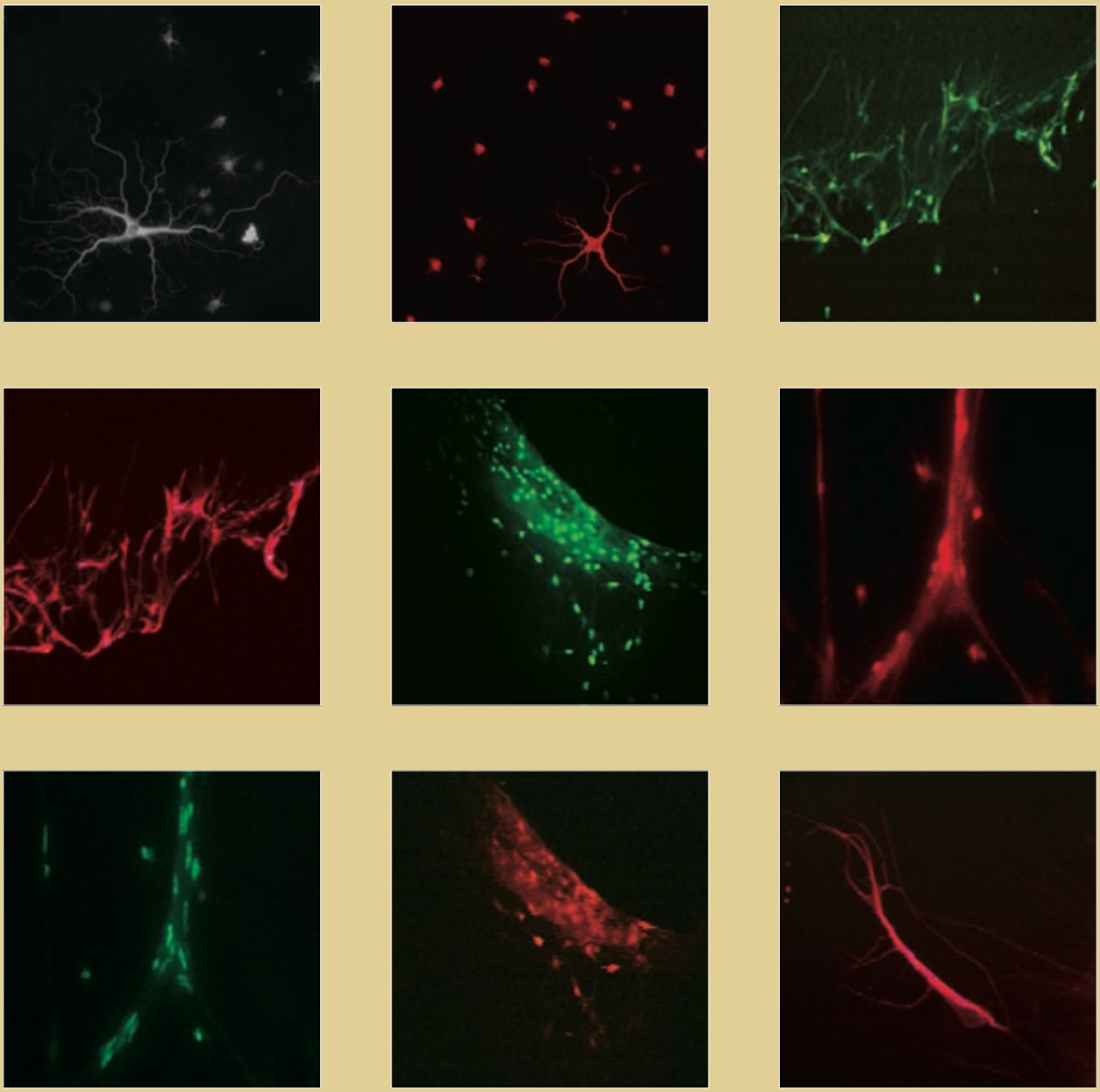
ANNUAL REPORT 2007

Neuren Pharmaceuticals Limited

ARBN 111 496 130



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Contents

The Board of Directors is pleased to present the Annual Report of Neuren Pharmaceuticals Limited for the year ended 31 December 2007, authorised by it on 12 March 2008.

For, and on behalf of, the Board

Dr Robin Congreve
Chairman

Mr Trevor Scott
Director

12 March 2008

Corporate Directory

Company
Neuren Pharmaceuticals Limited
ARBN 111 496 130

Corporate Head Office
Level 1, 103 Carlton Gore Road
Newmarket, Auckland, New Zealand
Tel: +64 9 529 3940

Australian Registered Office
Level 13, 122 Arthur Street
North Sydney NSW 2060
Australia
Tel: +61 2 9956 8500

Directors
Dr Robin Congreve
Mr Tom Amos
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 9, 333 Collins Street
Melbourne, Victoria 3000
Australia
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Fax: +61 3 9615 9900

Stock Exchange Listing
Australian Stock Exchange Limited
ASX Code: NEU

Website
www.neurenpharma.com

Chief Executives' Report

2007 was a year of achieving key milestones for Neuren. With three compounds in the clinic, Neuren has now completed the transition from a preclinical research and development company into a specialty central nervous system (CNS) pharmaceutical company with one of the most advanced and comprehensive drug pipelines in Australasia. Depending on the compound, Neuren's three clinical stage products are all only two to three trials from registration in indications that represent a potential market opportunity cumulatively worth over US$6 billion.

The most advanced product in Neuren's clinical pipeline is Glypromate®, currently in a Phase 3 trial for the reduction of cognitive impairment in patients undergoing cardiac surgery. The trial was initiated in Q2 2007 and now has 21 sites actively recruiting in Australia, New Zealand and the US, with recruitment expected to be completed by December 2008. In 2007, Phase 1a and 1b safety trials were successfully completed for Neuren's second lead compound, NNZ-2566. The Company is planning to file an Investigational New Drug (IND) application with the US FDA in the first half of 2008 and to initiate a Phase 2 trial in traumatic brain injury (TBI) in collaboration with the US Army. The acquisition of Hamilton Pharmaceuticals added another Phase 2 compound, Motiva™, with proven human efficacy in post-stroke pshychiatric symptoms, an extensive human safety profile and an open US IND. Preparations are now underway to initiate a Phase 2b trial in late-2008.

In the preclinical pipeline, the Company has obtained proof of concept in a range of in vivo models of peripheral neuropathy, Parkinson's disease and certain cancers. These conditions reflect significant unmet need and market opportunity and are major targets for many larger pharmaceutical and biotechnology companies. While we are concentrating resources on the clinical trials, Neuren is actively engaged in discussions with a number of potential partners for these promising, earlier stage compounds.

At the end of 2007, the Company announced the resignation of its CEO, David Clarke. David joined Neuren in 2002 and led the Company through the consolidation of NeuronZ and EndocrinZ into Neuren, a successful initial public offering and subsequent capital raises. David leaves Neuren with a strong product development programme in place, substantial partnership potential and a robust portfolio of preclinical science.

Larry Glass, Neuren's Executive Vice President, based in Washington DC, and Dr Parmjot Bains, Neuren's Chief Operating Officer, based in Sydney, Australia, took over the helm of the Company as joint CEOs. The model has been operational since the end of 2007 and is working exceptionally well. The change in leadership provided the impetus to review and refine the strategic focus of the Company in three key areas: clinical development, capital raising to complete the clinical trials through to the end of 2009 and outlicensing of the preclinical pipeline.

In February 2008, Neuren completed an A$7.1 million capital raise via a partly underwritten rights issue. This funding will enable Neuren to continue the Glypromate® trial. Also in February 2008, the US Department of Defence confirmed the award of US$4 million in support of the NNZ-2566 Phase 2 TBI trial. In parallel, the management team is focusing on accessing additional capital, primarily from the US, to complete current and planned clinical trials through the end of 2009. We believe that securing additional capital to fund the clinical trials to major value points will result in valuation of our shares in line with comparable companies in the market.

