



BRAINZ INSTRUMENTS LIMITED
2009
Interim Report

Directors' Report

The Directors submit the interim financial report of BrainZ Instruments Limited for the six months ended 30 September 2008.

Directors' details

The names of Directors who held office during or since the end of the half-year are:

Dr D Pethica (Chairman)
Mr K J Aitchison
Dr J Brown
Dr R L Congreve (resigned 16 July 2008)

Review of operations

Commercial progress during the six months to 30 September 2008 was poor with ongoing cash burn and stagnant sales trends. The global market for neonatal bedside brain monitoring has not expanded at the rate anticipated, despite substantial clinical need and interest. The net deficit for the six months was NZ\$1,634,000 (2007: NZ\$2,557,000), and at 30 September 2008 net assets were NZ\$2,887,000 with NZ\$2,727,000 in cash. These results were below the Company's expectations.

As has previously been announced in our press releases, the Directors explored a number of strategic options. These activities resulted in an offer from Natus Medical Inc (NASDAQ: BABY) to purchase the assets of BrainZ and take over key product-related liabilities such as existing product support and warranty commitments that are integral to marketing and distribution. BrainZ will receive NZ\$1.3 million in cash on close of this deal. A Special Meeting of Shareholders was held on 5 November 2008, with the proposed sale to Natus being approved as necessary to proceed. It is anticipated that the sale will close on or before 30 November 2008, this being principally subject to satisfactory negotiations with GE Healthcare regarding their Exclusive Distribution Agreement.

The results for the six months to 30 September 2008 include recognising the cost of employment and rental contracts which continue beyond December 2008. In addition an impairment charge has been recognised on plant and equipment and software assets to reflect the purchase price in the offer from Natus Medical Inc. The total discontinuation expenses of \$390,000 have been separately disclosed in the Income Statement.

Corporations Act, Australia - Directors' declaration

The Directors of BrainZ Instruments Limited ("BrainZ") declare that:

1. The accompanying unaudited financial statements of BrainZ and its subsidiaries for the six months ended 30 September 2008 and the notes to those financial statements:
 - (a) comply with the accounting standards approved by the New Zealand Accounting Standards Review Board; and
 - (b) give a true and fair view of the financial position as at 30 September 2008 and of the performance for the six months ended on that date of BrainZ and its subsidiaries.
2. In the Directors' opinion there are reasonable grounds to believe that BrainZ will be able to pay its debts as and when they become due and payable.

This report is signed and declaration made in accordance with a resolution of the Board of Directors dated 28 November 2008.

On behalf of the Board



Dr D Pethica
Chairman

BrainZ Instruments Limited
Condensed Consolidated Interim Income Statement
For the six months ended 30 September 2008 (unaudited)

	Note	6 months to 30 Sep 2008 NZ\$000	6 months to 30 Sep 2007 NZ\$000
Revenue - sales		847	870
Cost of sales		(367)	(268)
Gross profit		480	602
Other income	1	101	290
Sales and marketing expenses		(1,005)	(1,085)
Research and development expenses		(668)	(1,444)
Administrative expenses		(484)	(613)
Discontinuation expenses	1	(390)	-
		(2,446)	(2,852)
Foreign exchange gain (losses)		345	(298)
Deficit before taxation	1	(1,621)	(2,548)
Income tax		(13)	(9)
Net deficit for the period		(1,634)	(2,557)
Basic and diluted deficit per share based on 60,000,000 shares		\$(0.03)	\$(0.04)

These financial statements should be read in conjunction with the accompanying notes and statement of accounting policies.

BrainZ Instruments Limited
Condensed Consolidated Interim Statement of Changes in Equity
For the six months ended 30 September 2008 (unaudited)

	Paid-in Capital NZ\$000	Capital Reserve NZ\$000	Share Option Compensation Reserve NZ\$000	Foreign Currency Translation Reserve NZ\$000	Accumulated Deficit NZ\$000	Total Equity NZ\$000	Income (Expenses) NZ\$2000
Shareholder's equity at 1 April 2007	25,623	(1,325)	333	(7)	(11,781)	12,843	
Deficit for six months ended 30 September 2007					(2,557)	(2,557)	(2,557)
Net income recognised directly in equity:							
Translation of foreign subsidiaries	-	-	-	(5)	-	(5)	(5)
Total income and expenses							<u>(2,562)</u>
Share option compensation expense	-	-	31	-	-	31	
Shareholder's equity at 30 September 2007	25,623	(1,325)	364	(12)	(14,338)	10,312	
Deficit for six months ended 31 March 2008					(5,786)	(5,786)	(5,786)
Net income recognised directly in equity:							
Translation of foreign subsidiaries	-	-	-	(7)	-	(7)	(7)
Total income and expenses							<u>(5,793)</u>
Share option compensation expense	-	-	(38)	-	-	(38)	
Shareholder's equity at 31 March 2008	25,623	(1,325)	326	(19)	(20,124)	4,481	
Deficit for six months ended 30 September 2008					(1,634)	(1,634)	(1,634)
Net income recognised directly in equity:							
Translation of foreign subsidiaries	-	-	-	28	-	28	28
Total income and expenses							<u>(1,606)</u>
Share option compensation expense	-	-	12	-	-	12	
Shareholder's equity at 30 September 2008	25,623	(1,325)	338	9	(21,758)	2,887	

