

# Appendix 4D

Half-year Report  
31 December 2010

## NEURODISCOVERY LTD

ABN 89 113 824 141

### Results for announcement to the market

<b>Financial Results</b>	<b>% change</b>	<b>\$ change</b>	<b>December 2010</b>	<b>December 2009</b>
			<b>\$</b>	<b>\$</b>
Revenue	Down 89	Down 1,310,445	163,900	1,474,345
Profit (Loss) after tax attributable to members	Down 551	Down 1,416,454	(1,159,412)	257,042
Net Profit (Loss) for the period attributable to members	Down 551	Down 1,416,454	(1,159,412)	257,042

#### Dividends

It is not proposed that NeuroDiscovery Ltd pay a dividend.

<b>Net Tangible Asset Backing</b>	<b>December 2010</b>	<b>June 2010</b>
Net tangible asset backing per ordinary security	2.6 cents	4.5 cents

#### Other explanatory notes

Refer to the Directors Report for an explanation of the operational and financial results of the Company.

**The information required by listing rule 4.2A is contained in both this Appendix 4D and the attached half-year report. This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the company.**

# **NEURODISCOVERY LIMITED**

ABN 89 113 824 141



## **FINANCIAL REPORT**

**FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

**NEURODISCOVERY LIMITED  
CORPORATE DIRECTORY**

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**Directors**

Mr Michael Robson  
Mr Kyle Haynes  
Mr Neville Bassett

**Auditors**

Crowe Horwarth  
256 St Georges Terrace  
Perth Western Australia 6000

**Company Secretary**

Mr Robert Hodby

**Bankers**

Westpac Banking Corporation  
Level 3/ 25 Cantonment Street  
Fremantle WA 6160

**Registered Office**

Level 9  
190 St Georges Terrace  
Perth Western Australia 6000

**Solicitors**

Steinepreis Paganin  
Level 4 Next Building  
16 Milligan Street  
Perth Western Australia 6000

**Share Registry**

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross Western Australia 6153  
Telephone : (08) 9315 2333  
Facsimile : (08) 9315 2233

**Stock Exchange**

Australian Securities Exchange  
Exchange Plaza  
2 The Esplanade  
Perth Western Australia 6000

**Website**

[www.neurodiscoveryltd.com](http://www.neurodiscoveryltd.com)

**ASX Code**

NDL

# NEURODISCOVERY LIMITED

## DIRECTORS' REPORT

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Your Directors present their report together with the financial report of NeuroDiscovery Limited and its controlled entity ("NeuroDiscovery" or "the Group") for the half-year ended 31 December 2010 and the Independent Review Report thereon.

### Directors

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

<b>Name</b>	<b>Position</b>
Mr Michael Robson	Non-Executive Chairman – appointed 28 July 2010
Mr Kyle Haynes	Director – appointed 7 October 2010
Mr Neville Bassett	Non-Executive Director – appointed 6 August 2010
Dr Jonathan Mark Treherne	Non-Executive Chairman – resigned 28 July 2010
Mr David McAuliffe	Executive Director – resigned 6 August 2010
Mr Harry Karelis	Non-Executive Director – resigned 7 October 2010

Unless otherwise indicated, all Directors held their position as a Director throughout the entire half-year and up to the date of this report.

### Results from Operations

The consolidated loss after tax for the half-year ended 31 December 2010 was \$1,159,412 (included in this amount is a loss on the sale of the investment in NeuroSolutions of \$841,000) (2009: profit of \$257,042).

The net loss attributable to NeuroDiscovery for the half-year ended 31 December 2010 was \$393,942 (2009: \$128,307) (this includes a loss on the sale of the investment in NeuroSolutions of \$54,514).

The net profit attributable to NeuroSolutions for the half-year ended 31 December 2010 was \$21,162 (2009: \$385,349).

### Review of Operations

NeuroDiscovery Ltd is a neuroscience drug development company specialist, having sold the revenue business to a management buy out team in the UK during 2010, with settlement of the sale occurring August 2010.

The activities and developments in the first half of the 2010 financial year are presented as follows:

#### ***Drug Development Programs***

NeuroSolutions has research and development programs in the field of neurology with a particular emphasis on pain.

#### ***NSL-101***

NeuroSolutions Limited identified NSL-101 from UK-based Ampika Limited's database of medicinal plants as a natural product formulation that is effective in alleviating the symptoms of pain. Detailed electrophysiology studies demonstrated that a preparation of NSL-101 inhibits discharges from damaged nerves associated with pain. NeuroSolutions Limited took full ownership of the compound in November 2006 via a worldwide exclusive licensing agreement with Ampika Limited. This licence was subsequently assigned to NeuroDiscovery in March 2010.

