company has significantly progressed its core activities with its lead compound Glypromate® entering Phase I human trials in June 2004. Costs associated with the trial to June 2004 have been fully recognised in the financial statements. The Company has also secured additional contract revenues and grant income during the period.

The operating deficit for the six month period 1 January 2004 to 30 June 2004 was \$2,946,000 (year to December 2003: \$3,872,000, year to December 2002: \$1,653,000). The detailed financial statements are presented on pages 6 to 27.

The net dilutive deficit per share of \$0.46 is based on 6,092,000 weighted average number of shares outstanding.

No dividends were paid in the period.

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 has a relevant interest in 1,453,699 Ordinary Shares as at 30 June 2004, in his capacity as a director. Dr Congreve also has a relevant interest in 16,276,939 Ordinary Shares held by NeuronZ Limited in his capacity as a director of NeuronZ Limited. Dr Congreve is also a director of BrainZ Instruments Limited. During the period the Company was engaged in a contract with BrainZ Instruments Limited to provide research services on normal commercial terms.

Dr Congreve does not have any other interests considered to cause any potential conflict of interests.

Mr T D Scott

Mr Scott has a non-beneficial relevant interest in 1,453,698 Ordinary Shares as at 30 June 2004, in his capacity as director.

Mr Scott does not have any other interests considered to cause any potential conflict of interests.

Dr D J Wilson

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

Neuren Pharmaceuticals Limited

Director's Report

For the six months ended 30 June 2004

Directors and remuneration

	Appointed	Resigned	Directors' Fees 6 months to 30 June 2004 \$'000	Directors' Fees 12 months to 31 December 2003 \$'000	Directors' Fees 12 months to 31 December 2002 \$'000
RL Congreve	17 December 2001	-	-	20	-
R Lappe	5 March 2002	2 April 2004	-	-	-
TD Scott	5 March 2002	-	12	25	-
DJ Wilson	17 June 2004	-	-	-	-
J Balter	17 December 2001	5 December 2002	-	-	420

Employees and remuneration

The number of employees in the Company receiving remuneration and benefits above \$100,000 per annum are as follows:

	6 months to 30 June 2004 \$'000	12 months to 31 December 2003 \$'000	12 months to 31 December 2002 \$'000
\$100,000 - \$109,999	1	-	-
\$110,000 - \$119,999	1	-	1
\$130,000 - \$139,999	1	-	-
\$150,000 - \$159,999	1	-	-
\$300,000 - \$309,999	1	-	-
\$370,000 - \$379,999	-	1	-

Donations

The Company made no donations during the period. (2003 and 2002: nil)

Auditors

PricewaterhouseCoopers are the auditors of the Company. Audit fees are \$38,000 (2003: \$12,000, 2002: \$10,000). During 2004 PricewaterhouseCoopers also received \$6,400 (2003: \$20,000, 2002: nil) in relation to other financial advice.

Auditors' Report

To the directors of Neuren Pharmaceuticals Limited

This report has been prepared at the request of the Directors. We have audited the financial statements on pages 6 to 26. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the six month period ended 30 June 2004 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 10 to 14. The financial statements have been prepared to allow for the extraction of certain information from them for potential inclusion in an Australian registered prospectus document.

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 30 June 2004 and their financial performance and cash flows for the six month period 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 and Group, 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 capacity as auditors.

Auditors' Report

Neuren Pharmaceuticals Limited

Fundamental Uncertainties

In forming our unqualified opinion, we have considered the adequacy of the disclosures made concerning the carrying values of intellectual property, and the ongoing need to fund the operating losses and future development of the Company's products. During the period the Company issued ordinary share capital in consideration for the acquisition of the intellectual property and other assets and liabilities of the business of NeuronZ Limited (refer note 12). There are inherent uncertainties associated with assessing the carrying value. The ultimate realization of the carrying value of intellectual property totaling \$12,031,000 (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. Details of the circumstances relating to this fundamental uncertainty are detailed in the Statement of Accounting Policies on page 10.

The financial statements have been prepared on a going concern basis, the validity of which depends on the Company's ability to raise additional financing through public or private equity financings, collaborations or other arrangements with corporate sources or other sources of financing to fund the development of products and other working capital requirements of the Company. The financial statements do not include any adjustments that would result from a failure to obtain funding. Details of the circumstances relating to this fundamental uncertainty are detailed in the Statement of Accounting Policies on page 10 and in Note 17 on page 24.

If the Company was unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reflect the situation that the assets, including the intellectual property, may need to be realised at other than amounts at which they are currently recorded in the Statement of Financial Position.

