Company Registration No. 5510905

# NEUROPHARM LIMITED

## Report and Financial Statements

## Year ended 30 June 2007

# NEUROPHARM LIMITED

# REPORT AND FINANCIAL STATEMENTS 2007

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# NEUROPHARM LIMITED

## OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS

| | |
|---|---|
| Robert George Mansfield | *(Chief Executive Officer)* |
| Graham Edward Yeatman | *(Chief Financial Officer)* |
| Dr Michael Frederick Snape | *(Chief Scientific Officer)* |

### SECRETARY

Graham Edward Yeatman

### REGISTERED OFFICE

Beechey House
87 Church Street
Crowthorne
Berkshire RG45 7AW

The Company's registered number is 5510905

### SOLICITORS

McGrigors LLP
Princes Exchange
1 Earl Grey Street
Edinburgh EH3 9AQ

### AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cambridge

# NEUROPHARM LIMITED

# DIRECTORS' REPORT

The Directors present their report and audited financial statements for Neuropharm Limited (the "Company") for the year ended 30 June 2007

## PRINCIPAL ACTIVITIES

Neuropharm Limited is a speciality pharmaceutical company focused on the discovery, development and commercialisation of products for the treatment and management of developmental and degenerative disorders of the central nervous system ("CNS")

On 5 February 2007, Neuropharm Group plc acquired the entire share capital of Neuropharm Limited by way of a share for share exchange, in terms of which the shareholders in Neuropharm Limited became shareholders in Neuropharm Group plc and Neuropharm Limited became a wholly owned subsidiary of Neuropharm Group plc

Shares in Neuropharm Group plc were admitted to trading on AIM on 6 March 2007 following a split placing of 15,748,032 ordinary shares of £0 10 each at 127p per share which raised £20 million before costs

## OPERATIONS

Neuropharm Limited operates from its offices in Leatherhead, UK, where the Executive Directors, management and employees of the Company are presently based As at 30 June 2007, the Company had 6 (2006 2) employees Neuropharm Limited is the principal operating company of the Neuropharm group Funding and support is provided by the parent company Neuropharm Group plc

## ENHANCED BUSINESS REVIEW

The Company is required by the Companies Act to set out in this Directors' report a fair review of the business of the Company during the financial year ended 30 June 2007 and a description of the principal risks and uncertainties facing the Company (known as an "Enhanced Business Review") The Business Review is required to set out a balanced and comprehensive analysis of the development and performance of the Company's business during the financial year ended 30 June 2007 and of the position of the Company at the end of that financial year

The Company has continued to pursue its objective of building a profitable business through developing and commercialising effective therapies for the treatment and management of CNS disorders The Company's development portfolio seeks to address medical conditions that are clinically and economically challenging in groups of vulnerable patients The Company's primary focus is on the revenue opportunities for its programmes in the US market, which continues to be the world's largest market for healthcare products

## STRATEGY AND COMMERCIAL ENVIRONMENT

Neuropharm's strategy is to identify projects and opportunities and to develop a portfolio of drug candidates with competitive product profiles and the potential to produce attractive commercial returns The Company aims to progress products through the development process and to market its products in the US market In other territories outside the US, the current strategy is to seek out pharmaceutical partners with the capability of launching these products in the local markets

Neuropharm aims to identify the key elements of development risk in a project in advance and to carry out studies to produce data to support regulatory submissions The Directors believe that Neuropharm is generating a strong and diversified pipeline of commercially significant and distinctive product opportunities, with attractive safety data and development risk profiles, with potential investment returns that meet the standards and requirements of the global pharmaceutical industry

Neuropharm's strategy has been to create or license-in appropriate patents, technologies and know-how where necessary and to further develop potential products on a proprietary basis Where appropriate, Neuropharm has subsequently acquired access to relevant intellectual property

## STRATEGY AND COMMERCIAL ENVIRONMENT (continued)

Neuropharm's strategy has been to operate through advisers and service providers under the careful direction of its management Neuropharm has a network of scientific, technical and medical advisors who provide input and advice for Neuropharm's individual programmes and its overall strategy This approach avoids the costs of building, resourcing and staffing laboratories and manufacturing plants Neuropharm has been able to focus investment of its funds on generating the data for its development programmes and has managed to avoid the requirement for significant capital expenditure

## KEY RELATIONSHIPS

### *Autism Speaks*

Neuropharm has a collaboration agreement with the influential US patient organisation Autism Speaks for the SOFIA multi-centre trial of NPL-2008 The agreement gives Neuropharm access to Autism Speaks' Clinical Trials Network of specialist paediatric centres and key opinion leaders, and will expedite the enrolment of patients into the SOFIA trial Neuropharm is funding the trial and, under the terms of the agreement, will fully reimburse Autism Speaks for its services

To learn more about Autism Speaks, please visit www autismspeaks org

### *The FRAXA Research Foundation ("FRAXA")*

Neuropharm has a collaboration agreement with FRAXA, the US not-for-profit organisation for patients with Fragile X Syndrome The agreement gives Neuropharm access to FRAXA's intellectual property rights, data and knowledge relating to the use of NPL-2009 to treat Fragile X Syndrome FRAXA worked with Neuropharm during the year in its successful application for US Orphan Drug Designation for NPL-2009

To learn more about FRAXA, please visit www fraxa org

### *Catalent Pharma Solution, formerly known as Cardinal Health Pharmaceutical Technologies ("Catalent")*

Catalent is the co-development and manufacturing partner for the 'Zydis®' formulation of fluoxetine (NPL-2008) designed specifically for autistic patients Neuropharm has an exclusive development and licence agreement with Catalent for collaboration in respect of the development, license, manufacture and supply to Neuropharm of the 'Zydis®' formulation of fluoxetine

### *Mount Sinai School of Medicine*

Mount Sinai School of Medicine, New York, is a shareholder in the Company and is the original sponsor of the US Orphan Drug Designation for fluoxetine in the treatment of autism Neuropharm exercised its option during the year to purchase these key rights under programme NPL-2008 (note 10)

### *CASE Western Reserve University*

CASE Western Reserve University is a shareholder in the Company and has granted Neuropharm an exclusive licence to use the patented neuronal cell model in Alzheimer's drug screening programmes NPL-2007 and NPL-2010

## RISKS AND UNCERTAINTIES

Neuropharm faces a number of risks and uncertainties that are common to companies involved in pharmaceutical development

**General**

The legislative, regulatory and market environments are outside Neuropharm's control and may render some or all of its information invalid or incomplete or its products obsolete

**Commercial**

The Company's future prospects are dependent, to a large extent, on the successful commercialisation of NPL-2008 The other pipeline projects are at an earlier stage of development

Neuropharm may not achieve commercial success of an approved product owing to factors such as its clinical performance, restriction of approved indication, competitive environment and the emergence of treatments offering an advantage over Neuropharm's products, Neuropharm's ability to conclude effective licensing or distribution deals, performance of the licensee or distributor, pricing and reimbursement

