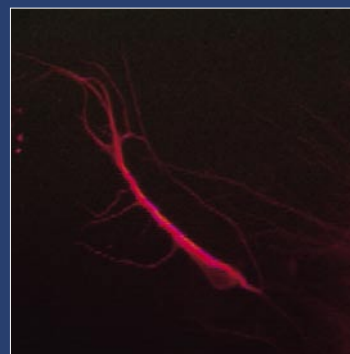
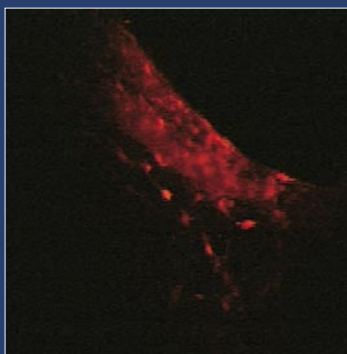
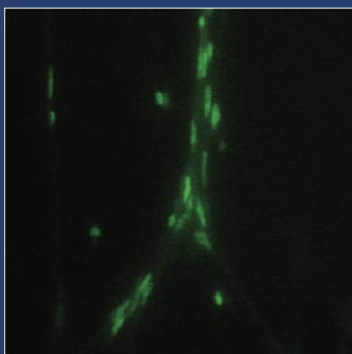
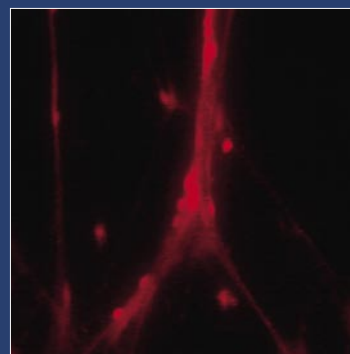
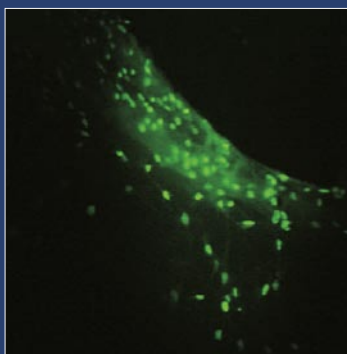
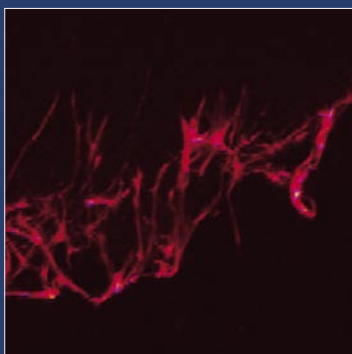
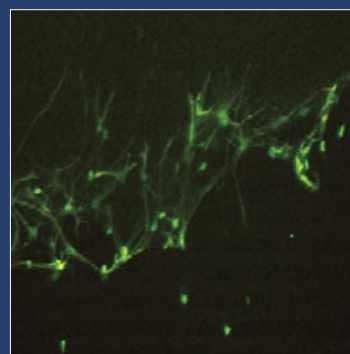
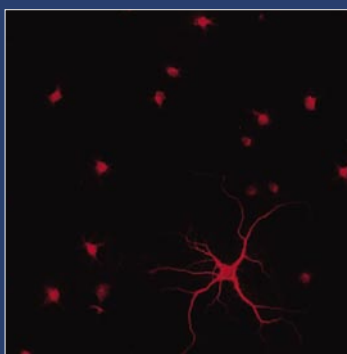
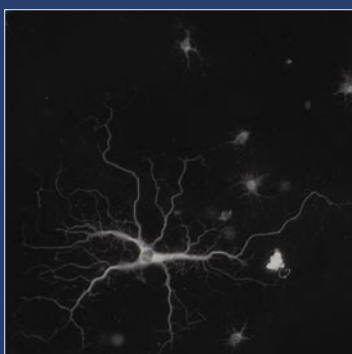


ANNUAL REPORT 2005

Neuren Pharmaceuticals Limited

ARBN 111 496 130



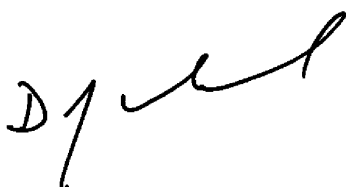
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The Board of Directors is pleased to present the Annual Report of Neuren Pharmaceuticals Limited for the year ended 31 December 2005, authorised by it on 20 March 2006.

For, and on behalf of, the Board



Dr Robin Congreve
Chairman



Mr David Clarke
Director

20 March 2006

Company

Neuren Pharmaceuticals Limited
ARBN 111 496 130

Corporate Head Office

Level 3, 2-6 Park Avenue,
Grafton, Auckland, New Zealand
Tel: +64 9 367 7167

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Level 13, 122 Arthur Street,
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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

Chief Executive's Report

I am pleased to be able to report that Neuren achieved all of the goals we set ourselves for 2005. Significant progress was made through the year in all aspects of the business as we matured and progressed from largely pre-clinical operations in 2004 to conducting and planning further clinical development in 2005. We continue to build our own clinical development resource internally as well as develop new relationships with world leaders in the fields we are focusing on. Our progress was recognised when Neuren won the New Zealand Biotechnology Company of the Year Award in October 2005.

Pre-clinically we have also further developed our pipeline such that we now have an attractive IP portfolio with a number of potential products and target indications.