## **NEURODISCOVERY LIMITED**

### **DIRECTORS' REPORT (CONT'D)**

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#### ***Drug Development Programs (cont'd)***

##### *NSL 101 (cont'd)*

NSL-101 is a natural product formulation that NeuroDiscovery intends to out-license as an over-the-counter product for the treatment of pain. As such, this project has a potentially shorter path to commercialisation compared to traditional drug programmes.

Two Phase II trials of NSL-101 were completed in 2008, both to appropriate clinical trial standards. The compound was effective in the first trial, where it prevented pain associated with root planing and scaling, a dental procedure used to combat periodontitis. In the second clinical trial, for the treatment of post-operative pain caused by the extraction of an impacted third molar ("wisdom tooth"), NeuroSolutions Limited was unable to measure NSL-101's efficacy due to unexpected confounding factors.

The results from the periodontitis trial demonstrate that NSL-101 is an effective analgesic, and this proof of concept significantly enhances its value. The study compared the analgesic efficacy and safety of NSL-101 gel with a local anaesthetic, which is the gold standard for pain prevention during scaling and root planing. This procedure is used to treat moderate to severe periodontitis-gum inflammation caused by the build-up of plaque bacteria on the teeth and is typically associated with significant pain. NSL-101 was highly effective and well tolerated. It was found to be equally effective as the local anaesthetic gel but with no adverse effects.

The wisdom tooth extraction study was unable to evaluate the analgesic efficacy of NSL-101 compared with placebo. The study was designed to ensure that patients would not experience severe pain at any time. Thus for ethical reasons, a conservative estimate of the local anaesthetic's duration was used. However, the anaesthetic lasted significantly longer than expected and this masked any analgesic effects of NSL-101, compromising the study.

The Company is currently conducting a strategic review of the commercialisation opportunities for the product and has entered into discussions with a number of interested companies, who could potentially take the product to market.

Over the next twelve months the Company will continue to invest the required funds to ensure a successful commercial outcome is achieved for NSL-101.

#### **NSL-043**

NSL-043 was previously in development by another company in the 1990s as a treatment for a "non-pain" condition. It passed all toxicology screens and demonstrated suitability for oral use. The compound was progressed to a late clinical stage in Japan before development was ceased due to a lack of clear efficacy.

In collaboration with Sosei Corporation NSL-043 completed two Phase I clinical trials during early 2008. The primary goal of the Phase I clinical trials was to establish the safety and tolerability of NSL-043 in humans, which they did successfully.

Due to on-going funding issues and the need to preserve the Group's cash reserves, the Company served notice to its joint development partner, Sosei, that it was unable to contribute to its share of the outstanding costs of development of NSL-043.

As such on 22 December 2009 the Company announced to the Australian Securities Exchange its ownership in the NSL-043 program fell to approximately 32% under the existing collaboration with Sosei with no further requirement to contribute funding for the future development of the programme.

Subsequent discussions with Sosei were held in order to identify a more appropriate ownership structure of this potentially very exciting pain drug. All parties recognised that to maximise the chances of successful development that a restructure of the ownership was the most appropriate strategy.

## **NEURODISCOVERY LIMITED**

### **DIRECTORS' REPORT (CONT'D)**

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#### ***Drug Development Programs (cont'd)***

##### *NSL-043 (cont'd)*

To this end, both companies formally terminated the collaboration agreement and entered into an assignment agreement. Under the terms and conditions of this assignment agreement the remaining 32% ownership in NSL-043 was assigned back to Sosei. Hence, moving forward Sosei have 100% ownership in the programme and may either internally or externally fund the next stage of development being a potential Phase II trial. The funding and development into Phase II is at the sole discretion of Sosei.

In return for the assignment, Sosei agreed that, for the life of the existing granted NSL-043 patent, a percentage of any future revenue (being all and any payments, fees, revenue and other consideration of any nature whatsoever received by Sosei and/or its Group in respect of the development, licensing, assignment, exploitation, commercialisation and/or use of and/or any other dealings whatsoever in the whole or any part of the current NSL-043 granted intellectual property) will be paid to NeuroDiscovery.

As of today, the potential percentage revenue payment share to NeuroDiscovery would be 32%. However, if additional investment occurs this future revenue share would be calculated via an agreed formula in which NeuroDiscovery's percentage of revenue is diluted. For commercially sensitive reasons the exact nature of the formula remains confidential.

