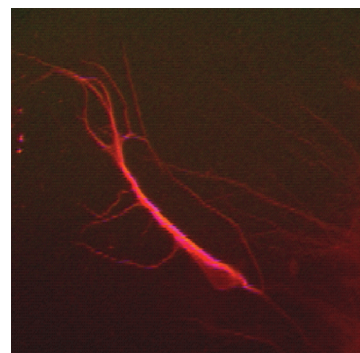
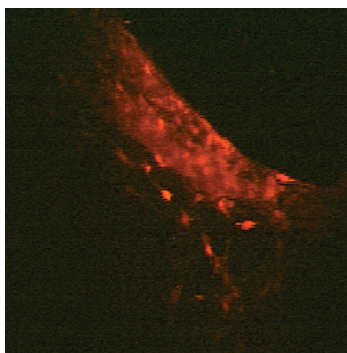
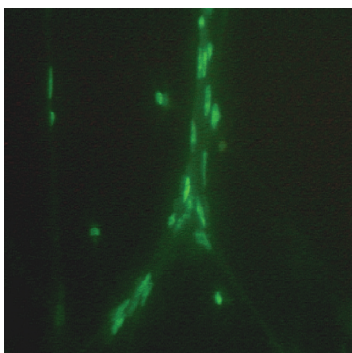
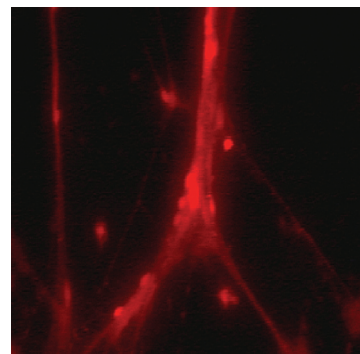
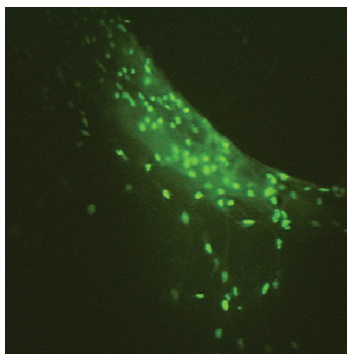
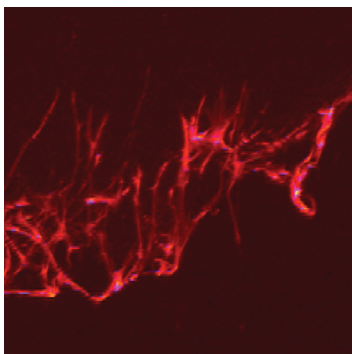
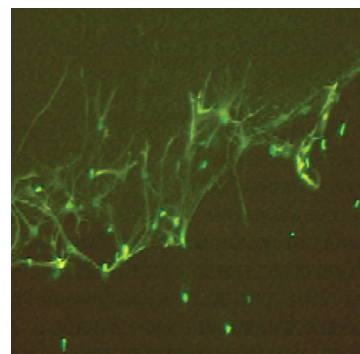
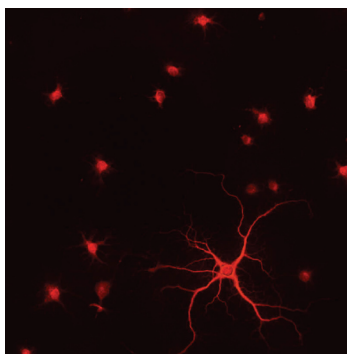
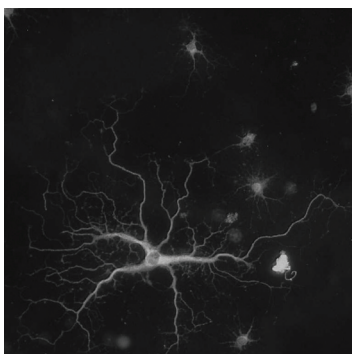


ANNUAL REPORT 2004

Neuren Pharmaceuticals Limited
ARBN 111 496 130



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The Board of Directors is pleased to present the Annual Report of Neuren Pharmaceuticals Limited for the year ended 31 December 2004, authorised by it on 30 March 2005.

For, and on behalf of, the Board



Dr Robin Congreve
Chairman



Mr David Clarke
Director

30 March 2005

Company

Neuren Pharmaceuticals Limited
ARBN 111 496 130

Corporate Head Office

Level 3, 2-6 Park Avenue,
Grafton, Auckland, New Zealand
Tel: +64 9 367 7167

Australian Registered Office

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

Directors

Dr Robin Congreve
Mr David Clarke
Mr Tom Amos
Mr Trevor Scott
Dr Douglas Wilson
Dr Graeme Howie

Company Secretary

Mr Robert Waring

Auditors

PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland, New Zealand

Share Registry

ASX Perpetual Registrars Ltd
Level 4, 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

During 2004 and in the months since Neuren Pharmaceuticals Limited lodged its prospectus, progress has been made on a number of fronts. The Company is well on track to add value to its portfolio. It has met all of its milestones in the time since lodging the prospectus in November 2004 and has also strengthened its Board and management capabilities. Neuren is well on track to delivering on all its objectives for the 2005 year.

I would like to take this opportunity to thank all the shareholders, both new and existing, the team at Neuren, the Board, Liggins Institute and other associated parties for their continued support of Neuren. We all look forward to an exciting and rewarding future.

The position of the Company at the end of 2004 was described in the IPO documents. In this review we highlight some of the major achievements of the 2004 year and report on significant developments since then.

Clinical Development

Glypromate® Clinical Program

- Glypromate® successfully completed a Phase 1 clinical trial in man. This is a major milestone. What the Company has achieved is disclosed in both the interim and final clinical trial report: the administration of Glypromate® at doses above those intended in the Phase 2a and 2b trials was shown to be safe and well tolerated in all treated subjects. There were no clinically significant findings related to Glypromate® administration and no serious adverse events were recorded. The pharmacokinetic profile showed plasma levels, decay curves and half-life close to those predicted from animal studies.
- Neuren has appointed Greenlane Clinical Centre (Auckland) and Professor Harvey White, a widely recognised expert on cardiovascular disease to coordinate the Phase 2 clinical trial, which is planned to start in mid-2005. Neuren's own team is working with Professor Stan Newman of UCL Medical School, London, and Professor Mark Newman of Duke University Medical Center to prepare the Phase 2b study. Professor Stan Newman, head of the Department of Psychiatry and Behavioural Sciences in the Medical School at University College London, is an internationally recognized expert on the cognitive aspects of cardiovascular surgery.
- Production of Glypromate® for the Phase 2a and 2b trials has now been completed according to international standards for medicines by an FDA (USA) and EMEA (Europe) approved contract manufacturer.