Other key milestones during 2005 included:

- The formalised collaboration with Metabolic Pharmaceuticals for the development of Neural Regeneration Peptides (NRPs)
- The collaboration with the US Army Walter Reed Army Institute of Research (WRAIR) for the co-development of NNZ-2566 in traumatic brain injury (TBI) and the presentation by WRAIR of positive results for NNZ-2566 in TBI
- Commencement of the Glypromate® Phase 2 safety study, and the US Food and Drug Administration's (FDA) advice that Neuren could advance directly to a Phase 3 study after the current Phase 2 study
- Issued two US patents for the Glypromate® family in Parkinson's Disease.

Glypromate® Clinical Development Programme

The 30 patient Phase 2a trial of Glypromate® to confirm the safety and pharmacokinetics of the drug in patients was initiated in 2005 and was conducted through Auckland City Hospital, Mercy Hospital (Auckland), Waikato Hospital (Hamilton), Wakefield Hospital (Wellington) and the Alfred Hospital (Melbourne). Recruitment in the trial is now complete and the results are expected to be reported in April 2006. The use of the five hospitals for this small Phase 2a trial has proved to be valuable experience for pre-testing many of the systems and processes that will be required for the larger multi-centre Phase 3 trial.

As reported previously, Neuren held a pre-IND meeting with the US Food and Drug Administration (FDA) in April 2005 primarily to present Neuren's plans for a Phase 2b study of Glypromate® to prevent neurocognitive decline in patients undergoing coronary artery bypass graft (CABG) surgery. As a result and at the their recommendation, the FDA will allow Neuren to move straight to a Phase 3 study rather than the planned Phase 2b study, and the Glypromate® clinical development programme will accelerate by two years incurring an estimated \$6 - 8 million less in direct costs. Since that meeting Neuren has completed all of the additional pre-clinical requirements outlined by the FDA and work on the trial protocol is at an advanced stage.

Audits were also completed during the year on the manufacturers involved in the production processes for Glypromate® and found them to be compliant with international Phase 3 standards for medicines set by FDA (USA) and EMEA (Europe) for approved contract manufacturers.

NNZ-2566 Development Programme

During 2005 Neuren formalised and extended its relationship with WRAIR for co-development of NNZ-2566 in TBI, benefiting Neuren through a significant reduction in pre-clinical research costs to be borne by the Company. The Cooperative Research and Development Agreement (CRADA) represents the second stage of what the Company expects will be a three-stage collaboration including further pre-clinical development and subsequent clinical trials. Under the CRADA, the Army has and will continue to conduct experiments in animal models of TBI in order to optimise the dose and schedule for drug administration. In August 2005, the results of work under the CRADA were presented by WRAIR scientists at the Advanced Technology Applications for Combat Casualty Care (ATACCC) conference in St. Petersburg, Florida (US) confirming that NNZ-2566 significantly reduces functional deficits from severe brain trauma in a dose and time-dependent manner.

Pre-clinical safety studies have been completed with NNZ-2566 as prerequisites for human clinical trials. These studies have shown NNZ-2566 to be safe and without toxicity in both rats and dogs at doses up to more than 20 times the highest daily dose planned for a Phase 1 study, the first "in man" clinical trial to assess the initial safety of a drug in humans. Neuren now has all the necessary regulatory approvals to conduct a Phase 1 study of intravenous NNZ-2566 and this will be carried out on 35 healthy volunteers at the Royal Alfred Hospital in Melbourne. The Company is also planning a second stage of the Phase 1 study to confirm safety and evaluate pharmacokinetics with longer infusion times.

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

Work continues on the potential oral formulations of NNZ-2566 developed to date. Studies conducted during 2005 showed evidence of good absorption and drug levels in circulation when these oral formulations were given to animals and experiments in an animal model of stroke have shown good dose response. These encouraging findings confirm Neuren's belief that NNZ-2566 offers excellent potential as an oral drug for chronic conditions such as preventing secondary strokes and transient ischemic attacks as well as degenerative diseases such as Alzheimer's and Parkinson's disease dementia.

Neural Regeneration Peptides (NRPs) Research Programme

Early in 2005 Neuren and Metabolic Pharmaceuticals Limited (ASX: MBP) agreed to collaborate to develop the NRPs for acute and chronic neurological conditions. This collaboration is partly funded by a government grant of \$635,000 from the Australia New Zealand Biotechnology Partnership Fund, providing 25% of the funding needed for the collaboration while Neuren and Metabolic

Pharmaceuticals will contribute 25% and 50% of the funding, respectively. Neuren and Metabolic Pharmaceuticals will share equally in intellectual property and commercial outcomes.

The first animal studies obtained promising results in a model designed to test the ability of the NRP, NNZ-4921, to prevent or reverse peripheral neuropathy (nerve damage). The effectiveness of NNZ-4921 when given at a low dose, once per day, positively indicated that the compound has good potential as a neuro-therapeutic drug.

Peripheral neuropathy is a relatively common and disabling condition characterised by nerve damage due to diseases such as diabetes, or as a result of other treatments, such as chemotherapy. Currently the approved drugs for the treatment of peripheral neuropathy provide only symptomatic relief for pain and do not treat or prevent the underlying disease process.

Efficacy in the neuropathy model of the kind used is indicative of the therapeutic potential for this novel class of drug. Further studies will determine the best market for NRPs, with potential indications including chemotherapy-induced neuropathies, HIV-induced neuropathy, diabetic neuropathy, or other similar conditions. 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 pre-clinical safety and toxicity program will be initiated. The companies intend to move the drug forward towards the clinic as soon as possible, with development costs being shared between the two companies.