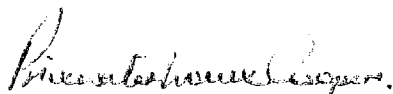
Unqualified Opinion

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 6 to 26:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the Company and Group as at 30 June 2004 and their financial performance and cash flows for the six month period ended on that date.

Our audit was completed on 4 November 2004 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland

Neuren Pharmaceuticals Limited

Statement of Financial Performance

For the six months ended 30 June 2004

		Company and Group		
Notes	6 months to 30 June 2004 \$'000	12 months to 31 December 2003 \$'000	12 months to 31 December 2002 \$'000	
Continuing Activities				
Operating Revenue				
	521	2,835	1,848	
Contract research revenues	322	-	-	
Grants	5	160	273	
Interest income	<hr/>			
Total Operating revenue	848	2,995	2,121	
Operating expenses				
	2,834	4,724	2,458	
Research	834	1,638	898	
Finance and administration	126	505	418	
Dividends on Preference Shares	<hr/>			
	3,794	6,867	3,774	
Operating deficit before taxation	3	(2,946)	(3,872)	
	4	-	-	
Income Tax	<hr/>			
Net deficit	(2,946)	(3,872)	(1,653)	
Net deficit per share:				
Basic	2	(\$0.48)	(\$4.61)	
Diluted	2	(\$0.46)	(\$1.97)	
		(\$4.00)	(\$1.47)	
Weighted average number of shares outstanding:				
Basic	2	6,092,000	840,000	
Diluted	2	6,092,000	840,000	
		840,000	840,000	

Neuren Pharmaceuticals Limited

Statement of Movements in Equity

For the six months ended 30 June 2004

	Notes	Company and Group		
		6 months to 30 June 2004 \$'000	12 months to 31 December 2003 \$'000	12 months to 31 December 2002 \$'000
Net deficit for the period being total recognised revenues and expenses	3	(2,946)	(3,872)	(1,653)
Contributions from owners in cash	5	2,332	-	8
Conversion of preference shares	5	7,365	-	-
Contribution from owners in exchange for the acquisition of the business of NeuronZ Limited	5, 12	11,453	-	-
Movements in equity for the period		18,204	(3,872)	(1,645)
Equity at the beginning of the period		(5,517)	(1,645)	-
Equity at the end of the period		12,687	(5,517)	(1,645)

Neuren Pharmaceuticals Limited

Statement of Financial Position

As at 30 June 2004

	Notes	Company and Group		
		30 June 2004 \$'000	31 December 2003 \$'000	31 December 2002 \$'000
ASSETS				
Current assets:				
Cash and cash equivalents	6	362	1,400	4,540
Receivable from related parties	19	467	782	304
Convertible note receivable	7	-	400	-
Accounts receivable	8	2,303	270	469
Work in progress		-	-	833
Total current assets		3,132	2,852	6,146
Non-current assets:				
Property, plant and equipment	9	109	256	294
Intangible assets	10	12,031	-	-
Total non current assets		12,140	256	294
TOTAL ASSETS		15,272	3,108	6,440
LIABILITIES AND SHAREHOLDERS' DEFICIT				
Current liabilities:				
Accounts payables and accrued liabilities	13	2,585	1,386	1,351
Total current liabilities		2,585	1,386	1,351
Non-current liabilities:				
Long-term debt	14	-	7,239	6,734
Total liabilities		2,585	8,625	8,085
SHAREHOLDERS' DEFICIT				
Share capital	5	21,158	8	8
Accumulated deficit		(8,471)	(5,525)	(1,653)
Total net shareholders' funds/(deficit)		12,687	(5,517)	(1,645)
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		15,272	3,108	6,440