Due to the need to focus available resources and management attention on executing the clinical pipeline, Neuren restructured its preclinical development team at the beginning of 2008, with the elimination of five preclinical scientific roles. The preclinical programme is now focused solely on an external licensing strategy.

Glypromate® Clinical Development Programme
Glypromate® is being evaluated as a drug to reduce cognitive impairment in patients undergoing cardiopulmonary bypass surgery. Cognitive impairment occurs in up to 70 percent of patients who undergo cardiac surgery with cardiopulmonary bypass. With over one million cardiac bypass procedures per annum, and no existing treatment for the cognitive impairment, the global market potential is estimated at US$1.5 billion per annum.

Neuren successfully filed an IND early in 2007 and the FDA has confirmed the status of this trial as a major efficacy study. As a result, only one additional Phase 3 trial will be required for registration purposes. The Phase 3 trial is now actively recruiting patients at most of the 24 sites and is on target to complete recruitment in December 2008, with results being announced in mid-2009.

Previously completed Phase 1 and 2a trials confirmed the drug's safety in healthy volunteers and cardiac surgery patients. The Data Safety Monitoring Committee (DSMC) will review patient data after 100 patients in the first quarter of 2008 and again at 300 patients in the third quarter. The reviews will involve a comprehensive safety assessment without unblinding the data. Neuren also will determine statistical variance of the endpoints on unblinded data to validate that the targeted sample size is appropriate.

The cognitive testing batteries are working well with patients and our investigators remain enthusiastic and engaged in the trial.

To provide medical oversight for the study, Neuren has formed an Executive Committee comprising a number of world-leading clinicians and researchers in neurology, cardiology, cardiothoracic surgery and anaesthesiology. The members of the Executive Committee are Professor Harvey White (Auckland Hospital, Professor of Cardiology, Chair), Professor Alan Merry (Auckland Hospital, Professor of Anaesthetics), Professor John Knight (Flinders Medical Centre, Australia, Cardiac Surgeon), Dr David Stump (Wake Forest, USA, Anaesthetist), Dr John Laschinger (Mid-Atlantic Cardiovascular Associates, USA, Cardiac Surgeon), Professor Chris Frampton (Statistician), Dr Doug Wilson (Neuren's Chief Medical Officer) and Dr Keith Wesnes (Cognitive Drug Research, UK, Neuropsychologist).

NNZ-2566 Clinical Development Programme
NNZ-2566 is being evaluated as a drug to improve the outcomes from acute traumatic brain injury. With over three million traumatic brain injuries occurring per annum, and again, no approved pharmacological treatment, this market is estimated to be worth US$3 billion per annum.

Neuren has been working closely with the US Army to develop NNZ-2566 as a treatment for traumatic brain injury (TBI) since 2004. In response to a US House of Representatives Armed Services Committee inquiry, the US Army Surgeon General stated "In the past year, we have partnered with industry to discover a potent new neuroprotective drug [NNZ-2566] that shows great promise in reducing the effects of … head injury. If the drug performs in humans as well as it has in rats, it will revolutionize the care of our soldiers with head injuries and will give our medics a real tool to treat head injuries."

Phase 1a and 1b safety trials were completed in 2007 and the Company is preparing an Investigational New Drug (IND) application to submit to the US FDA to initiate a Phase 2 trial in collaboration with the US Army. A pre-IND meeting has been scheduled with the

FDA and Neuren has requested guidance on obtaining Fast Track approval for the programme. At the completion of the Phase 2 trial, Neuren intends to initiate a Phase 2b/3 pivotal trial, with the objective of completing a single major efficacy study prior to registration.

The objective of the Phase 2a trial is to evaluate the safety of NNZ-2566 in brain injured patients and also to evaluate a number of end points in order to determine which will be used in the subsequent pivotal trial. These include neuropsychological function and global outcomes. Depression, short term memory loss and attention deficit are frequent consequences of TBI and can cause significant disability. In addition, the trial will assess haemodynamic status, neurological function and will incorporate biochemical and electroencephalographic markers.

Neuren has established an Advisory Committee to guide TBI clinical trial design and execution. The committee comprises internationally recognised neurosurgeons, neurologists and neuropsychologists from both the US Army and leading civilian institutions in the US. The US Army is represented by TBI experts including the current directors of psychiatry and neuroscience and of neurobiology as well as the former chiefs of neurosurgery and neurology from Walter Reed Army Medical Center. Dr Ross Bullock, Chief of Neuroscience Critical Care at the University of Miami (Florida) will be the lead Investigator for the TBI trials. He has conducted more than 15 severe TBI trials in the past and is the co-author of the definitive text on treatment of head injury. Neuren is working closely with Dr Bullock and other members of the Advisory Committee to finalise the protocols and establish the trial infrastructure. Investigative sites have been confirmed at UCLA (two sites), University of Miami (Florida), University of Rochester (New York), Brooke Army Medical Center/Institute of Surgical Research (Texas) and Fairfax Inova Hospital (Virginia). Additional sites are currently under evaluation.

Motiva™

Motiva™ (nefiracetam) is a compound recently acquired by Neuren through the purchase of US based Hamilton Pharmaceuticals Inc. Motiva™ is being developed as a drug to treat depression and other neuropsychiatric consequences of stroke. The potential market opportunities for nefiracetam are significant. Up to 40% of patients with stroke will suffer from depressive symptoms ranging from apathy to post-stroke depression, which have a significant negative impact on rehabilitation and quality of life.

In addition, between 40 and 60 percent of Alzheimer's disease patients, TBI patients and Parkinson's disease patients suffer depression. While there are a number of antidepressant compounds on the market, these are often only marginally or not at all effective in these indications. Motiva™'s safety profile in the elderly population and efficacy to date make it a potentially highly attractive molecule to target depression in these patients.

Motiva™ comes from a well-known family of compounds, acetams, which had sales of US$1.5 billion in 2007 (Keppra®, Nootropil®). Motiva™ is supported by strong safety and promising clinical efficacy data. Seven clinical trials conducted by Daiichi Pharmaceuticals in Japan, the US and Canada in over 1700 patients have confirmed the safety of Motiva™ in the treatment of stroke. In addition, data from the trials have shown that Motiva™ has a dose-dependent effect in improving mood and global outcomes in stroke patients.

Motiva™ was initially licensed from Daiichi Pharmaceuticals by Hamilton Pharmaceuticals, a biotechnology company funded by a venture capital syndicate that included Vivo Ventures, CNF Investments and Index Ventures. Following early termination of Hamilton's Phase 2b trial because of low patient accrual and other problems in trial execution, the Hamilton board elected to sell the company in order to find a strong partner to continue development of Motiva™ and Neuren subsequently acquired Hamilton.

Neuren is now designing a Phase 2b trial in post-stroke depression and apathy. The US IND for Motiva™ is open and, following completion of clinical trial design and filing of a protocol amendment with the FDA, a Phase 2 trial will commence in the US by late 2008. The trial will incorporate a higher dosing regime, a broader range of cognitive and neuropsychiatric endpoints and more stringent patient attributes than those used in previous trials in order to provide the basis for Phase 3 pivotal trials. The Company also is considering additional trials of Motiva™ in Parkinson's, Alzheimer's and TBI patients as additional funding is secured, or with one or more partners.

Preclinical Research Programme

Neuren's primary objective for the remaining preclinical molecules - the two cancer programmes, NNZ-2591, the NRPs, the macrocyclics and the Growth Hormone variant programme - is to leverage external grant capital and to outlicense these compounds as soon as possible. We believe that this strategy will provide additional non-dilutive capital from partnering revenue to support clinical development as well as maximise the value of these assets for shareholders. The Company is presently engaged in various discussions and, in one case, in negotiation of a term sheet with potential partners for the TFF programme, NNZ-2591 and the NRPs.

