Cyclopharm Limited Annual Report 2006

cyclopharm

Cyclopharm Limited and its Controlled Entities
ABN 74 116 931 250

Cyclopharm Limited Annual Report 2006

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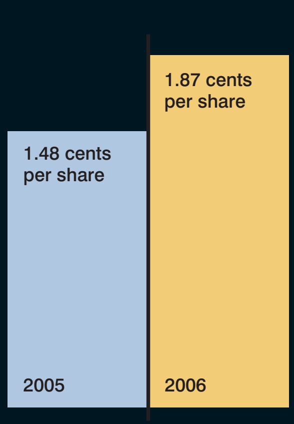
Financial Highlights

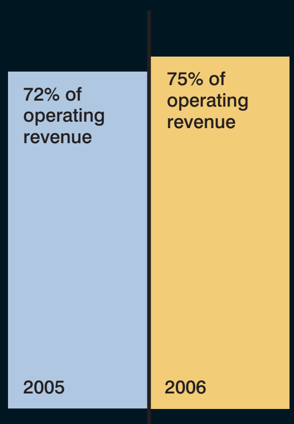
Year ending 31 December		2005	2006	% Change
Sales Revenue	$'000	8,806	10,332	+ 17%
NPAT	$'000	1,582*	2,028	+ 28%
EPS	cents	1.48	1.87	+ 26%

*Net profit after tax includes losses from discontinued operations of $345,491.

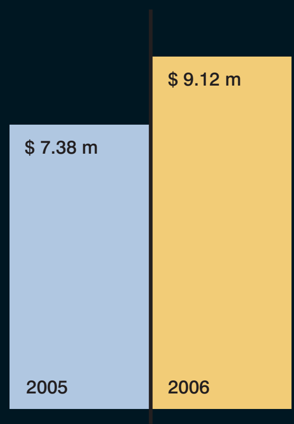


EPS
up 26%

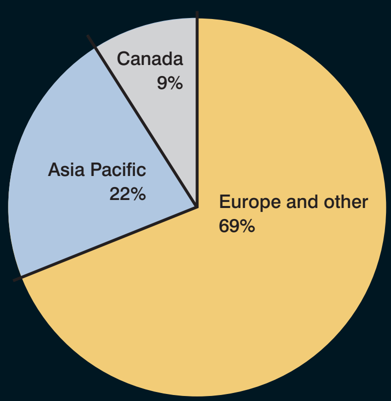
Sales Revenue
up 17%



Operating Costs
up 3%



Cash Receipts
up 24%



Sales by Region

22 March 2007

Dear Cyclopharm Shareholder,

On behalf of the Directors, I am pleased to present to you the Company's inaugural annual report. This is extremely pleasing to me personally as I have been involved with the Company since its humble beginnings, with more than 1,500,000 patients benefiting so far from this cutting-edge, Australian-developed technology.

Cyclopharm's objective is to become a leading nuclear medicine Company servicing physicians in several market segments including proprietary lung radiopharmaceuticals, molecular imaging and generic radiopharmaceuticals. Nuclear medicine is a widely accepted and effective way of gathering information on virtually every major organ system of the human body that may otherwise be unavailable or require a more extensive and risky diagnostic test.

Underpinning the Company is its established Technegas business, a patented lung ventilation system which is currently distributed to 49 countries. The Company's sales revenue in 2006 increased by 17% to a record level of $10.3 million (2005: $8.8 million) and net profit after tax attributable to members was $2.0 million, a 28% increase in the prior year ($1.5 million).

In January 2007, Cyclopharm successfully completed the initial public offering raising $7.0 million and listed on the Australian Stock Exchange. These funds are being invested in the Company's new Molecular Imaging business which will own and operate PET (positron emission tomography) central pharmacies in Australia to produce sterile, injectable, unit doses or molecular biomarkers and the companies pursuit to obtain regulatory approval for the sale of Technegas in the United States.

Under the guidance of Professor Nabil Morcos our Molecular Imaging division aims to harness the technological advances presented by PET, offering physicians significant assistance in the diagnosis, treatment and monitoring of cancer, neurological disorders and cardiac disease. We believe that this technology will make a substantial impact on the health of Australians. Cancer is a disease that touches nearly all of our lives in one way or another.

In addition, the Company proposes to sell PET equipment: cyclotrons, synthesisers, dispensers and associated products necessary to operate PET central pharmacies in Asia Pacific excluding North America.

I would like to acknowledge the contribution of senior management and all staff as they have demonstrated the highest level of commitment to the Company. This commitment bodes well for the future of our Company.

Yours faithfully,

Vanda Gould
Chairman

Overview

Welcome to the first annual report for Cyclopharm Limited (Cyclopharm).

The 2006 year and the first quarter of 2007 has been an exciting time for all those involved in Cyclopharm. Shareholders will know that Cyclopharm achieved a listing on the Australian Stock Exchange on 18 January 2007. For shareholders, management and staff who have been involved with the company for many years, this was a watershed moment. The first share trade was recorded at 37.5 cents, representing a listing premium of 25% over the issue price of 30 cents. Since that time Cyclopharm has been very well received by the investment community.

The Company is committed to the long term delivery of value by way of growth and the development of our core nuclear medicine business. We are convinced that the future of our company will be prosperous.

As shareholders will know, our strategy is to capitalise on our position within the nuclear medicine market and use our reputation as a manufacturer and supplier of high quality radiopharmaceuticals to further expand our business by:

- Expanding Technegas into new geographic regions; and
- Establishing PET ("positron emission tomography") central pharmacies in Australia to produce and supply PET radiopharmaceuticals for the diagnosis and monitoring of cancer and other medical conditions; and
- To supply and service PET central pharmacy capital equipment.

As previously reported, nuclear medicine continues to experience substantial growth in many parts of the world. The development of "best practice" image techniques using PET radiopharmaceuticals to detect, monitor and assist physicians in treating cancer is driving this growth. PET is widely recognised within the medical community and in many countries throughout the world as "best practice" care for cancer patients. PET imaging allows the earlier detection of cancer in patients, superior monitoring of the disease and therapy staging. Ultimately it facilitates the best possible patient care.

PET radiopharmaceuticals can not only detect cancer earlier than traditional methods, but provides a tool for physicians to determine whether a tumour is benign or malignant. It assists the physician to more accurately determine the course and nature of required therapies and to assess the effectiveness of prescribed treatments. Statistics show that a significant number of cancer patients died because the prescribed treatment was ineffective. Until the advent of PET, there has not been an effective way to image and track the response of the cancer cells to therapy.

As detailed in the Company's prospectus, we are focussing our efforts on establishing three PET central pharmacies in Australia. We are well advanced in terms of negotiating what we believe will be ground breaking agreements with a number of interested partners and we hope to be in a position to make a positive announcement in this regard around the time of our Annual General Meeting, which is scheduled to be held on 8 May 2007.

Our Technegas business continues to develop and grow, and we are delighted to report that the 2006 year was a record year for us in terms of sales. Our plan is for continued growth in existing and new markets during 2007.

We believe we are well on our way to becoming Australia's leading radiopharmaceutical company.

Cyclopharm's objective is to become a leading nuclear medical company servicing physicians in several market segments, including proprietary lung radiopharmaceuticals, molecular imaging and generic radiopharmaceuticals. We believe we are well on our way to create wealth for our shareholders and provide much needed medical technology to the Australian community.

Review Of Financial Performance

Net Profit After Tax

Net profit after tax attributable to members increased 28% to $2.0 million compared with the prior year ($1.5 million).

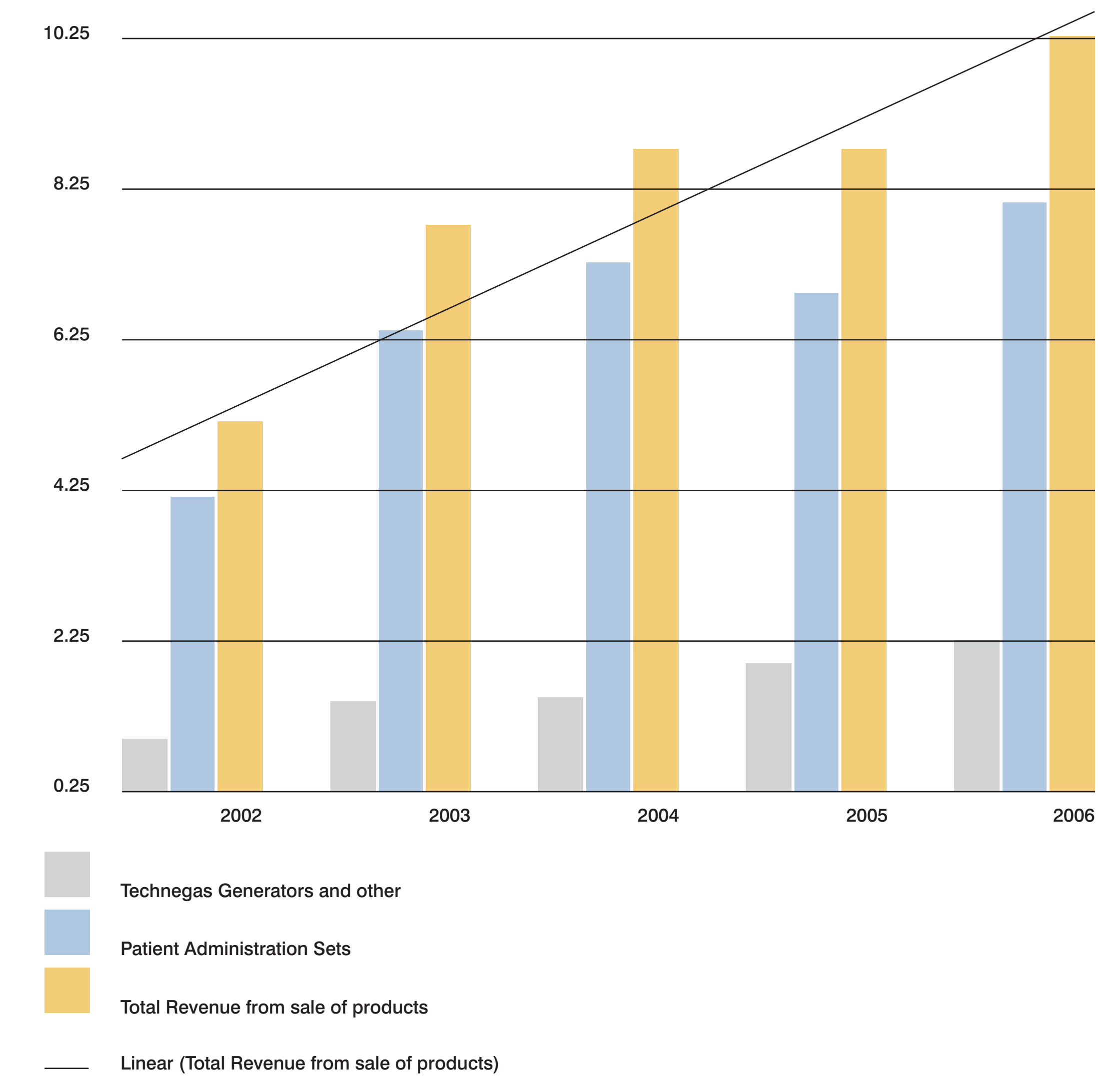
Net profit after tax from continuing operations of $2.0 million increased 2% compared with the prior year of 2005 ($1.98 million). We are satisfied with this result as the current year expenses were impacted by:

- The recruitment of key staff members Professor Nabil Morcos who is to champion the development of our Molecular Imaging business, and three sales and marketing executives who were placed directly into the Australian, Asian and UK markets. The sales and marketing executives were recruited in the last quarter of 2006, and we expect the benefits of our increased sales and marketing efforts to be derived during 2007.
- Costs associated with the launch and marketing of the TechnegasPlus generator.
- Approximately $100,000 of costs associated with establishing our Molecular Imaging business were written off during the year.

Operating revenue

During the financial year, Cyclopharm's sales increased 17% to a record level of $10.3 million (2005 $8.8 million). We are confident that we can achieve another record result in 2007, as we continue our strategy to revitalise existing markets as well as focusing on developing new markets and territories.

