VITA MEDICAL LIMITED

(ABN 46 002 141 504)

Vita Medical Limited and Controlled Entities

FINANCIAL REPORT

31 December 2005

Contents of Financial Report

Executive Report

Dear Shareholder,

As noted in the Vita Life Sciences Annual Report we are delighted to advise that all of the resolutions put to shareholders and note holders at the meetings held on 12 April 2006 were unanimously passed. The passing of these resolutions, and the subsequent restructure of the Cyclopharm group means that we are all reinvigorated by the opportunities in front of us. The Vita Medical group or Cyclopharm group, as it is now known, has a number of very good initiatives underway which will see this business develop and grow strongly over the next 12 to 18 months. The launch of the new TechnegasPlus generator coincides with the new corporate identity and this gives us the opportunity to renew market interest in our products.

As previously stated, we have now effected the separation of the Technegas business from Vita Health. As of the date of this report Cyclopharm has approximately 80 shareholders and is moving ahead with its various initiatives and is well prepared to expand its offerings into Cyclotrons and the production of various radioactive isotopes. As many shareholders will know, the recruitment of Dr Nabil Morcos as Chief Operating Officer & Director of Science is a very positive step for the group in this regard.

Financial Performance for 2005

The Vita Medical consolidated entity enjoyed a record sales result for the 2005 year. The overall profit after tax result was $1,582,028. The profit before tax from continuing activities was on par with last year at $2,669,320 (last year profit $2,773,894).

Operating performance

There were a number of operating highlights during 2005 which we believe put Cyclopharm in a good position to achieve solid growth in 2006 and beyond. The key highlights are outlined below.

1. During 2005, the consolidated entity was able to achieve record sales levels of $8.8 million AUD and "profit from continuing activities" was consistent to that of 2004, at $2.7 million.
2. After many years in the market, Vita Medical launched a new generator "TechnegasPlus" at the European nuclear medical conference in Istanbul in October 2005. This new generator has created substantial interest in the market and we are budgeting for strong growth both in terms of sales of PAS and new generators over the next two years.
3. The launch of TechnegasPlus allows us to focus on several of our key European markets and offer a much wider range of users access to our technology. In the first instance we intend to focus our efforts on expanding our market presence in Germany and the UK, where the size of the nuclear medical departments and the cost of the consumable can be addressed by placing refurbished machines into more sights. We expect the availability of refurbished machines to smaller users of the technology will generate growth in these large and mature markets.
4. Cyclopharm has applied for new patents in all our major markets which we expect to extend our intellectual property rights for a further 20 years.
5. Our Canadian market is still growing strongly. There are now currently 30 generators installed in hospitals in Canada and consumable (PAS) usage has again surged from 161 boxes in 2004 to 265 boxes in 2005 (65% increase).
6. Asian PAS usage has grown in line with our increased efforts in the region. Sales of PAS was up from 95 boxes in 2004 to 126 boxes in 2005 (growth of 33%) and 9 new generators were sold into Asian markets during the year.
7. During the year we successfully opened up new markets with 5 sales of generators achieved in South Africa and Uruguay. We are expecting that South Africa in particular could be an attractive market for us and we are budgeting for growth in this market in 2006.

Executive Report continued

8. Subsequent to the launch of TechnegasPlus, we have pre sales orders for 55 new machines. We expect that our manufacturing capability for TechnegasPlus machines will be outstripped by demand for at least the next 12 months.
9. We have recommenced the New Drug Application with the FDA in the United States and we are on track to complete the necessary patient studies during 2006 and early 2007

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

Cyclopharm for the 2006 year

In 2006 we expect to see continued expansion in Canada and Latin America. We are also looking to expand the European market by reorganizing management of our largest and important European markets and also source new sales in Eastern Europe. We are actively recruiting people to assist us in Europe and have taken over the direct distribution of our product in Germany. We expect that where appropriate, we will be in a position to directly market our product in other European countries.

During 2006 sales of consumables are expected to rise by approximately 5% with the majority of that growth being attributed to further market penetration in Canada and Europe. The new Technegas generator was introduced to the European market in October, 2005 at the European Association of Nuclear Medicine held in Istanbul, Turkey where the customer reaction to TechnegasPlus was an unqualified success. It is expected that sales growth in 2006 and 2007 will be driven by new customers and importantly old customers updating to the new model. We believe that the "replacement market" is in the region of 200 generators globally and we will seek to replace the majority of these old units over the next two years. The first build of pre sold machines left the factory on March, 2006 destined for markets in Europe.

FDA

The New Drug Application (aimed at getting Technegas approved for the USA) was officially re-activated in November, 2005 and clinical sites in Australia and Canada have been contracted to collect patient data. Our focus has shifted to patient studies in North America as we believe that the data collected in this region will be beneficial to our application. We have signed up 5 hospitals to conclude our trials, three Canadian hospitals being Toronto General, Memorial University, and CDHA Halifax as well as one Australian hospital, St George in Sydney and Royal Perth in Western Australia. Trial data is expected to be collated and presented to the FDA for examination by the end of the second quarter 2007 (although it must be noted that the progress of the trial is dependant as always on the availability of patients prepared to participate in the study). It is envisaged that Technegas will be introduced to the USA in late 2008 if FDA approval is obtained.

Research

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

New Business – Molecular Imaging

We announced during the Annual General Meeting on 6 July, that we have officially launched our new business division, Molecular Imaging. Our aim is to become a world class radiopharmaceutical company. Dr Nabil Morcos, formerly the head of research at ANSTO, and a world leading figure in the radiopharmaceutical industry has joined Cyclopharm as Chief Operating Officer & Director of Science. Dr Morcos will champion our push into Molecular Imaging.