Reimbursement agencies may not agree to cover the cost of an approved product Delays in reimbursement or its denial will limit adoption of the product in the market

**Regulation by the FDA and other health authorities**

Regulatory approval will be required in respect of all territories within which the Company intends to market any products it is able to develop

NPL-2008 in autism

*FDA approval*

The Company has received guidance from the FDA concerning its lead programme, NPL-2008, which has led to the Directors determining that the Company should be able to complete its planned schedule of work on reformulation and bio-equivalence studies and submit an NDA in respect of NPL-2008 to the FDA during the fourth quarter of 2008 In a "Guidance Meeting" with the FDA, the FDA indicated that the post-marketing surveillance data for fluoxetine and previous marketing submissions may be sufficient to support the non clinical NDA requirements and that the Phase IIb and Phase III studies acquired from Mount Sinai School of Medicine by Neuropharm Limited may be sufficient to support the safety profile and efficacy claims of fluoxetine in Autism However, this was qualified by the statement that the adequacy of the data will only be determined at the time of the filing of the NDA Accordingly, the FDA may determine that the data is insufficient to support claims of safety and efficacy and the marketing approval for NPL-2008 may be rejected

The Company's present NPL-2008 development plan assumes that NPL-2008 is bio-equivalent to existing formulations of fluoxetine, that the fluoxetine API is stable in a Zydis® form and that no API excipient interactions occur in the final product If these assumptions are incorrect costs may increase or delays may occur

The FDA may also determine that the existing data would need to be supplemented with further clinical trials which would involve additional costs and may lead to delays in the planned filing for the marketing application

*Regulatory process in the EU*

EU regulatory approval will be required for the sale of NPL-2008 to countries in the EU The Company intends to pursue an EU regulatory approval after submitting an NDA application in the US, accepting that additional studies may be required to be undertaken for an EU application Any rejection or delay or restriction of EU approval would prevent or affect the planned marketing of NPL-2008 in the EU thereby adversely affecting the Company's ability to generate revenues from European markets

**RISKS AND UNCERTAINTIES (continued)**

**Regulation by the FDA and other health authorities (continued)**

*Other approvals*

Some countries may require supplementary regulatory approvals or clearances, especially in order to secure reimbursement under national health schemes This may delay the marketing of NPL-2008 or, when approval cannot be obtained, mean that the product cannot be sold at all The Company cannot ensure that it will be able to obtain or maintain approvals or clearances in the future

After product approval in the US, EU or any other territory, safety or efficacy issues may emerge during post-marketing surveillance, which may result in withdrawal or restriction of the product licence

**Clinical**

Failure may occur at any stage during the clinical development or post marketing of a drug candidate, due to safety or clinical efficacy issues

The Company's clinical development programmes may encounter delays due to the performance of contract research organisations or other third parties, obtaining the required regulatory and ethical approvals, patient recruitment, preparation of product supplies for trials or the requirement for additional preclinical or clinical testing

There can be no assurance that the Company's development programmes (which are at an earlier stage of development than NPL-2008 and accordingly subject to greater risks) and clinical trials will successfully be completed or that regulatory approvals (including any requisite FDA and/or EMEA approvals) to manufacture and market any products it may develop (including products developed in connection with the Company's current programmes) will ultimately be obtained In the event that clinical trials encounter obstacles, costs of trials may increase and delays may occur

The progression of a planned development programme contains dependent steps that may not continue should a trial not succeed or fail to meet expected requirements In that instance, or in the circumstance that the regulatory environment changes, the development programme may be terminated, or further work may be required, increasing costs and causing delays The withdrawal of Orphan Drug Designation in relation to NPL-2008 or NPL-2009, or any future products developed by the Company which have been granted a Orphan Drug Designation, could materially affect the Company's prospects

**Manufacturing**

Contract manufacturers and suppliers used by Neuropharm could cease supply at short notice, resulting in delays in product development and increased costs

Manufacturing development programmes may also encounter delays due to technical problems, for instance in scaling-up manufacturing processes so that commercial quantities of products can be made

Third-party manufacturers are subject to regulatory requirements and inspections, which may impact on the Company's development and commercialisation of its products

The Company's lead product, NPL-2008, relies upon technology and processes exclusively controlled by Catalent Any failure by Catalent to meet its contractual obligations could have a material adverse effect on the Company's ability to commercialise NPL-2008 Catalent operates certain specialised equipment which, if such equipment were to break down or malfunction, it would be difficult to replace and could require substantial replacement lead-time

## DIRECTORS' REPORT (continued)

### RISKS AND UNCERTAINTIES (continued)

**Claims by third parties that the Company's products infringe their intellectual property rights**

Third parties may claim that the Company's products (once developed) and systems infringe their patents and other intellectual property rights If a competitor were to challenge the Company's patents or patent licences, or assert that the Company's potential products infringe the competitor's patent or other intellectual property rights, the Company could incur substantial litigation costs The Company may also be forced to make expensive changes to its product designs and license rights in order to manufacture and sell its products, or pay substantial damages

Third-party infringement claims, regardless of their outcome, would not only affect the Company's financial resources, but also divert the time and effort of its management and could result in customers or potential customers deferring or limiting their purchase or use of the affected products until resolution of the litigation

There can be no guarantee that the Company's current and future patent applications will be granted or that existing patents will not be challenged or revoked

In the event of any infringement or potential infringement of intellectual property owned by a third party, there can be no guarantee that Neuropharm would be able to obtain an appropriate licence to such intellectual property or otherwise suitably alter its activities

There can be no assurance that competitors have not developed or will not develop substantially equivalent technologies, design around the Company's patents or develop unique competing technologies or products

**Future funding**

The Company's working capital requirements depend on numerous factors, including its ability to develop products, fund the costs of clinical validation and regulatory approval and establish a commercial organisation to realise the value of these efforts through sales and marketing of commercial products It is, therefore, difficult for the Directors to predict accurately the quantum and timing of the Company's future working capital requirements

While the Company intends to continue to invest in its programmes, at the same time as seeking to license rights to certain of the resulting technology assets to co-development partners as an additional income stream, there can be no guarantee that any co-development partners will be found on terms acceptable to the Company or at all

The Company may require access to additional funding in the future If it fails to obtain such funding, the Company may need to delay or scale back the development and commercialisation of some of its products or research and development programmes Funding is arranged on a group basis primarily through the parent company Neuropharm Group plc The Company receives the required funding to support continued operations from its parent

**Currency risk**

The Company presents its financial information in pounds sterling but expects to conduct the majority of its business in US Dollars As a result, it will be subject to foreign currency exchange risk due to exchange movements which will affect the Company's transaction costs and the translation of its results The Company may, where the Directors consider it appropriate, through use of hedging and/or other financial products, seek to minimise such risks

**Dependence on key personnel**

In common with many smaller companies, the Company's business is dependent on retaining the services of a number of key personnel who have extensive experience with its programmes, development efforts, the development of relevant marketing and sales strategies and programmes and its relationships with key programme partners, including both suppliers and customers The expertise of Dr Mike Snape, Chief Scientific Officer of the Company and Robert Mansfield, Chief Executive Officer of the Company are critical to the Company's operations The Company has Keyman Insurance Policies on both their lives for £250,000

