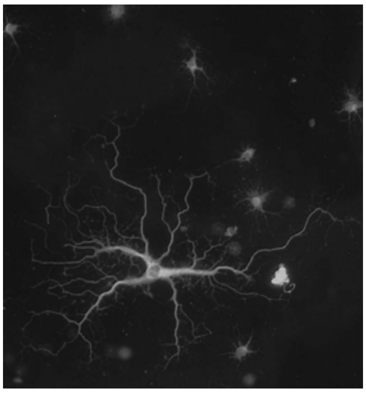
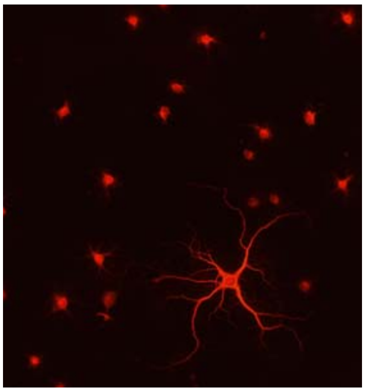
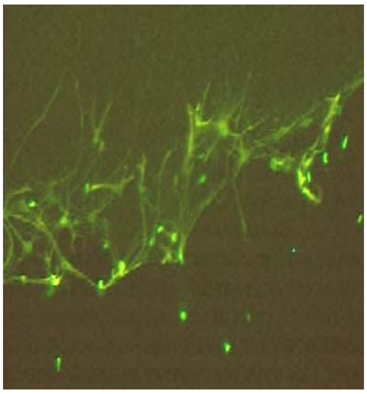
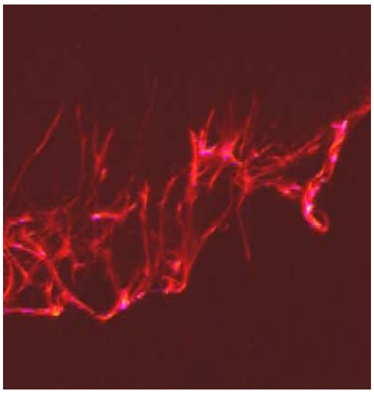
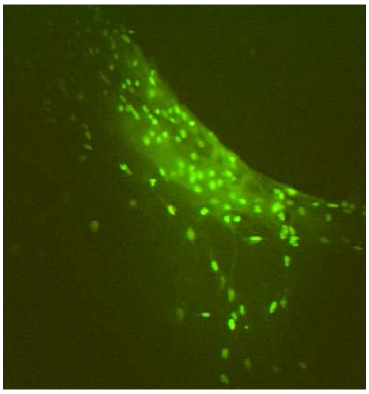
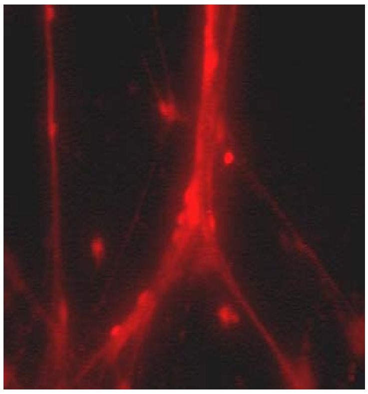
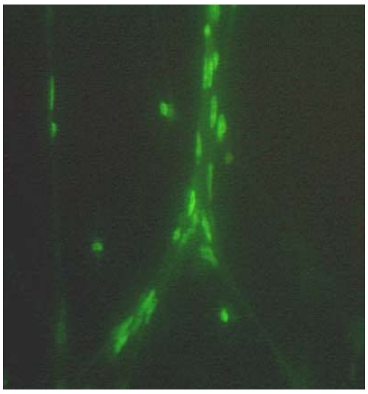
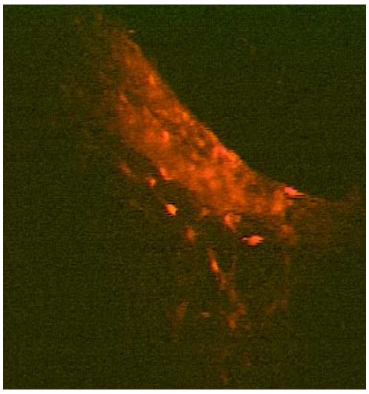
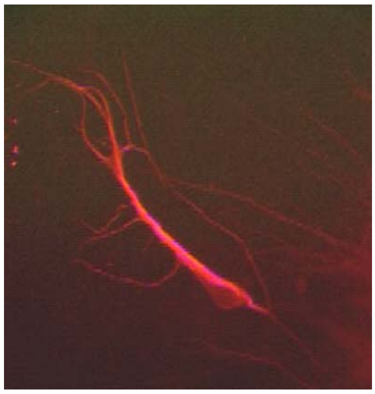
ANNUAL REPORT 2008

Neuren Pharmaceuticals Limited

ARBN 111 496 130

neuren
pharmaceuticals

Neuren Pharmaceuticals Limited

Contents

The Board of Directors is pleased to present the Annual Report of Neuren Pharmaceuticals Limited for the year ended 31 December 2008, authorised by it on 31 March 2009.

For, and on behalf of, the Board

Dr Robin Congreve
Chairman

Mr Trevor Scott
Director

31 March 2009

Corporate Directory

Company
Neuren Pharmaceuticals Limited
ARBN 111 496 130

Corporate Head Office
Level 2, 57 Wellington Street,
Freemans Bay, Auckland, New Zealand
Tel: +64 9 529 3940

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

Directors
Dr Robin Congreve
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
Tel: +61 3 9615 9800
Fax: +61 3 9615 9900

Stock Exchange Listing
Australian Stock Exchange Limited
ASX Code: NEU

Website
www.neurenpharma.com

Neuren Pharmaceuticals Limited

Chief Executives' Report

2008 was a year of positives and negatives for the Company. From a positive perspective, the NNZ-2566 program gained strong support with funding from the US Army, received an encouraging pre-IND review by the US Food & Drug Administration (FDA), and was voted one of the 10 most promising neuroscience programs by Windhover. In addition, one of the cancer preclinical programs was outlicensed to a European specialty pharmaceutical company. From a negative perspective, results from the Glypromate® Phase 3 trial were released at the end of 2008, which showed that Glypromate® had no observable effect in a cardiac surgery population and this program was terminated. The Company is continuing to work on addressing the future capital requirements of the business and, with an extremely promising portfolio of highly differentiated compounds addressing unmet needs in neurology, psychiatry and oncology, we have turned our full attention to developing these assets in 2009.