Diketopiperazines (DKP) and Macrocyclic Research Programmes

During 2005 one of the patented analogues in the DKP family of compounds, NNZ-2591, exhibited potent neuroprotective effects in animal models of stroke. Neuren is undertaking further studies in other chronic indications for NNZ-2591 and intends initiating the pharmacology/toxicology and chemistry-related activities necessary to advance this candidate into the next phase of pre-clinical development.

Growth and Metabolism Research Programmes

Work on a partial agonist of Growth Hormone (GH) has been completed and has demonstrated beneficial effects of GH on metabolism without the unwanted side effects often seen in adults receiving GH. Neuren plans to out-licence this technology.

Preliminary research has also been undertaken on an antagonist that targets a mediator of GH activity that appears to be responsible for the proliferation and malignant behaviour of some breast cancers. Studies are currently underway with the antagonist to confirm proof of principle. If this is obtained, the Company will optimise one or more approaches to confirm their effect in established animal models. Neuren would most likely seek to out-license this product while it is in pre-clinical development.

Financial Review

Overall operating revenue was maintained. In line with the move of the Company to concentrate more on clinical development and correspondingly less on third party contract research, grant income supporting clinical trials increased and external third party research revenue decreased. Grant income in 2005 amounted to \$1,714,000, significantly exceeding 2004's \$945,000 and largely offsetting the expected fall in contract revenue. Contract research revenue in 2005 included contracts with Metabolic Pharmaceuticals Limited and Pfizer Inc.

Interest income increased from \$10,000 in 2004 to \$619,000 in 2005 as a result of higher cash reserves following the Company's initial public offering in January 2005 and a further private placement of ordinary shares in December 2005. Neuren had \$12,499,000 in cash deposits as at 31 December 2005.

Research and development costs increased \$2,728,000 in 2005 as a result of increased pre-clinical and clinical development activities by the Company primarily for its two lead compounds, Glypromate® and NNZ-2566. Following a pre-IND meeting with the US FDA in April 2005, at which Neuren was advised it could proceed directly to a Phase 3 study thereby avoiding a Phase 2b study for Glypromate®, the Company brought forward a number of activities which would otherwise not have been required for a Phase 2b study in order to satisfy the higher demands of a Phase 3 trial. These additional pre-clinical activities were substantially complete by year-end at a cost of \$1.8 million and form part of the additional \$2,728,000. This opportunity potentially accelerates Neuren to a Phase 3 trial of Glypromate® in 2006 rather than 2008. Extensive pre-clinical development of NNZ-2566 was also achieved in 2005 in conjunction with the US Army Walter Reed Army Institute of Research and through completion of pre-clinical toxicology studies. These studies together with the Phase 2 trial for Glypromate® and preparatory work for the NNZ-2566 Phase 1 safety trial represent the balance of the increase in research and development costs over 2004.



Mr David Clarke
Chief Executive Officer

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 2005, Neuren commenced a Phase 2 trial for its lead compound Glypromate® and continued to pre-clinically advance all of its other compounds.

The Company's operations for the year are described in the Chief Executive's Report on pages 2 and 3.

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

The operating deficit for the year ended 31 December 2005 was \$8,895,000 (2004: \$6,169,000). The detailed financial statements are presented on pages 11 to 24.

The net deficit per share of \$0.09 (2004: \$0.15) is based on 98,109,589 weighted average number of shares outstanding (2004: 40,165,094).

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

Directors

Dr Robin Congreve, LL.M, PhD (Chairman)

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

Mr Tom Amos, BEng (Non-Executive Director)

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

Mr Trevor Scott, BCom, FCA (PP), FNZIM, F Inst D (Non-Executive Director)

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

Dr Douglas Wilson, MB, ChB, PhD (Director and Chief Medical Officer)

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

Dr Graeme Howie, BSc (Hons), PhD (Non-Executive Director)

Dr Howie has over 27 years of management experience in the international pharmaceutical industry with a strong and diverse background in research and development, product development, manufacturing and commercial fields. His most recent experience

is in recombinant biotech product development and was until December 2004 a senior executive at Pfizer Inc., based in New York. Dr Howie has extensive international experience in technical and commercial due diligence activities, including in-licensing. He also led and was responsible for new delivery route feasibility studies on human growth hormone and has been responsible for the development and registration of various products throughout the USA, Europe, Australia and Asia. Dr Howie was appointed a Director on 4 February 2005.

Mr David Clarke, BE (Hons), ME, BBS, MBA, FNZIM (Managing Director and Chief Executive Officer)

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

Interests Register

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

Dr R L Congreve

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

Mr TR Amos

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

Mr T D Scott

Mr Scott is a director of New Zealand Seed Fund Management Limited and Centralo Limited, both shareholders of the Company. Mr Scott is also the chairman or a director for Pacific Edge Biotechnology Limited, Mercy Hospital Dunedin Limited, Blis Technologies Limited and until 29 November 2005 Otago Innovation Limited, which also operate in the biotechnology/pharmaceutical industry. He is also a director of NZX listed ING Property Trust Limited which is the owner of the Company’s leased premises. Mr Scott does not have any other interests considered to cause any potential conflict of interests.

Dr J D Wilson

Dr Wilson was until 17 June 2005 a director of Genesis Research & Development Corporation Limited, a publicly listed New Zealand scientific research company. Dr Wilson does not have any other disclosed interests considered to cause any potential conflict of interests.