## KEY PERFORMANCE INDICATORS ("KPIs")

The principal KPIs of the business are the progress of the portfolio through clinical development, securing the required financing and accessing appropriate technical and other resources While these KPIs demonstrate relevant factors by reference to which the development, performance and position of the Company's business can be measured effectively, it is in the nature of Neuropharm's business, and the biopharmaceutical industry in general, that these KPIs are not readily or meaningfully comparable year on year as simple metrics

As described in the "Risks and uncertainties" section of this report on page 4, delays can be experienced on progress through clinical development due to factors beyond the control of the Company Consequently, it is not appropriate to set precise targets for the timings of future stages in clinical development

Neuropharm's KPIs are as follows

***NPL-2008: Autism (US)***

2005-06

- Professor Hollander from Mount Sinai School of Medicine published results of the Phase IIb clinical trial demonstrating the safety and efficacy of the use of fluoxetine in autistic children
- Professor Hollander became a consultant to and option holder in Neuropharm
- Neuropharm agreed Heads of Terms with Catalent to fund approximately $4 million costs for exclusive development of Zydis® rapid-melt version of fluoxetine for autism
- Neuropharm signed an agreement with Mount Sinai School of Medicine, to acquire an exclusive option on rights to the data and the US Orphan Drug Designation ("ODD") for fluoxetine in autism

2006-07

- Neuropharm exercised the option and completes an agreement with Mount Sinai School of Medicine to acquire the fluoxetine IND, the fluoxetine ODD and the fluoxetine FDA Data
- Neuropharm Limited entered into a worldwide development and licence agreement with Catalent for the development of an orally disintegrating tablet formulation of fluoxetine using Catalent's Zydis® Technology,
- Neuropharm entered into a collaboration with Autism Speaks to access their Clinical Trials Network in order to conduct SOFIA, the Study of Fluoxetine in Autism SOFIA will enable Key Opinion Leaders to gain experience in autistic children of fluoxetine at low doses and dose titration using the Zydis® formulation

Looking ahead - 2007-08

- Manufacture of registration batches for fluoxetine in Zydis® ahead of stability studies for NDA submission
- Bio-equivalence study of fluoxetine Zydis®
- Carrying through the SOFIA study at key centres of excellence in the US

***NPL-2008: Autism (Europe)***

2006-07

- Scientific advice received from EMEA on required steps to submission in EU

Looking ahead - 2007-08

- Filing Paediatric Investigational Plan (PIP) to EMEA Paediatric Committee (PDCO)

***NPL-2005: Fragile X Syndrome***

2006-07

- Collaboration agreement with FRAXA signed
- US Office of Orphan Product Development granted Neuropharm Orphan Drug Designation for NPL-2009
- Collaboration agreement for Right of Reference signed
- Successful pre-IND meeting with FDA

Looking ahead - 2007-08

- Initiation of open label Phase II clinical trial

## KEY PERFORMANCE INDICATORS ("KPIs") (continued)

***NPL-2009: Fragile X Syndrome***

2006-07

- Open label Phase II trial commenced in Southern Europe

Looking ahead - 2007-08

- Readout of first trial

***NPL-2003: Paediatric Obsessive Compulsive Disorder***

2006-07

- Open label Phase II trial initiated at two US centres

Looking ahead - 2007-08

- Readout of trial

***Financial***

2005-06

- Raised £700,000 from initial investors

2006-07

- Raised £450,000 as convertible loan notes from initial investors and the new Chairman
- Acquired by Neuropharm Group plc on 5 February 2007, by way of a share for share exchange
- Neuropharm Group plc raised £20 0 million (gross), £18 4 million (net), from placing and admission to AIM in March 2007

The Board is aware that users of the Annual Report and Accounts are interested in the cash position of the Company However, Neuropharm Limited is not managed primarily using these measures and the Board does not consider them in isolation to be indicators of the performance of the Company The Board, therefore, considers it inappropriate to set specific future targets for these measures

| | 30 June 2007 £'000 | 30 June 2006 £'000 |
|---|---|---|
| Money market investments | 1,005 | - |
| Cash and cash equivalents | 2,024 | 469 |
| Total | 3,029 | 469 |
| Amounts owed to Neuropharm Group plc | 4,646 | - |

## DIVIDENDS

No interim dividend was declared during the year and the Directors do not recommend payment of a final dividend in respect of the year (2006 £nil)

## SUPPLIER PAYMENT POLICY

It is the Company's policy to agree payment terms with suppliers at the start of business relationships and to abide by those terms

The average credit period taken from trade purchases of the Company is 30 days for both periods

## CHARITABLE AND POLITICAL CONTRIBUTIONS

A donation of £250 was made to a Fragile X Syndrome not for profit organisation during the year (2006 £nil)

## DIRECTORS' REPORT (continued)

### DIRECTORS

The Directors who held office during the year and their interests in the shares of the Company were as follows

| | | 30 June 2007 [1] Number | 1 July 2006 or subsequent date of appointment Number |
|---|---|---|---|
| **Executive Directors** | | | |
| Robert Mansfield | (appointed 12 September 2006) | - | 5 |
| Dr Mike Snape | | - | 175 |
| Graham Yeatman | (appointed 12 September 2006) | - | 5 |
| **Non-Executive Directors** | | | |
| Dr Mike Hudson [2] | (resigned 28 February 2007) | - | 175 |

[1] On 5 February 2007, Neuropharm Group plc acquired the entire share capital of Neuropharm Limited by way of a share for share exchange, in terms of which the shareholders in Neuropharm Limited became shareholders in Neuropharm Group plc and Neuropharm Limited became a wholly owned subsidiary of Neuropharm Group plc.

[2] Dr Mike Hudson resigned as a Director of Neuropharm Limited on 28 February 2007, when he became a non-independent Non-Executive Director of Neuropharm Group plc

The Executive Directors of the Company are also Directors of Neuropharm Inc

### DIRECTORS' INTERESTS

Other than noted below regarding Dr Mike Hudson, none of the Directors had a material interest at any time during the year in any contract of significance with the Company other than a service contract

Dr Mike Hudson is a director of and significant shareholder in Sultan Scientific Limited On 27 February 2007, Neuropharm Limited entered into a consultancy agreement with Sultan Scientific Limited for the provision of consultancy services to the Company During the period from 1 March 2007 to 30 June 2007, a total amount of £27,921 was payable to Sultan Scientific Limited in respect of consultancy services provided

### DISABLED EMPLOYEES

Applications for employment by disabled persons are fully considered, bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees

### EMPLOYEE CONSULTATION

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company This is achieved through formal and informal meetings, together with the annual report and financial statements Employees are consulted regularly on a wide range of matters affecting their current and future interests

## CORPORATE SOCIAL RESPONSIBILITY ("CSR")

Neuropharm is a specialty pharmaceutical group and as at 30 June 2007 had 6 employees Neuropharm aims to conduct its business in a socially responsible manner

