

# CYCLOPHARM LIMITED

## SUPPLEMENTARY PROSPECTUS

**An Offer of 36,666,668 Shares  
at an Offer Price of \$0.30 per Share  
to raise \$11.0 million**

This is a Supplementary Prospectus intended to be read with the Prospectus dated 28 November 2006 in relation to the offer of 36,666,668 Shares at an Offer Price of \$0.30 per Share to raise \$11.0 million. Please contact the Head Office below if you need another copy.

Terms defined in the Prospectus have the same meaning in this Supplementary Prospectus except where otherwise defined in this Supplementary Prospectus. If there is any inconsistency between this Supplementary Prospectus and the Prospectus, this Supplementary Prospectus prevails to the extent of that inconsistency.

**This is an important document.**

**It requires your immediate attention and should be read in its entirety.**

**Head Office**

**Cyclopharm Limited (ABN 74 116 931 250)**

**Vita Life Sciences Limited (ABN 35 003 190 421)**

Suite 630 Level 6

1 Queens Road

Melbourne VIC 3004

Telephone: (03) 9867 2811

Facsimile: (03) 9820 5957

## IMPORTANT NOTICE

This Supplementary Prospectus is dated 22 December 2006 and was lodged with the Australian Securities and Investments Commission (ASIC) on 22 December 2006. ASIC and its officers take no responsibility for the contents of this Supplementary Prospectus. The exposure period is no longer relevant. No securities will be transferred on the basis of the Prospectus later than 13 months after the date of the Prospectus.

Pursuant to section 719(4) of the *Corporations Act*, the information set out in this Supplementary Prospectus is taken to be included in the Prospectus. Terms defined in the Prospectus have the same meaning in this Supplementary Prospectus except where otherwise defined in this Supplementary Prospectus. If there is any inconsistency between this Supplementary Prospectus and the Prospectus this Supplementary Prospectus prevails to the extent of that inconsistency.

Certain amounts and percentages set out in the Prospectus may not sum up due to rounding. All figures are in Australian dollars unless otherwise indicated. All foreign currencies have been converted to Australian dollars at the rates applicable at the time of conversion.

Please have regard to the legal warnings, instructions and disclaimers identified on the inside front cover and page 1 of the Prospectus to the extent they apply to the issue of the Shares.

Applications can *only* be made on the Application Form attached to the Prospectus if it bears a reference to this Supplementary Prospectus. **If the Application Form is missing, does not refer to this Supplementary Prospectus, or you no longer have your copy of the Prospectus, please contact the Head Office as detailed below.**

## CORPORATE DIRECTORY for CYCLOPHARM LIMITED and VITA LIFE SCIENCES LIMITED

### Head Office

Suite 630 Level 6  
1 Queens Road  
Melbourne VIC 3004  
Telephone: (03) 9867 2811

### Share Registry for Vita Life

Gould Ralph Pty Ltd  
Level 42, AAP Centre  
259 George Street  
Sydney NSW 2000

### Registered Office

Building 75, Business & Technology Park  
New Illawarra Road  
Lucas Heights, NSW 2234

**Email Address:** [enquiries@cyclopharm.com.au](mailto:enquiries@cyclopharm.com.au)

**Web Sites:** [www.cyclopharm.com](http://www.cyclopharm.com)  
[www.vitalifesciences.com](http://www.vitalifesciences.com)

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## CHAIRMAN'S LETTER

**cyclopharm**  
Nuclear Medicine



**cyclo**medica  
**molecular**imaging  
**techne**gas

Cyclopharm Limited  
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Suite 630 Level 6  
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Australia  
T 61 3 9867 2811  
F 61 3 9820 5957  
www.cyclopharm.com

22 December 2006

Dear Shareholder and/or Investor,

I am writing to Shareholders and Investors to provide you with further information to assist you and your professional advisors making an informed assessment of the financial performance and prospects of the Company, and to update the information given to you in the Prospectus.

This Supplementary Prospectus is issued to satisfy section 719 of the *Corporations Act*.

In particular, and without limitation to other material in this Supplementary Prospectus not specifically mentioned, the following matters referred to in the Prospectus are:

- mentioned, and now up-dated and expanded by this Supplementary Prospectus, as identified below:

	<b>Prospectus</b>	<b>Supplementary Prospectus</b>
Key Dates	Page 3	Page 4
Risk Factors – Litigation	Page 37	Page 4
Glossary of Terms – Closing Date	Page 93	Page 4

- replaced in their entirety by the reference identified below:

	<b>Prospectus</b>	<b>Supplementary Prospectus</b>
Independent Accountant's Report	Pages 48 to 75	Page 4 and Appendix 1

I confirm that I and my fellow Directors propose to subscribe for Shares and I encourage Shareholders and Investors to consider an investment in the Company. Please consider the information in this Supplementary Prospectus and the Prospectus before making any decision. **You must use the Application Form attached to the Prospectus to subscribe for Shares.**

Yours faithfully,

Vanda Gould  
Chairman

## KEY OFFER INFORMATION

### Key Dates

The table immediately below the heading "Key Dates" is to be removed and replaced in its entirety with the following:

Offer opens	5.00pm, 5 December 2006
Offer closes (Closing Date)	5.00pm, 9 January 2007
Expected dispatch of shareholding statements	12 January 2007
Trading expected to commence on ASX	19 January 2007

The Directors reserve the right to extend the Closing Date for the Offer. Any extension of the Closing Date will have a consequential effect on the anticipated date for allotment and issue of the Shares.

## RISK FACTORS

### Specific Risk Factors

#### *Litigation*

The sentence "The French proceedings were heard in May 2006 and judgment is expected to be delivered in December 2006 or early 2007" in paragraph 10 on page 37 of the Prospectus is to be removed and replaced with the following:

"Judgment in the French proceedings has been handed down in favour of MDS. However, the amount of damages claimed by MDS were greatly reduced by the court to Euro 500,000 (A\$841,555) payable by the defendants joint and severally."

## INDEPENDENT ACCOUNTANT'S REPORT

The Independent Accountant's Report contained in pages 48 to 75 of the Prospectus is to be removed and replaced in its entirety as set out in Appendix 1 to this Supplementary Prospectus.

As a result of the Company's auditors revising their interpretation of the implementation of AASB 3 - Business Combinations (**AASB3**) for a "reverse acquisition", restated financial statements for the 6 months ended 30 June 2006 have been prepared (**Restated Financial Statements**). The Restated Financial Statements identify the Company as the legal parent and Vita Medical Australia, a wholly-owned subsidiary of the Company, as the financial parent of the Cyclopharm Group. The impact of this change in interpretation of AASB3 is to account for the Cyclopharm Group as though there was no change in the legal owner of the Cyclopharm Group after the corporate restructure that took place in May 2006.

