

**PRANA BIOTECHNOLOGY
LIMITED
ABN 37 080 699 065**

**APPENDIX 4D
HALF YEARLY FINANCIAL
REPORT**

**for the half year ended
31 December 2004**

To be read in conjunction with the 30 June 2004 Annual Report.

In compliance with Listing Rule 4.2A

DIRECTORS' REPORT

Your directors submit the financial report of the company for the half-year ended 31 December 2004.

Directors

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

Geoffrey Kempler	Executive Chairman	appointed 11 November 1997
Jonas Alsenas	Executive Director	appointed 25 March 2004
Colin Masters	Executive Director	appointed 9 December 1999
Brian Meltzer	Non-Executive Director	appointed 9 December 1999
George Mihaly	Non-Executive Director	appointed 9 December 1999

Review of Operations

Highlights:

- Successful settlement of all outstanding patent litigation regarding PBT-1 with P.N. Gerolymatos, S.A.
- Announcement of Jonas Alšėnas as Chief Executive Officer
- Release of the Phase II trial extension data
- Announcement of the planned initiation of the potentially pivotal PII/III PLACQUE trial for PBT-1
- Successful capital raising of \$4.75 million before costs through option exercise

Scientific and Clinical Milestones:

In October 2004, Prana announced the results of the 48-week open label extension phase of the PBT-1 Phase II study of patients suffering from Alzheimer's disease. (Results of the blinded portion of the study were published in December 2003 in Archives of Neurology.) Data from the extension phase revealed that Alzheimer's patients with ADAS-cog scores similar to those in the study would have been expected to decline by an average of 18 points over the treatment period when compared to a historical control. The results showed an average decline of approximately eight points for a difference of 10 points from that predicted without treatment in the nine patients on PBT-1 for 84 weeks. Results from the MMSE (Mini Mental State Examination) were also encouraging. When compared to baseline, the patients on 84 weeks of PBT-1 demonstrated no statistically significant decline. PBT-1 was well-tolerated and there were no safety issues associated with the administration of the drug.

Based upon the successful Phase II clinical experience with PBT-1, Prana has announced that it plans to proceed with a potentially pivotal Phase II/III study called PLACQUE. The double-blind study expects to enrol 435 patients with moderate Alzheimer's disease at centres in the United Kingdom, Australia, and the Republic of South Africa who will be randomized to placebo or one of two doses of PBT-1 for 52 weeks.

In October, Dr. Ashley Bush, co-founding scientist and senior scientific consultant to Prana Biotechnology, was named a 2004 Zenith Fellow Award winner by the Alzheimer's Association. The Zenith Awards program provides support for investigators who have contributed significantly to the field of Alzheimer's disease research. The Zenith Fellow Award will support further research by Dr. Bush relating to brain metal biochemistry in Alzheimer's disease for the purposes of early diagnosis.

Corporate and Financial Milestones:

In August 2004, Prana announced the appointment of Jonas Alšėnas as Chief Executive Officer replacing Geoffrey Kempler who remained as Executive Chairman. Also in August, Prana settled all outstanding patent litigation with P.N. Gerolymatos, S.A. regarding PBT-1. Prana and Massachusetts General Hospital agreed to settle all outstanding litigation with P.N. Gerolymatos S.A. (P.N.G.) regarding the exploitation rights to certain patents relating to pharmaceutical compositions and uses of clioquinol (also known as PBT-1). Accordingly, all patent oppositions in Europe and Australia were withdrawn and the law suits pending before the U.S. District Court for the District of Columbia and the Court of Athens in Greece were dismissed.

As a result of the settlement, Prana and P.N.G. agreed to recognise the rights of each other to develop clioquinol in their respective territories. Prana will hold the rights to clioquinol in the United States and Japan, while P.N.G. will hold the rights for European and other territories. As per the agreement, Prana has allotted 1.35 million shares which are being held in escrow for twelve months and will pay a royalty to P.N.G. on sales in the USA and Japan; Prana will receive a percentage of P.N.G.'s income for the other territories.

In December, Prana announced that 9.5 million unlisted options exercisable at \$0.50 expiring on December 1, 2004 were exercised prior to the expiry date. As a result, Prana raised approximately \$4.75 million in new capital before costs.

Auditors' Declaration of Independence

A copy of the auditors' declaration under section 307C in relation to the review for the half-year is set out on page 4.

This report is signed in accordance with a resolution of the Board of Directors.



Executive Chairman
Geoffrey Kempler

Dated this 25th day of February 2005

25 February 2005

The Board of Directors
Prana Biotechnology Limited
Suite 2
1233 High Street
Armadale VIC 3143

Dear Board Members

Prana Biotechnology Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Prana Biotechnology Limited.