These financial statements should be read in conjunction with the accompanying notes and statement of accounting policies.

BrainZ Instruments Limited
Condensed Consolidated Interim Balance Sheet
As at 30 September 2008 (unaudited)

	Note	As at 30 Sep 2008 NZ\$000	As at 31 Mar 2008 NZ\$000	As at 30 Sep 2007 NZ\$000
Current Assets				
Cash and cash equivalents		2,727	3,462	4,955
Trade and other receivables		392	877	590
Inventories		332	221	414
Taxation receivable		67	67	165
		3,518	4,627	6,124
Non-Current Assets				
Property, plant and equipment		113	267	287
Intangible assets	3	3	37	4,458
		116	304	4,745
Total Assets				
		3,634	4,931	10,869
Current Liabilities				
Trade and other payables		375	358	448
Provisions	4	369	79	87
Taxation payable		-	9	15
		744	446	550
Non-Current Liabilities				
Deferred taxation		3	4	7
		3	4	7
Equity				
Share capital		25,623	25,623	25,623
Other reserves		(978)	(1,018)	(973)
Accumulated deficit		(21,758)	(20,124)	(14,338)
		2,887	4,481	10,312
Total Equity and Liabilities				
		3,634	4,931	10,869
Net tangible assets		2,884	4,444	5,854
Net tangible assets per share based on 60,000,000 shares		\$0.05	\$0.07	\$0.10

These financial statements should be read in conjunction with the accompanying notes and statement of accounting policies.

BrainZ Instruments Limited
Condensed Consolidated Interim Cash Flow Statement
For the six months ended 30 September 2008 (unaudited)

	Note	6 months to 30 Sep 2008 NZ\$000	6 months to 30 Sep 2007 NZ\$000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		1,319	1,328
Receipts from grants		34	154
Interest received		50	143
		<u>1,403</u>	<u>1,625</u>
Cash was applied to:			
Payments to suppliers and employees		(2,393)	(3,254)
Income tax paid		(25)	(39)
		<u>(2,418)</u>	<u>(3,293)</u>
Net cash outflow from operating activities	2	<u>(1,015)</u>	<u>(1,668)</u>
Cash flows from investing activities			
Cash was provided from:			
Sale of plant and equipment		10	-
Cash was applied to:			
Purchase of plant and equipment		(15)	(87)
Purchase of computer software		(2)	(3)
Net cash outflow from investing activities		<u>(7)</u>	<u>(90)</u>
Net decrease in cash held		<u>(1,022)</u>	<u>(1,758)</u>
Cash and cash equivalents at beginning of period		3,462	6,970
Effect of exchange rate fluctuations on cash held		287	(257)
Cash and cash equivalents at end of period		<u>2,727</u>	<u>4,955</u>

These financial statements should be read in conjunction with the accompanying notes and statement of accounting policies.

BrainZ Instruments Limited
Statement of Accounting Policies
For the six months ended 30 September 2008 (unaudited)

A. REPORTING ENTITY

BrainZ Instruments Limited is a limited liability company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the Australian Stock Exchange (ASX code: BZI).

The condensed consolidated interim financial statements of the BrainZ Instruments Group as at and for the six months ended 30 September 2008 comprise the company and its subsidiaries, BrainZ Instruments USA Inc and BrainZ Instruments UK Limited, which are all designated as profit-orientated entities for financial reporting purposes.

BrainZ Instruments Limited is primarily involved in the design and manufacture of medical brain monitoring equipment.

B. BASIS OF PREPARATION

These general-purpose condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand, International Financial Reporting and NZ IAS 34 *Interim Financial Reporting*. These financial statements are presented in New Zealand dollars(\$), which is the Group's functional currency. All financial information has been rounded to the nearest thousand.

Sale of Business and Going concern

As explained in Note 6, the Group will cease trading after balance date. The condensed interim financial statements have been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the Group's assets to net realisable value. Provision has also been made for any contractual commitments that have become onerous at balance date. These costs have been included in the Discontinuation costs shown separately in the Income Statement. The condensed interim financial statements do not include any provision for the future costs of terminating the business of the Group except to the extent that such costs were committed at the balance sheet date.