This change has no impact on the financial standing of the Company.

## GLOSSARY OF TERMS

The definition of Closing Date is removed in its entirety and replaced with the following definition:

**Closing Date** 5:00pm Melbourne time on 9 January 2007 or such other date as determined by the Company being the date by which Applications must have been received.

### Consents & Disclaimer of Responsibility

Pitcher Partners Corporate Pty Ltd has given and has not, before lodgement of this Supplementary Prospectus with ASIC, withdrawn its written consent to its being named in this Supplementary Prospectus in its role as independent accountant and to the issue of the Prospectus with the Independent Accountant's Report in the form and context in which it is included and named.

Gould Ralph & Company (GRC) has given and has not, before lodgement of this Supplementary Prospectus with ASIC, withdrawn its written consent to its being named in this Supplementary Prospectus in its role as auditors to Cyclopharm and to the issue of the Prospectus with the Financial Report in the form and context in which it is included and they are named.

Piper Alderman has given and has not, before lodgement of this Supplementary Prospectus with ASIC, withdrawn its written consent to its being named in this Supplementary Prospectus as solicitors to the Company in relation to the Offer in the form and context in which it is included and named.

Gould Ralph Pty Ltd (GRPL) has given and has not, before lodgement of this Supplementary Prospectus with ASIC, withdrawn its written consent to its being named in this Supplementary Prospectus as share registry in the form and context in which it is included and named.

Save as stated above, and in the references to Pitcher Partners Corporate Pty Ltd, GRC, Piper Alderman, and GRPL in the Corporate Directory and on this page, none of these parties has authorised or caused the issue of this Supplementary Prospectus and does not make, or purport to make, any statement in this Supplementary Prospectus. Each expressly disclaims and takes no responsibility for any omissions from this Supplementary Prospectus.

### **Documents Available for Inspection**

In addition to those referred to on page 92 of the Prospectus, and on the same conditions, the consents to the issue of this Supplementary Prospectus, and the revised Independent Accountant's Report will also be available for inspection.

### **Authorisation of this Supplementary Prospectus**

The Directors of Cyclopharm report that, in their opinion, since the date of the Independent Accountant's Report on pages 48 to 75 of the Prospectus, there have not been any circumstances that have arisen or that have materially affected, or will materially affect, the assets and liabilities, financial position, profits or losses, or prospects of Cyclopharm, other than as disclosed in this Supplementary Prospectus or because they are matters that may reasonably be expected to be known to recipients of the Prospectus and this Supplementary Prospectus, and their professional advisers.

This Supplementary Prospectus is authorised by each Director of Vita Life Sciences Limited and each Director of Cyclopharm Limited and each of those respective directors has consented to its lodgement with ASIC and its issue.



J. S. Sharman<sup>o</sup>

<sup>o</sup>signing this Supplementary Prospectus in his capacity as a director of Vita Life Sciences Limited and a director of Cyclopharm Limited.

**APPENDIX 1      INDEPENDENT ACCOUNTANT'S REPORT ON HISTORICAL AND FORECAST  
FINANCIAL INFORMATION**



# PITCHER PARTNERS

C O R P O R A T E P T Y L T D

MWP: bp

19 December 2006

The Directors  
Cyclopharm Limited  
Suite 630, Level 6  
1 Queens Road  
MELBOURNE VIC 3304

Level 19  
15 William Street  
Melbourne  
Victoria 3000

Postal Address:  
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[partners@pitcher.com.au](mailto:partners@pitcher.com.au)

Pitcher Partners is an association of Independent firms  
| Melbourne | Sydney | Brisbane | Perth | Adelaide

Dear Sirs,

## **INDEPENDENT ACCOUNTANT'S REPORT ON HISTORICAL AND FORECAST FINANCIAL INFORMATION**

This report has been prepared at the request of the Directors of Cyclopharm Limited (“Cyclopharm” or “the Company”) for inclusion in a Supplementary Prospectus to be dated on or around 19 December 2006 intended to be read with the Prospectus dated 28 November 2006 in connection with the initial public offering of 36,666,668 Shares at an Offer Price of \$0.30 per Share to raise \$11.0 million. The Offer comprises 23,394,949 New Shares and 13,271,719 Existing Shares currently owned by the Vita Life Sciences Limited (“Vita Life”). The minimum subscription is \$7.0 million, with proceeds from the Offer to be split approximately in the ratio 65:35 between New Shares and Existing Shares.

Pitcher Partners Corporate Pty Ltd (“Pitcher Partners Corporate”) has been requested to prepare a report covering the Historical and Forecast Financial Information described below and disclosed in the Prospectus. Pitcher Partners Corporate holds the appropriate Australian Financial Services Licence for the issue of this report.

References to the Company and other terminology used in this report have the same meaning as defined in the Glossary of Terms in the Prospectus and the Supplementary Prospectus.

### **Background**

Cyclopharm was established on 31 October 2005 as an unlisted public company.

On 31 May 2006 Cyclopharm completed the acquisition of its controlled entities that collectively constitute the nuclear medicine products business (including the Technegas System business). The nuclear medicine products business was previously conducted by Vita Medical Limited and its controlled entities (“Vita Medical”), a group wholly owned by Vita Life. The acquisition of the nuclear medicine products business was approved by shareholders and noteholders in Vita Life on 12 April 2006, the full details of which were set out in a prospectus issued by Cyclopharm dated 27 March 2006. The nuclear medicine products business was acquired for \$6.7 million in cash and a further \$2.9 million satisfied through the issue of 106,666,657 shares in Cyclopharm.

Vita Life, through a share sale to its noteholders under the prospectus issued by the Cyclopharm dated 27 March 2006, a non-renounceable rights issue to its shareholders under a supplementary prospectus dated 10 October 2006, and sale of Existing Shares under this Prospectus, if fully subscribed, will no longer be a shareholder in Cyclopharm.

Cyclopharm, in September 2006 allotted a further 5,651,000 shares at \$0.30 each by way of a private placement.

