

Appendix 4E

Neuren Pharmaceuticals Limited ARBN 111 496 130

Preliminary final report Financial year ended 31 December 2007

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

1. Reporting Details

Neuren Pharmaceuticals Limited ARBN 111 496 130 (“Neuren” or the “Company”) presents the following information for the year ended 31 December 2007 together with comparative results for the year ended 31 December 2006.

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

2. Results for announcement to the market

	Reported 2007 NZ\$'000	Variance to 2006 NZ\$'000	% Change
2.1 Operating Revenue	1,348	(704)	(34%)
2.2 Loss after Tax	(13,798)	(2,452)	(22%)
2.3 Net Loss	(13,798)	(2,452)	(22%)
2.4 Dividends	N/A	N/A	N/A

Operating Revenue

Grants revenue decreased from \$1,295,000 in 2006 to \$1,072,000 in 2007 as a result of grants relating to the Glypromate® Phase 2 trial and manufacturing and scale-up of NNZ-2566 finishing during 2006.

As signalled in previous years, Neuren no longer undertakes contract research on behalf of third parties, focussing instead on its own clinical development programme.

The level of interest income in 2007 was consistent with lower average cash balances across the year compared with 2006. Neuren had \$1,291,000 in cash deposits as at 31 December 2007. A partially underwritten rights issue to shareholders was completed after balance date and raised A\$7.1 million (refer note 12).

Loss after Income Tax and Net Loss

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

Although Hamilton Pharmaceuticals was acquired in October 2007, it did not have a material impact on the results of the group, with the most significant contribution being an increase of \$63,000 in amortisation of acquired intellectual property. The gain on acquisition of Hamilton arose as a result of the value of consideration paid (the issue of Neuren shares) being less than the value of the net assets acquired (refer note 10).

3. Income Statement

	Notes	12 months to 31 December 2007 NZ\$'000	12 months to 31 December 2006 NZ\$'000
Revenue			
Grants		1,072	1,295
Contract research revenues		-	194
Interest income		276	563
Operating revenue		1,348	2,052
Gain on acquisition of subsidiary	10	1,078	-
Total revenue		2,426	2,052
Expenses			
Depreciation and amortisation expense		(1,010)	(882)
Research and development costs		(11,767)	(9,534)
Patent costs		(560)	(582)
Share option compensation expense		(271)	(102)
Foreign exchange gain		(13)	455
Interest expense		(69)	-
Corporate and administrative costs		(2,534)	(2,753)
Total expenses		(16,224)	(13,398)
Loss before income tax	3.1	(13,798)	(11,346)
Income tax		-	-
Net loss		(13,798)	(11,346)
Net loss per share:			
Basic	3.2	(\$0.10)	(\$0.10)
Diluted	3.2	(\$0.10)	(\$0.10)
Weighted average number of shares outstanding:			
Basic	3.2	133,985,479	116,801,208
Diluted	3.2	133,985,479	116,801,208

3.1 Loss before income tax

	12 months to 31 December 2007 NZ\$'000	12 months to 31 December 2006 NZ\$'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Scientific equipment	25	11
Computer equipment	27	15
Fixtures and fittings	15	12
Leasehold improvements	32	9
Total depreciation	99	47
Amortisation		
Intellectual property	895	831
Software	16	4
Total amortisation	911	835
Remuneration of auditors		
Audit fees	51	58
Taxation advisory fees	1	3
Total remuneration of auditors	52	61
Employee benefits expense		
Salaries and wages	2,486	2,253
Share option compensation	70	102
Total employee benefits expense	2,556	2,355
Directors' fees	170	198
Lease expense	290	130

3.2 Loss per Share

	12 months to 31 December 2007 NZ\$'000	12 months to 31 December 2006 NZ\$'000
Basic and diluted:		
Unadjusted net loss	(13,798)	(11,346)
Weighted average shares outstanding	133,985,479	116,801,208
Loss per share	(\$0.10)	(\$0.10)

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For the years ended 31 December 2007 and 2006, the Company's potentially dilutive ordinary share equivalents (being the options over ordinary shares and in 2007 the convertible notes) 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.