In addition to the funds raised earlier in the year, Neuren completed an A$3 million capital raise in September 2008 via a private placement and a partly underwritten share purchase plan. This funding enabled Neuren to complete the Glypromate® trial and we thank those shareholders who participated in the raise. While further fund raising negotiations are incomplete, we expect that the upcoming NNZ-2566 program will be funded by a combination of US Army funding and capital sourced from the US market.

Glypromate® Clinical Development Programme

The Glypromate® Phase 3 trial to reduce cognitive impairment in patients undergoing cardiopulmonary bypass surgery completed its recruitment and the results were announced at the end of 2008. During the year, a recalculation of sample sized enabled the trial to be reduced from 600 to 325 completed patients. This allowed the Company to conserve cash and accelerate the trial outcomes.

The trial design was based on existing literature that indicated that cognitive impairment occurs in up to 70% of patients who undergo cardiac surgery with cardiopulmonary bypass. However, in contrast to the deficits reported in the published literature, in the 325 patients who completed the study, only a small proportion (approximately 20% including those not receiving the drug) evidenced cognitive decline at 12 weeks compared to before surgery, while 80% actually improved. Consequently the study was unable to show any statistically significant difference between patients receiving the active drug and those receiving placebo on either change in composite cognitive score or activities of daily living from baseline to 12 weeks.

While not statistically significant, there was a 6-fold lower mortality rate in patients receiving Glypromate® compared to those receiving placebo.

Although the effectiveness or otherwise of Glypromate® is still to be established, the Company will now focus its efforts on NNZ-2566 which has a number of advantages over Glypromate® as a potential drug. The Neuren clinical team performed an excellent job in running a global trial and are to be commended for their efforts.

NNZ-2566 Clinical Development Programme

Neuren has been working closely with the US Army to develop NNZ-2566 as a treatment for Traumatic Brain Injury (TBI) since 2004. TBI is an injury to the head caused by an external trauma that can lead to brain cell death, inflammation, oedema, haemorrhage and severe disruption to normal brain cell function. The medical need for a drug to treat the effects of TBI is well recognised. NNZ-2566 is a novel molecule that has been shown in preclinical studies to prevent the brain cell death that results from a wide variety of injuries, and the molecule improves functional and cognitive outcome after injury as a consequence. The protective efficacy of NNZ-2566 is thought to result from the wide-reaching effects the drug has, including suppression of the inflammatory response to injury, as well as beneficial effects on seizure activity and "programmed cell death". In 2008, the US Army awarded US$4 million in funding to the NNZ-2566 Phase 2 trial programme through a grant to the Geneva Foundation. A proposal for further funding for the trial has been approved by the US Army and the funding agreement is currently being negotiated. Neuren is also in discussions with private investors in the US market for funding of the NNZ-2566 programme.

Phase 1a and 1b safety trials completed for NNZ-2566 in 2007 and CMC scale up was successfully completed in 2008. A pre-IND meeting was held with the FDA in mid 2008. The FDA indicated that, with completion of successful Phase 2 trials with compelling proof of efficacy, only one Phase 2b/3 pivotal trial would be required prior to registration. In addition, the FDA indicated that Fast Track designation is likely to be approved and that Orphan Drug status is possible for the compound in TBI. The Company submitted an Investigational New Drug (IND) application to the FDA to initiate Phase 2 trials in collaboration with the US Army in early 2009. US$4 million in funding for direct clinical trial costs was committed in the form of a grant to the Geneva Foundation from the US Army for the NNZ-2566 Phase 2 clinical trial in moderate to severe traumatic brain injury.

The objective of the Phase 2 trial is to evaluate the safety and efficacy of NNZ-2566 in moderate to severe 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 and neurological function and will incorporate biochemical and electroencephalographic markers.

The Phase 2 trial will be a complex and long trial. Trial logistics are now well underway to set up this study and it is expected to commence in mid-2009. Investigative sites have been confirmed at David Geffen School of Medicine at UCLA, Jackson Memorial Hospital in Miami (Florida), Wilford Hall Medical Center (Texas), Brooke Army Medical Center (Texas), Fairfax INOVA Hospital (Virginia) and Charleston Area Medical Center (CAMC) Health Education and Research Institute (Virginia).

Motiva™

Motiva™ is being developed as a drug to treat neuropsychiatric consequences of stroke and other chronic CNS conditions. The drug is an analogue of the natural neurotransmitter γ-aminobutyric acid, of the 2-oxo-pyrrolidine class of compounds - a class of compound with proven efficacy for neuropsychiatric conditions. Motiva™ has been shown in preclinical studies to improve outcome in models of motivation and depression. Neuren has designed a Phase 2b trial in post-stroke depression and apathy. The US IND for Motiva™ is open and, pending funding, following completion of clinical trial design and filing of a protocol amendment with the FDA, a Phase 2 trial will commence.

In addition, the Michael J. Fox Foundation has invited Neuren to apply for a grant to evaluate Motiva™ in a Phase 2 trial in apathy and depression associated with Parkinson's disease. A collaborator is also preparing a grant proposal for a Phase 2 trial in post-stroke depression. Should these grants be successful, these trial results will contribute to eventual product registration.

Preclinical Research Programme

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.

Neuren's primary objective for the remaining preclinical molecules remains leveraging external grant capital and outlicensing these compounds as soon as possible. This portfolio contains the two cancer programs, NNZ-2591, the NRPs and the macrocyclics.

In the field of cancer, Neuren is looking at the best way to commercialise the exciting discovery of two novel approaches to treating a wide variety of cancers. These approaches involve the suppression of the action of specific growth factors.

NNZ-2591 is a novel neuroprotective molecule that has been shown in preclinical studies to improve outcome in models of chronic neurological disorders, including Parkinson's disease and peripheral neuropathy. The excellent oral bioavailability and safety profile of the drug observed in preliminary toxicity testing suggest NNZ-2591 is a preclinical development candidate with an excellent likelihood of successful development.