NNZ-2566 Development Program

- Neuren executed a Material Transfer Agreement (MTA) with the US Army Walter Reed Army Institute of Research in June 2004 to evaluate NNZ-2566 in traumatic brain injury. The results of experiments conducted under the MTA showed statistically significant benefits in the Army's model. Neuren has now executed a second stage Cooperative Research and Development agreement (CRADA) (15 March 2005) with the US Army for co-development of NNZ-2566 for traumatic brain injury. This will result in a significant reduction in pre-clinical costs borne by Neuren. The CRADA represents the second stage of what the Company expects will be a three-stage collaboration including further pre-clinical development and subsequent clinical trials. Under the CRADA, the Army will continue to conduct experiments in animal models of traumatic brain injury in order to optimise the dose and schedule for drug administration.
- Neuren has developed several potential oral formulations of NNZ-2566. Results of recent studies show evidence of good absorption and drug levels in circulation when these oral formulations are given to animals by mouth. These encouraging findings confirm Neuren's belief that NNZ-2566 offers excellent potential as an oral drug for chronic conditions.

Pre-Clinical Development

Neural Regeneration Peptides (NRPs) Research Program

- Neuren and Metabolic Pharmaceuticals Limited have agreed to collaborate to develop the NRPs for acute and chronic neurological conditions. This collaboration is partly funded by a government grant of \$635,000 from the Australia New Zealand Biotechnology Partnership Fund. This grant will provide 25% of the funding needed for the collaboration while Neuren and Metabolic will contribute 25% and 50% of the funding, respectively. Again, this increases the speed of development and reduces the cost to Neuren. Neuren and Metabolic Pharmaceuticals Limited will share equally in intellectual property and commercial outcomes.
- The first animal studies with NRPs reveal exciting results in neurodegenerative animal disease models mimicking Multiple Sclerosis as well as CNS-injury models.
- Scientific data on the NRPs has been presented for the first time at an international conference and the first manuscript has been submitted for publication.

Diketopiperazines (DKP) and Macrocyclic Research Program

- In the year under review, pre-clinical work on these compounds was undertaken. Two patented analogues in the class of DKP compounds are now in early pre-clinical development.

Growth and Metabolism

- Growth Hormone: a promising partial agonist of GH has been constructed; this has been designed to have beneficial effects of GH on metabolism without the diabetogenic and fluid retaining effects. Promising in vivo data has been obtained.
- Neuren has developed two new strategies that lead to blocking of some GH actions. GH is believed to mediate diabetic retinopathy and local GH production and plays a role in promoting the growth of breast and other cancers. Neuren has designed and is making a unique class of GH antagonists and has also found specific mediators of some of these actions as a new target.

Other R&D

- In July 2004 Neuren was awarded a grant of \$2.9 million from the Foundation of Research, Science and Technology for the development of a wireless controlled implantable micropump to deliver large neuroprotective compounds directly to the chronically injured brain.

People

Since the IPO, Neuren has strengthened its Board and Management:

- Dr Graeme Howie has been appointed as a Director of the Company. Dr Howie has over 27 years of management experience in the international pharmaceutical industry with a strong and diverse background in R&D, product development, manufacturing and commercial fields. His most recent experience is in recombinant biotech product development. He was, until December 2004, a senior executive at Pfizer Inc., based in New York. His most recent role was leading the team developing the world's best selling recombinant human growth hormone (Genotropin) and related compounds and was responsible for all development activities including clinical trials and registration activities. Dr Howie has extensive international experience in technical and commercial due diligence activities, including in-licensing. Dr Howie retired from Pfizer Inc. in December 2004 to return to Australia.
- Dr Mike Bickerdike has joined Neuren as Science Manager taking over from Dr Greg Thomas who has returned to Perth, Australia. Previously, Mike was Director of Molecular Pharmacology and a Member of the Biological Research Committee at Vernalis Research, Ltd. Mike holds a PhD in neurochemistry and behavioural pharmacology from the University of Nottingham (UK) and undertook a post-doctoral research fellowship at the Aidekman Neuroscience Centre at Rutgers University in New Jersey.
- Robyn Murdoch has joined Neuren as Chief Development Officer, responsible for all clinical development programs. Robyn holds a Master of Business Administration at Auckland University and a Bachelor of Science (Massey University). Her 23 year career has included positions as Associate Medical Manager (Pfizer Laboratories), Medical Manager (Smith Kline Beecham), and Regulatory Affairs Manager (Eli Lilly). Robyn's last position involved managing a large international Phase 3 cardiac study for The Medicines Company (17,000 patients at over 500 sites in 50 countries).
- Rob Turnbull has been appointed Chief Financial Officer for Neuren, taking over from Peter Bailey who has returned to the UK. Rob was previously CFO at another Auckland based biotechnology company and received his professional training with PricewaterhouseCoopers.

Once again I would like to thank all those involved in Neuren as we look forward to a year that will see, amongst other achievements, our lead compounds progress through the clinical development process.



Mr David Clarke
Chief Executive Officer

Principal Activities

Neuren Pharmaceuticals Limited (the "Company") is a bioscience company operating from New Zealand with activities in New Zealand, Australia and the USA. The Company's principal business function is the facilitation of the discovery and development of human therapeutics.

Performance Overview

The Company acquired the assets, liabilities and business as a going concern of a related entity, NeuronZ Limited, with effect from 1 January 2004. The acquisition of the business of NeuronZ Limited has enhanced the Company's core scientific and developmental pipeline whilst building upon operational and managerial capabilities.

The Company's operations for the year are described in the Chief Executive's Report on pages 1 and 2.

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

The operating deficit for the year ended 31 December 2004 was \$6,169,000 (2003: \$3,872,000). The detailed financial statements are presented on pages 9 to 22.

The net deficit per share of \$0.15 (2003: \$1.81) is based on 40,165,094 weighted average number of shares outstanding (2003: 2,140,448).

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

Directors

Dr Robin Congreve, LL.M, PhD (Chairman)

Dr Congreve was for many years a partner in Russell McVeagh McKenzie Bartleet & Co specialising in taxation and business law. He was subsequently on the Boards of or chaired a number of public and private companies including NZ Railways Corporation, BNZ, Comalco NZ Limited, Lion Nathan Limited and TruTest Limited. He is a principal of Oceania & Eastern Group, a New Zealand private equity group which has provided private equity funding to both Neuren's predecessor companies, NeuronZ and EndocrinZ. Dr Congreve was founding Chairman of the Auckland Medical School Foundation which led to the formation of NeuronZ within the University of Auckland and subsequently to the introduction of private equity into that company and EndocrinZ.

Mr Tom Amos, BEng (Non-Executive Director)

Mr Amos founded what became one of Australia's leading specialised technology consultancies, Amos Aked Swift (AAS), in 1983. Over the period until he stepped down in 2000 he built AAS into a highly successful, broad based consultancy and new venture business that now operates throughout Asia with offices in Australia, New Zealand and Indonesia. Mr Amos is a Principal of Wave Link Systems Pty Ltd, a Company that invests and assists in technology related areas. The Company has a portfolio of interests and investments spanning the range from start up to mature public companies. Since founding AAS he has been a managing partner, managing director, CEO and director of a number of public and private companies. Mr Amos is a director of Amos Aked Swift (NZ) Limited, FlowCom Limited, Ambertech Limited and Macquarie Technology Ventures Pty Limited. Mr Amos holds a degree in Electrical Engineering from the University of Sydney.