4. Balance Sheet

	Notes	31 December 2007 NZ\$'000	31 December 2006 NZ\$'000
ASSETS			
Current assets:			
Cash and cash equivalents		1,291	10,609
Trade and other receivables		157	994
Income taxes receivable		6	6
Total current assets		1,454	11,609
Non-current assets:			
Property, plant and equipment	4.1	341	303
Intangible assets	4.2	14,766	9,986
Total non-current assets		15,107	10,289
TOTAL ASSETS		16,561	21,898
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current liabilities:			
Trade and other payables		3,968	3,698
Convertible notes and accrued interest	4.3	3,902	-
Equipment finance – short term	4.3	15	-
Lease incentive – short term		15	15
Total current liabilities		7,900	3,713
Non-current liabilities:			
Equipment finance – long term	4.3	28	-
Lease incentive – long term		60	75
Total liabilities		7,988	3,788
SHAREHOLDERS' EQUITY			
Share capital	4.4	54,023	49,943
Other reserves		767	586
Accumulated deficit	8	(46,217)	(32,419)
Total shareholders' funds		8,573	18,110
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		16,561	21,898

4.1 Property, plant and equipment

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

During the year ended 31 December 2007 the Company finance leased scientific equipment with a cost of NZ\$48,600 (refer note 4.3). During the year the year ended 31 December 2006 the Company moved premises and at that time fully depreciated assets and leasehold improvements related to the previous tenancy were written off.

4.2 Intangible Assets

	Acquired Patents NZ\$'000	Purchased Software NZ\$'000	Total NZ\$'000
As at 31 December 2005			
Cost	12,461	8	12,469
Accumulated amortisation	(1,660)	-	(1,660)
Net book value	10,801	8	10,809
Movements in the year ended 31 December 2006			
Opening net book value	10,801	8	10,809
Additions	-	12	12
Amortisation	(831)	(4)	(835)
Closing net book value	9,970	16	9,986
As at 31 December 2006			
Cost	12,461	20	12,481
Accumulated amortisation	(2,491)	(4)	(2,495)
Net book value	9,970	16	9,986
Movements in the year ended 31 December 2007			
Opening net book value	9,970	16	9,986
Additions	-	15	15
Addition through acquisition of subsidiary	5,774	-	5,774
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

4.3 Interest bearing debt

	31 December 2007 NZ\$'000	31 December 2006 NZ\$'000
<i>Unsecured</i>		
Equipment finance – short term	15	-
– long term	28	-
Total equipment finance	43	-
Convertible notes – short term	3,835	-
Accrued interest – short term	67	-
Total convertible notes and accrued interest	3,902	-
Total interest bearing debt	3,945	-

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

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

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

As set out in note 12, the convertible notes, together with accrued interest, converted to ordinary shares of the Company on 1 February 2008.

4.4 Share Capital

	31 December 2007 000's	31 December 2006 000's
Issued share capital		
<i>Ordinary shares - number of shares</i>		
Balance at beginning of year	131,094	112,000
Shares issued for cash during the year	20	19,094
Shares issued in acquisition of subsidiary	13,625	-
Ordinary shares issued as at end of year	144,739	131,094
	31 December 2007 NZ\$'000	31 December 2006 NZ\$'000
Issued share capital		
<i>Ordinary shares - value</i>		
Balance at beginning of year	49,943	41,877
Shares issued for cash during the year	8	8,576
Shares issued in acquisition of subsidiary	4,149	-
Share issue expenses	(77)	(510)
Total issued share capital	54,023	49,943

