Annual Report 2006

VITA LIFE SCIENCES

Corporate Directory

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

Company Secretary
Mr H G Townsing

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Email Address
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Share Registry
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Level 42, AAP Centre
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Sydney NSW 2000
Australia
Tel: (612) 9032 3000
Fax: (612) 9032 3088

Auditors
Russell Bedford NSW
Level 42, 259 George St
Sydney NSW 2000
Australia

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

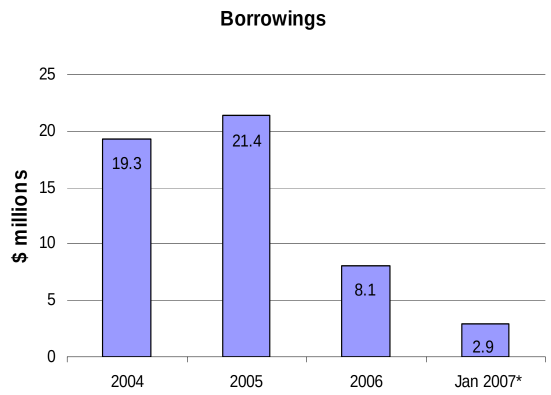
Other Information
Vita Life Sciences Limited, Incorporated and domiciled in Australia, is a Public Unlisted Company limited by shares.

Contents

Financial Features

Deficiency in shareholders funds:

Reduced to ($2.0m) - 2005 ($13.8m)

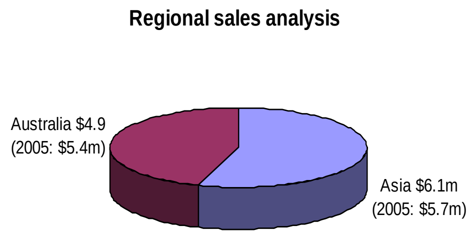


Borrowings:

Reduced debt by $13.3m to $8.1m* – 2005 $21.4m
*On 11 January 2007 borrowings were reduced to $2.9m with the repayment of notes

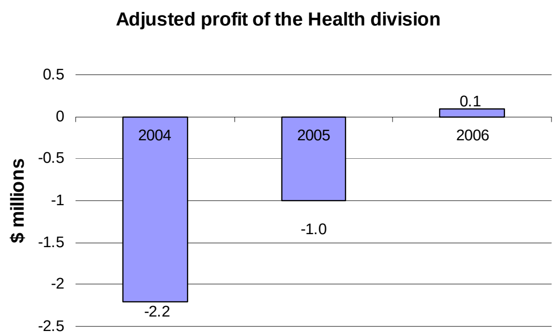
Regional analysis:

South East Asian markets expanded for the first time in 4 years and South East Asian operations returned to profitability.



Divestment of medical division:

Realised profit over book value of $8.6m



Adjusted Profit from Health Division, the Company's continuing operation:

Profit $0.1m – 2005: $1.0m loss

Chairman's Letter

Dear Vita Life Shareholder,

At this time last year, as Chairman I expressed cautious optimism following approval of shareholders and noteholders in April 2005 to a plan that was completed on 11 January 2007. The plan resulted in the Company's noteholder debt of $18.4 million being repaid and the sale of Cyclopharm Ltd. I was pleased to see that 740 Vita Life shareholders and noteholders participated in the sale by subscribing or swapping debt for Cyclopharm shares. When Cyclopharm listed on the Australian Stock Exchange (ASX) in January 2007, Vita Life shareholders and noteholders held 65% of its issued shares and importantly, Cyclopharm was valued by the market at around $50 million.

As a result of these successful initiatives, Vita Life is now substantially debt free and in a position to implement the last leg of its journey of once again having its shares traded on the ASX.

At the Company's Annual General Meeting to be held on 31 May 2007 there are several resolutions being put to shareholders that are important to the Company's future objectives. These initiatives include a rights issue to shareholders to raise up to $5 million to provide the necessary funding for the Company to build and expand its business. The funds raised will be used to:

- Expand the distribution channels of the Health division in Australia and Asia;
- Build upon our fledgling Investment division; and
- Finance working capital, including the repayment of borrowings.

I urge shareholders to carefully consider the Notice of Meeting and Explanatory Memorandum and to cast their vote in support of the resolutions.

Vita Life's principal business activities today is its Health division, which produces "over the counter" medicines, complementary and alternative medicines, dietary supplements and health foods. Substantial operations exist in Australia and South East Asia.

Overall, Vita Life recorded sales of $11.1 million and a profit after tax of $9.8 million in 2006. This profit reflects the one-time benefit from the divestment of, and 10 month contribution from Cyclopharm. The underlying result from continuing activities of the Health division was an adjusted profit of $0.1 million in 2006. This result is exclusive of goodwill write-off and several other non-recurring items. Please refer to the Managing Director's Report for details.

Mr Eddie Tie joined and became the Health division's CEO in early 2005. In January 2007 he was appointed Vita Life's Managing Director. Mr Tie quickly established a 2-year plan (2005-2006) for the stabilisation of the Health business, which had recorded operating losses of $7.1 million in the period 2002–2004, and implemented strategies for the long term future growth of the business. He and his executive team, comprising Mr C L Khoo, Ms Lai Mei Leong, Mr Edmund Sim, along with the other employees, achieved these objectives. The Board has approved his plans for 2007-2009 which are generally reflected in the proposed use of the Company's proceeds from its planned capital raising.

I particularly want to thank Mr Eddie Tie for his commitment and vision for the re-building of what has been a very difficult business challenge. I commend Mr Tie to our shareholders.

I would also like to thank Mr John Sharman who stepped into the Finance Director's role in the troubled times of October 2003. He subsequently managed all the Group's operations and worked closely with Mr Tie from 2005. In September 2006 Mr Sharman became the Managing Director of Cyclopharm Ltd and is now a non-executive director of Vita Life.

The issues of the past are now behind us and the fresh challenges relate to the implementation of the Company's business plan and building a substantial business. In reflecting upon the positive revival of your Company's fortunes, a statement by former US President, Woodrow Wilson, comes to mind: "You are not here merely to make a living. You are here in order to enable the world to live more amply, with greater vision, with a finer spirit of hope and achievement. You are here to enrich the world, and you impoverish yourself if you forget the errand."

Vanda Gould

Chairman

Managing Director's Review

OVERVIEW

During 2006 Vita Life laid the foundations to expand its Health division and establish a new business unit,, the Investment division. The new business units are aimed at unlocking opportunities which present as a result of the groups relationships with health professionals and the skills of Vita Life's senior management team.

Vita Life's opportunity is to capitalise on its market position in Australia and several South East Asian markets within the health sector by:

- expanding the marketing channels through which its products are sold: pharmacies in Australia, multi level marketing and direct to consumer in South East Asia; and
- expand product sales geographically: to those countries that have a population of more than 50 million people – Thailand, Philippines, Indonesia, Vietnam and China. The combined population of these countries is many times that of the total population of Malaysia, Singapore and Australia, which are currently the group's main source of revenue.

The non prescription pharmaceutical and health supplements market is worth approximately $1.5 billion and $2.0 billion annually in Australia and South East Asia respectively and is growing steadily. This compares to Vita Life's Health division sales of $11.1 million in 2006. The Company's products are Herbs of Gold (Australia) and VitaHealth (Malaysia and Singapore) and are sold only through the health food stores and pharmacies respectively. Therefore the Health division has only been offering its products to a small section of a much larger overall market. To address this:

- the Health division has recently expanded its range of health supplements under the Vita Science brand to be sold in the Australian pharmacy channel which accounts for the largest proportion of health supplement sales in Australia.
- in Malaysia the multi level marketing channel ranked as the 11th largest direct selling market in the world and recorded sales of $2.1 billion in 2005. These sales comprised health supplements, skin and beauty products and other consumer goods. With a view to tapping into this market, the Vita Life Group has obtained the necessary licence to operate its multi level marketing business. Recruitment of personnel for this new business commenced in the last quarter of 2006.
- the VitaHealth brand has had a small presence in the Indonesian, Vietnamese and Philippinese markets for many years, but no presence in Thailand or China. Initiatives in 2006 by the Vita Life Group were aimed at establishing the VitaHealth brand in all 5 countries thereby building sales in countries which have population in excess of 50 million people.

Additionally the new Investment division has secured its first project which directors believe will produce attractive profits and assist the company in rebuilding its balance sheet. Shareholders, at the forthcoming Annual General Meeting will be asked to approve the Company investing up to $2 million in the Investment division.

Managing Director’s Review (continued)

FINANCIAL PERFORMANCE FOR 2006

The 2006 results for Vita Life are beginning to reflect the benefits of the work undertaken in 2004 - 2005. The reported profit after tax, including the interest of minorities, of $ 9.8 million is not a reflection of underlying ongoing business operations as it includes 10 months contribution from Cyclopharm and one time gain related to its divestment.

The principal components of Vita Life’s financial result for 2006 is summarised in the table below.

Principal Components of Vita Life's Reported Profit	2006
$ Million	
Health division	
- Operating result	0.1
- Goodwill written off	(1.1)
- Amortisation and interest	(0.1)
- Other costs	(0.1)
Corporate	
- Overprovision; legal & notes redemption	0.9
- Proceeds from creditor recovery	0.9
- Gain on disposal of investment	11.8
- Other costs	(2.4)
Finance	
- Interest & other finance charges	(1.7)
- Discontinued operations	1.4
- Minority interest	0.1
Profit after tax (as per Income Statement)	**9.8**

Health Division

As the Health division is the ongoing business of the group the appropriate analysis is to compare its performance with previous years. A summary of the Health division’s contribution is:

Health Division Adjusted Operating Results	2006	2005	2004
$ Million			
Net Sales from continuing operations	11.1	11.1	15
Direct selling and operating expenses*	(11.0)	(12.1)	(17.2)
Adjusted earnings before interest, depn, amort and tax	**0.1**	**(1.0)**	**(2.2)**

* Excludes costs of a one time nature relating to the establishment of the multi-level marketinç Malaysia and operations in Thailand.

Whilst the Health division revenue remained steady at $11.1 million (2005: $11.1 million) the gross profit margin improved over 2005. Overall strict controls and reporting on key operational aspects have resulted in improved performance in a highly competitive market.

Managing Director's Review (continued)

The key operating results for the Health division in 2006 are outlined below:

1. Sales revenue remained flat as sales growth of 8% in the South East Asian markets was offset by decreased sales in the Australian market. However, as a group, the Health business made a small operating profit in all four quarters of 2006, evidencing a constancy not seen for several years.
2. The return to operating profitability of the Malaysian and Singaporean units of the Health division after four years of consecutive losses
3. Operating costs increased marginally by $0.3 million or 4% over 2005 as the Health division began to invest in people and systems in preparation for substantial growth.
4. The investment in new marketing channels (multi level marketing and pharmacies in Australia) and new markets (Thailand and Vietnam). These costs were expensed and revenue from these initiatives is planned to be generated from mid 2007.

The Health division continued with strategies aimed at long term results and accordingly short term benefits have been compromised to some extent. Strategies to build long term shareholder value are:

1. Continue to focus on brand and product differentiation, building efforts to command a price premium.
2. Continue to invest in product training for both product advisors and sales personnel so that they can sell the products' unique benefits and add value to our customers;
3. Improve supply-chain processes to generate positive cash flow and optimise minimal stock-holding levels by securing back-orders ready for delivery as soon as the products are received from manufacturers.
4. Constantly source for alternative manufacturers or reformulate products (without sacrificing the product's efficacy) to lower cost of sales.
5. Careful selection of advertising and marketing promotional programmes with retailers to secure a positive return on investments and improve margins.
6. Evaluate new product development and launches critically to improve the financial returns using our in-house Market Profitability Evaluation Committee (MPEC) to vet all new product proposals.
7. Create a new brand called Pharma Direct to compete in the "me-too" product category whilst maintaining desired gross margins by doing away with the traditional costly trading terms. This is to ensure the group maintains a share of the large me-too product market and at the same time does not dilute the VitaHealth brand premium.
8. Establish the infrastructure for multi level marketing and build the business.

REGIONAL COMMENTARY

Australia

Herbs of Gold is the single largest market accounting for nearly 45% of our turnover. Gross margins continue to be impacted by stiff competition and raw material price increases in 2006. To overcome these challenges, Herbs of Gold conducted a full review of its product range, product formulation and pricing structures. Actions were taken to improve margins by reformulating some products whilst maintaining their efficacy, sourcing for new suppliers and discontinuing the sale of products that are unprofitable. The results of these actions are shown in the improvement in gross profit margin in the 1st quarter of 2007.

Herbs of Gold and Vita Science each launched seven new products in 2006. Sixteen new or reformulated products are planned to be launched by Herbs of Gold and Vita Science in 2007.

South East Asia

The balance of the Health division's turnover is split between Malaysia (30%), Singapore (22%) with other countries such as Indonesia and the Philippines (3%), which constitutes the South East Asian geographic segment.