Mr Trevor Scott, BCom, FCA (PP), FNZIM, F Inst D (Non-Executive Director)

Mr Scott is founder of T.D. Scott and Co., an accountancy and consulting firm, which he formed in 1988. Trevor is an experienced advisor to companies across a variety of industries. He serves on numerous corporate boards and is chairman of several, including Pacific Edge Biotechnology Limited, Mercy Hospital Dunedin Limited, Blis Technologies Limited and Arthur Barnett Limited. He is also a director of Hirequip Limited, Scott Technology Limited and ING Property Limited, all of which are listed on the New Zealand Stock Exchange. Mr Scott is a member of the Board of the New Zealand Seed Fund and also chairs the Board of Otago Innovation Limited, which is the commercial arm of the University of Otago.

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. Doug was responsible for all drugs and clinical development and all interactions with the FDA. Dr Wilson 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. Dr Howie was appointed a Director on 4 February 2005.

Mr David Clarke, BE (Hons), ME, BBS, MBA (Managing Director and Chief Executive Officer)

David has significant commercial experience, at Director and Managing Director level in Health, IT and Biotechnology and brings strong organisational skills to Neuren. David stepped into the New Zealand health sector in 1991 from a background in engineering, finance, marketing and sales with previous positions in the steel and food industries. For the five years prior to joining Neuren, David was Chief Executive Officer of South Auckland Health Limited, one of the leading clinical and research centres and health providers in New Zealand. This centre specialises in providing tertiary healthcare, teaching and research, has a staff of 4,000 people and revenue of \$500 million, centred around a 900-bed hospital – the largest acute surgical hospital in NZ/Australia. David significantly restructured the management and operations of the centre. During his term, he also arranged significant funding for the organisation, in particular overseas debt and other syndicated facilities, and undertook a \$200 million capital programme, successfully completed in 2002. David also worked extensively with Neuren’s CSO in developing the research and academic capabilities of South Auckland Health Limited. In addition to his current role as Managing Director of Neuren, David is also a director of two privately held companies. David is a Fellow of the New Zealand Institute of Management, a member of the Royal Society and a member of the NZ Institute of Directors.

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 NeuronZ Limited, all Shareholders of the Company. Dr Congreve is also a director of BrainZ Instruments Limited with which the Company had a contract with BrainZ Instruments Limited to provide research services on normal commercial terms. Dr Congreve does not have any other interests considered to cause any potential conflict of interests.

Mr TR Amos

Mr Amos is a representative of the Macquarie Technology Funds 1A and 1B, both Shareholders of the Company. Mr Amos does not have any other interests considered to cause any potential conflict of interests.

Mr T D Scott

Mr Scott is a director of New Zealand Seed Fund Management Limited and Centralo Limited, both Shareholders of the Company. Mr Scott is also the chairman or a director for Pacific Edge Biotechnology Limited, Mercy Hospital Dunedin Limited, Blis Technologies Limited and Otago Innovation Limited, which also operate in the biotechnology/pharmaceutical industry. Mr Scott does not have any other interests considered to cause any potential conflict of interests.

Dr J D Wilson

Dr Wilson is a director of Genesis Research & Development Corporation Limited, a publicly listed New Zealand scientific research company. Dr Wilson does not have any other disclosed interests considered to cause any potential conflict of interests.

Dr GB Howie

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

Mr D J Clarke

Mr Clarke does not have any disclosed 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 2004 \$'000	Other Remuneration 31 December 2004 \$'000	Directors' Fees 31 December 2003 \$'000	Other Remuneration 31 December 2003 \$'000
RL Congreve	-	-	20	-
TD Scott	25	-	25	-
R Lappe (resigned 2 April 2004)	-	-	-	-
JK McLay (resigned 28 September 2004)	-	-	-	-
JD Wilson (appointed 17 June 2004)	-	10	-	-
DJ Clarke (appointed 22 October 2004)	-	450	-	-
TR Amos (appointed 9 November 2004)	-	-	-	-
GB Howie (appointed 4 February 2005)	-	-	-	-

Executive Remuneration

The number of employees, not being directors of the Company, receiving remuneration and benefits above \$100,000 per annum are as follows:

	31 December 2004 \$'000	31 December 2003 \$'000
\$140,000 - \$149,999	2	-

Donations

The Company made donations of \$2,000 during the year (2003: nil).

Auditors

PricewaterhouseCoopers are the auditors of the Company. Audit fees, which included an audit of the 30 June 2004 financial statements, are \$74,000 (2003: \$12,000). During 2004 PricewaterhouseCoopers also received \$6,400 (2003: \$20,000) in relation to other financial advice.

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 was admitted to the official list of the Australian Stock Exchange Limited ("ASX") on 3 February 2005 and has adopted appropriate policies and practices as provided by the ASX Listing Rules and the "Principles of Good Corporate Governance and Best Practice Recommendations" issued by the ASX Corporate Governance Council in March 2003.

Role of the Board

The Board is responsible for the overall corporate governance of the Company. The Board acts on behalf of and is accountable to, the Shareholders. The Board seeks to identify the expectations of Shareholders as well as other regulatory and ethical expectations and obligations. The Board is responsible for identifying areas of significant business risk and ensuring mechanisms are in place to manage those risks adequately. In addition, the Board sets the overall strategic goals and objectives, and monitors achievement of goals.

The Board appoints the Chief Executive Officer and the responsibility for the operation and administration of the Company has been delegated to the Chief Executive Officer and senior management. The Board ensures this team is appropriately qualified to discharge their responsibilities and reviews the performance of the Chief Executive Officer annually. The Chief Executive Officer is responsible for reviewing annually the performance of senior management.

The Board ensures management's objectives and activities are aligned with the expectations and risks identified by the Board through a number of mechanisms including the following:

- establishment of the overall strategic direction and leadership of the Company;
- approving and monitoring the implementation by management of the Company's strategic plan to achieve those objectives;
- reviewing performance against its stated objectives, by receiving regular management reports on business situation, opportunities and risks;
- monitoring and review of the Company's controls and systems including those concerned with regulatory matters to ensure statutory compliance and the highest ethical standards; and
- review and adoption of the annual budget and monitoring the results against stated targets.

The Board reviews its corporate strategy and financial targets in terms of Shareholder expectations, performance and potential in the interests of creating long-term value for Shareholders.

The Board considers corporate governance to be an important element of its responsibilities. It meets regularly throughout the year.

Board Composition

The Company must have between 3 and 9 Directors. The usual term of appointment for non-executive Directors is 3 years.