In all of Neuropharm's activities, it aims to be commercial and fair, to maintain its integrity and professionalism and to respect the needs of its investors, employees, the patients whose needs it seeks to address, suppliers and the local community

Neuropharm has adopted core principles, commensurate with the size of the organisation, for its business operations These principles, set out below, provide a framework for both managing risk and maintaining Neuropharm's position as a socially responsible organisation

***Research and development***

Neuropharm is a specialty pharmaceutical group focused on the discovery, development and commercialisation of products for the treatment and management of developmental and degenerative disorders of the central nervous system (CNS)

Neuropharm is committed to compliance by it and its suppliers, with government, pharmaceutical industry and regulatory standards, and with applicable codes of best practice The principal agencies overseeing the development programmes of Neuropharm are the FDA, the Medicines and Healthcare products Regulatory Agency ("MHRA") and the European Medicines Association ("EMEA") In clinical development, Neuropharm adheres to Good Clinical Practice Guidelines as defined by the ICH, and the Declaration of Helsinki All clinical trials progressed by Neuropharm are subject to independent Ethical Review Where recognised patient advocacy groups exist, Neuropharm will work through or with such groups and their internal review of standards prior to initiation of studies in patients

***Employees***

Neuropharm is committed to a policy of equal opportunities in the recruitment and engagement of staff as well as during the course of their employment

Neuropharm recognises that commercial success depends on the full commitment of all its employees and commits to respecting their human rights, to provide them with a good working environment, free from unnecessary risk, and to maintain fair and competitive terms and conditions of service at all times

***Health and Safety***

Neuropharm recognises that the promotion of health and safety in the workplace is an essential function of staff and management at all levels and an integral part of its business performance

Neuropharm imposes high standards on all its employees and endeavours to ensure that the health, safety and welfare of its employees, visitors, business partners and the general public are not compromised Neuropharm seeks to work with contractors that operate to similar high standards

***Social and community issues***

Neuropharm is a member of the Bio-Industry Association ("BIA")

Neuropharm has sponsored a number of conferences and events during 2006-07 held by various of its collaborators from not for profit organisations and academic institutions/ hospitals

***Environment***

Neuropharm's operations are primarily conducted through collaborations with, and/ or outsourcing to, external contractors and its products are manufactured for use only in regulated clinical trials carried out by third parties As a result, Neuropharm has little direct impact on the environment Nevertheless, Neuropharm is committed to awareness of environmental issues that affect its business and its suppliers, and to compliance with government, pharmaceutical industry and regulatory standards and with applicable codes of best practice e g Good Clinical Practice ("GCP") or Good Manufacturing Practice ("GMP") by it and its suppliers Where relevant, adherence to such standards and codes is a contractual requirement of Neuropharm's suppliers

# NEUROPHARM LIMITED

## DIRECTORS' REPORT (continued)

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union The financial statements are also required by law to be properly prepared in accordance with the IFRS as adopted by the European Union and the Companies Act 1985

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements' In virtually all circumstances a fair presentation will be achieved by compliance with all applicable IFRS However, Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosure when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's web site Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

### AUDITORS

In the case of each of the persons who are Directors of the Company at the date when this report is approved

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

By order of the Board

**Graham E Yeatman**

Company Secretary

7 December 2007

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEUROPHARM LIMITED

We have audited the financial statements of Neuropharm Limited for the year ended 30 June 2007 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 28 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the company's affairs as at 30 June 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEUROPHARM LIMITED (continued)

**Separate opinion in relation to IFRS**

As explained in Note 2 to the financial statements, the company in addition to complying with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board

In our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Company's affairs as at 30 June 2007 and of its loss for the year then ended

Deloitte & Touche LLP

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors
Cambridge, United Kingdom

14 December 2007

## NEUROPHARM LIMITED

## INCOME STATEMENT
## Year ended 30 June 2007

| | Note | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|---|
| Research and development expenses | | (1,299) | - |
| Management and administration | | (1,566) | (277) |
| Provision for National Insurance on share option gains | 18 | (101) | - |
| Share option expense | 23 | (223) | (43) |
| Other share based payments | 24 | (1) | (43) |
| Total management and administration expenses | | (1,891) | (363) |
| **Operating loss** | | (3,190) | (363) |
| Investment income | 5 | 63 | - |
| **Loss on ordinary activities before tax** | 6 | (3,127) | (363) |
| Tax | 8 | - | - |
| **Loss for the period** | | (3,127) | (363) |
| **Loss per share** | | | |
| Basic and diluted | 9 | £(4,448) | £(1,745) |

All results derive from continuing operations

## NEUROPHARM LIMITED

## STATEMENT OF CHANGES IN EQUITY
## 30 June 2007

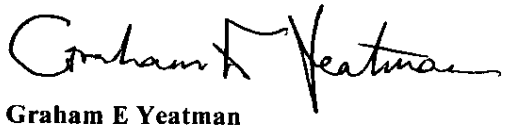
| | Called up share capital £'000 | Share premium account £'000 | Share-based compensation £'000 | Retained loss £'000 | Total £'000 |
|---|---|---|---|---|---|
| Share option expense | - | - | 43 | - | 43 |
| Other share based payments | - | - | - | 43 | 43 |
| Loss for the year | - | - | - | (363) | (363) |
| Issue of share capital | 1 | 700 | - | - | 701 |
| **Balance as at 30 June 2006** | 1 | 700 | 43 | (320) | 424 |
| Share option expense | - | - | 223 | - | 223 |
| Other share based payments | - | 1 | - | - | 1 |
| Inter-company transfer of share-based compensation | - | - | (266) | - | (266) |
| Reserve transfer | - | 43 | - | (43) | - |
| Loss for the year | - | - | - | (3,127) | (3,127) |
| Issue of share capital | - | 106 | - | - | 106 |
| **Balance as at 30 June 2007** | 1 | 850 | - | (3,490) | (2,639) |

## NEUROPHARM LIMITED

## BALANCE SHEET
## 30 June 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 10 | 47 | - |
| Property, plant and equipment | 11 | 12 | - |
| | | 59 | - |
| **Current assets** | | | |
| Trade and other receivables | 13 | 289 | 101 |
| Money market investments | 13 | 1,005 | - |
| Cash and cash equivalents | 13 | 2,024 | 469 |
| | | 3,318 | 570 |
| **Current liabilities** | | | |
| Derivative financial instruments | 15 | (22) | - |
| Trade and other payables | 17 | (5,893) | (146) |
| | | (5,915) | (146) |
| **Net current (liabilities) / assets** | | (2,597) | 424 |
| **Total assets less current liabilities** | | (2,538) | 424 |
| **Non-current liabilities** | | | |
| Long-term provisions | 18 | (101) | - |
| **Net (liabilities) / assets** | | (2,639) | 424 |
| **Equity** | | | |
| Share capital | 19 | 1 | 1 |
| Share premium account | 20 | 850 | 700 |
| Retained loss | 21 | (3,490) | (320) |
| Share-based compensation | 23 | - | 43 |
| **Total equity** | | (2,639) | 424 |