Managing Director's Review (continued)

On a year on year basis, Malaysia increased sales by 8% and improved margins over those achieved in 2005. Sales rose despite products accounting for approximately 5% of total sales in 2005 being discontinued. Four new products were launched under the VitaHealth brand, four products were registered for the multi-level marketing Vita Life brand and four new products were registered for direct selling under the Pharma Direct brand in 2007.

Singapore sales were maintained at around 2005 levels but gross margin improved over that achieved in 2005. As in Malaysia, the Health division was very selective and avoided participating in sales and marketing programs that were costly and had a low probability of sales success. Seven new products were launched in Singapore in 2006 and five new products are planned for launch in 2007.

2007- Forward

The Health division in 2005 decided not to chase market share at the expense of profits and cash flow. The division constantly evaluates long term customer loyalty and demands against gross margin and avoids low or loss margins transactions that are often used as a strategy by many to gain market share.

One of the most important initiatives for the future is the opening of new selling channels for products through multi-level marketing, direct selling, expansion into the aforementioned 50 million population markets, and new businesses. To that end the Health division has received its multi-level marketing license to operate the direct selling business model in Malaysia. Additionally products have been registered in Thailand and Vietnam and sales are to commence from mid 2007.

CONCLUSION

The Health division has begun to repay the faith that my colleagues and fellow directors have put into the business and we are optimistic for the future. Our staff have displayed loyalty and determination to succeed over a long period of time. Shareholders should be encouraged by the emerging positive results arising from continuing efforts and the high energy required to create our own edge in the industry.

Eddie Tie

Managing Director

Directors' Report

The Directors of Vita Life submit their report for the year ended 31 December 2006.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire year unless otherwise stated.

Names, qualifications, experience and special responsibilities

Mr V R Gould – Non-Executive Director (Chairman)
B Com, M Com, FCA, FCPA

Mr Gould has been a member of the Board since 1997. He is currently the Group Non-Executive Chairman appointed in 1999 and also serves as Chairman of the Audit and Risk, Board Nominations, and Remuneration Committees.

Mr Gould has broad business experience having practised as a chartered accountant for more than 30 years. As founding Chairman in 1984 of CVC Limited he has overseen investments in several companies involved in the medical industry. He is also chairman of several other private and public companies and educational establishments.

Mr Gould lives in Sydney and is 58 years old.

Mr Gould is also the chairman of the ASX listed company CVC Limited.

Mr Eddie Tie Lim Sung – Managing Director
CPA (M), CA (M), CFP

Mr Tie has more than 25 years commercial experience holding positions as Managing Director/CEO across companies involved in hotels and property development, manufacturing and education. Earlier in his career he was the Finance Director for a regional subsidiary of a multinational information technology company and General Manager of Finance of a publicly listed company in Malaysia.

Mr Tie was appointed Managing Director of Vita Life on 1 January 2007.

Mr Tie lives in Kuala Lumpur, Malaysia and is 48 years old.

Mr J S Sharman – Non-Executive Director
B Ec, M Fin, CA

Mr Sharman was Finance Director and then Executive Director of Vita Life from October 2003 to August 2006. John serves as a member of the Audit and Risk Committee.

Mr Sharman has over 15 years experience in company management, private equity, investment banking and corporate finance. He has extensive experience in capital raisings, negotiation of key agreements, recovery and commercial strategies for performing and non-performing companies in all stages of company development.

Mr Sharman is the Managing Director of the ASX listed company Cyclopharm Ltd (appointed September 2006).

Mr Sharman lives in Melbourne and is 40 years old.

Director's Report (continued)

Mr H G Townsing – Non Executive Director
Dip Val

Mr Townsing has been a member of the Vita Life Board since 2004 and serves as a member of the Board Nominations and Remuneration Committees.

Mr Townsing has more than 20 years experience in corporate finance and private equity. He was a director of Vita Life from 1985 to 1992 and was reappointed a director in May 2004, a director of Normandy Finance & Investments Asia Ltd along with several other companies.

Mr Townsing is also a director of the ASX listed company Cyclopharm Limited (appointed November 2005).

Mr Townsing lives in Melbourne and is 51 years old.

Interests in the shares of the Company and related bodies corporate

The movement during the reporting period in the number of ordinary Vita Life Sciences shares (no options are on issue) held directly, indirectly or beneficially, by directors and key management personnel, including their personally-related entities is as follows:

Director	31/12/2005	Purchases	Sales	31/12/2006
Mr V R Gould - non beneficial	7,047,546	51,356	-	7,098,902
Mr E L S Tie - non-beneficial	-	600,000	-	600,000
Mr J S Sharman - beneficial	1,000,000	267,000	-	1,267,000
- non beneficial	131,649	50,788	-	182,437
Mr H G Townsing - non beneficial	8,608,880	1,535,230	-	10,144,110

DIVIDENDS

No dividends were declared or paid during the financial year.

The balance of franking credit available for future dividend payments is $533,355.

OFF MARKET / ON MARKET BUY-BACK

There were no off market or on market buy-back initiatives during the year.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the consolidated entity consisted of formulating, packaging, sales and distribution of vitamins/supplements and, investment.

OPERATING AND FINANCIAL REVIEW

Operating Results for the Year

For the financial year the economic entity recorded a consolidated profit after tax from ordinary activities of $9,807,328 (2005: loss $279,316).

Director's Report (continued)

Shares issued during the year

The company, pursuant to its Long Term Incentive plan issued 1,510,000 new ordinary shares to executives and employees and 2,080,820 new ordinary shares from the conversion of notes during the year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The directors comment on the following matters:

Divestment of Cyclopharm Ltd

On 31 May 2006 Cyclopharm Ltd completed the acquisition of its controlled entities that collectively constituted the nuclear medicine products business (including Technegas Systems business). The nuclear medicine products business was previously conducted by Tetley Manufacturing Pty Ltd (formerly Vita Medical Ltd) and its controlled entities, a group wholly owned by Vita Life. The divestment of the nuclear medicine products business was approved by shareholders and noteholders in Vita Life on 12 April 2006. The nuclear medicine products business was sold for $6.7 million in cash and a further $2.9 million satisfied through the issue of 106,666,657 shares in Cyclopharm Ltd.

As a result of

- a share sale to its noteholders under the prospectus dated 27 March 2007;
- a non-renounceable rights issue to its shareholders under a supplementary prospectus dated 10 October 2006 and;
- a sale of Cyclopharm Ltd shares under another prospectus dated 28 November 2006, Vita Life is no longer a shareholder in Cyclopharm Ltd.

Pan Pharmaceuticals administration – Dividend

During the 2005 year, Vita Life and Pan Pharmaceuticals Liquidator agreed the basis upon which Vita Life's Australian business loss of profit claim would be dealt with. The Company agreed to suspend its legal action pending the outcome of a legal case between the Liquidators and a third party, which the Company believes has similar facts to its claim and its outcome is expected to be known later in 2007.

Vita Life received $701,068 during the year (2005: $215,017) as a dividend from Pan Pharmaceuticals. These proceeds have been applied to the retirement of debt.

Sale of Shares

In 2005 the Vita Life group registered its Singaporean judgment against Mr Pang Seng Meng in Australia. In agreement with the Singaporean Official Assignee of the estate of Mr. Pang and upon legal advice, Vita Life group companies subsequently withdrew its claim to all of the Vita Life shares owned by Mr. Pang, allowing the distribution of 4,170,891 shares to the Singaporean Official Assignee and the remaining 2,698,260 shares to Ms Pang Mui Hua. The Singaporean Official Assignee sold by public auction the 4,170,891 parcel. The Vita Life group is the major creditor concerned in the bankruptcy of Mr Pang and stands to recover the majority of the funds from the sale of those shares.

Repayment of notes

Pursuant to shareholder approval obtained at the general meeting held on 12 April 2006;

- 28,571,429 shares in Cyclopharm Ltd (representing 26.8% of the issued capital of Cyclopharm Ltd) were sold to noteholders, raising $6.0 million. The effect of Vita Life's sale of 28,571,429 shares in Cyclopharm Ltd was to reduce its outstanding obligations to noteholders by $6.0 million.
- Noteholders agreed to discount Vita Life's repayment obligations by 10% of the face value of all notes. The result was to reduce the total amount owing to noteholders by $1,318,442 (face value of notes reduced from $1.00 to $0.90 per Note).
- Pursuant to the terms of its notes, Vita Life issued 2,080,820 new shares at $0.25 cents per share to noteholders, in return for retiring $520,205 of note debt.
- On 19 July 2006 Vita Life paid $5,701,144 ($0.45 per note) to noteholders.

Director's Report (continued)

- On 11 January 2007 Vita Life paid $5,701,144 ($0.45 per note) and interest of $1,135,143 to noteholders.

With these payments the obligations to noteholders were fully settled.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Sale of Investment / Repayment of Note Debt

On the 11 January 2007 Vita Life:

- Completed the sale of its remaining 11.8% interest in Cyclopharm Ltd for $0.30 per Cyclopharm Ltd share raising $4.0 million; and
- repaid the balance of noteholder debt principal and interest.

Borrowings

The Company increased its loan facility with Barleigh Wells Ltd by $1.1 million to $3.5 million in January and February 2007.

Litigation

Tetley Manufacturing Pty Limited was a defendant to two separate legal proceedings in Australia and France. On 22 March 2007 Tetley Manufacturing Pty Ltd (formerly Vita Medical Ltd) and the other parties agreed to a "global settlement" (settlement of French and Australian cases taking into account the French court decision, which required Tetley Manufacturing Pty Ltd to pay an agreed settlement amount, which has been accrued in the financial statements as at 31 December 2006. The terms of the global settlement are confidential and will not have a material impact on Vita Life group's financial results in 2007.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

New Business Activities

The sale of the Company's products in Thailand is scheduled to commence in the second quarter of 2007. In Malaysia, the sales of the Company's products through its multi level marketing business are programmed to commence in the second quarter of 2007.

The Company's Investment division, subject to shareholder ratification at the Annual General Meeting in May 2007, will undertake an investment in a housing project in Malaysia.

ENVIRONMENTAL 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.

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

Vanda Russell Gould was re-elected as a director on 6 July 2006.

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

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

Pursuant to the Company's constitution, one third of Directors are required to stand for re-election every three years. Mr Townsing has consented to stand for re-election at the Annual General Meeting to be held 31 May 2007.

Director's Report (continued)

INDEMNIFICATION AND INSURANCE OF OFFICERS

In accordance with clause 29.1 of Vita Life's 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 provided that the liability:

- does not arise from conduct involving a lack of good faith; or
- is for costs and expenses incurred by the director or officer in defending proceedings permitted by law.

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. 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.)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 19.

Fees for non-audit services outstanding and payable to Russell Bedford NSW for the year ended 31 December 2006 have been disclosed in Note 22.

REMUNERATION REPORT

The Remuneration Report outlines the director and executive remuneration arrangements of the Company and the group in accordance with the requirements of the Corporations Act 2001 and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 Related Party Disclosures, which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04. For the purposes of this report Key Management Personnel of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company, and includes the five executives in the parent and the group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives, general managers and secretaries of the parent and the group.

Director’s Report (continued)

Consolidated		Short term employee benefits			
2006	Salary & Fees $	Superannuation $	Non-monetary benefits $	Total $	Performance rated %
Directors					
Mr V R Gould Non-Executive Director	30,000	-	-	30,000	0%
Mr E L S Tie (Note 1) Managing Director	129,116	15,494	1,049	145,659	0%
Mr J S Sharman Executive Director	188,213	-	-	188,213	0%
Mr H G Townsing Non-Executive Director	15,000	-	-	15,000	0%
Total Directors Compensation	362,329	15,494	1,049	378,872	
Key Management Personnel					
C L Khoo Chief Financial Officer-Group	58,489	7,028	-	65,517	0%
L M Leong Chief Financial Officer- Singapore	86,770	6,768	-	93,538	0%
Nathan Cheong (Note 2) Acting Country Manager- Australia	97,080	7,560	-	104,640	0%
Edmund E M Sim Senior Manager, Regional Regulatory	75,179	7,195	-	82,374	0%
Douglas Hillman Sales Manager-Queensland	62,063	3,937		66,000	0%
Sonia Khamis Sales Manager-Victoria	69,350	4,590	-	73,940	2%
Melanie Vere Sales Manager-New South Wales	67,210	4,482	-	71,692	2%
Total Key Management Compensation	516,141	41,560	-	557,701	

Note 1

Mr ELS Tie received allotment of 500,000 ordinary shares persuant to Vita Life's Long Term Incentive Plan valued at nil, as disclosed in Note 24 to the financial statements.