The Board currently consists of a non-executive Chairman, a Managing Director (Chief Executive Officer), another executive director (Chief Medical Officer) and three non-executive Directors. The composition of the Board, its performance, and the independence of Directors are regularly reviewed to ensure that the Board has the appropriate mix of independence, expertise and experience. Mr Amos and Dr Howie are independent Directors. The Board also considers Dr Wilson an independent Director despite the Company seeking his expertise on a consulting basis in relation to clinical development matters from time to time. The Board has 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, Dr Congreve and Mr Amos. The Committee operates under terms of reference approved by the Board. It is responsible for undertaking a broad review of, ensuring compliance with, and making recommendations in respect of, the Company's internal financial controls, legal compliance obligations and remuneration policies. It is also responsible for:

- review of audit assessment of the adequacy and effectiveness of internal controls over the Company's accounting and financial reporting systems, including controls over computerised systems;
- review of the audit plans and recommendations of the external auditors;
- evaluating the extent to which the planned scope of the audit can be relied upon to detect weaknesses in internal control, fraud and other illegal acts;
- review of the results of audits, any changes in accounting practices or policies and subsequent effects on the financial statements and make recommendations to management where necessary and appropriate;
- review of the performance and fees of the external auditor;
- audit of legal compliance including trade practices, corporations law, occupational health and safety and environmental statutory compliance and, once listed, 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.

In undertaking these tasks the Remuneration and Audit Committee meets separately with management and external auditors where required. The Committee also seeks assurances from the Chief Executive Officer and Chief Financial Officer in respect of the accuracy and compliance of the Company's annual and half-year financial statements.

Ethical Standards and Share Trading

The Company recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity or share trading.

The Constitution permits Directors to acquire shares in the Company. The Company's share trading policy prohibits Directors, executives and employees from acquiring or disposing of securities unless this occurs during a 42 day period commencing 24 hours after the announcement to the ASX of the quarterly, half-yearly and annual results and/or after the conclusion of the Company's Annual General Meeting and provided that the person is not in possession of price sensitive information and the trading is not for short-term or speculative gain. Other trading may only occur with Board approval.

Continuous Disclosure

As a listed company, Neuren is required to comply with the continuous disclosure requirements as set out in the ASX Listing Rules. The Company discloses to the ASX any information concerning the Company which a reasonable person would expect to have a material effect on the price or value of securities of the Company, unless certain exemptions from the obligation to disclose apply.

All relevant information provided to the ASX is also posted onto the Company's corporate website www.neurenpharma.com, in compliance with the continuous disclosure requirements of the Listing Rules.

Rights of Shareholders

The Board strives to communicate regularly and clearly with Shareholders, the principal methods being through the Company's annual and half-year reports, and Company announcements posted on the Company's website. Shareholders are encouraged to attend and participate at general meetings, which the Auditors are also invited to attend.

Identification and Management of Significant Business Risk

The Board has identified the significant areas of potential business and legal risk for the Company.

The identification, monitoring and, where appropriate, the reduction of significant risk to the Company are monitored by the Board. The Board reviews and monitors the parameters under which such risks will be managed.

The Board has identified the Company's activities in conducting clinical trials into 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, the Managing Director (Chief Executive Officer) and members of the executive team. The Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. To assist in achieving these objectives, the Remuneration and Audit Committee links the nature and amount of executive Directors' and Officers' emoluments to the Company's performance.

Remuneration of Executives comprises base salary and an "at-risk" (bonus) component, the payment of which is dependent upon individual, team and Company performance relative to specific targets. Executive performance and remuneration is reviewed formally each year.

Long-term incentive arrangements have been provided by participation in a share option plan to ensure key employees maintain a long-term interest in the growth and value of the Company.

Non-executive Director fees are determined by the Board within the aggregate limit for Directors' fees approved by Shareholders. The current remuneration levels for the Chair is \$60,000 and for non-executive Directors is \$25,000 per year with \$15,000 for Committee Chairs. Non-independent Directors and executive Directors do not receive Directors fees. Directors and Executives receive no retirement allowances. New Zealand Companies Act disclosures with regard to Directors' Fees and Executives' remuneration are set out in the Directors' Report.

FINANCIAL STATEMENTS

for the year ended 31 December 2004

Statement of Financial Performance

for the year ended 31 December 2004

	Notes	Company and Group	
		2004 NZ\$'000	2003 NZ\$'000
Continuing Activities			
Operating revenue			
Contract research revenues		1,643	2,835
Grants		945	-
Interest income		10	160
Total operating revenue		2,598	2,995
Operating expenses			
Research		6,560	4,724
Finance and administration		2,081	1,638
Dividends on preference shares		126	505
		8,767	6,867
Operating deficit before taxation	5	(6,169)	(3,872)
Income tax	6	-	-
Net deficit after taxation		(6,169)	(3,872)
Net deficit per share:			
Basic	4	(\$0.15)	(\$1.81)
Diluted		(\$0.15)	(\$1.57)
Weighted average number of shares outstanding:			
Basic	4	40,165,094	2,140,448
Diluted		40,165,094	2,140,448

The notes on pages 13 to 22 form part of these financial statements

Statement of Financial Position

as at 31 December 2004

	Notes	Company and Group	
		2004 NZ\$'000	2003 NZ\$'000
ASSETS			
Current assets:			
Cash and cash equivalents	8	343	1,400
Accounts receivable and other assets	9	402	270
Receivable from related parties	18	697	782
Deferred equity raising costs	19	880	-
Convertible note receivable	10	-	400
Total current assets		2,322	2,852
Non-current assets:			
Property, plant and equipment	11	72	256
Intangible assets	12	11,616	-
Total non-current assets		11,688	256
TOTAL ASSETS		14,010	3,108
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	15	4,546	1,386
Total current liabilities		4,546	1,386
Non-current liabilities:			
Long-term debt	16	-	7,239
Total liabilities		4,546	8,625
SHAREHOLDERS' EQUITY			
Share capital	7	21,158	8
Accumulated deficit		(11,694)	(5,525)
Total shareholders' equity		9,464	(5,517)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		14,010	3,108

The notes on pages 13 to 22 form part of these financial statements

For and on behalf of the Board of Directors who authorised the issue of these financial statements on 30 March 2005.



Dr Robin Congreve
Chairman



Mr David Clarke
Director

Statement of Movements in Equity

for the year ended 31 December 2004

	Company and Group				Recognised Revenues and Expenses NZ\$'000
	Paid-in Capital	Accumulated	Total		
	Shares 000's	Amount NZ\$'000	Deficit NZ\$'000	NZ\$'000	
Shareholders' equity as at 1 January 2003	840	\$ 8	\$ (1,653)	\$ (1,645)	
Net deficit			(3,872)	(3,872)	(3,872)
Total recognised revenues and expenses					\$ (3,872)
Shareholders' equity as at 31 December 2003	840	\$ 8	\$ (5,525)	\$ (5,517)	
Shares issued on conversion of preference shares	5,079	7,365		7,365	
Shares issued on acquisition of NeuronZ Limited's business	16,277	11,453		11,453	
Share issued for cash	2,332	2,332		2,332	
Share split	37,972	-		-	
Net deficit			(6,169)	(6,169)	(6,169)
Total recognised revenues and expenses					\$ (6,169)
Shareholders' equity as at 31 December 2004	62,500	\$ 21,158	\$ (11,694)	\$ 9,464	

