
**VITA LIFE SCIENCES
LIMITED**
(ABN 35 003 190 421)

HALF-YEAR REPORT

30 June 2003

Directors Report

Vita Life Sciences Limited and its Controlled Entities

For the half-year ended 30 June 2003

Your directors present their report on the consolidated entity consisting of Vita Life Sciences Limited and the entities it controlled at the end of, or during, the half-year ended 30 June 2003.

Directors

The following persons were directors of Vita Life Sciences Limited during the whole of the half-year and up to the date of this report:

Vanda R. Gould
Gerald K. Adams
John S. Sharman

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of:

- (a) packaging, sales and distribution of vitamins and supplements; and
- (b) manufacture and sale of medical diagnostic equipment including associated research and development.

Review of Operations

2003 has been, and will continue to be, a challenging year for Vita Life Sciences. The after tax loss for the half year was \$5.63 Million. This loss was a direct result of the Pan Pharmaceutical recall which occurred towards the end of April 2003.

Whilst this compares to a loss of \$23.90 Million for the previous corresponding period, due to the Pan recall in the current period and changes in trading terms accounted for in the previous corresponding period comparisons between the two half years are difficult on both a profit and sales level.

A summary of consolidated revenue and results for the half year by segment is set out below:

| | Segment Revenue June 2003 \$'000 | Segment Sales Returns June 2003 \$'000 | Segment Net Revenue June 2003 \$'000 | Segment Results June 2003 \$'000 |
|--------------|---|---|---|---|
| Vita Health | 8,777 | (4,522) | 4,255 | (4,635) |
| Vita Medical | 4,136 | (1) | 4,135 | 1,065 |
| Vimed | - | - | - | (344) |
| Unallocated | 80 | - | 80 | (2,074) |
| Total | 12,993 | (4,523) | 8,470 | (5,988) |

Vita Health

Following the Pan recall, gross sales fell to 50% of their prior (early 2003) level. However, August results were back up to 90% of the pre-recall level, and we expect to exceed those figures in the months to year end.

More than 15 new products were introduced in Asia in August, and additional products (including re-sourced recalled products) will be available in September and October.

Vita Health has re-established business in Indo China and is also in discussions regarding market participation in both China and India.

During the half year the company successfully sold the unprofitable packaging area of Vita Health Australia, Southpack Laboratories. Whilst there was a small net loss on the sale of this business, the absence of this loss making packaging business should contribute to improved profitability for the Health business going forward.

Vita Life Sciences Limited

Financial Report for the half-year ended 30 June 2003

Vita Medical

The Medical business recorded sales of \$4.1 million compared to a budget of \$4.9 million. Whilst sales were below budget by \$0.8 million, on an EBITDA level results were comparable largely due to cost reductions.

Vita Medical is having a good year and we expect to achieve our profit budget. Cyclomedica (our European JV) will place or sell about 30% more Technegas generators in Europe than in 2003. European PAS sales will be about 10% greater than prior year. Sales and placements in the rest of the world will be 260% ahead of prior years with Australia and Asia well in advance of 2003 and Canada contributing for the first time in 2003. PAS sales will be up about 3%.

Our Canadian business is up and running and we are also targeting our first Technegas placement in Latin America by year-end 2003.

The New Drug Application (NDA) for submission to the USFDA is proceeding more slowly than planned. Clinical trials in six Australian hospitals are underway, but patient acquisition is running behind schedule. We expect to complete the trial and finalise the NDA in the second quarter of 2004. The FDA response is expected about one year later.

Vimed Biosciences

Progress on the development of ThromboTrace is satisfactory. A prototype ThromboTrace generator, for the reproducible production of ThromboTrace for search purposes, will be complete by year end 2003. In-vivo (animal) trials will also begin in October/November.

Significant Items

The results, particularly for Vita Health, were significantly affected by the Pan recall. \$ 4.5 Million of product was returned along with losses associated with inventory write off and additional costs incurred as part of the Pan recall. This has created a strain on our cash position which has been partially satisfied with proceeds from the recent issue of convertible notes. The Board and management are currently addressing the issue and the company is able to meet any debts arising in the ordinary course of business.

Financing

The issuance of Convertible Notes was very successful. VLS raised A\$12.86 million (compared to the target of \$12.96 million) of which \$6.65 was conversions of existing shareholders and third party loans; \$2.64 million retired other debt; and \$3.57 million was available for use.

Legal Cases

The company continues to pursue legal action against the former Managing Director, Mr. Pang as discussed in detail in December 2002's annual report and Note 4 of this report. The trial is now set to begin on 3 November 2003 in Singapore.