Note 2

Nathan Cheong joined the company on 16-June-2006. The above reported payment is an annualised amount. The actual amount paid in 2006 are as follows:

	52,634	4,099	-	56,733	0%

Consolidated		Short term employee benefits			Performance
2005	Salary & Fees $	Superannuation $	Cash Bonus $	Total $	rated %
Directors					
Mr V R Gould Non-Executive Director	30,000	-	-	30,000	0%
Mr E L S Tie Managing Director	124,666	14,962	-	139,628	0%
Mr J S Sharman Executive Director	170,000	15,300	-	185,300	0%
Mr H G Townsing Non-Executive Director	15,000	-	-	15,000	0%
Total Directors Compensation	339,666	30,262	-	369,928	
Key Management Personnel					
L M Leong Chief Financial Officer- Singapore	93,107	9,882	-	102,989	0%
Edmund E M Sim Senior Manager,Regional Regulatory	66,606	7,778	-	74,384	0%
Douglas Hillman Sales Manager-Queensland	60,063	3,937	-	64,000	0%
C L Khoo Chief Financial Officer-Group	55,143	6,563	-	61,706	0%
Sonia Khamis Sales Manager-Victoria	54,100	4,230	-	58,330	4%
Melanie Vere Sales Manager-New South Wales	43,024	3,600	-	46,624	1%
D T Rundell CEO Vita Medical (Note 3)	127,293	11,456	7,500	146,249	0%
Total Key Management Compensation	499,336	47,446	7,500	554,282	

Note 3

D T Rundell ceased employment with the group in May 2006.

Director's Report (continued)

Remuneration committee

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

Total remuneration for all existing non-executive Directors during the financial year was $45,000. These fees are within the aggregate remuneration of $100,000 for all Non-executive directors as approved by the shareholders at the Annual General Meeting held 6 July 2006.

Remuneration philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value;
- have a significant portion of executive remuneration 'at risk';
- establish appropriate, demanding performance hurdles for variable executive remuneration; and
- mandatory requirement for directors to sacrifice a portion of their fees to acquire shares in the Company at market price.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held in 6 July 2006 when shareholders approved an aggregate remuneration of $100,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually.   The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Director's Report (continued)

Each director receives a fee (as set out in the Director and Executive remuneration table) for being a director of the Company. Directors' fees cover all main Board activities and the membership of committees. There are no additional fees for committee membership. These fees exclude any additional 'fee for service' based on arrangements with the Company, which may be agreed from time to time. Agreed out of pocket expenses are payable in addition to Directors' fees. There is no retirement or other long service benefits that accrue upon appointment to the Board. Retiring non-executive Directors are not currently entitled to receive a retirement allowance.

Executive remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- reward executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Remuneration Committee engages external consultants as needed to provide independent advice.

The Remuneration Committee has entered into a detailed contract of employment with the Managing Director and a standard contract with other executives. Details of these contracts are provided below.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation and non-monetary benefits); and
- Variable remuneration
  - short term incentive; and
  - long term incentive.

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive is set out in the Director and Executive Remuneration Table.

Fixed Remuneration

<u>Objective</u>

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of Company, business unit and individual performance, relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

<u>Structure</u>

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. The fixed remuneration component of executives is detailed in the Remuneration Report.

Variable remuneration - Short Term Incentive

The objective of the STI is to link the achievement of the Group's operational targets with remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Actual STI payments granted to each executive depend on the extent to which specific targets set at the beginning of the year are met. The targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial, corporate and individual measures of performance. Typically included measures are sales, net profit after tax, customer service, risk management and leadership/team contribution. These measures were chosen as they represent the key drivers for short term success of the business and provide a framework for long term value.

The Group has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, after consideration of performance against KPI's, the Remuneration Committee, in line with their responsibilities, determine the amount, if any, of the short term incentive to be paid to each executive. This process usually occurs within 3 months of reporting date.

The aggregate of annual STI payments available for executives across the Group is subject to the approval of the Remuneration Committee. Payments are delivered as a cash bonus in the following reporting period. Participation in the Short Term Incentive Plan is at the Directors discretion.

Variable remuneration – Long Term Incentives

The Company has established a Long Term Incentive Plan (Plan) to encourage employees or officers to share in the ownership of the Company, in order to promote the long-term success of the Company.

The plan was implemented in 2003 and at the date of this report the Company had allocated 2,510,000 plan shares equivalent to 4.9% of the Company's capital. The principal terms and conditions of the Plan are:

- The Company lends money on a non-recourse basis to employees to buy Company shares at an interest rate as determined by the Remuneration Committee. Interest to be paid is to be derived from dividends paid by the Company or capitalised against the loan;
- The total allocation of share capital able to be issued is not to exceed 7.5% of issued capital;
- The term of the loan is up to 5 years at which point all outstanding monies must be repaid or the shares are forfeited;
- Hurdles as determined by the Remuneration Committee and approved by the Board. Where hurdles are not met the Plan shares will be forfeited and the employee will not be required to make further payment;
- Vesting periods as determined by the Remuneration Committee and approved by the Board; and
- Any dividends paid will be applied to the principal and or interest charged on the loan.

Employment contracts

Managing Director

- The Managing Director, Mr Tie, is employed under a rolling contract which commenced January 2005. The principal terms of Mr Tie's contract are:
- Fixed remuneration of $ 129,116 (plus superannuation) per annum.
- Mr Tie may resign from his position and thus terminate this contract by giving three months written notice unless a mutually agreeable date can be agreed upon.
- The Company may terminate this employment agreement by providing three months written notice or providing payment in lieu of the notice period (based on the fixed component of Mr Tie's remuneration).
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the Managing Director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

Other Executives (standard contracts)

All executives have rolling contracts. The Company may terminate the executive's employment agreement by providing (depending on the individual's contract) between 1 to 3 months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration).

Director’s Report (continued)

Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

INVESTMENT AND BUSINESS RISK MANAGEMENT

The board, based on the recommendations of the Managing Director, Mr Tie and the Directors, makes decisions on investments for the Company. The board considers that the general retention by it, or the power to make the final investment or divestment decision by a 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. Any modification to the investment strategy is notified to the ASX and any proposed major change in investment strategy is first put to shareholders for their approval.
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 financial position, with a comparison of actual results against budget;
- 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.

SHAREHOLDINGS BY DIRECTORS AND EXECUTIVES

Company policy restricts trading by the Directors in their Shares to certain times and circumstances. Directors and senior executives will only be entitled to trade their Shares without restriction for up to four weeks following announcements of the Company's half yearly and preliminary final results, any detailed announcements concerning profit forecasts and after the Annual General Meeting.

ETHICAL STANDARDS

The Board endeavours to ensure that the Directors, officers and employees of Vita Life Science’s 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.

DIRECTORS’ MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the numbers of meetings attended by each director were as follows

Director	Board Meetings		Audit Committee		Board Nomination		Remuneration	
	Held by members	Attended	Held by members	Attended	Held by members	Attended	Held by members	Attended
Mr V R Gould	10	10	1	1	1	1	1	1
Mr J S Sharman	10	8	1	1	*	*	*	*
Mr H G Townsing	10	10	*	*	1	1	1	1

* Not a member of the committee.

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

Director's Report (continued)

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.

Dated at Melbourne this 27th day of April 2007.
This report is made and signed in accordance with a resolution of the directors:

Henry G Townsing
Director

Auditor's Independence Declaration

Russell Bedford
New South Wales

Level 42, Suncorp Place
259 George Street
Sydney NSW 2000
Australia

T: **+61 2 9032 3050**
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E: mail@russellbedfordnsw.com.au
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The Board of Directors
Vita Life Sciences Limited
Suite 630, Level 6
1 Queens Road, St Kilda Towers
MELBOURNE NSW 3004

Dear Members of the Board,

LEAD AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF VITA LIFE SCIENCES LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

- no contraventions of any applicable code of professional conduct in relation to the audit.

Yours faithfully,
RUSSELL BEDFORD NSW

GREGORY C RALPH, M.Com., F.C.A.
Partner
Sydney, 27 April 2007

Corporate Governance Statement

Whilst Vita Life is not listed on the Australian Stock Exchange Ltd (ASX) it is a public company with 2,614 shareholders and the Directors have determined to report to shareholders on corporate governance matters by measuring itself against the ASX best practice recommendations.

1. COMPLIANCE WITH ASX BEST PRACTICE RECOMMENDATIONS

The ASX Listing Rules require a statement in a listed Company's Annual Report which discloses the extent to which the ASX 28 best practice recommendations have been followed in the reporting period. As a listed Company, Vita Life Sciences must identify those recommendations which have not been followed and provide reasons for non-compliance.

This Statement sets out in detail the Company's compliance with the ASX Corporate Governance Council's best practice recommendations.

The Company considers that practices comply with 2 of the ASX best practice recommendations as at 31 December 2006. The Company considers that its recommendations comply with the best practice recommendations, other than recommendations 2.1, 2.2 and 4.3 an explanation for the departure is provided in this statement in sections 2(a), 2(c) and 3(a). A checklist summarising this is set out in section 8 of this Statement.

2. THE BOARD OF DIRECTORS

a) Membership

The Board has a range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, including details of director backgrounds is contained within the Directors Report on page 6.

ASX Recommendation 2.

The Company's Constitution requires a minimum of 3 directors and a maximum of 9 directors. As at 31 December 2006, there are 3 non-executive Directors and one executive director, in conformity with the Company's policy that the Board does not have a majority of executive directors. The Chairman, Mr. Gould, is a non-executive director.

The terms and conditions of appointment and retirement of directors are set out in the Company's Constitution which is available at Vita Life Science's website, at www.vitalifesciences.com.au. The Board believes that its membership should have enough directors to serve on various committees of the Board without overburdening the Directors or making it difficult for them to fully discharge their responsibilities.

b) Board role and responsibilities

The Board is responsible to shareholders and investors for Group's overall corporate governance.

The Board has established and approved a Board charter. Under this charter the Board is responsible for:

- Considering and approving the corporate strategies proposed by the Managing Director and monitoring their implementation;
- Approving, overseeing and monitoring financial and other reporting to shareholders, investors, employees and other stakeholders of the Company;
- Ensuring that the Company has the appropriate human, financial and physical resources to execute its strategies;
- Appointing and monitoring the performance of, and removing the Managing Director;
- Ratifying the appointment, and where appropriate, the removal of the Chief Financial Officer (or equivalent) and / or Company Secretary;
- Reviewing the effectiveness of the Company's policies and procedures regarding risk management, including internal controls and accounting systems; and
- Ensuring appropriate governance structures are in place including standards of ethical behaviour and a culture of corporate and social responsibility.

ASX Recommendations 1.1, 2.5

c) Chairman

The Board does not strictly comply with the ASX Recommendations 2.1 and 2.2 in that the Chairman, whilst a non-executive, is not an independent director due to his shareholdings in Vita Life, which exceed 5% (13.8%).The Board has considered this matter and decided, Mr. Gould abstaining from expressing a view, that the non-compliance does not effect the operation of the Company. Should Mr. Gould continue to execute his responsibilities as he has done since appointment to those Boards of various entities in the Vita Life Sciences Group, there is no reason to treat his actions as otherwise than that of an independent non executive.

The Chairman is elected by the full Board of directors and is responsible for:

- Leadership of the Board;
- The efficient organisation and conduct of the Board's functions;
- The promotion of constructive and respectful relations between Board members and between the Board and management;
- Contributing to the briefing of Directors in relation to issues arising at Board meetings;
- Facilitating the effective contribution of all Directors; and
- Committing the time necessary to effectively discharge the role of the Chairman.

ASX Recommendation 2.3

d) Independent directors

The Company recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. The Board assesses each of the directors against specific criteria to decide whether they are in a position to exercise independent judgement.

Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each director's individual circumstances rather than general materiality thresholds.

In assessing independence, the Board considers whether the director has a business or other relationship with the Company, directly or as a partner, shareholder or officer of a Company or other entity that has an interest or a business relationship with the Company or another Vita Life Sciences group member.

There is a majority of non-executive directors but only one of three is an independent director, Mr Sharman. Mr Gould and Mr Townsing's interest in shares in the company is greater than 5% and this does not comply with ASX recommendation 2.1. The Board has considered this matter, and whilst no vote was taken, the consensus was that the Board's independence status was appropriate having regard to where Vita Life was at in terms of the Company's stage of development.

ASX Recommendation 2.1, 2.5

e) Avoidance of conflicts of interest by a director

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised of any interest that could potentially conflict with those of the Company.

In the event that a conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter. Specifically, they are not permitted to exercise any influence over other Board members and are refrained from voting on that matter when being considered by the Board, in accordance with the Corporations Act.

f) Board Meetings

The Board regularly monitors the operational and financial performance of the Company and the economic entity against budget and other key financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

The number of times the Board has formerly met and the number of meetings attended by directors during the financial year are reported in the Directors' Report on page 18. The Board Charter dictates that the Board will hold ten scheduled meetings each year and, other meetings may be held at short notice as required.

g) Review of Board Performance

The process for conducting the Board's annual performance review was agreed by the Board and was performed by the Chairman of the Board. Matters covered in the annual performance review include:

- The Board's contribution to developing strategy and policy;
- Interaction between the Board and management, and between Board members;
- The Board's processes to monitor business performance and compliance, control risk and evaluate Management;
- Board composition and structure; and
- The operation of the Board, including the conduct of Board meetings, Board Committee meetings and group behaviours.