The notes on pages 13 to 22 form part of these financial statements

Statement of Cash Flows

for the year ended 31 December 2004

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Cash flows from operating activities:		
Receipts from customers	1,587	2,989
Receipts from grants	867	-
Interest received	10	160
Net GST received (paid)	117	(386)
Income taxes refunded	150	-
Payments to suppliers	(5,105)	(4,352)
Payments to employees	(1,611)	(1,008)
Net cash used in operating activities	(3,985)	(2,597)
Cash flows from investing activities:		
Investment in a convertible note in NeuronZ Limited	-	(400)
Cash acquired on acquisition of the business of NeuronZ Limited	116	-
Proceeds from disposal of property, plant and equipment	543	-
Purchase of plant and equipment	(20)	(143)
Net cash provided from (used in) investing activities	639	(543)
Cash flows from financing activities:		
Proceeds from ordinary share issue	2,332	-
Cash provided from financing activities	2,332	-
Net decrease in cash	(1,014)	(3,140)
Effect of exchange rate changes on cash balances	(43)	-
Cash at the beginning of the year	1,400	4,540
Cash at the end of the year	343	1,400
Reconciliation with net deficit:		
Net deficit	(6,169)	(3,872)
<i>Non-cash items requiring adjustment:</i>		
Depreciation	285	181
Amortisation	830	-
Dividend on preference shares	126	505
Foreign exchange loss	43	-
<i>Changes in working capital:</i>		
Accounts receivable	(149)	(478)
Prepaid expenses and other current assets	(913)	199
Work in progress	-	833
Accounts payable and accruals	2,061	35
<i>Items classified as investing activities:</i>		
Profit on disposal of property, plant and equipment	(99)	-
Net cash used in operating activities	(3,985)	(2,597)

The notes on pages 13 to 22 form part of these financial statements

Notes to the Financial Statements

for the year ended 31 December 2004

1. Nature of business

The Company changed its name from EndocrinZ Limited to Neuren Pharmaceuticals Limited (the "Company") on 2 June 2004. These financial statements are for the Company and the Group (comprising the Company and its subsidiaries). At 31 December 2004 the subsidiary companies had no material operations.

Neuren Pharmaceuticals Limited is a bioscience company operating from New Zealand with activities in New Zealand, Australia and the USA whose principal business function is the facilitation of the discovery and development of human therapeutics.

Inherent Uncertainties

- During the year the Company issued ordinary share capital in consideration for the acquisition of the intellectual property and other assets and liabilities of the business of NeuronZ Limited (refer note 14). 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 \$11,616,000 (after amortisation) is dependent on the Company successfully developing its products, on licensing the products, or divesting the intellectual property so that it generates future economic benefits to the Company.
- The Company's research and development activities involve inherent risks. These risks include, among others: dependence on, and the Company's ability to retain key personnel; the Company's ability to protect its intellectual property and prevent other companies from using the technology; the Company's business is based on novel and unproven technology; the Company's ability to sufficiently complete the clinical trials process; and technological developments by the Company'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 in addition to the public offering completed after balance date (refer note 19) through other public or private equity financings, collaborations or other arrangements with corporate sources, or other sources of financing to fund operations. There can be no assurance that such additional financing, if available, can be obtained on terms reasonable to the Company. In the event the Company is unable to raise additional capital, future operations will need to be curtailed or discontinued.

2. Summary of significant accounting policies

The accompanying financial statements of the Company and Group are for the year ended 31 December 2004, and are based on the general principles of historical cost accounting. They are presented in accordance with the New Zealand Companies Act 1993 and have been prepared in accordance with the New Zealand Financial Reporting Act 1993, in conformity with generally accepted accounting practice in New Zealand.

Revenue

Goods and services

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Grants

Grants received are recognised in the statement of financial performance 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.

Science contracts

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.

Investment income

Dividend income is recognised in the year the dividend is declared. Interest and rental income are accounted for as earned.

Estimates

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results may differ from those estimates.

Goods and services tax (GST)

The financial statements have been prepared so that all components are presented exclusive of GST. All items in the statement of financial position are presented net of GST, with the exception of receivables and payables, which include GST invoiced.

Translation of foreign currency

The financial statements are expressed in New Zealand dollars, the functional currency of the Company. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies arising from operations are translated into New Zealand dollars using closing exchange rates in effect at year-end. Gains and losses due to exchange rate fluctuations on these items are included in the statement of financial performance.

Research and development

Research costs include direct and directly attributable overhead expenses for drug discovery and research and pre-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.

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. The value of any acquired intellectual property is based upon the historic costs associated with the generation of the intellectual property acquired.

Taxation

The tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules. The impact of all timing differences between accounting and tax income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method. A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

Impairment

The Company reviews long-lived assets, including intangible assets, 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 estimated undiscounted cash flow from such asset is less than its carrying value. In that event, a loss is recognised in the statement of financial performance 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.

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.

Accounts receivable

Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful.

Contract work in progress

Contract work in progress is stated at cost less amounts invoiced to customers. Cost includes all expenses directly related to specific contracts and an allocation of general science overhead expenses incurred by the Company.

Leased assets

Leases that are not finance leases are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is determined principally on a straight-line basis for plant, equipment and office furniture and fittings, based upon the following estimated useful lives:

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

Repairs and maintenance and gains and losses on sale or disposal of assets are reflected in the statement of financial performance as incurred. Major renewals and betterments are capitalised.

Intangible assets

Patents, trademarks and licences are amortised over their anticipated useful lives, which are aligned with the unexpired patent term or agreement over trademarks and licences.

Employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees.

Financing 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. Costs associated with the issue of shares which are recognised within non-current liabilities on the balance sheet are expensed in the year accrued.

Financial instruments

Financial instruments recognised in the statement of financial position include cash and cash equivalents, accounts receivable, accounts payable and preference shares. With the exception of the preference shares, the Company believes that the amounts reported for financial instruments approximate fair value due to their short-term nature (refer note 16 regarding preference shares).

Statement of cash flows

Operating cash flows include all transactions and other events that are not investing or financing activities. Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, and investments. Financing activities are those that result in changes in the size and composition of the capital structure disclosed within equity or long-term debt.

Changes in accounting policies

There have been no changes in accounting policies during the year.

Adoption of International Financial Reporting Standards ("IFRS")

The Company will be required to present its financial statements in accordance with New Zealand equivalent IFRS ("NZ IFRS") for the financial year commencing 1 January 2007. On adoption of NZ IFRS, the comparative financial statements will be restated using NZ IFRS.

The Company has yet to assess the impact to its financial statements of adopting NZ IFRS, however changes in accounting policies are likely to arise with respect to:

- Recognition and classification of Financial Instruments under NZ IAS 32 and 39: financial instruments will be required to be classified and measured in accordance with that classification. While the Company does not currently utilise derivative financial instruments, the classification and measurement process may impact other financial instruments.
- Share and option based payments under NZ IFRS 2: the Company will be required to determine and recognise the fair value of options and other forms of equity based remuneration.
- Income Taxes under NZ IAS 12: the Company will be required to adopt a balance sheet approach under which temporary differences are identified for each asset or liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

3. Segment information

The Company operates in one industry, namely the facilitation of the discovery and development of human therapeutics and from one geographic location being New Zealand.