NRPs (Neural Regeneration Peptides) represent a novel family of molecules that not only prevent brain cell death following injuries, but also provoke new cell growth and connectivity. This research program therefore offers an exciting opportunity to develop neuroprotective drugs that might modify the progression of diseases such as polyneuropathy and motor neuron disease, rather than simply treat the symptoms.

Macrocyclics are a further preclinical program covering a number of novel chemical classes that all incorporate a novel ring system. These molecules have shown good neuroprotective effects in early preclinical studies.

During 2008, the Company licensed out one of the candidates from its preclinical cancer program to a European specialty pharmaceutical company. While we are concentrating resources on the NNZ-2566 trial, Neuren is actively engaged in discussions with a number of potential partners for these promising, earlier stage compounds.

Financial Review

Grants revenue increased from $1,072,000 in 2007 to $1,660,000 in 2008 as a result of receiving the initial payment from the Geneva Foundation under the US Army grant to support the upcoming NNZ-2566 traumatic brain injury trial, offset by reductions due to grants relating to preclinical programmes finishing in 2007 and throughout 2008. As signalled in previous years, Neuren no longer undertakes contract research on behalf of third parties, and accordingly has recognised the balance of previously deferred revenue. Operating revenue was also higher in 2008 as a result of an upfront out-licensing receipt of $736,000 for one of Neuren's early-stage cancer programmes. The level of interest income in 2008 was consistent with lower average cash balances across the year compared with 2007. Neuren had $1,619,000 in cash deposits as at 31 December 2008.

Research and development costs were $10,341,000 in 2008 compared to $11,767,000 in 2007. The decrease was due largely to a reduction in the preclinical programme pending new grant funding or out-licensing. Although recruitment in the Phase 3 Glypromate® trial was completed mid-2008 the substantial task of collating and analysing the data was not completed until year end and accordingly trial costs were at a similar level to the previous year. As a result of the disappointing outcome of the trial and the Company's decision not to continue the development of Glypromate® an impairment charge of $7,052,000 representing the carrying value of intellectual property related to Glypromate® was recorded at year end. Hamilton Pharmaceuticals which was acquired in October 2007 again did not have a material impact on the results of the Group, with the most significant contribution being $405,000 for the amortisation of intellectual property.

Mr Larry Glass — Dr Parmjot Bains

Co-Chief Executive Officers

Neuren Pharmaceuticals Limited

Directors' Report

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 traumatic brain injury, psychiatric symptoms of stroke, as well as chronic conditions such as Parkinson's and Alzheimer's diseases.

Neuren has three lead candidates; 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 2008, Neuren completed recruitment and top level data analysis in its Phase 3 trial of Glypromate®. Unfortunately the trial did not achieve its efficacy end-points and accordingly the net carrying value of intellectual property related to Glypromate® amounting to $7,052,000 was written off at year end. Planning for the Phase 2 trial of NNZ-2566 to be conducted with support from the US Army continued throughout the year, and the Investigational New Drug application (IND) for the trial was submitted to the US Food & Drug Administration in early 2009.

Neuren's operations for 2008 are described further in the Chief Executive's Report on pages 1 and 2.

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

The Group's net loss for the year ended 31 December 2008 was $18,434,000 (2007: $13,798,000). The detailed financial statements are presented on pages 10 to 27.

The net deficit per share of $0.08 (2007: $0.10) is based on 223,265,642 weighted average number of shares outstanding (2007: 133,985,479).

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 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 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 T R Amos
Mr Amos resigned as a director on 27 March 2009. He was a representative of the Macquarie Technology Funds 1A and 1B, both shareholders of the Company until 13 January 2009. Mr Amos did not have any other interests considered to cause any potential conflict of interests.

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

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

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

Remuneration of Directors

	Directors' Fees 31 December 2008 $'000	Other Remuneration 31 December 2008 $'000	Directors' Fees 31 December 2007 $'000	Other Remuneration 31 December 2007 $'000
Dr Robin Congreve	60	5	60	-
Mr Tom Amos [1]	35	-	35	-
Mr David Clarke [2]	-	-	-	570
Dr Graeme Howie	19	-	35	-
Mr Trevor Scott	40	5	40	-
Dr Doug Wilson	-	172	-	200

1 Resigned as a director 27 March 2009
2 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, is as follows:

	31 December 2008 $'000	31 December 2007 $'000
$100,000 - $109,999	3	3
$110,000 - $119,999	2	1
$130,000 - $139,999	-	-
$140,000 - $149,999	1	2
$150,000 - $159,999	1	-
$170,000 - $179,999	-	1
$190,000 - $199,999	1	-
$210,000 - $219,999	-	1
$290,000 - $299,999	1	-
$400,000 - $409,999	1	-

Donations

The Company made no donations during the year (2007: nil).

Auditors

PricewaterhouseCoopers are the auditors of the Company. Audit fees in relation to the annual and interim financial statements were $45,500 (2007: $51,000). During 2008 PricewaterhouseCoopers also received $500 (2007: $1,000) in relation to other financial advice.

Neuren Pharmaceuticals Limited

Corporate Governance Statement

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 has adopted appropriate policies and practices as provided by the ASX Listing Rules and the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council ("Council") in March 2003 and revised in August 2007 (2nd edition) 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.	Remunerate fairly and responsibly

Neuren's corporate governance practices were fully compliant with the Council's August 2007 best practice recommendations apart from the following recommendations:

Recommendation 2.2: The chair should be an independent director
Dr Congreve is the Chairman of the Board, and was elected as such by the shareholders of the Company. As noted below, Dr Congreve is not "independent" however in accordance with Council's recommendations, Mr Scott, Chairman of the Remuneration and Audit Committee, acts as lead independent director.