ASX Recommendation 8.1

h) Nomination and appointment of new directors

Recommendations for nominations of new directors are made by the Board Nominations Committee and considered by the Board in full. All current members of the Board are members of the Board Nominations Committee and Mr Gould is Chairman of the Committee. Board membership is reviewed annually by the Committee to ensure the Board has appropriate mix of qualifications, skills and experience. External advisers may be used in this process. Candidates are appointed by the Board and must stand for election at the next general meeting of shareholders. If a new director is appointed during that year, that person will stand for election by shareholders at the next annual general meeting. Shareholders are provided with relevant information on the candidates for election. The Nominations Committee reviews appointment criteria from time to time and makes recommendations concerning the re-election of any director by shareholders.

ASX Recommendations 2.1, 2.4

i) Retirement and re-election of directors

The Company's Constitution states that one-third of directors (excluding the Managing Director) must retire each year. The maximum term that each director can serve in any single term is three years. A director appointed during the year must, under the Constitution, retire at the next annual general meeting. At that meeting, they can stand for re-election. The Board Nominations Committee conducts a peer review of those directors during the year in which that director will become eligible for re-election.

ASX Recommendation 2.4

j) Board access to information and advice

All directors have unrestricted access to Company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. Each Director has the right, subject to prior consultation with the Chairman, to seek independent professional advice at the Company's expense if such advice is essential to the proper discharge of the

Corporate Governance Statement (continued)

Director's duties. The Chairman may notify other Directors of the approach with any resulting advice being made available to all other Board members.

ASX Recommendation 2.5

3. BOARD COMMITTEES

To assist the Board in fulfilling its duties and responsibilities, it has established the following committees:

- Audit and Risk Committee;
- Board Nominations Committee; and
- Remuneration Committee.

a) Audit and Risk Committee

The Audit and Risk Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Vita Life Science's website, at www.vitalifesciences.com.au. The audit committee comprises two Directors, who are non-executive Directors. The non-executive Directors are Mr Gould, Chairman of the Audit and Risk Committee, and Mr. J S Sharman. Mr. Gould's and Mr. Sharman's qualifications are located in the Directors Report on page 8. The Audit Committee's responsibilities include:

- Reviewing procedures, and monitoring and advising on the quality of financial reporting (including accounting policies and financial presentation);
- Reviewing the proposed fees, scope, performance and outcome of external audits. However, the auditors are appointed by the Board;
- Reviewing the procedures and practices that have been implemented by management regarding internal control systems;
- Ensuring that management have established and implemented a system for managing material financial and non-financial risks impacting the Company;
- Reviewing the corporate governance practices and policies of the Company; and
- Reviewing procedures and practices for protecting intellectual property (ip) and aligning ip to strategy.

The composition of the Committee does not comply with ASX Recommendation 4.3. Whilst the Committee is comprised of only non-executive directors, Mr Gould however is not considered an independent director under the terms defined by the ASX. Please refer to the Corporate Governance note 2 "Board of Directors" part (c) "Chairman" for discussion of non-compliance. The Committee does not comply with the requirement to have an independent chairperson, who is not the chairperson of the Board. The Board, however, believes that Mr Gould is the most appropriate person to be elected Chairman of the Committee despite ASX non compliance.

The number of times the Audit and Risk Committee has formerly met and the number of meetings attended by directors during the financial year are reported in the Directors' Report on page 18. The Board will hold ten scheduled meetings each year and, other meetings may be held at short notice as required.

ASX Recommendations 6.2

The Audit and Risk Committee monitors and reviews:

- The effectiveness and appropriateness of the framework used by the Company for managing operational risk;
- The adequacy f the Company's internal controls including information systems controls an security;

Corporate Governance Statement (continued)

- The adequacy of the process for reporting and responding to significant control and regulatory breaches
- The effectiveness f the compliance function in ensuring adherence to applicable laws and regulations, including the actioning of legal and regulatory developments which may have a significant impact;
- Operational risk issues;
- Action plans to address control improvement areas.

ASX Recommendations 4.2, 4.3, 4.4, 4.5

b) Board Nominations Committee

The Board Nominations Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Vita Life Science's website, at www.vitalifesciences.com.au. The Nominations Committee comprises Mr Gould and Mr Townsing.

The primary function of the Nominations Committee is performing review procedures to assist the Board in fulfilling its oversight responsibility to shareholders by ensuring that the Board comprises individuals best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance. The Committee as delegated by the Board is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;
- performance review process of the Board, its Committees and individual directors;
- developing and implementing induction programs for new directors and ongoing education for existing directors;
- developing eligibility criteria for nominating directors;
- recommending appointment of directors o the Board;
- reviewing director independence; and
- succession planning for the Board.

The number of times the Board Nominations Committee has formerly met and the number of meetings attended by directors during the financial year are reported in the Directors' Report on page 18.

ASX Recommendations 2.4, 2.5

c) Remuneration Committee

The Remuneration Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Vita Life Science's website, at www.vitalifesciences.com.au.

The Remuneration Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, senior executives and non-executive directors. Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights and responsibilities. Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to personal and corporate performance contribution to long-term growth, relevant comparative information and independent expert advice. As well as base salary, remuneration packages may include superannuation and retirement and termination entitlements.

The Remuneration Report, which has been included in the Directors' Report on page 12, provides information on the Group's remuneration policies and payment details for Directors and key management personnel.

The number of times the Board Nominations Committee has formerly met and the number of meetings attended by directors during the financial year are reported in the Directors' Report on page 18.

Corporate Governance Statement (continued)

ASX Recommendation 9.2

4. RECOGNISING AND MANAGING RISK

A range of factors and risks some of which are beyond the Company's control can influence performance. The Company has in place a range of procedures to identify, assess and control risks which are reviewed by the Audit and Risk Committee and also by the Board periodically.

a) Board oversight of the risk management system

The Board is responsible for approving and overseeing the risk management system. The Board reviews, at least annually, the effectiveness of the implementation of the risk management controls and procedures.

The Company recognises four main types of risk:

- Market risk, relates to the risk to earnings from changes in market conditions including economic activity, interest rates, investor sentiment and world events.
- Operational risk, relates to inadequacy of or a failure of internal processes, people or systems or from external events.
- Credit risk, relates to the risk that the other party to a transaction will not honour their obligation; and
- Regulatory risk, relates to the risk that there may be changes to legislation (including but not limited to laws which relate to corporations and taxation) in the future which restricts or limits in some way the Company's activities.

ASX recommendations 7.1, 7.3

The Board, based on the recommendations of the Managing Director, Mr Tie, makes decisions on investments for the Company. The Board considers 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. Any proposed major change in investment strategy is first put to shareholders for their approval.

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.

b) Risk management roles and responsibilities

The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Executive management is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify an manage risks in all of the Company's activities.

c) Managing Director and Chief Financial Officer Certification

The Managing Director and Chief Financial Officer provide to the Board written certification that in all material respects:

- The Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards;

Corporate Governance Statement (continued)

- The statement given to the Board on the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and controls which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

ASX recommendations 4.1, 7.2

d) Internal review and risk evaluation

Assurance is provided to the Board by senior management on the adequacy and effectiveness of management controls for risk.

5. REMUNERATION

a) Overview

The Remuneration Committee is responsible for reviewing the compensation arrangements for the Managing Director and other key personnel. The Remuneration Committee is also responsible for reviewing management incentive schemes, superannuation, retirement and termination entitlements, fringe benefits policies, and professional indemnity and liability insurance policies. The nature and amount of each element of the fee or salary of each director and each element of the fee or salary of each director and each of the highest-paid officers of the Company are set out in the Remuneration Report on page 8. Non-executive Directors' fees and payments are reviewed annually by the Board. Executive Directors are, subject to the information above, paid in salary or fees.

ASX recommendations 9.1, 9.2, 9.3, 9.5

b) Equity-based key management personnel remuneration

A Long Term Employee Share Scheme will be put before shareholders at the Annual General Meeting.

Any participation by directors will require shareholders approval in accordance with the ASX Listing Rules.

ASX Recommendation 9.4

6. Timely and balanced disclosure

The Company believes that all shareholders should have equal and timely access to material information about the Company including its financial situation, performance, ownership and governance. The Company's market disclosure policy approved by the Board and governs how the Company communicates with shareholders and the market. Shareholders are encouraged to participate in general meetings.

a) Market disclosure policy and practices

This policy includes provision for communications by the Company to:

- Be factual and subject to internal vetting and authorisation before issue;
- Be made in a timely manner;
- Not omit material information;
- Be expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions; and
- Be in compliance with ASX Listing Rules continuous disclosure requirements

The policy also contains guidelines on information that may be price sensitive. The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements with the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX.

ASX Recommendations 5.1, 5.2, 6.1

b) Communication strategy

The Company publishes on its website the annual reports, profit announcements, press releases and notices to meeting to encourage shareholder participation.

ASX Recommendations 6.1

7. ETHICAL AND RESPONSIBLE DECISION-MAKING

a) Code of Ethics and Conduct

The Board endeavours to ensure that the Directors, officers and employees of Vita Life Sciences 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 prompt disclosure of
- potential conflicts.

ASX Recommendations 3.1, 3.3, 10.1

b) Policy concerning trading in Company securities

The Company has compliance standards and procedures which deal with staff trading in shares when they are in possession of inside information. Employees are made aware of the legal and ethical aspects associated with their private investment activities, especially as they relate to potential insider trading and front running. All staff must keep an up-to-date register of their securities holdings, including the dates of acquisition and disposal.

Directors and key management personnel are only entitled to trade their shares without restriction for up to four weeks following announcements of the Company's half yearly and preliminary final results, any detailed announcements concerning profit forecasts, and after the Company's annual general meeting or with the consent of the Chairman.

Corporate Governance Statement (continued)

ASX Recommendations 3.2

8. CHECKLIST FOR SUMMARISING THE BEST PRACTICE RECOMMENDATIONS AND COMPLIANCE

ASX Principle		Reference	Compliance
Principle 1: Lay solid foundations for management and oversight			
1.1	Formalise and disclose the functions reserved to the board and those delegated to management	2b	comply
Principle 2: Structure the board to add value			
2.1	Majority should be independent	2d, 2c	does not comply
2.2	The chairperson should be an independent director	2c	does not comply
2.3	The roles of chairperson and managing director should not be exercised by the same individual	2c	comply
2.4	The board should establish a nomination committee	2h	comply
2.5	Provide the information in the Guide to reporting on this Principle 2	2a, 2b, 2c, 2d, 2e, 2h, 2i, 2j,3b	comply
Principle 3: Promote ethical and responsible decision-making			
3.1	Establish a code of conduct to guide the directors, chief executive officer (or equivalent), the chief financial officer (or equivalent) and any	7a	comply
3.1.1	the practices necessary to maintain confidence in the company's integrity	7a	comply
3.1.2	the responsibility and accountability of individuals for reporting and investigating reports of unethical practice	7a	comply
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees	7b	comply
3.3	Provide the information in the Guide to reporting on this Principle 3	7	comply
Principle 4: Safeguard integrity in financial reporting			
4.1	Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards	4c	comply
4.2	The board should establish an audit committee	3a	comply
4.3	Structure the audit committee so that it consists of:	3a	
4.3.1	only non-executive directors	3a	comply
4.3.2	a majority of independent directors	3a	does not comply
4.3.3	an independent chairperson, who is not the chairperson of the board	3a	does not comply
4.3.4	at least three members	3a	does not comply
4.4	The audit committee should have a formal charter	3a	comply
4.5	Provide the information in the Guide to reporting on this Principle 4	2a, 3a	comply
Principle 5: Make timely and balanced disclosure			
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	6a	comply
5.2	Provide the information in the Guide to reporting on this Principle 5	6a	comply
Principle 6: Respect the rights of shareholders			
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage participation at general meetings	6a, 6b	comply
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report	3a	comply
Principle 7: Recognise and manage risk			
7.1	The board or appropriate board committee should establish policies on risk oversight and management	4a	comply
7.2	The chief executive officer (or equivalent) and chief financial officer (or equivalent) should state to the board in writing that:	4c	comply
7.2.1	The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance an control which implements the policies adopted by the board	4c	comply
7.2.2	The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects	4c	comply
7.3	Provide the information in the Guide to reporting on this Principle 7	4a	comply
Principle 8: Encourage enhanced performance			
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors and key executives	2g	comply
Principle 9: Remunerate fairly and responsibly			
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors an key executives and corporate performance	5a	comply
9.2	The board should establish a remuneration committee	3c, 5a	comply
9.3	Clearly distinguish the structure of non-executive director's remuneration from that of executives	5a	comply
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders	5b	comply
9.5	Provide the information in the Guide to reporting on this Principle 9	5a	comply
Principle 10: Recognise the legitimate interests of stakeholders			
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders	7a	comply