The cases between Vita Medical and MDS Nordion, the former distributor of Technegas in Europe, are progressing with court hearings likely to be held in the first half of 2004. See Note 4 of this report.

Notwithstanding the difficult conditions encountered by the company, the Directors and management are committed to getting the company back to normal trading as soon as possible.

Dividends – Vita Life Sciences Limited

The directors have resolved not to pay an interim dividend for the period.

This report is made in accordance with a resolution of the directors.


V R Gould
Chairman
Sydney
15th October 2003

Consolidated statement of financial performance
 for the half-year ended 30 June 2003

| | Half-Year | |
|---|--------------------|---------------------|
| | 2003 | 2002 |
| | \$ | \$ |
| Sales Revenue | 12,993,337 | 14,396,913 |
| Sales Returns and adjustments | (4,523,466) | (15,426,904) |
| Net Revenue from ordinary activities | 8,469,871 | (1,029,991) |
| Changes in inventories of finished goods and work in progress | 935,787 | (4,837,625) |
| Raw materials and consumables used | (4,518,975) | 1,565,085 |
| Employee expenses | (3,297,055) | (4,562,301) |
| Advertising and promotion expenditure | (1,724,644) | (2,888,723) |
| Depreciation and amortisation expenses | (477,441) | (595,789) |
| Borrowing costs | (718,747) | (139,854) |
| Research and development expense | (99,913) | (165,147) |
| Professional and consultancy costs | (599,516) | (1,300,151) |
| Insurance | (173,034) | (183,887) |
| Motor vehicle costs | (118,349) | (116,979) |
| Occupancy | (811,932) | (729,647) |
| Travel and accommodation | (455,236) | (573,481) |
| Provisions & write offs | (1,556,374) | (7,621,322) |
| Convertible Notes issue expenses | (256,515) | - |
| Other expenses from ordinary activities | (447,340) | (994,356) |
| Profit/(loss) from ordinary activities | (5,849,413) | (24,174,168) |
| Income tax (expense) / benefit relating to ordinary activities | 223,093 | 255,395 |
| Net profit/(loss) after income tax expense | (5,626,320) | (23,918,773) |
| Net profit/(loss) attributable to outside equity interests | 41,709 | 15,926 |
| Net profit/(loss) attributable to members of the parent entity | (5,584,611) | (23,902,847) |
| Non-owner transaction changes in equity | | |
| Net exchange difference on translation of financial statements of self-sustaining foreign operations | (403,211) | (2,805,140) |
| Total changes in equity from non-owner related transactions attributable to members of the parent entity | (5,987,822) | (26,707,987) |
| Basic earnings per ordinary share | (10.8 Cents) | (46.0 Cents) |
| Diluted earnings per ordinary share | (10.8 Cents) | (43.0 Cents) |

The above consolidated statement of financial performance should be read in conjunction with the accompanying notes.

Consolidated Statement of financial position

As at 30 June 2003

| | 30 June 2003 \$ | 31 December 2002 \$ |
|---|-----------------------|---------------------------|
| Current Assets | | |
| Cash assets | 2,767,626 | 1,784,947 |
| Receivables | 2,371,524 | 4,030,951 |
| Inventories | 4,940,558 | 6,776,502 |
| Other | 1,908,421 | 390,508 |
| Total Current Assets | 11,988,129 | 12,982,908 |
| Non Current Assets | | |
| Other financial assets | 2,000 | 2,000 |
| Property, plant & equipment | 2,553,697 | 2,964,473 |
| Intangibles | 7,996,055 | 8,162,289 |
| Deferred tax assets | - | 151,422 |
| Other | 5,880,999 | 4,623,835 |
| Total Non Current Assets | 16,432,751 | 15,904,019 |
| Total Assets | 28,420,880 | 28,886,927 |
| Current Liabilities | | |
| Payables | 9,827,437 | 7,542,553 |
| Interest bearing liabilities | 1,437,401 | 3,776,856 |
| Current tax liabilities | 724,638 | 524,846 |
| Provisions | 1,395,933 | 1,200,532 |
| Total Current Liabilities | 13,385,409 | 13,044,787 |
| Non Current Liabilities | | |
| Interest bearing liabilities | 11,821,575 | 5,944,145 |
| Deferred tax liabilities | - | 667,674 |
| Provisions | 118,150 | 113,814 |
| Total Non Current Liabilities | 11,939,725 | 6,725,633 |
| Total Liabilities | 25,325,134 | 19,770,420 |
| Net Assets | 3,095,746 | 9,116,507 |
| Equity | | |
| Contributed equity | 37,831,445 | 37,831,445 |
| Reserves | 353,124 | 756,335 |
| Retained profits / (accumulated losses) | (34,949,378) | (29,364,767) |
| Shareholders' equity attributable to members of the Company | 3,235,191 | 9,223,013 |
| Outside equity interest in controlled entities | (139,445) | (106,506) |
| Total Equity | 3,095,746 | 9,116,507 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of cash flows
 for the half-year ended 30 June 2003