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 Officers and the responsibility for the operation and administration of the Company has been delegated to the Chief Executive Officers and senior management. The Board ensures this team is appropriately qualified to discharge their responsibilities and reviews the performance of the Chief Executive Officers annually against agreed objectives. As the Chief Executive Officers were appointed during the 2007 financial year, their performance reviews will be conducted subsequent to year end. The Chief Executive Officers are 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	7
Mr Tom Amos (until 27 March 2009)	Non-executive director	Independent	4
Dr Graeme Howie	Non-executive director	Independent	4
Mr Trevor Scott	Non-executive director	Independent	6
Dr Doug Wilson	Chief Medical Officer – Executive director	Non-independent	5

The composition of the Board, its performance, and the independence of Directors are regularly reviewed by the Chairman and lead independent director, Mr Scott, to ensure that the Board has the appropriate mix of independence, expertise and experience. Mr Amos (until he resigned on 27 March 2009), 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 Board is currently considering the structure of the Remuneration and Audit Committee following the resignation of Mr Amos on 27 March 2009. 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 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 Officers and Chief Financial Officer in respect of the accuracy and compliance of the Company's annual and half-year financial statements and effectiveness of the Company's management of its material business risks.

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 Officers 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.

Neuren Pharmaceuticals Limited

Financial Statements
for the year ended 31 December 2008

Neuren Pharmaceuticals Limited

Income Statements
for the year ended 31 December 2008

		Notes	Consolidated 2008 NZ$'000	Consolidated 2007 NZ$'000	Parent 2008 NZ$'000	Parent 2007 NZ$'000
Revenue	- interest income		155	276	153	274
	- contract revenue		323	-	323	-
	- out-licensing revenue		736	-	736	-
			1,214	276	1,212	274
Other income	- grants		1,660	1,072	1,660	1,072
	- gain on acquisition of subsidiary		-	1,078	-	-
Total revenue and other income			2,874	2,426	2,872	1,346
Depreciation and amortisation expense			(1,341)	(1,010)	(936)	(947)
Intangible asset impairment expense			(7,052)	-	(7,052)	-
Research and development costs			(10,341)	(11,767)	(10,325)	(11,764)
Patent costs			(741)	(560)	(615)	(536)
Share option compensation expense			(111)	(271)	(111)	(271)
Foreign exchange gain (loss)			424	(13)	424	(13)
Interest expense			(31)	(69)	(31)	(69)
Corporate and administrative costs			(2,042)	(2,534)	(2,070)	(2,562)
Loss before income tax		4	(18,361)	(13,798)	(17,844)	(14,816)
Income tax expense		5	(73)	-	(73)	-
Loss after income tax			$ (18,434)	$ (13,798)	$ (17,917)	$ (14,816)
Basic and diluted loss per share		6	$ (0.08)	$ (0.10)	$ (0.08)	$ (0.11)

The notes on pages 14 to 27 form part of these financial statements

Neuren Pharmaceuticals Limited

Balance Sheets
as at 31 December 2008

		Consolidated		Parent	
		2008	2007	2008	2007
	Notes	NZ$'000	NZ$'000	NZ$'000	NZ$'000
ASSETS					
Current assets:					
Cash and cash equivalents	7	1,619	1,291	1,529	1,064
Trade and other receivables	8	195	157	963	646
Income taxes receivable		6	6	6	6
Total current assets		1,820	1,454	2,498	1,716
Non-current assets:					
Property, plant and equipment	9	94	341	94	341
Intangible assets	10	8,301	14,766	1,303	9,203
Investments in subsidiaries	15	-	-	4,201	4,201
Total non-current assets		8,395	15,107	5,598	13,745
TOTAL ASSETS		$ 10,215	$ 16,561	$ 8,096	$ 15,461
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Trade and other payables	11	3,481	3,968	3,434	3,796
Convertible notes	12	-	3,902	-	3,902
Equipment finance – short term	12	15	15	15	15
Lease incentive – short term		12	15	12	15
Total current liabilities		3,508	7,900	3,461	7,728
Non-current liabilities:					
Equipment finance – long term	12	11	28	11	28
Lease incentive – long term		34	60	34	60
Total liabilities		3,553	7,988	3,506	7,816
SHAREHOLDERS' EQUITY					
Share capital	13	68,768	54,023	68,768	54,023
Other reserves		2,545	767	974	857
Accumulated deficit		(64,651)	(46,217)	(65,152)	(47,235)
Total shareholders' equity		6,662	8,573	4,590	7,645
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 10,215	$ 16,561	$ 8,096	$ 15,461

The notes on pages 14 to 27 form part of these financial statements

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 31 March 2009.

Dr Robin Congreve
Chairman

Mr Trevor Scott
Director

Neuren Pharmaceuticals Limited

Statements of Changes in Equity
for the year ended 31 December 2008

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 2007	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	
Shares issued in rights issue	50,700	8,065				8,065	
Shares issued on conversion of notes	24,525	3,866				3,866	
Shares issued in private placement	11,875	1,190				1,190	
Shares issued in Share Purchase Plan	25,625	2,426				2,426	
Share issue costs expensed		(802)				(802)	
Share option grants for services			117			117	
Exchange differences on translation of foreign operations				1,661		1,661	
Loss for the year					(18,434)	(18,434)	(18,434)
Total recognised revenues and expenses							$ (18,434)
Shareholders' equity as at 31 December 2008	257,464	$ 68,768	$ 974	$ 1,571	$ (64,651)	$ 6,662	

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 2007	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	
Shares issued in rights issue	50,700	8,065				8,065	
Shares issued on conversion of notes	24,525	3,866				3,866	
Shares issued in private placement	11,875	1,190				1,190	
Shares issued in Share Purchase Plan	25,625	2,426				2,426	
Share issue costs expensed		(802)				(802)	
Share option grants for services			117			117	
Loss for the year					(17,917)	(17,917)	(17,917)
Total recognised revenues and expenses							$ (17,917)
Shareholders' equity as at 31 December 2008	257,464	$ 68,768	$ 974	$ -	$ (65,152)	$ 4,590	