Executive Report continued

Cyclopharm - Next steps

Over the next three to six months Cyclopharm intends to complete its listing on the Australian Stock Exchange Limited. In addition to our listing plans, are already talking to several investors about raising capital to fund our push into Molecular Imaging.

John Sharman
Director
10 November 2006

Director's Report

Your directors present their report on the company and its controlled entity for the financial year ended 31 December 2005.

Directors

The names of the directors in office at any time during, or since the end of, the year are:

Mr Henry Townsing
Mr John Sharman
Mr David Rundell (resigned 5 May 2006)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Financial Result

The consolidated financial year profit for the economic entity, after providing for income tax and eliminating outside equity interests, amounted to $1,582,028.

A review of the operations of the economic entity during the financial year and the results of those operations found that the changes in market demand and competition have seen a minor increase in sales of to $8,806,252.

Principal Activities

The principal activities of the economic entity during the financial year were the manufacture and sale of medical diagnostic equipment and pharmaceutical product (incorporating research and development).

No significant change in the nature of these activities occurred during the year.

Dividends

No dividend was paid by the company during the year, however dividends of $4,269,871 were paid by controlled entities directly to the ultimate parent entity during the year.

Significant Changes in State of Affairs

The directors comment on the following matters:

Cyclopharm group

Subsequent to balance date, Vita Medical Limited sold its assets and certain of its trading liabilities at book value to a related company, Vita Medical Australia Pty Ltd, with effect from 1 January 2006. No profit or loss was recorded on the transaction. Vita Life Sciences Limited sold certain of its subsidiary companies (which were formerly controlled and managed as part of the Vita Medical group) to a related company, Cyclopharm Limited with effect from 19 May 2006. These transactions were part of the restructure of the Technegas business which was formerly approved by shareholders during the General Meeting of Members on 12 April 2006.

Directors' Report continued

Matters subsequent to the end of the financial year

Meeting of Noteholders

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

Meeting of Shareholders

Vita Life Sciences Limited held a meeting of shareholders on 12 April 2006 wherein shareholders approved a set of resolutions which resulted in approval for:

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

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

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

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

Conversion of Noteholders' Entitlements to Vita Life and Cyclopharm Shares

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

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

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in future financial years.

Introduction of International Financial Reporting Standards

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS) for years commencing 1 January 2005, the company's financial report has been prepared in accordance with those standards including adjustments to the comparatives, as necessary.

Directors' Report continued

Legal matter

On 28 May 2006, the French court of Evry heard the case between MDS Nordion France and Vita Medical Limited. The verdict is expected in November 2006.

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

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

Environmental regulations

The economic entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Indemnification and Insurance of Directors and Officers

No indemnities have been given or insurance premiums paid, during or since the end of the financial year.

No person has applied for leave of Court to bring proceedings on behalf of the company or 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 any part of those proceedings.

The company was not a party to any such proceedings during the year.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the accounts) by reason of a contract made by the company or a related corporation with the director, with a firm of which he is a member, or a company in which he has a substantial voting interest other than as set out in Note 24 of the accounts.

In accordance with clause 29.1 of the Vita Life Sciences Limited constitution and section 199A of the Corporations Act 2001, the company has resolved to indemnify its directors and officers for a liability to a third party unless it arises out of conduct which is not in good faith. The indemnification of the directors and officers will extend for a period of at least 6 years in relation to events taking place during their tenure (unless the Corporations Act 2001 otherwise precludes this time frame of protection).The company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the company or any related body corporate.

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 10.

Dated in Sydney this 10th day of November 2006.

Signed in accordance with a resolution of the Board of Directors.

John Sharman
Director

Auditor's Independence Declaration

Gould
Ralph & Company
Chartered
Accountants

10 November 2006

The Board of Directors
Vita Medical Limited
Post Office Box 350
Menai Central NSW 2234

Dear Members of the Board,

AUDITORS INDEPENDENCE DECLARATION

This declaration is made in connection with our audit of the financial report of the consolidated entity consisting of Vita Medical Limited and the entities it controlled at the end of, or during, the year ended 31 December 2005 and in accordance with the provisions of the Corporations Act 2001.

We declare that to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001; and
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia;

in relation to this audit.

Yours faithfully,
GOULD RALPH & COMPANY

G C RALPH, M.COM, FCA
Partner

Income Statement
for the year ended 31 December 2005

		Consolidated		Parent	
		2005	2004	2005	2004
	Note	$	$	$	$
CONTINUING OPERATIONS					
Revenue	3	9,125,797	8,767,672	5,907,760	4,697,284
Raw materials and consumables used	4a	(2,027,960)	(1,759,266)	(1,747,318)	(1,291,069)
Employee benefits expense		(2,016,271)	(1,716,462)	(1,361,407)	(1,006,075)
Advertising and promotion expenditure		(66,706)	(111,170)	(44,076)	(21,487)
Depreciation and amortisation expenses	4a	(78,878)	(86,080)	(70,448)	(70,959)
Freight and duty expense		(282,864)	(180,997)	(140,510)	(32,819)
Finance costs	4a	(53,579)	(53,874)	(23,531)	(9,466)
Research and development expense	4a	(31,571)	(34,051)	(31,571)	(34,050)
Administration expense		(1,516,600)	(1,581,043)	(608,398)	(567,738)
Other expenses		(382,048)	(470,835)	(207,950)	(394,254)
Profit before income tax		**2,669,320**	**2,773,894**	**1,672,551**	**1,269,367**
Income tax (expense) / benefit	6a	(687,066)	(559,671)	(512,141)	(388,935)
Profit from continuing operations		**1,982,254**	**2,214,223**	**1,160,410**	**880,432**
DISCONTINUED OPERATIONS					
Loss from discontinued operations	4b	(345,492)	-	-	-
Profit for the period		**1,636,762**	**2,214,223**	**1,160,410**	**880,432**
Profit attributable to minority interest		(54,734)	(67,047)	-	-
Profit attributable to members of the parent		**1,582,028**	**2,147,176**	**1,160,410**	**880,432**