| | Half-Year | |
|--|--------------------|--------------------|
| | 2003 | 2002 |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Cash receipts in the course of operations | 9,748,480 | 13,282,875 |
| Cash payments in the course of operations | (12,213,418) | (14,931,003) |
| Interest received | 48,424 | 8,411 |
| Borrowing costs | (207,807) | (139,853) |
| Income taxes paid | (264,922) | (295,231) |
| Grant Income | 31,633 | - |
| Other | (13,975) | (67,943) |
| Net cash provided by / (used in) operating activities | (2,871,585) | (2,142,744) |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (67,256) | (33,424) |
| Proceeds from sale of property, plant and equipment | - | 76,123 |
| Payments for research and development | (2,846) | (24,101) |
| Payments for FDA approval capitalised | (707,971) | (769,487) |
| Other | 9,309 | 150 |
| Net cash provided by / (used in) investing activities | (768,764) | (750,739) |
| Cash flows from financing activities | | |
| Proceeds from issue of convertible notes | 11,375,544 | - |
| Proceeds from borrowings | - | 4,164,407 |
| Repayment of borrowings | (5,894,606) | (916,232) |
| Other | 1,460 | 12,562 |
| Net cash provided by / (used in) financing activities | 5,482,398 | 3,260,737 |
| Net increase (decrease) in cash held | 1,842,049 | 367,254 |
| Cash at beginning of the financial period | (264,669) | (864,883) |
| Cash at the end of the financial period | 1,577,380 | (497,632) |

The above consolidated statement of cashflows should be read in conjunction with the accompanying notes.

Note 1. Basis of preparation

The Financial Statements are a general-purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non current assets.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2001 and any public announcements made by Vita Life Sciences Limited and its Controlled Entities during the half year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

These accounting policies have been consistently applied by each entity in the economic entity and, except where stated, are consistent with those of the previous year and corresponding interim reporting period.

Note 2. Going concern

As at 30 June 2003, the economic entity had current liabilities which exceeded current assets by \$1,397,280. Cash flow forecasts indicate that further financial support will be required to enable the Company and economic entity to meet any debts arising in the ordinary course of the business. A major shareholder, Continental Venture Capital, has indicated it will provide further financial support as necessary to meet any obligation arising in the normal course of business during the ensuing year. Consequent to these financial supports, the Directors believe it appropriate to prepare the financial statements on a going concern basis.

Note 3. Segment Reporting

Primary Reporting – Business Segments

| | Health 2003 \$ | Medical 2003 \$ | Other 2003 \$ | Consolidated 2003 \$ |
|--|----------------------|-----------------------|---------------------|----------------------------|
| Revenue | | | | |
| Segment revenue | 8,776,913 | 4,136,378 | 79,932 | 12,993,223 |
| Result | | | | |
| Segment result | (4,894,198) | 1,318,998 | (2,274,213) | (5,849,413) |
| Profit from ordinary activities before income tax expense | | | | (5,849,413) |
| Income tax (expense)/benefit | | | | 223,093 |
| Profit from ordinary activities after income tax | | | | <u>(5,626,320)</u> |
| Segment assets | 10,403,670 | 17,712,631 | 304,579 | 28,420,880 |
| Segment liabilities | 8,863,103 | 2,879,198 | 13,582,833 | 25,325,134 |

Note 4. Contingent Assets and Liabilities

Legal Proceedings

The legal proceedings, which were commenced in 2001, involving Vita Life and its Subsidiaries have continued to be vigorously pursued. The legal proceedings are predominantly against its former managing director, Mr Pang.

(a) Contingent assets

Singaporean Case

In the Singaporean proceedings the Company is claiming it suffered losses as a result of a number of alleged wrongdoings and alleged breaches of Singaporean Law and in particular alleged breaches of the Singaporean Companies Act by Mr Pang.

On 13 August 2003 the Singaporean court granted the plaintiffs application to further amend the proceedings. The amended proceedings include the addition of Vita Life Sciences Ltd as an additional plaintiff and claims breaches of the Share Sale Agreement and for misrepresentation.