The financial statements were approved by the Board of Directors and authorised for issue on 7 December 2007 They were signed on its behalf by



**Graham E Yeatman**

Chief Financial Officer

7 December 2007

## NEUROPHARM LIMITED

## CASH FLOW STATEMENT
## Year ended 30 June 2007

| | Note | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|---|
| **Net cash from / (used in) operating activities** | 22 | 2,006 | (232) |
| **Investing activities** | | | |
| Interest received | | 63 | - |
| Purchases of money market investments | | (1,005) | - |
| Purchases of property, plant and equipment | | (15) | - |
| **Net cash used in investing activities** | | (957) | - |
| **Financing activities** | | | |
| Proceeds on issue of convertible loan notes | | 450 | - |
| Proceeds on issue of shares | | 56 | 701 |
| **Net cash from financing activities** | | 506 | 701 |
| **Net increase in cash and cash equivalents** | | 1,555 | 469 |
| **Cash and cash equivalents at beginning of year** | | 469 | - |
| **Cash and cash equivalents at end of year** | | 2,024 | 469 |
| **Non-cash transactions:** | | | |
| Inter-company transfer of share-based compensation | | 266 | - |
| Purchase of intangible assets in a share issue | | 50 | - |
| Inter-company transfer of loan notes | | 450 | - |

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 30 June 2007

## 1. GENERAL INFORMATION

Neuropharm Limited is a company incorporated in the United Kingdom under the Companies Act 1985 The address of the registered office is Beechey House, 87 Church Street, Crowthorne, Berkshire RG45 7AW The principal activity of Neuropharm Limited is the discovery, development and commercialisation of products for the treatment and management of developmental and degenerative disorders of the central nervous system ("CNS") On 5 February 2007, Neuropharm Limited was acquired by Neuropharm Group plc by way of a share for share exchange

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

IFRS 7 Financial instruments disclosures, and the related amendment to IAS 1 on capital disclosures
IFRS 8 Operating segments
IFRIC 9 Reassessment of embedded derivatives
IFRIC 10 Interim reporting and impairments
IFRIC 12 Service concession arrangements
IFRIC 13 Customer loyalty programmes

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company, except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the Company's financial statements comply with Article 4 of the EU IAS Regulation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments The principal accounting policies adopted are set out below

The financial statements of subsidiary companies have not been consolidated with those of the Company as it is exempt from preparing group accounts under Section 228 of the Companies Act 1985 as the Company is a wholly owned subsidiary of a company incorporated in the United Kingdom Accordingly, these financial statements present information about the Company as an individual undertaking and not about its group

**Foreign currencies**

In preparing the financial statements of the company, transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity

In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts and options (see below for details of the Company's accounting policies in respect of such derivative financial instruments)

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Operating loss**

Operating loss is stated before investment income

**Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due

**Taxation**

The tax charge or credit represents the sum of the current tax and deferred tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is accounted for using the balance sheet liability method in respect of temporary timing differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised Their carrying amount is reviewed at each balance sheet date on the same basis

Deferred tax is measured on an undiscounted basis and at the tax rates that are expected to apply in the period in which the asset or liability is settled It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity

**Fixtures and equipment**

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method over three years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income

**Research and development expenditure and intangible assets**

Research costs are expensed as incurred

Internal development costs are not capitalised until, inter alia, commercial viability of a project is demonstrable and appropriate resource is in place to launch the product Except in those circumstances and where the criteria of IAS 38 "Intangible Assets" are met, expenditure is charged against profits in the year in which the expenditure is incurred

Intangible assets acquired separately are measured on initial recognition at cost except where the expenditure meets the definition of research in accordance with IAS 38 Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses

Intangible assets with a finite useful life are amortised over their useful economic lives The intangible assets' residual value, useful lives and methods of valuation are reviewed and adjusted if appropriate at each financial year end

Intangible assets are reviewed for impairment both annually and when there is an indication that an asset may be impaired when events or changes in circumstances indicate that carrying value may not be recoverable The recoverable amount of the asset is calculated, this being the higher of the asset's fair value less costs to sell and its value in use Where the carrying amount exceeds the recoverable amount, it is considered impaired and is written down to its recoverable amount

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments**

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument

***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

***Financial liabilities and equity***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities

***Trade payables***

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method

**Share-based payments**

The Company has applied the requirements of IFRS 2 Share-based Payments

The Company issues equity-settled share-based payments to certain employees Equity-settled share-based payments are measured at fair value at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions

Other share based payments are measured at fair value, expensed or capitalised in accordance with the accounting policies described above with a corresponding credit recognized within the income statement

Fair value is measured by use of the Black Scholes model

### 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

**Critical judgements in applying the Company's accounting policies**

In the process of applying the Company's accounting policies, which are described in note 2, the Directors and senior management have made certain judgements that have a significant effect on the amounts recognised in the financial statements as described below

**Key sources of estimation uncertainty**

Management make estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below

1. **Share-based compensation**

   In order to calculate the charge for share-based compensation as required by IFRS 2, management make estimates principally relating to the assumptions used in its option-pricing model as set out in Note 23 In addition a provision has been recognised based on management's estimates of the employer's National Insurance contribution to be paid upon future exercise of options, as set out in Note 18

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

**ii. Research and development expenditure**

In accordance with the research and development expenditure policy, management make judgements in determining the accrual/ prepayment of research and development expenditure, based on the level and type of spend, the cost drivers and management's estimate of the timing of when work is performed and/ or value is delivered

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Directors consider there to be one business segment for reporting purposes as the Company conducts one business activity and operates from one location, where all net assets are located, in the United Kingdom The loss on ordinary activities before taxation derives from the Company's principal activity in the United Kingdom

### 5. INVESTMENT INCOME

| | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|
| Interest receivable on cash deposits and money market investments | 63 | - |

### 6. LOSS ON ORDINARY ACTIVITIES BEFORE TAX

Loss on ordinary activities before taxation is stated after charging

| | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|
| Staff costs (see note 7) | 1,077 | 152 |
| Depreciation of property, plant and equipment | 3 | - |
| Other share-based payments (note 23)[1] | 1 | 43 |
| Auditors' remuneration for audit services[2] | 20 | 10 |
| Auditors' remuneration for tax services[2] | 33 | - |

[1] The charge to the income statement in relation to share-based payments arises from the requirements of IFRS2 "Share-based Payment". As such it has been identified separately on the face of the Income Statement and added to management and administration expenses

[2] All auditors' remuneration for audit services and other services is payable to Deloitte & Touche LLP This is analysed below

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION (continued)

The analysis of auditors' remuneration is as follows

| | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | 20 | 10 |
| Total audit fees | 20 | 10 |
| Tax compliance services | 9 | - |
| Tax advisory services | 24 | - |
| Total non-audit fees | 33 | - |