Neuren Pharmaceuticals Limited

Statement of Cash Flows

For the six months ended 30 June 2004

Notes	Company and Group			
	6 months to 30 June 2004 \$'000	12 months to 31 December 2003 \$'000	12 months to 31 December 2002 \$'000	
Cashflows to operating activities:				
	Receipts from customers	1,003	2,989	242
	Receipts from grants	111	-	-
	Interest received	5	160	273
	Net GST (paid)	(49)	(386)	(346)
	Payments to suppliers	(2,462)	(4,352)	(1,318)
	Payments to employees.	(685)	(1,008)	(263)
	Net cash used in operating activities	(2,077)	(2,597)	(1,412)
Cashflows from investing activities:				
	Investment in a convertible note in NeuronZ Limited	7	(400)	-
	Cash acquired on acquisition of the business of NeuronZ Limited	12	116	-
	Proceeds from disposal of property, plant & equipment	540	-	-
	Purchase of plant and equipment	(14)	(143)	(372)
	Net cash used in investing activities	642	(543)	(372)
Cashflows from financing activities:				
	Proceeds from Preference Share issue	-	-	6,316
	Proceeds from Ordinary Share issue	5	397	8
	Net cash provided from financing activities	397	-	6,324
	Net (decrease)/increase in cash	(1,038)	(3,140)	4,540
	Cash at the beginning of the period	1,400	4,540	-
	Cash at end of the period	6	362	1,400
	Reconciliation with net deficit:			
	Net deficit	(2,946)	(3,872)	(1,653)
Non-cash items requiring adjustment:				
	Depreciation	242	181	78
	Amortisation	415	-	-
	Dividend on Preference Shares	126	505	418
Changes in working capital:				
	Accounts receivable	315	(478)	(304)
	Other debtors and prepaid expenses	(43)	199	(469)
	Work in progress	-	833	(833)
	Accounts payable and accruals	(90)	35	1,351
	Items classified as investing activities:			
	Profit on disposal of property, plant & equipment	(96)	-	-
	Net cash used in operating activities	(2,077)	(2,597)	(1,412)

Neuren Pharmaceuticals Limited

Statement of Accounting Policies

For the six months ended 30 June 2004

Nature of business

The company changed its name from EndocrinZ Limited to Neuren Pharmaceuticals Limited (the "Company") on 2 June 2004.

These financial statements are for the Group comprising the Company and its subsidiaries. At 30 June 2004 the subsidiary companies had not operated.

Neuren Pharmaceuticals Limited is a bioscience company operating from New Zealand with activities in New Zealand, Australia and the USA whose principal business function is the facilitation of the discovery and development of human therapeutics.

During the period the Company issued Ordinary Share capital in consideration for the acquisition of the intellectual property and other assets and liabilities of the business of NeuronZ Limited (refer note 12). 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 \$12,031,000 (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 through this time. In the future, the Company will need to raise additional financing through 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. These matters raise doubt about the Company's ability to continue as a going concern (refer note 17).

The intention of the Company is to list on the Australian Stock Exchange (ASX) in the foreseeable future. It is expected the listing will secure sufficient funding for the Company to continue as a going concern.

Summary of significant accounting policies

The accompanying financial statements of the Company and Group are for the six month period ended 30 June 2004, and are based on the general principles of historical cost accounting. They are presented in accordance with the Companies Act 1993 and have been prepared in accordance with the Financial Reporting Act 1993, in conformity with generally accepted accounting practice in New Zealand.

Revenue

Goods and services

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Neuren Pharmaceuticals Limited

Statement of Accounting Policies

For the six months ended 30 June 2004

Revenue (continued)

Grants

Grants received are recognised in the statement of financial performance 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.

Science Contracts

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.

Investment income

Dividend income is recognised in the year the dividend is declared. Interest and rental income are accounted for as earned.

Estimates

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results may differ from those estimates.

Goods and services tax (GST)

The financial statements have been prepared so that all components are presented exclusive of GST. All items in the statement of financial position are presented net of GST, with the exception of receivables and payables, which include GST invoiced.

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 year end. Gains and losses due to exchange rate fluctuations on these items are included in the statement of financial performance.

Research and development

Research costs include direct and directly attributable overhead expenses for drug discovery and research and pre-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

Neuren Pharmaceuticals Limited

Statement of Accounting Policies

For the six months ended 30 June 2004

Research and development (continued)

- 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 year of expected benefit. Research and development costs are otherwise expensed as incurred.

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. The value of any acquired intellectual property is based upon the historic costs associated with the generation of the intellectual property acquired.

Taxation

The tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and tax income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

Impairment

The Company reviews long-lived assets, including intangible assets, 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 estimated undiscounted cashflow from such asset is less than its carrying value. In that event, a loss is recognised in the statement of financial performance 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 cashflows discounted at a rate commensurate with the risk involved.

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.

Neuren Pharmaceuticals Limited

Statement of Accounting Policies

For the six months ended 30 June 2004

Accounts receivable

Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful.

Contract work in progress

Contract work in progress is stated at cost less amounts invoiced to customers. Cost includes all expenses directly related to specific contracts and an allocation of general science overhead expenses incurred by the Company.

Leased assets

Leases that are not finance leases are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is determined principally on a straight-line basis for plant, equipment and office furniture and fittings, based upon the following estimated useful lives:

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

Repairs and maintenance and gains and losses on sale or disposal of assets are reflected in the statement of financial performance as incurred. Major renewals and betterments are capitalised.

