Annual Report 2005

VITA LIFE SCIENCES

Corporate Directory

Directors
Mr V L Gould – Chairman
Mr J S Sharman - Director
Mr H G Townsing - Director

Company Secretary
Mr J S Sharman

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Building 75
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New Illawarra Road
Lucas Heights
New South Wales 2234
Australia

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Post Office Box 350
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Selangor Darul Ehsan
Malaysia
Telephone: (603) 7957 3873
Facsimile: (603) 7957 3703

European Regional Office
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Dublin 1, Ireland
Telephone: (353) 1 8881004
Facsimile: (353) 1 8881005

Auditors
Gould Ralph & Company
Chartered Accountants
Level 42, AAP Centre
259 George Street
Sydney New South Wales 2000
Australia

Share Registry
Gould Ralph Pty Ltd
Level 42, AAP Centre
259 George Street
Sydney New South Wales 2000
Australia
Telephone: (612) 9032 3000
Facsimile: (612) 9032 3088

Stock Exchange
The Company is currently not listed on the Australian Stock Exchange.

Other Information
Vita Life Sciences Limited, incorporated and domiciled in Australia, is a Public Unlisted Company limited by shares.

Email Address
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Website
www.vitalifesciences.com

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Chairman's Statement

Dear Vita Life Shareholder,

This year, I write to you as Chairman expressing cautious optimism. After more than three years of battling through the effects of the two major catastrophic events which fell upon the Vita Life group we have now successfully dealt with the majority of the issues. Now, as a result of hard work, persistence and the $19.19 million of capital made available by Noteholders, Vita Life can move forward.

Those Shareholders who have followed the fortunes of Vita Life closely will recall the difficulties were essentially in relation to VitaHealth. Whilst I have been frustrated by the time it has taken to deal with many of the issues, I am pleased to report that it would seem cautious optimism is warranted in relation to VitaHealth. Whilst the overall operating result for the year was once again a loss, I am encouraged by the last 6 months of the 2005 year where VitaHealth recorded a small profit. This is further reinforced by the trading result of a small profit for the first three months of 2006, which traditionally is the seasonal low point for VitaHealth. There is still a fair way to go before VitaHealth repays the faith that management and my fellow Directors have in the business, but a solid base from which to build a substantial business is beginning to emerge. Our new Managing Director, Mr Eddie Tie, has done an excellent job of restructuring VitaHealth.

Cyclopharm Limited, the new holding company for the Technegas business, performed well in 2005, and importantly for the future of our business the New Drug Application relating to the sale of Technegas in the USA was recommenced. We are excited by the opportunities Cyclopharm has in front of it and a number of substantial initiatives are underway, including material improvement in the operating performance of this business. The proposal to list Cyclopharm in its own right in the second half of 2006 is advancing and I would encourage Shareholders to carefully consider an investment into Cyclopharm when the opportunity presents itself later in the year.

Shareholders will be aware that Vita Life held meetings of Shareholders and Noteholders on 12 April 2006. These meetings were watershed moments in terms of Vita Life's future. Importantly, the resolutions put to both Shareholders and Noteholders were approved by an overwhelming majority of investors, allowing the Company to deal with its debt obligations to Noteholders, and hopefully recover some value for Shareholders. The passing of the resolutions effectively allows Vita Life to re-emerge as two separate business units and give the Directors and senior executives the mandate to carry on with our plans to restore value to Vita Life Shareholders. I believe that Shareholders now have an opportunity to salvage something from the wreckage of Vita Life.

I would like to thank my fellow Directors, our executives and our staff. I would also personally like to thank the Noteholders and other lenders whose financial support has been critical to the survival of the Company. I am pleased that the financial backers, who have taken considerable risk, will be well rewarded.

Finally, I would like to thank those Shareholders who have supported our Company. Notwithstanding many Shareholders having suffered considerable financial loss, their support and encouragement by way of letters, faxes and telephone calls is appreciated by everyone at Vita Life and its subsidiaries.

There are still substantial issues to be dealt with by the Vita Life group, but it would seem that there is now a solid future for our group and that cautious optimism is warranted. Proverbs 29:18 says, "The people perish without a vision." It is now clear that the vision we have for your Company is sustainable.

Yours faithfully,

Vanda Gould,
Chairman
Sydney
8 June 2006

Executive Report

As noted by our Chairman, we are delighted to advise that all of the resolutions put to Shareholders and Noteholders at the meetings held on 12 April 2006 were unanimously passed. The passing of these resolutions, and the subsequent restructure of the way Vita Life Sciences Limited ("Vita Life") owns and operates its businesses enables us to begin the next phase of the company's life, one where the company will not have crippling and profit consuming debt obligations, where growth and other initiatives are no longer systematically delayed or rejected because of working capital constraints, and one in which our people will be able to work healthily and efficiently. We cannot stress to Shareholders enough the difficulties Vita Life has had in recruiting and maintaining quality people as a result of the demands placed on them in dealing with catastrophic past events, legal actions and cash restraints. This latest initiative gives us the balance sheet strength and the cash flow certainty to offer quality people an attractive career path.

Certainly we are all reinvigorated by the opportunities in front of the group. Vita Medical or Cyclopharm, as it is now known, has a number of very good initiatives underway which will see this business develop and grow strongly over the next 12 to 18 months and beyond. The launch of the new TechnegasPLUS generator coincides with the new corporate identity and this gives us the opportunity to renew market interest in our products.

Not only does the approval by Shareholders and Noteholders impact directly on staff and business opportunities at Cyclopharm, but VitaHealth also receives the benefit of a stronger balance sheet and better working capital. Currently at VitaHealth we have begun a number of initiatives which require increased capital commitment, and we hope that the speed and success of these initiatives will be directly and positively impacted by the recent restructure.

As previously stated, we have separated the Vita Medical business from VitaHealth. This will result in Shareholders of Vita Life becoming Shareholders in two distinct companies, the first being Cyclopharm group of companies that will operate the Vita Medical business and look to expand its offerings in molecular imaging. The second company is Vita Life which will own VitaHealth.

On 12 April 2006 Noteholders and Shareholders agreed to the restructure of the group of companies involved in the Technegas business and the adoption of a scheme that will see the Unsecured Convertible Notes repaid and inherently, the sale/divestment of Cyclopharm. This will see the cost of borrowings substantially reduced in 2006 and beyond. For detailed information about the restructure and the scheme approved, please refer to the following documents:

1. the Notice of Meeting of Members dated 10 March 2006
2. the Notice of Meeting of Noteholders dated 10 March 2006
3. the Cyclopharm Prospectus dated 27 March 2006

These documents are available on our website at www.vitalifesciences.com

Financial Performance for 2005

The 2005 results for Vita Life do not really reflect the benefits expected to be derived from the hard work done to date. Whilst the reported loss after tax is much improved compared with 2004, it is still a disappointing $0.50 million. However, we believe that this result masks some of the important achievements during the year.

On an operating basis the results were comparable to 2004. Whilst revenue from operating activities was slightly lower than last year, Cyclopharm enjoyed a record sales result. The net decrease in sales represents a deliberate effort to eliminate unprofitable sales being made within the VitaHealth business. We have taken positive steps to revise unprofitable trading terms with our partners in Asia and we are seeing positive results from this initiative during the first quarter of 2006. To this end we can report that the VitaHealth business recorded an operating profit before interest and tax for the 6 months from 1 July 2005 to 31 December 2005 and has also reported a small profit (unaudited management accounts) for the first quarter of 2006. We are encouraged by this result as the first quarter of each year is historically our poorest performing quarter in terms of profit.

On the cost front, operating costs have been reduced. We estimate that the benefits of the restructure of the VitaHealth group and the Vita Life corporate office have delivered savings of in excess of $3.0 million (decrease of 20% year on year). These have been partly offset by the recruitment of additional people, the creation of new business initiatives at VitaHealth, and the expensing of the reinstated New Drug Application programme for the United States.

Summary of Operating Performance of Vita Life

(AUD $ Million)	2005	2004
Revenue from operating activities (before returns)	21.6	22.8
Direct selling and operating expenses	(18.6)	(19.8)
Profit from operations	3.0	3.0
Legal	(1.0)	(1.3)
Provisions and write offs	(1.8)	(1.0)
Finance costs	(2.4)	(2.2)
Other*	1.9	(0.1)
Profit before tax	(0.3)	(1.6)

* Other consists of foreign exchange gains or loss, an estimate of VHAP restructure costs, Pan recall costs, and the benefit of the Vimed restructure.

Our overall financial performance was also negatively impacted by legal expenses which are not expected to continue at the current rate because several of the legal actions were finalised during the year.

Cyclopharm

There were a number of operating highlights during 2005 which puts Vita Life in a good position to achieve solid growth in 2006 and beyond. The key highlights are outlined below:

1. During 2005, Cyclopharm was able to achieve record sales levels of $8.81 million with a profit before interest and tax of $2.32 million, or 26% of sales.
2. After many years in the market, Cyclopharm launched a new generator "TechnegasPLUS" at the European nuclear medical conference in Istanbul in October 2005. This new generator has created substantial interest in the market and we are budgeting for strong growth both in terms of sales of PAS and new generators over the next two years.
3. The launch of TechnegasPLUS allows us to focus on several of our key European markets and offer a much wider range of users access to our technology. In the first instance we intend to focus our efforts on expanding our market presence in Germany and the UK, where the size of the nuclear medical departments and the cost of the consumables can be addressed by placing refurbished machines into more sites. We expect the availability of refurbished machines to smaller users of the technology will generate growth in these large and mature markets.
4. Cyclopharm has applied for new patents in all our major markets which we expect to extend our intellectual property rights for a further 20 years.
5. Our Canadian market is still growing strongly. There are now currently 30 generators installed in hospitals in Canada and consumable usage rose from 161 boxes in 2004 to 265 boxes in 2005 (65% increase). This upward trend is set to continue during 2006 with a budgeted rise of a further 55%.

6. Asian consumable usage has grown in line with our increased efforts in the region. Sales of consumables was up from 95 boxes in 2004 to 126 boxes in 2005 (growth of 33%) and 9 new generators were sold into Asian markets during the year.
7. During the year we successfully opened up new markets with sales of generators achieved in South Africa and Uruguay. We are expecting that South Africa in particular could be an attractive market and are budgeting for growth in this market in 2006.
8. Subsequent to the launch of TechnegasPLUS, there are pre sales orders for 55 new machines.

Worldwide there were 63 generators sold or placed into the market in 2005 and sales of 3,157 boxes of consumables. Inventory remained stable over 2005 against year end 2004. We are quietly confident that 2006 will be a record year for Cyclopharm, as sales of generators in the latter part of 2005 were impacted by customers waiting until the launch of TechnegasPLUS.

FDA

The New Drug Application (aimed at getting Technegas approved for the USA) was officially re-activated in November 2005 and clinical sites in Australia and Canada have been contracted to collect patient data. Our focus has shifted to patient studies in North America as we have been advised the data collected from this region will be beneficial to our application. Six hospitals are to conclude the trials, three Canadian hospitals being Toronto General, Memorial University, and CDHA Halifax as well as three Australian hospitals being, Royal Perth, Royal North Shore and St George in Sydney. Trial data is expected to be collated and presented to the FDA for examination by the end of 2006 (note the progress of the trial is dependant on the availability of patients prepared to participate in the study). It is envisaged that Technegas will be introduced to the USA in early 2008 if FDA approval is obtained.

Cyclopharm for the 2006 year

In 2006 Vita Life expects to complete the sale/divestment of the Cyclopharm group. Cyclopharm expects to see continued expansion in Canada and Latin America. We are also looking to expand the European market by reorganising management of our largest and important European markets and source new sales in Eastern Europe. We are actively recruiting people to assist us in Europe and have taken over the direct distribution of our products in Germany.

During 2006 sales of consumables are expected to rise by 10% with the majority of that growth being attributed to further market penetration in Canada and Europe. The TechnegasPLUS generator was introduced to the European market in October 2005 at the European Association of Nuclear Medicine held in Istanbul, Turkey where the customer reaction to TechnegasPLUS was an unqualified success. It is expected that sales growth in 2006 will be driven by new customers and importantly old customers updating to the new model. We believe that the “replacement market” is in the region of 200 generators globally and we will seek to replace the majority of old units over the next two years. The first build of pre sold machines left the factory in March 2006 destined for markets in Europe.

Research

We continue to have an excellent relationship with the Australian National University (“ANU”) and in terms of our various research efforts, Cyclopharm and the ANU intend to form a new company to continue further research into “Liquid Technegas” during 2006. Funding for the project is intended to be obtained by the ANU via research grants. Cyclopharm will continue to offer technical support and work closely with the ANU to ensure this important research moves forward to a commercial outcome.

