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Dear Shareholder,

### Shareholder Update

The Company had a healthy start to 2008 as reflected in the results for the 6 months to June 2008. However, since our half year results announcement in August 2008, the economic environment has been challenging.

#### Health division

The Health division achieved favourable results for the 11 months to November, particularly the established businesses under the Herbs of Gold and VitaHealth brands which are sold in Australia, Malaysia and Singapore:

- i) sales are expected to increase to around \$14.0 million, or by 17%, over 2007; and
- ii) are on track to produce a positive contribution to the Group for the full year.

The new businesses in Malaysia and Thailand are expected to double sales revenue when compared to 2007. After overcoming several challenges, we began delivery of both VitaHealth and Herbs of Gold products to customers in China, achieving another milestone in the Health division's expansion strategy. The continued successful positioning and resultant increase in sales from these new businesses will ensure the division's overall longer term competitiveness and growth.

#### Investment division

The division has made satisfactory progress and is expected to complete construction of phase 1 houses in the first quarter of 2009. All phase 1 houses have been sold. The next phase will be launched in the first quarter of 2009 with expected completion in 2010.

The outlook for the project continues to be profitable; however sales of homes have been slower than expected partly due to prevailing economic conditions.

#### Forecast Group Financial Results

The Health division is expected to produce a profit for the year ending 31 December 2008.

Your directors expect the earnings before interest and taxes for the Health division's established businesses to exceed that of 2007 by more than 50%. The positive result from established businesses will be largely offset by the costs of establishing the new businesses in Malaysia, Thailand and China.

The Investment division will not have any material impact on the Group's financial results for financial year 2008.

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Corporate costs during the year were comparable to the previous year with the exception of the following:

- i) Legal costs related to the Company's case against a former auditor of a subsidiary. Whilst the legal case was settled in the Company's favour and the settlement income was recognised in FY2007, legal costs previously expected to be recovered in 2008 have not been resolved. These costs were expensed during the year and will only be brought to account when recovered;
- ii) Legal review expenses associated with proposed legal proceedings against the Commonwealth of Australia in respect of losses incurred on the Pan Pharmaceuticals product recall (Refer to "Proposed Pan Pharmaceuticals Legal Proceedings" below for details).

Taking into account the Group's year-to-date performance and forecast result for December, the Directors expect the Company, on a consolidated basis, to report a loss of up to \$0.30 million for the financial year ending 31 December 2008.

### **Borrowings**

For the financial year ending 31 December 2008, the Group is expected to increase borrowings from \$0.80 million in 2007 to \$1.20 million. The planned increase in borrowings resulted from:

- i) Financing trade debts following the Company's decision to sell directly to retailers in Australia. Previously products were sold to an exclusive distributor who in turn dealt with retailers. Whilst this arrangement required additional working capital, the Group has been able to increase sales and improve margins; and
- ii) Working capital required to fund additional inventory purchases to support increased sales of Health division products.

### **Proposed Pan Pharmaceuticals Legal Proceedings**

During the period 2003-2004, the Company suffered substantial losses from the Pan Pharmaceuticals Ltd (In Liquidation) ("Pan") product recall which resulted from regulatory action taken by Therapeutic Goods Administration against Pan in April 2003.

In view of the recent settlement and payment of \$55.0 million by the Commonwealth of Australia to Pan's major shareholder, Mr. Jim Selim, the Company believes it has a substantial claim against the Commonwealth of Australia for losses it suffered as a result of the Pan product recall.

Consideration is currently being given to joining a representative proceeding to be financed by an external party in respect of this claim. Alternatively the Company may decide to directly manage the litigation due to the costs involved. A final decision on whether to join the representative proceeding or for the Company to fund its own legal action will be made by early next year.

### **Outlook for 2009**

Given the tougher economic conditions in both our domestic and overseas markets, the Company enters the year 2009 with mixed optimism focused on its Health and Investment divisions.

Vita Life Sciences will continue to capitalise on the Health division's established markets through product innovation and will cautiously continue to develop new markets.

Yours faithfully  
**Vita Life Sciences Limited**

Vanda Gould  
Chairman

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