Intangible assets

Patents, trademarks and licences are amortised over their anticipated useful lives, which are aligned with the unexpired patent term or agreement over trademarks and licences.

Employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees. The liability for employee entitlements is carried at the present value of the estimated future cash outflow.

Financing 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. Costs associated with the issue of shares which are recognised within non-current liabilities on the balance sheet are expensed in the year accrued.

Financial instruments

Financial instruments recognised in the statement of financial position include cash and cash equivalents, accounts receivable, accounts payable and Preference Shares. With the exception of the Preference Shares, the Company believes that the amounts reported for financial instruments approximate fair value due to their short term nature (refer note 14 regarding Preference Shares).

Neuren Pharmaceuticals Limited

Statement of Accounting Policies

For the six months ended 30 June 2004

Statement of cashflows

Operating cashflows include all transactions and other events that are not investing or financing activities. Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, and investments. Financing activities are those that result in changes in the size and composition of the capital structure disclosed within equity or long term debt.

Comparative information

As this is the first period the Company and Group have prepared interim financial statements, no comparative information on financial performance, financial position and cashflows is presented covering the period ended 30 June 2003.

Changes in accounting policies

There have been no changes in accounting policies during the year.

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

1. Segment information

The Company operates in one industry, namely the facilitation of the discovery and development of human therapeutics and from one geographic location being New Zealand.

2. Net deficit per share

Basic net deficit per share is based upon the weighted average number of outstanding Ordinary Shares. For the years ended 31 December 2002 and 2003, the Company's potentially dilutive common share equivalents being the Series A and Series B Preference Shares (refer note 14) have an anti-dilutive effect on net deficit per share and, therefore, have not been used in determining the total weighted average number of common shares outstanding for the purpose of calculating diluted net deficit per share.

The following table sets forth the computation of basic and diluted net deficit per share:

	Company and Group		
	6 months to 30 June 2004 \$'000	12 months to 31 December 2003 \$'000	12 months to 31 December 2002 \$'000
Basic			
Unadjusted net deficit	(2,946)	(3,872)	(1,653)
Weighted Average Shares Outstanding	6,092,000	840,000	840,000
Net deficit per share	(\$0.48)	(\$4.61)	(\$1.97)
Diluted:			
Unadjusted Net deficit	(2,946)	(3,872)	(1,653)
Add: Preference Share dividend	126	505	418
Adjusted net deficit	(2,820)	(3,367)	(1,235)
Weighted Average Shares Outstanding:	6,092,000	840,000	840,000
Net deficit per share	(\$0.46)	(\$4.00)	(\$1.47)

3. Operating deficit

Operating deficit is stated after changing:

Accounting fees	7	-	49
Audit fees	38	12	15
Other fees paid to auditors	6	20	-
Directors fees	33	45	-

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

	Company and Group		
	6 months to 30 June 2004 \$'000	12 months to 31 December 2003 \$'000	12 months to 31 December 2002 \$'000
3. Operating deficit (continued)			
Operating deficit is stated after charging:			
Depreciation			
Scientific equipment	162	63	12
Computer equipment	50	101	56
Fixtures and fittings	26	13	3
Office furniture	-	-	6
Leasehold improvements	4	4	1
Total Depreciation	242	181	78
Preference share dividend	126	505	418
Amortisation of intangibles	415	-	-
Profit on disposal of fixed assets	(96)	-	-
Legal fees	17	38	245
Rent expense	148	153	22

The operating result of the six months ended 30 June 2004 includes the expenditure arising from the business activities acquired from NeuronZ Limited (refer note 12).

4. Income tax

The Company had estimated income tax losses carried forward at 30 June 2004 of \$6,848,000 with a tax effect of \$2,260,000 (year to December 2003: \$4,076,000, tax effect \$1,345,000; year to December 2002: \$934,000, tax effect \$308,000). These losses can be carried forward subject to the requirements of income tax legislation being met and the Company maintaining shareholder continuity. The potential benefit associated with these losses has not been recognised.

	Company and Group		
	6 months to 30 June 2004 \$'000	12 months to 31 December 2003 \$'000	12 months to 31 December 2002 \$'000
Net deficit per accounts	(2,946)	(3,872)	(1,653)
Timing Differences			
Holiday pay provision	10	3	13
Permanent Differences			
Depreciation	40	81	-
Profit on disposal of property, plant & equipment	(96)	-	-
Dividend on preference shares	126	505	418
Patent fees	76	129	97
Other interest	-	(8)	-
Legal fees non deductible	15	18	182
Entertainment costs non deductible	3	2	9
Estimated income tax loss	(2,772)	(3,142)	(934)

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

4. Income tax (continued)

The Company has not recognised any deferred taxation benefit arising from timing differences due to the existence of tax losses. The tax effect of total timing differences not recognised at 30 June 2004 is \$3,000 (year to December 2003: \$1,000, year to December 2002: \$4,000).