Total Sales Revenue by product

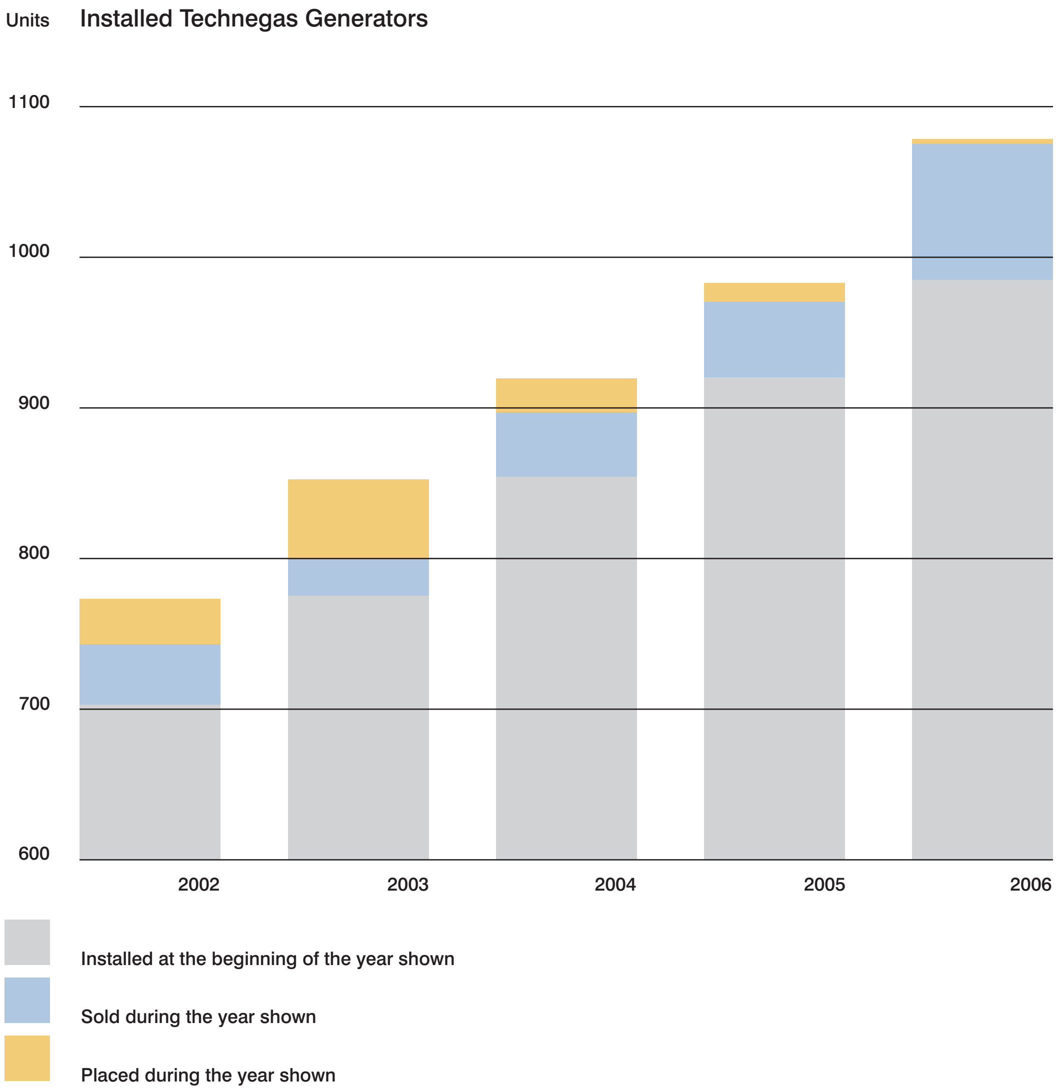


Sales of Technegas Generators

We are delighted to report that sales and placements of Technegas generators increased 48% to 93 units for 2006, compared with 63 for 2005. The launch of our new TechnegasPlus generator during the year revitalized several key markets. We now have in excess of 1050 Technegas generators in operation throughout the world (excluding the USA) and we are looking forward to a strong performance in 2007.

Sales of Patient Administration Sets

Sales of Patient Administration Sets ("PAS") were at record levels and **increased 8.4%** compared to the previous year. 171,050 people in 49 countries benefited from Technegas during 2006 (This represents 3,421 boxes of 50 PAS.) Total sales of PAS was 157,850 (3,157 boxes of PAS) in 2005.



Regional Review

We focussed significant attention on existing markets in Europe throughout 2006. We are pleased to report meaningful and sustainable growth in several key markets.

France

France, our largest market in the world, recorded sales growth in PAS and Technegas generators. Generator sales **increased 23%** compared to 2005 and PAS sales **increased 5%**. As a result of our restructured operations, revenue from France **increased 49%** and we expect further growth in 2007.

Germany

Our performance in Germany is encouraging and our strategy is delivering strong results. Revenue in Germany **increased 345%** for the year. The purchase of “Almedis Altmann” during 2005 has delivered strong growth, with sales of PAS reaching 13,200 (264 boxes) compared 8,200 (164 boxes) in 2005. This represents an **increase of 61%**. The sales of Technegas Generators **increased 350%** compared to 2005.

Europe other

We continue to dominate several mature markets in Europe and hold our market shares in others. Sales of Technegas Generators **increased 271%** during 2006. Total sales of PAS in 2006 for Europe (excluding Germany and France) **increased 15%**. During 2006 50,850 patient administration sets were sold (1,017 boxes) compared to 44,300 (886 boxes) in 2005.

Canada

Our growth market of Canada continues to perform well. We achieved another year of record sales with the number of PAS reaching 16,950 (339 boxes) compared with the 2005 level of 13,250 (265 boxes) representing an **increase of 28%**. We are hoping for continued growth in 2007.

Asia

We have increased our effort to develop the Asian markets. Revenues in the Asian region **increased 34%** during the year, notwithstanding sales were impacted during the latter part of the year because of delays in registration of the TechnegasPlus. Sale and placements of Technegas generators **increased 100%** compared to 2005.

Latin America

We are just beginning our efforts to develop the Latin American market. Overall, revenue **increased 23%** but our market penetration is still very low. We are hoping for a much improved penetration and financial return from this market in 2007.

Australia

In Australia sales and placement of generators **increased by 36%**, PAS sales **declined by 6%** resulting in an overall **increase of 2%** of operating income for Australia. We have increased our efforts in terms of sales and marketing in Australia and we are confident we can achieve growth in our home market during 2007.

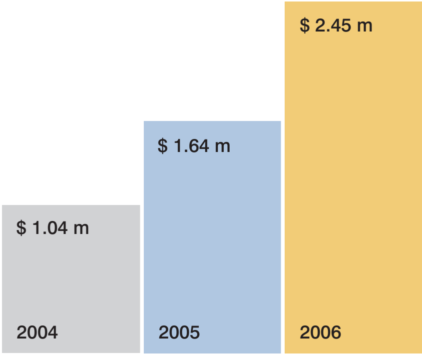
New Markets

United States of America

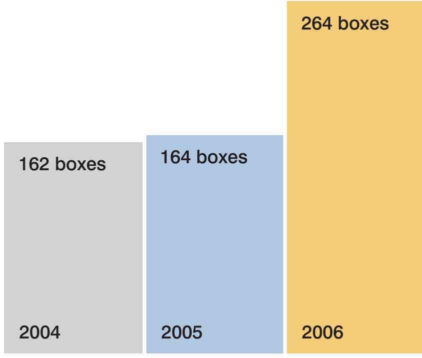
We continue to be very focussed on obtaining approval to sell our product in the United States of America. Our Phase III clinical trial is progressing, and we believe we are on track to submit our New Drug Application (NDA) sometime later this year. Our plan is to have approval to sell Technegas in the United States towards the end of 2008.

Other

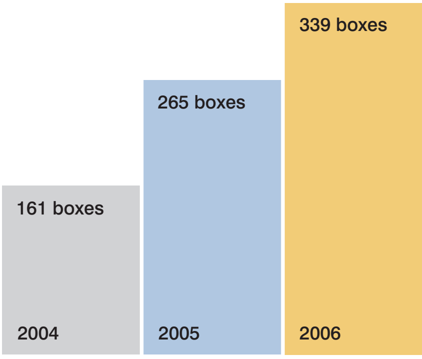
We continued to develop new markets in Tunisia and Oman, Panama, Dominican Republic, Columbia, Peru and Venezuela. We are hopeful that we will make our first sales into Brazil during 2007.