VitaHealth

The key operating highlights for VitaHealth in 2005 are outlined below:

1. VitaHealth made a profit for the last 6 months of 2005, evidencing the continued turnaround in operating performance. During the last three months of 2005 based on management accounts, VitaHealth recorded earnings before interest, tax, depreciation and amortisation of $280,000 and the first quarter of 2006 was also profitable.
2. VitaHealth has benefited substantially from the restructure of the business and the transfer of the regional operations from Singapore to Malaysia which was completed in the first quarter of 2005.
3. Operating costs were reduced by a net $1.9 million during the period.
4. Australia is now our single largest market accounting for nearly 50% of our group's turnover. This in part is due to sales growth of 8% over the previous year for Herbs of Gold.
5. 2005 saw the first full year of sales for Herbs of Gold's sister brand developed for the Pharmacy channel, VitaScience.
6. Inventory levels have been reduced by 40% compared to last year resulting in a substantial improvement to our cash flow.

Notwithstanding the number of substantial, positive improvements in 2005, our business suffered heavy losses in the first quarter of 2005 as our trading partners rebelled against our stronger stand in the market place with respect to margins and promotional expenditure. The immediate reaction of several of our trading partners was to return stock to us, and this resulted in an unusually high level of returns and thus lower levels of recorded net sales. Notwithstanding this short term pain, we were determined to "weather the storm" and move towards a business model that would see a profitable and sustainable VitaHealth.

At the same time as revising our trading terms we undertook other positive steps such as increasing selling prices in Asia for most products, introduced tighter control over trade discounts and bonus stocks, and continued a programme of continuous re-sourcing and re-negotiation of prices of our raw materials.

Whilst the Health group revenue fell from $14.1 million in 2004 to $11.1 million in 2005 the total operating loss before tax was reduced from $2.1 million to $1.4 million.

Australia

Australia is now our single largest market accounting for nearly 50% of our Group's turnover. This in part is due to sales growth of 8% (year on year) during 2005.

During 2006 we intend to continue to put a heavy emphasis on innovation, new product development and product launches which we expect will bring further growth and better margins.

Our VitaScience brand achieved substantial growth (albeit from a very low base) and we are hopeful that with innovative new products being introduced this initiative will grow to become a substantial part of our business. A large part of the sales increase for VitaScience can be attributed to the product range being accepted as a core product range in a major national pharmacy group.

Malaysia and Singapore

The balance of VitaHealth's turnover is mostly split between Malaysia and Singapore. On a year on year basis, Malaysia experienced a substantial decrease in sales which in particular is due to the deliberate policy of demanding better trading terms and higher margins from trading partners.

Despite a decline in sales in Singapore, gross margin improved and the Singaporean operations reported an operating profit for the last three months of 2005.

In terms of the markets in Asia generally, we have observed that whilst many new entrants into the Asian markets ultimately fail, they damage the industry dynamics by making the trading terms more difficult for principals like VitaHealth as a result of the generous discounts and price structures they offer to customers.

Despite these challenges we continue with our strategies for long term results and accordingly we have sacrificed short term benefits. Our strategies to build long term Shareholders' value are:

1. Increase focus on brand building efforts to command a price premium for our products;
2. Improve product training and knowledge of sales personnel so that they can add value to our customers;
3. Improve supply-chain processes to optimise stock-holding levels so that we do not have to resort to "slashing" prices in order to clear stocks, thus damaging the brand value;
4. Constant review of prices with suppliers to improve gross margins;
5. Negotiate better trading terms with our customers;
6. Careful selection of promotional programmes with retailers to improve margins;
7. Rationalise operating overheads, cost-cutting and constantly streamlining operating processes and procedures; and
8. Careful evaluation of new product launches to improve the financial returns of new products using our in-house Market Profitability Evaluation Committee (MPEC) to vet every new product proposal.

2006 Going Forward

2006 will be a critical turnaround year for VitaHealth group.

With increased focus on innovative product development, and enhancing knowledge, skills and positive attitudes across all staff levels, we believe that our brand will regain its eminence in the market place.

In terms of new products, we have targeted 5-8 new products to be launched in each key market in 2006. As at the end of March 2006 we have already launched 2 new products in Malaysia and 3 new products in Singapore and Australia each.

One of our important initiatives for the future is our desire to open new selling channels for our products. To that end VitaHealth has received its Multi-Level-Marketing license to operate the direct selling business model in Malaysia. We are also working on setting up new business channels in Thailand and China, all of which will benefit our group and increase Shareholders' value in the medium to long term.

During the second quarter of 2006, Malaysia will for the first time announce it will be selling "halal" supplements to the Malay market (making up 65% of the population of Malaysia).

We also continue to review our existing distributors in Myanmar, Philippines, Indonesia and Vietnam with the aim of finding ways to increase sales in these markets.

Conclusion

We are excited by the opportunities in front of Cyclopharm. We believe the current initiatives will result in a material improvement in the operating performance of this business. Our proposal is to list Cyclopharm in its own right towards the end of this year and endorse the Chairman's statement and encourage Shareholders to consider an investment in Cyclopharm when the opportunity presents itself.

There is still a fair way to go before VitaHealth repays the faith that management and my fellow Directors have put into the business but we are cautiously optimistic. In terms of the VitaHealth business, we have been frustrated by the time it has taken to deal with the many and substantial issues therein. Most of these issues have now been successfully dealt with and in terms of operating performance, we are now in a position where we have completed the re-structure of this business and have a clear strategy for its future. Most encouraging of all, is that the VitaHealth business has recorded a profit (albeit small) for the last six months of 2005, and again for the first quarter of 2006.

As always, I would like to thank my fellow Directors, our executives and our staff. As noted earlier, the difficulties within which our people are operating cannot be understated. Many, if not all of our staff, have displayed loyalty and determination to succeed over a long period of time, beyond what could reasonably be expected. I am delighted to think that their hard work will ultimately be rewarded. I would personally like to thank the Noteholders and other lenders whose financial support has been critical to the very survival of our company. I would also like to thank our trading partners for their support during the year.

Finally, I endorse the Chairman's comments and thank those Shareholders who have supported our company. I know that many Shareholders have suffered financial loss but the support and encouragement from many Shareholders, by way of letters, faxes and telephone calls is appreciated by everyone at Vita Life.

John Sharman,
Executive Director
Melbourne
8 June 2006

Directors' Report

Your Directors present their report on the consolidated entity consisting of Vita Life Sciences Limited ("Vita Life") and the entities it controlled at the end of, or during, the year ended 31 December 2005.

Directors

The following persons were Directors of Vita Life Sciences Limited during or since the end of the financial year:

Vanda R Gould
John S Sharman
Henry G Townsing

Vanda Gould held office during the whole financial year and continues in office at the date of this report. Pursuant to the company's constitution Directors are required to stand for re-election every three years. Mr Gould has consented to stand for re-election at the 2006 Annual General Meeting.

John Sharman held office during the whole financial year and continues in office at the date of this report.

Henry Townsing held office during the whole financial year and continues in office at the date of this report.

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

Financial Results

During the year the economic entity recorded a loss from ordinary activities of $279,316.

Dividends – Vita Life Sciences Limited

The Directors have resolved not to pay a dividend for the year.

Significant Changes in State of Affairs

The directors comment on the following matters:

Pan Administration - Dividend

During the year Vita Life finalised its claims with the Pan Liquidator save for our loss of profit claim for our Australian business. We have agreed with the Liquidator that we will suspend our action pending the outcome of a legal case between the Liquidator and a third party, which, we believe, has similar facts to our claim. To date Vita Life has received $970,704 as a dividend from Pan and in accordance with an earlier sale of these proceeds, they have been remitted in full to Barleigh Wells Ltd.

Cancellation of Shares

Vita Life has registered the judgement it obtained in the High Court of Singapore and New South Wales to auction the 6,869,151 Vita Life shares held by Pang Seng Meng in settlement of that debt. Prior to auctioning these shares, Mr Pang's sister filed a claim for 2,698,260 Vita Life shares. The Official Assignee of Singapore has also confirmed that it will be filing a claim for the balance of these shares. Legal proceedings continue in Singapore and Australia.

Other Directors report disclosure requirements

The following have been disclosed in the Executive report:

- Review of operations;
- Likely development and expected results of operations.

After balance date events

Meeting of Noteholders

The Company held a meeting of Noteholders on 12 April 2006, wherein Noteholders approved a set of resolutions which resulted in the release of certain security charges held by Noteholders over companies associated with the Vita Medical business, the transfer of certain assets between 100% owned subsidiary companies and the formation of a new sub holding company "Cyclopharm Limited" for that business. Details of the resolutions put to the Meeting of Noteholders are available on our website at www.vitalifesciences.com

Meeting of Shareholders

At the meeting of Shareholders on 12 April 2006 wherein Shareholders approved a set of resolutions which resulted in approval for:

i. Vita Life to offer shares in the newly formed sub holding company, Cyclopharm Limited, to Noteholders in part satisfaction of their debt entitlement;

ii. Approval for Vita Life to sell Cyclopharm Limited ordinary shares to raise sufficient funds to allow the repayment of the balance of Noteholders' entitlements;

iii. Approval for Vita Life to offer each of its Shareholders the right to purchase the remaining balance of Cyclopharm Limited fully paid shares owned by the company (after it has sold Cyclopharm shares pursuant to (ii) above) to satisfy the obligations to Noteholders;

iv. The payment of a success fee to CVC Venture Managers Pty Ltd, a company related to Messrs Vanda Gould, Henry Townsing and John Sharman;

v. The Company to make a limited recourse loan to Mr Daud Yunus, a Director of VitaHealth companies, of $170,000 to purchase 680,000 new, ordinary, fully paid shares in Vita Life; and

vi. The Company to make limited recourse loans to such executives of the VitaHealth group as they see fit, up to the sum of $250,000 to purchase 1,000,000 new, ordinary, fully paid shares in Vita Life.

Conversion of Noteholders' Entitlements to Vita Life and Cyclopharm Shares

Shareholders and Noteholders will be aware that as a result of the resolutions passed at the meetings on 12 April 2006, Noteholders were able to convert their entitlements into ordinary shares of Cyclopharm Limited at a rate of 4.76 Cyclopharm shares for every $1.00 of Face Value of Notes (equivalent conversion price being $0.21 per Cyclopharm share) with a maximum number of shares to be issued being 28,571,429 or $6.0 million Face Value of Notes.

We received applications for $17,610,797 Face Value of Notes to be converted into 83,860,938 Cyclopharm, shares. This represents an over-subscription of 2.9 times the available allocation for

Cyclopharm shares. Noteholders applying for shares in Cyclopharm will be scaled back in accordance with terms and conditions of the offer. Shares in Cyclopharm will be issued on or around 19 May 2006.

The company has written to Noteholders advising of their right to convert their Notes into four Vita Life shares and they have until 19 May 2006 to advise the company of their conversion intensions. Thereafter Noteholders' rights to convert into Cyclopharm shares are terminated.

Chinese Joint Venture

During 2005 we became increasingly unhappy with the progress of our business in China. In April 2006 we successfully negotiated the un-wind of the "joint venture" agreement with Vital Biotech and recovered our initial investment. VitaHealth has employed a senior executive to develop our business in China.

Cyclomedica Europe Limited

On 1 June 2006, a wholly owned subsidiary of Cyclopharm acquired 50% of the issued capital of Cyclomedica Europe Limited for €100,000. Consequently Cyclomedica Europe Limited became a wholly owned subsidiary of Cyclopharm.

Litigation – Kate Helena Fraser

This litigation was settled by consent on 17 May 2006 for an amount of $475,000 – significantly less than the $750,000 previously provided in the financial statements. In accord with the requirements of Australian Accounting Standards, the Company and consolidated entity have subsequently adjusted the previously recognised provision and credited income as a reversal of impairment loses previously recognised in the 31 December 2005 financial statements.

Environment regulations

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the board believe that the consolidated entity has adequate systems in place for the management of its environmental requirements as they apply to the consolidated entity.