The notes on pages 14 to 27 form part of these financial statements

Neuren Pharmaceuticals Limited

Cash Flow Statements

for the year ended 31 December 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Cash flows from operating activities:				
Receipts from grants	1,666	1,533	1,666	1,533
Receipts from licensing	611	-	611	-
Interest received	155	274	153	274
GST refunded	222	230	222	230
Interest paid	(5)	-	(5)	-
Payments to employees	(2,023)	(2,523)	(2,023)	(2,523)
Payments to other suppliers	(11,434)	(12,574)	(11,221)	(12,079)
Net cash used in operating activities	(10,808)	(13,060)	(10,597)	(12,565)
Cash flows from investing activities:				
Sale of property, plant and equipment	54	-	54	-
Purchase of property, plant and equipment	(27)	(155)	(27)	(155)
Purchase of intellectual property	-	(50)	-	(50)
Purchase of other intangible assets	-	(15)	-	(15)
Acquisition of subsidiary	-	(52)	-	(52)
Advance to subsidiary	-	-	(37)	(493)
Cash acquired on purchase of subsidiary	-	236	-	-
Net cash used in investing activities	27	(36)	(10)	(765)
Cash flows from financing activities:				
Proceeds from the issue of shares	11,682	8	11,682	8
Proceeds from the issue of convertible notes	-	3,830	-	3,830
Repayment of equipment financing	(16)	(6)	(16)	(6)
Payment of share issue expenses	(831)	(51)	(831)	(51)
Net cash provided from financing activities	10,835	3,781	10,835	3,781
Net (decrease) increase in cash	54	(9,315)	228	(9,549)
Effect of exchange rate changes on cash balances	274	(3)	237	4
Cash at the beginning of the year	1,291	10,609	1,064	10,609
Cash at the end of the year	$ 1,619	$ 1,291	$ 1,529	$ 1,064
Reconciliation with loss after income tax:				
Loss after income tax	$ (18,434)	$ (13,798)	$ (17,917)	$ (14,816)
Non-cash items requiring adjustment:				
Depreciation of property, plant and equipment	88	99	88	99
Loss on disposal of property, plant and equipment	132	-	132	-
Amortisation of intangible assets	1,253	911	848	848
Intangible asset impairment	7,052	-	7,052	-
Share option compensation expense	111	271	111	271
Foreign exchange (gain) loss	(424)	13	(424)	13
Lease incentive amortisation	(29)	(15)	(29)	(15)
Interest on convertible notes	26	67	26	67
Gain on acquisition of subsidiary	-	(1,078)	-	-
Changes in working capital:				
Trade and other receivables	(41)	589	(41)	549
Trade and other payables	(542)	(119)	(443)	419
Net cash used in operating activities	$ (10,808)	$ (13,060)	$ (10,597)	$ (12,565)

The notes on pages 14 to 27 form part of these financial statements

Notes to the Financial Statements

for the year ended 31 December 2008

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 three lead candidates; Motiva™ and NNZ-2566 presently in clinical development to treat a range of acute and chronic 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 2, 57 Wellington Street, Auckland, and in Australia Level 13, 122 Arthur Street, North Sydney. Neuren has its primary listing on the Australian Securities Exchange (ASX code: NEU).

These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2009.

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 $8,300,000 (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. This uncertainty is discussed further in note 20.

2. Summary of significant accounting policies

These general-purpose financial statements are for the year ended 31 December 2008 and have been prepared in accordance with and comply with generally accepted accounting practice in New Zealand, International Financial Reporting Standards, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit-oriented entities.

(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 2008 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 such as in relation to impairment, if any, of intangible assets set out in note 10, and application of the going concern assumption as discussed in note 20. 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

(i) 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.

(ii) 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.

(iii) 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.

Out-licensing and royalty revenue

Out-licensing and royalty revenue comprises income generated from technology out-licensing and research and development collaboration agreements. Where licensing agreements include non-refundable milestone income, revenue is recognised on achieving the milestones. If any milestone income is creditable against royalty payments then it is deferred and released to the income statement over the period in which the royalties would otherwise be receivable. Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due.

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.

Collectability 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 Group 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 are 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 are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

(u) Standards, interpretations and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for later periods and which the Group has not early adopted. The key items applicable to the Group include:

NZ IFRS 8: Operating Segments (mandatory for periods beginning on or after 1 January 2009). NZ IFRS 8 requires segments to be identified on the basis of reporting to chief operating decision makers of an organisation and requires information provided to chief operating decision makers to be presented in the financial statements. The Group has not determined the impact of NZ IFRS 8 to the Group's financial statements, however as the Group's segments are currently determined on the basis of internal reporting little impact is expected.

NZ IFRS 3, Business Combinations (Revised) and NZ IAS 27, Consolidated and Separate Financial Statements (Revised) (mandatory for periods beginning on or after 1 January 2009). Transaction costs associated with any future acquisition are expensed when incurred and no longer included in the cost of acquisition. In addition, any contingent consideration is required to be recognised at fair value at the acquisition date with any subsequent changes taken to the income statement. Where less than a 100% interest is acquired, the acquirer can recognise either the entire goodwill or the goodwill proportionate to the interest acquired. This has no impact on the Group's acquisitions to date.

NZ IAS 1 (Amendments): Presentation of financial statements (mandatory for annual periods beginning on or after 1 January 2009). The amendments require an entity to present all owner changes in equity separately from non owner changes in equity, in a Statement of Changes in Equity. All non owner changes in equity (i.e. comprehensive income) are required to be presented in one Statement of Comprehensive Income or in two statements (an Income Statement and Statement of Comprehensive Income). Components of comprehensive income are not permitted to be presented in a Statement of Changes in Equity.

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	2008 New Zealand NZ$'000	2008 United States NZ$'000	2008 Consolidation Adjustments NZ$'000	2008 Total Group NZ$'000
Segment revenue	2,872	2	-	2,874
Segment result	(17,917)	(517)	-	(18,434)
Segment assets	8,096	7,088	(4,969)	10,215
Segment liabilities	3,506	815	(768)	3,553
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	27	-	-	27
Depreciation and amortisation expense	936	405	-	1,341
Intangible asset impairment	7,052	-	-	7,052
Loss on disposal of property, plant and equipment	132	-	-	132

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	-	1,348
Segment result	(14,816)	(60)	1,078	(13,798)
Segment assets	15,461	5,790	(4,690)	16,561
Segment liabilities	7,815	662	(489)	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