## Historical Financial Information

The Historical Financial Information set out in Section 9, Financial Information of the Prospectus and Appendix 2 of this report comprises:

- the audited Consolidated Income Statement and Consolidated Statement of Cashflows for the two years ended 31 December 2004 and 31 December 2005 of Vita Medical;
- the reviewed Consolidated Balance Sheet and Consolidated Statement of Changes in Equity of Cyclopharm as at 30 June 2006;
- the reviewed Consolidated Income Statement and Consolidated Statement of Cashflows of Cyclopharm for the 6 months ended 30 June 2006;
- the Pro forma Consolidated Balance Sheet and Pro forma Consolidated Statement of Changes in Equity as at 30 June 2006 (“the Pro forma Financial Information”) of Cyclopharm on the assumption that all transactions stated in Appendix 1 of this report have occurred or will occur as a consequence of the Offer proceeding;
- the notes to the above Historical Financial Information.

The Historical Financial Information set out in Appendix 2 has been extracted from the audited financial statements of Vita Medical and Cyclopharm. The financial statements were either audited or reviewed by Gould Ralph & Company who issued unqualified audit reports in respect of the financial statements of Vita Medical for the financial years ended 31 December 2004 and 31 December 2005 and an unqualified review report for the 6 months ended 30 June 2006 for Cyclopharm.

The Pro forma Financial Information includes Cyclopharm Limited and its controlled entities. The Pro forma Financial Information discloses the transactions expected to occur at listing date as if they had occurred at 30 June 2006.

The Directors of the Company are responsible for the preparation of the Historical Financial Information. The accounting policies adopted in the preparation of the Historical Financial Information are as set out in the notes to the Financial Statements included in Appendix 2 to this report.

## Forecast Financial Information

The Forecast Financial Information outlined in Sections 9, Financial Information of the Prospectus comprises:

- the Forecast Consolidated Income Statement for the years ending 31 December 2006 and 31 December 2007; and
- best estimate assumptions underlying the Forecast Financial Information.

The Forecast Financial Information has been prepared by the Directors of the Company in order to provide potential investors with a guide to the potential financial performance of the Company for the years ending 31 December 2006 and 31 December 2007 and assumes the Cyclopharm Group existed and operated for the year ending 31 December 2006.

The Directors are responsible for the preparation and presentation of the Forecast Financial Information, which is based on best-estimate assumptions relating to future events they expect to occur and actions that they expect to take, including the pro forma transactions.

The sensitivity analysis set out in Section 9, Financial Information of the Prospectus highlights the impacts on the forecast financial performance of changes in key assumptions. The Forecast Financial Information is therefore only indicative of the financial performance which may be achievable.

Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Company detailed in section 8, Risk Factors of the Prospectus, and the



inherent uncertainty relating to the Forecast Financial Information. We disclaim any assumptions of responsibility for any reliance on this report or on the forecasts to which it relates for any other purposes other than for which it was prepared.

## Scope

### Review of Historical Financial Information

For the purposes of this report, we have reviewed the Historical Financial Information in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the Historical Financial Information set out in Appendix 2 of this report, is not presented fairly in accordance with the basis of preparation set out in Appendix 1 of this report.

Our review of the Historical Financial Information has been conducted in accordance with AUS 902 "Review of Financial Reports" applicable to review engagements and AGS 1062 "Reporting in connection with Proposed Fundraising". Our procedures included the following:

- enquiries and interviews with the directors, personnel, auditors and advisors of the Company;
- the performance of analytical procedures applied to the Historical Financial Information;
- a review of work papers, accounting records and other documents of the Company and its auditors;
- a review of accounting policies for consistency of application and adjustments made, if any, to align the accounting policies to those of Cyclopharm as set out in Appendix 2 of this report; and
- a review of the transactions incorporated in the Pro forma Financial Information as set out in Appendix 1 of this report.

These procedures have been undertaken to form an opinion whether, in all material respects, the Historical Financial Information is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information.

### Review of Forecast Financial Information

We have reviewed the Forecast Financial Information together with the underlying assumptions on which the Forecast Financial Information is based as set out in Sections 9 of the Prospectus in order to give a statement thereon to the Directors of the Company.

This report has been prepared having regard to the guidance set out in AUS 804 "The Audit of Prospective Financial Information", AGS 1062 "Reporting in connection with Proposed Fundraising", and ASIC Policy Statement 170 "Prospective Financial Information".

Our review of the Forecast Financial Information has been conducted in accordance with AUS 902 "Review of Financial Reports" applicable to review engagements. Our procedures consisted primarily of enquiry, comparison, and analytical review procedures including discussions with management and Directors of the Company of the factors considered in determining their assumptions. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Forecast Financial Information and the evaluation of Accounting Policies used in the Forecast Financial Information. These procedures have been undertaken in order to state whether anything has come to our attention, which causes us to believe that:

- the Directors' best-estimate assumptions, as set out in Sections 9, Financial Information of the Prospectus, do not provide reasonable grounds for the preparation of the Forecast Financial Information; and
- Whether in all material respects, the Forecast Financial Information is not properly compiled on the basis of the Directors' best-estimate assumptions, in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies of Cyclopharm to present a view consistent with our understanding of Cyclopharm's historical and forecast operations.

The Directors are responsible for the preparation of the Forecast Financial Information which is provided to potential investors as a guide to the Cyclopharm's potential future performance. There is a significant degree of subjective judgment in the preparation of forecasts. As such actual results may vary materially from the financial forecast information. Accordingly, investors should have regard to the investment risks and sensitivities outlined in Section 8, Risk Factors of the Prospectus.

Our review, which is not an audit, is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards and provides less assurance than an audit. Accordingly, we do not express an opinion of the Forecast Financial Information.

The Forecast Financial Information, relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the underlying assumptions, these assumptions are generally future-orientated and therefore speculative in nature. Actual financial performance may vary from the Forecast Financial Information presented in the Prospectus and such variations may be material.

## **Conclusion**

### **Review Statement on the Historical Financial Information**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the Historical Financial Information set out in Appendix 2 of this report does not fairly present:

- the Consolidated Income Statement and Consolidated Statement of Cashflows for the years ended 31 December 2004 and 31 December 2005;
- the Consolidated Income Statement and Consolidated Statement of Cashflows for the 6 months ended 30 June 2006;
- The reviewed Consolidated Balance Sheet and Consolidated Statement of Changes in Equity as at 30 June 2006;
- the Pro forma Financial Information as at 30 June 2006 assuming that all transactions outlined in Appendix 1 have occurred or will occur as a consequence of the Offer proceeding; and
- the notes to the above Historical Financial Information.