Should positive results emerge from the next clinical trial there is sufficient reason to believe that there remains the potential for significant returns to NeuroDiscovery shareholders despite further dilution of percentage revenue share under the agreed formula.

#### ***Specialist Services Business***

As announced on 12 August 2010 NeuroDiscovery has completed the disposal of 100% of its interest in its wholly owned subsidiary, NeuroSolutions. NeuroSolutions runs the services business activities of the Group and has been wholly owned since NeuroDiscovery's inception over five years ago.

The Board has for some time been exploring potential restructuring opportunities to identify a sustainable platform from which to generate future shareholder wealth. Consequently, as part of this restructuring an agreement was reached for the sale of the services business to a management buy-out team comprising individuals from NeuroSolutions and the University of Warwick.

#### ***Corporate and Business development***

During the period there were significant changes to the board. These changes resulted from the sale of NeuroSolutions. Dr Jonathan Mark Treherne, Harry Karelis and David McAuliffe resigned follow the sale. David McAuliffe remains with the NeuroDiscovery as a consultant advising the Company on its drug development programs. Michael Robson, Kyle Haynes and Neville Bassett join the board providing significant Corporate and Financial experience.

On 30 August 2010 the Company announced that it was completing a Non-renounceable Rights Issue on the basis of one (1) share for every two (2) shares owned by eligible shareholders on the Record Date at an issue price of 2.5 cents per share. The offer was fully underwritten by Cunningham Peterson Sharbanee Securities Pty Ltd and the Company completed this on 5 October 2010 raising approximately \$718,577 before costs from the offer.

In addition the company undertook a placement on 2 December 2010 to raise \$430,000 for additional working capital.

The Board of NeuroDiscovery continue to review and invest in its current assets, in particular NSL-101 and at the same time will try to identify and acquire innovative products that are complementary to the NeuroDiscovery's current drug development strategy in the neurology field. In addition, the Board continues to monitor expenditure very closely.

**NEURODISCOVERY LIMITED**  
**DIRECTORS' REPORT (CONT'D)**

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**Events Subsequent to Balance Date**

No matter or circumstance has arisen since 31 December 2010 that has significantly affected or may significantly affect:

- (a) the Consolidated entity's operations in future financial years;
- (b) the results of those operations in future financial years; or
- (c) the Consolidated entity's state of affairs in future financial years.

**Auditors' Independence declaration**

In accordance with section 307C of the Corporations Act 2001, we have obtained a declaration of independence from our Auditors Crowe Horwath, a copy of which appears on page 5.

This Report is signed in accordance with a resolution of the Board of Directors.



**Michael Robson**  
**CHAIRMAN**

Dated at Perth, Western Australia this 21<sup>st</sup> day of February 2011



#### **AUDITOR'S INDEPENDENCE DECLARATION**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of NeuroDiscovery Ltd for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

#### **CROWE HORWATH PERTH AUDIT PARTNERSHIP**

A handwritten signature in black ink that reads "Sean McGurk".

**SEAN MCGURK**  
Partner

Perth, WA

Dated this 21<sup>st</sup> day of February 2011



**NEURODISCOVERY LIMITED**  
**CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**for the half-year ended 31 December 2010**

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	Notes	Consolidated Entity	
		31 December 2010	31 December 2009
		\$	\$
<b>Continuing operations</b>			
Other income	2	40,770	13,104
Corporate, finance and administration expenses		(241,361)	(140,403)
Other expenses	3	(138,983)	-
		<hr/>	<hr/>
Profit/(Loss) before income tax (expense)/benefit		(339,574)	(127,299)
Income tax (expense)/benefit		-	-
		<hr/>	<hr/>
Loss from continuing operations		(339,574)	(127,299)
Profit (Loss) from discontinued operations	2	(819,838)	384,341
		<hr/>	<hr/>
Profit/(Loss) for the year		(1,159,412)	257,042
		<hr/>	<hr/>
<b>Other comprehensive income</b>		-	-
		<hr/>	<hr/>
<b>Other comprehensive income/(loss) for the period, net of tax</b>		-	-
		<hr/>	<hr/>
<b>Total comprehensive income/(loss) for the period</b>		(1,159,412)	257,042
		<hr/>	<hr/>
<b>Earnings per share</b>			
Basic profit (loss) per share (cents per share)		(1.56)	0.45
Diluted profit (loss) per share (cents per share)		(1.56)	0.42
<b>Continuing operations</b>			
Basic loss per share		(0.46)	(0.22)
Diluted loss per share		(0.46)	(0.22)
<b>Discontinued operations</b>			
Basic loss per share		(1.10)	0.67
Diluted loss per share		(1.10)	0.63

The accompanying notes form part of these financial statements.