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

Balance Sheet
as at 31 December 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
ASSETS					
Current Assets					
Cash and cash equivalents	8	152,552	340,457	80,219	313,348
Receivables	9	2,562,246	2,278,864	1,618,372	1,317,974
Inventories	10	1,217,353	1,089,324	650,223	569,194
Prepayments		183,915	168,720	-	343
Total Current Assets		**4,116,066**	**3,877,365**	**2,348,814**	**2,200,859**
Non Current Assets					
Trade and other receivables	9	-	2,101,311	2,556,978	2,031,049
Deferred tax assets	6	92,902	90,698	92,902	90,698
Property, plant & equipment	11	1,088,526	1,632,145	542,858	407,719
Intangible assets	12	204,564	-	202,185	-
Total Non Current Assets		**1,395,992**	**3,824,154**	**3,394,923**	**2,529,466**
TOTAL ASSETS		**5,502,058**	**7,710,519**	**5,743,737**	**4,730,325**
LIABILITIES					
Current Liabilities					
Trade and other payables	13	1,588,135	807,033	640,538	516,385
Borrowings	14	9,116	9,758	123,871	9,758
Current tax liability	6	41,732	129,480	-	-
Provisions	16	146,443	166,309	146,443	141,156
Total Current Liabilities		**1,785,426**	**1,112,580**	**910,852**	**667,299**
Non Current Liabilities					
Borrowings	14	518,705	592,586	-	900,308
Deferred Tax Liabilities	6	63,513	1,055	63,513	1,055
Provisions	16	88,606	87,619	88,606	87,619
Total Non Current Liabilities		**670,824**	**681,260**	**152,119**	**988,982**
TOTAL LIABILITIES		**2,456,250**	**1,793,840**	**1,062,971**	**1,656.281**
NET ASSETS		**3,045,808**	**5,907,679**	**4,680,766**	**3,074,044**
EQUITY					
Contributed equity	17	6,427,351	5,981,039	6,427,351	5,981,039
Reserves	18	(624,412)	49,913	-	-
Retained profits/(accumulated losses)		(2,690,315)	(2,460)	(1,746,585)	(2,906,995)
Parent entity interests		3,112,624	6,028,492	4,680,766	3,074,044
Minority interests		(66,816)	(120,813)	-	-
TOTAL EQUITY		**3,045,808**	**5,907,679**	**4,680,766**	**3,074,044**

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

Cash Flow Statement
for the year ended 31 December 2005

		Consolidated		Parent	
		2005	2004	2005	2004
	Note	$	$	$	$
Cash flow from operating activities					
Receipts from customers		7,383,891	6,822,849	2,360,588	2,155,586
Payments to suppliers and employees		(5,780,680)	(4,879,199)	(5,071,086)	(3,686,388)
Interest received		9,750	19,690	10,360	14,715
Income tax received/(paid)		(142,434)	(250,524)	-	-
Other		-	207,141	-	-
Net cash flows from operating activities	8	**1,470,527**	**1,919,957**	**(2,700,138)**	**(1,516,087)**
Cash flows from investing activities					
Purchase of property, plant and equipment		(90,012)	(19,958)	(22,899)	(19,958)
Payments for research and development		(81,372)	-	(81,372)	-
Payments for deferred expenditure		-	(105,536)	-	(105,536)
Proceeds from sales of short term investments		-	20,176	-	20,176
Proceeds from sale of property, plant and equipment		-	54,160	-	37,300
Other		(38,542)	(797)	(40,216)	(797)
Net cash used in investing activities		**(209,926)**	**(51,955)**	**(144,487)**	**(68,815)**
Cash flows from / (used in) financing activities					
Other contributed equity from transferred tax liabilities		446,312	398,634	446,312	398,634
Repayment of borrowings		(1,894,818)	(2,207,770)	2,050,429	1,308,686
Net cash flows from/(used in) financing activities		**(1,448,506)**	**(1,809,136)**	**2,496,741**	**1,707,320**
Net increase (decrease) in cash and cash equivalents		**(187,905)**	**58,866**	**(347,884)**	**122,418**
Cash and cash equivalents at beginning of period		340,457	281,591	313,348	190,930
Cash and cash equivalents at end of period	8	**152,552**	**340,457**	**(34,536)**	**313,348**

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

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

	Share Capital $	Retained Earnings $	Minority Interests $	Reserves $	Total $
Consolidated					
Balance at 1 January 2004	5,582,405	(2,149,636)	(188,274)	(206,554)	3,037,941
Profit attributable to members of the parent entity	-	2,147,176	-	-	2,147,176
Profit attributable to minority Shareholders	-	-	67,047	-	67,047
Exchange difference on translation of foreign operations	-	-	-	256,467	256,467
Minority interest in share capital and reserves	-	-	414	-	414
Other contributed equity on transfer of current tax liability to ultimate parent	**398,634**				**398,634**
Balance at 31 December 2004	**5,981,039**	**(2,460)**	**(120,813)**	**49,913**	**5,907,679**
Balance at 1 January 2005	**5,981,039**	**(2,460)**	**(120,813)**	**49,913**	**5,907,679**
Profit attributable to members of the parent entity	-	1,582,028	-	-	1,582,028
Equity dividend	-	(4,269,871)	-	-	(4,269,871)
Profit attributable to minority Shareholders	-	-	54,734	-	54,734
Exchange difference on translation of foreign operations	-	-	-	(674,325)	(674,325)
Minority interest in share capital and reserves			(737)	-	(737)
Other	-	(12)	-	-	(12)
Other contributed equity on transfer of current tax liability to ultimate parent	**446,312**				**446,312**
Balance at 31 December 2005	**6,427,351**	**(2,690,315)**	**(66,816)**	**(624,412)**	**3,045,808**
Parent					
Balance at 1 January 2004	5,582,405	(3,787,427)	-	-	1,794,978
Profit attributable to members of the parent entity	-	880,432	-	-	1,269,367
Other contributed equity on transfer of current tax liability to ultimate parent	**398,634**				**398,634**
Balance at 31 December 2004	**5,981,039**	**(2,906,995)**	**-**	**-**	**3,074,044**
Balance at 1 January 2005	**5,981,039**	**(2,906,995)**	**-**	**-**	**3,074,044**
Profit attributable to members of the parent entity	-	1,160,410	-	-	1,160,410
Other contributed equity on transfer of current tax liability to ultimate parent	**446,312**				**446,312**
Balance at 31 December 2005	**6,427,351**	**(1,746,585)**	**-**	**-**	**4,680,766**