### **Review statement on the Forecast Financial Information**

Based on our review, which is not an audit, of the Forecast Financial Information contained at Section 9, Financial Information of the Prospectus, nothing has come to our attention which causes us to believe that:

- the Directors' best-estimate assumptions do not provide reasonable grounds for the preparation of the Forecast Financial Information;

- the Forecast Financial Information is not properly compiled on the basis of the Directors' best-estimate assumptions; and
- the Directors' Forecast Financial Information is not itself unreasonable.

Actual financial performance is likely to be different from the Forecast Financial Information since anticipated events frequently do not occur as expected and the variations may be material. Accordingly, we express no opinion as to whether the Forecast Financial Information will be achieved.

### **Subsequent Events**

Apart from the matters dealt with in this report, and having regard for the scope of our report, nothing has come to our attention that would cause us to believe that matters arising after 30 June 2006, other than the matters dealt with in this report, or the Prospectus, or the Supplementary Prospectus would require comment on, or adjustment to, the information contained in this report, or would cause such information to be misleading or deceptive.

### **Independence and Disclosure of Interest**

Pitcher Partner Corporate does not have any interest in the outcome of this Offer other than the preparation of this report and the provision of financial due diligence and other advisory services in relation to the Offer, for which normal professional fees will be received.

### **Financial Services Guide**

Our Financial Services Guide has been included at the end of this report to assist retail investors in their use of any general financial product advice that may be in our report.

Yours faithfully

**PITCHER PARTNERS CORPORATE PTY LTD**



**M W PRINGLE**

Director and Representative

## APPENDIX 1

### 1. Normalisation Adjustments – Historical Trading Results

There are no normalisation adjustments pertaining to the Historical Financial Information in this report as the whole business previously carried on by Vita Medical was acquired by Cyclopharm and there have been no material alterations to the business activities undertaken over the period, other than the cessation of a business discussed below.

For comparative purposes the Company, in Section 9, Financial Information of the Prospectus has reflected normalised results for the year ended 31 December 2005. The result was adjusted to remove the impact of the loss of \$345,492 incurred through the discontinuation of certain operations as this was a one off non-recurring event.

### 2. Pro Forma Assumptions

The following is a summary of the significant transactions that have occurred or are likely to occur by the time of the completion of the Offer. These transactions are assumed to have occurred at 30 June 2006 for the purposes of the Pro forma Financial Information.

- The allotment of 5,651,000 fully paid ordinary shares at \$0.30 each by way of a private placement in September 2006.
- The Offer is fully subscribed resulting in the issue of 23,394,949 New Shares in Cyclopharm for \$0.30 per share.
- The payment of \$559,416 (GST inclusive) of costs relating to the Prospectus borne by Cyclopharm, being its share of the Offer costs and \$38,144 in relation to the private placement in September 2006.
- The Pro forma Financial Information comprises Cyclopharm Limited and its controlled entities (refer to following table).

Entity and activity	Place of incorporation	Equity Interest
Cyclopharm Limited - parent entity	Australia	-
Vita Medical Australia Pty Ltd - manufacturer of Technegas products	Australia	100%
Vitamedica Europe Ltd - sub holding company	Ireland	100%
<i>Subsidiaries of Vitamedica Europe Ltd:</i>		
Cyclomedica Europe Ltd - Master distributor in Europe, Africa and Middle East	Ireland	100%
Cyclomedica Germany GmbH - German distributor and service agent	Germany	100%
Vita Medical Canada Ltd - Canadian distributor and service agent	Canada	100%
Allrad No 28 Pty Ltd - holds Technegas and Thrombotrace patents	Australia	100%
Allrad No 29 Pty Ltd - holds Technegas and Thrombotrace patents	Australia	100%

## APPENDIX 2

### CYCLOPHARM LIMITED – FINANCIAL INFORMATION HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

Set out below is the Historical and Pro forma Financial Information of the Company. The Pro forma Financial Information reflects the pro forma adjustments to the reviewed financial statements of Cyclopharm as at 30 June 2006 to give effect to the impact of the significant transactions that are likely to occur and are contingent upon the completion of the Offer.

These statements reflect the normalisation adjustments and pro forma assumptions as set out in Appendix 1.

#### CYCLOPHARM LTD AND CONTROLLED ENTITIES CONSOLIDATED INCOME STATEMENT

	Notes	Consolidated Entity		
		30 June 2006 (6 Months)	31 December 2005	31 December 2004
		(Cyclopharm)	(Vita Medical)	(Vita Medical)
		\$	\$	\$
Revenue	2	4,361,642	9,125,797	8,767,672
Raw materials and consumables used		(1,045,817)	(2,027,960)	(1,759,266)
Employee benefits expense		(1,139,192)	(2,016,271)	(1,716,462)
Advertising and promotion expenditure		(59,265)	(66,706)	(111,170)
Depreciation and amortisation expense		(43,442)	(78,878)	(86,080)
Freight and duty expense		(102,957)	(282,864)	(180,997)
Finance costs		(25,694)	(53,579)	(53,874)
Research and development costs		(61,203)	(31,571)	(34,051)
Administration costs		(823,363)	(1,516,600)	(1,581,043)
Other expenses		(106,019)	(382,048)	(470,835)
<b>Profit before income tax</b>		<b>954,690</b>	<b>2,669,320</b>	<b>2,773,894</b>
Income tax (expense)/benefit	3	(86,657)	(687,066)	(559,671)
<b>Profit after income tax expense from continuing operations</b>		<b>868,033</b>	<b>1,982,254</b>	<b>2,214,223</b>
<b>Discontinued operations</b>				
Loss from discontinued operations		-	(345,492)	-
<b>Profit for the period</b>		<b>868,033</b>	<b>1,636,762</b>	<b>2,214,223</b>
Profit attributable to minority equity interest		-	(54,734)	(67,047)
<b>Profit attributable to the members</b>		<b>868,033</b>	<b>1,582,028</b>	<b>2,147,176</b>

The consolidated income statement should be read in conjunction with the accompanying notes.