There are no imputation credits as there have been no taxes paid.

	Company and Group		
	6 months to 30 June 2004	12 months to 31 December 2003	12 months to 31 December 2002
5. Share capital			
Issued share capital			
Ordinary shares - number of shares			
Balance at beginning of period	840	840	-
Shares issued to convert preference shares	5,079	-	-
Shares issued for acquisition of NeuronZ Limited's business	16,277	-	-
Shares issued during the year	2,332	-	840
Balance as at 30 June 2004	24,528	840	840
Share capital	\$'000	\$'000	\$'000
Ordinary shares - value			
Balance at beginning of period	8	8	-
Shares issued to convert preference shares	7,365	-	-
Shares issued for acquisition of NeuronZ Limited's business	11,453	-	-
Shares issued during the year	2,332	-	8
Balance as at 30 June 2004	21,158	8	8
Fully paid	18,689	8	8
Called but not fully paid	2,332	-	-
Total share capital	21,158	8	8

Ordinary Shares

As at 30 June 2004 there were 24,527,574 Ordinary Shares issued with 22,195,824 fully paid up and 2,331,750 called but not fully paid. All Ordinary Shares rank equally as to dividends and liquidation with one vote attached to each fully paid ordinary share.

Shares issued to convert Preference Shares

On 2 April 2004, 1,667,667 Series A Preference Shares and 2,500,000 Series B Preference Shares then on issue were converted under the terms of the Series A Preference Shares and Series B Preference Shares into Ordinary Shares on a one for one basis. 912,218 Ordinary Shares were also issued to the former Series A and Series B Preference Shareholders in consideration of them agreeing to forego their preferential rights. Each Ordinary Share was issued fully paid up and ranking equally with all other Ordinary Shares.

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

5. Share capital (continued)

Shares issued for acquisition of NeuronZ Limited's business

On 21 May 2004, 16,276,939 Ordinary Shares were issued in settlement of the consideration for the acquisition of the assets, liabilities and business as a going concern of NeuronZ Limited, a related entity. The consideration for the 16,276,939 Ordinary Shares was the net value acquired of \$11,453,000 as at 1 January 2004 or \$0.70 per Ordinary Share. Each Ordinary Share issued is treated as fully paid up and ranking equally with all other Ordinary Shares.

Shares issued during the year

On 30 June 2004, 2,331,750 Ordinary Shares were issued for cash at \$1 per Ordinary Share on a partly paid basis. As at 30 June 2004 \$1,935,000 remains outstanding on those shares and is included within accounts receivable (refer note 8). The consideration per share is payable in two equal instalments on or around 30 June 2004 and 30 September 2004. All amounts due have been subsequently received by the date of signing of the financial statements.

Company and Group			
30 June 2004 \$'000	31 December 2003 \$'000	31 December 2002 \$'000	

6. Cash and cash equivalents

Cash and cash equivalents consists of the following:

Cash	362	634	52
Demand deposits	-	766	4,488
	<hr/>	<hr/>	<hr/>
	362	1,400	4,540

7. Convertible note receivable

During 2003, the Company invested in NeuronZ Limited by way of NZ\$2 convertible notes. The convertible notes were issued on the basis that they may convert into new Series B Preference Shares in NeuronZ Limited or be repaid in cash on or before 31 December 2004. The convertible notes were unsecured with interest of 13.5 % p.a. payable in the event that the convertible notes were repaid.

Under the terms of the conversion, the Company had the right to convert each convertible note into 3 new Series B Preference Shares in NeuronZ Limited.

Under the terms of the convertible notes the acquisition of the assets, liabilities and business of NeuronZ Limited triggered the cancellation of the convertible notes. No interest was therefore accrued.