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

Notes to the Financial Statements

for the year ended 31 December 2005

1. CORPORATE INFORMATION

The financial report of Vita Medical Limited for the year ended 31 December 2005 was authorised for issue in accordance with a resolution of the Directors on 10 November 2006.

Vita Medical Limited is a company limited by shares and incorporated in Australia.

The nature of the operations and principal activities of the Group are the manufacture and sale of medical diagnostic equipment and associated consumables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

The financial report is presented in Australian dollars.

(b) Statement of compliance

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

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity accounts resulting from the introduction of Australian equivalents to IFRS have been applied retrospectively to prior year comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of Vita Medical Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The company has however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement.

A reconciliation of the transition from previous Australian GAAP to Australian equivalents to IFRS has been included in Note 26 to this report.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Vita Medical Limited and its controlled entities as at 31 December each year ('the Group').

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

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

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

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

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

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

Minority interests represent the interests in Cyclomedica Europe Limited not held by the Group.

(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 controlled entities, Vitamedica Europe Limited, Cyclomedica Germany GmbH, Cyclomedica Europe Limited, is European Euro (Euro €) and Vita Medical (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 in the income statement.

(e) Property, plant and equipment

Plant and Equipment

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets are depreciated on a straight-line basis over their useful lives commencing from the time the asset is held ready for use.

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

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

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

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

(f) Borrowing costs

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

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

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

(g) Intangibles

Goodwill

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

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

Notes to the Financial Statements

for the year ended 31 December 2005

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.

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

(h) Inventories

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

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

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

(i) Trade and other receivables

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

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

Notes to the Financial Statements

for the year ended 31 December 2005

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, short-term deposits with an original maturity of three months or less and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(k) Interest-bearing loans and borrowings

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

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

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

(l) Provisions

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

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

(m) Employee Benefits

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

(n) Leases

Finance Leases

Leases of fixed 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.

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

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

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.

(o) Revenue

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

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

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

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

Dividends from associates and other investments are recognised as revenue by the when dividends are paid. Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

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

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

(p) Income tax

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

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

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

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

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

The ultimate parent entity, Vita Life Sciences Limited and its wholly owned Australian subsidiaries, including Vita Medical Limited, formed an income tax consolidated group from 1 July 2002.

(q) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred is not recoverable from the Australian Taxation Office("ATO"), and is therefore recognised as part of the asset's cost or as part of the expense item. Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the balance sheet.

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

(r) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

(s) Financial Instruments Recognition

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

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

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

Notes to the Financial Statements

for the year ended 31 December 2005

		Consolidated		Parent	
		2005	2004	2005	2004
		$	$	$	$
3. REVENUE					
Operating activities	**Note**				
Sale of goods		8,806,252	8,752,818	4,891,277	4,116,289
Interest received	3 (a)	210,475	14,854	210,413	14,715
Management fee received from controlled entity		-	-	697,000	566,280
Realised exchange gains		109,070	-	109,070	-
		9,125,797	**8,767,672**	**5,907,760**	**4,697,284**
(a) Interest revenue					
Related entities		195,669	-	195,669	-
Other persons		14,806	14,854	14,744	14,715
		210,475	**14,854**	**210,413**	**14,715**

	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
4. PROFIT FROM ORDINARY ACTIVITIES				
(a) Expenses				
Cost of sales	2,027,960	1,759,266	1,747,318	1,291,069
Finance costs				
External	12,354	18,891	8,115	9,466
Related entities	41,225	34,983	15,416	-
	53,579	**53,874**	**23,531**	**9,466**
Depreciation and amortisation				
Plant and equipment	62,892	79,279	54,771	64,511
Leasehold improvements	15,986	6,801	15,677	6,448
	78,878	**86,080**	**70,448**	**70,959**
Research and development costs	31,571	34,051	31,571	34,051
Loss on disposal of fixed assets	-	(34,079)	-	(10,005)
Loss on disposal of investments	-	(39,619)	-	(39,619)

(b) Significant expenses

The following significant expense items are relevant in explaining the financial performance:

	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
Loss on transfer of wholly controlled entity, Tetley Treadmills Pty Limited, to ultimate parent entity	**345,491**	-	-	-

Notes to the Financial Statements

for the year ended 31 December 2005

	Consolidated		Parent	
	2005	2004	2005	2004
	$	$	$	$
5. AUDITORS REMUNERATION				
Amounts received or due and receivable by Gould Ralph & Company for the audit of the financial report of the entities within the consolidated group.	36,000	29,077	18,000	22,000
Amounts received or due and receivable by auditors other than Gould Ralph & Company for the audit of financial reports of subsidiary entities	28,000	18,076	-	-
	64,000	47,153	18,000	22,000

6. INCOME TAX

(a) Major components of income tax expense comprise:

