

Appendix 4E

Neuren Pharmaceuticals Limited ARBN 111 496 130

Preliminary final report Financial year ended 31 December 2008

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 consolidated information for the year ended 31 December 2008 together with comparative results for the year ended 31 December 2007.

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

2. Results for announcement to the market

	Reported 2008 NZ\$'000	Variance to 2007 NZ\$'000	% Change
2.1 Operating Revenue	2,874	1,526	113%
2.2 Loss after Tax	(18,434)	(4,636)	(34%)
2.3 Net Loss	(18,434)	(4,636)	(34%)
2.4 Dividends	N/A	N/A	N/A

Operating Revenue

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.

Loss after Income Tax and Net Loss

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.

3. Income Statement

	Notes	12 months to 31 December 2008 NZ\$'000	12 months to 31 December 2007 NZ\$'000
Revenue			
Grants		1,660	1,072
Contract research revenues		323	-
Out-licensing revenue		736	-
Interest income		155	276
Operating revenue		2,874	1,348
Gain on acquisition of subsidiary	10	-	1,078
Total revenue		2,874	2,426
Expenses			
Depreciation and amortisation expense		(1,341)	(1,010)
Intangible asset impairment expense		(7,052)	-
Research and development costs		(10,341)	(11,767)
Patent costs		(741)	(560)
Share option compensation expense		(111)	(271)
Foreign exchange gain (loss)		424	(13)
Interest expense		(31)	(69)
Corporate and administrative costs		(2,042)	(2,534)
Total expenses		(21,235)	(16,224)
Loss before income tax	3.1	(18,361)	(13,798)
Income tax		(73)	-
Net loss		(18,434)	(13,798)
Net loss per share:			
Basic	3.2	(\$0.08)	(\$0.10)
Diluted	3.2	(\$0.08)	(\$0.10)
Weighted average number of shares outstanding:			
Basic	3.2	223,265,642	133,985,479
Diluted	3.2	223,265,642	133,985,479

3.1 Loss before income tax

	12 months to 31 December 2008 NZ\$'000	12 months to 31 December 2007 NZ\$'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Scientific equipment	37	25
Computer equipment	21	27
Fixtures and fittings	13	15
Leasehold improvements	17	32
Total depreciation	88	99
Amortisation		
Intellectual property	1,239	895
Software	14	16
Total amortisation	1,253	911
Remuneration of auditors		
Audit fees	46	51
Taxation advisory fees	1	1
Total remuneration of auditors	47	52
Employee benefits expense		
Salaries and wages	1,792	2,486
Share option compensation	27	70
Total employee benefits expense	1,819	2,556
Directors' fees	154	170
Lease expense	266	290

3.2 Loss per Share

	12 months to 31 December 2008 NZ\$'000	12 months to 31 December 2007 NZ\$'000
Basic and diluted:		
Unadjusted net loss	(18,434)	(13,798)
Weighted average shares outstanding	223,265,642	133,985,479
Loss per share	(\$0.08)	(\$0.10)

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 options over ordinary shares and in 2007 and early 2008 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 2008 NZ\$'000	31 December 2007 NZ\$'000
ASSETS			
Current assets:			
Cash and cash equivalents		1,619	1,291
Trade and other receivables		195	157
Income taxes receivable		6	6
Total current assets		1,820	1,454
Non-current assets:			
Property, plant and equipment	4.1	94	341
Intangible assets	4.2	8,301	14,766
Total non-current assets		8,395	15,107
TOTAL ASSETS		10,215	16,561
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current liabilities:			
Trade and other payables		3,481	3,968
Convertible notes and accrued interest	4.3	-	3,902
Equipment finance – short term	4.3	15	15
Lease incentive – short term		12	15
Total current liabilities		3,508	7,900
Non-current liabilities:			
Equipment finance – long term	4.3	11	28
Lease incentive – long term		34	60
Total liabilities		3,553	7,988
SHAREHOLDERS' EQUITY			
Share capital	4.4	68,768	54,023
Other reserves		2,545	767
Accumulated deficit	8	(64,651)	(46,217)
Total shareholders' funds		6,662	8,573
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,215	16,561

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 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 4.3).