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

	Company and Group		
	30 June 2004 \$'000	31 December 2003 \$'000	31 December 2002 \$'000
8. Accounts receivable			
Current			
Trade receivables	254	270	469
Unbilled revenue	114	-	-
Amounts due on Ordinary Shares Issued	1,935	-	-
	2,303	270	469
Refer to note 5 above for amounts due on Ordinary Shares issued.			
9. Fixed assets			
Fixed assets consist of the following:			
Cost:			
Scientific equipment	-	250	130
Computer equipment	685	199	184
Fixtures and fittings	208	54	24
Office furniture	-	-	26
Leasehold improvements	63	12	8
	956	515	372
Less accumulated depreciation:			
Scientific equipment	-	74	12
Computer equipment	658	157	56
Fixtures and fittings	150	22	3
Office furniture	-	-	6
Leasehold improvements	39	6	1
	847	259	78
Fixed assets, net book value	109	256	294

On 30 June 2004, all scientific equipment including items acquired from NeuronZ Limited was sold to Auckland UniServices Limited, a related party. A gain on disposal of \$96,000 was recorded.

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

	Company and Group		
	30 June 2004 \$'000	31 December 2003 \$'000	31 December 2002 \$'000
10. Intangible assets			
Intellectual property acquired:			
Cost:			
Patent rights	12,446	-	-
Less accumulated amortisation:			
Patent rights	415	-	-
Intangible assets, net book value	12,031	-	-

Patent rights were acquired as a result of the acquisition of the assets, liabilities and business as a going concern from NeuronZ Limited (refer note 12). The patent rights are amortised over a period of 15 years from the effective date of acquisition being 1 January 2004 as this reflects the approximate unexpired patent term. The directors do not believe there has been any impairment in value of the patent rights subsequent to acquisition.

11. Group financial statements and investments in subsidiaries

Neuren Pharmaceuticals Limited has the following investments in 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

All subsidiaries have a balance date of 31 December. The subsidiaries have had no reportable transactions in the period from incorporation to 30 June 2004. The Groups financial position, financial performance and cash flows are identical to those reported for the Company.

12. Acquisition of business

On 1 January 2004 Neuren Pharmaceuticals Limited assumed all of the significant risks and rewards of ownership of the assets, liabilities and business of NeuronZ Limited. Final ratification of the transaction by shareholders of NeuronZ Limited and Neuren Pharmaceuticals Limited occurred on 21 May 2004. The transaction has been recognised by both entities as at 1 January 2004. NeuronZ Limited had complementary technology and is a related party of the Company by virtue of its common shareholders and directors.

The directors of the Company valued the assets, liabilities and business as a going concern of NeuronZ Limited as at 1 January 2004 at \$11.45 million and issued 16,276,939 Ordinary Shares in the Company as consideration.

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

12. Acquisition of business (continued)

Consequently, Neuren Pharmaceuticals Limited has acquired the following balances as at 1 January 2004:

Net assets acquired:	2004
	\$'000
Cash	116
Accounts receivable	16
Other current assets	39
Property, plant and equipment	525
Intellectual property	12,445
Liabilities	(1,688)
	<hr/>
Consideration paid in the form of Ordinary Shares issued	11,453
	<hr/>
Cash impact of acquisition	-
	116

All assets and liabilities acquired have been recognised at their fair value.

Consistent with the bioscience discovery and development nature of the assets, liabilities and business acquired, the intangible asset acquired has been treated as an identifiable intangible asset, being the intellectual property acquired.

The business acquisition has been included within the results for the period.

	Company and Group		
	30 June	31 December	31 December
	2004	2003	2002
	\$'000	\$'000	\$'000

13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	30 June	31 December	31 December
	2004	2003	2002
	\$'000	\$'000	\$'000
Trade accounts payable	511	194	113
Payables to a related party	1,050	380	984
Employee related payables	133	20	48
Accruals and payments on account	318	153	206
Payment on account from related party	573	639	-
	<hr/>	<hr/>	<hr/>
	2,585	1,386	1,351
	<hr/>	<hr/>	<hr/>

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

	Company and Group		
	30 June 2004 \$'000	31 December 2003 \$'000	31 December 2002 \$'000
14. Long term debt			
Series A Preference Shares issued	-	1,667	1,667
Series B Preference Shares issued	-	4,649	4,649
Accrued Series A and B Preference Share dividend	-	923	418
	-	7,239	6,734

On 17 December 2001 the Company issued 100 Class A shares at a subscription price of NZ\$1.00. These were reclassified into Series A Preference Shares on 5 March 2002 pursuant to a shareholders resolution. Also on 5 March 2002 an additional 1,666,567 Series A Preference Shares were issued at a subscription price of NZ\$1.00 per share respectively.

On 5 March 2002 the Company issued 2,500,000 Series B Preference Shares at a subscription price of NZ\$1.86.