Current income tax	626,813	569,369	451,888	398,633
Deferred income tax	60,253	(9,698)	60,253	(9,698)
Income tax expense reported in income statement	**687,066**	**559,671**	**512,141**	**388,935**

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

Income tax on profit before tax from continuing operations at the statutory rate of 30% (2004:30%)	800,796	832,168	501,765	380,810
Tax effects of-				
Expenditure not allowable for income tax purposes	92,604	35,706	10,376	8,125
Effects of lower rates of tax on overseas income	(173,492)	(273,146)	-	-
Income tax under/(over) provided in prior year	-	5,172	-	-
Tax expense offset against carry forward tax losses	(32,842)	(40,229)	-	-
At effective income tax rate of 25.7% (2004: 20.2%) (Parent: 30.6%, 2004: 30.6%)	687,066	559,671	512,141	388,935

6 (c). Tax Assets and Liabilities

Liabilities				
Current income tax liability – current	**41,732**	**129,480**	-	-
Deferred tax liability comprises:				
Capitalised expenditure	60,656	-	60,656	-
Other	2,858	1,055	2,858	1,055
	63,513	**1,055**	**63,513**	**1,055**
Assets				
Deferred tax assets comprises:				
Provisions	90,015	88,133	90,015	88,133
Other	2,888	2,566	2,888	2,566
	92,902	**90,698**	**92,902**	**90,698**

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

7. SEGMENTS

Geographic segments
The basis of inter-segment pricing is determined on an arm's length basis.

	Australia		Asia		Europe		Canada		Other		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$	$	$	$	$
Sales	1,770,918	1,634,776	311,507	344,897	5,480,126	6,040,341	1,115,170	732,803	128,531	-	8,806,252	8,752,817
Other Revenue	319,545	14,855	-	-	-	-	-	-	-	-	319,545	14,854
Total Revenue	**2,090,463**	**1,649,631**	**311,507**	**344,897**	**5,480,126**	**6,040,341**	**1,115,170**	**732,803**	**128,531**	**-**	**9,125,797**	**8,767,672**
Segment operating profit/ (loss)	(779,677)	(706,808)	91,104	(309,772)	2,618,074	3,431,616	651,693	388,858	88,126	(30,000)	2,669,320	2,773,894
Discontinued operations (Nil revenue)											(345,492)	-
Profit before tax											2,323,828	2,773,894
Income tax expense											(687,066)	(559,671)
Profit after tax											**1,636,762**	**2,214,223**
Segment Assets	980,162	2,131,413	-	-	3,871,438	5,113,383	650,458	465,724	-	-	5,502,058	7,710,519
Total Assets											5,502,058	7,710,519

Industry Segments

The economic entity operates wholly within the one industry segment, that being the manufacture and sale of medical diagnostic equipment and associated consumables.

		Consolidated		Parent	
		2005	2004	2005	2004
	Note	$	$	$	$
8. CASH AND CASH EQUIVALENTS					
Cash at bank and in hand	8 (a)	152,552	340,457	80,219	313,348
		152,552	**340,457**	**80,219**	**313,348**

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

Cash at bank and in hand	8	152,552	340,457	80,219	313,348
Bank overdrafts	14	-	-	(114,755)	-
		152,552	**340,457**	**(34,536)**	**313,348**

Notes to the Financial Statements

for the year ended 31 December 2005

	Consolidated		Parent	
	2005	2004	2005	2004
	$	$	$	$
(b) Reconciliation from the net profit after tax to the net cash flows from the operations				
Net Profit / (loss)	1,636,762	2,214,223	1,160,410	880,432
Amortisation / depreciation	78,878	86,080	70,448	70,959
Movement provision doubtful debts	(35,521)	19,880	-	-
Movement provision employee benefits	(1,726)	31,780	(1,726)	31,780
FDA expenses written off	81,544	73,698	81,544	49,624
	1,759,937	2,425,661	1,310,676	1,032,795
Change in assets and liabilities:				
(Increase) / decrease in receivables	(146,951)	(2,401,900)	(281,028)	(887,833)
(Increase) / decrease in inventories	(128,029)	499,968	(81,029)	288,361
(Increase) / decrease in prepayments	(15,194)	(112,651)	343	3,071
(Increase) / decrease in other assets	-	(2,000)	-	(2,000)
(Increase) / decrease in deferred tax assets	(2,204)	(9,730)	(2,204)	(9,730)
(Increase) / decrease in intangibles	(204,564)	-	(202,185)	-
Increase / (decrease) in creditors	249,973	1,482,259	(3,515,171)	(1,941,782)
Increase / (decrease) in taxes payable	(87,748)	12,166	-	-
Increase / (decrease) in deferred tax liabilities	62,460	31	62,460	31
Increase / (decrease) in provisions	(17,153)	26,153	8,000	1,000
Net cash provided by / (used in) operating activities	**1,470,527**	**1,919,957**	**(2,700,138)**	**(1,516,087)**

9. RECEIVABLES

Current				
Trade debtors	2,776,176	2,629,226	1,607,156	1,326,127
Less: Provision for impairment	(448,693)	(484,214)	(65,000)	(65,000)
	2,327,483	2,145,012	1,542,156	1,261,127
Other debtors	234,763	133,852	76,216	56,847
	2,562,246	**2,278,864**	**1,618,372**	**1,317,974**
Non-current				
Loans to related entities	-	2,101,311	2,556,978	2,031,049

10. INVENTORIES

Raw materials (at cost)	552,278	393,380	552,278	393,380
Finished goods (at cost or net realisable value)	665,075	695,944	97,945	175,814
	1,217,353	**1,089,324**	**650,223**	**569,194**