Dr GB Howie

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

Mr D J Clarke

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

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

Information used by Directors

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

Indemnification and Insurance of Directors and Officers

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

Remuneration of Directors

	Directors' Fees 31 December 2005 \$'000	Other Remuneration 31 December 2005 \$'000	Directors' Fees 31 December 2004 \$'000	Other Remuneration 31 December 2004 \$'000
RL Congreve	60	-	60	-
TD Scott	35	-	25	-
JD Wilson	-	216	-	108
DJ Clarke	-	450	-	450
TR Amos	35	-	-	-
GB Howie (appointed 4 February 2005)	32	18	-	-

Executive Remuneration

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

	31 December 2005 \$'000	31 December 2004 \$'000
\$100,000 - \$109,999	1	-
\$110,000 - \$119,999	3	-
\$120,000 - \$129,999	1	-
\$140,000 - \$149,999	-	2

Donations

The Company made no donations during the year (2004: \$2,000).

Auditors

PricewaterhouseCoopers are the auditors of the Company. Audit fees were \$56,000 (2004: \$74,000, which included an audit of the 30 June 2004 interim financial statements). During 2005 PricewaterhouseCoopers also received \$11,000 (2004: \$6,400) in relation to other financial advice.

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

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

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

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

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

Role of the Board

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

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

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

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

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

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

Board Composition

The Company must have between 3 and 9 Directors. The usual term of appointment for non-executive Directors is 3 years.

The Board currently consists of a non-executive Chairman, a Managing Director (Chief Executive Officer), another executive director (Chief Medical Officer) and three non-executive Directors. The composition of the Board, its performance, and the independence of Directors are regularly reviewed to ensure that the Board has the appropriate mix of independence, expertise and experience. Mr Amos, Dr Howie and Mr Scott are independent Directors. The Board has considered establishing a Nomination Committee, however due to the small number of Directors the Board considers it more efficient for the selection and appointment of Directors to be considered by the Board itself.

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

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

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

Board Committees

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

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

Remuneration and Audit Committee

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

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

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

Ethical Standards and Share Trading

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

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

Continuous Disclosure

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

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

Rights of Shareholders

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

Identification and Management of Significant Business Risk

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

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

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

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

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

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

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

Remuneration

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

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

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

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

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

FINANCIAL STATEMENTS

for the year ended 31 December 2005

Statement of Financial Performance

for the year ended 31 December 2005

	Notes	Company and Group	
		2005 NZ\$'000	2004 NZ\$'000
Continuing Activities			
Operating revenue			
Grants		1,714	945
Contract research revenues		460	1,643
Interest income		619	10
Total operating revenue		2,793	2,598
Operating expenses			
Research		9,288	6,560
Finance and administration		2,381	2,081
Dividends on preference shares		-	126
		11,669	8,767
Operating deficit before taxation	5	(8,876)	(6,169)
Income tax	6	(19)	-
Net deficit after taxation		(8,895)	(6,169)
Net deficit per share:			
Basic	4	(\$0.09)	(\$0.15)
Diluted		(\$0.09)	(\$0.15)
Weighted average number of shares outstanding:			
Basic	4	98,109,589	40,165,094
Diluted		98,109,589	40,165,094

The notes on pages 15 to 24 form part of these financial statements

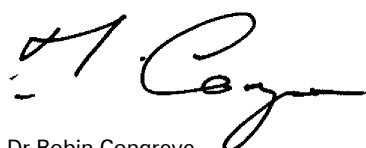
Statement of Financial Position

as at 31 December 2005

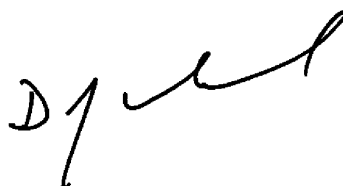
	Notes	Company and Group	
		2005 NZ\$'000	2004 NZ\$'000
ASSETS			
Current assets:			
Cash and cash equivalents	8	12,499	343
Accounts receivable and other assets	9	879	402
Receivable from related parties	17	284	697
Deferred equity raising costs		-	880
Total current assets		13,662	2,322
Non-current assets:			
Property, plant and equipment	10	86	72
Intangible assets	11	10,801	11,616
Total non-current assets		10,887	11,688
TOTAL ASSETS		24,549	14,010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payables and accrued liabilities	14	3,261	4,546
Total current liabilities		3,261	4,546
SHAREHOLDERS' EQUITY			
Share capital	7	41,877	21,158
Accumulated deficit		(20,589)	(11,694)
Total shareholders' equity		21,288	9,464
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		24,549	14,010

The notes on pages 15 to 24 form part of these financial statements

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 20 March 2006.



Dr Robin Congreve
Chairman



Mr David Clarke
Director

Statement of Movements in Equity

for the year ended 31 December 2005

	Company and Group				Recognised Revenues and Expenses NZ\$'000
	Paid-in Capital		Accumulated Deficit NZ\$'000	Total NZ\$'000	
	Shares 000's	Amount NZ\$'000			
Shareholders' equity as at 1 January 2004	840	\$ 8	\$ (5,525)	\$ (5,517)	
Shares issued on conversion of preference shares	5,079	7,365		7,365	
Shares issued on acquisition of NeuronZ Limited's business	16,277	11,453		11,453	
Shares issued for cash	2,332	2,332		2,332	
Share split	37,972	-		-	
Net deficit			(6,169)	(6,169)	(6,169)
Total recognised revenues and expenses					\$ (6,169)
Shareholders' equity as at 31 December 2004	62,500	\$ 21,158	\$ (11,694)	\$ 9,464	
Shares issued in initial public offering ("IPO")	37,500	16,309		16,309	
Shares issued in private placement	12,000	6,687		6,687	
Share issue costs expensed		(2,277)		(2,277)	
Net deficit			(8,895)	(8,895)	(8,895)
Total recognised revenues and expenses					\$ (8,895)
Shareholders' equity as at 31 December 2005	112,000	\$ 41,877	\$ (20,589)	\$ 21,288	