Information on Directors

Director	Experience	Special responsibilities	Particulars of Directors' interests in shares and options of Vita Life Sciences Limited		Particulars of Directors' interests in Convertible Unsecured Notes of Vita Life Sciences Ltd	
			Ordinary shares	Ordinary options	Ordinary Notes	Ordinary options
VR Gould B.Com. M.Com. FCA, FCPA	Non-executive director for 6 years. Chairman for 6 years. Director of several public and private companies.	Non-executive Chairman, Remuneration Committee and Audit Committee responsibilities performed by the Board of Directors.	6,945,897	-	164,480	-
HG Townsing Dip.Val	Non- executive director since May 2004. Director of several private companies.	Remuneration Committee and Audit Committee responsibilities performed by the Board of Directors.	8,964,912	-	872,481	-
JS Sharman B.Ec, Master of Applied Finance, CA	Director for 4 years. Managing Director of CVC Venture Managers Pty Limited.	Remuneration Committee and Audit Committee responsibilities performed by the Board of Directors.	1,030,000	-	50,000	-

Meetings of Directors

The number of meetings of the company's board of Directors held during the year ended 31 December 2005 were:

	Board meetings attended	Eligible to attend
V R Gould (Chairman)	10	11
J S Sharman (Director)	10	11
H G Townsing (Director)	11	11

During the financial year, remuneration and audit committee discussions were performed at board level.

Retirement, election and continuation in office of Directors

Henry George Townsing was elected as a director on 31 May 2005 at the 2004 Annual General Meeting.

John Stewart Sharman was re-elected as a director on 31 May 2005.

Vanda Gould was elected as a director on 31 May 2003. Pursuant to the company's constitution Directors are required to stand for re-election every three years. Mr Gould has consented to stand for re-election at the 2006 Annual General Meeting.

Directors' and executives' emoluments

Given the size of the company the Board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executive Directors.

Executive remuneration and other terms of employment are reviewed annually having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as base salary, remuneration packages include superannuation, retirement and termination entitlements, performance related bonuses and fringe benefits. Executives are also eligible to participate in the Vita Life Directors' Share Option Plan or Employees' Share Option or Long Term Incentive Plan as appropriate.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

Remuneration and other terms of employment for the Directors and other senior executives are formulised in service agreements.

Remuneration of non-executive Directors is determined by the board within the maximum amount approved by the Shareholders from time to time.

The board undertakes an annual review of its performance and the performance of the board committees against goals set at the start of the year.

Details of the nature and amount of each element of the emoluments of each director of Vita Life Sciences Limited and each of the five specified officers of the consolidated entity receiving the highest emoluments are set out in the following tables.

Non-executive Directors of Vita Life Sciences Limited

Name	Director's base fee $
V R Gould	30,000
H G Townsing	15,000

Executive Director of Vita Life Sciences Limited

Name	Base salary $	Bonus $	Superannuation $	Total $
J S Sharman* *Executive Director*	170,000	-	15,300	185,300

* CVC Venture Managers is entitled to consulting fees of $185,300 (+ GST) and is reimbursed for direct costs it incurs on behalf of Vita Life of $97,515 (+ GST). CVC Venture Managers is responsible for paying Mr Sharman's salary as Vita Life's Executive Director from the consulting fees received from Vita Life.

Other specified executives of the consolidated entity

Name	Base salary $	Bonus $	Superannuation $	Total $
E Tie *Managing Director* *VitaHealth*	$124,666	-	$14,962	$139,628
D T Rundell *Chief Executive Officer* *Vita Medical*	$127,293	$7,500	$11,456	$146,249
G Somerville *Quality Manager* *Vita Medical*	$95,620	-	$8,605	$104,225
L M Leong *Chief Financial Officer* *VitaHealth Singapore*	$83,735	$6,400	$7,072	$97,207

Share options granted to Directors and the most highly remunerated officers

Options over unissued ordinary shares of Vita Life Sciences Limited granted during or since the end of the financial year to any of the Directors or the 5 most highly remunerated officers of the company and consolidated entity as part of their remuneration were nil.

Pursuant to the Vita Life Employee Long Term Incentive Plan:

- Mr John Sharman was granted a limited recourse loan of $250,000 which was used to purchase 1 million Vita Life shares at 25 cents each.
- Mr Daud Yunus was granted a limited recourse loan of $170,000 on 12 April 2006 which was used to purchase 680,000 Vita Life shares at 25 cents each.

Recourse for the loans is strictly limited in all circumstances to the Vita Life shares purchased with the proceeds of this loan.

Shares under option

Mr Eddie Tie joined the group as Managing Director of VitaHealthcare Asia Pacific Sdn Bhd (which is the subsidiary holding company for the VitaHealth group of companies) on 17 January 2005. As part of his remuneration package he has been granted certain options over VitaHealthcare Asia Pacific Sdn Bhd. A summary of the current shares under option are:

Director	Options granted	Company
E Tie	333,333 (2.4% of issued capital)	VitaHealthcare Asia Pacific Sdn Bhd

There are no outstanding options granted under the Vita Life Sciences Directors Share Option Plan.

As part of an unsecured loan facility provided to Vita Life by Barleigh Wells Ltd, Vita Life has granted options for Vita Life shares to Barleigh Wells Ltd. Our original agreement entitled Barleigh Wells to 10 options for each $1.00 of facility used. As at the date of this report the company had drawn a maximum of 2.8 million dollars.

The terms and conditions applying to the options issued by Vita Life are:

- Date of initial issue of options: 1 February 2004.
- Expiry date of all options: 31 January 2009.
- Number: The quantity of options is being renegotiated. Barleigh Wells Ltd has agreed to reduce the number of options it holds on the basis of Vita Life providing Barleigh Wells Ltd security over Vita Life's subsidiary Herbs of Gold Pty Ltd. For Vita Life arranging the charge over Herbs of Gold Pty Ltd, Vita Life has offered Barleigh Wells Ltd 3 options for each $1.00 of loan monies advanced by Barleigh Wells Ltd or 8,610,427 options as at the date of this report.
- Exercise price: Each option confers on the holder the right to take up an ordinary fully paid share in Vita Life. The exercise price for each option is $0.10.

Insurance of officers

During the year the Company was unable to obtain Directors insurance. The Officers of the company who were not covered by any insurance policy include the Directors, the Company Secretary and Executive Officers.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company or any related body corporate. In accordance with clause 29.1 of the Vita Life Sciences Limited constitution and section 199A of the Corporations Act 2001 the company has resolved to indemnify its Directors and officers for a liability to a third party unless it arises out of conduct which is not in good faith.

The indemnification of the Directors and officers will extend for a period of at least 6 years in relation to events taking place during their tenure (unless the Corporations Act 2001 otherwise precludes this time frame of protection.)

Related party transaction

During the year CVC Venture Managers Pty Ltd ACN 002 700 361 was paid consultancy fees. Mr John Sharman and Mr Vanda Gould are both Directors of CVC Venture Managers Pty Ltd and Vita Life.

For the 2005 year, CVC Venture Managers was entitled to consulting fees of $185,300 (+ GST) and is reimbursed for direct costs it incurs on behalf of Vita Life of $97,515 (+ GST). CVC Venture Managers is responsible for paying Mr Sharman's salary as Vita Life's Executive Director from the consulting fees received from Vita Life.

Mr Vanda Gould does not receive any remuneration from CVC Venture Managers.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

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

J S Sharman,
Executive Director
Melbourne
8 June 2006

Auditors Independence Declaration

Gould Ralph & Company Chartered Accountants

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AUDITORS INDEPENDENCE DECLARATION TO THE DIRECTORS OF VITA LIFE SCIENCES LTD

In relation to our audit of the financial report of Vita Life Sciences Ltd for the year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable Code of Professional Conduct.

GOULD RALPH & COMPANY

GREGORY C RALPH, M.COM, FCA
Partner
Sydney, 8 June 2006

Corporate Governance Statement

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, unless otherwise stated.

The Company is a holding company and its main corporate governance practices, as applied to all subsidiary companies, are summarised below.

Board composition

The Board is responsible to Shareholders for the Company's overall corporate governance. For the year the Board was comprised of two Non-Executive Directors and one Executive Director. Mr Sharman was seconded to an Executive role as Finance Director in October 2003 and became the Executive Director for the group in 2005. The chairman, Mr V R Gould, is a Non-Executive Director.

The Board's responsibilities include:

- Establishing the criteria for Board membership;
- Reviewing the composition of the Board;
- Identifying and nominating possible new candidates for the Board and assessing proposed new appointments;
- Reporting to Shareholders;
- Reviewing and determining strategic direction and policy; and
- Establishing management goals and monitoring their achievement.

In addition to the eleven scheduled full meetings each year, other meetings may be held at short notice as required.

Appointment and retirement of Non-executive Directors

It is the Board's policy to consider the appointment and retirement of Non-Executive Directors on a case-by-case basis. In doing so, the Board must take into account the requirements of the Constitution and the Corporations Law.

Currently, the Board requires Directors to be re-elected by rotation at least every three years, and they must retire at the Annual General Meeting following their seventieth birthday.

Remuneration arrangements for Directors and Senior Executives

The Remuneration Committee currently comprises Mr VR Gould, Chairman of the Remuneration Committee and Mr HG Townsing.

The Remuneration Committee is responsible for:

- Reviewing and approving the remuneration of Directors and other Senior Executives; and
- Reviewing the remuneration policies of the Company generally.

In determining the remuneration to be paid to Non-Executive Directors, consideration is given to the level of remuneration given by companies of comparable size and type.

Retiring Non-Executive Directors are not currently entitled to receive a retiree allowance.

Investment and business risk management

The Board makes decisions on investments for the company, considering that the general retention by it of the power to make the final investment or divestment decision by majority vote, provides an effective review of the investment strategy.

A majority of the Directors must approve any modification to the investment parameters applying to the Company's assets.

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures currently adopted by the Board include:

- Monthly reporting to the Board in respect of operations and the Company's financial position, with a comparison of actual results against budget; and
- Regular reports to the Board by appropriate members of the management team and/or independent advisers; outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

Independent professional advice

In fulfilling their duties, each Director and each committee of the Board dealing with corporate governance matters may obtain independent professional advice at the Company's expense. Prior approval of the Chairman is required, whose approval must not be unreasonably withheld.

Shareholdings by Directors

Company policy restricts trading by the Directors in their shares to certain times and circumstances.

Ethical standards

The Board endeavours to ensure that the Directors, officers and employees of Vita Life act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. All officers and employees are expected to:

- Comply with the law;
- Act in the best interests of the Company;
- Be responsible and accountable for their actions; and
- Observe the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

Income Statement
for the year ended 31 December 2005

		Consolidated		Parent	
		2005	2004	2005	2004
	Notes	$	$	$	$
CONTINUING OPERATIONS					
Revenue					
Sale of goods		19,929,289	22,808,316	-	-
Finance income		41,355	26,691	48,384	5,614
Dividend income		-	-	4,267,047	-
		19,970,644	22,835,007	4,315,431	5,614
Cost of sales	4	(7,210,474)	(8,457,773)	(12,704)	(20,956)
Gross Profit		12,760,170	14,377,234	4,302,727	(15,342)
Other income	4	861,965	2,320,456	781,462	101,563
Distribution expenses		(1,789,500)	(1,422,945)	-	-
Marketing expenses		(1,796,027)	(3,715,758)	-	-
Occupancy expenses		(1,046,591)	(1,277,234)	(64,077)	(80,234)
Administrative expenses		(5,888,198)	(8,378,312)	(807,144)	(1,104,923)
Other expenses	4	(859,813)	(1,251,792)	(513,702)	-
Profit/(Loss) from continuing operations before tax and finance costs		2,242,006	651,649	3,699,266	(1,098,936)
Finance costs	4	(2,443,306)	(2,217,472)	(2,381,041)	(6,264,038)
Profit/(Loss) before income tax		(201,300)	(1,565,823)	1,318,225	(7,362,974)
Income tax expense	5	(304,302)	113,362	-	79,953
Profit/(Loss) after tax from continuing operations		(505,602)	(1,452,461)	1,318,225	(7,283,021)
DISCONTINUED OPERATIONS					
Profit/(Loss) after tax from discontinued operations		-	-	-	-
Net Profit/(Loss) for the period		(505,602)	(1,452,461)	1,318,225	(7,283,021)
Loss attributable to minority interest		226,286	49,642		
Profit/(Loss) attributable to members of the parent		(279,316)	(1,402,819)	1,318,225	(7,283,021)
Earnings per share (cents per share)	13				
- basic for profit for the year		(0.06)	(2.65)		
- diluted for profit for the year		(0.06)	(2.65)		

The Income Statement should be read in conjunction with the accompanying notes.