### 7. STAFF COSTS

The average monthly number of employees (including Executive Directors) was

| | Year ended 30 June 2007 Number | Period from 18 July 2005 to 30 June 2006 Number |
|---|---|---|
| Management and administration | 5 | 2 |

| | £'000 | £'000 |
|---|---|---|
| Their aggregate remuneration comprised | | |
| Wages and salaries | 857 | 139 |
| Social security costs | 106 | 9 |
| Other pension costs (Note 25) | 110 | 4 |
| Other benefits | 4 | - |
| | 1,077 | 152 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 7. STAFF COSTS (continued)

Directors' remuneration

| | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|
| Emoluments | 743 | 70 |
| Company contributions to money purchase pension schemes | 106 | 4 |
| | 849 | 74 |

| | Number | Number |
|---|---|---|
| The number of Directors who | | |
| Are members of a money purchase pension scheme | 3 | 1 |

| | £'000 | £'000 |
|---|---|---|
| Remuneration of the highest paid Director | | |
| Emoluments | 254 | 70 |
| Company contributions to money purchase pension schemes | 63 | 4 |
| | 317 | 74 |
| Fees to third parties | 28 | 69 |

In recognition that Neuropharm Limited is the principal operating company of the Neuropharm group and that the Executive Directors' service agreements are provided for the benefit of Neuropharm Limited, Neuropharm Limited reimburses Neuropharm Group plc for all remuneration and benefits in respect of the Executive Directors save for £5,000 per annum for each Executive Director

The highest paid Director did not exercise any share options in the year

Fees to third parties are consultancy fees paid to Sultan Scientific Limited for the services of Dr M Hudson

### 8. TAX

| | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|
| Current tax | - | - |
| Deferred tax (note 16) | - | - |
| | - | - |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 8. TAX (continued)

The charge for the year can be reconciled to the profit per the income statement as follows

| | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|
| Loss on ordinary activities before tax | (3,127) | (363) |
| Tax credit on ordinary activities at UK corporate rate (30%) | (938) | (109) |
| Expenses not deductible for tax purposes | 7 | - |
| Share option expense | 67 | 13 |
| Group relief - not paid for | 33 | - |
| Losses carried forward | 831 | 96 |
| | - | - |

In March 2007 the UK government announced that they would introduce legislation that would reduce the corporation tax rate to 28% with effect from 1 April 2008 This legislation was substantively enacted in June 2007 Any future deferred tax balances would be stated at 28% of these amounts and the effective tax rate for any current tax charge for the year ended 30 June 2008 will be reduced accordingly

### 9. LOSS PER SHARE

Basic loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year

As at the year end there were outstanding options over 94 ordinary shares (2006 119 ordinary shares) in the Company

These options are in respect of shares in Neuropharm Limited but Neuropharm Group plc has the right to acquire such shares in exchange for shares in Neuropharm Group plc and in some instances the other party has the right to require Neuropharm Group plc to acquire such shares See share based payment disclosures (note 23) for further details

IAS 33 "Earnings per Share" requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share Only options that are 'in the money' are treated as dilutive and net loss per share would not be increased by the exercise of these options Therefore no adjustment has been made to dilute loss per share for any outstanding share options

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 9. LOSS PER SHARE (continued)

The calculation of the basic and diluted loss per share is based on the following data

| | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|
| **Loss** | | |
| Loss for the purposes of basic and diluted loss per share being net loss attributable to equity holders of the parent | 3,127 | 363 |
| | **Number** | **Number** |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of the basic and diluted loss per share | 703 | 208 |

### 10 INTANGIBLE ASSETS

| | £'000 |
|---|---|
| **Cost** | |
| At 1 July 2006 | - |
| Additions | 50 |
| At 30 June 2007 | 50 |
| **Amortisation** | |
| At 1 July 2006 | - |
| Charge for the year | 3 |
| At 30 June 2007 | 3 |
| **Net carrying value** | |
| At 30 June 2007 | 47 |
| At 1 July 2006 | - |

On 14 December 2006 Neuropharm Limited exercised its option, and issued 50 B ordinary shares in Neuropharm Limited, to purchase Mount Sinai School of Medicine's orphan drug designation granted by the FDA with respect to use of fluoxetine to treat Autism (the "fluoxetine ODD"), the Investigational New Drug application for the clinical testing of fluoxetine to treat Autism (the "fluoxetine IND") and the information held by Mount Sinai School of Medicine describing, referring to or otherwise regarding the use of fluoxetine to treat Autism for the purpose of applying for or in furtherance of the fluoxetine ODD or the fluoxetine IND (the "fluoxetine FDA Data")

IAS 38 "Intangible Assets" requires that where Intellectual Property Rights are acquired from a third party, they must be recognised as an intangible asset, whereas the expense relating to similar Intellectual Property Rights generated internally must be expensed except where defined criteria are met as set out in note 2 Accordingly, the acquired Intellectual Property Rights were recognised as an intangible asset and will be amortised over their estimated useful lives of ten years

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 11. PROPERTY, PLANT AND EQUIPMENT

| | Office equipment £'000 | Furniture and fixtures £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 July 2006 | - | - | - |
| Additions | 11 | 4 | 15 |
| At 30 June 2007 | 11 | 4 | 15 |
| **Depreciation** | | | |
| At 1 July 2006 | - | - | - |
| Charge for the year | 3 | - | 3 |
| At 30 June 2007 | 3 | - | 3 |
| **Net book value** | | | |
| At 30 June 2007 | 8 | 4 | 12 |
| At 1 July 2006 | - | - | - |

There were no property, plant and equipment balances as at 30 June 2006 and no related additions, disposals or depreciation transactions for the year then ended

### 12. SUBSIDIARIES

Details of the Company's subsidiaries at 30 June 2007 are as follows

| Name | Place of incorporation and operation | Proportion of ownership interest % | Proportion of voting power held % | Method used to account for investment |
|---|---|---|---|---|
| Neuropharm Inc | United States | 100% | 100% | Dormant |

### 13. OTHER FINANCIAL ASSETS

**Trade and other receivables**

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Prepayments and accrued income | 144 | 79 |
| Recoverable VAT | 26 | - |
| Other debtors | 119 | 22 |
| | 289 | 101 |

Included in Other Debtors is a margin deposit charge on £75,000 in favour of Anglo Irish Bank Corporation plc, regarding the forward foreign exchange contracts placed with them

**Money market investments** comprise short term bank deposits with an original maturity of between 3 and 12 months

**Cash and cash equivalents** comprise current amounts held by the Company with immediate access and short term bank deposits with an original maturity value of three months or less

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 13. OTHER FINANCIAL ASSETS (continued)

**Fair value of financial assets**

The Directors consider there to be no material difference between the book value and the fair value of the Company's financial assets at the balance sheet date

**Risk in relation to the use of financial instruments**

The main risks arising from the Company's financial instruments are credit risk, currency risk, liquidity risk and market price risk The Board reviews and agrees policies for managing each of these and they are summarised below