The Series A and Series B Preference Shares carried the right to receive cumulative dividends of 8% of the issue price per annum, were convertible into the same number of Ordinary Shares at any time by the Preference Shareholder and also convertible on the occurrence of the closing of a Qualified Public Offering or by a majority resolution of the Preference Shareholders. Each Preference Share carried one vote and ranked ahead of Ordinary Shares for the amount paid up and any accrued and unpaid dividends if the Company is wound up. Thereafter, each Preference Share ranked pari passu with the Ordinary Shares. Preference Shares had to be redeemed six years after issue if they had not been converted to Ordinary Shares before that time. Accordingly, they are of the nature of debt rather than equity for the years ended 31 December 2003 and 31 December 2002.

For the years ended 31 December 2003 and 2002 the directors believed the monetary value of the Preference Shares and associated dividend to be a prudent estimate of the fair value of the financial instrument when taking into account intellectual property held by the Company.

On 2 April 2004 the 1,667,667 Series A Preference Shares and the 2,500,000 Series B Preference Shares then on issue were converted into Ordinary Shares on a one for one basis (refer note 5). Amounts accrued but unpaid by way of the cumulative 8% per annum dividend on the Series A and Series B Preference Shares at the time of conversion have been capitalised in the period.

15. Commitments and contingencies

Operating leases

The following amounts for the lease of premises and scientific equipment have been committed to by the Company, but not recognised in the financial statements. The premises commitment is a result of the acquisition of the assets, liabilities and business as a going concern of NeuronZ Limited during the period (refer note 10).

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

Company and Group			
30 June 2004 \$'000	31 December 2003 \$'000	31 December 2002 \$'000	

15. Commitments and contingencies (continued)

Non cancellable operating lease commitments:

Within one year	415	-	-
One to two years	396	-	-
Two to five years	378	-	-
	<u>1,189</u>	-	-

Legal claims

The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 30 June 2004 (2003 & 2002: Nil).

Capital commitments

The Company is not committed to the purchase of any plant or equipment as at 30 June 2004 (2003 & 2002: None).

16. Related party transactions

The ultimate controlling entity of the Company as at 30 June 2004 is NeuronZ Limited by virtue of holding 66.4% of the Ordinary Shares of the Company.

Pfizer Inc. is a related party by virtue of its direct holding of 3,171,488 Ordinary Shares. During the period, Pfizer Inc. engaged Neuren Pharmaceuticals Limited to perform commercial research. The total value of this research is \$410,000 in the period to 30 June 2004 with all associated balances disclosed appropriately within the financial statements.

EndocrinZ Founders Limited is an entity partly owned by Dr R L Congreve and Prof P D Gluckman. Dr R L Congreve is a director of Neuren Pharmaceuticals Limited and Prof P D Gluckman is a direct shareholder in Neuren Pharmaceuticals Limited and acts in a scientific consultancy role to Neuren Pharmaceuticals Limited. Each holds shares in and are directors of EndocrinZ Founders Limited. EndocrinZ Founders Limited held 630,000 Ordinary Shares in Neuren Pharmaceuticals Limited as at 30 June 2004.

On 1 January 2004 Neuren Pharmaceuticals Limited assumed all of the significant risks and rewards of ownership of the assets, liabilities and business of NeuronZ Limited (refer note 12). Final ratification of the transaction by shareholders of NeuronZ Limited occurred on 21 May 2004. As a consequence of this transaction, Auckland UniServices Limited became a related party of the Company by virtue of Auckland UniServices Limited's holding of Ordinary Shares in NeuronZ Limited. Auckland UniServices Limited is the largest supplier of goods and services to the Company under contractually agreed terms. Services received in the period to 30 June 2004 were \$517,000. Amounts outstanding to Auckland UniServices Limited are shown in note 13. On 30 June 2004 scientific equipment was sold to Auckland UniServices Limited. A gain on disposal of \$96,000 was recorded. On 1 October 2004 options were granted to Auckland UniServices Limited under the Company Share Option Plan (refer note 19).

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

16. Related party transactions (continued)

Oceania and Eastern Biotech Limited is a related party of the Company due to the interests of Dr R L Congreve. On 1 October 2004 options were granted to Oceania and Eastern Biotech Limited under the Company Share Option Plan (refer note 19).

BrainZ Instruments Limited is a related party of the Company due to the interests of Dr RL Congreve. During the period to 30 June 2004 the Company recognised revenue of \$35,000 under a contract with BrainZ Instruments Limited to provide research services on normal commercial terms.

Certain other scientific consultants to the Company held minority shareholdings of Ordinary Shares as at 30 June 2004 and received contractual amounts for their consulting services.

The Company has had no other significant transactions with related parties during the year.