**CYCLOPHARM LTD AND CONTROLLED ENTITIES  
CONSOLIDATED BALANCE SHEET**

		As at 30 June 2006 Actual	As at 30 June 2006 Pro Forma
	Notes	\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		540,822	8,657,047
Receivables	5	2,488,240	2,488,240
Inventories	6	1,545,620	1,545,620
Deferred tax assets	3	151,935	331,203
Other Current Assets	7	154,002	154,002
<b>TOTAL CURRENT ASSETS</b>		<b>4,880,619</b>	<b>13,176,112</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	5	118,670	118,670
Property Plant and Equipment	8	973,454	973,454
Intangible Assets	9	206,684	206,684
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,298,808</b>	<b>1,298,808</b>
<b>TOTAL ASSETS</b>		<b>6,179,427</b>	<b>14,474,920</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	1,762,320	1,762,320
Current tax liabilities	3	151,393	151,393
Borrowings	11	6,981,179	6,981,179
Provisions	12	200,614	200,614
<b>TOTAL CURRENT LIABILITIES</b>		<b>9,095,506</b>	<b>9,095,506</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability	3	70,105	70,105
Provisions	12	113,232	113,232
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>183,337</b>	<b>183,337</b>
<b>TOTAL LIABILITIES</b>		<b>9,278,843</b>	<b>9,278,843</b>
<b>NET ASSETS</b>		<b>(3,099,416)</b>	<b>5,196,077</b>
<b>EQUITY</b>			
Contributed equity	13	(95,455)	8,200,038
Reserves	14	(487,219)	(487,219)
Retained earnings		(2,516,742)	(2,516,742)
<b>TOTAL EQUITY</b>		<b>(3,099,416)</b>	<b>5,196,077</b>

The consolidated balance sheet should be read in conjunction with the accompanying notes.

**CYCLOPHARM LTD AND CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Notes	Consolidated Entity	
		As at 30 June 2006 Actual	As at 30 June 2006 Pro Forma
		\$	\$
<b>TOTAL EQUITY AT THE BEGINNING OF THE YEAR</b>		3,045,808	3,045,808
Transfer of tax benefits to ultimate parent entity		(2,957)	(2,957)
Exchange differences on translation of foreign operations		137,193	137,193
<b>Net income recognised directly in equity</b>		134,236	134,236
<b>Profit/loss for the period</b>		868,033	868,033
<b>Total recognised income and expense for the period</b>		1,002,269	1,002,269
Attributable to:			
Members of the parent		1,002,269	1,002,269
<b>Other contributed equity</b>			
Acquisition of minority interests in controlled entities		(6,453,033)	(6,453,033)
<b>Transactions with equity holders in their capacity as equity holders:</b>			
Contributions	13	-	8,295,493
Payment of dividends		(694,460)	(694,460)
		(694,460)	7,601,033
<b>TOTAL EQUITY AT THE END OF THE PERIOD</b>		<b>(3,099,416)</b>	<b>5,196,077</b>

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

**CYCLOPHARM LTD AND CONTROLLED ENTITIES  
CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Consolidated Entity</b>		
	<b>30 June 2006 (6 Months)</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>(Cyclopharm)</b>	<b>(Vita Medical)</b>	<b>(Vita Medical)</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Receipts from customers	4,395,753	7,383,891	6,822,849
Payments to suppliers and employees	(3,553,112)	(5,780,680)	(4,879,199)
Interest received	3,545	9,750	19,690
Income tax received (paid)	(30,693)	(142,434)	(250,524)
Other	-	-	207,141
<b>Net cash provided by operating activities</b>	<b>815,493</b>	<b>1,470,527</b>	<b>1,919,957</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(13,233)	(90,012)	(19,958)
Payments for research and development	(40,752)	(81,372)	-
Payments for deferred expenditure	(65,805)	-	(105,536)
Proceeds from sales of short term investments	800	-	20,176
Proceeds from sale of property, plant and equipment	-	-	54,160
Other	-	(38,542)	(797)
<b>Net cash provided by investing activities</b>	<b>(118,990)</b>	<b>(209,926)</b>	<b>(51,955)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Other contributed equity from transferred tax liabilities	-	446,312	398,634
Proceeds/(Repayment) of borrowings	(321,169)	(1,894,818)	(2,207,770)
<b>Net cash provided by financing activities</b>	<b>(321,169)</b>	<b>(1,448,506)</b>	<b>(1,809,136)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>375,334</b>	<b>(187,905)</b>	<b>58,866</b>
Cash and cash equivalents at beginning of year	152,552	340,457	281,591
Effects of exchange rate fluctuations on the balance of cash held in foreign currencies	12,936	-	-
<b>Cash and cash equivalents at end of the year</b>	<b>540,822</b>	<b>152,552</b>	<b>340,457</b>

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



**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1: BASIS OF PREPARATION**

**(a) Basis of preparation of the financial report**

The financial information has been prepared on the basis of assumptions outlined elsewhere in the Prospectus and the Supplementary Prospectus. In addition, the Financial Information has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations or non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The financial information has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The financial information presented in the Prospectus and this Supplementary Prospectus is presented in abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act, 2001.

**(b) Basis of consolidation**

The Consolidated Pro Forma Financial Information is prepared by combining the financial information of the parent entity, Cyclopharm Limited and its subsidiaries as at 30 June 2006.

The financial statements of controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

Controlled entities 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 controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the Group has control.

Minority interests represent the interests in Cyclomedica Europe Limited not held by the Group. It is now wholly owned.

The Directors have identified that the business combination, encompassing the restructure of the Cyclopharm Group that occurred in May 2006 constituted a reverse acquisition as defined under AASB3 - Business Combinations. Accordingly the consolidated financial statements have been issued under the name of the new legal parent, Cyclopharm Limited, but reflect a continuation of the financial statements of the Vita Medical Australia Pty Ltd (the financial parent) and the economic entity that existed prior to the business combination/reorganisation.

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.

**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**

**(c) Income tax**

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changed in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit loss.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future are based on the assumption that no adverse change in income taxation legislation and the anticipation that the economic entity will derive sufficient assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(d) Foreign currency translation**

**Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars (Aus\$) which is the parent entity's functional and presentation currency.

**Transactions and balances**

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items that are measured in terms of historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate when the fair value was determined.

## CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge. On disposal of a foreign entity the deferred cumulative amount in equity is recognised in the income statement.

### **Group companies**

The functional currency of the overseas controlled entities, Vitamedica Europe Ltd, Cyclomedica Germany GmbH, Cyclomedica Europe Ltd, is European Euro (Euro €) and Vita Medical Canada Ltd is Canadian dollars (Can \$).

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at the weighted average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on the translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the entity is disposed.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference in the income statement.

### **(e) Property, plant and equipment**

#### **Plant and Equipment**

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. 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.

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.

#### **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.

**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Plant and Equipment	10 - 33%
Leasehold Improvements	20 - 50%
Motor Vehicles	20 - 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(f) 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.

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.

**(g) Intangibles**

**Goodwill**

Goodwill on consolidation represents the excess of the cost of acquisition over the fair value of the Group's share of net identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**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.

## CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS

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.

### **Research and development costs**

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when it is probable that future benefits will exceed deferred costs and these benefits can be reliably measured. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the costs over a period during which the related benefits are expected to be realised.

Development expenditure is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Capitalised development expenditure is measured at cost less any accumulated impairment losses.

### **(h) Inventories**

Inventories are valued at the lower of cost and net realisable value where net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

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

### **(i) Trade and other receivables**

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

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

### **(j) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, short-term deposits with an original maturity of three months or less and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

## CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS

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.

### **(k) Interest-bearing loans and borrowings**

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

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

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

### **(l) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result and that an outflow can be reliably measured.

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.

### **(m) Employee Benefits**

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

### **(n) Leases**

#### **Finance Leases**

Leases of fixed assets, 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

## CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS

under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease.

### (o) Revenue

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

#### **Sale of goods**

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

Consequently, transfers of goods to major distributors are recognised as consignment inventory only. Revenue is 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**

Dividends and distributions from controlled entities are recognised as revenue when they are declared by the controlled entities.

Dividends from associates and other investments are recognised as revenue by the when dividends are paid. 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”).

### (p) Goods and Services Tax (“GST”)

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 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.

**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

**(q) Financial Instruments Recognition**

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. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

**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.

**(r) Going Concern**

Whilst the economic entity's balance sheet shows a net deficiency of \$3,099,416, the principles of reverse acquisition accounting does not facilitate a fair valuation of the underlying businesses. The directors believe a significantly greater sum would be received on realisation and accordingly the balance sheet does not necessarily reflect fair values.

Additionally, the company is currently undertaking a public offering to, inter alia, raise further working capital which is expected to restore the balance sheet to positive equity in the short term. The public offering will also facilitate the listing of the company's shares on the ASX.

The business of Cyclopharm is profitable and produces strong positive cash flows. Accordingly the directors believe that the Company will be able to meet its debts as and when they fall due.



**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

	Consolidated Entity		
	30 June 2006 (6 Months)	31 December 2005	31 December 2004
	(Cyclopharm)	(Vita Medical)	(Vita Medical)
	\$	\$	\$

**NOTE 2: REVENUE**

**Revenues from continuing operations**

*Sales Revenue*

Revenue from sale of goods	4,357,423	8,806,252	8,752,818
	<u>4,357,423</u>	<u>8,806,252</u>	<u>8,752,818</u>

*Other Income*

Interest	4,219	210,475	14,854
Foreign exchange gains	-	109,070	-
<b>Total revenue</b>	<u>4,361,642</u>	<u>9,125,797</u>	<u>8,767,672</u>

**NOTE 3: INCOME TAX**

**(a) The major components of income tax expense comprises**

Current tax	139,154	626,813	569,369
Deferred tax	(52,497)	60,253	(9,698)
<i>Total Income tax expense/(benefit)</i>	<u><b>86,657</b></u>	<u><b>687,066</b></u>	<u><b>559,671</b></u>

**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

**Consolidated Entity**

	<b>30 June 2006 (6 Months)</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>(Cyclopharm)</b>	<b>(Vita Medical)</b>	<b>(Vita Medical)</b>
	\$	\$	\$

**NOTE 3: INCOME TAX (continued)**

*(b) A reconciliation of income tax expense applicable to accounting profit from continuing activities before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows.*

Income tax on profit before tax from continuing operations at the statutory rate of 30% (2004:30%)	286,407	800,796	832,168
Tax effects of:			
Expenditure not allowable for income tax purposes	639	92,604	35,706
Effects of lower rates of tax on overseas income	(243,102)	(173,492)	(273,146)
Income tax under provided in prior years	-	-	5,172
Tax losses not recognised	42,713	-	-
Tax expense offset against carry forward tax losses	-	(32,842)	(40,229)
At effective income tax rate of 9.1% (2005: 25.7%) (2004: 20.2%)	<b>86,657</b>	<b>687,066</b>	<b>559,671</b>

**(c) Tax Assets and Liabilities**

**Liabilities**

Current income tax liability – current	151,393	41,372	129,480
Deferred tax liability comprises			
Capitalised expenditure	62,005	60,655	-
Other	8,100	2,858	1,055
	<b>70,105</b>	<b>63,513</b>	<b>1,055</b>

**Assets**

Deferred tax assets comprises:			
Provisions	100,154	90,015	88,132
Carried forward tax losses	35,908	-	-
Other	15,873	2,887	2,566
	<b>151,935</b>	<b>92,902</b>	<b>90,698</b>

**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

	<b>Consolidated Entity</b>		
	<b>30 June 2006 (6 Months)</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
	<b>(Cyclopharm)</b>	<b>(Vita Medical)</b>	<b>(Vita Medical)</b>
	\$	\$	\$
<b>NOTE 4      AUDITOR'S REMUNERATION</b>			
Amounts received or due and receivable by Gould Ralph & Company for the audit of the financial report of the entities within the consolidated group	19,500	36,000	29,077
Amounts received or due and receivable by auditors other than Gould Ralph & Company for the audit of financial reports of subsidiary entities	30,000	28,000	18,076
	<u>49,500</u>	<u>64,000</u>	<u>47,153</u>

	<b>Consolidated Entity</b>	
	<b>As at 30 June 2006 Actual</b>	<b>As at 30 June 2006 Pro Forma</b>
	\$	\$
<b>NOTE 5      RECEIVABLES</b>		
<b>CURRENT</b>		
Trade receivables	2,656,745	2,656,745
Provision for doubtful debts	(451,290)	(451,290)
	<u>2,205,455</u>	<u>2,205,455</u>
Other Debtors	282,785	282,785
Total Current receivables	<u>2,488,240</u>	<u>2,488,240</u>
<b>NON-CURRENT</b>		
Related party receivables	118,670	118,670
	<u>118,670</u>	<u>118,670</u>

<b>NOTE 6      INVENTORIES</b>		
<b>CURRENT</b>		
Raw materials at cost	538,990	538,990
Finished goods, at lower of cost or net realisable value	1,006,630	1,006,630
Total inventories	<u>1,545,620</u>	<u>1,545,620</u>

**NOTE 7: OTHER CURRENT ASSETS**

Prepayments	<u>154,002</u>	<u>154,002</u>
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**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