**Credit risk**

Currently the Company does not sell goods or services Its only exposure to credit risk derives from the investment of surplus cash balances in short-term deposits and money market investments Risk is minimised through an investment policy for investing surplus cash balances that sets out strict criteria for making investments In outline, investments are restricted to interest bearing deposits with institutions with high credit ratings assigned by international credit-rating agencies, being UK banks or the London branches of overseas banks only

**Interest rate risk**

The Company has no financial assets other than cash, cash equivalents and money market investments which are part of the financing arrangements of the Company These comprise cash and cash deposits The cash deposits comprise deposits placed on money markets for period of up to twelve months and at call The Company seeks to maximise interest receipts within these parameters Interest receipts are earned on money market deposits at the prevailing market rate

**Currency risk**

The Company's principal functional currency is pounds sterling (GBP), however, the Company has expenditure in United States dollars (USD) The Company's policy is to maintain natural hedges, where possible, by matching USD cash inflows with USD expenditure and to enter into forward foreign exchange contracts as described in Note 15

**Liquidity risk**

The Company's policy throughout the year regarding liquidity has been to maximise the return on funds, but to minimise the associated risk by placing funds in low risk cash deposits and money market investments No more than £5 million, or currency equivalent, may be at risk with any single counterparty and all approved counterparties must have a credit rating of at least AA- or better

**Market price risk**

The Company's exposure to market price risk primarily comprises interest rate exposure Company funds are invested in cash deposits and money market investments with the objective of maintaining a balance between accessibility of funds and competitive rates of return

### 14. CONVERTIBLE LOAN NOTES

Neuropharm Limited issued Loan Notes during November and December 2006 amounting to £450,000 In accordance with the terms of the Loan Note Instrument, Neuropharm Group plc issued 708,665 Ordinary Shares, on Admission to AIM on 6 March 2007, to the holders of the Notes at a 50% discount to the Placing Price of £1 27 per Ordinary Share in full satisfaction and discharge of the Notes

£450,000 is included in amounts owed to Neuropharm Group plc (Note 17)

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 15. DERIVATIVE FINANCIAL INSTRUMENTS

**Currency derivatives**

The Company utilises currency derivatives to hedge significant future transactions and cash flows The Company is party to a variety of foreign currency forward contracts in the management of its exchange rate exposures The instruments purchased are primarily denominated in the currencies of the Company's principal markets

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts that the Company has committed are as follows

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Forward foreign currency contracts | 2,376 | - |

These arrangements are designed to address significant exchange exposures on a six, twelve and eighteen months viewpoint

At 30 June 2007, changes in the fair value of the Company's non-hedging currency derivatives amounting to £22,000 has been debited to the income statement and credited to "Derivative financial instruments" in the balance sheet

### 16. DEFERRED TAX

The following are the deductible temporary differences for which the Company has not recognised deferred tax assets due to the unpredictability of future profit streams

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Other short-term timing differences | (7) | - |
| Share-based payments | (464) | - |
| Losses carried forward | (927) | - |
| | (1,398) | - |

### 17. OTHER FINANCIAL LIABILITIES

**Trade and other payables**

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Amounts owed to Neuropharm Group plc (Note 27) | 4,646 | - |
| Trade creditors | 383 | 64 |
| Other tax and social security | 5 | 3 |
| Other creditors and accruals | 859 | 79 |
| | 5,893 | 146 |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs

It is the Company's policy to settle debts with its creditors on a timely basis, taking into consideration the terms and conditions offered by each supplier The median credit taken for trade purchases is 30 days As at 30 June 2007 trade creditors and accruals of the Company were equivalent to 157 days' purchases, due to the greater weighting of trade purchases towards the end of the year

The Directors consider that the carrying amount of trade payables approximates to their fair value

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 18. LONG-TERM PROVISIONS

**Provision for National Insurance on share option gains**

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| At 1 July | - | - |
| Debited to the income statement | 101 | - |
| At 30 June | 101 | - |

The Company has recognised a provision of £101,000 (2006 £nil) for National Insurance contributions that will be payable on gains realised upon the future exercise of stock options issued The provision calculation is based upon the closing share price of Neuropharm Group plc on 30 June 2007, which was £1 80 and calculated at a National Insurance rate of 12 8% It is expected that the costs will be incurred during the exercise period of 1 July 2007 to 27 February 2017

### 19. SHARE CAPITAL

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Authorised** | | |
| 100,000 ordinary shares of £1 each | 100 | 100 |
| **Called up, allotted and fully paid** | | |
| 729 ordinary shares of £1 each (2006 668) | 1 | 1 |

On 30 August 2006 a further 10 B ordinary £1 shares were issued for a total consideration of £56,250

On 14 December 2006 the Company exercised its option and issued 50 B ordinary £1 shares to Mount Sinai School of Medicine at par value (Note 10)

On 22 January 2007 the Company issued a further 1 B ordinary £1 share to Case Western Reserve University at par value (Note 24)

On 5 February 2007 Neuropharm Group plc acquired the Company by way of a share for share exchange

### 20. SHARE PREMIUM ACCOUNT

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Balance at 1 July | 700 | - |
| Other share based payments | 1 | - |
| Reserve transfer from retained earnings | 43 | - |
| Premium arising on issue of equity shares | 106 | 700 |
| Balance at 30 June | 850 | 700 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 21. RETAINED EARNINGS

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Balance at 1 July | (320) | - |
| Loss for the year | (3,127) | (363) |
| Other share-based payments | - | 43 |
| Reserve transfer to share premium | (43) | - |
| Balance at 30 June | (3,490) | (320) |

### 22. NOTES TO THE CASH FLOW STATEMENT

| | Year ended 30 June 2007 £'000 | Period from 18 July 2005 to 30 June 2006 £'000 |
|---|---|---|
| Operating loss | (3,190) | (363) |
| Adjustments for | | |
| Amortisation of intangible assets | 3 | - |
| Depreciation of property, plant and equipment | 3 | - |
| Share option expense | 223 | 43 |
| Other share based payments | 1 | 43 |
| Operating cash flows before movements in working capital | (2,960) | (277) |
| Increase in receivables | (188) | (101) |
| Increase in payables | 5,132 | 146 |
| Derivative financial investments | 22 | - |
| Net cash from/(used in) operating activities | 2,006 | (232) |

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 23. SHARE BASED PAYMENTS

The Company operates share option schemes concerning options over the ordinary shares of Neuropharm Limited (the "Share Option Schemes")