4. Expenses

	Consolidated		Parent	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Loss before income tax includes the following specific expenses:				
Depreciation – property, plant and equipment				
Scientific equipment	37	25	37	25
Computer equipment	21	27	21	27
Fixtures and fittings	13	15	13	15
Leasehold improvements	17	32	17	32
Total depreciation	88	99	88	99
Amortisation – intangible assets				
Intellectual property	1,239	895	834	832
Software	14	16	14	16
Total amortisation	1,253	911	848	848
Remuneration of auditors				
Audit fees	46	51	46	51
Taxation advisory fees	1	1	1	1
Total remuneration of auditors	47	52	47	52
Employee benefits expense				
Salaries and wages	1,792	2,486	1,792	2,486
Share option compensation	27	70	27	70
Total employee benefits expense	1,819	2,556	1,819	2,556
Directors' fees	154	170	154	170
Lease expense	266	290	266	290

5. Income tax

	Consolidated		Parent	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Current tax	73	-	73	-
Deferred tax	-	-	-	-
Income tax expense	73	-	73	-
Numerical reconciliation of income tax expense to prima facie tax payable (receivable):				
Loss before income tax	(18,361)	(13,798)	(17,844)	(14,816)
Tax at rates applicable in the respective countries	(5,568)	(4,558)	(5,353)	(4,889)
Tax effect of amounts not deductible (taxable) in calculating taxable income:				
Share option compensation	33	89	33	89
Gain on acquisition of subsidiary	-	(356)	-	-
Other expenses not deductible for tax purposes	30	48	30	48
	(5,505)	(4,777)	(5,290)	(4,752)
Foreign jurisdiction withholding tax	73		73	
Under (over) provision in prior years	3	-	3	-
Deferred tax assets not recognised	5,502	4,777	5,287	4,752
Income tax expense	73	-	73	-

The weighted average applicable tax rate was 30% (2007: 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 2008 and 2007, 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 loss per share.

	Consolidated		Parent	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Loss after income tax	(18,434)	(13,798)	(17,917)	(14,816)
Weighted average shares outstanding	223,265,642	133,985,479	223,265,642	133,985,479
Basic and diluted loss per share	($0.08)	($0.10)	($0.08)	($0.11)

7. Cash and cash equivalents

	Consolidated		Parent	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Cash	171	391	81	164
Demand and short-term deposits	1,448	900	1,448	900
	1,619	1,291	1,529	1,064

8. Trade and other receivables

	Consolidated		Parent	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Trade receivables	62	127	62	127
Prepayments	84	30	84	30
Sundry receivables and accruals	49	-	49	-
Due from subsidiary	-	-	768	489
	195	157	963	646

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 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
Movements in the year ended 31 December 2008					
Opening net book value	122	21	40	158	341
Additions	-	6	11	10	27
Depreciation	(37)	(21)	(13)	(17)	(88)
Disposals	(30)	-	(14)	(142)	(186)
Closing net book value	55	6	24	9	94
As at 31 December 2008					
Cost	109	68	43	10	230
Accumulated depreciation	(54)	(62)	(19)	(1)	(136)
Net book value	55	6	24	9	94

During the year ended 31 December 2008 the Company moved premises and at that time fully depreciated assets and leasehold improvements related to the previous tenancy that were not sold were written off. During the year ended 31 December 2007 the Company finance leased scientific equipment with a cost of NZ$48,600 (refer note 12).

10. Intangible assets

Consolidated	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
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
Movements in the year ended 31 December 2008			
Opening net book value	14,751	15	14,766
Additions	-	-	-
Amortisation	(1,239)	(14)	(1,253)
Impairment expense	(7,052)	-	(7,052)
Exchange differences	1,840	-	1,840
Closing net book value	8,300	1	8,301
As at 31 December 2008			
Cost	9,522	35	9,557
Accumulated amortisation	(1,222)	(34)	(1,256)
Net book value	8,300	1	8,301

Parent	Intellectual Property NZ$'000	Acquired Software NZ$'000	Total NZ$'000
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
Movements in the year ended 31 December 2008			
Opening net book value	9,188	15	9,203
Additions	-	-	-
Amortisation	(834)	(14)	(848)
Impairment expense	(7,052)	-	(7,052)
Closing net book value	1,302	1	1,303
As at 31 December 2008			
Cost	1,932	35	1,967
Accumulated amortisation	(630)	(34)	(664)
Net book value	1,302	1	1,303

The results from the Glypromate® Phase 3 trial were released at the end of 2008, which showed that Glypromate® had no observable effect in a cardiac surgery population and this program was terminated. Accordingly, an impairment charge of $7,052,000 representing the carrying value of intellectual property related to Glypromate® was recorded at year end.

11. Trade and other payables

	Consolidated		Parent	
	2008 NZ$'000	2007 NZ$'000	2008 NZ$'000	2007 NZ$'000
Trade payables	2,267	2,729	2,258	2,715
Accruals	1,016	486	978	328
Employee benefits	198	430	198	430
Payment on account	-	323	-	323
	3,481	3,968	3,434	3,796

12. Interest bearing debt

Consolidated and Parent		2008 NZ$'000	2007 NZ$'000
Unsecured			
Equipment finance	- short term	15	15
	- long term	11	28
Total equipment finance		26	43
Convertible notes	- short term	-	3,835
Convertible notes accrued interest	- short term	-	67
Total convertible notes		-	3,902
Total interest bearing debt		26	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 were:

- aggregate principal amount of US$3,000,000;
- interest at a fixed rate of 8% per annum, compounding annually;
- conversion to Neuren ordinary shares on the date of, and on the same terms of issue as, the next capital raising after issue in which Neuren received subscriptions for, and issued, new ordinary shares in Neuren for an aggregate of at least US$5 million;
- no voting rights at meetings of shareholders of Neuren, and no rights of participation in any rights issue undertaken by Neuren prior to conversion of the Notes.

On 1 February 2008 the convertible notes, together with accrued interest, converted into 24,525,060 ordinary shares of the Company.

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

13. Share capital

Consolidated and Parent	2008 Shares	2007 Shares	2008 NZ$'000	2007 NZ$'000
Issued share capital				
Ordinary shares on issue at beginning of year	144,739,253	131,093,810	54,023	49,943
Shares issued in Rights Issue	50,700,000	-	8,065	-
Shares issued on conversion of notes	24,525,060	-	3,866	-
Shares issued for cash in private placements	11,875,000	-	1,190	-
Shares issued for cash under Share Purchase Plan	25,625,000	-	2,426	-
Shares issued on exercise of options	-	20,000	-	8
Shares issued in acquisition of subsidiary	-	13,625,443	-	4,149
Share issue expenses	-	-	(802)	(77)
	257,464,313	144,739,253	68,768	54,023

(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.