Income Statement

for the year ended 31 December 2006

	Notes	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT 2006 $	PARENT 2005 $
CONTINUING OPERATIONS					
Sale of goods	4a	11,134,472	11,123,037	-	-
Cost of sales		(5,243,889)	(5,445,099)	-	-
Gross profit		**5,890,583**	**5,677,938**	**-**	**-**
Dividend income	4a	-	-	694,460	4,267,047
Other income	4b	12,681,855	2,604,854	14,058,055	781,462
Distribution expenses		(285,746)	(340,786)	-	-
Marketing expenses		(1,299,329)	(1,729,321)	-	-
Occupancy expenses		(504,660)	(603,324)	(120,299)	(64,077)
Administrative expenses	4c	(5,910,360)	(4,890,570)	(1,482,426)	(819,848)
Other expenses	4d	(1,883,015)	(679,653)	(141,406)	(513,702)
Profit / (Loss) from continuing operations before tax and finance costs		**8,689,328**	**39,138**	**13,008,384**	**3,650,882**
Finance income	4e	1,342,162	26,548	1,344,496	48,383
Finance costs	4f	(1,756,660)	(2,590,812)	(1,734,306)	(2,381,041)
Profit / (Loss) before income tax		**8,274,830**	**(2,525,126)**	**12,618,574**	**1,318,224**
Income tax expense	5	-	(129,375)	-	-
Profit / (Loss) after tax from continuing operations		**8,274,830**	**(2,654,501)**	**12,618,574**	**1,318,224**
DISCONTINUED OPERATIONS					
Net profit after tax from discontinued operations	6	1,390,203	2,094,165	-	-
Net Profit / (Loss) for the year		**9,665,033**	**(560,336)**	**12,618,574**	**1,318,224**
Loss attributable to minority interest		142,295	281,020	-	-
Profit / (Loss) attributable to members of the parent		**9,807,328**	**(279,316)**	**12,618,574**	**1,318,224**
Earnings per share (cents per share)					
- basic earnings per share for continuing operations		16.7	(5.6)		
- basic earnings per share for discontinued operations		2.8	4.4		
- basic earnings per share		19.5	(1.2)		
- diluted earnings per share		17.6	2.0		

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

Balance Sheet

as at 31 December 2006

		CONSOLIDATED		PARENT	
		2006	2005	2006	2005
	Notes	$	$	$	$
ASSETS					
Current Assets					
Cash and cash equivalents	7	1,930,982	993,301	1,229,791	522,762
Trade and other receivables	8	4,889,930	3,598,947	6,984,700	3,021,122
Inventories	9	1,682,120	3,160,395	-	-
Other assets	10	128,047	494,892	-	-
Assets of disposal group classified as held for sale	6	4,000,000	-	4,000,000	-
Total Current Assets		**12,631,079**	**8,247,535**	**12,214,491**	**3,543,884**
Non Current Assets					
Other financial assets	11	38,582	-	3,014,055	9,526,360
Property, plant and equipment	12	211,211	1,245,163	4,303	10,841
Intangible assets	14	77,699	6,429,897	-	-
Total Non Current Assets		**327,492**	**7,675,060**	**3,018,358**	**9,537,201**
Total Assets		**12,958,571**	**15,922,595**	**15,232,849**	**13,081,085**
LIABILITIES					
Current Liabilities					
Trade and other payables	15	6,479,607	7,047,206	6,812,402	5,001,557
Interest bearing loans and borrowings	16	8,135,124	2,955,186	8,124,255	2,861,559
Current income tax liability		241,188	449,389	127,513	135,301
Provisions	17	232,427	639,946	62,500	381,250
Total Current Liabilities		**15,088,346**	**11,091,727**	**15,126,670**	**8,379,667**
Non Current Liabilities					
Interest bearing loans and borrowings	16	6,213	18,427,286	378,268	18,427,286
Provisions	17	4,709	186,755	31,250	93,750
Total Non Current Liabilities		**10,922**	**18,614,041**	**409,518**	**18,521,036**
Total Liabilities		**15,099,268**	**29,705,768**	**15,536,188**	**26,900,703**
Net Liabilities		**(2,140,697)**	**(13,783,173)**	**(303,339)**	**(13,819,618)**
Equity					
Contributed equity	18	38,979,150	38,081,445	38,979,150	38,081,445
Foreign currency translation reserve		(1,347,735)	(1,823,229)	-	-
Accumulated losses		(40,196,525)	(50,003,853)	(39,282,489)	(51,901,063)
Parent entity interest		**(2,565,110)**	**(13,745,637)**	**(303,339)**	**(13,819,618)**
Minority interests		424,413	(37,536)	-	-
Total Equity		**(2,140,697)**	**(13,783,173)**	**(303,339)**	**(13,819,618)**

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

Cash Flow Statement

for the year ended 31 December 2006

	Notes	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT 2006 $	PARENT 2005 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		13,624,892	19,022,765	-	-
Payments to suppliers and employees		(12,130,891)	(18,523,512)	(1,062,636)	(295,141)
Borrowing costs		(1,684,235)	(107,678)	(1,714,172)	-
Income tax paid		(208,201)	(792,997)	(7,788)	(3,584)
Interest received		42,724	24,824	77,575	3,873
Dividend Income		-	-	694,460	-
Proceeds from former supplier (Pan Pharmaceuticals)		871,220	-	871,220	-
Other		-	(26,249)	-	-
Net cash flows from / (used in) operating activities	7(b)	**515,509**	**(402,847)**	**(1,141,341)**	**(294,852)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends paid		-	(281,774)	-	-
Proceeds from sale of property, plant and equipment		1,154,624	-	-	-
Purchase of property, plant and equipment		(233,575)	(98,531)	-	-
Proceeds from disposal of subsidiary	6	15,186,389	-	15,186,389	-
Payments for FDA approval		-	(81,372)	-	-
Net cash flows from / (used in) investing activities		**16,107,438**	**(461,677)**	**15,186,389**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		897,705	-	897,705	-
Discounts from redemption of convertible notes		1,266,921	-	1,266,921	-
Proceeds from borrowings		-	2,250,000	-	-
Repayment of borrowings		(2,357,715)	(806,874)	(689,362)	-
Repayment of convertible notes		(12,725,778)	-	(12,725,778)	-
Loans from controlled entities		-	-	639,988	319,749
Loans to associated entities		(2,727,493)	(142)	(2,727,493)	-
Net cash flows (used in) / from financing activities		**(15,646,360)**	**1,442,984**	**(13,338,019)**	**319,749**
Net increase in cash and cash equivalents		976,587	578,460	707,029	24,897
Cash and cash equivalents at beginning of the year		954,395	375,935	522,762	497,865
Cash and cash equivalents at end of the year	7(a)	**1,930,982**	**954,395**	**1,229,791**	**522,762**

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

Statement of Changes in Equity

for the year ended 31 December 2006

	Contributed Equity $	Foreign Currency Translation Reserve $	Accumulated Losses $	Attributable to Equity Holders of Parent $	Minority Interests $	Total $
CONSOLIDATED						
At 1 January 2005	38,081,445	188,896	(49,724,537)	(11,454,196)	189,490	(11,264,706)
Loss attributable to members of parent entity	-	-	(279,316)	(279,316)	-	(279,316)
Loss attributable to minority shareholders	-	-	-	-	226,286	226,286
Exchange difference on translation of foreign operations	-	(2,012,125)	-	(2,012,125)	(453,312)	(2,465,437)
At 31 December 2005	**38,081,445**	**(1,823,229)**	**(50,003,853)**	**(13,745,637)**	**(37,536)**	**(13,783,173)**
Profit attributable to members of parent entity	-	-	9,807,328	9,807,328	-	9,807,328
Loss attributable to minority shareholders	-	-	-	-	142,295	142,295
Issue of share capital	897,705	-	-	897,705	-	897,705
Shares issued to minority shareholders					518,660	518,660
Exchange difference on translation of foreign operations	-	475,494	-	475,494	(199,006)	276,488
At 31 December 2006	**38,979,150**	**(1,347,735)**	**(40,196,525)**	**(2,565,110)**	**424,413**	**(2,140,697)**
PARENT						
At 1 January 2005	38,081,445	-	(53,219,287)	(15,137,842)	-	(15,137,842)
Profit attributable to members of parent entity	-	-	1,318,224	1,318,224	-	1,318,224
At 31 December 2005	**38,081,445**	**-**	**(51,901,063)**	**(13,819,618)**	**-**	**(13,819,618)**
Profit attributable to members of parent entity	-	-	12,618,574	12,618,574	-	12,868,574
Issue of share capital	897,705	-	-	897,705	-	897,705
At 31 December 2006	**38,979,150**	**-**	**(39,282,489)**	**(303,339)**	**-**	**(303,339)**

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 2006

1. CORPORATE INFORMATION

The financial report of Vita Life Sciences Limited ("Vita Life") for the year ended 31 December 2006 was authorised for issue in accordance with a resolution of the Directors on 18 April 2007.

Vita Life Sciences Limited is a company limited by shares incorporated in Australia.

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 Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

(c) Basis of consolidation

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

Subsidiaries
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 has control.

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.

Transactions eliminated on consolidation
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.

For business combinations involving entities under common control, which are outside the scope of *AASB 3: Business Combinations*, the Company applies the purchase method of accounting by the legal parent.

Minority interests represent the interests in VitaHealthcare Asia Pacific Sdn Bhd not held by the Group**.**

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

(d) Going concern

As at 31 December 2006, the Group's and Company's liabilities exceeded assets by $2.1 million and $0.3 million respectively and current liabilities exceeded current assets by $2.4 million (Group), and $2.9 million (Company).

Subsequent to balance date, the following events took place, which affect the current working capital:

- a sum of $4.0 million was received from the disposal of the remaining 11.8% equity remaining of Cyclopharm Ltd and the net of the proceeds were applied towards the repayment of note debt; and
- a further $1.1 million cash was drawn down from the existing financing facility with Barleigh Wells Ltd and the term of the facility was extended to 31 August 2008;
- on the 11 January 2007, the outstanding Noteholder debt of $5.7 million was repaid (refer note 16). With this payment, Noteholders were fully repaid.

The Directors believe they have the continued support of the 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. The Directors intend raising up to approximately $5.0 million by a rights issue to shareholders in mid 2007 to capitalise the business. Consequently the Directors believe it appropriate to prepare the financial statements on a going concern basis, however should the Group not be able to continue as a going concern, adjustment would need to be made to reduce the value of any assets to their realisable amount, to provide for further liabilities that might arise and to reclassify non-current assets and liabilities as current assets and liabilities.

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 its assets and extinguish its 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) Foreign currency translation

Both the functional and presentation currency of Vita Life and its Australian subsidiaries is Australian dollars ($).

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 (continued)

for the year ended 31 December 2006

The functional currency of the main operating overseas subsidiaries VitaHealthcare Asia Pacific Sdn Bhd, Swiss Bio Pharma Sdn Bhd and Vitaron Jaya Sdn Bhd are in Malaysian Ringgit (MYR), whilst Vitahealth IP Pte Ltd, VitaHealth Asia Pacific (S) Pte Ltd, Vita Corporation Pte Limited are in Singapore dollars (SGD).

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Vita Life 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.

(f) Property, plant and equipment

Plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Impairment
The carrying amount of plant and equipment is reviewed annually by directors to ensure for impairment. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation
The depreciable amount of all fixed assets including capitalised lease assets are depreciated on a straight-line basis over their useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

	Rate	***Method***
Plant and equipment	10-33%	Straight-line method
Leasehold Improvements	20-50%	Straight-line method
Motor Vehicles	20-50%	Straight-line method

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of 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 derecognised.

(g) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

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.

(h) Intangibles

Intangible assets
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 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.

A summary of the policies applied to the Group's intangible asset is as follows:

	Patents and licences	***Development costs***
Useful lives	Indefinite	Finite
Method used	Not depreciated or revalued	8 – 10 years – Straight line
Internally generated / Acquired	Acquired	Internally generated
Impairment test / Recoverable Amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed Annually for indicator of impairment

(i) Inventories

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

Costs incurred in bringing each product to its present location and condition 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 selling costs.

(j) 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 and objective evidence exists to suggest that a loss event has occurred and therefore the debt is impaired. Bad debts are written off when identified.

(k) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are normally settled within 30 to 60 days.

(l) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand together with 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.

(m) 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 through the amortisation process.

(n) 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.

(o) Employee entitlements

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled plus related on-costs. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories.

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

(p) Leases

Finance Leases
Leases of fixed assts, which substantially transfer to the Group all the risks and benefits incidental to ownership of the leased item, but not the legal ownership, are classified as finance leases. Finance leases 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. Leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. 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.

Operating Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease.

(q) Revenue Recognition

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.

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 from controlled entities is 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.

All revenue is stated net of the amount of goods and services tax (GST).

(r) Income taxes

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

- 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.

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.

Tax consolidation

The Company is the head entity of the tax consolidated group comprising all the Australian wholly owned subsidiaries. The implementation date for the tax consolidated group was 30 June 2003.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using a "stand alone basis without adjusting for intercompany transactions" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under consolidation.