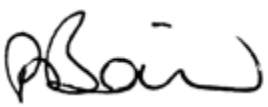
Financial Review

Grants revenue decreased from $1,295,000 in 2006 to $1,072,000 in 2007 as a result of grants relating to the Glypromate® Phase 2 trial and manufacturing and scale-up of NNZ-2566 finishing during 2006. As signalled in previous years, Neuren no longer undertakes contract research on behalf of third parties, focussing instead on its own clinical development programme. The level of interest income in 2007 was consistent with lower average cash balances across the year compared with 2006. Neuren had $1,291,000 in cash deposits as at 31 December 2007. A partially underwritten rights issue to shareholders was completed after balance date and raised A$7.1 million.

An increase in research and development costs in 2007 of $2,233,000 over 2006 was entirely attributable to clinical development activities, with increased numbers of patients and clinical trial sites involved in the pivotal Phase 3 Glypromate® trial and two Phase 1 NNZ-2566 trials, compared to trials conducted in the previous year.

Although Hamilton Pharmaceuticals was acquired in October 2007, it did not have a material impact on the results of the Group, with the most significant contribution being an increase of $63,000 in amortisation of acquired intellectual property. The gain on acquisition of Hamilton arose as a result of the value of consideration paid (the issue of Neuren shares) being less than the value of the net assets acquired.

Mr Larry Glass
Joint Chief Executive Officers



Dr Parmjot Bains

Principal Activities

Neuren Pharmaceuticals Limited (Neuren or the Company, and its subsidiaries, or the Group) is a publicly listed biopharmaceutical company focusing on the development of drugs for neurological disorders, metabolism and cancer. The drugs target acute indications of brain injury such as cognitive impairment resulting from cardiac surgery and traumatic brain injury, psychiatric symptoms of stroke, as well as chronic conditions such as Parkinson's and Alzheimer's diseases.

Neuren has four lead candidates; Glypromate®, Motiva™ and NNZ-2566 presently in clinical development to treat four different neurological conditions, and NNZ-2591 in preclinical development for Parkinson's disease dementia and other chronic neurodegenerative conditions. The Group has operations in New Zealand and the United States.

Performance Overview

During 2007, Neuren commenced a pivotal (i.e. drug registration) Phase 3 trial for its lead compound Glypromate® and also completed two Phase 1 safety studies for its second lead candidate, NNZ-2566. Planning is now significantly advanced for a Phase 2 trial of NNZ-2566.

Neuren also acquired US based Hamilton Pharmaceuticals Inc. (Hamilton) during the year. Hamilton's principal asset is Motiva™, a compound which is being developed for psychological and cognitive disorders resulting from stroke, traumatic brain injury, Alzheimer's and Parkinson's disease. Motiva™ already has proven human safety and efficacy in 1,700 patients. Exclusive rights to develop and commercialise Motiva™ intellectual property in the US and EU were licensed by Hamilton from Daiichi Pharmaceuticals in 2004.

Neuren's operations for 2007 are described further in the Chief Executives' Report on pages 2 and 3.

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

The Group's net loss for the year ended 31 December 2007 was $13,798,000 (2006: $11,346,000). The detailed financial statements are presented on pages 11 to 29.

The net loss per share of $0.10 (2006: $0.10) is based on 133,985,479 weighted average number of shares outstanding (2006: 116,801,208).

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

Directors

Dr Robin Congreve, LLM, 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, 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, DF Inst D (Non-Executive Director), MNZM
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 Mercy Hospital Dunedin Limited and Arthur Barnett Limited. He is also a director of ING Property Trust Limited which is 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.

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 T R 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 of Mercy Hospital Dunedin Limited which also operates 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 former 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 appointed a director of Phylogica Limited, a Perth, Australia, based biopharmaceutical drug discovery company, in March 2008. Dr Wilson does not have any other disclosed interests considered to cause any potential conflict of interests.

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

Mr D J Clarke
Mr Clarke did not have any disclosed interests considered to cause any potential conflict of interests. Mr Clarke resigned as a director on 11 December 2007.

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 2007 $'000	Other Remuneration 31 December 2007 $'000	Directors' Fees 31 December 2006 $'000	Other Remuneration 31 December 2006 $'000
Dr Robin Congreve	60	-	60	-
Mr Tom Amos	35	-	35	-
Mr David Clarke[1]	-	570	-	450
Dr Graeme Howie	35	-	38	-
Mr Trevor Scott	40	-	40	-
Dr Doug Wilson	-	200	-	263

[1] Resigned as a director 11 December 2007

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 2007 $'000	31 December 2006 $'000
$100,000 - $109,999	3	3
$110,000 - $119,999	1	1
$130,000 - $139,999	-	1
$140,000 - $149,999	2	1
$150,000 - $159,999	-	1
$170,000 - $179,999	1	1
$210,000 - $219,999	1	-

Donations

The Company made no donations during the year (2006: nil).

Auditors

PricewaterhouseCoopers are the auditors of the Company. Audit fees in relation to the annual and interim financial statements were $51,000 (2006: $58,000). During 2007 PricewaterhouseCoopers also received $1,000 (2006: $3,000) 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") in March 2003 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

During 2007, the Council released revised Corporate Governance Principles and Recommendations to be reported on for financial years commencing 1 January 2008. The Company will evaluate the revisions and implement changes where necessary during the course of the 2008 financial year.

Neuren's corporate governance practices were fully compliant with the Council's March 2003 best practice recommendations apart from the following recommendations:

Recommendation 2.1: A majority of the Board should be independent directors
Until Mr Clarke's resignation in December 2007, the Board comprised six directors, three of which are independent (the independent directors are noted below). At the time of his appointment, Dr Wilson was considered an independent director, however he was appointed Chief Medical Officer for the Company in 2006, resulting in only half of the Board being independent as defined by the Principles of Good Corporate Governance and Best Practice Recommendations. Dr Wilson has considerable global pharmaceutical industry experience and in addition to his input to the Company's clinical development, the Board considers that the Company would be best served by retaining him as a non-independent Director. With the resignation of Mr Clarke, the Board is comprised of five directors, three of which are independent.

As noted below, 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.

Recommendation 2.4: The Board should establish a nomination committee
The Board has previously 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 independence and tenure of each Director at the date of this report is as follows:

Director	Position	Independence	Term in Office
Dr Robin Congreve	Chairman – Non-executive director	Non-independent	6
Mr Tom Amos	Non-executive director	Independent	3
Mr David Clarke (until Dec 2007)	Chief Executive Officer – Executive director	Non-independent	4
Dr Graeme Howie	Non-executive director	Independent	3
Mr Trevor Scott	Non-executive director	Independent	5
Dr Doug Wilson	Chief Medical Officer – Executive director	Non-independent	4

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 previously 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, 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 level 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. 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 2007

for the year ended 31 December 2007

	Notes	Consolidated 2007 NZ$'000	Consolidated 2006 NZ$'000	Parent 2007 NZ$'000	Parent 2006 NZ$'000
Revenue - interest income		276	563	274	563
- contract research revenue		-	194	-	194
		276	757	274	757
Other income - grants		1,072	1,295	1,072	1,295
- gain on acquisition of subsidiary		1,078	-	-	-
Total revenue and other income		2,426	2,052	1,346	2,052
Depreciation and amortisation expense		(1,010)	(882)	(947)	(882)
Research and development costs		(11,767)	(9,534)	(11,764)	(9,534)
Patent costs		(560)	(582)	(536)	(582)
Share option compensation expense		(271)	(102)	(271)	(102)
Foreign exchange (loss) gain		(13)	455	(13)	455
Interest expense		(69)	-	(69)	-
Corporate and administrative costs		(2,534)	(2,753)	(2,562)	(2,753)
Loss before income tax	4	(13,798)	(11,346)	(14,816)	(11,346)
Income tax expense	5	-	-	-	-
Loss after income tax		$ (13,798)	$ (11,346)	$ (14,816)	$ (11,346)
Basic and diluted loss per share	6	$ (0.10)	$ (0.10)	$ (0.11)	$ (0.10)