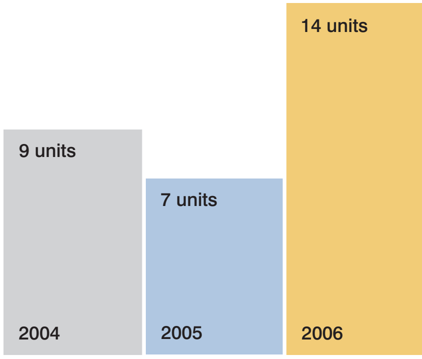
France, Revenue Growth of 49%



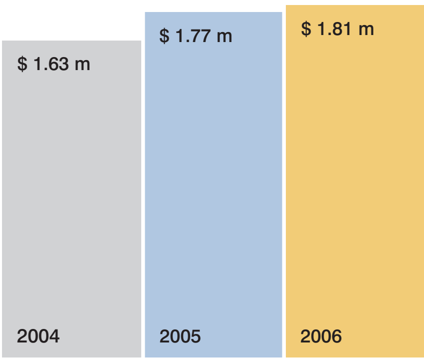
Germany, PAS Growth of 61%



Canada, PAS Growth of 28%



Asia, Technegas Generator Growth of 100%



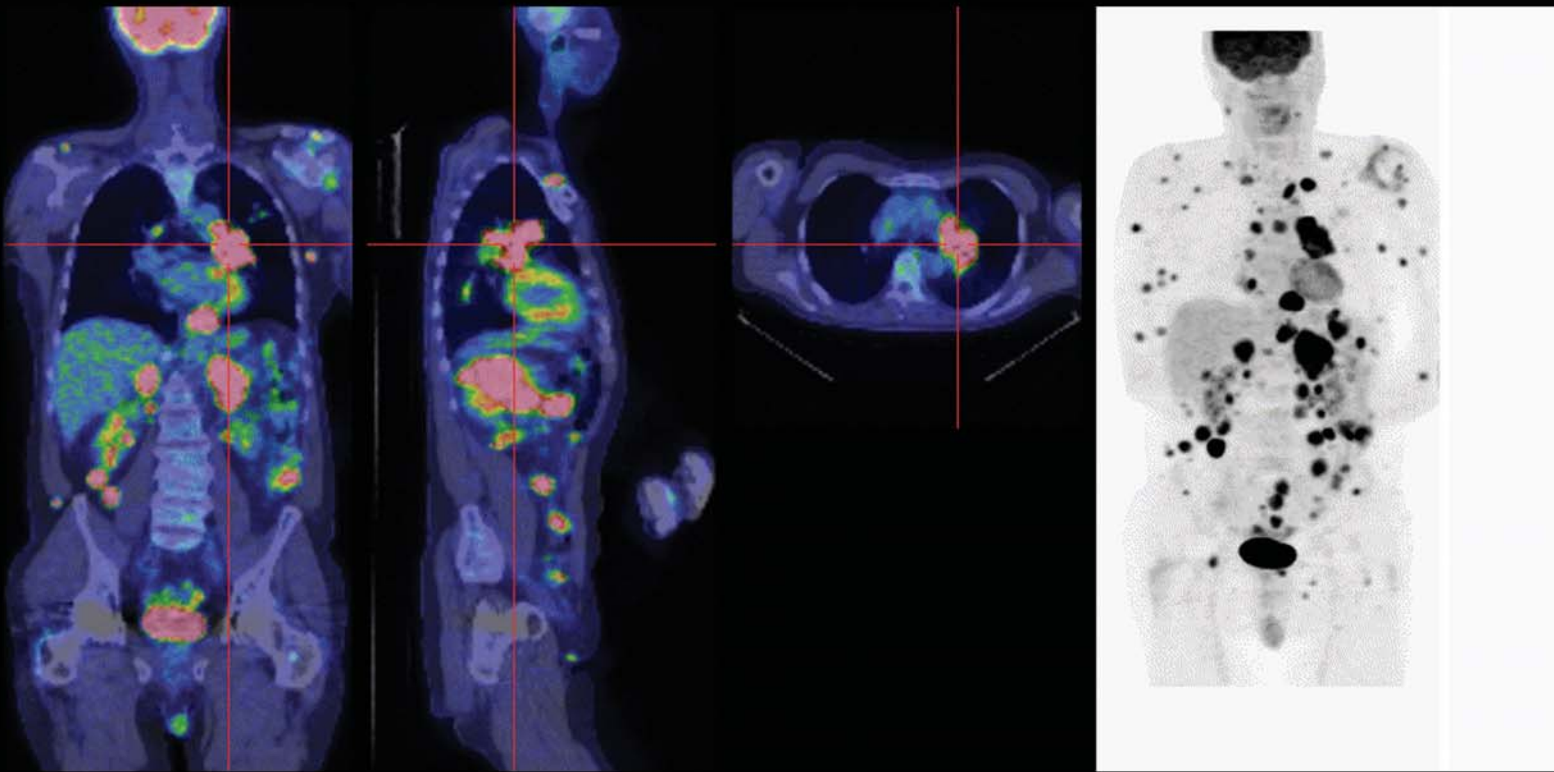
Australia, Revenue Growth of 2%

Conclusion

Cyclopharm is well placed to achieve its business strategies for 2007 and beyond. I would like to take this opportunity to publicly thank my staff & management team, Professor Nabil Morcos, our trading partners and shareholders. I would also like to thank our Chairman Mr Vanda Gould, and my fellow director Mr Henry Townsing, whose collective personal commitment to Cyclopharm has been unwavering.

We have just commenced our journey as a newly listed public company and are committed to a successful future.

John Sharman
Managing Director



Our Molecular Imaging division will provide PET radioisotopes to physicians. PET imaging allows for the earlier detection of cancer in patients, superior monitoring of the disease and therapy staging. Ultimately PET imaging facilitates superior patient care. This technology will make a substantial impact on the health of Australians. Cancer is a disease that touches all of our lives in one way or another.

Directors' Report

The Directors of Cyclopharm 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 Chairman
M Com, FCA, FCPA, B Com

Mr Gould has been a member of the Board since 21 November 2005. He is currently the Group Non-Executive Chairman appointed 1 March 2006 and also serves as Chairman of the Audit, Board Nominations, and Remuneration Committees of the Group.

Mr Gould has broad business experience having practiced as a chartered accountant for more than 30 years. As founding Chairman in 1984 of CVC Limited (listed on the ASX) he has overseen investments in several companies involved in the health services/medical industries including Cyclopharm. 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 J S Sharman – Managing Director
M.App.Fin, CA, B Ec

Mr Sharman has been a member of the Board since 21 November 2005. He was appointed Managing Director of Cyclopharm on 1 September 2006. Prior to that John was the Executive Director of Vita Life and has been effectively in control of the Cyclopharm Group since early 2004. John serves as a member of the Board Nominations Committees.

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 lives in Melbourne and is 40 years old.

Mr D J Heaney – Non-Executive Director
Mr Heaney was appointed to the Cyclopharm Board on 20 November 2006. David serves as a member of the Audit and Board Nominations Committees.

David is currently an executive director of Thompson Partners Pty Ltd and a non-executive director of Colorpak Limited and Mariner Financial Limited.

David has more than 38 years experience in all aspects of wholesale banking and finance, gained in senior management roles with the National Australia Bank Limited and subsidiary companies in both Australia and the US.

David lives in Melbourne and is 62 years old.

Mr Heaney has also served as a director of the following other listed companies:
- Colorpak Limited – Appointed 24 January 2004
- Mariner Financial Limited – Appointed 27 May 2005
- The Gribbles Group Limited (between 29 June 2001 and 21 December 2004)
- Redflex Holdings Limited (between 22 March 2002 and 25 November 2002).

Dr B C Salin – Non Executive Director

Ph D Biophysics and Biochemistry

Mr Salin was appointed to the Cyclopharm Board on 1 September 2006. Bernard serves as a member of the Audit and Board Nominations Committees.

Bernard has broad research experience from his years at the Atomic Energy Centre, Saclay, France. In business he has held several key executive positions including President and CEO for Pfizer Europe Diagnostics Division. In 2000 he founded and became Chairman of Cyclopharma Laboratoires SA, which has developed a completely new fully automated radiopharmaceutical production centre (industrial cyclotron and production tools) process for the production of short life PET isotopes.

Bernard lives in Clermont Ferrand, France and is 64 years old.

Mr H G Townsing – Non Executive Director

Dip Val

Mr Townsing has been a member of the Board since 22 November 2005. Mr Townsing serves as a member of the Board Nominations and Remuneration Committee.

Henry has more than 20 years experience in corporate finance and private equity. He was a director of Vita Life Sciences Limited from 1985 to 1992 and was reappointed a director in 2004. He is a director of Normandy Finance & Investments Asia Ltd and several other companies.

Henry 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 Cyclopharm 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:

	Interest	Held at 1 January 2006	Purchases	Sales	Held at 31 December 2006
Directors					
Mr V R Gould	Non beneficial interests	—	12,860,443	—	12,860,443
Mr D J Heaney	Non beneficial interest	—	100,000	—	100,000
Dr B C Salin	Non beneficial interest	—	233,189	—	233,189
Mr J S Sharman	Beneficial interest	—	1,477,255	—	1,477,255
	Non beneficial interest	—	243,726	—	243,726
Mr H G Townsing	Non beneficial interest	—	13,257,807	—	13,257,807
Key Management Personnel					
Prof N Morcos	Beneficial interest	—	58,297	—	58,297
Mr C Buttigieg	Non beneficial interest	—	30,000	—	30,000
Ms L Mc Lauchlin	Beneficial interest	—	30,000	—	30,000
Mr J L Claude	Beneficial interest	—	30,000	—	30,000

Dividends

In May 2006 Cyclopharm paid a dividend of $694,460 to Vita Life Sciences Limited (Vita Life Sciences) its then parent company.

No other dividends were declared or paid during the financial year.

The balance of franking credit available for future dividend payments is $61,732.

On Market Buy-back

The Company has not initiated an on market buy-back initiative.

Principal Activities

During the year the principal continuing activities of the consolidated entity consisted of the manufacture and sale of medical equipment and radiopharmaceuticals, including associated research and development.

Operating and Financial Review

Operating Results for the Year
For the financial year the economic entity recorded a consolidated profit after tax attributable to members of $2,027,980 (2005: $1,582,029).

Shares issued during the year
Cyclopharm by way of a placement allotted 5,651,000 new ordinary shares at $0.30 each during September 2006 to raise approximately $1.7 million. These monies were raised to part fund the balance of costs associated with the Company's application to the US Food & Drug Administration (FDA) to facilitate the sale of Technegas in the USA and to reduce debt.

To part fund the capital investment required to establish three PET central pharmacies and the FDA application, Cyclopharm completed its initial public offering (IPO) in January 2007 through the issue of 23,394,949 shares at $0.30 each raising approximately $6.4m (net of offer costs).

Significant Changes in State of Affairs

Cyclopharm was established on 31 October 2005 as an unlisted public company to acquire the assets and certain liabilities that comprised the Technegas business. With effect from 31 May 2006 and as part of the acquisition of Cyclopharm's subsidiary Cyclomedica Australia Pty Ltd acquired all the assets, certain liabilities and business of Vita Medical Limited.

On 31 May 2006 Cyclopharm acquired all of the issued capital of the following companies that formed part of the Technegas business:

- Cyclomedica Ireland Ltd (formerly Vitamedica Europe Ltd)
- Cyclomedica Europe Ltd
- Cyclomedica Canada Limited (formerly Vita Medical Canada Ltd)
- Cyclomedica Germany GmbH
- Allrad 28 Pty Ltd
- Allrad 29 Pty Ltd

These entities together with Cyclopharm form the Cyclopharm Group from 31 May 2006 (formerly known as the Vita Medical Group). The transaction which lead to the formation of the Cyclopharm Group has been accounted for as a 'reverse acquisition' as defined in *AASB 3 Business Combinations* whereby Cyclopharm is the legal parent and Cyclomedica Australia Pty Ltd is the financial parent, which for accounting purposes is deemed to be the acquirer.

The consideration for the minority interests of the controlled entities and costs of acquisition of $6,572,051 have been charged to other contributed equity in accordance with *AASB 127 Consolidated and Separate Financial Statements.*

Certain non-operating or dormant Vita Medical Group entities, including Vita Medical Limited, Tetley Treadmills Pty Limited, Tetley Research Pty Ltd and Allrad 19 Pty Ltd are not part of the Cyclopharm Group.

Significant Events After Balance Date

Initial Public Offering and listing on the Australian Stock Exchange

On 11 January 2007, Cyclopharm completed its IPO raising $6,427,304 (after offer costs) issuing 23,394,949 new shares and welcomed 440 new shareholders. Cyclopharm was admitted to the official list of the Australian Stock Exchange on 18 January 2007. These monies were raised to part fund the balance of costs associated with the Company's application to the US Food & Drug Administration (FDA) to facilitate the sale of Technegas in the USA, to provide the working capital and to part fund capital investment required to establish three PET central pharmacies in Australia.

Shareholdings

During the IPO Cyclopharm's former controlling shareholder Vita Life Sciences sold 13,271,719 shares in Cyclopharm at $0.30 each which reduced Vita Life Science's ownership in Cyclopharm from 11.8% at November 2006 to 0%.

Borrowings

On 18 January 2007, Cyclopharm temporarily repaid $5,700,000 of its debt facility with the National Australia Bank with the proceeds raised from the IPO. On 25 January 2007, a wholly owned subsidiary of Cyclopharm, Cyclomedica Europe Limited repaid an outstanding loan of $621,893 to Vita Life Sciences. On 25 January 2007, Cyclopharm reimbursed Vita Life Sciences for its share of restructure and IPO costs of $582,777 in accordance with approvals obtained from shareholders.

Likely Developments and Future Results

FDA

Cyclopharm's New Drug Application (aimed at getting Technegas approved for sale in the USA) is progressing. The rate of patient enrolment is critical to the timing of a successful completion of the program, and whilst enrolments are slow, our plan is to make our first sales into the USA sometime during 2008.

New Business - Molecular Imaging

Work continues toward finalising agreements to develop PET production centres to supply PET radiopharmaceuticals to the Australian market.

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

Cyclopharm's shares were listed on the ASX on 18 January 2007 and the first Annual General Meeting will be held on 8 May 2007 at which time all directors will stand for election by shareholders. The directors' were appointed to the Board as shown below:

Director	Appointed
Mr V R Gould	21 November 2005
Mr J S Sharman	21 November 2005
Mr H G Townsing	22 November 2005
Mr B C Salin	1 September 2006
Mr D J Heaney	20 November 2006

Indemnification and Insurance Of Officers

In accordance with clause 49.1 of Cyclopharm'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:

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

During or since the financial year, the Company has paid premiums in respect of a contract insuring all the directors against legal costs incurred in defending proceedings for conduct involving:

a) a wilful breach of duty; or
b) a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was $22,707 (2005: $0).

The Officers of the Company covered by the insurance policy include the Directors, the Company Secretary and Executive Officers. 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.)

The liabilities insured include costs and expenses that may be brought against the Officers in their capacity as Officers of the Company that may be incurred in defending civil or criminal proceedings that may be brought against the Officers of the Company or a controlled entity.

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 21.

No fees are outstanding as payable to Russell Bedford NSW for the year ended 31 December 2006 for non-audit related services.

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.

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.

The remuneration disclosures set out in the tables on pages 16 to 17 have been audited.

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.