The notes on pages 15 to 24 form part of these financial statements

Statement of Cash Flows

for the year ended 31 December 2005

	Company and Group	
	2005 NZ\$'000	2004 NZ\$'000
Cash flows from operating activities:		
Receipts from grants	1,199	867
Receipts from customers	737	1,587
Interest received	619	10
Net GST received	281	117
Income taxes refunded (paid)	(24)	150
Payments to suppliers	(9,895)	(5,105)
Payments to employees	(1,902)	(1,611)
Net cash used in operating activities	(8,985)	(3,985)
Cash flows from investing activities:		
Purchase of intellectual property	(15)	-
Purchase of plant and equipment	(49)	(20)
Cash acquired on acquisition of the business of NeuronZ Limited	-	116
Proceeds from disposal of property, plant and equipment	-	543
Net cash provided from (used in) investing activities	(64)	639
Cash flows from financing activities:		
Proceeds from ordinary share issues	22,996	2,332
Payment of share issue costs	(1,901)	-
Net cash provided from financing activities	21,095	2,332
Net increase (decrease) in cash	12,046	(1,014)
Effect of exchange rate changes on cash balances	110	(43)
Cash at the beginning of the year	343	1,400
Cash at the end of the year	12,499	343
Reconciliation with net deficit:		
Net deficit	(8,895)	(6,169)
<i>Non-cash items requiring adjustment:</i>		
Depreciation	48	285
Amortisation	830	830
Foreign exchange loss (gain)	(63)	43
Dividend on preference shares	-	126
<i>Changes in working capital:</i>		
Accounts receivable	36	(149)
Prepaid expenses and other current assets	(152)	(913)
Accounts payable and accruals	(789)	2,061
<i>Items classified as investing activities:</i>		
Profit on disposal of property, plant and equipment	-	(99)
Net cash used in operating activities	(8,985)	(3,985)

The notes on pages 15 to 24 form part of these financial statements

Notes to the Financial Statements

for the year ended 31 December 2005

1. 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 Company and the Group (comprising the Company and its subsidiaries: refer note 12). At 31 December 2004 and 2005 the subsidiary companies had no material operations and accordingly the Company's financial statements materially reflect the Group's financial statements.

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.

Inherent Uncertainties

- During the year ended 31 December 2004 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 13). 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 \$10,801,000 (after amortisation) is dependent on the Company successfully developing its products, on licensing the products, or divesting the intellectual property so that it generates future economic benefits to the Company.
- The Company's research and development activities involve inherent risks. These risks include, among others: dependence on, and the Company's ability to retain key personnel; the Company's ability to protect its intellectual property and prevent other companies from using the technology; the Company's business is based on novel and unproven technology; the Company's ability to sufficiently complete the clinical trials process; and technological developments by the Company's competitors may render its products obsolete.
- The Company has a business plan which will require a high level of expenditure until product revenue streams are established and therefore expects to continue to incur additional net losses until then. In the future, the Company will need to raise further financing through other public or private equity financings, collaborations or other arrangements with corporate sources, or other sources of financing to fund operations. There can be no assurance that such additional financing, if available, can be obtained on terms reasonable to the Company. In the event the Company is unable to raise additional capital, future operations will need to be curtailed or discontinued.

2. Summary of significant accounting policies

The accompanying financial statements of the Company and Group are for the year ended 31 December 2005, and are based on the general principles of historical cost accounting. They are presented in accordance with the New Zealand Companies Act 1993 and have been prepared in accordance with the New Zealand 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.

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, 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.

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 recoverable amount 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 cash flows 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.

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.

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.

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 15 regarding preference shares).

Statement of cash flows

Operating cash flows 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.

Changes in accounting policies

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

Adoption of International Financial Reporting Standards ("IFRS")

The Company and Group will be required to present its financial statements in accordance with New Zealand equivalent IFRS ("NZ IFRS") for the financial year commencing 1 January 2007. On adoption of NZ IFRS, comparative information will be restated using NZ IFRS. No final decision has been made as to whether the Company and Group will early adopt NZ IFRS.

The Company has yet to assess the impact to its financial statements of adopting NZ IFRS, however changes in accounting policies are likely to arise with respect to:

- Recognition and classification of Financial Instruments under NZ IAS 32 and 39: financial instruments will be required to be classified and measured in accordance with that classification. While the Company does not currently utilise derivative financial instruments, the classification and measurement process may impact other financial instruments.
- Share and option based payments under NZ IFRS 2: the Company will be required to determine and recognise the fair value of options and other forms of equity based remuneration.
- Income Taxes under NZ IAS 12: the Company will be required to adopt a balance sheet approach under which temporary differences are identified for each asset or liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.
- Asset impairment testing under NZ IAS 36: the Company will be required to annually review tangible and intangible assets for impairment with such review being based on the fair value of, or discounted cash flows generated by, each asset rather than undiscounted cash flows.

The differences between current NZ GAAP and NZ IFRS identified above may have a significant effect on the presented financial position and performance. The areas identified above should not be taken as an exhaustive list of all the differences between NZ GAAP and NZ IFRS. None of the potential impacts of the adoption of NZ IFRS on the financial performance and financial position, including systems upgrades and other implementation costs, have been quantified yet.

3. 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.

4. 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 2004 and 2005, the Company's potentially dilutive ordinary share equivalents (being the preference shares and options over ordinary shares) have an anti-dilutive effect on net deficit per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted net deficit per share. The effect of the ordinary share split of 1: 2.548153 in November 2004 has been applied to the calculation of the weighted average number of outstanding ordinary shares for all periods presented.