Balance Sheet
as at 31 December 2005

		Consolidated		Parent	
		2005	2004	2005	2004
	Notes	$	$	$	$
ASSETS					
Current Assets					
Cash and cash equivalents	6	993,301	966,863	522,762	338,106
Trade and other receivables	8	3,590,329	3,968,994	269,558	392,001
Inventories	9	3,160,395	4,136,405	-	-
Deferred tax asset		25,042	-	19,471	-
Prepayments		56,692	103,632	-	2,534
Other current assets	10	446,818	513,094	-	6,160
Total Current Assets		8,272,577	9,688,988	811,791	738,801
Non Current Assets					
Financial Assets	11	-	-	6,822,308	2,692,118
Property, plant and equipment	12	1,245,163	2,012,113	10,841	20,937
Intangible assets	14	6,429,897	6,240,222	-	-
Total Non Current Assets		7,675,060	8,252,335	6,833,149	2,713,055
Total Assets		15,947,637	17,941,323	7,644,940	3,451,856
LIABILITIES					
Current Liabilities					
Trade and other payables	15	7,038,553	8,392,265	2,297,505	2,586,290
Borrowings	17	2,955,186	2,078,024	2,861,559	953,840
Income tax payable		474,431	237,505	154,772	31,153
Provisions	16	639,946	1,165,884	381,250	750,000
Total Current Liabilities		11,108,116	11,873,678	5,695,086	4,321,283
Non Current Liabilities					
Borrowings	17	18,435,939	17,241,343	18,427,286	17,019,980
Provisions	16	186,755	91,008	93,750	-
Total Non Current Liabilities		18,622,694	17,332,351	18,521,036	17,019,980
Total Liabilities		29,730,810	29,206,029	24,216,122	21,341,263
Net Assets		(13,783,173)	(11,264,706)	(16,571,182)	(17,889,407)
Equity					
Contributed Equity	18	38,081,445	38,081,445	38,081,445	38,081,445
Accumulated losses		(50,003,853)	(49,724,537)	(54,652,627)	(55,970,852)
Other reserves	19	(1,823,229)	188,896	-	-
Parent entity interest		(13,745,637)	(11,454,196)	(16,571,182)	(17,889,407)
Minority interest		(37,536)	189,490	-	-
Total Equity		(13,783,173)	(11,264,706)	(16,571,182)	(17,889,407)

The Balance Sheet should be read in conjunction with the accompanying notes.

Cash Flow Statement

for the year ended 31 December 2005

		Consolidated		Parent	
		2005	2004	2005	2004
	Notes	$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		19,022,765	21,506,395	-	-
Payments to suppliers and employees		(18,523,512)	(22,783,129)	(295,141)	(1,373,529)
Borrowing costs		(107,678)	(538,200)	-	(338,045)
Income tax received/(paid)		(792,997)	238,309	(3,584)	(5,572)
Other		(26,249)	163,377	-	(72,807)
Net cash flows from operating activities	6	(427,671)	(1,413,248)	(298,725)	(1,789,953)
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received/(paid)		(281,774)	824,151	-	824,151
Interest received		24,824	25,188	3,873	2,021
Proceeds from sale of property, plant and equipment		-	2,542	-	-
Purchase of property, plant and equipment		(98,531)	(59,226)	-	-
Loans (to)/from controlled entities		166,953	(8,316)	319,749	556,995
Loans (to)/from uncontrolled entities		(142)	-	-	-
Payments for joint venture interest		-	(401,665)	-	-
Payments for research and development		-	(317,483)	-	-
Payments for FDA approval		(81,372)	(105,535)	-	-
Net cash flows from/ (used in) investing activities		(270,042)	(40,344)	323,622	1,383,167
CASH FLOWS FROM FINANCING ACTIVITIES					
Allotment of shares by subsidiaries		-	1,780,000	-	-
Proceeds from borrowings		2,250,000	1,450,000	-	1,450,000
Repayment of borrowings		(973,827)	(884,614)	-	(884,614)
Finance lease payments		-	(221,447)	-	-
Net cash flows from financing activities		1,276,173	2,123,939	-	565,386
Net increased in cash and cash equivalents		578,460	670,347	24,897	158,600
Cash and cash equivalents at beginning of the year		375,935	(333,261)	497,865	179,506
Cash and cash equivalents at end of the year		954,395	337,086	522,762	338,106

The Cash Flow Statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
for the year ended 31 December 2005

	Share Capital	Reserves	Retained Profits	Minority Interests	Total
	$	$	$	$	$
CONSOLIDATED					
Balance at 1.1.2004	37,831,445	(177,837)	(48,321,720)	(188,274)	(10,856,386)
Loss attributable to members of parent entity	-	-	(1,402,817)	-	(1,402,817)
Contributions of equity	250,000	-	-	-	250,000
Profit attributable to minority Shareholders	-	-	-	49,642	49,642
Exchange difference on translation of foreign operations	-	366,733	-	328,122	694,855
Balance at 31.12.2004	38,081,445	188,896	(49,724,537)	189,490	(11,264,706)
Balance at 1.1.2005	38,081,445	188,896	(49,724,537)	189,490	(11,264,706)
Loss attributable to members of parent entity	-	-	(279,316)	-	(279,316)
Loss attributable to minority Shareholders	-	-	-	226,286	226,286
Exchange difference on translation of foreign operations	-	(2,012,125)	-	(453,312)	(2,465,437)
Balance at 31.12.2005	38,081,445	(1,823,229)	(50,003,853)	(37,536)	(13,783,173)
PARENT					
Balance at 1.1.2004	37,831,445	-	(8,687,831)	-	(10,856,386)
Loss attributable to members of parent entity	-	-	(7,283,021)	-	(7,283,021)
Contributions of equity	250,000	-	-	-	250,000
Balance at 31.12.2004	38,081,445	-	(55,970,852)	-	(17,889,407)
Balance at 1.1.2005	38,081,445	-	(55,970,852)	-	(17,889,407)
Loss attributable to members of parent entity	-	-	1,318,225	-	1,318,225
Balance at 31.12.2005	38,081,445	-	(54,652,627)	-	(16,571,182)

The statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
for the year ended 31 December 2005

1. CORPORATE INFORMATION

The financial report of Vita Life Sciences Limited for the year ended 31 December 2005 was authorised for issue in accordance with a resolution of the Directors on 8 June 2006.

Vita Life Sciences Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first financial report prepared based on AIFRS and comparatives for the year ended 31 December 2004 have been restated accordingly. Reconciliations of AIFRS equity and profit for 31 December 2004 to the balances reported in the 31 December 2004 financial report are detailed in Note 2 (u) below.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Vita Life Sciences Limited and its subsidiaries as at 31 December each year ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Vita Life Sciences Limited has control.

Minority interests represent the interests in VitaHealthcare Asia Pacific Sdn Bhd and Cyclomedica Europe Limited not held by the Group.

Notes to the Financial Statements
for the year ended 31 December 2005

(d) Going concern
As at 31 December 2005, the Group's and Company's liabilities exceeded assets by $13,783,173 and $16,571,182 respectively and current liabilities exceeded current assets by $2,835,539 (Group), and $4,883,295 (Company).

Subsequent to balance date, a further $750,000 cash has been drawn down from the existing financing facility with Barleigh Wells Ltd.

Pursuant to the resolutions passed at the meeting of Noteholders and Shareholders on 12 April 2006, the Directors believe they have the continued support of the Noteholders and Shareholders and that the economic entity has adequate funding to continue operations. The longer-term ability to continue as a going concern is dependent upon the return to profitable operations and ongoing positive cash flows from operations and/or sale of the underlying businesses. Consequent to the re-structure approved at our meeting of 12 April 2006, and the continuing financial support of the Noteholders, the Directors believe it appropriate to prepare the financial statements on a going concern basis.

The Directors note that in the alternative, and in particular, any further deterioration in the operating performance or cash flows of the underlying businesses, circumstances may require the company and/or certain controlled entities to be placed in external administration. If part or the whole of the economic entity is not able to continue as a going concern, it may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts and/or to the amounts and classification of liabilities that might be necessary in that eventuality.

(e) Interest in joint venture operation
The Group's interest in its joint venture operation is accounted for by recognising the Group's assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group's share of income earned from the joint venture, in the consolidated financial statements.

(f) Foreign currency translation
Both the functional and presentation currency of Vita Life Sciences Limited and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the Financial Statements
for the year ended 31 December 2005

The functional currency of the overseas subsidiaries Vitamedica Europe Limited, Cyclomedica Germany GmbH, Cyclomedica Europe Limited, Lovin Pharma International Ltd is European Euro (Euro $). VitaHealthcare Asia Pacific Sdn Bhd, VitaHealth Asia Pacific (S) Pte Ltd, Swiss Bio Sdn Bhd, VitaHealth Laboratories Indochina Pte Ltd is in Malaysian Ringgit (MYR$), Vita Corporation Pte Limited is Singapore dollars (Sing $) and Vita Medical (Canada) Limited is Canadian dollars (Can $).

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Vita Life Sciences Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(g) Property, plant and equipment
Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Plant and Equipment	10%-33%
- Leasehold Improvements	20%-50%
- Motor Vehicles	20%-25%

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is de-recognised.

(h) Borrowing costs
Borrowing costs are recognised as an expense when incurred.

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Notes to the Financial Statements
for the year ended 31 December 2005

(i) Goodwill
Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(j) Intangible assets

Acquired both separately and from a business combination
Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on intangible assets with finite lives, this expense is taken to the income statement through the 'administrative expenses' line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles, annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs
Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Notes to the Financial Statements
for the year ended 31 December 2005

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(k) Recoverable amount of assets
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(l) Inventories
Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis;
Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(m) Trade and other receivables
Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(n) Cash and cash equivalents
Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to the Financial Statements

for the year ended 31 December 2005

(o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(q) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Notes to the Financial Statements
for the year ended 31 December 2005

(r) Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenue is recognised (net of returns, discounts and allowances) when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Consequently transfers of goods to major distributors are considered as consignment inventory and revenue is only recognised upon the achievement of "in-market" sales.

Interest
Revenue is recognised as the interest accrues (using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends
Revenue from dividends and distributions from controlled entities are recognised by the parent entity when they are declared by the controlled entities.

Revenue from dividends from associates is recognised by the parent entity when dividends are received.

Revenue from dividends from other investments are recognised when received.

Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

Research and development grants
Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue.

Rental income
Rental income arising on investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

(s) Income tax
Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Financial Statements
for the year ended 31 December 2005

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(t) Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to the Financial Statements
for the year ended 31 December 2005

(u) Impact of adoption of AIFRS

(i) Reconciliation of total equity as presented under previous AGAAP to that under AIFRS

	Consolidated		Parent	
	31-Dec-04	1-Jan-04 $	31-Dec-04 $	1-Jan-04 $
Total equity under previous AGAAP	(10,195,148)	(9,327,204)	(16,360,225)	(9,327,204)
Impairment loss on investment in subsidiary and goodwill (A)	(1,069,558)	(1,529,182)	(1,529,182)	(1,529,182)
Total equity under AIFRS	(11,264,706)	(10,856,386)	(17,889,407)	(10,856,386)

(A) An impairment loss amounting to $1,529,182 has been recognised under AIFRS relating to the investment in Herbs of Gold Pty Ltd which has been written down to its recoverable amount. This has been recognised as a reduction to Goodwill and charged directly to retained earnings at the transition date.

(ii) Reconciliation of profit before tax under previous AGAAP to that under AIFRS

	Consolidated 31-Dec-04 $
Prior year loss before tax as previously reported	(2,025,447)
Amortisation of goodwill (A)	459,624
Prior year profit before tax under AIFRS	(1,565,823)

(A) Goodwill is not amortised under AASB 3 'Business Combinations', but was amortised under previous AGAAP. This caused an increase in profit for the year.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statement presented under AIFRS's and the cash flow statement presented under previous AGAAP.