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'; and
• establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration structure

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

Director and Key Management Personnel Remuneration Table

	Short-term employee benefits				Post employment benefits	Total	Performance related
	Salary & Fees	Superannuation	Cash Bonus	Non-monetary benefits	Superannuation		
2006 Consolidated	$	$	$	$	$	$	%
Directors							
Vanda Gould, Non-Executive Director	15,000	—	—	—	—	**15,000**	0%
David Heaney, Non-Executive Director	1,250	—	—	—	—	**1,250**	0%
Bernard Salin, Non-Executive Director	6,645	—	—	—	—	**6,645**	0%
Henry Townsing, Non-Executive Director	7,500	—	—	—	—	**7,500**	0%
Executive Directors							
John Sharman, Managing Director	54,733	—	—	—	—	**54,733**	0%
David Rundell, Chief Executive Officer	43,576	3,920	—	—	—	**47,496**	0%
Total Directors' Compensation	**128,704**	**3,920**	**—**	**—**	**—**	132,624	0%
Key Management Personnel							
Nabil Morcos*, Chief Operating Officer	68,750	6,188	—	—	—	**74,938**	0%
Gary Somerville, Quality and Regulatory Manager	99,756	8,972	—	—	—	**108,728**	0%
Graham Phillips, Finance Manager	88,896	7,992	11,000	—	—	**107,888**	10%
Charles Buttigieg Sales and Marketing Manager, Australia	86,592	7,784	—	17,919	—	**112,295**	0%
Jean-Louis Claude General Manager, Europe	149,502	—	16,612	6,638	—	**172,752**	10%
Lynn McLauchlin General Manager, Canada	128,966	—	28,060	—	—	**157,026**	18%
Total Key Management Personnel's Compensation	**622,462**	**30,936**	**55,672**	**24,557**	**—**	733,627	8%
Total Compensation	**751,166**	**34,856**	**55,672**	**24,557**	**—**	866,251	6%

* Professor Nabil Morcos commenced employment with Cyclomedica Australia in August 2006.

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 March 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.

Each director receives a fee as set out in the Director and Key Management Personnel 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

Director and Key Management Personnel Remuneration Table

	Short-term employee benefits				Post employment benefits	Total	Performance related
	Salary & Fees	Superannuation	Cash Bonus	Non-monetary benefits	Superannuation		
2005 Consolidated	$	$	$	$	$	$	%
Directors							
David Rundell*, Chief Executive Officer	127,293	—	7,500	—	11,456	**146,249**	5%
John Sharman**, Non-Executive Director	—	—	—	—	—	—	0%
Henry Townsing**, Non-Executive Director	—	—	—	—	—	—	0%
Total Directors' Compensation	**127,293**	**—**	**7,500**	**—**	**11,456**	**146,249**	5%
Key Management Personnel							
Gary Somerville Quality and Regulatory Manager	95,620	8,876	—	—	—	104,496	0%
Graham Phillips, Finance Manager	83,715	7,534	5,000	—	—	96,249	5%
Charles Buttigieg Sales and Marketing Manager, Australia	80,145	7,213	—	17,919	—	105,277	0%
Jean-Louis Claude General Manage, Europe	132,890	—	16,611	5,301	—	154,802	11%
Lynn McLauchlin General Manager, Canada	144,200	—	26,891	—	—	171,091	16%
Total Key Management Personnel's Compensation	**536,570**	**23,623**	**48,502**	**23,220**	**—**	**631,915**	8%
Total Compensation	**663,863**	**23,623**	**56,002**	**23,220**	**11,456**	**778,164**	7%

*Mr David Rundell was a director of Vita Medical Limited and resigned on 5 May 2006.

**Messrs Vanda Gould, John Sharman and Henry Townsing received director's fees from Vita Life Sciences when the Cyclopharm Group formed part of Vita Life Sciences activities.

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 service contract 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;
• Variable remuneration;
– short term incentive (STI); 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

Objective

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.

Structure

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 depends 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 Incentive

The Directors propose to implement a long term share incentive plan (Plan) for executives and employees of the Cyclopharm Group. The implementation of the Plan will be subject to Shareholder approval at the forthcoming annual general meeting of Cyclopharm's shareholders to be held on 8 May 2007.

The Company proposes to allocate 1.3% and 1.0% of the issued capital to key employees and to Mr John Sharman the Managing Director respectively. The terms and conditions of the proposed Plan are:

- The Company lends money on a non-recourse basis to employees to buy Company shares at an interest free rate;
- 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 variable at the end of each prescribed term 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 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 on the loan.

Employment contracts

Managing Director

The Managing Director, Mr Sharman, is employed under a rolling contract. Mr Sharman's current contract commenced on 1 September 2006. Under the terms of the present contract:

- Mr Sharman receives fixed remuneration of $200,000 (plus superannuation) per annum.
- Mr Sharman may resign from his position and thus terminate this contract by giving 6 months written notice unless a mutually agreeable date can be agreed upon.
- The Company may terminate this employment agreement by providing 6 months written notice or providing payment in lieu of the notice period.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director's 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 individuals contract between 1 to 3 months written notice or providing payment in lieu of the notice period. 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.

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	Cyclopharm Board Meetings		Audit Committee Meetings		Board Nomination Committee		Remuneration Committee Meetings	
	Held by members	Attended	Held by members	Attended	Held by members	Attended	Held by members	Attended
Mr V R Gould	5	5	1	1	2	2	1	1
Mr J S Sharman	5	5	—	—	2	2	—	—
Mr D J Heaney	1	1	1	1	—	—	—	—
Mr B C Salin	2	2	—	—	1	1	—	—
Mr H G Townsing	5	5	—	—	2	2	1	1

Proceedings on Behalf of the Company

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

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

Dated at Melbourne this 22nd day of March 2007.

This report is made and signed in accordance with a resolution of the directors:

John Sharman
Managing Director

Russell Bedford
New South Wales

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Australia

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Auditors Independence Declaration Under Section 307c

of the Corporations Act 2001

To The Directors of Cyclopharm 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.

RUSSELL BEDFORD NSW

Chartered Accountants

GREGORY C RALPH, M.COM, FCA
Partner

Sydney, 22 March 2007

The directors of Cyclopharm are responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of Cyclopharm on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company and its main corporate governance practices are applicable to all subsidiaries and are summarised below.

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, Cyclopharm 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 25 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(c), 2(d) 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.

ASX Recommendation 2.5 (refer to best practice summary on page 29)

The Company's Constitution requires a minimum of 3 directors and a maximum of 9 directors. As at 31 December 2006, there are four non-executive Directors and one executive director, in conformity with the Company's policy that the Board 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 Cyclopharm's website, at www.cyclopharm.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 (refer to best practice summary on page 29)

(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 because other entities of which he is a director have approximately 15.1% of the Shares (the Recommendations permit 5%). 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 and that so long as Mr Gould continues to act as he has since his appointment to the Boards of various entities making up the Cyclopharm 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 (refer to best practice summary on page 29)

(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 Cyclopharm group member.

There is a majority of non-executive directors but there is not a majority of independent directors on the Board. The appointment of Mr Heaney as the first director to satisfy the Recommendations' various tests of independence is noted. The Board has considered this matter, and whilst no vote was taken to avoid the issue of abstentions, the consensus was that the composition of the Board vis-à-vis independence was appropriate having regard to where Cyclopharm was at in terms of its history and the Company's stage of development.

ASX Recommendation 2.1, 2.5 (refer to best practice summary on page 29)

(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. They are not permitted to exercise any influence over other Board members further when that matter is being considered the Director may not vote on that matter, 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. The Board Charter dictates that the Board will hold eleven 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 (refer to best practice summary on page 29)

(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 (refer to best practice summary on page 29)

(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 (refer to best practice summary on page 29)

(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 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 (refer to best practice summary on page 29)

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 Cyclopharm's website, at www.cyclopharm.com.au. The Audit and Risk Committee comprises three Directors, the majority being non-executive Directors. The non-executive Directors are Mr Gould, Chairman of the Audit Committee and Mr Heaney. The qualifications of the committee are located in the Directors Report on page 5. 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. The Committee is comprised of only non-executive directors however Mr Gould is not considered an independent director under the terms defined by the ASX. Please refer to the section titled 2 The Board of Directors (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 believes that Mr Gould is the most appropriate person to be elected Chairman of the Committee. The Board does not comply with the ASX requirement to have at least 3 members on the Audit Committee. The Board believes that the experience that Mr Gould and Mr Heaney have in the finance industry adequately mitigates this 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.

ASX Recommendations 6.2 (refer to best practice summary on page 29)

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 of the Company's internal controls including information systems controls an security;
- The adequacy of the process for reporting and responding to significant control and regulatory breaches;

• The effectiveness of 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; and
• Action plans to address control improvement areas.

ASX Recommendations 4.2, 4.3, 4.4, 4.5 (refer to best practice summary on page 29)

(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 Cyclopharm's website, at www.cyclopharm.com.au.

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 of 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.

ASX Recommendations 2.4, 2.5 (refer to best practice summary on page 29)

(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 Cyclopharm's website, at www.cyclopharm.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, 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.

ASX Recommendation 9.2 (refer to best practice summary on page 29)

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 (refer to best practice summary on page 29)

The Board, based on the recommendations of the Managing Director, Mr Sharman, 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;
• 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 an internal compliance and control system is operating efficiently and effectively in all material respects.

ASX recommendations 4.1, 7.2 (refer to best practice summary on page 29)

(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 he 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.

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

ASX recommendations 9.1, 9.2, 9.3, 9.5 (refer to best practice summary on page 29)

(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 (refer to best practice summary on page 29)

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
- S 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 (refer to best practice summary on page 29)

(b) Communication strategy

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

ASX Recommendations 6.1 (refer to best practice summary on page 29)

7 Ethical and responsible decision-making

(a) Code of Ethics and Conduct

The Board endeavours to ensure that the Directors, officers and employees of Cyclopharm 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 (refer to best practice summary on page 29)

(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.

ASX Recommendations 3.2 (refer to best practice summary on page 29)

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 of directors to be independent	2a 2d 2h	do not comply
2.2 The chairperson should be an independent director	2c	do not comply
2.3 The roles of chairperson and managing director should not be exercised by the same individual	2a 2c	comply
2.4 The board should establish a nomination committee	2h 2i 3b	comply
2.5 Provide the information in the Guide to reporting on this Principle 2	2a 2b 2d 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 other key executive as to:	7a	comply
3.1.1 the practices necessary to maintain confidence in the company's integrity		
3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices		
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	7a	comply

continued

8 Checklist for summarising the best practice recommendations and compliance

ASX Principle	Reference	Compliance
Principle 4: Safeguard integrity in financial reporting		
4.1 Require the chief executive officer (or equivalent) and the chief fianancial 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 acordance with relevant acounting standards	4c	comply
4.2 The board should stablish an audit committee	3a	comply
4.3 Structure the audit committee so that it consists of: - only non-executive directors - a majority of independent directors - an independent chairperson, who is not the chairperson of the board - at least three members	3a	do 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 disclosures		
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 sharholders 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
Pinciple 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 a control which implements the policies adopted by the board		
7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects		
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

		Consolidated		Parent	
		2006	2005	2006	2005
	Notes	$	$	$	$
Continuing Operations					
Revenue					
Sales revenue	4	10,331,832	8,806,252	—	—
Finance revenue	4	10,856	210,475	—	—
Other income	4	—	109,070	—	—
		10,342,688	**9,125,797**	—	—
Cost of sales	4b	(2,757,439)	(2,027,960)	—	—
Employee benefits expense		(2,285,455)	(2,016,271)	—	—
Advertising and promotion expense		(136,331)	(66,706)	—	—
Depreciation and amortisation expense	4d	(97,951)	(78,878)	—	—
Freight and duty expense		(296,917)	(282,864)	—	—
Research and development expense	4e	(20,162)	(31,571)	—	—
Administration expense		(1,572,594)	(1,516,600)	(64,254)	—
Other expenses		(549,675)	(382,048)	—	—
Profit / (loss) before tax and finance costs		**2,626,164**	**2,722,899**	**(64,254)**	—
Finance costs	4c	(286,857)	(53,579)	(234,519)	—
Profit / (loss) before income tax		**2,339,307**	**2,669,320**	**(298,773)**	—
Income tax (expense) / benefit	5	(311,327)	(687,066)	106,973	—
Profit / (loss) from continuing operations		**2,027,980**	**1,982,254**	**(191,800)**	—
Discontinued Operations					
Loss from discontinued operations	4f	—	(345,491)	—	—
Profit for the year		**2,027,980**	**1,636,763**	**(191,800)**	—
Net profit attributable to minority interests		—	(54,734)	—	—
Net profit / (loss) attributable to members of the parent		**2,027,980**	**1,582,029**	**(191,800)**	—

Earnings per share (cents per share)	6	**cents**	**cents**
Basic earnings per share for continuing operations		1.87	1.81
Basic earnings per share for discontinued operations		—	(0.32)
Basic earnings per share		1.87	1.48
Diluted earnings per share		1.87	1.48

The Income Statement is to be read in conjunction with the notes to the financial statements.

