Annual Report 2003

VITA LIFE SCIENCES

Corporate Directory

Directors
Mr V L Gould – Chairman
Mr G K Adams – Managing Director
Mr J S Sharman – Director

Company Secretary
Mr J S Sharman

Corporate Office
Building 75
Business & Technology Park
New Illawarra Road
Lucas Heights
New South Wales 2234
Australia
Telephone: +61 2 9541 2099
Facsimile: +61 2 9541 2066

Postal
Post Office Box 350
Menai Central 2234
Australia
Telephone: (612) 9541 2099
Facsimile: (612) 9541 2066

Asian Regional Office
#20-01/07 Keypoint
371 Beach Road
Singapore 199597
Telephone: (65) 6 278 2778
Facsimile: (65) 6 275 7807

European Regional Office
2nd Floor, Nathan House
Christchurch Square
Dublin 8, Ireland
Telephone: (353) 1 454 4333
Facsimile: (353) 1 454 4690

Auditors
Gould Ralph & Company
Chartered Accountants
Level 42, AAP Centre
259 George Street
Sydney New South Wales 2000
Australia

Share Registry
Gould Ralph Pty Ltd
Level 42, AAP Centre
259 George Street
Sydney New South Wales 2000
Australia
Telephone: (612) 9032 3000
Facsimile: (612) 9032 0088

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

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

Email Address
enquiries@vitalifesciences.com.au

Website
www.vitalifesciences.com

Vita Life Sciences Limited and Controlled Entities
Annual Report
31 December 2003

Contents **Page**

Chairman's Statement

It is with regret that I report to you on the challenges associated with returning the Vita Life Sciences Group to financial health.

As you are aware, the VitaHealth division in Asia suffered exceptional losses as a result of the past culture of corruption that infected the company for many years which unfortunately went undetected by the previous auditors, Messrs Arthur Andersen, Singapore. As part of the clean-up, 27 employees out of 31 have been replaced in the management ranks. Assisted by the geographical spread of the company, I believe many previous actions were taken by these managers under the direction of the former Managing Director whereby agreements were entered into in a desperate attempt to boost sales in the short term without regard to the costs and damage that would be borne in subsequent financial years and with which we are still dealing in the current period. We also had to voluntarily withdraw some VitaHealth products in late 2002/early 2003 when we discovered irregularities resulting from the former Managing Director's actions or lack thereof. It has been a challenge to develop a new culture of transparency and professionalism which is now emerging to help thrust our business forward.

Perhaps the best illustration of this "past climate of corruption" was the discovery that was made in Malaysia in calendar 2002 of a rival product being distributed and sold which had remarkable similarities to VitaHealth's own packaging. VitaHealth would pay all the selling costs of this product but the proceeds were never received by VitaHealth. Several key VitaHealth employees have claimed in their affidavits that they were acting on the instructions of the former Managing Director. As you will appreciate, this type of endemic corruption in foreign markets is very difficult to detect when the senior management teams are either involved or apparently local managers believe it is a legitimate arrangement affirmed by senior management and/or the former Managing Director. These matters hopefully will be further clarified during the current court proceedings against the former Managing Director in the High Court of Singapore.

VitaHealth was turning around and performing to expectations for the first four months of 2003 until it suffered devastating losses from the Pan Pharmaceutical product recalls - it must be reiterated that VitaHealth's 2003 performance was largely attributed to the Pan debacle. Due to the difficulties of ascertaining how much stock was involved in the trade as well as not knowing the number of customers who would return stock to retailers, it was not easy for us to ascertain the magnitude of the problem. Our claims against Pan Pharmaceuticals are in excess of $16,000,000 including loss-of-profits claims. This financial setback was further exacerbated by lengthy delays in obtaining new product re-registration, despite advice from regulatory authorities to the contrary, so that the company could restore its full product range to retailers. We will have over 90% of our products back in Australia and Malaysia by mid-2004.

More than 20 new products have been launched in Singapore, Malaysia and Australia. This includes AdiTRIM, the first to introduce a licap dosage form into Singapore. If the current rate of progress is maintained we are cautiously optimistic that we will be able to return to pre-Pan revenue levels and achieve full viability of the VitaHealth Group by mid-2004.

As shareholders will appreciate, I am the only remaining director from the old Board. All the other directors have resigned as they had a personal relationship with the former Managing Director who is currently the subject of litigation in the High Court of Singapore. This is not to say that any of the other directors were indirectly or directly implicated in any way in knowingly covering up the alleged fraudulent activity of Mr Pang, the magnitude of which was not known until after they had resigned from the Board.