The notes on pages 15 to 29 form part of these financial statements

Balance Sheets

as at 31 December 2007

	Notes	Consolidated 2007 NZ$'000	Consolidated 2006 NZ$'000	Parent 2007 NZ$'000	Parent 2006 NZ$'000
ASSETS					
Current assets:					
Cash and cash equivalents	7	1,291	10,609	1,064	10,609
Trade and other receivables	8	157	994	646	994
Income taxes receivable		6	6	6	6
Total current assets		1,454	11,609	1,716	11,609
Non-current assets:					
Property, plant and equipment	9	341	303	341	303
Intangible assets	10	14,766	9,986	9,203	9,986
Investments in subsidiaries	15	-	-	4,201	-
Total non-current assets		15,107	10,289	13,745	10,289
TOTAL ASSETS		$ 16,561	$ 21,898	$ 15,461	$ 21,898
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Trade and other payables	11	3,968	3,698	3,796	3,698
Convertible notes	12	3,902	-	3,902	-
Equipment finance – short term	12	15	-	15	-
Lease incentive – short term		15	15	15	15
Total current liabilities		7,900	3,713	7,728	3,713
Non-current liabilities:					
Equipment finance – long term	12	28	-	28	-
Lease incentive – long term		60	75	60	75
Total liabilities		7,988	3,788	7,816	3,788
SHAREHOLDERS' EQUITY					
Share capital	13	54,023	49,943	54,023	49,943
Other reserves		767	586	857	586
Accumulated deficit		(46,217)	(32,419)	(47,235)	(32,419)
Total shareholders' equity		8,573	18,110	7,645	18,110
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 16,561	$ 21,898	$ 15,461	$ 21,898

The notes on pages 15 to 29 form part of these financial statements

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 12 March 2008.

Dr Robin Congreve
Chairman

Mr Trevor Scott
Director

Statements of Changes in Equity

for the year ended 31 December 2007

Consolidated	Paid-in Capital Shares 000's	Paid-in Capital Amount NZ$'000	Share Option Reserve NZ$'000	Foreign Currency Translation Reserve NZ$'000	Accumulated Deficit NZ$'000	Total Equity NZ$'000	Recognised Revenues and Expenses NZ$'000
Shareholders' equity as at 1 January 2006	112,000	$ 41,877	$ 484	$ -	$ (21,073)	$ 21,288	
Shares issued in private placement	15,000	6,705				6,705	
Shares issued in Share Purchase Plan	4,094	1,871				1,871	
Share issue costs expensed		(510)				(510)	
Share option grants for services			102			102	
Loss for the year					(11,346)	(11,346)	(11,346)
Total recognised revenues and expenses							$ (11,346)
Shareholders' equity as at 31 December 2006	131,094	$ 49,943	$ 586	$ -	$ (32,419)	$ 18,110	
Shares issued on option exercise	20	8				8	
Shares issued in acquisition of subsidiary	13,625	4,149				4,149	
Share issue costs expensed		(77)				(77)	
Share option grants for services			271			271	
Exchange differences on translation of foreign operations				(90)		(90)	
Loss for the year					(13,798)	(13,798)	(13,798)
Total recognised revenues and expenses							$ (13,798)
Shareholders' equity as at 31 December 2007	144,739	$ 54,023	$ 857	$ (90)	$ (46,217)	$ 8,573	

Parent	Paid-in Capital Shares 000's	Paid-in Capital Amount NZ$'000	Share Option Reserve NZ$'000	Foreign Currency Translation Reserve NZ$'000	Accumulated Deficit NZ$'000	Total Equity NZ$'000	Recognised Revenues and Expenses NZ$'000
Shareholders' equity as at 1 January 2006	112,000	$ 41,877	$ 484	$ -	$ (21,073)	$ 21,288	
Shares issued in private placement	15,000	6,705				6,705	
Shares issued in Share Purchase Plan	4,094	1,871				1,871	
Share issue costs expensed		(510)				(510)	
Share option grants for services			102			102	
Loss for the year					(11,346)	(11,346)	(11,346)
Total recognised revenues and expenses							$ (11,346)
Shareholders' equity as at 31 December 2006	131,094	$ 49,943	$ 586	$ -	$ (32,419)	$ 18,110	
Shares issued on option exercise	20	8				8	
Shares issued in acquisition of subsidiary	13,625	4,149				4,149	
Share issue costs expensed		(77)				(77)	
Share option grants for services			271			271	
Loss for the year					(14,816)	(14,816)	(14,816)
Total recognised revenues and expenses							$ (14,816)
Shareholders' equity as at 31 December 2007	144,739	$ 54,023	$ 857	$ -	$ (47,235)	$ 7,645	

The notes on pages 15 to 29 form part of these financial statements

Cash Flow Statements

for the year ended 31 December 2007

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
Cash flows from operating activities:				
Receipts from grants	1,533	1,438	1,533	1,438
Interest received	274	563	274	563
GST refunded	230	260	230	260
Payments to employees	(2,523)	(2,167)	(2,523)	(2,167)
Payments to other suppliers	(12,574)	(10,346)	(12,079)	(10,346)
Net cash used in operating activities	(13,060)	(10,252)	(12,565)	(10,252)
Cash flows from investing activities:				
Purchase of plant and equipment	(155)	(226)	(155)	(226)
Purchase of intellectual property	(50)	-	(50)	-
Purchase of other intangible assets	(15)	(20)	(15)	(20)
Acquisition of subsidiary	(52)	-	(52)	-
Advance to subsidiary	-	-	(493)	-
Cash acquired on purchase of subsidiary	236	-	-	-
Net cash used in investing activities	(36)	(246)	(765)	(246)
Cash flows from financing activities:				
Proceeds from the issue of convertible notes	3,830	-	3,830	-
Proceeds from the issue of shares	8	8,576	8	8,576
Repayment of equipment financing	(6)	-	(6)	-
Payment of share issue expenses	(51)	(538)	(51)	(538)
Lease incentive received	-	92	-	92
Net cash provided from financing activities	3,781	8,130	3,781	8,130
Net (decrease) increase in cash	(9,315)	(2,368)	(9,549)	(2,368)
Effect of exchange rate changes on cash balances	(3)	478	4	478
Cash at the beginning of the year	10,609	12,499	10,609	12,499
Cash at the end of the year	$ 1,291	$ 10,609	$ 1,064	$ 10,609
Reconciliation with loss after income tax:				
Loss after income tax	(13,798)	(11,346)	(14,816)	(11,346)
Non-cash items requiring adjustment:				
Depreciation of property, plant and equipment	99	47	99	47
Property, plant and equipment written off	-	11	-	11
Amortisation of intangible assets	911	835	848	835
Share option compensation expense	271	102	271	102
Foreign exchange loss (gain)	13	(455)	13	(455)
Lease incentive amortisation	(15)	(1)	(15)	(1)
Interest on convertible notes	67	-	67	-
Gain on acquisition of subsidiary	(1,078)	-	-	-
Changes in working capital:				
Trade and other receivables	589	155	549	155
Trade and other payables	(119)	400	419	400
Net cash used in operating activities	$ (13,060)	$ (10,252)	$ (12,565)	$ (10,252)

The notes on pages 15 to 29 form part of these financial statements

1. Nature of business

Neuren Pharmaceuticals Limited (Neuren or the Company, and its subsidiaries, or the Group) is a publicly listed biopharmaceutical company focusing on the development of drugs for neurological disorders, metabolism and cancer. The drugs target acute indications of brain injury such as cognitive impairment resulting from cardiac surgery and traumatic brain injury, psychiatric symptoms of stroke, as well as chronic conditions such as Parkinson's and Alzheimer's diseases.