	Company and Group	
	2005 NZ\$'000	2004 NZ\$'000
Basic		
Unadjusted net deficit	(8,895)	(6,169)
Weighted average shares outstanding	98,109,589	40,165,094
Basic net deficit per share	(\$0.09)	(\$0.15)
Diluted		
Unadjusted net deficit	(8,895)	(6,169)
Add: Preference share dividend	-	126
Adjusted net deficit	(8,895)	(6,043)
Weighted average shares outstanding	98,109,589	40,165,094
Diluted net deficit per share	(\$0.09)	(\$0.15)

5. Operating deficit

	Company and Group	
	2005 NZ\$'000	2004 NZ\$'000
Operating deficit is stated after charging:		
Accounting fees	7	11
Audit fees	56	74
Other fees paid to auditors	11	6
Directors' fees	162	65
Preference share dividend	-	126
Amortisation of intangible assets	830	830
Profit on disposal of fixed assets	-	(99)
Legal fees	10	30
Rent expense	74	298
Donations	-	2
Foreign exchange loss (gain)	(63)	49
Research and development costs	8,458	5,567
Depreciation		
Scientific equipment	3	163
Computer equipment	16	65
Fixtures and fittings	22	49
Leasehold improvements	7	8
Total depreciation	48	285

6. Income tax

	Company and Group	
	2005 NZ\$'000	2004 NZ\$'000
Net deficit per accounts	(8,895)	(6,169)
Timing Differences		
Holiday pay provision	(56)	123
Depreciation	-	(3)
Disposal of fixed assets	-	(194)
Permanent Differences		
Dividend on preference shares	-	126
Patent fees	500	141
Amortisation of intangible assets	830	830
Legal fees non-deductible	10	29
Entertainment costs non-deductible	10	4
Estimated income tax loss	(7,601)	(5,113)

The Company has not recognised any deferred taxation or tax loss carry forward benefits due to uncertainty over the ultimate realisation of those benefits. The deferred tax effect of total timing differences not recognised at 31 December 2005 is a benefit of \$56,000 (2004: \$72,000 benefit).

The Company had estimated income tax losses to carry forward at 31 December 2005 of \$12,715,000 with a tax effect of \$4,196,000 (2004: \$9,189,000, tax effect \$3,032,000). These losses can be carried forward subject to the requirements of income tax legislation being met and the Company maintaining shareholder continuity.

The income tax expense of \$19,000 for the year ended 31 December 2005 (2004: nil) represents non-refundable non-resident withholding taxes on interest in foreign tax jurisdictions. There are no imputation credits as there have been no net New Zealand taxes paid.

7. Share capital

	Company and Group	
	2005 '000	2004 '000
Issued share capital		
<i>Ordinary shares - number of shares</i>		
Balance at beginning of year	62,500	840
Shares issued for cash during the year	49,500	2,332
Shares issued to convert preference shares	-	5,079
Shares issued on acquisition of NeuronZ Limited's business	-	16,277
	112,000	24,528
Shares issued pursuant to a share split on a 1: 2.548153 basis	-	37,972
Ordinary shares issued as at end of year	112,000	62,500
Issued share capital	2005	2004
<i>Ordinary shares - value</i>	NZ\$'000	NZ\$'000
Balance at beginning of year	21,158	8
Shares issued for cash during the year (net of issue costs)	20,719	2,332
Shares issued to convert preference shares	-	7,365
Shares issued for acquisition of NeuronZ Limited's business	-	11,453
Total issued share capital	41,877	21,158

Ordinary Shares

As at 31 December 2005 there were 112,000,000 ordinary shares issued and fully paid up. On 2 November 2004 the then outstanding 24,527,574 ordinary shares were split on a 1: 2.548153 basis into 62,500,000 ordinary shares. Subsequently 37,500,000 ordinary shares were issued in the Company's IPO in January 2005, and a further 12,000,000 ordinary shares were issued in a private placement in December 2005. 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.

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. Each ordinary share was issued fully paid up and ranking equally with all other ordinary shares.

Share Options

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

Oceania & Eastern Biotech Limited is an investment company associated with interests of Dr Robin Congreve. In consideration for the provision by Oceania & Eastern Biotech Limited of services in relation to 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 options on 1 October 2004 ("O&E Options"). The number of O&E Options was adjusted to 1,528,892 options as a consequence of the subdivision of shares described above. 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 – equivalent to NZ\$0.392 per share. The options must be exercised on or before 31 March 2009.

Auckland UniServices Limited ("UniServices") is the commercial research and knowledge transfer company for the University of Auckland. In consideration for the entry into a Research Deed dated 5 March 2002 between the Company and UniServices, the Company granted UniServices 735,000 options ("UniServices Options"). The number of UniServices Options was adjusted to 1,872,892 options as a consequence of the subdivision of shares described above. 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 UniServices on the exercise of the options – equivalent to NZ\$0.392 per share. The UniServices 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 UniServices Limited) and 31 March 2009.

The above options were otherwise issued on terms and conditions not materially different to those of the Share Option Plan described below. Using the Black-Scholes option pricing model and variables of 58.6% volatility, 6.07% risk free interest rate, 0% dividend yield, and a 30% discount for lack of marketability, the Company estimates that the O&E Options and the UniServices Options had fair values on grant date of \$201,000 and \$246,000 respectively. The May 2005 Options were estimated to have a fair value on grant date of \$276,000 using the Black-Scholes option pricing model and variables of 68.0% volatility, 6.15% risk free interest rate, and 0% dividend yield.