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

	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
11. PROPERTY PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	198,851	198,850	198,851	198,850
Accumulated depreciation	(163,933)	(158,081)	(163,933)	(158,081)
	34,918	40,769	34,918	40,769
Plant and equipment				
At cost	1,748,356	2,494,435	1,215,034	971,138
Accumulated depreciation	(702,213)	(926,201)	(714,559)	(627,330)
	1,046,143	1,568,234	500,475	343,808
Leased Plant and equipment				
At cost	156,590	156,590	156,590	156,590
Accumulated depreciation	(149,125)	(133,448)	(149,125)	(133,448)
	7,465	23,142	7,465	23,142
Total carrying value	**1,088,526**	**1,632,145**	**542,858**	**407,719**

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
Leasehold improvements				
Carrying amount at the beginning of the year	40,769	53,851	40,769	47,218
Disposals	-	(6,349)	-	-
Amortisation	(5,851)	(6,733)	(5,851)	(6,449)
Carrying amount at the end of the year	34,918	40,769	34,918	40,769
Plant and Equipment				
Carrying amount at the beginning of the year	1,568,234	1,505,022	343,808	304,519
Additions	332,557	341,018	205,668	107,666
Disposals	(654,146)	(51,653)	-	-
Amortisation	(200,502)	(226,153)	(49,001)	(68,377)
Carrying amount at the end of the year	1,046,143	1,568,234	500,475	343,808
Leased plant and equipment				
Carrying amount at the beginning of the year	23,142	83,576	23,142	57,509
Disposals	-	(23,002)	-	-
Amortisation	(15,677)	(37,432)	(15,677)	(34,367)
Carrying amount at the end of the year	7,465	23,142	7,465	23,142

Property, plant and equipment is depreciated using the straight line method of depreciation. Refer Note 1(e).

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

	Note	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
12. INTANGIBLES					
Intellectual property – at cost		17,666	15,000	15,000	15,000
Accumulated amortisation		(15,287)	(15,000)	(15,000)	(15,000)
		2,379	-	-	-
Development costs – at cost		202,185	-	202,185	-
		204,564	**-**	**202,185**	**-**
13. PAYABLES					
Trade creditors		1,094,297	590,113	418,971	385,102
Other creditors and accruals		493,838	216,920	221,567	131,283
		1,588,135	**807,033**	**640,538**	**516,385**
14. BORROWINGS					
Current					
Bank overdraft	8(a)	-	-	114,755	-
Finance lease liabilities (i)	20	9,116	9,758	9,116	9,758
		9,116	**9,758**	**123,871**	**9,758**
Non-current					
Loans from related parties – unsecured		518,705	569,386	-	877,108
Finance lease liabilities	20	-	23,200	-	23,200
		518,705	**592,586**	**-**	**900,308**

(i) Secured by the assets leased

Financing arrangements

The consolidated entity has access to the following lines of credit:

	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
Total facilities available				
Lease liabilities	9,116	32,958	9,116	32,958
Loans	518,705	569,386	-	-
Facilities utilised at balance date				
Lease liabilities	9,116	32,958	9,116	32,958
Loans	518,705	569,386	-	877,108

Finance lease facility
The consolidated entities lease liabilities are secured by the leased assets of $7,083 (2004: $23,142).

Loans
Interest is payable at 6% average at reporting date. The loans are not repayable within 12 months.

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

	Consolidated		Parent	
	2005	2004	2005	2004
	$	$	$	$
15. AMOUNTS PAYABLE/RECEIVABLE IN FOREIGN CURRENCIES				

The Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies, calculated at year end exchange rates, are as follows:

	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
United States dollars				
Amounts payable	28,900	-	-	-
Amounts receivable	15,016	14,466	15,016	14,466
Euros				
Amounts payable	764,059	189,883	-	-
Amounts receivable	2,048,327	4,586,678	-	-
Canadian dollars				
Amounts payable	-	15,129	-	-
Amounts receivable	446,664	204,096	-	-

16. PROVISIONS

	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
Current:				
Employee entitlements	108,943	111,656	108,943	111,656
Warranties	7,500	7,500	7,500	7,500
Other	30,000	47,153	30,000	22,000
	146,443	**166,309**	**146,443**	**141,156**
Non-current:				
Employee entitlements	**88,606**	**87,619**	**88,606**	**87,619**

Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to annual and long service leave for employees. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits has been included in note 2.

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

	Consolidated		Parent	
	2005	2004	2005	2004
	$	$	$	$
17. CONTRIBUTED EQUITY				
Issued and paid-up capital				
5,132,627 (2004: 5,132,627) Ordinary shares, fully paid	**6,427,351**	**5,981,039**	**6,427,351**	**5,981,039**
Movements during the year:				
Balance at the beginning of the year	5,981,039	5,582,405	5,981,039	5,582,405
Other contributed equity arising from the transfer of current tax liabilities to the ultimate parent within the Australian tax consolidated group	446,312	398,634	446,312	398,634
Balance at the end of the year	**6,427,351**	**5,981,039**	**6,427,351**	**5,981,039**

Terms and Conditions
Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

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

	Consolidated		Parent	
	2005	2004	2005	2004
	$	$	$	$
18. RESERVES				
Foreign currency translation	**(624,412)**	**49,913**	-	-
Movements during the year:				
Foreign currency translation				
Balance at the beginning of the year	49,913	(206,555)	-	-
Net translation adjustment	(674,325)	256,468	-	-
Balance at end of year	**(624,412)**	**49,913**	-	-