4. Net deficit per share

Basic net deficit per share is based upon the weighted average number of outstanding ordinary shares. For the years ended 31 December 2004 and 2003, the Company's potentially dilutive ordinary share equivalents (being the preference shares and options over ordinary shares) have an anti-dilutive effect on net deficit per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted net deficit per share. The effect of the ordinary share split of 1: 2.548153 in November 2004 has been applied to the calculation of the weighted average number of outstanding ordinary shares for all periods presented.

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Basic		
Unadjusted net deficit	(6,169)	(3,872)
Weighted average shares outstanding	40,165,094	2,140,448
Basic net deficit per share	(\$0.15)	(\$1.81)
Diluted		
Unadjusted net deficit	(6,169)	(3,872)
Add: Preference share dividend	126	505
Adjusted net deficit	(6,043)	(3,367)
Weighted average shares outstanding	40,165,094	2,140,448
Diluted net deficit per share	(\$0.15)	(\$1.57)

5. Operating deficit

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Operating deficit is stated after charging:		
Accounting fees	11	-
Audit fees	74	12
Other fees paid to auditors	6	20
Directors' fees	65	45
Preference share dividend	126	505
Amortisation of intangible assets	830	-
Profit on disposal of fixed assets	(99)	-
Legal fees	30	38
Rent expense	298	153
Donations	2	-
Foreign exchange loss	49	27
Research and development costs	5,567	4,661
Depreciation		
Scientific equipment	163	63
Computer equipment	65	101
Fixtures and fittings	49	13
Leasehold improvements	8	4
Total Depreciation	285	181

The operating result of the year ended 31 December 2004 includes expenditures arising from the business activities acquired from NeuronZ Limited (refer note 14).

6. Income tax

The Company had estimated income tax losses to carry forward at 31 December 2004 of \$9,189,000 with a tax effect of \$3,032,000 (2003: \$4,076,000, tax effect \$1,345,000). These losses can be carried forward subject to the requirements of income tax legislation being met and the Company maintaining shareholder continuity, however subsequent to balance date the Company completed an IPO (refer note 19) resulting in the loss of shareholder continuity. Accordingly, the potential benefit associated with these losses has not been recognised.

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Net deficit per accounts	(6,169)	(3,872)
Timing Differences		
Holiday pay provision	123	3
Depreciation	(3)	81
Disposal of fixed assets	(194)	-
Permanent Differences		
Dividend on preference shares	126	505
Patent fees	141	129
Amortisation of intangible assets	830	-
Other interest	-	(8)
Legal fees non deductible	29	18
Entertainment costs non deductible	4	2
Estimated income tax loss	(5,113)	(3,142)

The Company has not recognised any deferred taxation benefits arising from timing differences due to uncertainty over the ultimate realisation of those benefits. The tax effect of total timing differences not recognised at 31 December 2004 is a benefit of \$72,000 (2003: \$28,000 benefit).

There are no imputation credits as there have been no net taxes paid.

7. Share capital

	Company and Group	
	2004 '000	2003 '000
Issued share capital		
<i>Ordinary shares - number of shares</i>		
Balance at beginning of year	840	840
Shares issued to convert preference shares	5,079	-
Shares issued on acquisition of NeuronZ Limited's business	16,277	-
Shares issued for cash during the year	2,332	-
	24,528	840
Shares issued pursuant to a share split on a 1: 2.548153 basis	37,972	-
Ordinary shares issued as at end of year	62,500	840
Issued share capital	2004 NZ\$'000	2003 NZ\$'000
<i>Ordinary shares - value</i>		
Balance at beginning of year	8	8
Shares issued to convert preference shares	7,365	-
Shares issued for acquisition of NeuronZ Limited's business	11,453	-
Shares issued for cash during the year	2,332	-
Total issued share capital	21,158	8

Ordinary Shares

As at 31 December 2004 there were 62,500,000 ordinary shares issued and fully paid up. On 2 November 2004 the then outstanding 24,527,574 ordinary shares were split on a 1: 2.548153 basis into the 62,500,000 ordinary shares outstanding at year-end. All ordinary shares rank equally as to dividends and liquidation with one vote attached to each fully paid ordinary share. Subsequent to the year-end the Company completed an IPO resulting in the issue of a further 37,500,000 ordinary shares (refer note 19).

Shares Issued to Convert Preference Shares

On 2 April 2004, 1,667,667 Series A preference shares and 2,500,000 Series B preference shares then on issue were converted under the terms of the Series A preference shares and Series B preference shares into ordinary shares on a one-for-one basis. 912,218 ordinary shares were also issued to the former Series A and Series B preference shareholders in consideration of them agreeing to forego their preferential rights. Each ordinary share was issued fully paid up and ranking equally with all other ordinary shares.

Shares Issued for Acquisition of NeuronZ Limited's Business

On 21 May 2004, 16,276,939 ordinary shares were issued in settlement of the consideration for the acquisition of the assets, liabilities and business as a going concern of NeuronZ Limited, a related entity. The consideration for the 16,276,939 ordinary shares was the net value acquired of \$11,453,000 as at 1 January 2004. Each ordinary share was issued fully paid up and ranking equally with all other ordinary shares.

Share Options

Oceania & Eastern Biotech Limited is an investment company associated with interests of Dr Robin Congreve. In consideration for the provision by Oceania & Eastern Biotech Limited of services in relation to the acquisition of the assets, business and liabilities of NeuronZ Limited and the Company's capital raising initiatives, the Company granted Oceania & Eastern Biotech Limited 600,000 options on 1 October 2004 ("O&E Options"). The number of O&E Options was adjusted to 1,528,892 options as a consequence of the subdivision of shares described above. If the O&E Options are exercised, the consideration for the issue of the shares will be a fixed sum of NZ\$600,000 payable by Oceania & Eastern Biotech Limited on the exercise of the options – equivalent to NZ\$0.392 per share. The options must be exercised on or before 31 March 2009.

Auckland UniServices Limited ("UniServices") is the commercial research and knowledge transfer company for the University of Auckland. In consideration for the entry into a Research Deed dated 5 March 2002 between the Company and UniServices, the Company granted UniServices 735,000 options ("UniServices Options"). The number of UniServices Options was adjusted to 1,872,892 options as a consequence of the subdivision of shares described above. If the UniServices Options are exercised, the consideration for the issue of the shares will be a fixed sum of NZ\$735,000 payable by UniServices on the exercise of the options – equivalent to NZ\$0.392 per share. The UniServices Options must 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.

Both the O&E Options and the UniServices Options were otherwise issued on terms and conditions not materially different to those of the Share Option Plan described below. Using the Black-Scholes option pricing model and variables of 58.6% volatility, 6.07% risk free interest rate, 0% dividend yield, and a 30% discount for lack of marketability, the Company estimates that the O&E Options and the UniServices Options had fair values on grant date of \$201,000 and \$246,000 respectively.

Share Option Plan

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 total number of options to be offered under the Share Option Plan is 14,139,627 options of which 14,085,843 options have been issued and allocated with an exercise price of NZ\$0.392 per option. Using the Black-Scholes option pricing model as above the Company estimates that these options had a grant date fair value of \$1,850,000. No payment is required for the grant of options under the Share Option Plan. Each option is an option to subscribe 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. Each option shall lapse and cease to be available for exercise after 31 March 2009 or where the Participant who is the holder of that option ceases to be an employee or consultant, provided that the Company may, subject to such conditions as it sees fit, determine that options held by a Participant who has:

- ceased to be an employee or consultant by reason of injury, ill health, redundancy, or retirement shall not lapse;
- died shall not lapse and may be transferred to a personal representative of that Participant.