4.2 Intangible Assets

	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	-	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
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

4.3 Interest bearing debt

	31 December 2008 NZ\$'000	31 December 2007 NZ\$'000
<i>Unsecured</i>		
Equipment finance – short term	15	15
– long term	11	28
Total equipment finance	26	43
Convertible notes – short term	-	3,835
Accrued interest – short term	-	67
Total convertible notes and accrued interest	-	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.

4.4 Share Capital

	31 December 2008 000's	31 December 2007 000's
Issued share capital		
<i>Ordinary shares - number of shares</i>		
Balance at beginning of year	144,739	131,094
Shares issued for cash during the year	88,200	20
Shares issued on conversion of notes	24,525	
Shares issued in acquisition of subsidiary	-	13,625
Ordinary shares issued as at end of year	257,464	144,739
	31 December 2008 NZ\$'000	31 December 2007 NZ\$'000
Issued share capital		
<i>Ordinary shares - value</i>		
Balance at beginning of year	54,023	49,943
Shares issued for cash during the year	11,681	8
Shares issued on conversion of notes	3,866	-
Shares issued in acquisition of subsidiary	-	4,149
Share issue expenses	(802)	(77)
Total issued share capital	68,768	54,023

5. Statement of Cash Flows

Notes	12 months to 31 December 2008 NZ\$'000	12 months to 31 December 2007 NZ\$'000
Cash flows in operating activities:		
Receipts from grants	1,666	1,533
Receipts from licensing	611	-
Interest received	155	274
Net GST received (paid)	222	230
Interest paid	(5)	-
Payments to suppliers	(11,434)	(12,574)
Payments to employees	(2,023)	(2,523)
Net cash used in operating activities	(10,808)	(13,060)
Cash flows in investing activities:		
Sale of property, plant and equipment	54	-
Purchase of property, plant and equipment	(27)	(155)
Purchase of intellectual property	-	(50)
Purchase of other intangible assets	-	(15)
Acquisition of subsidiary	-	(52)
Cash acquired on purchase of subsidiary	-	236
Net cash used in investing activities	27	(36)
Cash flows in financing activities:		
Proceeds from the issue of convertible notes	-	3,830
Proceeds from the issue of shares	11,682	8
Repayment of equipment financing	(16)	(6)
Payment of share issue costs	(831)	(51)
Cash provided from financing activities	10,835	3,781
Net (decrease) increase in cash	54	(9,315)
Effect of exchange rate changes on cash balances	274	(3)
Cash at the beginning of the year	1,291	10,609
Cash at end of the year	1,619	1,291
Reconciliation with loss after income tax:		
Loss after income tax	(18,434)	(13,798)
<i>Non-cash items requiring adjustment:</i>		
Depreciation of property, plant and equipment	88	99
Loss on disposal of property, plant and equipment	132	-
Amortisation of intangible assets	1,253	911
Intangible asset impairment	7,052	-
Share option compensation expense	111	271
Foreign exchange loss (gain)	(424)	13
Lease incentive amortisation	(29)	(15)
Interest on convertible notes	26	67
Gain on acquisition of subsidiary	-	(1,078)
<i>Changes in working capital:</i>		
Trade and other receivables	(41)	589
Trade and other payables	(542)	(119)
Net cash used in operating activities	(10,808)	(13,060)

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 2008 NZ\$'000	12 months to 31 December 2007 NZ\$'000
Net loss for the year being total recognised revenues and expenses	(18,434)	(13,798)
Retained earnings at the beginning of the year	(46,217)	(32,419)
Retained earnings at the end of the year	(64,651)	(46,217)

9. Net Tangible Assets per Security

	31 December 2008 NZ\$	31 December 2007 NZ\$
Net tangible assets per security	(\$0.01)	(\$0.04)

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 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):

	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>

There were no acquisitions in the year ended 31 December 2008.

11. Associates and Joint Venture Entities

Not applicable.

12. Significant Information

The Company is in advanced discussions with private investors concerning financing of entities owned and controlled by Neuren in order to fund the development of the Company's drug portfolio.

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 first adopted in 2006.

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 years ended 31 December 2008 and 2007.

A commentary on the Company's results for the year ended 31 December 2008 is presented above in note 2.

15. Audit Status

This report is based upon financial statements for the year ended 31 December 2008 which are in the process of being audited. The results for the year ended 31 December 2007 as presented in the report have been audited.

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