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 to, the Company ("Participants"). Under the Share Option Plan, options may be offered to Participants by the Remuneration and Audit Committee. The total number of options to be offered under the Share Option Plan is 14,139,627 options of which 14,135,843 options have been issued and allocated with an exercise price of NZ\$0.392 per option. Using the Black-Scholes option pricing model as above the Company estimates that these options had a grant date fair value of \$1,856,000. No payment is required for the grant of options under the Share Option Plan. Each option is an option to subscribe for one ordinary share, but does not carry any right to vote. Upon the exercise of an option by a Participant, each ordinary share issued will rank equally with other ordinary shares of the Company. Each option shall lapse and cease to be available for exercise after 31 March 2009 or where the Participant who is the holder of that option ceases to be an employee or consultant, provided that the Company may, subject to such conditions as it sees fit, determine that options held by a Participant who has:

- ceased to be an employee or consultant by reason of injury, ill health, redundancy, or retirement shall not lapse;
- died shall not lapse and may be transferred to a personal representative of that Participant.

8. Cash and cash equivalents

	Company and Group	
	2005	2004
	NZ\$'000	NZ\$'000
Cash	50	343
Demand and short-term deposits	12,449	-
	<u>12,499</u>	<u>343</u>

9. Accounts receivable and other assets

	Company and Group	
	2005 NZ\$'000	2004 NZ\$'000
Trade receivables	187	319
Unbilled revenue	502	50
Prepaid expenses	184	33
Income taxes receivable	6	-
	<u>879</u>	<u>402</u>

10. Property, plant and equipment

	Company and Group	
	2005 NZ\$'000	2004 NZ\$'000
Cost		
Scientific equipment	42	-
Computer equipment	257	237
Fixtures and fittings	103	103
Leasehold improvements	32	32
	<u>434</u>	<u>372</u>
Less accumulated depreciation		
Scientific equipment	3	-
Computer equipment	236	220
Fixtures and fittings	89	67
Leasehold improvements	20	13
	<u>348</u>	<u>300</u>
Net book value	<u>86</u>	<u>72</u>

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 in the year ended 31 December 2004.

11. Intangible assets

Intellectual property acquired:	Company and Group	
	2005 NZ\$'000	2004 NZ\$'000
Cost		
Patent rights	12,461	12,446
Less accumulated amortisation		
Patent rights	(1,660)	(830)
Net book value	<u>10,801</u>	<u>11,616</u>

Patent rights were acquired in 2004 as a result of the acquisition of the assets, liabilities and business as a going concern from NeuronZ Limited (refer note 13). Further patent rights were acquired for cash in August 2005. The patent rights are amortised over a period of 15 years from the effective date of acquisition 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.

12. Group financial statements and investments in subsidiaries

Neuren Pharmaceuticals Limited has the following subsidiaries:

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

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

13. 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 (pre-split) ordinary shares in the Company as consideration.

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

	Company and Group 2004 NZ\$'000
Net assets acquired:	
Cash	116
Accounts receivable	16
Other current assets	39
Property, plant and equipment	524
Intellectual property	12,446
Liabilities	(1,688)
	11,453
Fair value of net assets acquired	11,453
Consideration paid in the form of ordinary shares issued	11,453
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 2004 and 2005 years.

14. Accounts payable and accrued liabilities

	Company and Group 2005 NZ\$'000	2004 NZ\$'000
Trade accounts payable	1,283	1,184
Payable to a related party	380	1,454
Accruals	451	348
Employee related payables	380	556
Payment on account from related party	767	1,004
	3,261	4,546

15. Long-term debt

The Series A and Series B preference shares issued in 2001 and 2002 carried the right to receive cumulative dividends of 8% of the issue price per annum. The preference shares were to be redeemed six years after issue if they had not been converted to ordinary shares before that time. Accordingly, they were classified as debt rather than equity.

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 7).

16. 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 was assumed as a result of the acquisition of the assets, liabilities and business as a going concern of NeuronZ Limited during 2004 (refer note 13).

Non-cancellable operating lease commitments	Company and Group	
	2005 NZ\$'000	2004 NZ\$'000
Within one year	370	396
One to two years	83	370
Two to five years	125	208
	<u>578</u>	<u>974</u>

Legal claims

The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 31 December 2005 (2004: Nil).

Capital commitments

The Company is not committed to the purchase of any plant or equipment as at 31 December 2005 (2004: Nil).

17. Related party transactions

Pfizer Inc. is a related party by virtue of its direct holding of 8,081,438 ordinary shares as at 31 December 2004 and 2005. During the period, Pfizer Inc. engaged Neuren Pharmaceuticals Limited to perform commercial research. The total value of this research was \$414,000 in the year ended 31 December 2005 (2004: \$1,303,000). As at 31 December 2005 \$284,000 (2004: \$697,000) was receivable from Pfizer and advance contract research revenue amounted to \$767,000 (2004: \$1,004,000).

NeuronZ Limited is a related party by virtue of its direct holding of 12,345,898 ordinary shares as at 31 December 2004 and 2005. 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 13). 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 31 December 2005 were \$1,847,000 (2004: \$3,003,000). As at 31 December 2005 \$380,000 (2004: \$1,454,000) was due to Auckland UniServices Limited. On 30 June 2004 scientific equipment was sold to Auckland UniServices Limited for \$540,000. A gain on disposal of \$96,000 was recorded (2005: nil). On 1 October 2004 options were granted to Auckland UniServices Limited (refer note 7).