Nature and purpose of reserves

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

Notes to the Financial Statements

for the year ended 31 December 2005

19. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk

	Note	Weighted average interest rate	Floating interest rate	Fixed interest maturing in			Non-interest bearing	Total
				1 year or less	1 to 5 years	More than 5 years		
		%	$	$	$	$	$	$
2005								
Financial assets								
Cash assets	8	4.5	152,552	-	-	-	-	152,552
Receivables	9	-	-	-	-	-	2,562,246	2,562,246
			152,552	**-**	**-**	**-**	**2,562,246**	**2,714,798**
Financial liabilities								
Payables	13	-	-	-	-	-	1,588,135	1,588,135
Loans	14		-	-	-	-	518,705	518,705
Lease liabilities	14	10.05	-	9,116	-	-	-	9,116
		-	**-**	**9,116**	**-**	**-**	**2,106,840**	**2,115,956**
2004								
Financial assets								
Cash assets	8	3.65	340,457	-	-	-	-	340,457
Receivables	9	-	-	-	-	-	4,380,175	4,380,175
			340,457	**-**	**-**	**-**	**4,380,175**	**4,720,632**
Financial liabilities								
Payables	13	-	-	-	-	-	807,033	807,033
Loans	14	6	-	-	569,386	-	-	569,386
Lease liabilities	14	10.05	-	9,758	23,200	-	-	32,958
			-	**9,758**	**592,586**	**-**	**807,033**	**1,409,377**

(b) Foreign exchange risk

The company does not enter into forward foreign exchange contracts. Foreign currency amounts are translated at rates current at the balance date.

(c) Net fair values of financial assets and liabilities

Valuation approach

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

Recognised financial instruments

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

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

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

Net fair values (continued)

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

		Consolidated			
		2005		2004	
	Note	Carrying amount	Net fair value	Carrying amount	Net fair value
		$	$	$	$
Financial assets					
Cash assets	8	152,552	152,552	340,457	340,457
Receivables	9	2,562,246	2,562,246	4,380,175	4,380,175
Financial liabilities					
Payables	13	1,588,135	1,588,135	807,033	807,033
Bank overdrafts and loans	14	518,705	518,705	569,386	569,386
Lease liabilities	14	9,116	9,116	32,958	32,958

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

The company does not have any unrecognised financial instruments.

	Note	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
		$	$	$	$
20. COMMITMENTS					
Finance lease payment commitments					
Finance lease commitments are payable:					
Within one year		10,320	25,791	10,320	25,791
One year or later and not later than five years		-	9,298	-	9,298
		10,320	35,089	10,320	35,089
Less: Future lease finance charges		(1,204)	(2,131)	(1,204)	(2,131)
		9,116	**32,958**	**9,116**	**32,958**
Lease liabilities provided for in the financial statements:					
Current	14	9,116	9,758	9,116	9,758
Non-current	14	-	23,200	-	23,200
Total lease liability		**9,116**	**32,958**	**9,116**	**32,958**

The consolidated entity leases production plant and equipment under finance leases expiring from 1 to 5 years. At the end of the lease terms the consolidated entity has the opportunity to purchase the equipment at deemed market rates.

The terms of the leases require that additional debt and further leases are not undertaken without prior approval of the lessor.

Notes to the Financial Statements

for the year ended 31 December 2005

21. CONTINGENT LIABILITIES

MDS Nordion SA v Vita Medical Ltd & Seng Meng Pang and Henry George Townsing No 50133 of 2002 - Supreme Court of New South Wales

and

MDS Nordion France v Bernard Claude Gaston Salin & Cyclopharma Laboratories Ltd & The Central Massif Finance Company & Vita Medical Ltd - The Commercial Court of Evry, France

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

The French proceedings will be heard on 28 May 2006. The judgment is expected to be handed down in November 2006.

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

Cyclomedica Europe Ltd v IsoTrade GmbH, Monchengladbach, Germany

Cyclomedica Europe is presently suing a former distributor in Germany IsoTrade GmbH, for non payment of amounts due. The current claim is for approximately 198,784 Euros. IsoTrade has filed a counter claim for wrongful termination of the distribution agreement. Cyclomedica Europe's advice from its German solicitors is that the counter claim is without merit.

22. CONTROLLED ENTITIES

Name	Note	Place of incorporation	2005 %	2004 %
Vita Medical Limited	1	Australia		
Controlled entities				
Vitamedica Europe Limited	2	Ireland	100	100
Tetley Treadmills Pty Limited	3	Australia	100	100
Tetley Research Pty Limited	3	Australia	100	100
Cyclopharm Limited	3	Australia	100	-
Vita Medical Australia Pty Ltd	3	Australia	100	-
Cyclomedica Europe Limited	4	Ireland	50	50
Vita Medical Canada Limited	5	Canada	100	100
Cyclomedica Germany GmbH	6	Germany	100	-

Notes

1. Vita Medical Limited is 100% owned by Vita Life Sciences Limited, the ultimate parent entity.
2. Audited by HLB Nathans, Republic of Ireland.
3. Audited by Gould Ralph and Company.
4. Cyclomedica Europe Limited is a joint venture owned 50% by Vitamedica Europe Ltd and 50% by Cyclopharma Laboratories SA (France). As a result of effective control by the VLS group, the company's results have been consolidated in full as a subsidiary.
5. Audited by Shwartz Levitsky & Feldman & LLP, Toronto, Canada.
6. Audited by Bilanzia GmbH Wirtschaftsprufungsgesellschaft, Germany.