Notes to the Financial Statements
for the year ended 31 December 2005

3. SEGMENT INFORMATION

BUSINESS SEGMENTS

	Health $	Medical $	Other $	Consolidated $
Year ended 31 December 2005				
Revenue				
Sales to external customers	11,123,037	8,806,252	-	19,929,289
Total segment revenue	11,123,037	8,806,252	-	19,929,289
Result				
Segment result, profit before income tax and minority interest	(1,373,316)	2,323,829	(1,151,813)	(201,300)
Income tax (expense)/benefit				(304,302)
Net profit/(loss) for the year				(505,602)
Assets and liabilities				
Segment assets	5,944,091	9,097,160	906,386	15,947,637
Segment liabilities	(2,780,434)	(1,847,531)	(25,102,845)	(29,730,810)
Other segment information				
Capital expenditure	8,519	90,012	-	98,531
Depreciation	121,333	62,892	80,819	265,044
Amortisation	67,952	15,987	-	83,939
Year ended 31 December 2004				
Revenue				
Sales to external customers	14,102,851	8,705,465	-	22,808,316
Total segment revenue	14,102,851	8,705,465	-	22,808,316
Result				
Segment result, profit before income tax and minority interest	(2,053,419)	2,773,894	(2,286,298)	(1,565,823)
Income tax (expense)/benefit				113,362
Net profit/(loss) for the year				(1,452,461)
Assets and liabilities				
Segment assets	231,810	7,610,823	10,098,690	17,941,323
Segment liabilities	(5,932,332)	(1,792,786)	(21,480,911)	(29,206,029)
Other segment information				
Depreciation	175,685	51,714	101,686	329,085
Amortisation	24,796	34,367	-	59,163
Write off intercompany receivable	-	-	4,254,842	4,254,842

Notes to the Financial Statements
for the year ended 31 December 2005

3. SEGMENT INFORMATION (continued)

GEOGRAPHICAL SEGMENTS

	Australia $	Europe $	Canada $	Asia $	Other $	Consolidated $
Year ended 31 December 2005						
Revenue						
Sales to external customers	7,025,484	5,535,353	1,115,170	6,124,752	128,530	19,929,289
Segment revenue	7,025,484	5,535,353	1,115,170	6,124,752	128,530	19,929,289
Other segment information						
Segment assets	5,458,748	2,830,910	848,929	6,809,050	-	15,947,637
Year ended 31 December 2004						
Revenue						
Sales to external customers	6,919,160	6,017,541	732,802	9,138,813	-	22,808,316
Segment revenue	6,919,160	6,017,541	732,802	9,138,813	-	22,808,316
Other segment information						
Segment assets	16,011,636	3,867,498		(2,558,700)	620,889	17,941,323

Business Industry	**Products/Services**
Health	OTC vitamins and supplements
Medical	Medical diagnostic equipment
Other	Unallocated corporate costs

The Group's geographical segments are determined by the location of the Group's assets and operations.

Notes to the Financial Statements

for the year ended 31 December 2005

4. REVENUE AND EXPENSES

	Consolidated		Parent	
	2005	2004	2005	2004
	$	$	$	$
(a) Other income				
Realised foreign exchange gains/(losses)	44,523	69,416	-	-
Gain on disposal of investment	-	1,244,056	-	-
Gain on disposal of property, plant & equipment	35,980	-	-	-
Rental income	-	94,772	-	94,772
Distribution from liquidator of Pan Pharmaceuticals	215,017	-	215,017	-
Proceeds from Official Assignee (trustee) of Pang Seng Meng	277,245	-	277,245	-
Final distribution from receiver	14,200	-	14,200	-
Provision adjustment re legal settlement	275,000	-	275,000	-
Insurance claim	-	786,002	-	-
Other	-	126,210	-	6,791
	861,965	2,320,456	781,462	101,563
(b) Other expenses				
Loss on disposal of property, plant & equipment	(476,571)	(11,122)	(476,571)	-
Provisions and write-offs	(220,095)	(1,001,314)	-	-
Royalties and grants	(104,459)	(155,804)	-	-
Other	(58,688)	(83,552)	(37,131)	-
	(859,813)	(1,251,792)	(513,702)	-
(c) Finance (costs)/income				
Finance income				
Interest received	41,355	26,691	48,384	5,614
Total finance income	41,355	26,691	48,384	5,614
Finance costs				
Bank loans and overdrafts	(184,750)	(227,871)	(6,086)	(19,596)
Other loans	(309,814)	(178,165)	(284,957)	(178,165)
Convertible notes, issue expense	(22,368)	(18,000)	(22,368)	(18,000)
Convertible notes, interest	(1,909,092)	(1,793,436)	(1,909,092)	(1,793,436)
Write down of intercompany receivables	-	-	-	(4,254,841)
Finance charges payable under finance leases & hire purchase contracts	(17,282)	-	-	-
Interest on loans to related parties	-	-	(158,538)	-
	(2,443,306)	(2,217,472)	(2,381,041)	(6,264,038)

Notes to the Financial Statements
for the year ended 31 December 2005

4. REVENUE AND EXPENSES (continued)

	Consolidated		Parent	
	2005	**2004**	**2005**	**2004**
	$	**$**	**$**	**$**
(d) Depreciation, amortisation, foreign exchange differences and costs of inventories included in income statements				
Included in cost of sales				
Depreciation	(265,044)	(329,085)	(12,704)	(20,956)
Amortisation	(83,939)	(59,163)	-	-
Costs of inventories recognised as an expense	(6,861,491)	(8,069,525)	-	-
	(7,210,474)	(8,457,773)	(12,704)	(20,956)
(e) Lease payments and other expenses included in income statement				
Motor Vehicles	23,842	77,948	-	-
Equipment	74,163	66,812	-	-
Premises	137,043	106,543	-	-
	235,048	251,303	-	-
(f) Employee benefits expense				
Wages and salaries	4,841,975	5,331,675	37,500	338,242
Superannuation costs	249,012	351,527	-	21,437
	5,090,987	5,683,202	37,500	359,679
(g) Research & development				
FDA costs charged directly to cost of sales in income statement	(81,554)	-	-	-
Other	(31,571)	(34,051)	-	-
	(113,125)	(34,051)	-	-

Notes to the Financial Statements

for the year ended 31 December 2005

5. INCOME TAX

	Consolidated		Parent	
	2005	2004	2005	2004
	$	$	$	$
Major components of income tax expense for the years ended 31 December 2005 and 2004 are:				
Income statement				
Current income tax				
Current income tax charge	304,302	(113,362)	-	(79,953)
Income tax expense reported in income statement	304,302	(113,362)	-	(79,953)
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2005 and 2004 is as follows:				
Accounting loss before tax from continuing operations	(201,300)	(1,565,823)	1,318,225	(7,362,974)
Loss before tax from discontinued operations	-	-	-	-
Accounting loss before income tax	(201,300)	(1,565,823)	1,318,225	(7,362,974)
At the statutory income tax rate of 30% (2004: 30%)	(60,390)	(469,747)	395,468	(2,208,892)
Expenditure not allowable for income tax purposes	1,315,436	127,421	144,856	1,612,045
Effects of lower rates of tax on overseas income	341,062	(222,748)	-	-
Other	-	-	-	(65,290)
At effective income tax rate of 30% (2004: 30%, Parent: 30%)	1,596,108	(565,074)	540,324	(662,137)
Income tax expense/ (benefit) on operating profit before individually significant income tax items	1,596,108	(565,074)	540,324	(662,137)
Individually significant income tax items				
Tax losses not recovered as future income tax benefit	-	1,268,731	-	638,151
	1,596,108	703,657	540,324	(23,986)
Add: Income tax under/(over) provided in prior year	129,375	(282,612)	-	(79,953)
Other items	10,370	20,373	-	
Deferred tax assets not recognised during the period	201,805	(416,893)	-	
Tax expense offset against carry forward tax losses	(1,633,356)	(137,887)	(540,324)	(23,986)
Income tax expense/(benefit) attributable to operating profit	304,302	(113,362)	-	(79,953)
Income tax reported in income statement	304,302	(113,362)	-	(79,953)

Notes to the Financial Statements

for the year ended 31 December 2005

5. INCOME TAX (continued)

	Consolidated		Parent	
	2005	2004	2005	2004
	$	$	$	$
DEFERRED INCOME TAX				
Deferred income tax assets				
Losses available for offset against future taxable income	25,042	-	19,470	-
Gross deferred income tax assets	25,042	-	19,470	-

The Group has tax losses arising in Australia of $20,521,612 (2004: $18,350,851) that are available indefinitely for offset against future taxable profits of the companies in which losses arose. The Parent has tax losses arising in Australia of $20,521,612 (2004: $18,350,851).

At 31 December 2005, there is no recognised or unrecognised deferred income tax liability (2004: $nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group has no liability for additional taxation should such amounts be remitted.

Notes to the Financial Statements
for the year ended 31 December 2005

6. CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2005 $	2004 $	2005 $	2004 $
Cash at bank and in hand	882,547	784,692	522,762	338,106
Short-term deposits	110,754	182,171	-	-
	993,301	966,863	522,762	338,106

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is $993,301 (2004: $966,863).

Reconciliation of cash For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:				
Cash at bank and in hand	882,547	784,692	522,762	338,106
Short-term deposits	110,754	182,171	-	-
Bank overdrafts	(38,906)	(629,777)	-	-
	954,395	337,086	522,762	338,106
Reconciliation from the net profit after tax to the net cash flows from operations				
Net loss	(279,316)	(1,402,819)	1,318,225	(7,283,021)
Adjustments for:				
Depreciation	265,044	(329,085)	12,704	(20,956)
Amortisation	83,939	(59,163)	-	-
Impairment losses	-	(1,529,182)	-	-
Investment write off		-		4,254,841
Net (profit)/loss on disposal of property, plant & equipment	(440,591)	-	(476,571)	-
Interest received	(24,824)	(25,188)	(3,873)	(2,021)
Changes in assets and liabilities:				
(Increase)/decrease in inventories	976,010	1,556,755	-	-
(Increase)/decrease in receivables	460,681	(870,640)	485,964	2,866,823
(Increase)/decrease in deferred income tax assets	(25,042)	-	(19,471)	-
(Decrease)/increase in provisions	(282,853)	(19,994)	(238,971)	(30,399)
(Decrease)/increase in trade and other payables	(1,353,712)	(654,645)	(288,785)	923,162
(Decrease)/increase in other loans payable	1,194,596	(174,950)	(3,315,024)	2,259,524
Other liabilities	(1,001,603)	2,095,663	2,227,077	(4,757,906)
Net cash from operating activities	(427,671)	(1,413,248)	(298,725)	(1,789,953)

Notes to the Financial Statements
for the year ended 31 December 2005

7. DIVIDENDS PAID AND PROPOSED

The company did not declare any dividends during the year.

8. TRADE AND OTHER RECEIVABLES (CURRENT)

	Consolidated		Parent	
	2005 $	2004 $	2005 $	2004 $
Trade receivables	3,352,541	3,212,788	-	(10)
Provision for doubtful debts	(461,743)	(497,065)	-	
	2,890,798	2,715,723	-	(10)
Related party receivables:				
Associate	433,915	438,713	250,000	250,000
Other debtors	265,616	814,558	19,558	142,011
	3,590,329	3,968,994	269,558	392,001

9. INVENTORIES

	Consolidated		Parent	
	2005 $	2004 $	2005 $	2004 $
Raw materials at cost	897,307	341,052	-	-
Finished goods at cost	2,263,088	3,795,353	-	-
Total inventories at cost	3,160,395	4,136,405	-	-

10. OTHER CURRENT ASSETS

	Consolidated		Parent	
	2005 $	2004 $	2005 $	2004 $
Security deposits	438,200	497,503	-	-
Other	8,618	15,591	-	6,160
	446,818	513,094	-	6,160

11. OTHER FINANCIAL ASSETS (NON-CURRENT)

	Consolidated		Parent	
	2005 $	2004 $	2005 $	2004 $
Investment in controlled entities at cost				
Shares – at cost	-	-	25,999,389	25,999,386
Loans	-	-	14,063,769	10,385,118
	-	-	40,063,158	36,384,504
Less: Impairment provision	-	-	(30,536,798)	(30,536,798)
Loans from controlled entities	-	-	(2,704,052)	(3,155,588)
	-	-	6,822,308	2,692,118

Notes to the Financial Statements

for the year ended 31 December 2005

12. PROPERTY, PLANT AND EQUIPMENT
as at 31 December 2005

	Consolidated				Parent	
	Leasehold Improve-ments $	Plant and Equipment $	Leased Plant and Equipment $	Total $	Plant and Equipment $	Total $
At 1 January 2005						
Net of accumulated depreciation	64,172	559,948	1,387,993	2,012,113	20,937	20,937
Additions	27,384	372,597	-	399,981	479,178	479,178
Disposed/scrapped	-	(93,942)	(481,676)	(575,618)	(481,675)	(481,675)
Depreciation	(39,271)	(173,076)	(370,879)	(583,226)	(7,599)	(7,599)
Exchange adjustment	-	(8,087)	-	(8,087)	-	-
At 31 December 2005						
Net of accumulated depreciation	52,285	657,440	535,438	1,245,163	10,841	10,841
At 1 January 2005						
Cost or fair value	282,389	2,043,578	2,175,090	4,501,057	54,426	54,426
Accumulated depreciation and impairment	(218,217)	(1,483,630)	(787,097)	(2,488,944)	(33,489)	(33,489)
Net carrying amount	64,172	559,948	1,387,993	2,012,113	20,937	20,937
At 31 December 2005						
Cost or fair value	309,774	2,567,105	610,025	3,486,904	33,729	33,729
Accumulated depreciation and impairment	(257,489)	(1,909,665)	(74,587)	(2,241,741)	(22,888)	(22,888)
Net carrying amount	52,285	657,440	535,438	1,245,163	10,841	10,841