Oceania & 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 & Eastern Biotech Limited (refer note 7). Oceania & Eastern Biotech Limited also charged fees in 2004 of \$50,000 (2005: nil) in relation to services provided in relation to the Company's initial public offering.

BrainZ Instruments Limited is a related party of the Company due to the interests of Dr RL Congreve. During the period to 31 December 2004 the Company recognised revenue of \$35,000 under a contract with BrainZ Instruments Limited to provide research services on normal commercial terms. There were no transactions between BrainZ Instruments and the Company in 2005.

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

18. Events after balance date

As at the date of these financial statements there were no events arising since 31 December 2005 which require disclosure.

19. Financial Instruments

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

Currency Risk

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

At 31 December 2005 the unrecognised notional or principal contract amount of foreign exchange instruments outstanding was \$nil (31 December 2004: \$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 rates on short term deposits at 31 December 2005 were New Zealand dollar denominated deposits of NZ\$2,600,000 at 7.5 % and US dollar denominated deposits of US\$2,300,000 at 4.2%. There were no term deposits at 31 December 2004.

Accounts receivable and payable are not interest rate sensitive.

Credit Risk

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

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

Fair Values

Cash at bank, receivables, accounts payable and in prior periods the redeemable preference shares (refer note 15) have a fair value equivalent to the carrying value in the financial statements.

Auditors' Report

to the Shareholders of Neuren Pharmaceuticals Limited

We have audited the financial statements on pages 11 to 24. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 December 2005 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 15 to 17.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 December 2005 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

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

Basis of Opinion

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

- (a) the significant estimates and judgments 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 and taxation advisers.

Unqualified Opinion

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

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 11 to 24:
 - (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 31 December 2005 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 20 March 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Auckland

Additional Information

Equity Securities Held by Directors as at 7 March 2006

Director	Interests in Ordinary Shares		Interests in Options	
	Direct	Indirect	Direct	Indirect
R L Congreve	-	23,636,115	-	1,528,892
T D Scott	-	12,432,795	-	-
T R Amos	-	9,624,118	-	-
J D Wilson	-	135,000	-	-
G B Howie	50,000	-	-	-
D J Clarke	-	-	4,241,888	-

Shareholding

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

The number of ordinary shareholdings held in less than marketable parcels at 7 March 2006 was 20, holding 7,666 ordinary shares.

The following information is presented based on share registry information processed up to 7 March 2006.

<i>Distribution of Shareholders</i> Analysis of numbers of ordinary shares by size of holding:	Number of Shareholders	Number of Ordinary Shares
1 – 1,000	45	32,226
1,001 – 5,000	454	1,899,808
5,001 – 10,000	349	3,086,804
10,001 – 100,000	469	13,877,545
100,001 and over	66	93,103,617
	1,383	112,000,000

<i>Distribution of Optionholders</i> Analysis of numbers of options by size of holding:	Number of Optionholders	Number of Options
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	2	12,442
10,001 – 100,000	10	626,532
100,001 and over	16	19,898,653
	28	20,537,627

<i>Substantial Security Holders</i> who have notified the Company as at 7 March 2006 are:	Number of Ordinary Shares
NeuronZ Limited	12,345,898
New Zealand Seed Fund Management Limited	11,441,670
Pfizer Inc.	8,081,438
K One W One Limited	6,250,424

<i>Securities Subject to Escrow</i>	Number of Ordinary Shares	Number of Options
Escrow period ends: 3 February 2007	23,464,063	7,643,672

<i>Twenty Largest Holders</i> of ordinary shares:	Number of Ordinary Shares	% Holding
NeuronZ Limited	12,345,898	11.02
New Zealand Seed Fund Management Limited	11,441,670	10.22
Pfizer Inc.	8,081,438	7.22
K One W One Limited	6,250,424	5.58
Perpetual Trustee Company (Canberra) Limited <Macquarie Technology Fund 1A A/C>	4,812,059	4.30
Perpetual Trustee Company (Canberra) Limited <Macquarie Technology Fund 1B A/C>	4,812,059	4.30
J P Morgan Nominees Australia Limited	4,072,110	3.64
TAC Murray & Quartet Equities Limited <The Congreve Family A/C>	3,704,244	3.31
Hazardous Investments Limited	3,293,711	2.94
ANZ Nominees Limited <Cash Income A/C>	3,194,316	2.85
Oceania & Eastern Biotech Limited	2,686,926	2.40
Mr Gnanalingam Lingam Gunanath	2,500,000	2.23
UCA Growth Fund Limited	2,430,902	2.17
National Nominees Limited	2,400,700	2.14
Equity Trustees Limited <SGH PI Smaller Co's Fund>	1,731,575	1.55
Janik Enterprises	1,646,856	1.47
EndocrinZ Founders Limited	1,605,336	1.43
Savage Group Limited	1,274,076	1.14
Metabolic Pharmaceuticals Limited	1,250,000	1.12
Jennifer Gibbs	1,097,905	0.98
	80,632,205	71.99

Australian Stock Exchange Disclosures

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

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

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

Corporations Act, Australia - Directors' declaration

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

- The financial statements on pages 11 to 24 of Neuren and its subsidiaries for the year ended 31 December 2005 and the notes to those financial statements:
 - comply with the accounting standards issued by the Institute of Chartered Accountants of New Zealand; and
 - give a true and fair view of the financial position as at 31 December 2005 and of the performance for the year ended on that date of Neuren and its subsidiaries.
- In the Directors' opinion there are reasonable grounds to believe that Neuren will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors dated 20 March 2006.

On behalf of the Board



Dr Robin Congreve
Chairman

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ANNUAL REPORT 2005

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