(b) Share Options

On 30 September 2008 the Company granted 750,000 options ("September 2008 Options") for underwriting services. The options are exercisable into ordinary shares on a one-for-one basis with an exercise price of A$0.15 per share. The options expire on 30 September 2010.

On 26 February 2008 the Company granted 3,000,000 options ("January 2008 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$0.25 per share. The options expire on 7 February 2011.

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, exercisable on a one-for-one basis at an exercise price of A$0.60 per share. The options expired 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 is 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:

Consolidated and Parent	Options	Weighted Average Exercise Price (NZ$)	Exercisable	Weighted Average Exercise Price (NZ$)
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
Granted	3,750,000	$ 0.263		
Expired/forfeited	(1,800,000)	$ 0.674		
Outstanding at 31 December 2008	22,587,627	$ 0.373	22,387,627	$ 0.373

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

	2008		2007	
Consolidated and Parent	**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	0.3	18,837,627	1.3
A$0.15 – A$0.25	3,750,000	1.9	-	-
A$0.60	-	-	1,800,000	0.9
	22,587,627	0.6	20,637,627	1.3

The weighted average assessed fair value of options granted during the year determined using the Black-Scholes valuation model was NZ$0.02 per option (2007: NZ$0.11). The significant weighted average inputs into the model were a grant date share price of NZ$0.13 (2007: NZ$0.57), volatility of 69% (2007: 65%), dividend yield of 0% (2007: 0%), an expected option life of two years (2007: one year), and an annual risk-free interest rate of 7.07% (2007: 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	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Deferred tax asset (liability)				
Amounts recognised in profit or loss				
Provisions and accruals	43	90	43	90
Property, plant and equipment	11	18	11	18
Intangible assets	(1,907)	(1,488)	564	472
Tax losses	20,793	14,084	15,423	10,174
	18,940	12,704	16,041	10,754
Unrecognised deferred tax assets	(18,940)	(12,704)	(16,041)	(10,754)
Deferred tax asset (liability)	-	-	-	-
Movements				
Deferred tax asset (liability) at the beginning of the year	-	-	-	-
Credited (charged) to the income statement (note 6)	5,502	4,777	5,287	4,752
Acquired on purchase of subsidiary	-	1,959	-	-
Effects of change in tax rate	-	(1,075)	-	(1,075)
Exchange differences	734	(34)	-	-
Change in unrecognised deferred tax assets	(6,236)	(5,627)	(5,287)	(3,677)
Deferred tax asset (liability) at the end of the year	-	-	-	-

Unrecognised tax losses of $1.4 million, $8.2 million, $10.4 million, $14.0 million and $17.5 million expire in 2012, 2013, 2014, 2015 and 2016 respectively.

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 2008.

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 Company moved premises in June 2008 and the new premises commitment is for a four year and four month lease commencing June 2008, with two two year rights of renewal, followed by two five year rights of renewal, and three yearly rental reviews throughout.

Consolidated and Parent	2008 NZ$'000	2007 NZ$'000
Not later than one year	148	237
Later than one year and not later than five years	407	928
Later than five years	-	-
	555	1,165

(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	2008 NZ$'000	2007 NZ$'000
Not later than one year	18	19
Later than one year and not later than five years	11	31
Later than five years	-	-
	29	50
Future finance charges	(3)	(7)
Total equipment finance (refer note 12)	26	43

(c) Legal claims

A claim by a former employee for a share of any proceeds received on commercialisation of a portion of the Neural Regeneration Peptides (NRP) intellectual property was lodged against the Company during the period. The Company has disclaimed liability and is defending the action. No provision in relation to this claim has been recognised in the financial statements at 31 December 2008, as legal advice indicates that it is not probable that a significant liability will arise.

The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 31 December 2008 (2007: nil).

(d) Capital commitments

The Company is not committed to the purchase of any property, plant or equipment as at 31 December 2008 (2007: nil).

17. Related party transactions

(a) Key management and personnel compensation

The key management personnel include the directors of the Company and the co-CEOs, and direct reports to the co-CEOs. Compensation was as follows:

Consolidated and Parent	2008 NZ$'000	2007 NZ$'000
Short-term benefits	1,433	1,743
Share-based payments	27	70
	1,460	1,813

(b) Subsidiaries

Interests in subsidiaries are set out in note 15.

18. Events after balance date

As at the date of these financial statements there were no events arising since 31 December 2008 which require disclosure.

19. Financial instruments and risk management

(a) Categories of financial instruments

	Consolidated		Parent	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Financial assets				
Cash and cash equivalents	1,619	1,291	1,529	1,064
Trade and other receivables	195	157	963	646
Total financial assets (loans and receivables classification)	1,814	1,448	2,492	1,710
Financial liabilities				
Amortised cost:				
Trade and other payables	3,481	3,968	3,434	3,796
Equipment finance	26	43	26	43
Convertible notes	-	3,902	-	3,902
Total financial liabilities	3,507	7,913	3,460	7,741

(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 gain of $424,000 is included in results for the year ended 31 December 2008 (2007: $13,000 loss).

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

	Consolidated		Parent	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Assets				
US dollars	7,291	6,442	960	1,141
Australian dollars	822	45	822	45
UK pounds	25	11	25	11
Euro	49	-	49	--
Liabilities				
US dollars	1,582	5,365	1,535	5,192
Australian dollars	788	888	788	888
UK pounds	270	105	270	105
Euro	-	-	-	-

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	
	2008	2007	2008	2007
Decrease (increase) in loss after income tax	NZ$'000	NZ$'000	NZ$'000	NZ$'000
10% strengthening of NZ dollar against:				
US dollar	168	418	52	368
Australian dollar	(3)	77	(3)	77
UK pound	22	8	22	8
Euro	(4)	-	(4)	-
10% weakening of NZ dollar against:				
US dollar	(206)	(511)	(64)	(450)
Australian dollar	4	(94)	4	(94)
UK pound	(27)	(10)	(27)	(10)
Euro	5	-	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	
	2008	2007	2008	2007
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Financial assets				
Cash and cash equivalents				
New Zealand dollar cash deposits	469	301	469	301
New Zealand dollar interest rate	5.0%	8.3%	5.0%	8.3%
US dollar cash deposits	280	798	190	571
US dollar interest rate	0.0%	4.0%	0.0%	4.0%
Australian dollar cash deposits	790	28	790	28
Australian dollar interest rate	3.2%	5.8%	3.2%	5.8%

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 and equity of the parent, comprising issued capital, reserves and accumulated deficit.