Balance Sheet
for the year ended 31 December 2006

		Consolidated		Parent	
		2006	2005	2006	2005
	Notes	$	$	$	$
Assets					
Cash and cash equivalents	7	1,403,328	152,552	620,845	—
Trade and other receivables	8	3,593,728	2,562,246	16,326	10
Inventories	9	2,013,488	1,217,353	—	—
Other assets		—	183,915	—	—
Total Current Assets		**7,010,544**	**4,116,066**	**637,171**	10
Trade and other receivables	8	145,830	—	1,307,458	—
Other financial assets	11	—	—	6,064,863	—
Deferred tax assets	5	144,894	92,902	43,922	—
Property, plant and equipment	10	847,235	1,088,526	—	—
Intangible assets	12	1,057,743	204,564	—	—
Total Non-current Assets		**2,195,702**	**1,385,992**	**7,416,243**	—
Total Assets		**9,206,246**	**5,502,058**	**8,053,414**	10
Liabilities					
Trade and other payables	13	2,647,223	1,588,135	1,162,800	—
Current income tax liability	5	197,745	41,732	—	—
Interest bearing loans and borrowings	14	1,346,893	527,821	725,000	—
Provisions	15	228,697	146,443	—	—
Total Current Liabilities		**4,420,558**	**2,304,131**	**1,887,800**	—
Interest bearing loans and borrowings	14	4,975,000	—	4,975,000	—
Provisions	15	120,769	88,606	—	—
Deferred tax liabilities	5	255,979	63,514	—	—
Total Non-current Liabilities		**5,351,748**	**152,120**	**4,975,000**	—
Total Liabilities		**9,772,306**	**2,456,251**	**6,862,800**	—
Net (Liabilities) / Assets		**(566,060)**	**3,045,807**	**1,190,614**	10
Equity					
Contributed Equity	16	1,237,703	6,427,351	1,382,414	10
Foreign currency translation reserve		(431,033)	(624,412)	—	—
Accumulated losses		(1,372,730)	(2,690,316)	(191,800)	—
Parent entity interests		(566,060)	3,112,623	1,190,614	10
Minority interests		—	(66,816)	—	—
Total Equity		**(566,060)**	**3,045,807**	**1,190,614**	10

The Balance Sheet is to be read in conjunction with the notes to the financial statements.

Cash Flow Statement

for the year ended 31 December 2006

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Receipts from customers and related parties		9,125,112	7,383,891	—	—
Payments to suppliers and employees		(7,618,288)	(5,727,101)	(80,559)	—
Interest received		10,856	9,750	—	—
Borrowing costs paid		(286,856)	(53,579)	(234,519)	—
Income tax paid		(61,730)	(142,434)	—	—
Net cash flows from operating activities		**1,169,094**	**1,470,527**	**(315,078)**	—
Acquisition of minority interest in subsidiaries		(6,168,095)	—	(6,064,863)	—
Purchase of property, plant and equipment		(17,695)	(90,012)	—	—
Proceeds from sale of property, plant and equipment		800	—	—	—
Payments for research and development		(495,574)	(81,372)	—	—
Other		—	(38,542)	—	—
Net cash flows from investing activities		**(6,680,564)**	**(209,926)**	**(6,064,863)**	—
Proceeds from issue of shares		1,695,300	—	1,695,300	—
Costs of raising capital		(312,897)	—	(312,897)	—
Other contributed equity from transferred tax liabilities		—	446,312	—	—
Proceeds from borrowings		6,000,000	—	6,000,000	—
Repayment of borrowings		(300,000)	(1,894,818)	(300,000)	—
Loan from related entity		1,102,055	—	1,269,763	—
Loans to related entities		(1,238,377)	—	(1,351,380)	—
Net cash flows from financing activities		**6,946,081**	**(1,448,506)**	**7,000,786**	—
Net increase (decrease) in cash and cash equivalents		**1,434,611**	**(187,905)**	**620,845**	—
Cash and cash equivalents					
At beginning of the period	7	**152,552**	**340,457**	—	—
Net foreign exchange differences from translation of cash and cash equivalents		(183,835)	—	—	—
At end of the period	7	**1,403,328**	**152,552**	**620,845**	—

The Cash Flow Statement is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity
for the year ended 31 December 2006

Consolidated	Share Capital $	Other Contributed Equity $	Total Contributed Equity $	Accumulated Losses $	Foreign Currency Translation Reserve $	Attributable to Equity Holders of the Parent $	Minority Interests $	Total $
Balance at 1 January 2005	**5,132,627**	**848,412**	**5,981,039**	**(2,460)**	**49,913**	**6,028,492**	**(120,813)**	**5,907,679**
Currency translation difference	—	—	—	—	(674,325)	(674,325)	—	(674,325)
Total income (expense) for the year recognised directly in equity	—	—	—	—	(674,325)	(674,325)	—	(674,325)
Profit for the year	—	—	—	1,582,029	—	1,582,029	54,734	1,636,763
Total income (expense) for the year	—	—	—	**1,582,029**	**(674,325)**	**907,704**	**54,734**	**962,438**
Minority interest in share capital	—	—	—	—	—	—	(737)	(737)
Equity dividend	—	—	—	(4,269,871)	—	(4,269,871)	—	(4,269,871)
Other contributed equity on transfer of current tax liability to ultimate parent	—	446,312	446,312	—	—	446,312	—	446,312
Other	—	—	—	(14)	—	(14)	—	(14)
Balance at 31 December 2005	**5,132,627**	**1,294,724**	**6,427,351**	**(2,690,316)**	**(624,412)**	**3,112,623**	**(66,816)**	**3,045,807**
Currency translation difference	—	—	—	—	193,379	193,379	—	193,379
Total income (expense) for the year recognised directly in equity	—	—	—	—	193,379	193,379	—	193,379
Profit for the year	—	—	—	2,027,980	—	2,027,980	—	2,027,980
Total income (expense) for the year	—	—	—	**2,027,980**	**193,379**	**2,221,359**	—	**2,221,359**
Acquisition of minority interest in controlled entities	—	(6,572,051)	(6,572,051)	—	—	(6,572,051)	66,816	(6,505,235)
Equity dividend	—	—	—	(694,460)	—	(694,460)	—	(694,460)
Issue of share capital	1,695,300	—	1,695,300	—	—	1,695,300	—	1,695,300
Capital raising costs	(312,897)	—	(312,897)	—	—	(312,897)	—	(312,897)
Other	—	—	—	(15,934)	—	15,934)	—	(15,934)
Balance at 31 December 2006	**6,515,030**	**(5,277,327)**	**1,237,703**	**(1,372,730)**	**(431,033)**	**(566,060)**	—	**(566,060)**

Statement of Changes in Equity
for the year ended 31 December 2006

Parent	Share Capital $	Accumulated Losses $	Foreign Currency Translation Reserve $	Attributable to Equity Holders of the Parent $	Minority Interests $	Total $
Balance at 1 January 2005						
Issue of share capital	10	—	—	10	—	10
Balance at 31 December 2005	**10**	—	—	**10**	—	**10**
Loss for the year	—	(191,800)	—	(191,800)	—	(191,800)
Issue of share capital	1,695,300	—	—	1,695,300	—	1,695,300
Capital raising costs	(312,896)	—	—	(312,896)	—	(312,896)
Balance at 31 December 2006	1,382,414	(191,800)	—	1,190,614	—	1,190,614

Notes to the Financial Statements
for the year ended 31 December 2006

1. Corporate Information

The financial report of Cyclopharm Limited ("Cyclopharm") for the year ended 31 December 2006 was authorised for issue with a resolution of the directors on 22 March 2007.

Cyclopharm is a Company limited by shares incorporated and domiciled in Australia. The shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in Director's 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:

Reference	Affected Standard(s)	Nature of change to accounting policy	Application date of standard	Impact on Group Financial Report	Application date of group
2005 -10	AASB 132: Financial Instruments: Disclosure and Presentation, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117: Leases, AASB 133: Earnings per Share, AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact.	1 Jan 07	AASB 7 is a disclosure standard, the Directors are in the process of assessing the impact if any on the amounts or disclosures included within the Group's financial report.	1 Jul 07
AASB 7	AASB 7 Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1 Jan 07	As above	1 Jul 07

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Cyclopharm 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 Cyclopharm 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.

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 *AASB 3 Business Combinations*. Accordingly the consolidated financial statements have been issued under the name of the new legal parent, Cyclopharm, but reflect a continuation of the financial statements of 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.

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 (Aud $) 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.

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 subsidiaries Cyclomedica Ireland Limited, Cyclomedica Germany GmbH, Cyclomedica Europe Limited, is European Euro (Euro) and Cyclomedica Canada Limited 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 is recognised in the income statement.

e) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 is 31 May 2006.

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.

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:

	Basis	Method
Plant and equipment	10-33%	Straight-line method
Leasehold Improvements	20-50%	Straight-line method
Motor vehicles	20-25%	Straight-line method

	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

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.

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.

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.

Expenditure on the development of the TechnegasPlus generator has been capitalised. A useful life of 8 years has been applied and amortisation for the year included in the income statement. No impairment provision has been deemed appropriate. The directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred.

Expenditure on costs incurred in the application to the Food & Drug Administration authority have been capitalised. A useful life has not been determined as Cyclopharm have not yet received approval from the Food & Drug Administration authorities. No impairment provision has been deemed appropriate. The directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred.

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 amortisation and impairment losses.

i) 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.

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. Bad debts are written off when identified.

k) 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. 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.

l) 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 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.

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 as well as through the amortisation process.

n) 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.

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.

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 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.

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 quoted investments is recognised in the income statement on the day which the relevant investment is first quoted on an “ex-basis”. Dividend revenue is recognised net of any franking credits.

Revenue from distributions of controlled entities is recognised by the Company when they are declared by the controlled entities. Revenue from dividends from associates and other investments is recognised when dividends are 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) 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 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.

s) 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.

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.

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.

t) 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 proceeds.

Other contributed equity

In accordance with *UIG 1052 Tax Consolidation Accounting,* additional contributed equity was recorded to recognise the transfer of tax liabilities from Vita Medical Limited to Vita Life Sciences Limited, being the parent of the Australian tax consolidated group at the relevant time. This event occurred prior to Cyclopharm acquiring its interests in the net assets of Vita Medical Limited.

As part of the restructure a subsidiary of Cyclopharm, Vita Medical Australia Pty Ltd acquired all the assets, liabilities and business from Vita Medical Limited, the former group parent.

With effect from 31 May 2006, Cyclopharm also acquired 100% of the other group operating subsidiaries from the ultimate holding company, Vita Life Sciences Limited. Accordingly, the group comprises Cyclopharm and the following wholly owned subsidiaries:

- Cyclomedica Australia Pty Ltd (formerly Vita Medical Australia Pty Ltd)
- Cyclomedica Ireland Ltd (formerly Vitamedica Europe Ltd)
- Cyclomedica Europe Ltd
- Cyclomedica Canada Limited (formerly 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 is the legal parent and Cyclomedica Australia Pty Limited is the financial parent, which for accounting purposes is deemed to be the acquirer.