Notes to the Financial Statements
for the year ended 31 December 2005

12. PROPERTY, PLANT AND EQUIPMENT (continued)
as at 31 December 2004

	Consolidated				Parent	
	Leasehold Improve-ments $	Plant and Equipment $	Leased Plant and Equipment $	Total $	Plant and Equipment $	Total $
At 1 January 2004 net of accumulated depreciation	100,493	779,553	1,511,176	2,391,222	52,866	52,866
Additions			82,199	82,199		-
Disposed/scrapped	(4,943)	(123,812)		(128,755)	(31,929)	(31,929)
Depreciation/ amortisation	(31,378)	(95,793)	(205,382)	(332,553)		-
At 31 December 2004 net of accumulated depreciation	64,172	559,948	1,387,993	2,012,113	20,937	20,937
At 1 January 2004						
Cost or fair value	287,332	2,167,389	2,092,892	4,547,613	89,896	89,896
Accumulated depreciation and impairment	(186,839)	(1,387,836)	(581,716)	(2,156,391)	(37,030)	(37,030)
Net carrying amount	100,493	779,553	1,511,176	2,391,222	52,866	52,866
At 31 December 2004						
Cost or fair value	282,389	2,043,578	2,175,090	4,501,057	54,426	54,426
Accumulated depreciation and impairment	(218,217)	(1,483,630)	(787,097)	(2,488,944)	(33,489)	(33,489)
Net carrying amount	64,172	559,948	1,387,993	2,012,113	20,937	20,937

13. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary Shareholders (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and dilutive convertible non-cumulative redeemable preference shares).

The following reflects the income and share data used in the total operations basis and diluted earnings per share computations:

Notes to the Financial Statements
for the year ended 31 December 2005

13. EARNINGS PER SHARE (continued)

	Consolidated 2005 $	Consolidated 2004 $
Net loss attributable to equity holders from continuing operations	(279,316)	(1,402,819)
Net profit attributable to equity holders of the parent	(279,316)	(1,402,819)
Net profit attributable to ordinary Shareholders for diluted earnings per share	(279,316)	(1,402,819)
Weighted average number of ordinary shares for basic earnings per share	47,766,831	52,869,878
Adjusted weighted average number of ordinary shares for diluted earnings per share	47,766,831	52,869,878

In accordance with the judgement handed down by Justice Rajah in the High Court of the Republic of Singapore against Mr Pang, the company cancelled 5,103,047 shares in Vita Life on 7 January 2005. As at the date of this report there were 47,766,831 ordinary shares of Vita Life on issue.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

14. INTANGIBLE ASSETS

	Consolidated		
Year ended 31 December 2005	**Development costs $**	**Goodwill $**	**Total $**
At 1 January 2005: Net of accumulated amortisation	-	6,240,222	6,240,222
Additions	189,675		189,675
At 31 December 2005: Net of accumulated amortisation	189,675	6,240,222	6,429,897
At 1 January 2005:			
Cost (gross carrying amount)	-	6,240,222	6,240,222
Net carrying amount	-	6,240,222	6,240,222
At 31 December 2005:			
Cost (gross carrying amount)	189,675	6,240,222	6,429,897
Net carrying amount	189,675	6,240,222	6,429,897

Notes to the Financial Statements
for the year ended 31 December 2005

14. INTANGIBLE ASSETS (continued)

For the year ended 31 December 2005, development costs in connection with the "TechnegasPLUS" generators have been capitalised. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 10 years.

This asset is tested for impairment where an indicator of impairment arises.

No impairment loss was charged for continuing operations in the 2005 financial year.

	Consolidated	
Year ended 31 December 2004	**Goodwill $**	**Total $**
At 1 January 2004:		
Net of accumulated amortisation	6,240,222	6,240,222
At 31 December 2004		
Net of accumulated amortisation	6,240,222	6,240,222
At 1 January 2004:		
Cost (gross carrying amount)	6,240,222	6,240,222
Net carrying amount	6,240,222	6,240,222
At 31 December 2004:		
Cost (gross carrying amount)	6,240,222	6,240,222
Net carrying amount	6,240,222	6,240,222

15. TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated		Parent	
	2005 $	**2004 $**	**2005 $**	**2004 $**
Trade payables	3,142,607	3,225,315	299,115	213,453
Other payables and accruals	3,895,946	5,166,950	1,998,390	2,372,837
	7,038,553	8,392,265	2,297,505	2,586,290

Trade payables are non-interest bearing and are normally settled on 90-day terms. Other payables are non-interest bearing and have an average term of 6 months.

The net of GST payable and GST receivable is remitted to the appropriate tax body on a quarterly basis.

Notes to the Financial Statements
for the year ended 31 December 2005

16. PROVISIONS

	Consolidated		Parent	
	2005	2004	2005	2004
	$	$	$	$
Current:				
Employee benefits	168,674	198,502	-	-
Warranties	7,500	7,500	-	-
Deferred consideration (Herbs of Gold P/L)	381,250	750,000	381,250	750,000
Other	82,522	209,882	-	-
	639,946	1,165,884	381,250	750,000
Non-current:				
Employee benefits	88,606	87,619	-	-
Deferred consideration (Herbs of Gold P/L)	93,750	-	93,750	-
Other	4,399	3,389	-	-
	186,755	91,008	93,750	-

Maintenance Warranties

A provision is recognised for expected warranty claim on products sold during the last two years, based on past experience of the level of repairs and returns.

It is expected that most of these costs will be incurred in the next financial year and all will have been incurred within two years of the balance sheet date.

Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the two year warranty period for all products sold.

Notes to the Financial Statements
for the year ended 31 December 2005

17. INTEREST BEARING LIABILITIES

	Consolidated		Parent	
	2005 $	2004 $	2005 $	2004 $
Current				
Bank Overdrafts - secured	38,906	629,777	-	-
Loans - secured	2,861,559	1,226,770	2,861,559	953,840
Lease liabilities	54,721	221,477	-	-
	2,955,186	2,078,024	2,861,559	953,840
Non-current				
Loans - unsecured	-	32,455	-	-
Lease Liabilities	-	188,908	-	-
Convertible notes - secured	18,435,939	17,019,980	18,427,286	17,019,980
	18,435,939	17,241,343	18,427,286	17,019,980
Financing Arrangements The consolidated entity has access to the following lines of credit:				
Total facilities available:				
Bank overdrafts	38,906	629,777	-	-
Trade finance	108,120	671,200	-	-
Other finance	3,359,416	3,494,243	3,359,416	3,341,417
	3,506,442	4,795,220	3,359,416	3,341,417
Facilities utilised at balance date:				
Bank overdrafts	38,906	629,777	-	-
Trade finance	108,120	671,200	-	-
Other finance	2,916,280	1,106,667	2,861,559	953,841
	3,063,306	2,407,644	2,861,559	953,841
Facilities not utilised at balance date:				
Bank overdrafts	-	-	-	-
Trade finance	-	-	-	-
Other finance	443,136	2,387,576	497,857	2,387,576
	443,136	2,387,576	497,857	2,387,576

Bank overdrafts:
Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 31 December 2005 is 5.87% (2004: 5.87%). The bank overdrafts of the controlled entities are secured by guarantees from the company.

Bank trade finance loans:
VitaHealth Laboratories (Singapore) Pte Ltd has available to it a bank overdraft facility of $38,906 (SGD47,301) from DBS Bank Ltd secured by a fixed and floating charge and a corporate guarantee from the Company. Swiss Bio Pharma Sdn Bhd (Malaysia) has available to it a Trade Finance facility from Malayan Banking Bhd of $108,120 (RM 300,000 Malaysia Ringgit) secured by a deposit of a similar amount with the Bank.

Lease liabilities:
Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Notes to the Financial Statements
for the year ended 31 December 2005

17. INTEREST BEARING LIABILITIES (continued)

Convertible notes:
The convertible notes issued are secured by the assets of certain operating subsidiaries of the group. The security ranks second behind senior debt and comprises Indemnities and Guarantees supported by Fixed and Floating Charges over the assets of certain controlled entities.

18. ISSUED CAPITAL

	2005 Number	2004 Number	2005 $	2004 $
Issued and paid-up share capital				
Ordinary shares, fully paid	**47,766,831**	**51,869,878**	**38,081,445**	**38,081,445**
Ordinary shares				
Balance at the beginning of the year	52,869,878	51,869,878	38,081,445	37,831,445
Shares listed under the Vita Life "Long Term Incentive Plan" issued during the year	-	1,000,000	-	250,000
Shares cancelled during the year	5,103,047	-	-	-
Balance at end of year	**47,766,831**	**52,869,878**	**38,081,445**	**38,081,445**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Shareholders' meetings. In the event of winding up the Company ordinary Shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

During the year 5,103,047 shares were cancelled by the Board. As a result of the court decision in Singapore confirming the fraudulent activities of Mr Pang and pursuant to the order of the court, the Board deemed it appropriate to cancel 5,103,047 shares effective 7 January 2005.

19. RESERVES

	Consolidated		Parent	
	2005 $	2004 $	2005 $	2004 $
Foreign currency translation	(1,823,229)	188,896	-	-
Movements during the year				
Foreign currency translation				
Balance at the beginning of the year	188,896	(177,837)	-	-
Net translation adjustment	(2,012,125)	366,733	-	-
Balance at end of year	**(1,823,229)**	**188,896**	**-**	**-**

Nature and purpose of reserves

Foreign currency reserve
The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation.

Notes to the Financial Statements
for the year ended 31 December 2005

20. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, convertible notes, finance leases, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and credit risk. The board review and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term obligations.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

Where applicable, the Group's policy is to keep between 50% and 60% of its borrowings at fixed rates of interest.

Credit risk
The Group trades only with recognised, creditworthy third parties.

It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

For transactions that are not denominated in the measurement currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Managing Director or Executive Director of that business.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Notes to the Financial Statements
for the year ended 31 December 2005

20. FINANCIAL INSTRUMENTS (continued)

(a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risks and the effective weighted average interest rate by maturity periods is set out in the following table:

			Fixed interest maturing		
	Weighted average interest rate	Floating interest rate	1 year or less	1 to 5 years	Total
2005					
Financial Assets					
Cash assets	4.50%	882,547	110,754	-	993,301
Financial Liabilities					
Bank overdrafts and loans	5.75%	38,906	-	-	38,906
Loans - other	12.00%	2,861,559	-	-	2,861,559
Convertible notes and accrued interest	10.75%	-	18,435,939	-	18,435,939
Lease liabilities	12.00%	-	54,721		54,721
		2,900,465	18,490,660	-	21,391,125
2004					
Financial Assets					
Cash assets	4.50%	784,692	182,171	-	966,863
Financial Liabilities					
Bank overdrafts and loans	5.75%	629,777	-	-	629,777
Loans - other	12.00%	953,840	-	-	953,840
Loans - other	5.75%	-	-	32,455	32,455
Convertible notes and accrued interest	10.75%	-	-	17,019,980	17,019,980
Lease liabilities	12.00%	-	221,477	188,908	410,385
		1,583,617	221,477	17,241,343	19,046,437

The other financial instruments of the Group and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

(b) Off balance sheet derivative instruments

The group does not enter into forward foreign exchange contracts or other off balance sheet derivative instruments.

Foreign currency amounts are translated at rates current at the balance date.

Notes to the Financial Statements
for the year ended 31 December 2005

20. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk exposures

Credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investment in shares is generally the carrying amount net of any provisions.

Credit risk represents the loss that would be recognised if counter parties failed to perform as contracted.

Significant counter parties include:

	2005	2004
Zuellig Malaysia Sdn Bhd, Malaysia	15%	21%
Cyclopharma Laboratoires SA, France	28%	8%
Health Minders Ltd, Australia	3%	21%
Diethelm Singapore Pte Ltd, Singapore	5%	7%
Other	49%	43%
	100%	100%

(d) Net fair values of financial assets and liabilities

Valuation approach
Net fair values of financial assets and liabilities are determined by the consolidated entity on the following basis:

Recognised financial instruments
The carrying amounts of bank term deposits, trade debtors, other debtors, bank overdrafts, accounts payable, bank loans, lease liabilities, dividends payable, and employee entitlements approximate fair value.