Any current tax Australian liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax consolidated group. Any difference between these amounts is recognised by the head entity as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(s) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred is not recoverable from the Australian Taxation Office(“ATO”), and is therefore recognised as part of the asset’s cost or as part of the expense item. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the balance sheet. Cash flows are presented in the Cash Flow Statement on a gross basis

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

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.

(t) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(u) Financial instruments

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Recognition and Measurement of Financial Instruments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

(u) Financial instruments

De-recognition of financial instruments

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial assets carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(v) Contributed equity

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the gross proceeds.

(w) Earnings per share

Basic earnings per share
Basic earnings per share is determined by dividing the net profit/(loss) after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share
Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

3. SEGMENT REPORTING

The consolidated entity has the following business segments and geographical segments

(a) Business segments

The group operates in the industry segment of the sale of over the counter (OTC) health supplements, vitamins and investments.

Business Industry	**Products/Services**
Health	OTC vitamins and supplements
Investment	General investments

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

(b) Geographical segment

The consolidated entity operates in the regions identified as Australia and South East Asia.

(c) Primary segment information

The following tables present revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 31 December 2006 and 31 December 2005.

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

SEGMENT REPORTING

BUSINESS SEGMENTS

	Continuing Operations Health $	Continuing Operations Investment $	Continuing Operations Total $	Discontinued Operations Medical $	Total Operations $
Year ended 31 December 2006					
Revenue					
Sales to external customers	11,134,472	-	11,134,472	-	11,134,472
Total segment revenue	11,134,472	-	11,134,472	-	11,134,472
Result					
Segment result, profit before income tax and minority interest	8,274,830	-	8,274,830	1,390,203	9,665,033
Income tax (expense) / benefit					-
Net profit for the year					**9,665,033**
Assets and liabilities					
Segment assets	12,341,846	616,725	12,958,571	14,022,177	26,980,748
Segment liabilities	(15,099,268)	-	(15,099,268)	(8,820,665)	(23,919,933)
Other segment information					
Capital expenditure	(159,790)	-	(159,790)	(17,696)	(177,486)
Depreciation	(112,903)	-	(112,903)	(68,784)	(181,687)
Amortisation	(216,819)	-	(216,819)	(5,241)	(222,060)
Year ended 31 December 2005					
Revenue					
Sales to external customers	11,123,037	-	11,123,037	-	11,123,037
Total segment revenue	11,123,037	-	11,123,037	-	11,123,037
Result					
Segment result, profit before income tax and minority interest	(2,754,790)	-	(2,754,790)	2,323,829	(430,961)
Income tax expense					(129,375)
Net loss for the year					**(560,336)**
Assets and liabilities					
Segment assets	11,026,573	-	11,026,573	4,896,022	15,922,595
Segment liabilities	(27,831,736)	-	(27,831,736)	(1,874,032)	(29,705,768)
Capital expenditure	8,519	-	8,519	90,012	98,531
Depreciation	202,152	-	202,152	62,892	265,044
Amortisation	67,953	-	67,953	15,987	83,940

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

SEGMENT INFORMATION (continued)

GEOGRAPHICAL SEGMENTS

	Australia $	Asia $	Consolidated $	Discontinued $	Total $
Year ended 31 December 2006					
Revenue					
Sales to external customers	4,983,307	6,151,165	11,134,472	-	11,134,472
Segment revenue	4,983,307	6,151,165	11,134,472	-	11,134,472
Other segment information					
Segment assets	11,863,224	1,095,347	12,958,571	14,022,177	26,980,748
Year ended 31 December 2005					
Revenue					
Sales to external customers	5,407,241	5,715,796	11,123,037	-	11,123,037
Segment revenue	5,407,241	5,715,796	11,123,037	-	11,123,037
Other segment information					
Segment assets	4,217,523	6,809,050	11,026,573	4,896,022	15,922,595

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

4. REVENUE AND EXPENSES

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$	$	$	$
(a) Revenue				
Sales revenue	11,134,472	11,123,037	-	-
Dividend income	-	-	694,460	4,267,047
Other income - note (b)	12,681,855	2,604,854	14,058,055	781,462
Finance income – note (e)	1,342,162	26,548	1,344,496	48,383
TOTAL REVENUE	**25,158,489**	**13,754,439**	**16,097,011**	**5,096,892**
(b) Other income				
Gain on disposal of Cyclopharm Ltd	8,602,287	-	10,037,412	-
Gain on disposal of property, plant & equipment	936	36,844	-	-
Fair value gains on assets held for sale	3,184,662	-	3,184,662	-
Proceeds from creditor recovery	871,220	506,462	871,220	506,462
Overprovision in legal settlement	-	275,000	-	275,000
Related party loan written off upon liquidation	-	-	(35,239)	-
Profit arising from closure of Vimed	-	1,494,425	-	-
Profit arising from closure of Tetley Treadmills		345,491		
Realised foreign exchange gains / (losses)	22,750	(35,526)	-	-
Others	-	(17,842)	-	-
	12,681,855	**2,604,854**	**14,058,055**	**781,462**
(c) Administrative expense				
Consultants	(398,210)	(336,832)	(328,401)	(308,500)
Legal, patent and other fees	(1,340,152)	(454,844)	(870,132)	(221,099)
Wages and salaries	(3,015,270)	(3,103,659)	-	(37,500)
Superannuation costs	(257,508)	(249,012)	-	-
Depreciation	(112,903)	(202,152)	(6,539)	(12,704)
Amortisation	(216,819)	(67,953)	-	-
Other administration costs	(569,498)	(476,118)	(277,354)	(240,045)
	(5,910,360)	**(4,890,570)**	**(1,482,426)**	**(819,848)**

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

4. REVENUE AND EXPENSES (continued)

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$	$	$	$
(d) Other expenses				
Restructuring costs	(128,796)	-	(128,796)	-
Product Registration Costs	(97,644)	(98,904)	-	-
Goodwill impairment	(1,110,015)	-	-	-
Write off investment	-	(476,571)	-	(476,571)
Foreign currency expenses	(12,610)	-	(12,610)	-
Write-off of Supplements World Pte Ltd	(407,229)	-	-	-
Settlement of legal dispute	-	(67,000)	-	-
Other	(126,721)	(37,178)	-	(37,131)
	(1,883,015)	**(679,653)**	**(141,406)**	**(513,702)**
(e) Finance income				
Discounts on redemption of convertible notes	1,266,921	-	1,266,921	-
Interest received	75,241	26,548	77,575	48,383
	1,342,162	**26,548**	**1,344,496**	**48,383**
(f) Finance costs				
Bank charges	(27,908)	-	(8,134)	-
Bank loans and overdrafts	-	(173,681)	-	(6,085)
Other loans	(299,564)	(232,955)	(299,564)	(243,988)
Convertible notes interest	(1,292,091)	(1,909,092)	(1,292,091)	(1,909,092)
Convertible notes expenses	(12,000)	(22,368)	(12,000)	(22,368)
Interest to Cyclopharm Ltd Group	-	(195,669)	-	-
Finance charges payable under finance leases & hire purchase contracts	(2,580)	(16,077)	-	-
Bank facility fee	(90,000)	-	(90,000)	-
Loan interest to Normandy Finance and Investments Asia Ltd (Director related party)	(32,517)	(40,970)	(32,517)	(40,970)
Interest on loan to related party	-	-	-	(158,538)
	(1,756,660)	**(2,590,812)**	**(1,734,306)**	**(2,381,041)**

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

5. INCOME TAX

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$	$	$	$
Major components of income tax expense for the years ended 31 December 2006 and 2005 are:				
Income statement				
Current income tax charge	-	129,375	-	-
Income tax expense reported in income statement	**-**	**129,375**	**-**	**-**
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 2006 and 2005 is as follows:				
Accounting profit/ (loss) before income tax	**8,274,830**	**(2,525,126)**	**12,618,574**	**1,318,224**
At the statutory income tax rate of 30% (2005: 30%)	2,482,449	(757,538)	3,785,572	395,468
Expenditure not allowable for income tax purposes	403,845	1,315,436	17,482	144,856
Effects of lower rates of tax on overseas income	25,256	341,062	-	-
Income tax expense / (benefit) on operating profit before individually significant income tax items	2,911,550	898,960	3,803,054	540,324
Add: Income tax under / (over) provided in prior year	-	129,375	-	-
Deferred tax assets not recognised during the year	-	201,805	-	-
Tax losses and timing differences not brought to account	(2,910,340)	(1,111,135)	(3,803,054)	(540,324)
Other items	(1,210)	10,370	-	-
Income tax expense attributable to operating profit	**-**	**129,375**	**-**	**-**
Income tax reported in income statement	**-**	**129,375**	**-**	**-**
Effective income tax rate	0%	(5%)	0%	0%

The Group and the Parent has potential carry forward tax losses arising in Australia of $19,081,487 (2005: $20,521,612) that are available indefinitely for offset against future taxable profits of the companies in which losses arose. The benefit of these tax losses has not been brought to account as the probable recognition criteria has not been satisfied.

At 31 December 2006, there is no recognised or unrecognised deferred income tax liability (2005: $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 (continued)

for the year ended 31 December 2006

6. DISCONTINUED OPERATIONS

Pursuant to Shareholder approval in April 2006, a disposal/ restructuring scheme involving the disposal of entities forming the Cyclopharm Limited Group commenced in May 2006. In October 2006 Cyclopharm Limited was deconsolidated as a subsidiary of Vita Life, with only an equity investment of 11.8% remaining at 31 December 2006. The 11.8% equity investment in Cyclopharm Ltd was completely divested on 11 January 2007.

The results of the discontinued operations for the year until disposal as of 31 October 2006 are presented below:

CONSOLIDATED CYCLOPHARM LTD GROUP	**Period to 31 Oct 2006 $**	**Year to 31 Dec 2005 $**
Revenue	7,784,868	9,069,857
Expenses	(5,983,235)	(6,746,028)
Profit before finance costs	1,801,633	2,323,829
Finance costs	(270,577)	-
Profit before taxation from discontinued operations	1,531,056	2,323,829
Income tax on discontinued operations	(140,853)	(174,928)
Income tax related to disposal	-	-
Minority Interest	-	(54,736)
Profit for the year from discontinued operations	1,390,203	2,094,165
Earnings per share	Cents	Cents
-Basic from discontinued operations	1.3	4.2
-Diluted from discontinued operations	1.2	4.1

The major classes of assets and liabilities of the Cyclopharm Limited Group as at 31 October 2006 was as follows:

	2006 $
Assets	
Intangibles	6,911,518
Property, plant and equipment	847,718
Inventories	1,899,497
Trade and other receivables	2,851,662
Cash and other short-term deposits	129,379
	12,639,774
Liabilities	
Trade creditors and payables	1,650,570
Interest bearing liabilities	7,132,806
	8,783,376
Net assets attributable to discontinued operations	3,856,398

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

6. DISCONTINUED OPERATIONS (continued)

	2006 $
Consideration received or receivable:	
Cash and short term deposits	16,698,171
Total Disposal Consideration	16,698,171
Less: restructuring / disposal costs	(582,775)
Less: Net Assets disposed of	(8,895,512)
Add: Net proceeds from shares issued in September 2006	1,382,403
Gain on disposal before income tax	8,602,287

The proceeds on the sale exceeded the book value of the related net assets and accordingly no impairment losses were recognised on the reclassification of these operations held for sale.

	2006 $
Net cash inflow on disposal	
Cash and cash equivalents	16,698,171
Less: Cash and cash equivalents balance disposed of	(1,511,782)
Reflected in cash flow statement	15,186,389

ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

CURRENT	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Assets of disposal group classified as held for sale	4,000,000	-	4,000,000	-

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

7. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Cash at bank and in hand	1,783,538	882,547	1,229,791	522,762
Short-term deposits	147,444	110,754	-	-
	1,930,982	993,301	1,229,791	522,762

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 $1,930,982 (2005: $993,301).