The consideration for the minority interests of the controlled entities and costs of acquisition of $6,572,051 have been charged to other contributed equity in accordance with *AASB 127 Consolidated and Separate Financial Statements.*

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.

u) Net asset deficiency

Whilst the economic entity's balance sheet shows a net asset deficiency, this circumstance arose due to the principles of reverse acquisition accounting and the acquisition of minority interests that are recognised in equity rather than goodwill.

The Company has completed a public offering in January 2007, raising capital which restores the balance sheet to a positive net asset position.

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

v) 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. Where a change in the number of ordinary shares on issue without a corresponding change in recognised resources during the year the number of ordinary shares for all periods presented are correspondingly adjusted as if the event had occurred at the beginning of the earliest period presented.

Diluted earnings per share

Diluted earnings per share adjusts 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. Where a change in the number of ordinary shares on issue without a corresponding change in recognised resources during the year the number of ordinary shares for all periods presented are correspondingly adjusted as if the event had occurred at the beginning of the earliest period presented.

w) Comparatives

The comparative consolidated income statement, balance sheet, cash flow statement and statement of changes in equity and associated notes reflect Vita Medical Limited for the financial year ended 31 December 2005.

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 manufacture and sale of medical diagnostic equipment and radiopharmaceuticals.

(b) Geographical segment

The consolidated entity operates in the regions identified in Note 3 (c).

(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.

3. Segment Reporting Continued

Consolidated For the year ended 31 December 2006	Australia $	Europe $	Canada $	Asia $	Other $	Total $
Revenue						
Sales to external customers	1,807,130	7,000,494	947,086	418,757	158,365	10,331,832
Finance revenue	10,856	—	—	—	—	10,856
Total segment revenue	**1,817,986**	**7,000,494**	**947,086**	**418,757**	**158,365**	**10,342,688**
Result						
Segment results	521,588	1,293,432	345,057	112,191	67,039	2,339,307
Profit before income tax						**2,339,307**
Income tax expense						(311,327)
Net profit for the year						**2,027,980**
Assets and liabilities						
Segment assets	4,217,200	4,381,106	607,940	—	—	9,206,246
Segment liabilities	(8,419,977)	(1,295,246)	(57,083)	—	—	(9,772,306)
Other segment information						
Capital expenditure	(17,696)	—	—	—	—	(17,696)
Depreciation	(65,378)	(1,910)	(846)	—	—	(68,134)
Amortisation	(29,817)	—	—	—	—	(29,817)

Consolidated For the year ended 31 December 2005	Australia $	Europe $	Canada $	Asia $	Other $	Total $
Revenue						
Sales to external customers	1,770,918	5,480,127	1,115,170	311,507	128,530	8,806,252
Finance revenue	210,475	—	—	—	—	210,475
Other income	109,070	—	—	—	—	109,070
Total segment revenue	**2,090,463**	**5,480,127**	**1,115,170**	**311,507**	**128,530**	**9,125,797**
Result						
Segment results	600,652	1,237,745	651,693	91,104	88,126	2,669,320
Discontinued operations (Nil revenue)						(345,491)
Profit before income tax						**2,323,829**
Income tax expense						(687,066)
Net profit for the year						**1,636,763**
Assets and liabilities						
Segment assets	980,162	3,871,438	650,458	—	—	5,502,058
Segment liabilities	(1,466,921)	(1,020,743)	31,413	—	—	2,456,251
Other segment information						
Capital expenditure	(90,321)	—	—	—	—	(90,321)
Depreciation	(54,769)	(7,467)	(656)	—	—	(62,892)
Amortisation	(15,677)	(309)	—	—	—	(15,986)

Notes
Continued

4. Revenues and Expenses

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
4. Revenue					
Sales revenue		10,331,832	8,806,252	—	—
Interest revenue	4a	10,856	210,475	—	—
Realised foreign exchange gains		—	109,070	—	—
Total income		**10,342,688**	**9,125,797**	—	—
a) Interest revenue					
Related entities		—	195,669	—	—
Other person		10,856	14,806	—	—
		10,856	**210,475**	—	—
4. Expenses					
b) Cost of sales					
Cost of materials		**(2,757,439)**	**(2,027,960)**	—	—
c) Finance costs					
Interest on loans from external parties		(249,402)	(12,354)	(71,092)	—
Interest on loans to related parties		(37,455)	(41,225)	(163,427)	—
Total finance costs		**(286,857)**	**(53,579)**	**(234,519)**	—
d) Depreciation and amortisation					
Leased plant & equipment		(6,712)	(15,677)	—	—
Plant and equipment		(62,246)	(62,892)	—	—
Leasehold improvements		(5,888)	(309)		
Amortisation of intangibles		(23,105)	—	—	—
		(97,951)	**(78,878)**	—	—
e) Research & development					
Other		(20,162)	(31,571)	—	—
		(20,162)	**(31,571)**	—	—
f) Significant expenses					
The following significant expense items are relevant in explaining the financial performance:					
Loss on transfer of wholly controlled entity, Tetley Treadmills Pty Limited, to ultimate parent entity		—	**(345,491)**	—	—

5. Income Tax

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Current income tax income (expense)	(453,896)	(627,304)	106,973	—
Deferred tax income (expense)	142,569	(59,762)	—	—
Income tax reported in income statement	**(311,327)**	**(687,066)**	**106,973**	—
A reconciliation of income tax income (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 is as follows:				
Accounting profit (loss) before income tax	**2,339,307**	**2,669,320**	**(298,773)**	—
Statutory income tax rate of 30%	(701,792)	(800,796)	89,632	—
Expenditure not allowable for income tax purposes	(12,531)	(92,604)	(233)	—
Share issue costs taken directly to equity	18,774	—	18,774	—
Effects of lower rates on overseas income	247,896	173,492	—	—
Income tax under/(over) provided in prior year	—	—	(1,200)	—
Tax expense offset against carry forward tax losses	64,251	32,842	—	—
Tax losses not recognised in foreign subsidiaries	72,075	—	—	—
Total income tax	**(311,327)**	**(687,066)**	**106,973**	—
Effective income tax rate	(13.3%)	(25.7%)	(35.8%)	0.0%
Current tax liabilities				
Current income tax liability	**197,745**	**41,732**	—	—
Deferred tax assets/liabilties				
Deferred tax assets relate to the following:				
Deferred tax assets from temporary differences on:				
Provisions	97,340	90,015	—	—
Tax losses of parent entity brought to account	108,173	—	108,173	—
Tax payable transferred from subsidiary	(64,251)	—	(64,251)	—
Other	3,632	2,887	—	—
Total deferred tax assets	**144,894**	**92,902**	**43,922**	—
Deferred tax liabilities from temporary differences on:				
Capitalised expenditure	255,979	60,656	—	—
Other	—	2,858	—	—
Total deferred tax liabilities	**255,979**	**63,514**	—	—

6. Earning Per Share

	Consolidated 2006 $	2005 $
Net profit attributable to equity holders from continuing operations	2,027,980	1,982,254
Loss attributable to equity holders from discontinued operations	—	(345,491)
Minority interest	—	(54,734)
Net profit attributable to equity holders of the parent	**2,027,980**	**1,582,029**
	Number	**Number**
Weighted average number of ordinary shares for basic earnings per share	108,555,494	106,666,667

AASB 133 Earnings Per Share requires the weighted average number of ordinary shares be adjusted for events that change the number of ordinary shares on issue without a corresponding change in recognised resources for all periods presented. On 1 January 2006 the issued capital of Cyclopharm was converted from 10 shares to 106,666,667. The 31 December 2005 comparative year weighted average number of shares has been adjusted to reflect the conversion as if it had occurred at the beginning of the earliest period presented.

On 11 January 2007, the company issued 23,394,949 new shares pursuant to its successful listing on the Australian Stock Exchange.

	cents	cents
Basic earnings per share for continuing operations	1.87	1.81
Basic earnings per share for discontinued operations	—	(0.32)
Basic earnings per share	1.87	1.48
Diluted earnings per share	1.87	1.48

7. Cash and Cash Equivalents

	Consolidated		Parent	
	2006	2005	2006	2005
	$	$	$	$
Cash at bank and in hand	1,403,328	152,552	620,845	—
Total cash and cash equivalents	**1,403,328**	**152,552**	**620,845**	—

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

The fair value of cash equivalents is $1,403,328 (2005:$152,552).

Reconciliation of Cash Flow Statement

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise the following:

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Cash at bank and in hand	1,403,328	152,552	620,845	—
	1,403,328	**152,552**	**620,845**	—

(a) Reconciliation of net profit after tax to net cash flows from operations

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Net profit after tax	**2,027,980**	**1,636,763**	**(191,800)**	—
Adjustments for non-cash income and expense items:				
Depreciation	68,134	63,201	—	—
Amortisation	29,817	15,677	—	—
Movement provision for doubtful debts	(70,478)	(35,521)	—	—
Movement provision for employee benefits	66,917	(1,726)	—	—
Movement provision for warranties	(7,500)	—	—	—
FDA expenses written off	—	81,544	—	—
Movement in related party loan balance resulting from transfer of tax liability	—	—	(63,051)	—
Movement in other provisions	55,000	(17,153)	—	—
	2,169,870	**1,742,785**	**(254,851)**	—
Increase/decrease in assets and liabilities:				
(Increase) / decrease in receivables	(237,428)	(146,949)	(16,305)	—
(Increase) / decrease in inventories	(796,135)	(128,029)	—	—
(Increase) / decrease in other assets	(539,661)	(15,195)	—	—
(Increase) / decrease in deferred tax assets	(51,992)	(2,204)	(43,922)	—
Increase / (decrease) in related party loans	318,940	(204,564)	—	—
Increase / (decrease) in creditors	(42,978)	249,973		—
Increase / (decrease) in current tax liabilities	156,013	(87,748)	—	—
Increase / (decrease) in deferred tax liabilities	192,465	62,458	—	—
Net cash from operating activities	**1,169,094**	**1,470,527**	**(315,078)**	—

8. Trade and Other Receivables

	Consolidated		Parent	
	2006	2005	2006	2005
	$	$	$	$
Current				
Trade receivables, third parties	3,013,604	2,776,176	—	—
Provision for impairment	(378,215)	(448,693)	—	—
	2,635,389	2,327,483	—	—
Other receivables	958,339	234,763	16,326	10
	3,593,728	2,562,246	**16,326**	10
Non-current				
Loans to related parties	145,830	—	1,307,458	—

Terms and conditions
Terms and conditions relating to the above financial instruments:
(i) Trade receivables are non-interest bearing and generally on 30 and 60 day terms.
(ii) Other debtors are non-interest bearing and have repayment terms between 30 and 90 days.
(iii) Related party receivables details are set out in the Note 19 Related party disclosures.

9. Inventories

	Consolidated		Parent	
	2006	2005	2006	2005
	$	$	$	$
Raw materials at cost	1,036,652	552,278	—	—
Finished goods at lower of cost or net realisable value	976,836	665,075	—	—
	2,013,488	1,217,353	—	—

10. Property, Plant and Equipment

Consolidated Year ended 31 December 2006	Leasehold improvements $	Plant and Equipment $	Leased Plant and Equipment $	Capital Work in Progress $	Total $
1 January 2006 (at written down value)	34,918	1,046,143	7,465	—	1,088,526
Additions	—	—	—	16,200	16,200
Disposals	7,338	(189,983)	—	—	(182,645)
Depreciation for the year	(5,888)	(62,246)	(6,712)	—	(74,846)
31 December 2006 (at written down value)	**36,368**	**793,914**	**753**	**16,200**	**847,235**
1 January 2006					
Cost value	198,851	1,748,356	156,590	—	2,103,797
Accumulated depreciation	(163,933)	(702,213)	(149,125)	—	(1,015,271)
Net carrying amount	**34,918**	**1,046,143**	**7,465**	—	**1,088,526**
31 December 2006					
Cost value	206,189	1,955,227	146,210	16,200	2,323,826
Accumulated depreciation	(169,821)	(1,161,312)	(145,457)	—	(1,476,590)
Net carrying amount	**36,368**	**793,914**	**753**	**16,200**	**847,235**

The net carrying value of plant and equipment held under finance lease contracts at 31 December 2006 is $0 (2005: $7,465).
Leased assets are pledged as security for the related finance lease.