	<b>Consolidated Entity</b>	
	<b>As at 30 June 2006</b>	<b>As at 30 June 2006</b>
	<b>Actual</b>	<b>Pro Forma</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 8: PROPERTY PLANT AND EQUIPMENT</b>		
Prepayments		
Leasehold improvements, at cost	198,850	198,850
Accumulated depreciation	(166,757)	(166,757)
	<u>32,093</u>	<u>32,093</u>
Plant and Equipment	1,409,808	1,409,808
Accumulated depreciation	(790,076)	(790,076)
	<u>619,732</u>	<u>619,732</u>
Leased plant and equipment at cost	739,638	739,638
Accumulated depreciation	(418,009)	(418,009)
	<u>321,629</u>	<u>321,629</u>
Total property, plant and equipment	<u><b>973,454</b></u>	<u><b>973,454</b></u>
<b>NOTE 9: INTANGIBLES</b>		
Production development costs, at cost	206,684	206,684
	<u><b>206,684</b></u>	<u><b>206,684</b></u>
<b>NOTE 10: PAYABLES</b>		
CURRENT		
Trade creditors	1,052,147	1,052,147
Other creditors and accruals	710,173	710,173
	<u><b>1,762,320</b></u>	<u><b>1,762,320</b></u>
<b>NOTE 11: BORROWINGS</b>		
CURRENT		
Unsecured		
Interest bearing loans from related entities	612,927	612,927
Loans from related entities	6,368,252	6,368,252
	<u><b>6,981,179</b></u>	<u><b>6,981,179</b></u>
<b>NOTE 12: PROVISIONS</b>		
CURRENT		
Employee benefits	148,114	148,114
Warranties	7,500	7,500
Other	45,000	45,000
	<u><b>200,614</b></u>	<u><b>200,614</b></u>

**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

		<b>Consolidated Entity</b>	
		<b>As at 30 June 2006</b>	<b>As at 30 June 2006</b>
		<b>Actual</b>	<b>Pro Forma</b>
		\$	\$
<b>NOTE 12:</b>	<b>PROVISIONS (continued)</b>		
<b>NON-CURRENT</b>			
	Employee entitlements	113,232	113,232
	<b>Total employee benefits</b>	<b>261,346</b>	<b>261,346</b>
<b>NOTE 13:</b>	<b>CONTRIBUTED EQUITY</b>		
	106,666,667 ordinary shares (Proforma 2006: 135,712,616) fully paid	(a) 5,132,627	13,428,120
	Other contributed equity	(b) (5,228,082)	(5,228,082)
		<b>(95,455)</b>	<b>8,200,038</b>
<b>(a)</b>	<b>Issued and paid up capital</b>		
	<b>Movements during the year</b>		
	Balance at the beginning of the year	5,132,627	5,132,627
	Issue of 5,561,000 ordinary shares at \$0.30	-	1,695,300
	Issue of 23,394,949 ordinary shares at \$0.30	-	7,018,485
	Capital raising costs	-	(418,292)
	Balance at the end of the period	<b>5,132,627</b>	<b>13,428,120</b>
<b>(b)</b>	<b>Other contributed equity</b>		
	<b>Movements during the year</b>		
	Balance at the beginning of the year	1,294,724	1,294,724
	Adjustment arising from transfer of tax benefits to ultimate parent entity	(2,957)	(2,957)
	Acquisition of minority interests in controlled entities	(6,453,033)	(6,453,033)
	Minority interest	(66,816)	(66,816)
	Balance at the end of the period	<b>(5,228,082)</b>	<b>(5,228,082)</b>

**Terms and conditions**

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 of the company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

	<b>Consolidated Entity</b>	
	<b>As at 30 June 2006 Actual</b>	<b>As at 30 June 2006 Pro Forma</b>
	\$	\$
<b>NOTE 14: RESERVES</b>		
Foreign currency translation	<u>487,219</u>	<u>487,219</u>
Movements during the year		
<b>Foreign currency translation</b>		
Balance at the beginning of the year	(624,412)	(624,412)
Net translation adjustment	<u>137,193</u>	<u>137,193</u>
<b>Balance at end of period</b>	<u>(487,219)</u>	<u>(487,219)</u>

**Nature and purpose of reserves**

*Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries

**NOTE 15: COMMITMENTS AND CONTINGENCIES**

**Operating lease commitments**

Non-cancellable operating leases contracted but not capitalised in the financial statements:

Within one year	84,280	84,280
One year or later and not later than five years	-	-
Greater than 5 years	-	-
	<u>84,280</u>	<u>84,280</u>

**NOTE 16: SEGMENT INFORMATION**

The consolidated entity has the following business segments and geographical segments:

**(a) Business segments**

The group operates in the industry segment of the manufacture and sale of medical diagnostic equipment.

**(b) Geographical segments**

The consolidated entity operates in the regions identified in Note 16 (c)

**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 16: SEGMENT INFORMATION (continued)**  
**(c) Primary Segment Information**

<b>Geographic segments</b>	<b>Australia</b> As at 30 June 2006 Actual \$	<b>Asia</b> As at 30 June 2006 Actual \$	<b>Europe</b> As at 30 June 2006 Actual \$	<b>Canada</b> As at 30 June 2006 Actual \$	<b>Other</b> As at 30 June 2006 Actual \$	<b>Consolidated Entity</b> As at 30 June 2006 Actual \$
<b>Revenue</b>						
Sales revenue	821,704	98,286	3,014,422	364,175	58,836	4,357,423
Other	4,219	-	-	-	-	4,219
<b>Total revenue</b>	<b>825,923</b>	<b>98,286</b>	<b>3,014,422</b>	<b>364,175</b>	<b>58,836</b>	<b>4,361,642</b>
Segment operating profit/(loss) before income tax and minority interest	(949,953)	(9,925)	1,666,888	204,884	42,796	954,690
Income tax benefit/(expense)	54,196	-	(140,853)	-	-	(86,657)
Profit from ordinary activities after income tax (before minority interest)	<b>(895,757)</b>	<b>(9,925)</b>	<b>1,526,035</b>	<b>204,884</b>	<b>42,796</b>	<b>868,033</b>
<b>Segment Assets</b>	<b>2,628,272</b>	-	<b>3,241,649</b>	<b>309,506</b>	-	<b>6,179,427</b>



