

# Appendix 4E

## Neuren Pharmaceuticals Limited ARBN 111 496 130

### Preliminary final report Financial year ended 31 December 2004

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

#### 1. Reporting Details

Neuren Pharmaceuticals Limited ARBN 111 496 130 (“Neuren” or the “Company”) presents the following information for the year ended 31 December 2004 together with comparative results for the year ended 31 December 2003.

The results for the year ended 31 December 2003 do not include the assets, liabilities and business as a going concern of NeuronZ Limited, which was acquired by Neuren with effect from 1 January 2004. Consequently, the balances for December 2003 reflect the operations of a single business and those for December 2004 reflects the combined operational business as described in Neuren’s prospectus dated 15 November 2004 and the supplementary prospectus dated 23 December 2004 (together, the “Prospectus”).

All amounts shown are in NZ\$’000s unless otherwise stated.

#### 2. Results for announcement to the market

	Reported 2004 NZ\$’000	Variance to 2003 NZ\$’000	% Change
2.1 Operating Revenue	2,598	(397)	(13%)
2.2 Loss after Tax	(6,169)	(2,297)	(59%)
2.3 Net Loss	(6,169)	(2,297)	(59%)
2.4 Dividends	N/A	N/A	N/A

#### Operating Revenue

Contract research revenue of \$1,643,000 in 2004 includes contracts with Metabolic Pharmaceuticals Limited [ASX: MBP] and Pfizer Inc. The overall fall in contract revenue in 2004 compared to 2003 of \$1,192,000 is due to the anticipated reduction in contract research with Pfizer Inc. during the year.

Grant income in 2004 of \$945,000 (2003: nil) exceeded the Company’s mid year expectations with further awards in the final quarter of 2004 and remains a strong area of focus for the Company.

**Appendix 4E**  
**Preliminary final report**  
**Financial year ended 31 December 2004**

---

**Loss after Tax and Net Loss**

The loss for 2004 includes a non cash charge of \$830,000 (2003: nil) for amortisation of intellectual property acquired in the year and costs associated with the Phase I Glypromate® trial which was successfully completed in December 2004.

**Comparison of 2004 with 2003 results**

The results for the year ended 31 December 2003 do not include the assets, liabilities and business as a going concern of NeuronZ Limited, which was acquired by Neuren with effect from 1 January 2004. Consequently, the balances for December 2003 reflect the operations of a single business and those for December 2004 reflects the combined operational business as described in Neuren's Prospectus. The pro forma combined loss after tax for the 12 months to 31 December 2003 disclosed within the Pro Forma Financial Information in the Prospectus was \$6,454,000.

**3. Statement of Financial Performance**

	Notes	12 months to 31 December 2004 NZ\$'000	12 months to 31 December 2003 NZ\$'000
<b>Continuing Activities</b>			
<b>Operating revenue</b>			
Contract research revenues		1,643	2,835
Grants		945	-
Interest income		10	160
		<b>2,598</b>	<b>2,995</b>
<b>Operating expenses</b>			
Research		6,560	4,724
Finance and administration		2,081	1,638
Dividends on preference shares		126	505
		8,767	6,867
<b>Operating deficit before taxation</b>	3.1	<b>(6,169)</b>	<b>(3,872)</b>
<b>Income tax</b>		-	-
<b>Net deficit</b>		<b>(6,169)</b>	<b>(3,872)</b>
<b>Net deficit per share:</b>			
Basic	3.2	(\$0.15)	(\$1.81)
Diluted	3.2	(\$0.15)	(\$1.57)
<b>Weighted average number of shares outstanding:</b>			
Basic	3.2	40,165,094	2,140,448
Diluted	3.2	40,165,094	2,140,448