Consolidated Year ended 31 December 2005	Leasehold improvements $	Plant and Equipment $	Leased Plant and Equipment $	Total $
1 January 2005 (at written down value)	40,769	1,568,234	23,142	1,632,145
Additions	—	90,012	—	90,012
Disposals	(5,542)	(549,211)	—	(554,753)
Depreciation / amortisation for the year	(309)	(62,892)	(15,677)	(78,878)
31 December 2005 (at written down value)	**34,918**	**1,046,143**	**7,465**	**1,088,526**
1 January 2005				
Cost value	198,850	2,494,435	156,590	2,849,875
Accumulated depreciation	(158,081)	(926,201)	(133,448)	(1,217,730)
Net carrying amount	**40,769**	**1,568,234**	**23,142**	**1,632,145**
31 December 2005				
Cost value	198,851	1,748,356	156,590	2,103,797
Accumulated depreciation	(163,933)	(702,213)	(149,125)	(1,015,271)
Net carrying amount	**34,918**	**1,046,143**	**7,465**	**1,088,526**

The net carrying value of plant and equipment held under finance lease contracts at 31 December 2005 is $7,465 (2004: $23,412).
Leased assets are pledged as security for the related finance lease.

11. Other Financial Assets

	Consolidated		Parent	
	2006	2005	2006	2005
	$	$	$	$
Investments in controlled entities	—	—	6,064,863	—
Total investments	—	—	**6,064,863**	—

Refer to Note 19 Related party disclosures for details of subsidiary names, locations and ownership interests.

12. Intangible Assets

	Intellectual property	Technegas Development	FDA Development	Software	Total
Consolidated	$	$	$	$	$
Balance at 1 January 2006	**2,379**	**202,185**	—	—	**204,564**
Arising during the year	59,220	75,080	599,103	142,881	876,284
Amortisation	—	(23,105)	—	—	(23,105)
Balance at 31 December 2006	**61,599**	**254,160**	**599,103**	**142,881**	**1,057,743**
31 December 2006					
Non-Current	61,599	254,160	599,103	142,881	1,057,743
Total	**61,599**	**254,160**	**599,103**	**142,881**	**1,057,743**
31 December 2005					
Non-Current	2,379	202,185	—	—	204,564
Total	**2,379**	**202,185**	—	—	**204,564**

The recoverable amount of FDA development costs have been determined on a discounted cash flow methodology based on three years of pre-tax cash flows.

The following describes each key assumption on which management has based its value in use calculations:
(a) Three year pre tax cash flow projections, based upon management approved budgets covering a one year period, with the subsequent periods based upon management expectations of growth excluding the impact of possible future acquisitions, business improvement capital expenditure and restructuring.
(b) The discount factor used was 12.0% in 2006.

The directors have concluded that the recoverable amount of the FDA development costs exceeds its carrying value.

13. Trade and Other Payables

	Consolidated		Parent	
	2006	2005	2006	2005
	$	$	$	$
Trade payables, third parties	1,155,063	1,094,297	22,366	—
Other payables and accruals	390,095	493,838	38,369	—
Non interest bearing loan, related party	1,102,065	—	1,102,065	—
Total trade and other payables	**2,647,223**	**1,588,135**	**1,162,800**	—

Terms and conditions

Terms and conditions relating to the above financial instruments:
(i) Trade payables are non-interest bearing and are normally settled on 30-60 day terms.
(ii) Other payables and accruals are non-interest bearing and have an average term of 4 months.
(iii) The non-interest bearing loan, related party loan is payable when called upon.
Further details are set out in the Note 19 Related party disclosures.

14. Interest Bearing Loans and Borrowings

		Consolidated		Parent	
		2006	2005	2006	2005
	Notes	$	$	$	$
Current					
Bank loan - secured	14(b)	725,000	—	725,000	—
Related party loan - unsecured	14(c)	621,893	518,705	—	—
Finance lease liability - secured	18(b)	—	9,116	—	—
Interest bearing loans and borrowings (current)		**1,346,893**	527,821	**725,000**	—
Non-current					
Bank loan - secured	14(b)	4,975,000	—	4,975,000	—
Interest bearing loans and borrowings (non-current)		**4,975,000**	—	**4,975,000**	—
Total interest bearing loans and borrowings		**6,321,893**	527,821	**5,700,000**	—

14. Interest Bearing Loans and Borrowings (continued)

(a) Financing facilities available:

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

		Consolidated		Parent	
		2006	2005	2006	2005
	Notes	$	$	$	$
Total facilities available:					
interest bearing loans, related parties		621,893	518,705	—	—
non interest bearing loans, related parties		1,102,065	—	1,102,065	—
secured bank loans, third party		6,000,000	—	6,000,000	—
lease facility		—	9,116	—	—
		7,723,958	**527,821**	**7,102,065**	—
Facilities used at reporting date:					
interest bearing loans, related parties	14	621,893	518,705	—	—
non interest bearing loans, related parties	13	1,102,065	—	1,102,065	—
secured bank loans, third party	14	5,700,000	—	5,700,000	—
lease facility	18b	—	9,116	—	—
		7,423,958	**527,821**	**6,802,065**	—
Facilities unused at reporting date:					
interest bearing loans, related parties		—	—	—	—
non interest bearing loans, related parties		—	—	—	—
secured bank loans, third party		300,000	—	300,000	—
lease facility		—	—	—	—
		300,000	—	**300,000**	—
Total facilities		7,723,958	527,821	7,102,065	—
Facilities used at reporting date:		(7,423,958)	(527,821)	(6,802,065)	—
Facilities unused at reporting date:		**300,000**	—	**300,000**	—

(b) Secured Bank Loan

This loan has been drawn down under a 5 year multi-option facility (MOF) provided by the National Australia Bank. The facility is secured by a first registered mortgage debenture over Cyclopharm Limited and a guarantee and indemnity for $6,000,000 from Cyclomedica Australia Pty Ltd, Cyclomedica Germany GmbH, Cyclomedica Canada Limited, Cyclomedica Europe Ltd, Allrad No. 28 Pty Ltd and Allrad No. 29 Pty Ltd. Supported by First Registered Debenture charges over these companies.

(c) Related Party Loans

The related party loan of $621,893 is interest bearing with an annual interest rate of 6.5%. All other related party loans and borrowings are non-interest bearing.

15. Provisions

Consolidated	Employee Entitlements $	Warranty provision $	Other $	Total $
Balance at 1 January 2006	**197,549**	**7,500**	**30,000**	**235,049**
Arising during the year	106,988	—	55,000	161,988
Utilised	(40,071)	(7,500)	—	(47,571)
Balance at 31 December 2006	**264,466**	**—**	**85,000**	**349,466**
31 December 2006				
Current	143,697	—	85,000	228,697
Non-Current	120,769	—	—	120,769
Total	**264,466**	**—**	**85,000**	**349,466**
Number of employees				
Number of employees at year end	31			
31 December 2005				
Current	108,943	7,500	30,000	146,443
Non-Current	88,606	—	—	88,606
Total	**197,549**	**7,500**	**30,000**	**235,049**
Number of employees				
Number of employees at year end	23			

Other provisions consist of year end audit fees accrual of $60,000 and a distributor commission of $25,000.

16. Contributed Equity

	Notes	2006 Number	2005 Number	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Issued and paid up capital							
Ordinary shares	(a)	112,317,667	5,132,627	6,515,030	5,132,627	1,382,414	10
Other contributed equity	(b)	—	—	(5,277,327)	1,294,724	—	—
Total issued and paid up capital		**112,317,667**	**5,132,627**	**1,237,703**	**6,427,351**	**1,382,414**	**10**
Ordinary shares							
(a) Issued and paid up capital							
Balance at the beinning of the year		10	5,132,627	5,132,627	5,132,627	10	—
Conversion of ordinary share capital in January 2006*		106,666,657	—	—	—	—	
Issue of 5,651,000 ordinary shares at $0.30 in September 2006**		5,651,000	—	1,695,300	—	1,695,300	10
Capital raising costs		—	—	(312,897)	—	(312,896)	—
Balance at end of year		**112,317,667**	**5,132,627**	**6,515,030**	**5,132,627**	**1,382,414**	**10**
(b) Other contributed equity							
Balance at the beginning of the year		—	—	1,294,724	848,412	—	—
Adjustment arising from transfer of tax benefits to ultimate parent entity		—	—	—	446,312	—	—
Acquisition of minority interests in controlled entities		—	—	(6,572,051)	—	—	—
Balance at end of year		—	—	**(5,277,327)**	**1,294,724**	—	—

*On 1 January 2006, Cyclopharm split its 10 ordinary shares on issue to 106,666,667 ordinary shares.
**Cyclopharm by way of a placement allotted 5,651,000 new ordinary shares at $0.30 each during September 2006 raising $1,695,300.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

17. Financial Risk Management Objectives

The Group's principal financial instruments comprise bank loans and overdrafts, finance leases and 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 assets and liabilities such as trade receivables and trade payables, 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 cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 Summary of Significant Accounting Policies.

Consolidated		Weighted average	Non interest	Floating	Fixed interest maturing in		More than	Total
Year ended 31 December 2006	Notes	interest rate %	bearing	interest rate	1 year or less	1 to 5 years	5 years	
Financial Assets								
Cash and cash equivalents	7	4.15%	—	1,403,328	—	—	—	1,403,328
Receivables	8	n/a	3,593,728	—	—	—	—	3,593,728
Total Financial Assets			**3,593,728**	**1,403,328**	—	—	—	**4,997,056**
Financial Liabilities								
Trade payables, third parties	13	n/a	1,545,157	—	—	—	—	1,545,157
Non interest bearing loans, related parties	13	n/a	1,102,065	—	—	—	—	1,102,065
Interest bearing loans, related parties	14	6.50%	—	—	621,893	—	—	621,893
Secured bank loans, third party	14	6.35%	—	—	725,000	4,975,000	—	5,700,000
Employee entitlements	15	n/a	264,466	—	—	—	—	264,466
Total Financial Liabilities			**2,911,688**	—	**1,346,893**	**4,975,000**	—	**9,233,581**

Consolidated		Weighted average	Non interest	Floating	Fixed interest maturing in		More than	Total
Year ended 31 December 2005	Notes	interest rate %	bearing	interest rate	1 year or less	1 to 5 years	5 years	
Financial Assets								
Cash and cash equivalents	7	4.50%	—	152,552	—	—	—	152,552
Receivables	8	n/a	2,562,246	—	—	—	—	2,562,246
Total Financial Assets			**2,562,246**	**152,552**	—	—	—	**2,714,798**
Financial Liabilities								
Payables	13	n/a	1,588,135	—	—	—	—	1,588,135
Interest bearing loans, related parties	14	6.50%	—	—	—	518,705	—	518,705
Obligations under finance leases	18b	10.05%	—	—	9,116	—	—	9,116
Employee entitlements	15	n/a	197,549	—	—	—	—	197,549
Total Financial Liabilities			**1,785,684**	—	**9,116**	**518,705**	—	**2,313,505**

17. Financial Risk Management Objectives (continued)

(a) Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

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

(b) Credit risk

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant unprovided concentrations of credit risk within the Group. Since the Group trades only with recognised third parties, there is no requirement for collateral.

(c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans from related parties and finance leases contracts.

(d) Commodity price risk

The Group's exposure to commodity price risk is minimal.

(e) Foreign currency risk

As a result of significant investment operations in Europe, the Group's balance sheet can be affected significantly by movements in the EURO / A$ exchange rates. The Group does not hedge this exposure.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 80% of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 55% of costs are denominated in the unit's functional currency.

		Consolidated		Parent	
		2006	2005	2006	2005
	Notes	$	$	$	$
United States dollars					
Amounts payable		147,506	28,900	—	—
Amounts receivable		20,500	15,016	—	—
Euros					
Amounts payable		270,007	764,059	—	—
Amounts receivable		2,463,195	2,048,327	—	—
					—
Canadian dollars					
Amounts payable		—	—	—	—
Amounts receivable		225,012	446,664	—	—

Fair values

All of the Group's financial instruments recognised in the balance sheet have been assessed as at fair values.