**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 17: FINANCIAL INSTRUMENTS**

**(a) Interest rate risk**

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Fixed interest rate maturing in:													
	Weighted average interest rate		Non interest bearing		Variable interest rate		1 year or less		1 to 5 years		More than 5 year		Total	
	2006 Actual	2006 Proforma	2006 Actual	2006 Proforma	2006 Actual	2006 Proforma	2006 Actual	2006 Proforma	2006 Actual	2006 Proforma	2006 Actual	2006 Proforma	2006 Actual	2006 Proforma
<i>(i) Financial assets</i>														
Cash	4.15	4.15	-	-	540,822	8,657,047	-	-	-	-	-	-	540,822	8,657,047
Receivables	-	-	2,488,240	2,488,240	-	-	-	-	-	-	-	-	2,488,240	2,488,240
Total financial assets					<b>540,822</b>	<b>8,657,047</b>							<b>3,029,062</b>	<b>11,145,287</b>
<i>(ii) Financial liabilities</i>														
Payables	-	-	1,762,320	1,762,320	-	-	-	-	-	-	-	-	1,762,320	1,762,320
Loans	6.50	6.50	6,368,252	6,368,252	-	-	612,927	612,927	-	-	-	-	6,981,179	6,981,179
Employee benefits	-	-	-	-	-	-	-	-	261,346	261,346	-	-	261,346	261,346
Total financial liabilities			<b>8,728,610</b>	<b>8,728,610</b>					<b>261,346</b>	<b>261,346</b>			<b>9,004,845</b>	<b>9,004,845</b>



**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

**(b) Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date recognised as financial assets is the carrying amount, net of any provisions for doubtful debts which is \$451,290 at 30th June, 2006, as disclosed in the balance sheet and notes to the financial statements.

The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

**(c) Net Fair Values**

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

**NOTE 18: SUBSEQUENT EVENTS**

*Borrowings*

On 19 July 2006, Cyclopharm entered in to a debt facility with the National Australia Bank for \$6.0m. Subsequently, \$5.7m was drawn to substantially repay the loan from Vita Life.

*Fundraising for Cyclopharm*

Cyclopharm by way of placement allotted 5,651,000 new ordinary shares at \$0.30 each during September 2006. These monies will be used by Cyclopharm to part fund the balance of costs associated with the Company's application to the USA Food & Drug Administration to facilitate sale of Technegas in the USA and reduce debt.

*Shareholdings*

In November 2006, Vita Life, the controlling shareholder, sold 58,995,547 shares it held in Cyclopharm to 747 shareholders pursuant to a Supplementary Prospectus issued by Vita Life dated 10 October 2006. Consequently, Vita Life's ownership in Cyclopharm has reduced from 64.3% to 11.8 %.

**NOTE 19: BUSINESS COMBINATION**

With effect from 31 May 2006, the Group acquired 100% of the issued capital of the following entities:

- Vita Medical Australia Pty Ltd (including all the operating assets and liabilities formerly owned by Vita Medical Ltd)
- Vitamedica Europe Ltd
- Cyclomedica Europe Ltd
- Vita Medical Canada Ltd
- Cyclomedica Germany GmbH
- Allrad 28 Pty Ltd
- Allrad 29 Pty Ltd

These entities collectively comprise the medical diagnostic equipment and associated consumables business formerly operated as the Vita Medical Group – now known as the Cyclopharm Group. The transaction has been accounted for as a 'reverse acquisition' as defined in AASB 3 – Business Combinations whereby Cyclopharm Limited is the legal parent

**CYCLOPHARM LIMITED AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

and Vita Medical Australia Pty Limited is the financial parent, which for accounting purposes is deemed to be the acquirer.

Notwithstanding, there has been no financial effect on the consolidated entity as a result of the restructure save that the cost of acquisition of minority interests in controlled entities from the former ultimate parent of \$6,519,849 has been recognised in equity (as required by AASB 127).

Certain non-operating group entities, including the dormant Vita Medical Limited, Tetley Treadmills Pty Limited and Tetley Research Pty Ltd do not continue in the Cyclopharm Group.

## Financial Services Guide

19 December 2006

### What is a Financial Services Guide?

This Financial Services Guide ("FSG") is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided by Pitcher Partners Corporate Pty Ltd. The use of "we", "us" or "our" is a reference to Pitcher Partners Corporate Pty Ltd as the holder of Australian Financial Services Licence ("AFSL") No. 229841. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide.
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

### Information about us

We have been engaged by Cyclopharm Limited to give general financial product advice in the form of a report to be provided to you in connection with a financial product to be issued by another party. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us by writing to GPO Box 5193 AA, MELBOURNE VIC 3001, or by telephone on +61 (0) 3 9289 9999.

Pitcher Partners Corporate Pty Ltd is ultimately owned by the Victorian partnership of Pitcher Partners, a provider of audit and assurance, accounting, tax, corporate advisory, insolvency, superannuation, investment advisory and consulting services. Directors of Pitcher Partners Corporate Pty Ltd are partners of Pitcher Partners.

The Victorian partnership of Pitcher Partners is an independent partnership of Pitcher Partners. As such, neither it nor any of the other independent partnerships has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the name "Pitcher Partners", or other related names.

The financial product advice in our report is provided by Pitcher Partners Corporate Pty Ltd and not by the Victorian partnership of Pitcher Partners or its related entities.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, we and the Victorian partnership of Pitcher Partners (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

### What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide general financial product advice only in respect of securities, derivatives, debentures, stocks or bonds issued or proposed to be issued by a government and interests in managed investment schemes including investor directed portfolio services and deposit and payment products limited to basic deposit products and deposit products other than basic deposit products.

### Information about the general financial product advice we provide

The financial product advice provided in our report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant Product Disclosure

Statement ("PDS") or offer document provided by the issuer of the financial product. The purpose of the PDS is to help you make an informed decision about the acquisition of a financial product. The contents of the PDS will include details such as the risks, benefits and costs of acquiring the particular financial product.

### How are we and our employees remunerated?

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Pitcher Partners Corporate Pty Ltd nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us. Our fee is estimated to be \$35,000 exclusive of GST and expenses and will also be disclosed in the relevant PDS or offer document prepared by the issuer of the financial product.

All of our employees receive a salary with partners also having an equity interest in the partnership. We do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### What should you do if you have a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Managing Partner  
Pitcher Partners  
GPO Box 5193  
MELBOURNE VIC 3001

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service ("FICS"). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FICS at:

Financial Industry Complaints Service  
GPO Box 579  
Collins Street West  
MELBOURNE VIC 8007  
Telephone: 1300 780 808  
Fax: +61 3 9621 2291  
Internet: <http://fics.asn.au>

The Australian Securities and Investments Commission ("ASIC") regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630  
Email: [info@asic.gov.au](mailto:info@asic.gov.au)  
Internet: <http://www.asic.gov.au/asic/asic.nsf>

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