8. Cash and cash equivalents

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Cash	343	634
Demand deposits	-	766
	<u>343</u>	<u>1,400</u>

9. Accounts receivable and other assets

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Trade receivables	319	270
Unbilled revenue	50	-
Prepaid Expenses	33	-
	<u>402</u>	<u>270</u>

10. Convertible note receivable

During 2003, the Company invested in NeuronZ Limited by way of NZ\$2 convertible notes. The convertible notes were issued on the basis that they may convert into new Series B preference shares in NeuronZ Limited or be repaid in cash on or before 31 December 2004. The convertible notes were unsecured with interest of 13.5% p.a. payable in the event that the convertible notes were repaid.

Under the terms of the conversion, the Company had the right to convert each convertible note into 3 new Series B preference shares in NeuronZ Limited.

Under the terms of the convertible notes the acquisition of the assets, liabilities and business of NeuronZ Limited triggered the cancellation of the convertible notes. No interest was therefore accrued.

11. Property, plant and equipment

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Cost		
Scientific equipment	-	250
Computer equipment	237	199
Fixtures and fittings	103	54
Leasehold improvements	32	12
	<u>372</u>	<u>515</u>
Less accumulated depreciation		
Scientific equipment	-	74
Computer equipment	220	157
Fixtures and fittings	67	22
Leasehold improvements	13	6
	<u>300</u>	<u>259</u>
Net book value	<u>72</u>	<u>256</u>

On 30 June 2004, all scientific equipment including items acquired from NeuronZ Limited was sold to Auckland UniServices Limited, a related party. A gain on disposal of \$96,000 was recorded.

12. Intangible assets

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Intellectual property acquired:		
Cost		
Patent rights	12,446	-
Less accumulated amortisation		
Patent rights	(830)	-
Net book value	<u>11,616</u>	<u>-</u>

Patent rights were acquired as a result of the acquisition of the assets, liabilities and business as a going concern from NeuronZ Limited (refer note 14). The patent rights are amortised over a period of 15 years from the effective date of acquisition being 1 January 2004 as this reflects the approximate unexpired patent term. The directors do not believe there has been any impairment in value of the patent rights subsequent to acquisition.

13. Group financial statements and investments in subsidiaries

Neuren Pharmaceuticals Limited has 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

All subsidiaries have a balance date of 31 December. The subsidiaries have had no material impact on the financial performance or position of the Company or Group.

14. Acquisition of business

On 1 January 2004 Neuren Pharmaceuticals Limited assumed all of the significant risks and rewards of ownership of the assets, liabilities and business of NeuronZ Limited. Final ratification of the transaction by shareholders of NeuronZ Limited and Neuren Pharmaceuticals Limited occurred on 21 May 2004. The transaction has been recognised by both entities as at 1 January 2004. NeuronZ Limited had complementary technology and is a related party of the Company by virtue of its common shareholders and directors.

The directors of the Company valued the assets, liabilities and business as a going concern of NeuronZ Limited as at 1 January 2004 at \$11.45 million and issued 16,276,939 (pre-split) ordinary shares in the Company as consideration.

Consequently, Neuren Pharmaceuticals Limited acquired the following balances as at 1 January 2004:

	Company and Group 2004 NZ\$'000
Net assets acquired:	
Cash	116
Accounts receivable	16
Other current assets	39
Property, plant and equipment	524
Intellectual property	12,446
Liabilities	(1,688)
	11,453
Fair value of net assets acquired	11,453
Consideration paid in the form of ordinary shares issued	11,453
Cash impact of acquisition	116

All assets and liabilities acquired have been recognised at their fair value.

Consistent with the bioscience discovery and development nature of the assets, liabilities and business acquired, the intangible asset acquired has been treated as an identifiable intangible asset, being the intellectual property acquired.

The business acquisition has been included within the results for the year.

15. Accounts payable and accrued liabilities

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Trade accounts payable	1,184	194
Payable to a related party	1,454	380
Employee related payables	556	20
Accruals	348	153
Payment on account from related party	1,004	639
	4,546	1,386

16. Long-term debt

	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Series A preference shares issued	-	1,667
Series B preference shares issued	-	4,649
Accrued Series A and B preference share dividend	-	923
	-	7,239

On 17 December 2001 the Company issued 100 Class A shares at a subscription price of \$1.00. These were reclassified into Series A preference shares on 5 March 2002 pursuant to a Shareholders resolution. Also on 5 March 2002 an additional 1,666,567 Series A preference shares were issued at a subscription price of \$1.00 per share respectively.

On 5 March 2002 the Company issued 2,500,000 Series B preference shares at a subscription price of \$1.86.

The Series A and Series B preference shares carried the right to receive cumulative dividends of 8% of the issue price per annum, were convertible into the same number of ordinary shares at any time by the preference shareholder and also convertible on the occurrence of the closing of a Qualified Public Offering or by a majority resolution of the preference shareholders. Each preference share carried one vote and ranked ahead of ordinary shares for the amount paid up and any accrued and unpaid dividends if the Company was wound up. In all other respects, each preference share ranked pari passu with the ordinary shares. The preference shares were to be redeemed six years after issue if they had not been converted to ordinary shares before that time. Accordingly, they were classified as debt rather than equity for the year ended 31 December 2003.

As at 31 December 2003 the directors believed the monetary value of the preference shares and associated dividend to be a prudent estimate of the fair value of the financial instrument when taking into account intellectual property held by the Company.

On 2 April 2004 the 1,667,667 Series A preference shares and the 2,500,000 Series B preference shares then on issue were converted into ordinary shares on a one-for-one basis (refer note 7).

17. Commitments and contingencies

Operating leases

The following amounts for the lease of premises and scientific equipment have been committed to by the Company, but not recognised in the financial statements. The premises commitment was assumed as a result of the acquisition of the assets, liabilities and business as a going concern of NeuronZ Limited during the period (refer note 14).

Non cancellable operating lease commitments	Company and Group	
	2004 NZ\$'000	2003 NZ\$'000
Within one year	396	-
One to two years	370	-
Two to five years	415	-
	1,181	-

Legal claims

The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 31 December 2004 (2003: Nil).

Capital commitments

The Company is not committed to the purchase of any plant or equipment as at 31 December 2004 (2003: Nil).

18. Related party transactions

Pfizer Inc. is a related party by virtue of its direct holding of 8,081,438 ordinary shares as at 31 December 2004. During the period, Pfizer Inc. engaged Neuren Pharmaceuticals Limited to perform commercial research. The total value of this research is \$1,303,000 in the year ended 31 December 2004 (2003: \$1,350,000) and amounts outstanding to Pfizer Inc. are included in note 15.