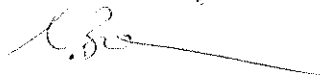
As lead audit partner for the review of the financial statements of Prana Biotechnology Limited for the half-year ended 31 December 2004, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Chris Biermann
Partner
Chartered Accountants

Appendix 4D for the Half Year Ended 31 December 2004

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Current Reporting Period – Half-Year Ended 31 December 2004

Previous Corresponding Period – Half-Year Ended 31 December 2003

Revenues from ordinary activities	up	21.86%	to	\$1,369,175
Loss from ordinary activities after tax attributable to members	up	76.82%	to	(\$7,139,969)
Net loss for the period attributable to members	up	76.82%	to	(\$7,139,969)
Dividends (distributions)		Amount per security		Franked amount per security
Final dividend		n/a		n/a
Previous corresponding period		n/a		n/a
Net Tangible Asset per Security (cents per security)				
As at 31 December 2004		20.78		
As at 31 December 2003		23.46		
[†] Record date for determining entitlements to the dividend, (in the case of a trust, distribution)				n/a
Explanation of the above information:				
Refer to Directors' Report – Review of Operations				

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF YEAR
ENDED 31 DECEMBER 2004**

	CONSOLIDATED ENTITY	
	31 December 2004 \$	31 December 2003 \$
REVENUES FROM ORDINARY ACTIVITIES	1,369,175	1,123,587
Personnel expenses	(2,072,998)	(1,071,308)
Research and Development expenses	(3,056,180)	(2,617,876)
Intellectual Property expenses	(308,936)	(253,059)
Financial expenses	(182,140)	(133,645)
Amortisation expenses	(550,002)	(550,002)
Computer expenses	(15,468)	(4,946)
Depreciation	(33,953)	(47,930)
Insurance	(82,029)	(31,980)
Office expenses	(151,275)	(75,711)
PR & Marketing expenses	(184,917)	(119,274)
Travelling expenses	(200,677)	(125,239)
Foreign Currency Losses	(1,512,222)	(34,654)
Other expenses from ordinary activities	(158,347)	(95,877)
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(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE	(7,139,969)	(4,037,914)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	-	-
	<hr/>	<hr/>
(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	(7,139,969)	(4,037,914)
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TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	(7,139,969)	(4,037,914)
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BASIC EARNINGS PER SHARE (cents per share)	(6.0)	(5.5)
DILUTED EARNINGS PER SHARE (cents per share)	(6.0)	(5.5)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2004

	CONSOLIDATED ENTITY	
	31 December 2004 \$	30 June 2004 \$
CURRENT ASSETS		
Cash assets	26,911,314	29,580,398
Receivables	518,689	92,917
Other	268,159	72,769
	27,698,162	29,746,084
NON-CURRENT ASSETS		
Plant and Equipment	194,275	180,971
Intangible assets	10,938,341	11,488,343
	11,132,616	11,669,314
TOTAL ASSETS	38,830,778	41,415,398
CURRENT LIABILITIES		
Payables	1,396,984	2,661,950
Provisions	61,940	42,597
	1,458,924	2,704,547
NON-CURRENT LIABILITIES		
Provisions	14,884	8,292
	14,884	8,292
TOTAL LIABILITIES	1,473,808	2,712,839
NET ASSETS	37,356,970	38,702,559
EQUITY		
Contributed equity	2 55,299,873	49,505,493
Reserves	14,661,942	14,661,942
Accumulated losses	(32,604,845)	(25,464,876)
	37,356,970	38,702,559

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOW FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	CONSOLIDATED ENTITY	
	31 December 2004 \$	31 December 2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(6,502,203)	(3,551,117)
Interest received	113,147	163,692
AusIndustry grants	51,289	65,746
Research funding received	562,500	787,500
Other	6,371	446
	<hr/>	<hr/>
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	(5,768,896)	(2,533,733)
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CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for purchases of plant and equipment	(47,258)	(12,757)
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NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	(47,258)	(12,757)
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CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares & other equity securities	4,753,333	5,034,495
Capital Raising Costs	(94,041)	(296,978)
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NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	4,659,292	4,737,517
	<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH HELD	(1,156,862)	2,191,027
Opening Cash Balance	29,580,398	3,463,783
Exchange Rate adjustments	(1,512,222)	(34,654)
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Closing Cash Balance	26,911,314	5,620,156
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The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation

The half-year financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the Annual Financial Report for the year ended 30 June 2004 and any public announcements made by Prana Biotechnology Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the company and are consistent with those applied in the 2004 Annual Report.

The half-year report does not include full disclosures of the type normally included in the annual financial report.