**3.1 Operating Deficit before Taxation**

	<b>12 months to 31 December 2004 NZ\$'000</b>	<b>12 months to 31 December 2003 NZ\$'000</b>
<b>Operating deficit is stated after charging:</b>		
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 intangibles	830	-
Profit on disposal of fixed assets	(99)	-
Legal fees	30	38
Rent expense	298	153
<b>Depreciation</b>		
Scientific equipment	163	63
Computer equipment	65	101
Fixtures and fittings	49	13
Leasehold improvements	8	4
<b>Total Depreciation</b>	<b>285</b>	<b>181</b>

**3.2 Net Deficit per Share**

	<b>12 months to 31 December 2004 NZ\$'000</b>	<b>12 months to 31 December 2003 NZ\$'000</b>
<b>Basic:</b>		
Unadjusted net deficit	(6,169)	(3,872)
Weighted average shares outstanding	40,165,094	2,140,448
<b>Net deficit per share</b>	<b>(\$0.15)</b>	<b>(\$1.81)</b>
<b>Diluted:</b>		
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
<b>Net deficit per share</b>	<b>(\$0.15)</b>	<b>(\$1.57)</b>

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 common 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 has been applied to the calculation of the weighted average number of outstanding ordinary shares for all periods presented.

**Appendix 4E**  
**Preliminary final report**  
**Financial year ended 31 December 2004**

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**4. Statement of Financial Position**

	Notes	31 December 2004 NZ\$'000	31 December 2003 NZ\$'000
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		343	1,400
Receivable from related parties		697	782
Deferred equity raising costs		880	-
Accounts receivable and other assets		402	270
Convertible note receivable		-	400
Total current assets		<u>2,322</u>	<u>2,852</u>
<b>Non-current assets:</b>			
Property, plant and equipment		72	256
Intangible assets	4.1	<u>11,616</u>	-
Total non current assets		<u>11,688</u>	<u>256</u>
<b>TOTAL ASSETS</b>		<b><u>14,010</u></b>	<b><u>3,108</u></b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>			
<b>Current liabilities:</b>			
Accounts payables and accrued liabilities		<u>4,546</u>	<u>1,386</u>
Total current liabilities		<u>4,546</u>	<u>1,386</u>
<b>Non-current liabilities:</b>			
Long-term debt	4.2	<u>-</u>	<u>7,239</u>
Total liabilities		<u>4,546</u>	<u>8,625</u>
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	4.3	21,158	8
Accumulated deficit	8	<u>(11,694)</u>	<u>(5,525)</u>
Total shareholders' funds (deficit)		<u>9,464</u>	<u>(5,517)</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b><u>14,010</u></b>	<b><u>3,108</u></b>

**4.1 Intangible Assets**

	<b>31 December 2004 NZ\$'000</b>	<b>31 December 2003 NZ\$'000</b>
<b>Intellectual property acquired:</b>		
<b>Cost:</b>		
Patent rights	12,446	-
<b>Less accumulated amortisation:</b>		
Patent rights	(830)	-
<b>Intangible assets, net book value</b>	<b>11,616</b>	<b>-</b>

**4.2 Long-term Debt**

	<b>31 December 2004 NZ\$'000</b>	<b>31 December 2003 NZ\$'000</b>
Series A preference shares issued	-	1,667
Series B preference shares issued	-	4,649
Accrued Series A and B preference share dividend	-	923
	<b>-</b>	<b>7,239</b>

**4.3 Share Capital**

	<b>31 December 2004 000's</b>	<b>31 December 2003 000's</b>
<b>Issued share capital</b>		
<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 during the year	2,332	-
	24,528	840
Shares issued pursuant to a share split on a 1: 2.548153 basis	37,972	-
<b>Ordinary shares issued as at end of year</b>	<b>62,500</b>	<b>840</b>

	<b>31 December 2004 NZ\$'000</b>	<b>31 December 2003 NZ\$'000</b>
<b>Issued share capital</b>		
<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 during the year	2,332	-
	21,158	8
<b>Total issued share capital</b>	<b>21,158</b>	<b>8</b>