NeuronZ Limited is a related party by virtue of its direct holding of 12,345,898 ordinary shares as at 31 December 2004. On 1 January 2004 Neuren Pharmaceuticals Limited assumed all of the significant risks and rewards of ownership of the assets, liabilities and business of NeuronZ Limited (refer note 14). Final ratification of the transaction by shareholders of NeuronZ Limited occurred on 21 May 2004. As a consequence of this transaction, Auckland UniServices Limited became a related party of the Company by virtue of Auckland UniServices Limited's holding of ordinary shares in NeuronZ Limited. Auckland UniServices Limited is the largest supplier of goods and services to the Company under contractually agreed terms. Services received in the period to 31 December 2004 were \$3,003,000. Amounts outstanding to Auckland UniServices Limited are shown in note 15. On 30 June 2004 scientific equipment was sold to Auckland UniServices Limited for \$540,000. A gain on disposal of \$96,000 was recorded. On 1 October 2004 options were granted to Auckland UniServices Limited (refer note 7).

Oceania & Eastern Biotech Limited is a related party of the Company due to the interests of Dr R L Congreve. On 1 October 2004 options were granted to Oceania & Eastern Biotech Limited (refer note 7). Oceania & Eastern Biotech Limited also charged fees of \$50,000 (2003: nil) in relation to services provided in relation to the Company's initial public offering.

BrainZ Instruments Limited is a related party of the Company due to the interests of Dr RL Congreve. During the period to 31 December 2004 the Company recognised revenue of \$35,000 (2003: nil) under a contract with BrainZ Instruments Limited to provide research services on normal commercial terms.

Certain other scientific consultants to the Company held minority shareholdings of ordinary shares as at 31 December 2004 and received contractual amounts for their consulting services.

The Company has had no other significant transactions with related parties during the year.

19. Events after balance date

IPO and Australian Stock Exchange ("ASX") Listing

On 31 January 2005, the Company accepted share subscriptions under its IPO amounting to A\$15 million for 37,500,000 new ordinary shares, and on 3 February 2005 was admitted to the Official List of the Australian Stock Exchange Limited.

Costs incurred to 31 December 2004 in relation to the IPO have been deferred and classified within Current Assets at that date and will be offset against capital raised on allotment of the shares.

Neuren's ordinary shares trade on the ASX under the code "NEU" and its issued options are unquoted.

20. Financial Instruments

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 consultants that are denominated in foreign currency. As a result of these transactions there is exposure to fluctuations in foreign exchange rates.

At 31 December 2004 the unrecognised notional or principal contract amount of foreign exchange instruments outstanding was \$nil (31 December 2003: \$nil).

Repricing Analysis

The following disclosures identify the periods in which interest rates are subject to review on interest bearing financial assets. Interest on short-term deposits is at variable rates which are frequently reviewed.

The effective interest rate on deposits at 31 December 2003 were New Zealand dollar denominated deposits of \$193,000 at 5.0 % and US dollar denominated deposits of \$573,000 at 0.7%. There were no term deposits at 31 December 2004.

Accounts receivable and payable are not included in the table as they are not interest rate sensitive.

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 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.

Fair Values

Cash at bank, receivables, accounts payable and in prior periods the redeemable preference shares (refer note 16) have a fair value equivalent to the carrying value in the financial statements.

Auditors' Report

to the Shareholders of Neuren Pharmaceuticals Limited

We have audited the financial statements on pages 9 to 22. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 December 2004 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 13 to 15.

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 2004 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgments made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors and taxation advisers.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 9 to 22:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the Company and Group as at 31 December 2004 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 30 March 2005 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Auckland

Additional Information

Equity Securities Held by Directors as at 15 March 2005

Director	Interests in Ordinary Shares		Interests in Options	
	Direct	Indirect	Direct	Indirect
R L Congreve	-	23,636,115	-	1,528,892
T D Scott	-	12,432,795	-	-
T R Amos	-	9,624,118	-	-
J D Wilson	-	135,000	-	-
G B Howie	50,000	-	-	-
D J Clarke	-	-	4,241,888	-

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 15 March 2005 was 14, holding 15,125 ordinary shares.

The following information is presented based on share registry information processed up to 15 March 2005. As the Company completed its IPO of 37,500,000 ordinary shares on 3 February 2005, the following information incorporates those ordinary shares issued subsequent to the financial year-end.

<i>Distribution of Shareholders</i>	Number of Shareholders	Number of Ordinary Shares
Analysis of numbers of ordinary shares by size of holding:		
1 – 1,000	7	4,425
1,001 – 5,000	342	1,637,299
5,001 – 10,000	321	2,879,600
10,001 – 100,000	442	12,690,792
100,001 and over	57	82,787,884
	<u>1,169</u>	<u>100,000,000</u>

<i>Distribution of Optionholders</i>	Number of Option holders	Number of Options
Analysis of numbers of options by size of holding:		
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	2	12,442
10,001 – 100,000	9	576,532
100,001 and over	15	16,898,653
	<u>26</u>	<u>17,487,627</u>

<i>Substantial Security Holders</i>	Number of Ordinary Shares
who have notified the Company as at 15 March 2005 are:	
NeuronZ Limited	12,345,898
New Zealand Seed Fund	11,441,670
Pfizer Inc.	8,081,438
K One W One Limited	6,250,424

<i>Securities Subject to Escrow</i>	Number of Ordinary Shares	Number of Options
Escrow period ends:		
31 January 2006	47,112,916	5,325,904
31 January 2007	15,382,625	7,643,672
	<u>62,495,541</u>	<u>12,969,576</u>

<i>Twenty Largest Holders</i> of ordinary shares:	Number of Ordinary Shares	% Holding
NeuronZ Limited	12,345,898	12.35
New Zealand Seed Fund Management Limited	11,441,670	11.44
Pfizer Inc.	8,081,438	8.08
K One W One Limited	6,250,424	6.25
Perpetual Trustee Company (Canberra) Limited <Macquarie Technology Fund 1A A/C>	4,812,059	4.81
Perpetual Trustee Company (Canberra) Limited <Macquarie Technology Fund 1B A/C>	4,812,059	4.81
TAC Murray & Quartet Equities Limited <The Congreve Family A/C>	3,704,244	3.70
Hazardous Investments Limited	3,293,711	3.29
National Nominees Limited	2,730,500	2.73
Oceania & Eastern Biotech Limited	2,686,926	2.69
Mr Gnanalingam Lingam Gunanath	2,500,000	2.50
Health Super Pty Limited	2,290,000	2.29
Janik Enterprises	1,646,856	1.65
EndocrinZ Founders Limited	1,605,336	1.61
Savage Group Limited	1,274,076	1.27
Metabolic Pharmaceuticals Limited	1,250,000	1.25
Jennifer Gibbs	1,097,905	1.10
ANZ Nominees Limited	1,016,300	1.02
Centralo Limited	991,125	0.99
Asia Union Investments Pty Limited	800,000	0.80
	74,630,527	74.63

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 9 to 22 of Neuren and its subsidiaries for the year ended 31 December 2004 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 2004 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 30 March 2005.

On behalf of the Board



Dr Robin Congreve
Chairman

ANNUAL REPORT 2004



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