**NEURODISCOVERY LIMITED**  
**CONDENSED STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2010**

	<b>Company</b>	<b>Consolidated</b>
	<b>31 December</b>	<b>Entity</b>
	<b>2010</b>	<b>30 June</b>
	<b>\$</b>	<b>2010</b>
		<b>\$</b>
<b>Current assets</b>		
Cash and cash equivalents	2,226,583	1,551,501
Trade and other receivables	202,932	331,904
Investments held for resale	180,250	-
Other current assets	21,345	35,291
<b>Total Current assets</b>	<u>2,631,110</u>	<u>1,918,696</u>
<b>Non-current assets</b>		
Plant and equipment	-	139,979
Intangible assets	-	900,000
<b>Total Non-current assets</b>	<u>-</u>	<u>1,039,979</u>
<b>Total assets</b>	<u><u>2,631,110</u></u>	<u><u>2,958,675</u></u>
<b>Current liabilities</b>		
Trade and other payables	133,854	347,062
Other current liabilities	13,500	-
<b>Total Current liabilities</b>	<u>147,354</u>	<u>347,062</u>
<b>Non-current liabilities</b>		
Deferred tax liability	-	33,886
<b>Total Non-current liabilities</b>	<u>-</u>	<u>33,886</u>
<b>Total liabilities</b>	<u>147,354</u>	<u>380,948</u>
<b>Net Assets</b>	<u><u>2,483,756</u></u>	<u><u>2,577,727</u></u>
<b>Equity</b>		
Issued capital	9,760,490	8,695,049
Accumulated losses	(7,351,700)	(6,192,288)
Other reserves	74,966	74,966
<b>Total Equity</b>	<u><u>2,483,756</u></u>	<u><u>2,577,727</u></u>

The accompanying notes form part of these financial statements.

**NEURODISCOVERY LIMITED**  
**CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**for the half-year ended 31 December 2010**

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**Company**  
**31 December 2010**

	<b>Share Capital</b>	<b>Reserves</b>	<b>Accumulated Losses</b>	<b>Total</b>
	\$	\$	\$	\$
Balance at 1 July 2010	8,695,049	74,966	(6,192,288)	2,577,727
Comprehensive Profit/(Loss) for the period	-	-	(1,159,412)	(1,159,412)
Shares issued during the period (net of cost)	1,065,441	-	-	1,065,441
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	<u>9,760,490</u>	<u>74,966</u>	<u>(7,351,700)</u>	<u>2,483,756</u>

**Consolidated Entity**  
**31 December 2009**

	<b>Share Capital</b>	<b>Reserves</b>	<b>Accumulated Losses</b>	<b>Total</b>
	\$	\$	\$	\$
Balance at 1 July 2009	8,629,515	132,805	(4,480,267)	4,282,053
Comprehensive Profit/(Loss) for the period	-	-	257,042	257,042
Options issued during the period	-	5,130	-	5,130
Options lapsed during the period	65,534	(65,534)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2009	<u>8,695,049</u>	<u>72,401</u>	<u>(4,223,225)</u>	<u>4,544,225</u>

The accompanying notes form part of these financial statements.

**NEURODISCOVERY LIMITED**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**for the half-year ended 31 December 2010**

	<b>Consolidated Entity</b>	
	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	163,900	1,175,805
Payments to suppliers and employees	(323,478)	(1,028,630)
Interest received	34,635	13,104
<b>Net cash flows used in operating activities</b>	<b>(124,943)</b>	<b>160,279</b>
<b>Cash flows from investing activities</b>		
Payments for non-current assets	-	(3,722)
Proceeds from sale of non-current assets	3,083	-
Proceed from sale of controlled entity net of cash disposed	(9,595)	-
Payment for investments held for resale	(258,904)	-
<b>Net cash used in investing activities</b>	<b>(265,416)</b>	<b>(3,722)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	1,148,577	-
Share issue costs	(83,136)	-
<b>Net cash used in financing activities</b>	<b>1,065,441</b>	<b>-</b>
<b>Net increase (decrease) in cash held</b>	<b>675,082</b>	<b>156,557</b>
Cash at beginning of financial period	1,551,501	1,395,072
Exchange rate variations on foreign cash balances	-	(44,252)
<b>Cash at end of financial period</b>	<b>2,226,583</b>	<b>1,507,377</b>

The accompanying notes form part of these financial statements.