The net fair value of investments in unlisted shares in other corporations is determined by reference to the underlying net assets and an assessment of future maintainable earnings and cash flows of the respective corporations.

Notes to the Financial Statements
for the year ended 31 December 2005

20. FINANCIAL INSTRUMENTS (continued)

Recognised financial instruments (continued)

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

	Consolidated			
	2005		2004	
	Carrying amount $	Net fair value $	Carrying amount $	Net fair value $
Financial assets				
Cash assets	993,301	993,301	966,863	966,863
Receivables	3,324,713	3,324,713	3,154,436	3,154,436
Financial liabilities				
Payables	7,038,553	7,038,553	8,392,265	8,392,265
Bank overdrafts and loans	38,906	38,906	629,777	629,777
Lease liabilities	54,721	54,721	410,385	410,385
Loans - secured	2,861,559	2,861,559	953,840	953,840
Convertible notes and accrued interest	18,435,939	18,435,939	17,241,343	17,241,343
Employee benefits	257,280	257,280	326,257	326,257

Listed shares in other corporations are readily traded in organised markets in a standardised form. All other financial assets and liabilities are not readily traded on an organised market in a standardised form.

21. BUSINESS COMBINATION

Acquisition of Cyclomedica Germany GmbH

On 12 July 2005, Vita Life Sciences Limited acquired 100% of the voting shares of Cyclomedica Germany GmbH, an unlisted public company based in Germany specialising in the distribution of Technegas machines and associated products.

In connection with this business combination, Vitamedica Europe Ltd was issued with 2 ordinary shares with a fair value of €12.500,00 each.

The fair value of the identifiable assets and liabilities as at the date of acquisition are nil.

From the date of acquisition, Cyclomedica Germany GmbH has contributed ($33,800) to the net loss of the Group.

On 31 October 2005, Vita Life Sciences Limited arranged the incorporation of Cyclopharm Limited.

Notes to the Financial Statements
for the year ended 31 December 2005

22. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has entered into commercial property leases for various offices and warehouse facilities.

These leases have an average life of between 1 and 5 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Consolidated		Parent	
	2005 $	2004 $	2005 $	2004 $
Within one year	227,793	425,073	-	-
After one year but not more than five years	74,603	470,385	-	-
	302,396	**895,458**	**-**	**-**

Finance lease and hire purchase commitments

The Group has finance leases for various items of plant and machinery expiring from 1 to 5 years. At the end of the lease terms the Group has the opportunity to purchase the equipment at deemed market rates.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments (included within borrowings) are as follows:

	2005 Minimum lease payments $	2004 Minimum lease payments $
Consolidated		
Within one year	56,509	247,559
After one year but not more than five years	-	211,182
Total minimum lease payments	56,509	458,741
Less amounts representing finance charges	(1,788)	(48,356)
	54,721	**410,385**

Notes to the Financial Statements
for the year ended 31 December 2005

Contingent Assets Not Considered Remote

1. **VitaHealth Laboratories Pte Ltd, VitaHealth Laboratories (Hong Kong) Ltd, Vita Corporation Pte Ltd and Vita Life Sciences Limited v Pang Seng Meng File No. 10843 of 2005**

   The Plaintiffs have now registered the judgment obtained in the High Court of Singapore (Suite 640/2002/S) in Australia. As a result of registering the Singaporean judgment in Australia the New South Wales Sheriff has been able to levy the VLS shares held by Pang Seng Meng in settlement of the judgment. However, prior to auctioning the shares in settlement of the judgment, Ms Pang Mui Hua, Mr Pang's sister, filed a Notice of Claim upon the Sheriff claiming 2,698,260 of the 6,869,151 shares held by the Sheriff. The Singaporean Official Assignee has also confirmed that it will be filing a Notice of Claim in respect of the 4,170,891 VLS shares not subject to the claim by Ms Pang.

   The next directions hearing is listed from 29 May 2006.

2. **VitaHealth Laboratories (Australia) Pty Ltd & VitaHealth Laboratories (Singapore) Pte Ltd & VitaHealth Laboratories (HK) Ltd v Pharmatech Industries Sdn Bhd & Medispecs Sdn Bhd & Khoo Seng Kang & Gan Hook Chun & Pang Seng Meng & Pang Seng Hock. Civil Suit No. D1-22-1551-2002 - High Court of Malaysia at Kuala Lumpur**

   The allegations made by the Vita Companies are against the Vita Companies contract packer and distributor in Malaysia, two senior managers in charge of the Malaysian businesses, the former Managing Director and his brother. Damages are unspecified.

   The Company has settled against the Malaysian distributor. The Malaysian contract packer has lodged a counter claim for RM 10 million alleging wrongful termination of the packing agreement.

   The next Pre-Trial Conference is listed for 25 July 2006 and the trial is expected to be listed for hearing sometime in early 2007.

3. **VitaHealth Laboratories Pte Ltd v McGrath, Honey and Pan Pharmaceuticals Limited (In Liquidation) File No. 1789 of 2005 - Supreme Court of New South Wales**

   The proceedings relate to a claim by Vita for future loss of profits suffered as a result of the Pan Recall.

   The matter has been stood over to enable separate proceedings between Australian NaturalCare Products Limited ("ANP") and the Liquidator to be concluded. The ANP proceedings are similar in nature to the Vita proceedings and therefore the outcome of the ANP proceedings shall influence the running of the Vita proceedings. The ANP proceedings were set down for five days in October 2005. However at the conclusion of the five days it was estimated by the parties that a further three days would be required. Accordingly the ANP proceedings have been adjourned until June 2006. It is expected that a judgment in the ANP proceedings will be handed down at the end of August 2006 and accordingly the Vita matter has been stood over by consent until 28 August 2006.

4. **Cyclomedica Europe Ltd v IsoTrade GmbH, Monchengladbach, Germany**

   Cyclomedica Europe is presently suing a former distributor in Germany, IsoTrade GmbH, for non payment of amounts due. The current claim is for approximately €198,784.00.

Notes to the Financial Statements

for the year ended 31 December 2005

Contingent Liabilities

1. **MDS Nordion SA v Vita Medical Ltd & Pang Seng Meng and Henry George Townsing No 50133 of 2002 - Supreme Court of New South Wales, and MDS Nordion France v Bernard Claude Gaston Salin & Cyclopharma Laboratories Ltd & The Central Massif Finance Company & Vita Medical Ltd - The Commercial Court of Evry, France**

   Vita Medical Limited was joined as a defendant to two separate proceedings in Australia and France in 2002. The proceedings seek damages for alleged wrongful termination of a distribution agreement between the parties in the sum of approximately €14.6 million. Vita Medical Limited has filed a defence and counterclaim. The proceedings in Australia has progressed to mediation but has not as yet been resolved.

   The French proceedings were heard in May 2006, and the decision is expected in September 2006.

   Henry Townsing is a director of Vita Medical Limited and is named as a Defendant in the New South Wales case but not the French proceedings.

2. **Kate Helena Fraser and Global Herbs Pty Ltd (ACN: 059 051 937) v VitaHealth Laboratories (Australia) Pty Ltd and Vita Life Sciences Limited File No. 6343 of 2003 - Supreme Court of New South Wales**

   In December 2003, Kate Fraser and Global Herbs Pty Limited issued proceedings against Vita Life Sciences Limited and a subsidiary for breach of contract. The claim is for $750,000 and release from a five year restraint of trade. The Defendants have filed a defence and cross claim. The matter has been set down for five days between 15 and 19 May 2006.

23. AUDITORS' REMUNERATION

	Consolidated		Parent	
	2005 $	2004 $	2005 $	2004 $
Amounts received or due and receivable by Gould Ralph & Company for:				
Audit of the financial report of the entity and any other entity in the consolidated group	129,359	112,816	129,359	112,816
Other services in relation to the entity and any other entity in the consolidated group:				
- Tax compliance	24,755	-	24,755	-
- Assurance services	14,422	-	14,422	-
- Share registry	20,829	42,468	20,829	42,468
	189,365	155,284	189,365	155,284
Amounts received or due and receivable by auditors other than Gould Ralph & Company for:				
An audit of the financial report of subsidiary entities	76,106	74,318	-	-
Tax compliance	10,812	11,689	-	-
	276,283	241,291	189,365	155,284

Notes to the Financial Statements
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24. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified Directors

Vanda Gould	Chairman (Non-Executive)
John Sharman	Executive Director
Henry Townsing	Director

(ii) Specified Executives

Eddie Tie	Managing Director, VitaHealth Malaysia
CL Khoo	Chief Financial Officer, Malaysia
David Rundell	Chief Executive Officer, Vita Medical
Gary Somerville	Quality Manager, Vita Medical
Lai Mai Leong	Chief Financial Officer, VitaHealth Singapore

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Remuneration Committee of the Board of Directors of Vita Life Sciences Limited is responsible for determining and reviewing compensation arrangements for the Directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive Directors' and senior executives' emoluments to the company's financial and operational performance. All Directors and senior executives have the opportunity to qualify for participation in the Employee Share Option Plan and Long Term Incentive Scheme which currently provides incentives where specified criteria are met including criteria relating to profitability, cash flow, share price growth and environmental performance.

In addition, all executives may be entitled to annual bonuses payable upon the achievement of annual corporate profitability measures, the most important being return on Shareholders' equity.

It is the Remuneration Committee's policy that employment agreements shall be entered into with the Chief Executive Officer or Managing Director and all other executives. The current employment agreement is consistent for all executives. The agreement has a 30 day notice period and provides for payment of an amount in lieu of the value of options over the ordinary shares forfeited should the entity terminate the employment of the executive prior to the vesting date of the relevant options. The amount payable if the executive's employment is terminated is calculated by reference to a formula based on the number of years' service.

The current employment agreement with the Executive Director has a three month notice period.

Notes to the Financial Statements

for the year ended 31 December 2005

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(ii) Remuneration of Specified Directors and Specified Executives

	Primary			Post Employment		Equity	Other	Total
Specified Directors	Salary & Fees	Cash Bonus	Non Monetary benefits	Super-annuation	Retirement benefits	Options		
	$	$	$	$	$	$	$	$
31st December 2005								
Vanda Gould	-	-	-	-	-	-	-	-
John Sharman	170,000	-	-	15,300	-	-		185,300
Henry Townsing	-	-	-	-	-	-	-	-
Total Remuneration:								
Specified Directors	170,000	-	-	15,300	-	-	-	185,300
31st December 2004								
Vanda Gould	-	-	-	-	-	-	-	-
John Sharman	160,000	-	-	14,500	-	-	-	174,500
Henry Townsing	-	-	-	-	-	-	-	-
Total Remuneration:								
Specified Directors	160,000	-	-	14,500	-	-	-	174,500

* CVC Venture Managers is entitled to consulting fees of $185,300 (+ GST) and is reimbursed for direct costs it incurs on behalf of Vita Life of $97,515 (+ GST). CVC Venture Managers is responsible for paying Mr Sharman's salary as Vita Life's Executive Director from the consulting fees received from Vita Life.

	Primary			Post Employment		Equity	Other	Total
Specified Executives	Salary & Fees	Cash Bonus	Non Monetary benefits	Super-annuation	Retirement benefits	Options		
	$	$	$	$	$	$	$	$
31st December 2005								
E Tie	124,666	-	-	14,962	-	-	-	139,628
D Rundell	127,293	7,500	-	11,456	-	-	-	146,249
G Somerville	95,620	-	-	8,605	-	-	-	104,225
LM Leong	83,735	6,400	-	7,072	-	-	-	97,207
Total Remuneration:								
Specified Executives	431,314	13,900	-	42,095	-	-	-	487,309
31st December 2004								
S Ang	163,934	-	5,157	8,672	-	-	-	177,763
D O'Hare	122,271	-	34,935	12,227	-	-	-	169,433
J Goh	138,575	-	858	6,581	-	-	5,818	151,832
D Rundell	123,853	-	-	11,147	-	-	-	135,000
LM Leong	98,360	-	-	8,049	-	-	409	106,818
Total Remuneration:								
Specified Executives	646,993	-	40,950	46,676	-	-	6,227	740,846

* Group totals in respect of the financial year 2004 do not necessarily equal the sums of amounts disclosed for 2004 for individuals specified in the financial year 2005, as different individuals were specified in the financial year 2004.