17. Going concern

As stated in the Statement of Accounting Policies on page 10, the Company will need to raise additional financing through public or private equity financings, collaborations or other arrangements with corporate sources or other sources of financing to fund operations. The directors believe the Company will be successful in obtaining sufficient funding for its operations for the foreseeable future and for a period not less than twelve months from the date of signing these financial statements.

Subsequent to the balance date, the Company has secured additional funding through the award of several grants supporting its future business and operations and further contract research for a period of time. The intention of the Company is to list on the Australian Stock Exchange (ASX) in the foreseeable future. It is intended that this will secure sufficient funding for the Company to continue as a going concern for a period not less than twelve months from the date of signing these financial statements.

18. Share Option Plan

The Company has established a Share Option Plan to assist in the retention and motivation of senior employees of, and certain consultants (refer note 19) to, the Company ("Participants") by allowing the Company to grant options over Shares to Participants as selected by the Board. It is intended that the Share Option Plan will result in the alignment of interests of Participants with those of the Company's shareholders to make Neuren more successful.

Under the Share Option Plan, options over Shares may be offered to Participants selected by the Board. The total number of Options to be offered under the Share Option Plan is 5,548,972 Options of which 5,527,865 Options had been allocated as at the date of these financial statements. No payment is required for the grant of Options under the Share Option Plan.

As at 30 June 2004, the Share Option Plans had not been formalised.

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

19. Events after balance date

ASX

On 1 July 2004, the Company engaged a leading Australian broker and underwriter with the intention of undertaking an initial public offering on the Australian Stock Exchange (ASX) in the foreseeable future. On 1 November 2004 the Company announced its intention to raise A\$15 million from the initial public offering to be underwritten by Australian based Emerging Growth Capital.

Non Executive Share Options

On 1 October 2004 the Company formalised two separate series of Options, under the Company Share Option Plan as referred to in note 18 above, to the following:

Oceania & Eastern Biotech Limited ("O&E Options"); and
Auckland UniServices Limited ("UniServices Options").

Oceania & Eastern Biotech Limited

Oceania & Eastern Biotech Limited is an investment company associated with interests of Dr R.L. Congreve. In consideration for the provision by Oceania & Eastern Biotech Limited of services in relation to inter alia, the acquisition of the assets, business and liabilities of NeuronZ Limited and the Company's capital raising initiatives, the Company granted Oceania & Eastern Biotech Limited 600,000 share options ("O&E Options").

If the O&E Options are exercised, the consideration for the issue of the Shares will be a fixed sum of NZ\$ 600,000 payable by Oceania & Eastern Biotech Limited on the exercise of the options. The options must be exercised on or before 31 March 2009.

As the exercise price of the options is considered equivalent to the fair value of the shares at the date of issue of the options the intrinsic value is nil.

Auckland UniServices Limited

Auckland UniServices Limited is the commercial research and knowledge transfer company for New Zealand's largest university, the University of Auckland. In consideration for the entry into a Research Deed dated 5 March 2002 between the Company and Auckland UniServices Limited, the Company granted Auckland UniServices Limited 735,000 share options ("UniServices Options").

If the UniServices Options are exercised, the consideration for the issue of the Shares will be a fixed sum of NZ\$ 735,000 payable by Auckland UniServices Limited on the exercise of the options. The options must 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 Auckland UniServices Limited) and 31 March 2009.

As the exercise price of the options is considered equivalent to the fair value of the shares at the date of issue of the options the intrinsic value is nil.

20. Financial Instruments

The Company is 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 enters into contract with overseas customers or consultants that are denominated in foreign currency. As a result of these transactions the Company is exposed to fluctuations in foreign exchange rates.

Neuren Pharmaceuticals Limited

Notes to the Financial Statements

For the six months ended 30 June 2004

20. Financial Instruments (continued)

At 30 June 2004 the unrecognised notional or principal contract amount of foreign exchange instruments outstanding was \$Nil (31 December 2004: \$Nil, 31 December 2002: \$Nil).

Repricing Analysis

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 rate on deposits was, December 2003 New Zealand denominated deposits of \$193,000 at 5.0 % and US denominated deposits of \$573,000 at 0.7%. As at December 2002 New Zealand denominated deposits of \$4,488,000 existed at 5.7 %.

Accounts receivable and payable are not included in the table as they are not interest rate sensitive.

Credit Risk

The Group incurs credit risk from transactions with trade receivables and financial institutions in the normal course of its business.

The Group does 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, accounts payable and in prior periods the redeemable preference shares (refer note 14) have a fair value equivalent to the carrying value in the financial statements.

Neuren Pharmaceuticals Limited

Directory

As at 30 June 2004

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