The proceedings currently seek restitution in the sum of approximately S\$8.0 million plus interest, costs and damages. The Company believes it is possible that the sum of the restitution sought in these proceedings may still increase. Mr Pang denies he has committed any breaches and is defending the proceedings. Originally, the case was expected to come to trial in January 2003 however the Court has now listed the trial for commencement on 3 November 2003 running until 28 November 2003. There will then be a break over the court vacation period. The Court has declined to give dates for the recommencement of the trial which is expected to run for a further two weeks.

The Company intends to vigorously pursue this case and expects the legal proceedings in Singapore to be completed by early 2004 however the Directors cannot give any assurances in this regard.

Malaysian Case

During 2002 it was discovered that the Company's copyright and certain trademarks had been infringed in Malaysia and that a number of alleged wrong doings were made against it. Vita Life sought an "Anton Pillar" order and also served writs against some of its managers including Mr Pang. The "Anton Pillar" order was sought in order to establish the extent of the copyright and trademark infringements.

The Company was granted injunctive relief requiring the defendants to cease infringing Vita Health's trademark and copyright.

More specifically the allegations made by the Company in Malaysia are that the Company's contract packer and one distributor in Malaysia, two senior managers in charge of the Malaysian operating businesses, and the former managing director and his brother engaged in breaches of Malaysian law against the Company.

The Company has settled the claim with the Malaysian distributor and the claim against it has been discontinued. The Malaysian contract packer has lodged a counter claim for RM 10 million alleging unlawful termination of the packing agreement.

The proceedings continue and unspecified damages are sought. The defendants are seeking substantial security for costs which the Company's legal advisor views as being a baseless claim and without merit.

However, the Company has been advised that due to the backlog in the Malaysian courts, the trial date may not be fixed for the next 2 years. Our legal advisors maintain that prima facie the Company has a strong case.

To date, defences have been filed by the Company's contract packer, the former managing director and his brother. The defences deny the Company's allegations.

Pan Pharmaceuticals Limited

On 28th April, 2003, the Therapeutic Goods Administration informed Pan Pharmaceuticals Limited ("Pan") that:

- All products manufactured by Pan would be removed from the Australian Register of Therapeutic Goods, and that Pan was required to take immediate steps to recover all such goods manufactured and supplied by it since 1st May 2002. The recall to be conducted to consumer level; and
- The licence to manufacture therapeutic goods was suspended for a period of six months (collectively the "Pan Recall").

Pan was placed in Voluntary Administration on 22nd May 2003. On 23rd May 2003, the Voluntary Administrator was appointed Administrator of Pan's Australian subsidiaries.

Pan manufactured products for the Vita Group for sale in Australia and Asia.

The Pan Recall has resulted in Vita Health Laboratories (Aust.) Ltd., Vita Health Laboratories Pte. Ltd. and Vita Health Laboratories (Hong Kong) Ltd. suffering loss and damage estimated to be in the vicinity of A\$17,380,000.00. Formal Proofs of Debts have been filed with the Voluntary Administrator.

The final approach to liquidation or an Amended Deed of Company Administration ("DoCA") is still unresolved however current estimations from the Administrator is for a dividend of between 31 and 35 cents in the dollar under the proposed DoCA and between 26 and 47 cents in the dollar under liquidation.

Vita Life Sciences holds insurance policies which they currently consider apply in the Pan Recall. Under these policies the maximum recoverable less excess is A\$ 450,000 in Australia and S\$ 900,000 for the Asian business. The Company's insurer is currently denying liability, which is being contested by Vita Life Sciences.

Insurance recovery

Vita Health Singapore and Herbs of Gold have an insurance policy which the companies believe covers certain of the losses incurred associated with the TGA product recall. Both companies are in the process of claiming against these insurance policies with its insurance company in relation to cost of stocks recalled & loss of profits. At the time of publishing these accounts the Directors are not in a position to quantify the likely recovery amount but note that any recovery is unlikely to exceed AUD \$1.35 million

(b) Contingent liabilities

Malaysian Case

As mentioned above, the Company is the defendant in an action instigated by the Company's former contract packer in Malaysia. The counter claim for RM 10 million alleges the unlawful termination of the packing agreement. The Company is defending this matter and believe the case to be without merit.

Nordion Case

Vita Medical Limited has been joined as a defendant to two different proceedings in Australia and France by MDS Nordion, the former distributor of Technegas in Europe. The proceedings seek damages for the alleged wrongful termination of a distribution agreement between the parties.