2. Contributed Equity

	31 December 2004		30 June 2004	
	No.	\$	No.	\$
<u>Issued and Paid Up Capital</u>				
Fully Paid Ordinary Shares	127,140,820	54,566,800	115,984,380	49,505,493
Options over Fully Paid Ordinary Shares	3,719,167	279,510	21,269,167	-
Options over ADRs	380,000	-	-	-
Warrants over ADRs	3,320,000	453,563	3,000,000	-
		<hr/>		<hr/>
Total Contributed Equity		55,299,873		49,505,493
		<hr/>		<hr/>

During the half year ended 31 December 2004, the following movements in equity occurred:

- Shares:
 - 9,506,666 - exercise of options at \$0.50 per share
 - 1,399,775 – issued to consultants for nil consideration in exchange for services provided and expensed to the Statement of Financial Performance
 - 249,999 – issued to directors in lieu of directors fees and expensed to the Statement of Financial Performance.
- Options - exercisable to shares:
 - 1,600,000 – issued to directors, exercisable at nil consideration on or before 30 June 2010
 - 200,000 – issued to consultants, exercisable at \$0.50 on or before 17 December 2007 for nil consideration in exchange for services provided and expensed to the Statement of Financial Performance.
 - 200,000 – issued to consultants, exercisable at \$0.50 on or before 17 December 2007 for nil consideration in exchange for service provided in relation to the June 2004 equity raising and have been debited to Contributed Equity as issue costs.
 - 200,000 – issued to consultants, exercisable at \$0.50 on or before 17 December 2007 for nil consideration in exchange for service provided in relation to the December 2004 exercise of options and have been debited to Contributed Equity as issue costs.
 - 10,243,334 – options expired on 1 December 2004
- Options - exercisable to ADRs:
 - 380,000 – issued to a director, exercisable at US\$5.00 on or before 17 December 2012
- Warrants, exercisable to ADRs;
 - 320,000 – issued to consultants, exercisable at US\$8.00 on or before 4 June 2009 for nil consideration. These warrants were issued in exchange for services provided in relation to the June 2004 equity raising and have been debited to Contributed Equity as issue costs.

3. Net Tangible Asset

	31 December 2004	30 June 2004
Net Assets	\$37,356,970	\$38,702,559
Intangible Assets	(\$10,938,341)	(\$11,488,343)
	<hr/>	<hr/>
	\$26,418,629	\$27,214,216
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Number of Shares on Issue	127,140,820	115,984,380
Net Tangible Asset Backing (cents)	20.78	23.46

4. Changes in the Composition of the Controlled Entity

In August 2004, the Company set up a wholly owned entity in the United States due to the increase in US operations following the appointment of Jonas Alsenas, a US based Director and CEO, and the increase in US investment in the Company. The Company also set up in August 2004, a wholly owned entity in the United Kingdom to allow them to conduct commercial and clinical operations in the UK. In the period ending 31 December 2004, only the US entity traded and their accounts have been incorporated into the consolidated accounts of the Company.

5. Dividends

The company resolved not to declare any dividends in the period ended 31 December 2004.

6. Segment Information

The company's activities are predominately within Australia and cover research into Alzheimer's Disease and other major age-related degenerative disorders.

7. Contingent Liabilities

There has been no change in contingent liabilities since the last annual reporting date.

8. Events Subsequent to Reporting Date

There have been no events after reporting date that have a material effect on this report.

9. Adoption of Australian equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing on or after 1 January 2005. This requires the production of accounting data for future comparative purposes from this year by the beginning of the next financial year.

The Company's management are assessing the significance of these changes and preparing for their implementation. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The directors are of the opinion that the key differences in the Company's accounting policies which will arise from the adoption of IFRS are:

Equity Payments

The Company currently has the policy of expensing shares issued in lieu of payment for goods or services by valuing them at their cost under the contract, however under IFRS the company will also be required to expense the cost of options issued in lieu of payment for goods or services. IFRS also specify a methodology for valuing equity payments.

Intellectual Property

The Company currently has intangible assets which were revalued upward by approximately \$14.6M to \$16.5M in 2001 which are amortised over their useful life of up to 15 years. For the revaluation increment to continue to be recognised under IFRS there must be an active market in which the intangible can be traded. The intangible assets must also be able to be separately identified. It is anticipated that the intangible assets will not be able to be separately identified and that there will be no active market in which to value the intangible assets. As a result, the revaluation increment may be derecognised from the Statement of Financial Position and the amortisation previously taken up may be reversed.

DIRECTORS' DECLARATION

The directors declare that:

- a) the attached financial statements and notes thereto comply with Accounting Standards;
- b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the consolidated entity;
- c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- d) in the directors' opinion, there are reasonable grounds to believe that the disclosing entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Geoffrey Kempler', followed by a horizontal line.

Executive Chairman
Geoffrey Kempler

Melbourne

Dated this 25th day of February 2005

Independent review report to the members of Prana Biotechnology Limited

Scope

We have reviewed the financial report of Prana Biotechnology Limited for the half-year ended 31 December 2004 as set out on pages 6 to 11. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

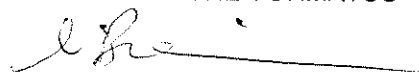
Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Prana Biotechnology Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Chris Bierman

Partner

Chartered Accountants

Melbourne, 25 February 2005