**NEURODISCOVERY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the half-year ended 31 December 2010**

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**1. Significant accounting policies**

**Statement of compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

**Basis of preparation**

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2010 annual financial report for the financial year ended 30 June 2010, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

AASB 2009-5 Introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditure on unrecognised assets in the statement of cash flows and the classification of leases of land and buildings.

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and have no affect on the amounts reported for the current or prior periods.

**NEURODISCOVERY LIMITED**  
**CONDENSED NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the half-year ended 31 December 2010**

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**2. Revenue**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	\$	\$
Sales revenue – Discontinued operations	163,900	1,461,241

**Other income**

Interest received – other entities	40,770	13,079
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**3. Expenses**

Depreciation – plant and equipment	-	44,234
Net foreign exchange loss	60,329	67,034
Share-based payment expenses	-	5,130

**4. Segment Reporting**

The Group's reportable operating segments prior to disposal of NeuroSolutions Ltd were as follows:

1. Contract Business Segment (UK);
2. Research & Development Segment (UK); and
2. All Other Segments, which includes the corporate & administration segment (UK & Australia).

The Group's operating segments were determined with reference to the information used by the chief operating decision maker to make decisions regarding the Group's operations and the allocation of the Group's working capital. Due to the size and nature of the Group's business the Board as a whole has been determined as the chief operating decision maker.

The segments disclosed in the table below were identified as operating segments that met any of the following thresholds:

- Segment revenue greater than 10% of combined revenue;
- Segment profit or loss greater than 10% of combined profit or loss of all operating segments; and
- Segment assets greater than 10% of combined assets of all operating segments.

Each of the Group's operating segments operated in separate geographical locations besides the corporate and administration segment which operates in the UK and Australia, as disclosed above.

Corporate and administration items not directly associated with operating segments are reported separately to the chief operating decision maker and included in all other segments reporting segment.

Following the disposal of NeuroSolutions Ltd in August 2010, no segment information is presented to the chief operating decision maker as the entity is currently based in Australia only with no significant operating activity.

**NEURODISCOVERY LIMITED**  
**CONDENSED NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the half-year ended 31 December 2010**

**4. Segment Reporting (continued)**

**Segment Information**

The following table presents the revenue and profit information regarding the segment information provided to the Board of Directors for the half-year periods ended 31 December 2010 and 31 December 2009.

	<b>Contract Business</b>	<b>Research &amp; Development</b>	<b>All Other Segments</b>		<b>Eliminations</b>	<b>Consolidated</b>
	<b>UK</b>	<b>UK</b>	<b>UK</b>	<b>AUS</b>		
<b>31 December 2010</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Segment revenue	163,900	-	-	40,770	-	196,440
Segment result	43,845	-	(22,683)	(339,574)	-	(318,412)
Less: discontinued operation	(43,845)	-	22,683	-	-	21,162
Results from continuing operations				(339,574)	-	(339,574)
Segment assets	-	-	-	2,631,110	-	2,631,110
Segment liabilities	-	-	-	147,354	-	147,354
Included within segment result:						
Depreciation	587	-	-	-	-	587
Interest revenue	-	-	-	40,770	-	40,770
Income tax expense	-	-	-	-	-	-
<b>31 December 2009</b>						
Segment revenue	1,461,241	-	-	13,104	-	1,474,345
Segment result	838,142	(144,821)	(307,972)	(128,307)	-	257,042
Unallocated expenses net of unallocated revenue						-
Results from operating activities						257,042
Less: discontinued operation						-
Results from continuing operations						257,042
Segment assets	3,246,019	1,143,300	63,349	4,877,484	(3,860,734)	5,469,419
Segment liabilities	287,831	166,839	2,759,781	35,878	(2,325,135)	925,194
Included within segment result:						
Depreciation	41,316	-	2,918	-	-	44,234
Impairment of non-current assets	-	-	-	-	-	-
Interest revenue	-	-	-	13,104	-	13,104
Income tax expense	-	-	-	-	-	-

**NEURODISCOVERY LIMITED**  
**CONDENSED NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the half-year ended 31 December 2010**

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**5. Dividends**

There are no dividends paid or payable during the half year.

**6. Contingent Assets and Liabilities**

There have been no changes in contingent assets and liabilities since the last annual reporting date.