Neuren has four lead candidates; Glypromate®, Motiva™ and NNZ-2566 presently in clinical development to treat four different neurological conditions, and NNZ-2591 in preclinical development for Parkinson's disease dementia and other chronic neurodegenerative conditions. The Group has operations in New Zealand and the United States.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office in New Zealand is Level 1, 103 Carlton Gore Road, Auckland, and in Australia Level 13, 122 Arthur Street, North Sydney. Neuren has its primary listing on the Australian Stock Exchange (ASX code: NEU).

These consolidated financial statements have been approved for issue by the Board of Directors on 12 March 2008.

Inherent Uncertainties

- 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 $14,751,000 (after amortisation) is dependent on the Company and Group successfully developing its products, on licensing the products, or divesting the intellectual property so that it generates future economic benefits to the Company.

- The Group's research and development activities involve inherent risks. These risks include, among others: dependence on, and the Group's ability to retain key personnel; the Group's ability to protect its intellectual property and prevent other companies from using the technology; the Group's business is based on novel and unproven technology; the Group's ability to sufficiently complete the clinical trials process; and technological developments by the Group'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

These general-purpose financial statements are for the year ended 31 December 2007 and have been prepared in accordance with generally accepted accounting practice in New Zealand and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

(a) Basis of preparation

Entities Reporting

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 31 December 2007 and the results of all subsidiaries for the year then ended. Neuren Pharmaceuticals Limited and its subsidiaries, which are designated as profit-oriented entities for financial reporting purposes, together are referred to in these financial statements as the Group.

The financial statements of the 'Parent' are for the Company as a separate legal entity.

Statutory Base

Neuren is registered under the New Zealand Companies Act 1993 and is an issuer in terms of the New Zealand Securities Act 1978. Neuren is also registered as a foreign company under the Australian Corporations Act 2001.

These financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These financial statements have been prepared under the historical cost convention as modified by certain policies below.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Company to exercise its judgement in the process of applying the Company's accounting policies. Actual results may differ from those estimates.

The policies set out below have been consistently applied to all of the years presented.

(b) Principles of Consolidation

Subsidiaries

Subsidiaries are all those entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(c) Segment Reporting

A geographical segment is engaged in conducting operations within a particular economic environment and may be subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in conducting operations that may be subject to risks and returns that are different to those of other business segments. Neuren has determined that its primary segment is business segment, of which there is only one (research and development) and its secondary segments are geographical.

(d) Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the Group's operations are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that operation ('functional currency'). The consolidated and Parent financial statements are presented in New Zealand dollars, which is the Group's presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign Operations

The results and financial position of foreign entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;
- income and expenses for each Income Statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Grants

Grants received are recognised in the income statement when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Contract research

Where science projects are recognised on an individual project basis and span more than one year, the percentage completion method is used to determine the appropriate amount of revenue to recognise in a given year over the life of the project. Contract revenue is recognised when earned and non-refundable and when there are no future obligations pursuant to the revenue, in accordance with the contract terms. The full amount of an anticipated loss, including that relating to future work on the contract, is recognised as soon as it is foreseen.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(f) 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.

(g) Income tax
The income tax expense for the period is the tax payable on the period's taxable income or loss using tax rates enacted at the balance sheet date and adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted at the balance sheet date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(h) Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount of a long-lived asset is considered impaired when the recoverable amount from such asset is less than its carrying value. In that event, a loss is recognised in the income statement based on the amount by which the carrying amount exceeds the fair market value of the long-lived asset. Fair market value is determined using the anticipated cash flows discounted at a rate commensurate with the risk involved.

(j) Goods and services tax (GST)
The financial statements have been prepared so that all components are presented exclusive of GST. All items in the balance sheet are presented net of GST, with the exception of receivables and payables, which include GST invoiced.

(k) 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.

(l) Cash and cash equivalents
Cash and cash equivalents comprises cash and demand deposits held with established financial institutions and highly liquid investments, which are readily convertible into cash and have maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Accounts receivable
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

(n) Property, plant and equipment
Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is determined principally using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

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

(o) Intangible assets
Intellectual property
Acquired patents, trademarks and licences have finite useful lives and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost over the anticipated useful lives, which are aligned with the unexpired patent term or agreement over trademarks and licences.

Acquired software
Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (two years).

(p) Borrowing Costs
Borrowing costs are expensed as incurred.

(q) Employee benefits
Wages and salaries and annual leave
Liabilities for wages and salaries, bonuses and annual leave expected to be settled within 12 months of the reporting date are recognised in accrued liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Share-based payments
Neuren operates an equity-settled share option plan and awards certain employees and consultants share options, from time to time, on a discretionary basis. The fair value of the services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in other reserve equity over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest and become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(r) Share issue costs
Costs associated with the issue of shares which are recognised in shareholders' equity are treated as a reduction of the amount collected per share.

(s) Financial instruments
Financial instruments recognised in the balance sheet include cash and cash equivalents, trade and other receivables and payables, equipment finance and convertible notes. The Company believes that the amounts reported for financial instruments approximate fair value.

Although it is exposed to interest rate and foreign currency risks, the Company does not utilise derivative financial instruments.

Financial assets: Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Borrowings
Borrowings, which include convertible notes and equipment financing, are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost unless part of an effective hedging relationship. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(t) Earnings per share
Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

3. Segment information

(a) Description of Segments
The Group is organised on a global basis into New Zealand and United States based geographic segments, and predominantly operates in one business segment, being the research and development of therapeutic products for the treatment of brain injury and other diseases.

(b) Geographic Segments

Consolidated	2007 New Zealand NZ$'000	2007 United States NZ$'000	2007 Consolidation Adjustments NZ$'000	2007 Total Group NZ$'000
Segment revenue	1,346	2	1,078	2,426
Segment result	(14,816)	(60)	1,078	(13,798)
Segment assets	10,771	5,790	-	16,561
Segment liabilities	7,815	173	-	7,988
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	203	5,625	-	5,828
Depreciation and amortisation expense	947	63	-	1,010

In periods prior to the year ended 31 December 2007, Neuren operated from a single geographic segment, and single business segment.

4. Expenses

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
Loss before income tax includes the following specific expenses:				
Depreciation				
Scientific equipment	25	11	25	11
Computer equipment	27	15	27	15
Fixtures and fittings	15	12	15	12
Leasehold improvements	32	9	32	9
Total depreciation	99	47	99	47
Amortisation				
Intellectual property	895	831	832	831
Software	16	4	16	4
Total amortisation	911	835	848	835
Remuneration of auditors				
Audit fees	51	58	51	58
Taxation advisory fees	1	3	1	3
Total remuneration of auditors	52	61	52	61
Employee benefits expense				
Salaries and wages	2,486	2,253	2,486	2,253
Share option compensation	70	102	70	102
Total employee benefits expense	2,556	2,355	2,556	2,355
Directors' fees	170	198	170	198
Lease expense	290	130	290	130

5. Income tax

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Income tax expense	-	-	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable (receivable)				
Loss before income tax	(13,798)	(11,346)	(14,816)	(11,346)
Tax at the domestic rates applicable in the respective countries	(4,558)	(3,744)	(4,889)	(3,744)
Tax effect of amounts not deductible (taxable) in calculating taxable income:				
Share option compensation	89	34	89	34
Gain on acquisition of subsidiary	(356)	-	-	-
Other expenses not deductible for tax purposes	48	105	48	105
	(4,777)	(3,605)	(4,752)	(3,605)
Under (over) provision in prior years	-	-	-	-
Deferred tax assets not recognised	4,777	3,605	4,752	3,605
Income tax expense	-	-	-	-

The weighted average applicable tax rate was 33% (2006: 33%).