5. Statement of Cash Flows

Notes	12 months to 31 December 2007 NZ\$'000	12 months to 31 December 2006 NZ\$'000
Cash flows in operating activities:		
Receipts from grants	1,533	1,438
Interest received	274	563
Net GST received (paid)	230	260
Payments to suppliers	(12,574)	(10,346)
Payments to employees	(2,523)	(2,167)
Net cash used in operating activities	(13,060)	(10,252)
Cash flows in investing activities:		
Purchase of plant and equipment	(155)	(226)
Purchase of intellectual property	(50)	-
Purchase of other intangible assets	(15)	(20)
Acquisition of subsidiary	(52)	-
Cash acquired on purchase of subsidiary	236	-
Net cash used in investing activities	(36)	(246)
Cash flows in financing activities:		
Proceeds from the issue of convertible notes	3,830	-
Proceeds from the issue of shares	8	8,576
Repayment of equipment financing	(6)	-
Payment of share issue costs	(51)	(538)
Lease incentive received	-	92
Cash provided from financing activities	3,781	8,130
Net (decrease) increase in cash	(9,315)	(2,368)
Effect of exchange rate changes on cash balances	(3)	478
Cash at the beginning of the year	10,609	12,499
Cash at end of the year	1,291	10,609
Reconciliation with loss after income tax:		
Loss after income tax	(13,798)	(11,346)
<i>Non-cash items requiring adjustment:</i>		
Depreciation of property, plant and equipment	99	47
Property, plant and equipment written off	-	11
Amortisation of intangible assets	911	835
Share option compensation expense	271	102
Foreign exchange loss (gain)	13	(455)
Lease incentive amortisation	(15)	(1)
Interest on convertible notes	67	-
Gain on acquisition of subsidiary	(1,078)	-
<i>Changes in working capital:</i>		
Trade and other receivables	589	155
Trade and other payables	(119)	400
Net cash used in operating activities	(13,060)	(10,252)

6. Dividends

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

7. Dividend or Distribution Reinvestment Plan

Not applicable.

8. Statement of Retained Earnings

	12 months to 31 December 2007 NZ\$'000	12 months to 31 December 2006 NZ\$'000
Net loss for the year being total recognised revenues and expenses	(13,798)	(11,346)
Retained earnings at the beginning of the year	(32,419)	(21,073)
Retained earnings at the end of the year	(46,217)	(32,419)

9. Net Tangible Assets per Security

	31 December 2007 NZ\$	31 December 2006 NZ\$
Net tangible assets per security	(\$0.04)	\$0.06

10. Control Over Entities

Investment in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries

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

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

	31 December 2007 NZ\$'000
Cash	236
Trade and other receivables	40
Intellectual property	5,724
Trade and other payables	(721)
Fair value of net assets acquired	<u>5,279</u>
Consideration paid:	
Ordinary shares issued	4,149
Legal and other cash costs	52
Total consideration	<u>4,201</u>
Gain on acquisition of subsidiary	<u><u>1,078</u></u>

11. Associates and Joint Venture Entities

Not applicable.

12. Significant Information

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

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

13. Accounting Standards

The financial statements of the Company are prepared in conformity with generally accepted accounting practice and accounting standards in New Zealand. New Zealand International Financial Reporting Standards ("NZIFRS") were adopted for 2006. Adjustments arising from this were largely related to the recognition of the non-cash cost of share options issued by the Company (2006: \$102,000 expense).

14. Commentary on the Results

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

Following the acquisition of Hamilton Pharmaceuticals Inc in October 2007, Neuren operates in one business segment, being the research and development of therapeutic products for the treatment of brain injury and other diseases, in two geographical segments, being New Zealand and the United States. As set out in note 2, Hamilton Pharmaceuticals did not have a material impact on the results of the group for the year ended 31 December 2007.

A commentary on the Company's results for the year ended 31 December 2007 is presented above in note 2.

15. Audit Status

This report is based upon financial statements for the year ended 31 December 2007 which are in the process of being audited. The results for the year ended 31 December 2006 as presented in the report have been audited.

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