MDS Nordion has requested a French court order that all the defendants are jointly sentenced to pay damages (including Vita Medical Limited), for the purported loss, and is claiming approximately 14.6 million Euros.

Vita Medical Limited will file its defence and counter claim and will vigorously defend the proceedings. Amongst other allegations, Vita Medical Limited alleges that MDS Nordion was in breach of the distribution agreement and had been in breach of previous agreements and accordingly Vita Medical Limited had strong commercial grounds for terminating.

Vita Medical Limited proposes to file cross claims against MDS Nordion for loss suffered in connection with MDS Nordion's alleged misbehaviour and damages to the Company's reputation.

Vita Medical Limited's legal advisors have stated that they expect the French Court to hear proceedings in the first half of 2004. Further, they note that the burden of proof is on the petitioner, MDS Nordion, which needs to prove the existence of the alleged unfair dealings, its damage and the connection between those two matters.

In Australia, Vita Medical Limited's legal advisors have provided a solicitors certificate to the Court confirming that based upon their instructions to date the grounds of defence relied upon are reasonable. However, in the event that the evidence supports MDS Nordion's allegations, the Company could be liable to pay substantial damages. Currently claims for damages remain unspecified. It is expected that the MDS Nordion Australian case will be set down for hearing in the first half of 2004.

Pan Pharmaceuticals Limited

At the date at which Pan was placed into Voluntary Administration, Vita Health Laboratories (Australia) Pty. Ltd. had unpaid invoices due and owing to Pan in the sum of A\$849,254.09. Similarly Vita Health Laboratories Pte. Ltd. had unpaid invoices due and owing to Pan in the sum of A\$426,889.71.

However, due to the product recall instigated by the TGA, the Vita Group may be able to exercise a right of set-off in respect of the above monies due and owing to Pan.

CVC Limited

The company is contingently liable to issue VLS shares to CVC Limited for profit achievements of Vita Medical limited for the year ending December 2001. Although the reported results for 2001 support the payment of the agreed consideration no payment has been made. This matter has not been determined at this point by the directors and will be referred to an independent legal expert in due course.

Note 5. Event occurring after balance date

- Under the prospectus issued on the 13th March 2003 and the supplementary prospectus dated 19th May 2003, an additional \$ 1.5 Million was received through the issue of unsecured convertible notes.
- An existing Director, Mr John Sharman, has been appointed to the position of Finance Director.


DIRECTORS' DECLARATION
VITA LIFE SCIENCES LIMITED
FOR THE HALF-YEAR ENDED 30 JUNE 2003

In the opinion of the Directors of Vita Life Sciences Limited ("the Company"):

- (a) The Financial Statements and notes set out on pages 4 to 11 are in accordance with the *Corporations Act 2001*, including:
- giving a true and fair view of the financial position of the consolidated entity as at 30 June 2003 and of its performance, as represented by the results of its operations and cash flows, for the half-year ended on that date; and
 - complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 15th day of October 2003.

Signed in accordance with a resolution of Directors



V.R. Gould
Chairman

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF VITA LIFE SCIENCES**

Scope

We have reviewed the financial report of Vita Life Sciences Limited for the half-year ended 30 June 2003, consisting of the profit and loss account, balance sheet, statement of cash flows, accompanying notes and the directors' declaration set out on pages 5 to 12. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report.

We have performed the review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Half-Year Accounts and Consolidated Accounts", and other mandatory professional reporting requirements and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

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 Vita Life Sciences Limited is not in accordance with:

- (a) the Corporations Law, including:
 - i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2003 and of its performance for the half-year ended on that date; and
 - ii) complying with Accounting Standard AASB 1029 "Half-Year Accounts and Consolidated Accounts" and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

Inherent Uncertainty Regarding Litigations

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 4 to the financial statements, Vita Life Sciences Limited and several controlled entities are parties, both as appellant and defendant, to various separate litigations which give rise to potentially material contingent assets and liabilities. Whilst the Company believes it will be successful in each of these cases, as with most litigation, the outcomes cannot presently be determined with an acceptable degree of reliability and accordingly no asset has been recognised nor has provision for any liability that may result, other than legal costs, been made in the financial statements.

Dated at Sydney this 15th day of October 2003.

GOULD RALPH & COMPANY
Chartered Accountants



GREG C. RALPH M.Com, F.C.A.
Partner



Member of the public accountants' body with official status worldwide
Established under the Companies Act 1988 (UK) and the Professional Standards Act 1998 (NSW)