Notes to the Financial Statements
for the year ended 31 December 2005

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Shareholdings of Specified Directors and Specified Executives

Shares held in Vita Life Sciences Limited (number)

	Balance 01-Jan-05 Ord	*Balance 31-Dec-05 Ord*
Specified Directors		
J Sharman	1,030,000	1,030,000
V Gould	7,643,815	6,945,897
H Townsing	8,381,894	8,964,912
	17,055,709	16,940,809

* No Specified Executives hold shares in the Company.

(d) Loans to specified Directors, specified executives and director related entities

(i) Details of aggregates of loans to specified Directors, specified executives and director related entities are as follows:

	Balance at beg of period 01-Jan	**Interest charged $**	**Interest not charged $**	**Write-off $**	**Balance at end of period 31-Dec $**	**Number in group 31-Dec**
Year ended 31 December 2005						
Specified Directors	250,000	-	-	-	250,000	1
Total	250,000	-	-	-	250,000	1
Year ended 31 December 2004						
Specified Directors	250,000	-	-	-	250,000	1
Total	250,000	-	-	-	250,000	1

(ii) Details of individuals with loans above $100,000 in the reporting period are as follows:

	Balance at beg of period 01-Jan-05 $	**Interest charged $**	**Interest not charged $**	**Write-off $**	**Balance at end of period 31-Dec-05 $**	**Highest owing in period $**
Specified Directors						
John Sharman	250,000	-	-	-	250,000	250,000

Terms and conditions of loans

Loans to Directors are interest free. The loan to John Sharman is a non recourse loan.

Notes to the Financial Statements
for the year ended 31 December 2005

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(e) Other transactions and balances with specified Directors and specified executives

Directors of the Company, or their director related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The terms and conditions of the transactions with Directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arms length basis.

The aggregate amounts recognised during the year relating to Directors and their director related entities were as follows:

		Consolidated		Parent	
		2005	**2004**	**2005**	**2004**
Director	**Transaction**	$	$	$	$
VR Gould	Directors fees	30,000	30,000	30,000	30,000
JS Sharman	Consultancy fees	185,300	174,500	185,300	174,500
HG Townsing	Directors fees	15,000	8,750	15,000	8,750
VR Gould	Finance charge	-	13,523	-	13,523
HG Townsing	Finance charge	40,970	41,082	40,970	41,082

CVC Venture Managers is entitled to consultancy fees of $185,300 (+ GST) plus the reimbursement of direct costs incurred on behalf of Vita Life ($97,515 + GST). CVC Venture Managers is responsible for paying Mr Sharman from the consulting fees it receives from Vita Life. Neither Mr Vanda Gould nor Mr Henry Townsing receive any part of this fee. Further, whilst Directors' fees are accrued for Mr Gould and Mr Townsing, these fees have not been paid.

Non-director related parties
The class of non-director related parties are:

(i) Wholly owned controlled entities
(ii) Joint venture entities
(iii) Directors of related parties and their director related entities

Transactions
All transactions with non-director related parties are on normal terms and conditions.

The aggregate amounts included in the profit from ordinary activities before income tax expense that resulted from transactions from non-director related parties are:

	Consolidated		Parent	
	2005	**2004**	**2005**	**2004**
	$	**$**	**$**	**$**
Dividends received	-	-	4,267,047	-

The aggregate amounts of loans from entities in the wholly-owned group at balance date are:

	Consolidated		Parent	
	2005	**2004**	**2005**	**2004**
	$	**$**	**$**	**$**
Non-current receivables	-	2,844,808	-	-

During the year the company won its case again Mr Pang and was awarded damages plus costs. Due to the inherent uncertainty of collection the company has fully provided for this debt.

Notes to the Financial Statements
for the year ended 31 December 2005

24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Ultimate parent entity

Vita Life Sciences Limited is the ultimate parent entity in the wholly owned group.

25. CONTROLLED ENTITIES

Particulars in relation to controlled entities	**Note**	**Place of incorporation**	**Ordinary Share Consolidated Entity Interest 2005 %**	**2004 %**
Name				
Vita Life Sciences Limited	1,3	Australia		
Controlled entities				
Vimed BioSciences Pty Limited	3	Australia	100	100
Vimed BioSciences Inc		USA		Deregistered Dec04
Allrad No. 19 Pty Limited	3	Australia	100	100
Allrad No. 28 Pty Limited	3	Australia	100	100
Allrad No. 29 Pty Limited	3	Australia	100	100
Vita Medical Limited	3	Australia	100	100
Vitamedica Europe Limited	4	Ireland	100	100
Tetley Research Pty Limited	3	Australia	100	100
Tetley Treadmills Pty Limited	3	Australia	100	100
Lovin Pharma International Limited	4	Ireland	100	100
Vita Corporation Pte Limited	5	Singapore	100	100
Swiss Bio Pharma Sdn Bhd	6	Malaysia	90	90
VitaHealth Laboratories Singapore Pte Limited	5	Singapore	100	100
VitaHealth Laboratories Hong Kong Limited	7	Hong Kong	100	100
Vitaron Jaya Sdn Bhd	6	Malaysia	90	90
VitaHealth Laboratories Australia Pty Limited	3	Australia	90	90
VitaHealth Laboratories Indochina Pte Limited	5	Singapore	90	90
Premier Foods Pty Limited	3	Australia	90	90
Herbs of Gold Pty Limited	3	Australia	90	90
VitaHealthcare Asia Pacific Sdn Bhd	6	Malaysia	90	90
VitaHealthcare Asia Pacific Pte Limited	5	Singapore	90	90
Cyclomedica Europe Limited	2,4	Ireland	50	50
Cyclomedica Germany GmbH	8	Germany	100	-
Cyclopharm Limited	3	Australia	100	-
Vita Medical Australia Pty Limited	3	Australia	100	-
Vita Medical (Canada) Limited	9	Canada	100	100

Notes to the Financial Statements
for the year ended 31 December 2005

Notes

1. Vita Life Sciences Limited is the ultimate parent entity in the wholly owned group.
2. Cyclomedica Europe Limited is a Joint Venture entity owned 50% by Vitamedica Europe Ltd and 50% by Cyclopharma Laboratoires SA (France). As a result of effective control by the VLS group, the company's results have been consolidated in full in the economic entity.
3. Audited by Gould Ralph & Company, Australia.
4. Audited by HLB Nathans, Republic of Ireland.
5. Audited by Chio Lim & Associates, Singapore.
6. Audited by Horwath Kuala Lumpur Office, Malaysia.
7. Audited by Horwath Hong Kong Group Limited, Hong Kong.
8. Audited by Bilanzia GmbH Wirtschaftsprufungsgesellschaft
9. Audited by Schwartz Levitsky Feldman Llp

26. EVENTS AFTER BALANCE DATE

Meeting of Noteholders

The Company held a meeting of Noteholders on 12 April 2006, wherein Noteholders approved a set of resolutions which resulted in the release of certain security charges held by Noteholders over companies associated with the Technegas business, the transfer of certain assets between 100% owned subsidiary companies and the formation of a new sub holding company "Cyclopharm Limited" for that business. Details of the resolutions put to the Meeting of Noteholders are available on our website at www.vitalifesciences.com

Meeting of Shareholders

The company held a meeting of Shareholders on 12 April 2006 wherein Shareholders approved a set of resolutions which resulted in approval for:

i. Vita Life to offer shares in the newly formed sub holding company, Cyclopharm Limited, to Noteholders in part satisfaction of their debt entitlement;

ii. Approval for Vita Life to sell Cyclopharm Limited ordinary shares to raise sufficient funds to allow the repayment of the balance of Noteholders' entitlements;

iii. Approval for Vita Life to offer each of its Shareholders the right to purchase the remaining balance of Cyclopharm Limited fully paid shares owned by the company (after it has sold Cyclopharm shares pursuant to (ii) above) to satisfy the obligations to Noteholders;

iv. The payment of a success fee to CVC Venture Managers Pty Ltd, a company related to Messrs Vanda Gould, Henry Townsing and John Sharman;

v. The Company to make a limited recourse loan to Mr Daud Yunus, a Director of VitaHealth companies, of $170,000 to purchase 680,000 new, ordinary, fully paid shares in Vita Life; and

vi. The Company to make limited recourse loans to such executives of the VitaHealth group as they see fit, up to the sum of $250,000 to purchase 1,000,000 new, ordinary, fully paid shares in Vita Life.

Notes to the Financial Statements
for the year ended 31 December 2005

26. EVENTS AFTER BALANCE DATE (continued)

Conversion of Noteholders' Entitlements to Vita Life and Cyclopharm Shares

Shareholders and Noteholders will be aware that as a result of the resolutions passed at our meetings on 12 April 2006, Noteholders were able to convert their entitlements into ordinary shares of Cyclopharm Limited at a rate of 4.76 Cyclopharm shares for ever $1.00 of Face Value of Notes (equivalent conversion price being $0.21 per Cyclopharm share) with a maximum number of shares to be issued being 28,571,429 or $6.0 million Face Value of Notes.

We received applications for $17,610,797 Face Value of Notes to be converted into 83,860,938 Cyclopharm, shares. This represents an over-subscription of 2.9 times the available allocation for Cyclopharm shares. Noteholders applying for shares in Cyclopharm will be scaled back in accordance with terms and conditions of the offer. Shares in Cyclopharm will be issued on or around 19 May 2006.

The company has written to Noteholders advising of their right to convert their Notes into four Vita Life shares and they have until 19 May 2006 to advise the company of their conversion intensions. Thereafter Noteholders' rights to convert into Cyclopharm shares are terminated.

Pan Administration - Dividend

Vita Life has finalised its claims with the Pan Liquidator save for our loss of profit claim for our Australian business. We have agreed with the Liquidator that we will suspend our action pending the outcome of a legal case between the Liquidator and a third party have agreed with the Liquidator, which, we believe, has similar facts to our claim. To date Via Life has received $970,704 as a dividend from Pan and in accordance with an earlier sale of these proceeds, they have been remitted in full to Barleigh Wells Ltd.

Cancellation of Shares

Vita Life has registered the judgement it obtained in the High Court of Singapore and New South Wales to levy the 6,869,151 Vita Life shares held by Pang Seng Meng in settlement of that debt. Prior to auctioning these shares, Mr Pang's sister filed a claim for 2,698,260 Vita Life shares. The Official Assignee of Singapore has also confirmed that it will be filing a claim for the balance of these shares. Legal proceedings continue in Singapore and Australia, and the next Directions hearing is listed for 29 May 2006.

Chinese Joint Venture

During 2005 we became increasingly unhappy with the progress of our business in China. In April 2006 we successfully negotiated the un-wind of the "joint venture" agreement with Vital Biotech and recovered our initial investment. We have employed a senior executive to develop our business in China and we are hopeful that this initiative will begin to show positive results in the latter part of this year.

Litigation – Kate Helena Fraser and Global Herbs Pty Ltd (CAN: 059 051 937) v VitaHealth Laboratories (Australia) Pty Ltd and Vita Life Sciences Limited.

This matter was settled by consent on 17 May 2006 for an amount of $475,000 – significantly less than the $750,000 previously provided in the financial statements. In accord with AASB110 Events after the Balance Sheet Date, the company and consolidated entity have adjusted the previously recognised provision and credited income as a reversal of impairment loses previously recognised.

Director's Declaration

In accordance with a resolution of the Directors of Vita Life Sciences Limited, I state that:

In the opinion of the Directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2005 and of their performance for the year ended on that date; and

- (ii) complying with Accounting Standards and 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.

On behalf of the Board

John Sharman,
Executive Director
Melbourne
8 June 2006

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INDEPENDENT AUDIT REPORT
To the members of Vita Life Sciences Limited

Scope
The financial report and directors' responsibility
The financial report comprises the balance sheet, income statement, statement of changes in equity and statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Vita Life Sciences Limited (the company) and the consolidated entity for the year ended 31 December 2005. The consolidated entity comprises both the Company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of the business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence
We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit Opinion
In our opinion, the financial report of Vita Life Sciences Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the financial position of Vita Life Sciences Ltd and the consolidated entity at 31 December 2005 and of their performance for the year ended on that date; and

- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Emphasis of Matters

Without qualification to the opinion expressed above, attention is drawn to the following matters:

Inherent Uncertainty Regarding Litigations

As indicated in Note 22 to the financial statements, the Company 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.

Inherent Uncertainty Regarding Continuation as a Going Concern

As a result of the matters described in Note 1(d) to the financial statements, there is significant uncertainty whether the economic entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

GOULD RALPH & COMPANY
Chartered Accountants

GREGORY C RALPH, M.Com., FCA.
Partner

Sydney, 8 June2006.

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VITA LIFE SCIENCES