7(a) Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Cash at bank and in hand	1,783,538	882,547	1,229,791	522,762
Short-term deposits	147,444	110,754	-	-
Bank overdrafts	-	(38,906)	-	-
	1,930,982	954,395	1,229,791	522,762

7(b) Reconciliation from the net profit after tax to the net cash flows from operations

Net Profit / (loss) after tax	9,807,328	(279,316)	12,618,574	1,318,224
Adjustments for:				
Depreciation	112,903	265,044	6,539	12,704
Amortisation	216,819	83,939		-
Impairment write-down	1,110,016	-	-	-
Gain on realised foreign exchange	(22,748)	-	-	-
Gain on disposal of Cyclopharm Ltd	(8,602,287)	-	(10,037,712)	-
Fair value gains on assets held for sale	(3,184,662)	-	(3,184,662)	-
Discount of redemption of convertible notes	(1,266,921)	-	(1,266,921)	-
Net profit on disposal of property, plant & equipment	(936)	(440,589)	-	(476,571)
	(1,830,488)	(370,922)	(1,864,182)	854,357
(Increase) / decrease in assets and liabilities:				
(Increase) / decrease in inventories	1,478,275	976,010	-	-
(Increase) / decrease in receivables	2,695,888	460,681	(94,518)	485,964
(Increase) / decrease in income tax	(208,201)	(25,042)	(7,788)	(19,471)
(Decrease) / increase in provisions	(1,038,062)	(282,853)	(381,250)	(238,971)
(Decrease) / increase in trade and other payables	(1,275,219)	(1,353,712)	537,591	(288,785)
(Decrease) / increase in other liabilities	693,316	192,991	668,806	(1,087,946)
Net cash from operating activities	515,509	(402,847)	(1,141,341)	(294,852)

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

8. TRADE AND OTHER RECEIVABLES

CURRENT		CONSOLIDATED		PARENT	
		2006 $	2005 $	2006 $	2005 $
Trade receivables	(a)	1,166,037	3,352,541	-	-
Provision for doubtful debts		(13,246)	(461,743)	-	-
		1,152,791	2,890,798	-	-
Other receivables:					
Other debtors	(b)	627,951	183,915	-	-
Other receivables		6,001	8,618	-	-
Net GST Receivables		125,694	265,616	114,076	19,558
Loan to non-related entities		1,752,407	-	1,752,407	-
Related party receivables	(c)	1,225,086	250,000	1,225,086	250,000
		4,889,930	3,598,947	3,091,569	269,558
Loans to controlled entities	(d)	-	-	7,138,020	16,815,333
Less: Impairment provision		-	-	(3,244,889)	(14,063,769)
		-	-	3,893,131	2,751,564
Total		4,889,930	3,598,947	6,984,700	3,021,122

Terms and conditions relating to the above financial instruments:
(a) Trade receivables are non-interest bearing and generally on 15 to 45 day terms
(b) Other debtors are non-interest bearing and have repayment terms between 30 to 90 days
(c) Related party receivables are loans to directors and employees for the purchase of shares under a Long Term Incentive Plan 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. The loans are non-interest bearing and is payable only upon disposal of the shares by the borrower.
(d) The loans to controlled entities are interest free and have no fixed repayment term.

9. INVENTORIES

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Raw materials at cost	342,724	897,307	-	-
Finished goods at lower of cost and net realisable value	1,339,396	2,263,088	-	-
	1,682,120	3,160,395	-	-

10. OTHER ASSETS

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Prepayments	56,070	56,692	-	-
Security Deposit	71,977	438,200	-	-
	128,047	494,892	-	-

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

11. OTHER FINANCIAL ASSETS (NON-CURRENT)

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Investment in controlled entities at cost	-	-	19,446,405	25,999,388
Less: Impairment provision	-	-	(16,432,350)	(16,473,028)
	-	-	3,014,055	9,526,360
Other investments	38,582	-	-	-
	38,582	-	3,014,055	9,526,360

12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED				PARENT	
	Leasehold Improve-ments $	Plant and Equipment $	Leased Plant and Equipment $	Total $	Plant and Equipment $	Total $
At 1 January 2006						
At written down value	**52,285**	**657,440**	**535,438**	**1,245,163**	**10,841**	**10,841**
Additions	104,716	117,308	11,551	233,575	-	-
Disposals-discontinued operation	(34,825)	(585,955)	(533,844)	(1,154,624)	-	-
Depreciation	(17,348)	(85,473)	(10,082)	(112,903)	(6,538)	(6,538)
At 31 December 2006						
Net of accumulated depreciation	**104,828**	**103,320**	**3,063**	**211,211**	**4,303**	**4,303**
At 1 January 2006						
Cost	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**
At 31 December 2006						
Cost	217,345	1,228,716	112,362	1,558,423	33,729	33,729
Accumulated depreciation and impairment	(112,517)	(1,125,396)	(109,299)	(1,347,212)	(29,426)	(29,426)
Net carrying amount	**104,828**	**103,320**	**3,063**	**211,211**	**4,303**	**4,303**

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	CONSOLIDATED				PARENT	
	Leasehold Improve-ments $	Plant and Equipment $	Leased Plant and Equipment $	Total $	Plant and Equipment $	Total $
At 1 January 2005						
At written down value	**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	-	(102,029)	(481,676)	(583,705)	(476,570)	(476,570)
Depreciation	(39,271)	(173,076)	(370,879)	(583,226)	(12,704)	(12,704)
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	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	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**

13. EARNINGS PER SHARE

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

	CONSOLIDATED	
	2006 $	2005 $
Net profit /(loss)attributable to equity holders from continuing operations	8,274,830	(2,654,501)
Net profit attributable to equity holders from discontinued operations	1,390,203	2,094,165
Net profit attributable to ordinary equity holders for diluted earnings per share	9,665,033	(560,336)
Weighted average number of ordinary shares for basic earnings per share	49,448,243	47,766,831
Adjusted weighted average number of ordinary shares for diluted earnings per share	62,117,454	66,202,770

As at the date of this report there were 51,357,651 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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

14. INTANGIBLE ASSETS

	CONSOLIDATED		
	Development costs $	Goodwill $	Total $
1 January 2006			
Gross carrying amount	390,191	11,530,064	11,920,255
Accumulated amortisation	(200,516)	(5,289,842)	(5,490,358)
Total	**189,675**	**6,240,222**	**6,429,897**
Year ended 31 December 2006			
Balance at 1 January 2006	**189,675**	**6,240,222**	**6,429,897**
Additions	14,682	-	14,682
Impairment	(41,724)	(1,285,109)	(1,324,833)
Disposal	(84,934)	(4,955,113)	(5,040,047)
Balance at 31 December 2006	**77,699**	**-**	**77,699**
31 December 2006			
Gross carrying amount	311,528	2,583,511	2,895,039
Accumulated amortisation	(233,829)	(2,583,511)	(2,817,340)
Total	**77,699**	**-**	**77,699**

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

During the year, the Directors believed that the goodwill that arose from the acquisition of Herbs of Gold Pty Ltd was impaired, therefore an impairment write-down has been made.

15. TRADE AND OTHER PAYABLES

CURRENT		CONSOLIDATED		PARENT	
		2006 $	2005 $	2006 $	2005 $
Trade payables	(a)	1,617,388	3,142,607	551,166	299,115
Other payables and accruals		4,839,262	3,895,946	2,917,196	1,998,390
		6,456,650	7,038,553	3,468,362	2,297,505
Loans from controlled entities	(b)	-	-	3,344,040	2,704,052
Loans from associated entities	(b)	22,957	8,653	-	-
		22,957	8,653	3,344,040	2,704,052
Total		**6,479,607**	**7,047,206**	**6,812,402**	**5,001,557**

(a) 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.
(b) The loans from controlled and associated entities are interest free and have no fixed repayment term.

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

16. INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Current				
Convertible Notes - secured	5,701,508	-	5,701,508	-
Bank Overdrafts - secured	-	38,906	-	-
Loans - secured	2,422,746	2,861,559	2,422,747	2,861,559
Lease liabilities - secured	10,870	54,721	-	-
	8,135,124	**2,955,186**	**8,124,255**	**2,861,559**
Non-current				
Convertible notes - secured	-	18,427,286	-	18,427,286
Related party loan - unsecured	-	-	378,268	-
Lease Liabilities - secured	6,213	-	-	-
	6,213	**18,427,286**	**378,268**	**18,427,286**

Financing facilities available
At reporting date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Total facilities available:				
Bank overdrafts - secured	143,462	38,906	-	-
Trade finance	-	108,120	-	-
Loans - secured	3,000,000	3,359,416	3,000,000	3,359,416
	3,143,462	**3,506,442**	**3,000,000**	**3,359,416**
Facilities utilised at balance date:				
Bank overdrafts - secured	-	38,906	-	-
Trade finance	-	-	-	-
Loans - secured	2,422,746	2,861,559	2,422,746	2,861,559
	2,422,746	**2,900,465**	**2,422,746**	**2,861,559**
Facilities not utilised at balance date:				
Bank overdrafts - secured	143,462	-	-	-
Trade finance	-	108,120	-	-
Loans - secured	577,254	443,136	577,254	497,857
	720,716	**551,256**	**577,254**	**497,857**

(a) Bank overdrafts
Interest on the bank overdraft is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 31 December 2006 is 7.75% (2005: 5.87%). The bank overdraft of the controlled entity is secured by way of a pledge of the deposits of the entity.

(b) 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 (continued)

for the year ended 31 December 2006

(c) Convertible notes

The Company's convertible notes were fully repaid on 11 January 2007. The security provided to Noteholders ranked behind senior debt and comprises indemnities and guarantees supported by fixed and floating charges over the assets of certain controlled entities.

(d) Loans secured

Loans are secured over the assets and undertakings of the company and consolidated entity.

17. PROVISIONS

CONSOLIDATED

	Employee Entitlements $	Warranties $	Deferred Consideration $	Others $	Total $
Balance at 1 January 2006	257,280	7,500	475,000	86,921	826,701
Arising during the year	89,982	-	-	155,922	245,904
Utilised	(275,266)	(7,500)	(381,250)	(171,453)	(835,469)
Balance at 31 December 2006	71,996	-	93,750	71,390	237,136
31 December 2006					
Current	71,996	-	93,750	66,681	232,427
Non-Current	-	-	-	4,709	4,709
	71,996	-	93,750	71,390	237,136
Number of Employees at year-end	124				
31 December 2005					
Current	168,674	7,500	381,250	82,522	639,946
Non-Current	88,606	-	93,750	4,399	186,755
	257,280	7,500	475,000	86,921	826,701
Number of Employees at year-end	110				

PARENT

	Employee Entitlements $	Warranties $	Deferred Consideration $	Others $	Total $
Balance at 1 January 2006	-	-	475,000	-	475,000
Arising during the year	-	-	-	-	-
Utilised	-	-	(381,250)	-	(381,250)
Balance at 31 December 2006	-	-	93,750	-	93,750
31 December 2006					
Current	-	-	62,500	-	62,500
Non-Current	-	-	31,250	-	31,250
	-	-	93,750	-	93,750
31 December 2005					
Current	-	-	381,250	-	381,250
Non-Current	-	-	93,750	-	93,750
	-	-	475,000	-	475,000

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

17. PROVISIONS (continued)

On 17 May 2006, the Company entered into a settlement with Kate Helena Fraser and Global Herbs Pty Ltd, the vendors of Herbs of Gold Pty Ltd for an amount of $ 475,000, a reduction of $ 275,000 from the $750,000 previously provided for in the financial statements. The reduction was reflected in the 2005 financial statements as an overprovision no longer required. The settlement of $475,000 was to be paid in several instalments; the balance of which was $93,750 at 31 December 2006, is to be paid over the next sixteen months in three separate payments of $31,250, the last payment of which is due on 1 May 2008.

18. CONTRIBUTED EQUITY

	2006 Number	2005 Number	2006 $	2005 $
Issued and paid up capital				
Ordinary shares	**51,357,651**	**47,766,831**	**38,979,150**	**38,081,445**
Ordinary shares				
Balance at the beginning of the year	47,766,831	52,869,878	38,081,445	38,081,445
Issue of 3,590,820 ordinary shares at $0.25*	3,590,820	-	897,705	-
Shares cancelled during the year**	-	(5,103,047)	-	-
Balance at end of year	**51,357,651**	**47,766,831**	**38,979,150**	**38,081,445**

*During the year, the Company issued new shares under the Vita Life "Long Term Incentive Plan" to selected directors and key management personnel. The terms and condition of this loan is disclosed under Note 8.

**Pursuant to an order of the Singapore High Court, the Board deemed it appropriate to cancel 5,103,047 shares owned by Pang Seng Meng (a former Director) effective 7 January 2005.

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.

19. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank overdrafts, convertible notes, secured loans, 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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

19. FINANCIAL INSTRUMENTS (continued)

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

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.

(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
2006					
Financial Assets					
Cash assets	3.70%	1,783,539	147,443	-	1,930,982
Financial Liabilities					
Loans - other	12.50%	2,422,746	-	-	2,422,746
Convertible notes	10.75%	-	5,701,508	-	5,701,508
Lease liabilities	12.00%	-	17,083	-	17,083
		2,422,746	5,718,591	-	8,141,337
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	12.50%	2,861,559	-	-	2,861,559
Convertible notes	10.75%	-	18,427,286	-	18,427,286
Lease liabilities	12.00%	-	54,721		54,721
		2,900,465	18,482,007	-	21,382,472

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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

19. FINANCIAL INSTRUMENTS (continued)

(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.

(c) Credit risk exposures

Credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, 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:

	2006	2005
Zuellig Pharma Sdn Bhd, Malaysia	22%	11%
Cyclopharma Laboratoires SA, France	-	21%
Health Minders Ltd, Australia	62%	24%
Diethelm Singapore Pte Ltd, Singapore	8%	4%
Other	8%	40%
	100%	100%

(d) Foreign currency risks

The Group is exposed to transactional currency exposures which are not hedged. Such exposure arises from imported purchases by the various operating units in currencies other than the unit's functional currency.