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

23. DIRECTORS REMUNERATION

(a) Details of Specified Directors

Specified Directors

John Sharman	Executive Director
Henry Townsing	Director
David Rundell	Director (resigned 5 May 2006)

(b) Remuneration of Specified Directors

	Primary			Post Employment		Equity	Other	Total
Specified Directors	**Salary & Fees**	**Cash Bonus**	**Non Monetary benefits**	**Super-annuation**	**Retirement benefits**	**Options**		
	$	$	$	$	$	$	$	$
31 December 2005								
David Rundell	127,293	7,500	-	11,456	-	-	-	146,249
John Sharman	-	-	-	-	-	-	-	-
Henry Townsing	-	-	-	-	-	-	-	-
Total Remuneration:	**127,293**	**7,500**	**-**	**11,456**	**-**	**-**	**-**	**146,249**
31 December 2004								
Gerry Adams	-	-	-	-	-	-	-	-
David Rundell	123,853	-	-	11,147	-	-	-	135,000
John Sharman	-	-	-	-	-	-		-
Henry Townsing	-	-	-	-	-	-	-	-
Total Remuneration:	**123,853**	**-**	**-**	**11,147**	**-**	**-**	**-**	**135,000**

24. RELATED PARTIES

Directors

The names of each person holding the position of director of Vita Medical Limited during the year are: Messrs H Townsing, J Sharman and D Rundell.
Mr Rundell ceased to hold office 5 May 2006.

Ultimate parent entity

Vita Life Sciences Limited is presently the ultimate parent entity in the consolidated group.

25. EVENTS SUBSEQUENT TO BALANCE DATE

Disposal of Assets to Vita Medical Australia Pty Ltd

Subsequent to balance date, Vita Medical Limited sold its assets and certain of its trading liabilities at book value to a related company, Vita Medical Australia Pty Ltd, with effect from 1 January 2006. No profit or loss was recorded on the transaction.

Vita Life Sciences Limited sold certain of its subsidiary companies (which are controlled and managed as part of the Vita Medical group) to a related company, Cyclopharm Limited with effect from 19 May 2006. These transactions were part of the restructure of the Technegas business which was formally approved by shareholders during the General Meeting of Members on 12 April 2006. Consequently, Cyclopharm Limited is now considered the parent of the Cyclopharm group (formerly known as the Vita Medical group).

Notes to the Financial Statements

for the year ended 31 December 2005

26. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Vita Medical Limited has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 January 2005.

The impacts of adopting AIFRS on the total equity and profit after tax as reported under previous Australian Generally Acceptable Accounting Principles (AGAAP) are illustrated below:

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

	Consolidated		Parent	
	31 Dec 2004	1 Jan 2004	31 Dec 2004	1 Jan 2004
	$	$	$	$
Total equity under previous AGAAP	5,818,036	2,957,997	2,984,401	1,715,034
Adjustments to issued capital				
Recognition of other contributed equity on transfer of tax liabilities under group arrangement (A)	848,412	449,778	848,412	449,778
Adjustments to retained earnings				
Recognition of income tax expense previously attributed to the parent entity in the tax consolidated group (B)	(758,769)	(369,834)	(758,769)	(369,834)
Total equity under AIFRS	5,907,679	3,037,941	3,074,044	1,794,978

(A) In accordance with UIG 1052, additional contributed equity has been recorded to recognise the transfer of tax liabilities to the ultimate parent entity, being the parent of the Australian tax consolidated group. No tax sharing arrangement existed between members of the tax consolidated group.

(B) Pursuant to UIG 1052, income tax expense is now recognised in the individual Australian subsidiaries of the Vita Life Sciences Ltd tax consolidated group. The recognition of net deferred tax assets has resulted in an increase to total equity.

Reconciliation of profit under previous AGAAP to that under AIFRS

	Consolidated	Parent
	2004	2004
	$	$
Prior year profit after tax as previously reported	2,536,111	1,269,367
Income tax expense recognised in individual subsidiary financial statements within the Australian tax consolidated group	(388,935)	(388,935)
Prior year profit after tax under AIFRS	2,147,176	880,432

Notes to the Financial Statements

for the year ended 31 December 2005

27. CHANGES IN ACCOUNTING STANDARDS

The following Australian Accounting Standards have been issued or amended but are not yet effective and are applicable to the entity. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard Affected	Nature of change in accounting policy and impact	Application date of the standard
2004-3	AASB 1: First-time adoption of AIFRS	No change, no impact	1 January 2006
	AASB 101: Presentation of Financial Statements		
	AASB 124: Related Party Disclosures		
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006
2005-5	AASB 1: First-time adoption of AIFRS	No change, no impact	1 January 2006
	AASB 139: Financial Instruments: Recognition and Measurement		
2005-06	AASB 3: Business Combinations	No change, no impact	1 January 2006
2005-10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007
	AASB 117: Leases	No change, no impact	1 January 2007
	AASB 133: Earnings per share	No change, no impact	1 January 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2007
	AASB 1: First-time adoption of AIFRS	No change, no impact	1 January 2007
	AASB 4: Insurance Contracts	No change, no impact	1 January 2007
	AASB 1023: General Insurance Contracts	No change, no impact	1 January 2007
	AASB 1038: Life Insurance Contracts	No change, no impact	1 January 2007
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates	No change, no impact	1 January 2006
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007
	AASB 119: Employee Benefits: December 2004	No change, no impact	1 January 2006

Director's Declaration

For the year ended 31 December 2005

In the opinion of the Directors of Vita Medical Limited:

(a) the Financial Statements and notes set out on pages 10 to 34 are in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the financial position of the Company and consolidated entity as at 31 December 2005 and of their performance, as represented by the results of their operations and cash flows, for the year ended on that date; and

- complying with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 10th day of November 2006.

Signed in accordance with a resolution of Directors.

John Sharman
Director

Independent Audit Report

To the members of Vita Medical Limited:

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 10 to 35 for Vita Medical Limited (the company), for the year ended 31 December 2005. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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.

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. 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 financial position, and of its performance as represented by the results of its operations and cash flows.

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake share registry and taxation compliance services. The provision of these services has not impaired our independence.

Audit Opinion

In our opinion, the financial report of Vita Medical Limited is in accordance with:

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

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

other mandatory professional reporting requirements in Australia.

GOULD RALPH & COMPANY
Chartered Accountants

GREGORY C RALPH, M.Com. F.C.A.
Partner
Sydney, 10 November 2006