6. Loss per share

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For the years ended 31 December 2007 and 2006, the Company's potentially dilutive ordinary share equivalents (being the convertible notes set out in note 12 and options over ordinary shares set out in note 13) have an anti-dilutive effect on loss 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 loss per share.

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
Loss after income tax	(13,798)	(11,346)	(14,816)	(11,346)
Weighted average shares outstanding	133,985,479	116,801,208	133,985,479	116,801,208
Basic and diluted loss per share	($0.10)	($0.10)	($0.11)	($0.10)

Subsequent to balance date, the Company undertook a rights issue to shareholders of 50,700,000 ordinary shares which resulted in the conversion of the convertible notes (refer note 18).

7. Cash and cash equivalents

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
Cash	391	357	164	357
Demand and short-term deposits	900	10,252	900	10,252
	1,291	10,609	1,064	10,609

8. Trade and other receivables

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
Trade receivables	127	421	127	421
Prepayments	30	106	30	106
Sundry receivables and accruals	-	467	-	467
Due from subsidiary	-	-	489	-
	157	994	646	994

9. Property, plant and equipment

Consolidated and Parent	Scientific Equipment NZ$'000	Computer Equipment NZ$'000	Fixtures & Fittings NZ$'000	Leasehold Improvements NZ$'000	Total NZ$'000
As at 31 December 2005					
Cost	42	249	103	32	426
Accumulated depreciation	(3)	(236)	(89)	(20)	(348)
Net book value	39	13	14	12	78
Movements in the year ended 31 December 2006					
Opening net book value	39	13	14	12	78
Additions	2	37	52	192	283
Depreciation	(11)	(15)	(12)	(9)	(47)
Assets written off	-	-	(2)	(9)	(11)
Closing net book value	30	35	52	186	303
As at 31 December 2006					
Cost	44	67	105	192	408
Accumulated depreciation	(14)	(32)	(53)	(6)	(105)
Net book value	30	35	52	186	303
Movements in the year ended 31 December 2007					
Opening net book value	30	35	52	186	303
Additions	117	13	3	4	137
Depreciation	(25)	(27)	(15)	(32)	(99)
Closing net book value	122	21	40	158	341
As at 31 December 2007					
Cost	161	80	108	196	545
Accumulated depreciation	(39)	(59)	(68)	(38)	(204)
Net book value	122	21	40	158	341

During the year ended 31 December 2007 the Company finance leased scientific equipment with a cost of NZ$48,600 (refer note 12). During the year ended 31 December 2006 the Company moved premises and at that time fully depreciated assets and leasehold improvements related to the previous tenancy were written off.

10. Intangible assets

Consolidated	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 31 December 2005			
Cost	12,461	8	12,469
Accumulated amortisation	(1,660)	-	(1,660)
Net book value	10,801	8	10,809
Movements in the year ended 31 December 2006			
Opening net book value	10,801	8	10,809
Additions	-	12	12
Amortisation	(831)	(4)	(835)
Closing net book value	9,970	16	9,986
As at 31 December 2006			
Cost	12,461	20	12,481
Accumulated amortisation	(2,491)	(4)	(2,495)
Net book value	9,970	16	9,986
Movements in the year ended 31 December 2007			
Opening net book value	9,970	16	9,986
Additions	5,774	15	5,789
Amortisation	(895)	(16)	(911)
Exchange differences	(98)	-	(98)
Closing net book value	14,751	15	14,766
As at 31 December 2007			
Cost	18,137	35	18,172
Accumulated amortisation	(3,386)	(20)	(3,406)
Net book value	14,751	15	14,766

Parent	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
As at 31 December 2005			
Cost	12,461	8	12,469
Accumulated amortisation	(1,660)	-	(1,660)
Net book value	10,801	8	10,809
Movements in the year ended 31 December 2006			
Opening net book value	10,801	8	10,809
Additions	-	12	12
Amortisation	(831)	(4)	(835)
Closing net book value	9,970	16	9,986
As at 31 December 2006			
Cost	12,461	20	12,481
Accumulated amortisation	(2,491)	(4)	(2,495)
Net book value	9,970	16	9,986
Movements in the year ended 31 December 2007			
Opening net book value	9,970	16	9,986
Additions	50	15	65
Amortisation	(832)	(16)	(848)
Closing net book value	9,188	15	9,203
As at 31 December 2007			
Cost	12,511	35	12,546
Accumulated amortisation	(3,323)	(20)	(3,343)
Net book value	9,188	15	9,203

11. Trade and other payables

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
Trade payables	2,729	2,454	2,715	2,454
Accruals	486	204	328	204
Employee benefits	430	467	430	467
Payment on account	323	573	323	573
	3,968	3,698	3,796	3,698

12. Interest bearing debt

Consolidated and Parent		2007 NZ$'000	2006 NZ$'000
Unsecured			
Equipment finance	- short term	15	-
	- long term	28	-
Total equipment finance		43	-
Convertible notes	- short term	3,835	-
Convertible notes accrued interest	- short term	67	-
Total convertible notes		3,902	-
Total interest bearing debt		3,945	-

The New Zealand dollar denominated equipment finance has a fixed interest rate of 12.25% and matures in 2010.

The convertible notes were issued in October 2007 in conjunction with the acquisition of Hamilton Pharmaceuticals Inc. The principal terms of the convertible notes are:

- The aggregate principal amount of the Notes is US$3,000,000;
- The notes bear interest at a fixed rate of 8% per annum, compounding annually;
- The notes convert to Neuren ordinary shares on the date of, and on the same terms of issue as, the next capital raising in which Neuren has received subscriptions for, and issued, new ordinary shares in Neuren for an aggregate of at least US$5 million;
- If the notes do not convert as noted above then they mature 270 days after issue. On maturity Neuren may elect either to repay the Note principal and accrued interest, or convert the Notes into Neuren ordinary shares at 50% of the average daily closing price for the five preceding trading days to the maturity date;
- The Notes do not carry any voting rights at meetings of shareholders of Neuren, and have no rights of participation in any rights issue undertaken by Neuren prior to conversion of the Notes.

As set out in note 18, the convertible notes, together with accrued interest, converted to ordinary shares of the Company on 1 February 2008.

The fair value of interest-bearing liabilities is not materially different from the carrying values.

13. Share capital

Consolidated and Parent	2007 Shares	2006 Shares	2007 NZ$'000	2006 NZ$'000
Issued share capital				
Ordinary shares on issue at beginning of year	131,093,810	112,000,000	49,943	41,877
Shares issued on exercise of options	20,000	-	8	-
Shares issued in acquisition of subsidiary	13,625,443	-	4,149	-
Shares issued for cash in private placements	-	15,000,000	-	6,705
Shares issued for cash under Share Purchase Plan	-	4,093,810	-	1,871
Share issue expenses	-	-	(77)	(510)
Ordinary shares on issue at end of year	144,739,253	131,093,810	54,023	49,943

(a) Ordinary Shares
The ordinary shares have no par value and all ordinary shares are fully paid-up and rank equally as to dividends and liquidation, with one vote attached to each fully paid ordinary share.

Subsequent to balance date, the Company undertook a rights issue to shareholders of 50,700,000 ordinary shares for A$7.1 million which resulted in the conversion of the convertible notes (refer note 18).

(b) Share Options
On 17 January 2007 the Company granted 1,800,000 options ("January 2007 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$0.60 per share. The options expire on 1 December 2008.

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 were exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.50 per share. The options expired on 31 May 2007.

Oceania & Eastern Biotech Limited is an investment company associated with interests of Dr Robin Congreve and holds 1,528,892 options (the "O&E Options"). The O&E Options' exercise price is a fixed sum of NZ$600,000, exercisable into 1,528,892 ordinary shares (equivalent to NZ$0.392 per share). The options may be exercised at any time up to and including 31 March 2009.