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$	$	$	$
United States dollars-amounts payable	38,386	17,378	-	-

(e) 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.

Recognised financial instruments (continued)

The carrying amounts are equal to the net fair values of the respective financial assets and financial liabilities as at the reporting date.

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

20. BUSINESS DIVESTMENT

On 31 October 2006 the Group disposed of its controlling 67.75% interest in Cyclopharm Limited for a total consideration of $16,698,171. Subsequent to year end, the remaining 11.82% interest in Cyclopharm Limited was disposed for $4 million.

As a result of
- a share sale to Vita Life noteholders under a prospectus dated 27 March 2007; and
- a non-renounceable rights issue to Vita Life shareholders under a supplementary prospectus dated 10 October 2006;
- a further 13,271,719 shares was sold under another prospectus dated 28 November 2006, completing the divestment in January 2007.

Vita Life is no longer the holding company of Cyclopharm Ltd.

21. 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 3 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	
	200 $	2005 $	2006 $	2005 $
Within one year	324,721	227,793	22,298	25,960
After one year but not more than five years	193,045	74,603	41,619	-
	517,766	302,396	63,917	25,960

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:

	2006 Minimum lease payments $	2005 Minimum lease payments $
Consolidated		
Within one year	7,978	56,509
After one year but not more than five years	10,260	-
Total minimum lease payments	18,238	56,509
Less amounts representing finance charges	(1,096)	(1,788)
	17,142	**54,721**

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

21. COMMITMENTS AND CONTINGENCIES (continued)

CONTINGENT ASSETS

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

   The proceedings relate to a claim by the Company 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 Life proceedings and therefore the outcome of the ANP proceedings shall influence the running of the Vita Life proceedings. The ANP proceedings are expected to be finalised by November 2007.

   During the year Vita Life received a dividend of $701,068 (2005: $215,017) from the Liquidator of PAN.

2. **VitaHealth Laboratories (Australia) Pty Ltd & Supplements World Pte Ltd [In liquidation] & VitaHealth Laboratories (HK) Ltd v Pharmatech Industries Sdn Bhd & Medispec 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 Life group of companies are against the former Managing Director, two former Malaysian senior managers of the group and a contract packer in Malaysia. The proceedings have been discontinued against Medispec Sdn Bhd and Pang Seng Hock. Damages are unspecified.

   The contract packer has lodged a counter claim for RM 10 million alleging wrongful termination of the packing agreement and the Vita Life group of companies has obtained an interim injunction order against the remaining Defendants restraining them from selling products which carry the VitaHealth name and logo.

   Based on legal advice, the Directors believe the group has a strong case and the counter claim is without merit and the matter is expected to be set down for trial in 2007.

3. **Vita Life Sciences Ltd and Supplements World Pte Ltd (formerly known as Vita Health Laboratories Singapore Pte Ltd)(In Liquidation) v Arthur Andersen, Singapore**

   The Company is seeking damages in negligence in the preparation of and/or misstatements in the audit reports of the subsidiaries as well as damages for breach of duty and the terms of the audit engagement. The damages have not as yet been quantified.

   The Directors believe the group has a strong case which is expected to be set down for trial in 2007.

CONTINGENT LIABILITIES

Tetley Manufacturing Pty Limited was a defendant to two separate legal proceedings in Australia and France. In March 2007 Tetley Manufacturing Pty Ltd and the other parties agreed to enter into a "global settlement" (settlement of French and Australian cases). The terms of the global settlement are confidential and will not have a material impact on Vita Life group's financial results in 2007.

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

22. AUDITORS' REMUNERATION

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Amounts received or due and receivable by Russell Bedford NSW for:				
Audit of the financial report of the entity and any other entity in the consolidated group	222,788	129,359	222,788	129,359
Other services in relation to the entity and any other entity in the consolidated group:				
- Tax compliance	5,231	24,755	5,231	24,755
- Assurance services	77,000	14,422	77,000	14,422
- Share registry	31,382	20,829	31,382	20,829
	336,401	189,365	336,401	189,365
Amounts received or due and receivable by auditors other than Russell Bedford NSW for:				
An audit of the financial report of subsidiary entities	40,764	76,106	-	-
Tax compliance	-	10,812	-	-
	377,165	276,283	336,401	189,365

23. DIRECTOR AND EXECUTIVE DISCLOSURES

In accordance with the Corporations Amendment Regulations 2005 (No.4), the Company has transferred the remuneration disclosures required by *AASB 124: Related Party Disclosures* from the notes to the financial statements, to the Directors' Report under the heading of 'Remuneration Report'.

24. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Vita Life and the subsidiaries as stated under the controlled entities note below.

Terms and conditions of transactions with related parties

(a) On 19 April 2006, shareholders of Vita Life approved the restructure and sale of those companies making up the Cyclopharm Limited group. At that meeting, approval was also given to pay a fee to a director related party, CVC Venture Managers Pty Ltd, for successfully completing the transaction. In accordance with shareholder approvals and in line with estimates of fees payable, CVC Venture Managers Pty Ltd was paid a success fee of $338,713. Costs have been applied on a 50:50 for the restructure and 65:35 basis for IPO costs between Cyclopharm Limited and Vita Life respectively which is in line with approvals obtained at shareholder meetings.

(b) In May 2006, Cyclopharm Ltd group acquired all the assets, liabilities and business of Vita Medical Limited and Vita Life in a restructuring scheme which resulted in the divestment of the Cyclopharm Ltd Group subsequently in October 2006; when it ceased to be a subsidiary of Vita Life. The consideration for the sale of the controlled entities sold to Cyclopharm Ltd amounted to $ 6,572,051.

(c) CVC Venture Managers Pty Ltd, a director related party, was paid consultancy fees of $173,213 plus GST and reimbursed $ 47,233 plus GST of direct costs incurred on behalf of Vita Life. From the consulting fees CVC Venture Managers Pty Ltd was responsible for paying Mr Sharman's remuneration whilst he was Vita Life's Executive Director. Neither Mr Vanda Gould nor Mr Henry Townsing received any part of this fee.

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

24. RELATED PARTY DISCLOSURES (continued)

(d) Fashion and Fragrance Co. Ltd, a company in which Mr Tie is a director, and therefore a director related party provided services to the Company.

(e) Normandy Finance & Investments Asia Ltd, a company in which Mr Townsing is a director, and therefore a director related party provided a loan to Vita Life. Interest was paid on the loan and the principal of $311,417 was repaid in 2006.

Transactions between related parties are on normal commercial terms and conditions.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial years:

		Cyclopharm Limited		CVC Venture Managers Pty Ltd		Fashion and Fragrance Co Ltd		Normandy Finance and Investments Asia Ltd	
		consolidated	parent	consolidated	parent	consolidated	parent	consolidated	parent
		$	$	$	$	$	$	$	$
Sales to related parties	2006	-	-	-	-	139,593	139,593	-	-
	2005	-	-	-	-	-	-	-	-
Other Transactions with related parties	2006	6,572,051	6,064,863	365,963	-	-	-	32,517	32,517
	2005	-	-	-	-	-	-	40,970	40,970
Amounts owed by related parties	2006	145,830	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-	-
Amounts owed to related parties	2006	1,723,958	1,102,065	-	-	-	-	-	-
	2005	-	-	-	-	-	-	341,417	341,417

Share based payments

During the year shares were issued to related party executives pursuant to the VLS Long Term Incentive Plan.

Pursuant to the Plan:

- Shares in VLS are issued at a subscription price of $0.25 each.
- The Company provides executives with a non-recourse loan for the full subscription price whereby the Company has no other recourse to the executives for the repayment of the loans other than the security of the Plan Shares themselves.
- Interest on the loans is limited to the dividends on the Plan Shares.
- The loans are repayable 5 years from the date of issue or immediately upon termination of employment, failing which the shares are forfeited.

Executive	Date issued	No. of shares	Date vested	Fair value/ expense	Loan settlement
Year ended 31 December 2006					
Mr E L S Tie - Managing Director	27-Jun-06	250,000	27-Jun-09	-	27-Jun-11
	27-Jun-06	250,000	27-Jun-10	-	27-Jun-11
Mr D Yunus - Director of subsidiaries	27-Jun-06	340,000	27-Jun-09	-	27-Jun-11
	27-Jun-06	340,000	27-Jun-10	-	27-Jun-11

Notes to the Financial Statements (continued)

for the year ended 31 December 2006

24. RELATED PARTY DISCLOSURES (continued)

Ultimate parent entity

Vita Life Sciences Ltd is the ultimate parent entity in the wholly owned Group.

Controlled Entities

CONTROLLED ENTITIES			Ordinary Share Consolidated Entity Interest	
Particulars in relation to controlled entities	**Note**	**Place of incorporation**	**2006 %**	**2005 %**
Name				
Vita Life Sciences Limited	1,3	Australia		
Controlled entities				
Vimed BioSciences Pty Limited	1	Australia	100	100
Allrad No. 19 Pty Limited	1	Australia	100	100
Tetley Manufacturing Pry Limited	1	Australia	100	100
Tetley Research Pty Limited	1	Australia	100	100
Tetley Treadmills Pty Limited	1	Australia	100	100
VitaHealth Laboratories Australia Pty Limited	1	Australia	90	90
Premier Foods Pty Limited	1	Australia	90	90
Herbs of Gold Pty Limited	1	Australia	90	90
Lovin Pharma International Limited	2	Ireland	100	100
Vita Corporation Pte Limited	3	Singapore	100	100
VitaHealth Laboratories Singapore Pte Limited	3	Singapore	100	100
VitaHealthcare Asia Pacific (S) Pte Limited	3	Singapore	90	90
VitaHealth IP Pte Limited	3	Singapore	90	90
VitaHealthcare Asia Pacific Sdn Bhd	4	Malaysia	90	90
Swiss Bio Pharma Sdn Bhd	4	Malaysia	90	90
Vitaron Jaya Sdn Bhd	4	Malaysia	90	90
Vita LifeSciences Sdn Bhd	4	Malaysia	63	90
Sino Metro Developments Ltd	4	BVI	90	-
VitaHealth Laboratories Hong Kong Limited	5	Hong Kong	100	100
VitaHealth (Macao Commercial Offshore) Ltd	6	Macao	90	-
VitaHealth (Thailand) Ltd	7	Thailand	44	-
Vita LifeSciences (Thailand) Ltd	7	Thailand	67	-

Notes

1. Audited by Russell Bedford NSW (formerly Gould Ralph & Company), Australia.
2. Audited by HLB Nathans, Republic of Ireland.
3. Audited by Chio Lim & Associates, Singapore.
4. Audited by Horwath Kuala Lumpur Office, Malaysia.
5. Audited by Horwath Hong Kong Group Limited, Hong Kong.
6. Audited by Fong Mei Fan, Auditor, Macao
7. Audited by GAAP & Tax Office, Thailand

Notes to the Financial Statements (continued)
for the year ended 31 December 2006

25. EVENTS AFTER BALANCE DATE

Sale of Investment / Repayment of Note Debt

On 11 January 2007 Vita Life:

- Completed the sale of its remaining 11.8% interest in Cyclopharm at $0.30 per share raising $4.0 million; and
- Repaid the remaining balance of noteholder debt principal and interest.

Borrowings

The Company increased its loan facility with Barleigh Wells Ltd by $1.1 million to $3.5 million in January and February 2007.

Litigation

Tetley Manufacturing Pty Limited was a defendant to two separate legal proceedings in Australia and France. On 22 March 2007 Tetley Manufacturing Pty Ltd and the other parties to the matter entered into a "global settlement" (settlement of French and Australian cases taking into account the French court decision) which required the Vita Life group to pay an agreed settlement amount which has been accrued in the financial statements as at 31 December 2006.

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 2006 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

Henry G. Townsing
Director
Australia

Dated this 27th of April 2007

Russell Bedford
New South Wales

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF VITA LIFE SCIENCES LIMITED

Scope

THE FINANCIAL REPORT, REMUNERATION DISCLOSURES AND DIRECTORS' RESPONSIBILITY

The financial report comprises the income statement, balance sheet, cash flow statement, statement of changes in equity, 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 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

As permitted by the Corporations Regulations 2001, the company and the consolidated entity has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in pages 12 to 14 of the directors' report and not in the financial report.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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. The directors are also responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulation 2001.

Audit approach

We conducted an independent audit in order to express an opinion 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 and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures. 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 the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows, and whether the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures.

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 the remuneration disclosures in the directors' 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 business transactions was accurately reflected in the financial report and the remuneration disclosures. 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

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Audit Opinion

In our opinion:

1. 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 company's and the consolidated entity's financial position as at 31 December 2006 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.

2. The remuneration disclosures that are contained on pages 12 to 13 of the Directors' Report comply with Accounting Standard AASB 124 Related Party Disclosures.

Emphasis of Matter

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the matter described in Note 1(d) to the financial statements that, 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.

RUSSELL BEDFORD NSW
Chartered Accountants

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

Sydney, 27 April 2007

Russell Bedford

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VITA LIFE SCIENCES