**7. Discontinued Operations**

Neurodiscovery entered into a sale and purchase agreement on the 11 June 2010 regarding the sale of the Company's 100% interest in Neurosolutions Limited. The sale was approved by shareholder on 22 July 2010 and receipt of initial funds and transfers of shares finalised on the 12 August 2010.

Financial information relating to the discontinued operation to the date of disposal is set out below.

The financial performance of the discontinued operation to the date of sale which is included in profit/(loss) from discontinued operations per the statement of comprehensive income is as follows:

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>\$</b>	<b>\$</b>
Revenue	163,900	1,461,241
Expenses	142,738	1,075,892
Profit before income tax	<u>21,162</u>	<u>385,349</u>
Income tax expense	-	-
Profit attributable to members of the parent entity	<u>21,162</u>	<u>385,349</u>
Loss on sale before income tax	(841,000)	-
Income tax expense	-	-
Loss on sale after income tax	<u>(841,000)</u>	<u>-</u>
Total loss after tax attributable to the discontinued operation	<u>(819,838)</u>	<u>385,349</u>

The net cash flows of the discontinuing operation which have been incorporated into the statement of cash flows are as follows:

	<b>31 December 2010</b>
	<b>\$</b>
Net cash inflow/(outflow) from operating activities	25,435
Net cash inflow from investing activities	3,083
Net cash (outflow)/inflow from financing activities	-
Net cash decrease in cash generated by the discontinuing division	28,518



**NEURODISCOVERY LIMITED**  
**CONDENSED NOTES TO AND FORMING PART OF THE FINANCIAL**  
**STATEMENTS**  
**for the half-year ended 31 December 2010**

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**7. Discontinued Operations (cont.)**

Details of the sale of the discontinuing operation.

	<b>Consolidated Entity 31 December 2010 \$</b>
Cash consideration received/to be received	824,800
Carrying amount of net assets sold	(765,800)
Profit on sale before elimination of goodwill	59,000
Less: Elimination of goodwill on disposal	(900,000)
Total loss on sale of subsidiary	(841,000)
Income tax expense	-
<b>Loss on sale of subsidiary after income tax</b>	<b>(841,000)</b>

The carrying amount of assets and liabilities as of the date of sale and 30 June 2010 are as follows:

	<b>12 August 2010 \$</b>	<b>30 June 2010 \$</b>
Cash	604,007	551,959
Receivables	164,057	358,092
Property Plant & Equipment	92,998	139,979
Other	102,206	-
<b>Total Assets</b>	<b>963,268</b>	<b>1,050,030</b>
Payables	15,108	14,891
Other	182,360	269,669
<b>Total Liabilities</b>	<b>197,468</b>	<b>284,560</b>
Net Assets	<b>765,800</b>	<b>765,490</b>

**8. Subsequent Events**

No other matter or circumstance has arisen since 31 December 2010 that has significantly affected or may significantly affect:

- (a) the Consolidated entity's operations in future financial years;
- (b) the results of those operations in future financial years; or
- (c) the Consolidated entity's state of affairs in future financial years.

## **NEURODISCOVERY LIMITED DIRECTORS' DECLARATION**

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In the opinion of the directors of NeuroDiscovery Limited:

- (a) the financial statements and notes as set out on pages 6 to 14:
  - (i) give a true and fair view of the financial position of the Consolidated entity as at 31 December 2010 and of its performance for the half-year ended on that date.
  - (ii) comply with Accounting Standard, AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made and signed in accordance with a Resolution of the Board of Directors and is signed for and on behalf of the Board of Directors by:



**Michael Robson**  
**CHAIRMAN**

Perth, Western Australia, 21<sup>st</sup> day of February 2011

**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF NEURODISCOVERY LIMITED AND ITS CONTROLLED ENTITY**

**Report on the half-year financial report**

We have reviewed the accompanying half-year financial report of NeuroDiscovery Limited and its Controlled Entity (the consolidated entity), which comprises the statement of financial position as at 31 December 2010, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, statement of accounting policies, other selected explanatory notes and the directors' declaration.

**Directors' responsibility for the half-year financial report**

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of NeuroDiscovery Limited and its Controlled Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Independence**

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of NeuroDiscovery Limited and its Controlled Entity is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

**CROWE HORWATH PERTH AUDIT PARTNERSHIP**



**SEAN MCGURK**  
Partner

Perth, WA

Dated this 21<sup>st</sup> day of February 2011