Auckland UniServices Limited ("UniServices") is the commercial research and knowledge transfer company for the University of Auckland and holds 1,872,892 options ("UniServices Options"). The UniServices Options' exercise price is a fixed sum of NZ$735,000, exercisable into 1,872,892 ordinary shares (equivalent to NZ$0.392 per share). The UniServices Options may 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.

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 maximum number of options to be issued and outstanding under the Share Option Plan was amended by shareholders in 2005 to 15% of the issued ordinary shares of the Company at any time. No payment is required for the grant of options under the Share Option Plan. Each option is an option to subscribe in cash 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. Options granted under the Share Option Plan generally vest over three years service by the Participant and lapse five years after grant date.

Movements in the number of share options are as follows:

	Options	Weighted Average Exercise Price (NZ$)	Exercisable	Weighted Average Exercise Price (NZ$)
Outstanding at 31 December 2005	21,257,627	$ 0.412	20,192,065	$ 0.413
Granted	600,000	$ 0.472		
Expired/forfeited/exercised	-	-		
Outstanding at 31 December 2006	21,857,627	$ 0.417	20,924,295	$ 0.415
Granted	1,800,000	$ 0.670		
Exercised	(20,000)	$ 0.392		
Expired/forfeited	(3,000,000)	$ 0.555		
Outstanding at 31 December 2007	20,637,627	$ 0.419	20,090,961	$ 0.417

The weighted average remaining contractual life of outstanding share options is as follows:

	2007		2006	
	Options	Weighted Average Remaining Contract Life (years)	Options	Weighted Average Remaining Contract Life (years)
Exercise price range				
NZ$0.392 – NZ$0.472	18,837,627	1.3	18,857,627	2.3
A$0.60	1,800,000	0.9	-	-
A$0.50	-	-	3,000,000	0.4
	20,637,627	1.3	21,857,627	2.1

The weighted average assessed fair value of options granted during the year determined using the Black-Scholes valuation model was NZ$0.11 per option (2006: NZ$0.22). The significant weighted average inputs into the model were a grant date share price of NZ$0.570 (2006: NZ$0.472), volatility of 65% (2006: 65%), dividend yield of 0% (2006: 0%), an expected option life of one year (2006: three years), and an annual risk-free interest rate of 5.95% (2006: 5.95%). The expected price volatility was derived by analysing the historic volatility of the Company's shares since listing on the ASX.

14. Deferred tax

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
Deferred tax asset (liability)				
Amounts recognised in profit or loss				
Provisions and accruals	90	106	90	106
Property, plant and equipment	18	12	18	12
Intangible assets	(1,488)	376	472	376
Tax losses	14,084	6,583	10,174	6,583
	12,704	7,077	10,754	7,077
Unrecognised deferred tax assets	(12,704)	(7,077)	(10,754)	(7,077)
Deferred tax asset (liability)	-	-	-	-
Movements				
Deferred tax asset (liability) at the beginning of the year	-	-	-	-
Credited (charged) to the income statement (note 6)	4,777	3,605	4,752	3,605
Acquired on purchase of subsidiary	1,959	-	-	-
Effects of change in tax rate	(1,075)	-	(1,075)	-
Exchange differences	(34)	-	-	-
Change in unrecognised deferred tax assets (note 6)	(5,627)	(3,605)	(3,677)	(3,605)
Deferred tax asset (liability) at the end of the year	-	-	-	-

15. Subsidiaries

(a) Investment in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b).

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
Hamilton Pharmaceuticals Inc.	2 April 2004	Clinical research	100%	USA
Neuren Pharmaceuticals (Australia) Pty Ltd	9 November 2006	Dormant	100%	Australia

All subsidiaries have a balance date of 31 December.

(b) Acquisition of subsidiary

On 15 October 2007 Neuren issued 13,625,443 ordinary shares with a fair value of $4,149,000 as consideration for 100% of the outstanding common stock of Hamilton Pharmaceuticals Inc. Incidental acquisition costs of $52,000 were also incurred. The fair value of the shares issued was based on the quoted price of Neuren shares on the ASX on the acquisition date.

The Company valued the following acquired net assets of Hamilton Pharmaceuticals Inc. at US$4,058,000 (NZ$5,279,000):

	Fair value NZ$'000	Acquiree's carrying amount NZ$'000
Cash	236	236
Trade and other receivables	40	40
Intellectual property	5,724	-
Trade and other payables	(721)	(624)
Net assets acquired	5,279	(348)
Consideration paid:		
Ordinary shares issued	4,149	
Legal and other cash costs	52	
Total consideration	4,201	
Gain on acquisition of subsidiary	1,078	

Hamilton Pharmaceuticals Inc. contributed a $60,000 loss to the Group loss after tax in the period from 15 October 2007 to 31 December 2007. After adjusting for amortisation of intangible assets that would have been charged had the fair value adjustments on acquisition applied at 1 January 2007, Hamilton Pharmaceuticals Inc. incurred a full year loss of approximately $2.7 million. However this is not representative of the ongoing contribution to the Group result as it includes non-recurring costs comprising employee salary and severance costs, transaction costs throughout the year associated with the sale of Hamilton Pharmaceuticals Inc. by its shareholders, office rental and administration costs, and losses on disposal of fixed assets.

There were no acquisitions in the year ended 31 December 2006.

16. Commitments and contingencies

(a) Operating leases
The following aggregate future non-cancellable minimum lease payments for premises have been committed to by the Company, but not recognised in the financial statements. The premises commitment is for a six year lease commencing November 2006, with two three year rights of renewal and three yearly rental reviews.

Consolidated and Parent	2007 NZ$'000	2006 NZ$'000
Not later than one year	237	237
Later than one year and not later than five years	928	948
Later than five years	-	217
	1,165	1,402

(b) Finance leases
The following aggregate future non-cancellable minimum lease payments for scientific equipment have been committed to by the Company:

Consolidated and Parent	2007 NZ$'000	2006 NZ$'000
Not later than one year	19	-
Later than one year and not later than five years	31	-
Later than five years	-	-
	50	-
Future finance charges	(7)	
Total equipment finance (refer note 12)	43	-

(c) Legal claims
The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 31 December 2007 (2006: nil).

(d) Capital commitments
The Company is not committed to the purchase of any property, plant or equipment as at 31 December 2007 (2006: nil).

17. Related party transactions

(a) Key management and personnel compensation
The key management personnel include the directors of the Company and the direct reports to the Managing Director (CEO). Compensation was as follows:

Consolidated and Parent	2007 NZ$'000	2006 NZ$'000
Short-term benefits	1,743	1,626
Share-based payments	70	102
	1,813	1,728

(b) Subsidiaries
Interests in subsidiaries are set out in note 15.

18. Events after balance date

Subsequent to balance date, the Company undertook a 1:2 rights issue offer to shareholders under which 50,700,000 ordinary shares were issued for A$7.1 million (A$0.14 per share or the New Zealand dollar equivalent of NZ$0.16 per share).

As the funds raised from this rights issue exceeded US$5 million, the convertible notes on issue, together with accrued interest, converted on 1 February 2008 into 24,525,060 Neuren ordinary shares.

As at the date of these financial statements there were no other events arising since 31 December 2007 which require disclosure.

19. Financial instruments and risk management

(a) Categories of financial instruments

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
Financial assets				
Cash and cash eqivalents	1,291	10,609	1,064	10,609
Trade and other receivables	157	994	646	994
Total financial assets (loans and receivables classification)	1,448	11,603	1,710	11,603
Financial liabilities				
Amortised cost:				
Trade and other payables	3,968	3,698	3,796	3,698
Equipment finance	43	-	43	-
Convertible notes	3,902	-	3,902	-
Total financial liabilities	7,913	3,698	7,741	3,698

(b) Risk management

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 suppliers or consultants that are denominated in foreign currency. As a result of these transactions there is exposure to fluctuations in foreign exchange rates. The Company also has a net investment in a foreign operation, whose net assets are exposed to foreign currency translation risk.