Employee Share Option Schemes

i Robert Mansfield option agreement, dated 11 September 2006

ii Graham Yeatman option agreement, dated 4 September 2006

Other Share Option Schemes

iii Professor Eric Hollander option agreement, dated 15 March 2006

iv Professor Mark Smith option agreement, dated 15 March 2006

v Case Western Reserve University licence agreement, dated 1 June 2006

vi Investment Agreement, dated 22 June 2006

The movements in the Share Option Schemes during the year were as follows

| Scheme | At 1 July 2006 | Options granted Number | Options exercised Number | Options lapsed Number | At 30 June 2007 Number | Exercise price | Earliest date exercisable | Options vested | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| i | - | 40 [1] | - | 40 [1] | - | £5,625 | 01/07/2007 | No | 11/09/2016 |
| ii | - | 10 [1] | - | 10 [1] | - | £5,625 | 04/09/2007 | No | 04/09/2016 |
| | - | **50** | - | **50** | - | | | | |
| iii | 30 [2] | - | - | - | 30 [2] | £1,000 | 15/03/2006 | Yes | 15/03/2016 |
| iv | 30 [2] | - | - | - | 30 [2] | £1,000 | 15/03/2006 | Yes | 15/03/2016 |
| v | 34 [3] | - | - | - | 34 [3] | Nil [4] | n/a | No | n/a |
| vi | 25 [1] | - | - | 25 [1] | - | £5,714 | n/a | Yes | n/a |
| | **119** | - | - | **25** | **94** | | | | |
| | **119** | **50** | - | **75** | **94** | | | | |

[1] On 5 February 2007, following the share for share exchange, the original options on shares in Neuropharm Limited were released and replaced by new options on shares in Neuropharm Group plc on an equivalent basis

[2] Professors Hollander's and Smith's options are in respect of shares in Neuropharm Limited, but Neuropharm Group plc has the right to acquire such shares in exchange for shares in Neuropharm Group plc and Professors Hollander and Smith similarly have the right to require Neuropharm Group plc to acquire such share

[3] Case Western Reserve University's options are in respect of shares in Neuropharm Limited but Neuropharm Group plc has the right to acquire such shares in exchange for shares in Neuropharm Group plc

[4] The exercise price is £nil, as the shares are to be issued in consideration for entering into the licence agreement and Case Western Reserve University achieving the milestones thereunder

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 23. SHARE BASED PAYMENTS (continued)

Employee Share Option Schemes

The movements in the Employee Share Option Schemes are summarised as follows

| | 2007 Number of share options | 2007 Weighted average exercise price | 2006 Number of share options | 2006 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding as at beginning of year | - | - | - | - |
| Granted during the year | 50 | £5,625 | - | - |
| Lapsed during the year | (50) | £5,625 | - | - |
| Outstanding at the end of the year | - | - | - | - |
| Exercisable at the end of the year | - | - | - | - |

Other Share Option Schemes

The movements in the Other Share Option Schemes are summarised as follows

| | 2007 Number of share options | 2007 Weighted average exercise price | 2006 Number of share options | 2006 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding as at beginning of year | 119 | £1,705 | - | - |
| Granted during the year | - | - | 119 | £1,705 |
| Lapsed during the year | (25) | £5,714 | - | - |
| Outstanding at the end of the year | 94 | £638 | 119 | £1,705 |
| Exercisable at the end of the year | 94 | £1,000 | 60 | £1,000 |

Options outstanding as at 30 June 2007 had an exercise price of between £nil and £1,000 (2006 £nil and £5,714) and a weighted average [1] remaining contractual life of 3,181 days (2006 3,546 days)

[1] The weighted average for remaining contractual life has been calculated in respect of schemes iii and iv only Schemes v and vi were options granted without an expiry date, hence it is not appropriate to calculate a remaining contractual life or fair value

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 23. SHARE BASED PAYMENTS (continued)

In recognition that Neuropharm Limited is the principal operating company of the Neuropharm group and that the Executive Director's service agreements are provided for the benefit of Neuropharm Limited, the share based compensation charge in respect of all Directors and employees is recharged in full to Neuropharm Limited

A share based compensation charge of £223,000 has been recorded in respect of share options where the performance conditions were, at 30 June 2007, considered likely to be met (2006 £43,000) £50,000 of this charge relates to the period prior to when Neuropharm Group plc acquired the Company on 5 February 2007, and the balance of £173,000 relates to the period after acquisition in respect of the new and replaced share options awarded by Neuropharm Group plc and recharged in full to Neuropharm Limited

The resulting reserves were as follows

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Balance at 1 July | 43 | - |
| Share option expense | | |
| - Employee share option schemes | 50 | - |
| - Other share option schemes | - | 43 |
| Inter-company transfer of share-based compensation | (93) | - |
| Balance at 30 June | - | 43 |

The fair value of the share options were calculated using a Black-Scholes model with the following inputs

| | Scheme | |
|---|---|---|
| | i & ii | iii & iv |
| Share price | £5,625 | £1,000 |
| Exercise price | £5,625 | £1,000 |
| Expected volatility | 60% | 60% |
| Expected life | 10 years | 10 years |
| Risk-free rate | 4% | 4% |
| Expected dividend yields | 0% | 0% |

Expected volatility was determined by benchmarking against a peer group of life science companies The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

### 24. OTHER SHARE BASED PAYMENTS

Neuropharm Limited issued a further 1 B ordinary £1 share to Case Western Reserve University in January 2007 in part consideration for the acquisition of intellectual property rights An expense of £1,000 was recognised based upon a fair value of £1,000 per share Correspondingly, £1 was recorded as share capital and £999 was recognised in share premium

## NOTES TO THE FINANCIAL STATEMENTS (continued)
## Year ended 30 June 2007

### 25. RETIREMENT BENEFIT SCHEMES

**Defined contribution schemes**

The Company makes employer pension contributions for employees, the assets of which are held separately from those of the company in independently administered defined contribution pension funds Contributions to these funds are charged to the income statement as they become due and amounted to £29,833 (2006 £4,500) In addition, a number of employees elected to waive some of their bonus for increased employer pension contributions, which amounted to £80,600 during the year (2006 £nil)

At 30 June 2007, contributions of £81,133 (2006 £4,500) were payable to the fund and were included in other payables

### 26. EVENTS AFTER THE BALANCE SHEET DATE

There were no post balance sheet events requiring disclosure

### 27 RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Neuropharm Group plc

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Amounts owed to Neuropharm Group plc by the Company (Note 17) | 4,646 | - |

**Remuneration of key management personnel**

The remuneration of the Directors and the senior management, who are the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Short-term employee benefits and fees | 828 | 139 |
| Post-employment benefits | 109 | 4 |
| Share option expense | 223 | - |
| | 1,160 | 143 |

**Directors' transactions**

Dr M Hudson, a Non-Executive Director and shareholder in Neuropharm Group plc, is also a director of and significant shareholder in Sultan Scientific Limited During the year a total amount of £27,921 (2006 £74,103) was payable to Sultan Scientific Limited in respect of professional fees At the year end £15,389 (2006 £7,500) was owing to Sultan Scientific Limited and is included within creditors

500,000 ordinary shares in Neuropharm Group plc were issued to Sultan Scientific Limited on 28 February 2007 for consideration of £142,580, pursuant to its exercise of option granted under the Investment Agreement dated 22 June 2006 and which vested immediately prior to Neuropharm Group plc's Admission to AIM

### 28. CONTROLLING PARTY

The ultimate parent company is Neuropharm Group plc a company incorporated in England and Wales This company heads the largest and smallest group which consolidates these financial statements Copies of the group financial statements are available from the company's registered office