20. Going concern assumption

In the year ended 31 December 2008 the Group reported a net loss for the year of $11,382,000 before impairment charges, and at year end had cash balances of $1,619,000. Whilst the Directors are continuing to monitor the Group's cash position and on an ongoing basis initiatives to ensure adequate funding continues to be available for the Group to meet its business objectives, the Directors' consider that the current global economic circumstances present significant challenges in terms of the Group's ability to raise additional financing.

As previously announced the Group is in advanced discussions with private investors concerning financing of entities owned and controlled by Neuren to enable the ongoing development of the Group's drug portfolio but there can be no certainty that these initiatives will proceed. Based on negotiations conducted to date the Directors have a reasonable expectation that they will proceed successfully, but if not the Group will need to secure additional funding from alternative sources.

The Group has also completed its detailed proposal with the US Army for the previously announced funding for the planned Phase 2 clinical trial of NNZ-2256, and this proposal has been accepted by the US Army. The agreement between the Group and the US Army is currently being finalised and the Directors have a reasonable expectation that this will be completed by the end of April 2009.

The Directors' have concluded that the combination of these factors represent a material uncertainty that casts significant doubt upon the Group's and the Company's ability to continue as a going concern. If no funds are raised before the cash balances have been exhausted, the Group may cease to be a going concern and the Group may be unable to continue in operational existence. Nevertheless after making enquiries, and considering the uncertainties described above, the Directors' have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing these financial statements. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

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Auditors' Report

to the Shareholders of Neuren Pharmaceuticals Limited

We have audited the financial statements on pages 10 to 27. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 December 2008 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 14 to 18.

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 2008 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, 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.

Fundamental uncertainty
In forming our unqualified opinion, we have considered the adequacy of the disclosures made concerning the carrying values of intellectual property, and the ongoing need to fund the operating losses and future development of the Company's products. The ultimate realisation of the carrying values of intellectual property totalling $8,300,000 (after amortisation) is dependent on the Company successfully developing its products so that it generates future economic benefits to the Company. Details of the circumstances relating to this fundamental uncertainty are detailed in note 20.

The financial statements have been prepared on a going concern basis, the validity of which depends on future capital and or debt being available to fund the development of products and other working capital requirements of the Company. Details of the circumstances relating to this fundamental uncertainty are detailed in note 20.

If the Company was unable to continue in operational existence for the foreseeable future or if the future economic benefits to be generated from intellectual property were less than their carrying amounts, adjustments would have to be made to reflect the situation that the assets may need to be realised at other than amounts at which they are currently recorded in the Balance Sheet.

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 10 to 27:
    (i) comply with generally accepted accounting practice in New Zealand;
    (ii) comply with International Financial Reporting Standards; and
    (ii) give a true and fair view of the financial position of the Company and Group as at 31 December 2008 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 31 March 2009 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants, Auckland

Neuren Pharmaceuticals Limited

Additional Information

Equity Securities Held by Directors as at 3 March 2009

	Interests in Ordinary Shares		Interests in Options	
Director	**Direct**	**Indirect**	**Direct**	**Indirect**
R L Congreve	-	22,386,224	-	1,528,892
T D Scott	-	6,089,135	-	-
T R Amos	-	-	-	-
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 3 March 2009 was 1,396, holding 24,753,708 ordinary shares.

The following information is presented based on share registry information processed up to and including 3 March 2009.

Distribution of Shareholders Analysis of numbers of ordinary shares by size of holding:	**Number of Shareholders**	**Number of Ordinary Shares**
1 – 1,000	75	25,036
1,001 – 5,000	352	1,336,235
5,001 – 10,000	314	2,661,947
10,001 – 100,000	733	28,177,318
100,001 and over	252	225,263,777
	1,726	257,464,313

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	21,928,653
	34	22,587,627

Substantial Security Holders who have notified the Company as at 3 March 2009 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	18,805,865
Acorn Capital Limited	14,371,996

There are no securities subject to escrow.

Neuren Pharmaceuticals Limited

Twenty Largest Holders of ordinary shares:	**Number of Ordinary Shares**	**% Holding**
J P Morgan Nominees Australia Limited	21,033,196	8.17
K One W One Limited	18,805,865	7.30
National Nominees Limited	17,445,441	6.78
HSBC Custody Nominees (Australia) Limited		
<GSCO ECSA>	15,761,544	6.12
Oceania & Eastern Biotech Limited	10,283,956	3.99
Pfizer Inc.	8,081,438	3.14
NeuronZ Limited	7,178,315	2.79
Mr Peter Robert Kahn		
<Peter Kahn Super A/C>	6,398,070	2.48
Essex Castle Limited	6,198,330	2.41
Centralo Limited	5,962,754	2.32
Custodial Services Limited		
<Beneficiaries Holding A/C>	5,659,943	2.20
TAC Murray & Quartet Equities Limited		
<The Congreve Family A/C>	5,556,366	2.16
Hazardous Investments Limited	4,940,566	1.92
Mr Robert Albert Boas	2,580,403	1.00
Investment Custodial Services Limited	2,579,903	1.00
Citicorp Nominees Pty Limited		
<CWLTH Bank Off Super A/C>	2,557,071	0.99
Mr Mladen Marusic	2,403,000	0.93
Phillip Asset Management Ltd		
<IB Aus Bioscience Fund I A/C>	2,200,000	0.85
Mr David Burton Gibson	2,000,000	0.78
Mr John Donald Butler	1,945,123	0.76
	149,571,284	58.09

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 10 to 27 of Neuren and its subsidiaries for the year ended 31 December 2008 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 2008 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 31 March 2009.

On behalf of the Board

Dr Robin Congreve
Chairman

ANNUAL REPORT 2008

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