The Group does not utilise derivative financial instruments. It operates a policy of holding cash and cash equivalents in the currency of estimated future supplier payments, however it does not designate formal hedges and as such remains unhedged against foreign currency fluctuations. A foreign exchange loss of $13,000 is included in results for the year ended 31 December 2007 (2006: $455,000 gain).

The carrying amounts of foreign currency denominated assets and liabilities are as follows:

	Consolidated		Parent	
	2007 NZ$'000	2006 NZ$'000	2007 NZ$'000	2006 NZ$'000
Assets				
US dollars	6,442	2,667	1,141	2,667
Australian dollars	45	7,172	45	7,172
UK pounds	11	517	11	517
Liabilities				
US dollars	5,365	757	5,192	757
Australian dollars	888	222	888	222
UK pounds	105	565	105	565

The following table details the Group's sensitivity to a 10% increase and decrease in each of the currencies noted against the New Zealand dollar as at the reporting date.

	Consolidated		Parent	
Decrease (increase) in loss after income tax	**2007 NZ$'000**	**2006 NZ$'000**	**2007 NZ$'000**	**2006 NZ$'000**
10% strengthening of NZ dollar against:				
US dollar	418	(174)	368	(174)
Australian dollar	77	(632)	77	(632)
UK pound	8	4	8	4
10% weakening of NZ dollar against:				
US dollar	(511)	212	(450)	212
Australian dollar	(94)	772	(94)	772
UK pound	(10)	(5)	(10)	(5)

Foreign currency denominated transactions occur consistently throughout the year. In management's opinion, the sensitivity analysis set out above is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk
The Company and the Group are exposed to interest rate risk as entities in the Group hold cash and cash equivalents and borrow interest bearing funds.

The effective interest rates on financial assets are as follows:

	Consolidated		Parent	
	2007 NZ$'000	**2006 NZ$'000**	**2007 NZ$'000**	**2006 NZ$'000**
Financial assets				
Cash and cash equivalents				
New Zealand dollar cash deposits	301	369	301	369
New Zealand dollar interest rate	8.3%	7.3%	8.3%	7.3%
US dollar cash deposits	798	2,384	571	2,384
US dollar interest rate	4.0%	5.2%	4.0%	5.2%
Australian dollar cash deposits	28	7,012	28	7,012
Australian dollar interest rate	5.8%	6.0%	5.8%	6.0%
UK pound cash deposits	-	486	-	486
UK pound interest rate	-	4.8%	-	4.8%

The Company and Group's effective interest rates on financial liabilities are set out in note 12. Trade and other receivables and payables do not bear interest and are not interest rate sensitive.

The Company and Group's interest bearing financial assets bear interest at overnight deposit rates and accordingly any change in interest rates would have an immaterial effect on reported loss after tax. Similarly, the Company and Group's financial liabilities are at fixed interest rates, and accordingly a change in market interest rates would have no effect on reported loss after tax.

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 credit risk on financial assets of the Group, which have been recognised on the balance sheet, is the carrying amount, net of any allowance for doubtful debts.

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.

Liquidity risk
The maturities for the Company and Group's interest bearing financial liabilities are set out in note 12. The Company and Group's other financial liabilities, comprising trade and other payables, are generally repayable within 1 – 2 months, and are managed together with capital risk as noted below.

Capital risk
The Company manages its capital to ensure that constituent entities are able to continue as a going concern. The capital structure of the group consists of cash and cash equivalents, convertible notes and equity of the parent, comprising issued capital, reserves and accumulated deficit.

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Auditors' Report

to the Shareholders of Neuren Pharmaceuticals Limited

We have audited the financial statements on pages 11 to 29. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 December 2007 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 15 to 19.

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 2007 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 29:
    (i) comply with generally accepted accounting practice in New Zealand; and
    (ii) comply with International Financial Reporting Standards; and
    (iii) give a true and fair view of the financial position of the Company and Group as at 31 December 2007 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 28 March 2008 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Auckland

Equity Securities Held by Directors as at 4 March 2008

Director	Interests in Ordinary Shares		Interests in Options	
	Direct	Indirect	Direct	Indirect
R L Congreve	-	17,928,907	-	1,528,892
T D Scott	-	1,631,818	-	-
T R Amos	-	9,624,118	-	-
J D Wilson	-	135,000	-	-
G B Howie	50,000	55,000	-	-

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 4 March 2008 was 250, holding 482,956 ordinary shares.

The following information is presented based on share registry information processed up to and including 4 March 2008.

Distribution of Shareholders Analysis of numbers of ordinary shares by size of holding:	Number of Shareholders	Number of Ordinary Shares
1 – 1,000	66	27,933
1,001 – 5,000	387	1,462,559
5,001 – 10,000	336	2,890,645
10,001 – 100,000	733	24,261,589
100,001 and over	152	191,321,587
	1,674	219,964,313

Distribution of Optionholders Analysis of numbers of options by size of holding:	Number of Optionholders	Number of Options
1 – 1,000	-	-
1,001 – 5,000	4	20,000
5,001 – 10,000	2	12,442
10,001 – 100,000	10	626,532
100,001 and over	18	22,978,653
	34	23,637,627

Substantial Security Holders who have notified the Company as at 4 March 2008 are:	Number of Ordinary Shares
BioAsia Investments IV, LLC and associates	19,546,572
CNF Investments LLC and associates	15,761,544
K One W One Limited	14,430,865
Acorn Capital Limited	14,371,996

There are no securities subject to escrow.

Twenty Largest Holders of ordinary shares:	Number of Ordinary Shares	% Holding
National Nominees Limited	18,880,557	8.58
HSBC Custody Nominees (Australia) Limited <GSCO ECSA>	15,761,544	7.17
K One W One Limited	14,430,865	6.56
ANZ Nominees Limited <Cash Income A/C>	12,423,130	5.65
BDF IV Annex Fund, L.P.	9,617,224	4.37
UCA Growth Fund Limited	8,250,000	3.75
Pfizer Inc.	8,081,438	3.67
NeuronZ Limited	7,178,315	3.26
J P Morgan Nominees Australia Limited	6,983,758	3.17
Essex Castle Limited	6,135,830	2.79
Oceania & Eastern Biotech Limited	5,826,639	2.65
TAC Murray & Quartet Equities Limited <The Congreve Family A/C>	5,556,366	2.53
Hazardous Investments Limited	4,940,566	2.25
Perpetual Trustee Company (Canberra) Limited <Macquarie Technology Fund 1A A/C>	4,812,059	2.19
Perpetual Trustee Company (Canberra) Limited <Macquarie Technology Fund 1B A/C>	4,812,059	2.19
Biotechnology Development Fund IV, L.P.	2,597,302	1.18
HSBC Custody Nominees (Australia) Limited	2,516,067	1.14
Asia Union Investments Pty Ltd	2,110,500	0.96
Irrewarra Investments Pty Ltd <ST A/C>	2,000,000	0.91
Equity Trustees Limited <SGH PI Smaller Co's Fund>	1,876,516	0.85
	144,790,735	65.82

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:

1. The financial statements on pages 11 to 29 of Neuren and its subsidiaries for the year ended 31 December 2007 and the notes to those financial statements:
   (a) comply with the accounting standards issued by the Institute of Chartered Accountants of New Zealand; and
   (b) give a true and fair view of the financial position as at 31 December 2007 and of the performance for the year ended on that date of Neuren and its subsidiaries.
2. In the Directors' opinion there are reasonable grounds to believe that Neuren will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors dated 12 March 2008.

On behalf of the Board

Dr Robin Congreve
Chairman

ANNUAL REPORT 2007

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pharmaceuticals

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