**Appendix 4E**  
**Preliminary final report**  
**Financial year ended 31 December 2004**

**5. Statement of Cash Flows**

	Notes	12 months to 31 December 2004 NZ\$'000	12 months to 31 December 2003 NZ\$'000
<b>Cash flows to operating activities:</b>			
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)
<b>Net cash used in operating activities</b>		<b>(3,985)</b>	<b>(2,597)</b>
<b>Cash flows from investing activities:</b>			
Investment in a convertible note in NeuronZ Limited		-	(400)
Cash acquired on acquisition of the business of NeuronZ Limited	5.1	116	-
Proceeds from disposal of property, plant & equipment		543	-
Purchase of plant and equipment		(20)	(143)
<b>Net cash used in investing activities</b>		<b>639</b>	<b>(543)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from ordinary share issue		2,332	-
<b>Cash provided from financing activities</b>		<b>2,332</b>	<b>-</b>
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
<b>Cash at end of the year</b>		<b>343</b>	<b>1,400</b>
<b>Reconciliation with net deficit:</b>			
Net deficit		(6,169)	(3,872)
Non-cash items requiring adjustment:			
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 & equipment		(99)	-
<b>Net cash used in operating activities</b>		<b>(3,985)</b>	<b>(2,597)</b>

**5.1 Acquisition of Business**

Neuren Pharmaceuticals Limited acquired the following balances through the acquisition of the business of NeuronZ Limited as at 1 January 2004:

<b>Net assets acquired:</b>	<b>12 months to 31 December 2004 NZ\$'000</b>
Cash	116
Accounts receivable	16
Other current assets	39
Property, plant and equipment	525
Intellectual property	12,445
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 2004.

**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.

The dividend on preference shares within the presented results is an accrual for cumulative dividend entitlements in accordance with the terms of the preference shares. The preference shares converted to ordinary shares on a one for one basis on 2 April 2004.

**7. Dividend or Distribution Reinvestment Plan**

Not applicable.

**Appendix 4E**  
**Preliminary final report**  
**Financial year ended 31 December 2004**

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**8. Statement of Retained Earnings**

	<b>12 months to 31 December 2004 NZ\$'000</b>	<b>12 months to 31 December 2003 NZ\$'000</b>
Net deficit for the year being total recognised revenues and expenses	(6,169)	(3,872)
Retained earnings at the beginning of the year	(5,525)	(1,653)
Retained earnings at the end of the year	<u>(11,694)</u>	<u>(5,525)</u>

**9. Net Tangible Assets per Security**

	<b>31 December 2004 NZ\$</b>	<b>31 December 2003 NZ\$</b>
Net tangible assets per security	<u>(\$0.03)</u>	<u>(\$2.58)</u>

**10. Control Over Entities**

<b>Name of entity</b>	<b>Date of control</b>	<b>Principal activities</b>	<b>Interest held</b>	<b>Domicile</b>
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.

**11. Associates and Joint Venture Entities**

Not applicable.

**12. Significant Information**

The Company successfully completed the Initial Public Offering of 37,500,000 ordinary shares at A\$0.40 each raising A\$15,000,000 in January 2005 and was admitted to the official listing of the ASX on 3 February 2005. Consequently, the net funds raised are not included in the results presented for the financial year to 31 December 2004.

**13. Accounting Standards**

The financial statements of the Company are prepared in conformity with generally accepted accounting practice and accounting standards in New Zealand.

**14. Commentary on the Results**

As detailed in note 5.1 above, 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. The intellectual property acquired through this acquisition provides a platform of compounds for future development and licensing opportunities.

As stated in the Company's Prospectus, the Company intends entering Phase II trials with Glypromate® by Q3 2005 and commencing a Phase I trial with NNZ-2566 by the end of 2005. Total revenue in excess of NZ\$2.2 million for the full year of 2004 has been achieved.

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

**15. Audit Status**

This report is based upon financial statements for the year ended 31 December 2004 which are in the process of being audited. The results for the year ended 31 December 2003 as presented in the report have been audited.

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