18. Commitments

(a) Operating lease commitments

The Group has entered into commercial leases on certain buildings. These leases have an average life of between 3 years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. The Group also has entered into commercial leases on motor vehicles that have an average life of approximately 3 to 5 years.

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

	Consolidated		Parent	
	2006	2005	2006	2005
	$	$	$	$
Operating Lease Commitments				
Minimum lease payments				
Not later than one year	177,365	126,420	—	—
Later than 1 year & not later than 5 years	646,395	537,844	—	—
Total operating lease commitments	**823,760**	**664,264**	—	—
Operating lease expenses recognised as an expense during the period:	**126,240**	**126,240**	—	—

(b) Finance lease commitments

The Group had finance leases for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

		Consolidated		Parent	
		2006	2005	2006	2005
	Notes	$	$	$	$
Finance lease commitments					
Minimum lease payments					
Not later than one year		—	10,320	—	—
Total minimum lease payments		—	**10,320**	—	—
Less amounts representing finance charges		—	(1,204)	—	—
Present value of minimum lease payments		—	**9,116**	—	—
Finance lease liability:					
Current liability	14	—	9,116	—	—
Total lease liability		—	**9,116**	—	—

The weighted average interest rate impact in the leases for both the Group and the Parent is 0% (2005: 10.05%).

(c) Capital commitments

The Group and Company does not have any capital commitments contracted for at reporting date not recognised as liabilities.

19. Related Party Disclosures

The consolidated financial statements include the financial statements of Cyclopharm and the subsidiaries as stated under the Controlled Entities note.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to Note 8 Trade and other receivables, Note 13 Trade and other payables and Note 14 Interest bearing loans and borrowings):

		Sales to related parties	Purchases from related parties	Other transactions with related parties	Dividend paid to related party	Amounts owed by related parties	Amounts owed to related parties
Consolidated		$	$	$	$	$	$
Vita Life Sciences Limited	2006	—	—	6,572,051	694,460	145,830	1,723,958
	2005	—	—	—	4,269,871	—	518,705
CVC Venture Managers Pty Ltd	2006	—	—	365,963	—	—	—
	2005	—	—	—	—	—	—
VA Consulting Pty Ltd	2006	—	—	19,983	—	—	—
	2005	—	—	—	—	—	—
Cyclopharm Laboratoires SA	2006	2,499,500	—	695,915	—	1,179,381	189,714
	2005	1,703,160	—	535,505	—	801,466	400,555
Parent							
Vita Life Sciences Limited	2006	—	—	6,064,863	—	—	1,102,065
	2005	—	—	—	—	—	—
CVC Venture Managers Pty Ltd	2006	—	—	365,963	—	—	—
	2005	—	—	—	—	—	—
VA Consulting Pty Ltd	2006	—	—	19,983	—	—	—
	2005	—	—	—	—	—	—

19. Related Party Disclosures (continued)

Ultimate parent entity

Cyclopharm Limited is the ultimate parent entity in the wholly owned group.

Terms and conditions of transactions with related parties

On 19 April 2006, shareholders of Vita Life Sciences Limited approved the restructure and sale of companies making up the present Cyclopharm group to Cyclopharm. At that meeting approval was also given to pay a fee to a related party, CVC Venture Managers Pty Limited for successfully completing the transaction. In accordance with shareholder approvals and in line with estimates of fees payable, CVC Venture Managers 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 and Vita Life Sciences Limited respectively which is in line approvals obtained at shareholder meetings. For further details on the acquisition of minority interests ($6,572,071) refer to Note 2 (t) Contributed Equity. During the year payments were made to VA Consulting Pty Ltd (an entity controlled by Mr Sharman) and CVC Venture Managers (an entity of which Mr Sharman is a Non-Executive Director) of ($47,233) in relation to Mr Sharman's (Managing Director) consultancy.

Cyclomedica Europe and Cyclomedica Ireland (formerly Vitamedica Europe), both wholly owned subsidiaries of Cyclopharm have ongoing agreements with Cyclopharma Laboratoires SA (CLSA) (a director related entity of Dr Bernard Salin) for regulatory, distribution, technical and manufacturing services. These agreements were in place prior to Professor Bernard Salin joining the Board of Directors of Cyclopharm. Total payments made to CLSA for the year ended 31 December 2006 were ($695,915) comprised of ($158,346) for European regulatory services, ($370,751) for manufacturing services to meet European requirements; and ($166,818) for technical services. Sales to CLSA of Technegas generators and consumables are made at commercial rates and terms.

Controlled Entities

	Note	Country of Incorporation	Percentage of equity interest held 2006	2005
Cyclopharm Limited	1,2	Australia		
Controlled entities				
Cyclomedica Australia Pty Limited	2	Australia	100%	100%
Cyclomedica Ireland Limited (formerly Vitamedica Europe Limited)	3	Ireland	100%	100%
Cyclomedica Europe Limited	3	Ireland	100%	50%
Cyclomedica Germany GmbH	5	Germany	100%	100%
Cyclomedica Canada Limited (formerly Vita Medical Canada Limited)	4	Canada	100%	100%
Allrad No 28. Pty Ltd	2	Australia	100%	100%
Allrad No 29. Pty Ltd	2	Australia	100%	100%

Notes
1. Cyclopharm Limited is the ultimate parent entity in the wholly owned group.
2. Audited by Russell Bedford NSW, Australia.
3. Audited by HLB Nathans, Republic of Ireland.
4. Audited by Schwartz Levitsky & Feldman & LLP, Toronto, Canada.
5. Audited by Bilzanzia GmbH Wirtschaftsprufungsgesellschaft, Germany

20. Events after the Balance Sheet Date.

Initial Public Offering and listing on the Australian Stock Exchange

On 11 January 2007, Cyclopharm completed its IPO raising $6,427,304 (after offer costs) issuing 23,394,949 new shares and welcomed 440 new shareholders. Cyclopharm was admitted to the official list of the Australian Stock Exchange on 18 January 2007. These monies were raised to part fund the balance of costs associated with the Company's application to the US Food & Drug Administration (FDA) to facilitate the sale of Technegas in the USA, to provide the working capital and to part fund capital investment required to establish three PET central pharmacies in Australia.

Shareholdings

During the IPO Cyclopharm's former controlling shareholder Vita Life Sciences Limited sold 13,271,719 shares in Cyclopharm at $0.30 each which reduced Vita Life Science Limited's ownership in Cyclopharm from 11.8% at November 2006 to 0%.

Borrowings

On 18 January 2007, Cyclopharm temporarily repaid $5,700,000 of its debt facility with the National Australia Bank from the proceeds raised from the IPO. On 25 January 2007, a wholly owned subsidiary of Cyclopharm, Cyclomedica Europe Limited repaid an outstanding loan of $621,893 to Vita Life Sciences Limited. On 25 January 2007 Cyclopharm reimbursed Vita Life Sciences Limited for its share of restructure and IPO costs of $582,777 in accordance with approvals obtained from shareholders.

21. Auditor's Remuneration

The following total remuneration was received, or is due and receivable, by auditors of the Company in respect of:

	Consolidated		Parent	
	2006	2005	2006	2005
	$	$	$	$
Amounts received or due and receivable by Russell Bedford NSW and antecedent firm for:				
Audit of the financial statements	60,000	36,000	—	—
	60,000	**36,000**	—	—
Amounts received or due and receivable by auditors other than Russell Bedford NSW for:				
Audit of the financial statements	67,959	58,389	—	—
Other services	7,675	4,843		
	75,634	**63,232**	—	—
Total auditors' remuneration	**135,634**	**99,232**	—	—

22. Director and Key Management Personnel Disclosure

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'.

Directors' Declaration

In the opinion of the directors of Cyclopharm Limited:

1 (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) The remuneration disclosures that are contained in the Remuneration Report on pages 16 to 17 of the Directors' Report comply with the Australian Accounting Standard AASB 124 Related Party Disclosures; and

(c) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2006.

Dated at Melbourne this 22nd day of March 2007.

Signed in accordance with a resolution of the directors:

John Sharman
Managing Director

Russell Bedford
New South Wales

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Independent Audit Report

To The Members of Cyclopharm Limited

Scope

The financial report 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 Cyclopharm 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.

The company has disclosed the information required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 Related Party Disclosure (remuneration disclosures), under the heading 'Remuneration Report' on pages 16 to 17 of the Directors' Report, as permitted by the Corporations Regulation 2M.6.04.

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 the remuneration disclosures contained in the Directors Report.

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 the remuneration disclosures 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 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, 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 Cyclopharm 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 16 to 17 of the Directors' Report comply with Accounting Standard AASB 124 Related Party Disclosures.

RUSSELL BEDFORD NSW

Chartered Accountants

GREGORY C RALPH, M.COM, FCA
Partner

Sydney, 22 March 2007

ASX Additional Information

The following information is current at 28 February 2007

A. Substantial Shareholders

The following have advised that they have a relevant interest in the capital of Cyclopharm Limited. The holding of a relevant interest does not infer beneficial ownership. Where two or more parties have a relevant interest in the same shares, those shares have been included for each party.

Shareholder	No. of ordinary shares held	Percentage held of issued ordinary capital
Stinoc Pty Limited (a subsidiary of CVC Ltd)	14,980,991	13.34%
Barleigh Wells Limited	13,894,952	12.37%
Normandy Finance & Investments Limited and Associates	12,463,363	11.10%
Chemical Trustee Limited	11,436,142	10.18%
Lloyds & Casanove Investment Partners Limited	8,038,295	7.16%

B. Distribution of Equity Security Holders

(i) Analysis of numbers of equity security holders by size of holding as at 28 February 2006:

Category	Ordinary Shareholders
1 - 1,000	31
1,001 - 5,000	424
5,001 - 10,000	277
10,001 - 100,000	623
100,001 and over	102
Total	**1,457**

C. Equity Security Holders

Twenty largest quoted equity security holders	Number held	Percentage of issued shares*
1 Stinoc Pty Limited	14,980,991	11.04%
2 Barleigh Wells Limited	13,894,952	10.24%
3 Chemical Trustee Limited	11,436,142	8.43%
4 Lloyds & Casanove Investment Partners Limited	8,038,295	5.92%
5 Normandy Finance & Investments Asia Limited	6,512,057	4.80%
6 Normandy Nominees Ltd	4,912,107	3.62%
7 Indo-Suez Investments Limited	4,370,522	3.22%
8 ANZ Nominees Limited	3,894,044	2.87%
9 Hua Wang Bank Berhad	2,637,750	1.94%
10 John Sharman	2,484,755	1.83%
11 Derrin Brothers Properties Limited	2,307,275	1.70%
12 Southgate Investments Funds Limited	2,000,000	1.47%
13 Rbc Dexia Investor Services Australia Nominees Pty Ltd	2,000,000	1.47%
14 Siew Kuen Goh	1,666,600	1.23%
15 Universal Trustee (Malaysia) Bhd	1,510,580	1.11%
16 Sandhurst Trustees Ltd	1,400,000	1.03%
17 OCI Construction Limited	1,406,054	1.04%
18 Abasus Investments Limited	1,042,080	0.77%
19 City & Westminister Limited	1,022,777	0.75%
20 Glen Nominees Limited	1,012,199	0.75%
	87,516,981	**64.49%**

*Cyclopharm issued 23,394,949 new shares on 11 January 2007 increasing issued shares to 135,712,616.

D. Voting Rights

The Company's constitution details the voting rights of members and states that every member, present in person or by proxy, shall have one vote for every ordinary share registered in his or her name.

General Information

Directors

Vanda Gould
Non-Executive Chairman

John Sharman
Managing Director

David Heaney
Non-Executive Director

Bernard Salin
Non-Executive Director

Henry Townsing
Non-Executive Director

Company Secretary

William Richardson

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Solicitors

Piper Alderman
Level 24, 385 Bourke Street
Melbourne VIC 3000

Stock Exchange Listing

The ordinary shares of Cyclopharm Limited are listed on the Australian Stock Exchange Ltd (code: CYC).

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