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that materially affect the measurement of the Income Statement, Balance Sheet and the Cash Flow Statements have been applied on a basis consistent with those used in the audited financial statements for the year ended 31 March 2008 and the unaudited financial statements for the six months ended 30 September 2007 other than as outline under the Basis of Preparation.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2008.

BrainZ Instruments Limited
Notes to the Condensed Consolidated Interim Financial Statements
For the six months ended 30 September 2008 (unaudited)

1. OPERATING EXPENSES AND OTHER INCOME

	6 months to 30 Sep 2008 NZ\$000	6 months to 30 Sep 2007 NZ\$000
The net deficit for the period is after charging the following expenses:		
Directors fees	60	149
Auditor's remuneration for auditing financial statements:		
Deloitte	30	22
Other Auditors	7	6
	<u>37</u>	<u>28</u>
Auditor's remuneration for other services:		
Deloitte - tax services	15	-
Other auditors - tax services	5	2
	<u>20</u>	<u>2</u>
Amortisation of intangible assets:		
Intellectual property	-	331
Computer software	13	15
	<u>13</u>	<u>346</u>
Depreciation:		
Plant and equipment	74	67
Loss on disposal of plant and equipment	-	4
Personnel expenses:		
Wages and salaries	999	1,088
Redundancy and termination expenses on discontinuation	272	-
Share option compensation expense	12	31
	<u>1,283</u>	<u>1,119</u>
Discontinuation expenses:		
Staff redundancy and termination expenses	272	-
Future office rental	7	-
Plant and equipment impairment charge	88	-
Software impairment charge	23	-
	<u>390</u>	<u>-</u>
The net deficit for the period is after receiving the following income:		
Other income:		
Grants	51	147
Interest received	50	143
	<u>101</u>	<u>290</u>

BrainZ Instruments Limited
Notes to the Condensed Consolidated Interim Financial Statements
For the six months ended 30 September 2008 (unaudited)

2. SEGMENT RESULTS

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	US NZ\$000	Sth Africa NZ\$000	Australasia NZ\$000	Other NZ\$000	Consolidated NZ\$000
6 months to September 2008					
Revenue	587	75	178	7	847
Segment result	(27)	(23)	118	5	73
Unallocated expenses					(2,039)
Foreign exchange gain (losses)					(1,966)
Income tax					345
Net deficit for the period					(1,634)

	US NZ\$000	Sth Africa NZ\$000	Australasia NZ\$000	Other NZ\$000	Unallocated NZ\$000
Segment assets September 2008	161	72	67	-	3,334

	US NZ\$000	Sth Africa NZ\$000	Australasia NZ\$000	Other NZ\$000	Consolidated NZ\$000
6 months to September 2007					
Revenue	574	32	153	111	870
Segment result	(53)	(46)	91	74	66
Unallocated expenses					(2,316)
Foreign exchange gain (losses)					(2,250)
Income tax					(298)
Net deficit for the period					(9)
					(2,557)

	US NZ\$000	Sth Africa NZ\$000	Australasia NZ\$000	Other NZ\$000	Unallocated NZ\$000
Segment assets September 2007	303	70	57	-	10,439

BrainZ Instruments Limited
Notes to the Condensed Consolidated Interim Financial Statements
For the six months ended 30 September 2008 (unaudited)

3. NET CASH FROM OPERATING ACTIVITIES

The following is a reconciliation between the net deficit after income tax shown in the income statement and the net cash flow from operating activities.

	6 months to 30 Sep 2008 NZ\$000	6 months to 30 Sep 2007 NZ\$000
Net deficit for the period	(1,634)	(2,557)
Add non-cash items:		
Amortisation of intangible assets	13	346
Depreciation	74	67
Impairment of plant and equipment	88	-
Impairment of software	23	-
Movement in deferred taxation	(1)	7
Share option compensation expense	12	31
Unrealised foreign exchange (gains)/losses	(262)	254
	(53)	705
Plus items classified as investing activities		
Loss on disposal of plant and equipment	-	4
Movement in working capital:		
Increase in trade and other payables	17	4
Increase/(decrease) in provisions	290	(19)
Decrease in taxation payable	(9)	(18)
Increase in taxation receivable	-	(20)
Decrease in trade and other receivables	485	395
Increase in inventories	(111)	(162)
	672	180
Net cash outflow from operating activities	(1,015)	(1,668)

BrainZ Instruments Limited
Notes to the Condensed Consolidated Interim Financial Statements
For the six months ended 30 September 2008 (unaudited)

4. INTANGIBLE ASSETS

	As at 30 Sep 2008 NZ\$000	As at 31 Mar 2008 NZ\$000	As at 30 Sep 2007 NZ\$000
Intellectual property	-	-	4,408
Computer software	3	37	50
	3	37	4,458

The value of intellectual property that was held on the Group balance sheet was written down at the end of the March 2008 financial year. The impairment loss was recognised in the income statement for the six month period ended 31 March 2008.

