

Appendix 4E

Neuren Pharmaceuticals Limited ARBN 111 496 130

Preliminary final report Financial year ended 31 December 2005

The following information is given to the ASX under listing rule 4.3A:

1. Reporting Details

Neuren Pharmaceuticals Limited ARBN 111 496 130 (“Neuren” or the “Company”) presents the following information for the year ended 31 December 2005 together with comparative results for the year ended 31 December 2004.

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

2. Results for announcement to the market

	Reported 2005 NZ\$'000	Variance to 2004 NZ\$'000	% Change
2.1 Operating Revenue	2,793	195	8%
2.2 Loss after Tax	(8,895)	(2,726)	(44%)
2.3 Net Loss	(8,895)	(2,726)	(44%)
2.4 Dividends	N/A	N/A	N/A

Operating Revenue

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 [ASX: MBP] 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.

Loss after Tax and Net Loss

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.

3. Statement of Financial Performance

	Notes	12 months to 31 December 2005 NZ\$'000	12 months to 31 December 2004 NZ\$'000
Continuing Activities			
Operating revenue			
Grants		1,714	945
Contract research revenues		460	1,643
Interest income		619	10
		2,793	2,598
Operating expenses			
Research and development		9,288	6,560
Finance and administration		2,381	2,081
Dividends on preference shares		-	126
		11,669	8,767
Operating deficit before taxation	3.1	(8,876)	(6,169)
Income tax		(19)	-
Net deficit		(8,895)	(6,169)
Net deficit per share:			
Basic	3.2	(\$0.09)	(\$0.15)
Diluted	3.2	(\$0.09)	(\$0.15)
Weighted average number of shares outstanding:			
Basic	3.2	98,109,589	40,165,094
Diluted	3.2	98,109,589	40,165,094

3.1 Operating Deficit before Taxation

	12 months to 31 December 2005 NZ\$'000	12 months to 31 December 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 intangibles	830	830
Profit on disposal of fixed assets	-	(99)
Legal fees	10	30
Rent expense	74	298
Depreciation		
Scientific equipment	3	163
Computer equipment	16	65
Fixtures and fittings	22	49
Leasehold improvements	7	8
Total Depreciation	48	285

3.2 Net Deficit per Share

	12 months to 31 December 2005 NZ\$'000	12 months to 31 December 2004 NZ\$'000
Basic:		
Unadjusted net deficit	(8,895)	(6,169)
Weighted average shares outstanding	98,109,589	40,165,094
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
Net deficit per share	(\$0.09)	(\$0.15)

Basic net deficit per share is based upon the weighted average number of outstanding ordinary shares. For the years ended 31 December 2005 and 2004, the Company's potentially dilutive common 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 during 2004 has been applied to the calculation of the weighted average number of outstanding ordinary shares for all periods presented.

4. Statement of Financial Position

	Notes	31 December 2005 NZ\$'000	31 December 2004 NZ\$'000
ASSETS			
Current assets:			
Cash and cash equivalents		12,499	343
Accounts receivable and other assets		879	402
Receivable from related parties		284	697
Deferred equity raising costs		-	880
Total current assets		13,662	2,322
Non-current assets:			
Property, plant and equipment		86	72
Intangible assets	4.1	10,801	11,616
Total non-current assets		10,887	11,688
TOTAL ASSETS		24,549	14,010
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current liabilities:			
Accounts payable and accrued liabilities		3,261	4,546
Total current liabilities		3,261	4,546
Non-current liabilities:			
Long-term debt		-	-
Total liabilities		3,261	4,546
SHAREHOLDERS' FUNDS			
Share capital	4.2	41,877	21,158
Accumulated deficit	8	(20,589)	(11,694)
Total shareholders' funds		21,288	9,464
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		24,549	14,010

4.1 Intangible Assets

	31 December 2005 NZ\$'000	31 December 2004 NZ\$'000
Intellectual property acquired		
Cost:		
Patent rights	12,461	12,446
Less accumulated amortisation:		
Patent rights	(1,660)	(830)
Intangible assets, net book value	10,801	11,616

4.2 Share Capital

	31 December 2005 000's	31 December 2004 000's
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

	31 December 2005 NZ\$'000	31 December 2004 NZ\$'000
Issued share capital		
<i>Ordinary shares - value</i>		
Balance at beginning of year	21,158	8
Shares issued for cash during the year	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

5. Statement of Cash Flows

	Notes	12 months to 31 December 2005 NZ\$'000	12 months to 31 December 2004 NZ\$'000
Cash flows to operating activities:			
Receipts from grants		1,199	867
Receipts from customers		737	1,587
Interest received		619	10
Net GST received (paid)		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	5.1	-	116
Proceeds from disposal of property, plant & equipment		-	543
Net cash provided from (used in) investing activities		(64)	639
Cash flows from financing activities:			
Proceeds from ordinary share issue		22,996	2,332
Payment of share issue costs		(1,901)	-
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 end of the year		12,499	343
Reconciliation with net deficit:			
Net deficit		(8,895)	(6,169)
Non-cash items requiring adjustment:			
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 & equipment		-	(99)
Net cash used in operating activities		(8,985)	(3,985)

5.1 Acquisition of Business

Neuren Pharmaceuticals Limited acquired the following balances through the acquisition of the business of NeuronZ Limited as at 1 January 2004:

	12 months to 31 December 2004 NZ\$'000
Net assets acquired:	
Cash	116
Accounts receivable	16
Other current assets	39
Property, plant and equipment	525
Intellectual property	12,445
Liabilities	<u>(1,688)</u>
Fair value of net assets acquired	<u>11,453</u>
Consideration paid in the form of ordinary shares issued	<u>11,453</u>
Cash impact of acquisition	<u>116</u>

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 2004.

6. Dividends

No ordinary share dividend or distribution payments were made in the financial year. The directors do not recommend the payment of any dividends with respect to the financial year.

The dividend on preference shares presented within the prior year results is an accrual for cumulative dividend entitlements in accordance with the terms of the preference shares. The preference shares converted to ordinary shares on a one for one basis on 2 April 2004.

7. Dividend or Distribution Reinvestment Plan

Not applicable.

8. Statement of Retained Earnings

	12 months to 31 December 2005 NZ\$'000	12 months to 31 December 2004 NZ\$'000
Net deficit for the year being total recognised revenues and expenses	(8,895)	(6,169)
Retained earnings at the beginning of the year	(11,694)	(5,525)
Retained earnings at the end of the year	(20,589)	(11,694)

9. Net Tangible Assets per Security

	31 December 2005 NZ\$	31 December 2004 NZ\$
Net tangible assets per security	\$0.09	(\$0.03)

10. Control Over Entities

Name of entity	Date of control	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.

11. Associates and Joint Venture Entities

Not applicable.

12. Significant Information

None.

13. Accounting Standards

The financial statements of the Company are prepared in conformity with generally accepted accounting practice and accounting standards in New Zealand.

14. Commentary on the Results

As detailed in note 5.1 above, 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. The intellectual property acquired through this acquisition provides a platform of compounds for future development and licensing opportunities.

The net deficit per share is presented in note 3.2 above and no ordinary share dividends have been declared in the year.

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.

A commentary on the Company's results for the year ended 31 December 2005 is presented above under note 2.

15. Audit Status

This report is based upon financial statements for the year ended 31 December 2005 which are in the process of being audited. The results for the year ended 31 December 2004 as presented in this report have been audited.

The Company's auditor is PricewaterhouseCoopers, Auckland and no disputes have arisen.