The value of computer software is after an impairment charge of \$23,000 as the software licences are unable to be transferred to Natus Medical Inc, the purchaser of the Group's assets referred to in Note 6.

5. PROVISIONS

	As at 30 Sep 2008 NZ\$000	As at 31 Mar 2008 NZ\$000	As at 30 Sep 2007 NZ\$000
Holiday pay	90	79	87
Staff redundancy and termination expenses	272	-	-
Future rental costs	7	-	-
	369	79	87

Provision has been made for the extra contractual costs of staff redundancy, terminations and ongoing rental costs once the sale of the assets to Natus Medical Inc is completed.

6. SUBSEQUENT EVENTS

On 7 October 2008 the Company entered into an Asset Purchase Agreement pursuant to which the Company proposes to sell all or substantially all of its assets to Natus Medical Inc for NZ\$1,300,000. This will include the rights to all of the Company's past and present products and designs. Completion of the transaction was conditional on approval of the Company's shareholders which was duly passed at a Special Meeting dated 5 November 2008.

As well as paying the purchase price, Natus will assume the Company's obligations in respect of:

- (a) any claims arising after the completion of the proposed asset sale under express warranties given by BrainZ; and
- (b) product support and/or maintenance, under assumed contracts, or otherwise related to the Products (including express product warranties made, or express product support and/or maintenance obligations undertaken, in some cases lasting for up to 5 years).

Following completion, the Company intends to apply the purchase price

- (a) approximately NZ\$525,000 to pay the company advisers in respect of the proposed transaction, comprising:
 - (i) NZ\$425,000 payable to JT Campbell & Co Pty Ltd; and
 - (ii) NZ\$100,000 in legal fees; and
- (b) approximately NZ\$650,000 to pay off the Company's current debts and liabilities which includes employee costs of NZ\$520,000

REVIEW REPORT TO THE SHAREHOLDERS OF BRAINZ INSTRUMENTS LIMITED

We have reviewed the condensed consolidated interim financial statements on pages 3 to 11. The condensed consolidated interim financial statements provide information about the past financial performance of BrainZ Instruments Limited and its subsidiaries ("the Group") and its financial position as at 30 September 2008. This information is stated in accordance with the accounting policies set out on page 7.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the condensed consolidated interim financial statements which present fairly the financial position of the Group as at 30 September 2008 and the results of operations and cash flows for the six months ended on that date.

Independent Accountant's Responsibilities

We are responsible for reviewing the condensed consolidated interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the condensed consolidated interim financial statements do not present fairly the matters to which they relate.

Basis of Opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the condensed consolidated interim financial statements of the Group for the six months ended 30 September 2008 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

Other than in our capacity as auditors under the Companies Act 1993 and the provision of accounting and taxation advice, we have no relationship with or interests in BrainZ Instruments Limited or its subsidiaries.

Realisation Basis

As described in the Basis of Preparation on page 7 and as a result of events subsequent to balance date, it is no longer appropriate to adopt the going concern assumption in these financial statements. Accordingly the realisation basis has been adopted and the financial statements have been prepared on the basis of expected net realisable values rather than the going concern basis. Further details are outlined on page 7 in the Basis of Preparation.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements on pages 3 to 11 do not present fairly the financial position of the Group as at 30 September 2008 and the results of its operations and cash flows for the six months ended on that date in accordance with *NZ IAS 34: Interim Financial Reporting and IAS 34 Interim Financial Reporting*.

Our review was completed on 28 November 2008 and our review opinion is expressed as at that date.



Chartered Accountants
AUCKLAND, NEW ZEALAND

This review report relates to the unaudited condensed consolidated interim financial statements of BrainZ Instruments Limited (the entity) for the six months ended 30 September 2008 included on BrainZ Instruments Limited website. The entity's governing body is responsible for the maintenance and integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed consolidated interim financial statements since they were initially presented on the website. The audit report refers only to the unaudited condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed consolidated interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the reviewed unaudited condensed consolidated interim financial statements and related review report dated 28 November 2008 to confirm the information included in the reviewed unaudited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directory

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Dr D Pethica (Chairman)
K J Aitchison
Dr J Brown

CHIEF EXECUTIVE OFFICER

R A Smith

COMPANY SECRETARY

I R Hadwin

AUDITOR

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