Nevertheless the fact remains that I was a non-executive director and chairman of a company that has not achieved satisfactory results. Accordingly I have considered tendering my resignation, but the reality is that I am virtually unpaid and it is highly unlikely that anyone would accept appointment in the present financial circumstances. It is also desirable that I stay at least as long as the litigation against the various parties remains unfinished to ensure the company's interests are protected as the range of problems that confronts this group are unprecedented in my experience. I have never seen one company subjected to so many different forms of alleged fraud and serious misconduct in my more than 25 years of work as a specialist chartered accountant often involved in litigation as well as having an ongoing active role in the development of public companies.

At the time of writing this report I have just returned from spending seven weeks in the High Court in Singapore to hopefully ensure a successful outcome in the action against the former Managing Director. Notwithstanding a highly favourable outcome of that litigation, the prospects for Vita remain challenging in the immediate term as its focus is on the quickest recovery and rebuilding the core health business. This has meant Vimed's Thrombotrace research and development program has had to be curtailed with minimal or no investment now being made. Hopefully at a later stage, if Vita's financial circumstances permit, the Thrombotrace program can be revived. Similarly Vita Medical's clinical trials of Technegas, as part of the US FDA application, have had to be put on hold.

We are moving forward to break up the businesses so that the VitaHealth Group will ultimately become a listed public company in either Singapore or Malaysia. Vita Life Sciences will continue as a shareholder and may gradually realise its VitaHealth investment to pay off the secured convertible notes, assuming they do not convert to ordinary shares. Ultimately when we restore VitaHealth to corporate health and achieve the Asian listing, it may also be possible for shareholders to benefit.

On a more positive note, we have signed an agreement with Vital Biotech, a Hong Kong listed company, to penetrate the world's largest emerging market, China. Vital Biotech has an excellent track record of a strong distribution network and excellent brand building, their star performer being a calcium supplement. In the Philippines, our new licensee is embarking on developing 10 exclusive VitaHealth retail outlets in the first year. Efamol appointed us as their marketing agent for Australia in December 2003.

In 2003, VitaHealth was accorded the prestigious Superbrand accolade for both Singapore and Malaysia - a testament to the strong brand equity and loyal following it has achieved and the dedication of our new management team. In Malaysia and Singapore, VitaHealth was voted by consumers as their No. 1 choice – i.e. *Guardian Malaysia 2003 Vita EPA Consumers' Choice Award* and *Watsons Singapore 2003 Best Selling Vita EPO and Best Selling Robovites Kids Vitamins*. The team worked very hard to retain VitaHealth's and Herbs of Gold's leading market positions in Singapore, Malaysia and Australia after the Pan recall debacle.

We now have a professional and committed team in place across our key markets in Singapore, Malaysia and Australia. In Australia, two of our sales personnel were awarded the inaugural CHC Industry's *Best Sales Representative Award* for 2003 in Victoria and South Australia.

Over the year, we achieved an estimated $1 million cost saving through a leaner and more focused Health organisation - 45% less personnel, divestments from non-core business like Southpack, and the appointment of a new distributor in Indonesia. Essentially, we believe that stronger business fundamentals are now in place to help us restore the Health business.

Vita Medical's core business has continued to make steady progress with 95 Technegas generators being installed in hospitals in 2003 - a new record for the company. Whilst Vita Medical's business is completely separate from that of VitaHealth, it has been directly affected by the exceptional challenges experienced by the Health division. Senior management's time was largely spent "firefighting" VitaHealth's issues post Pan and the cash generated from the Medical business was largely invested in "shoring up" the Health business. Vita Medical's growth and development has been temporarily hampered but we hope that in 2005 rebuilding will be possible. We are looking at several options to accelerate this but they will only be feasible at the conclusion of the two major areas of litigation before our company – the Nordion case in France and Australia; and the Singapore litigation against the former Managing Director.

I particularly want to thank my fellow Directors, Jerry Adams and John Sharman, and the Managing Director of VitaHealth, Sam Ang, for their dedication and the contribution they are making to refocus and rebuild the company. The loyalty and commitment of many of our key staff has been an inspiration to me to overcome each of the hurdles before us. It is extremely difficult to remain motivated when one is preoccupied with problems inherited from a previous administration. Shareholders will be greatly indebted to them all when they succeed in the restoration of the company to financial health.

The resignation of Jerry Adams, our Managing Director, is not an ideal outcome. He has done much to rebuild and develop the business, but the scope of the business is now much smaller and we need to further reduce costs so as to enable the interest on the convertible notes to be serviced.

I wish to publicly thank Mr Adams for the contribution he has made to the company despite the major distraction of the litigation against Mr Pang which has been great - Mr Adams alone filed 37 personal affidavits in this matter. The Nordion case, which we came close to settling, has also been a major distraction.

I look forward to reporting more favourably to you in the next Annual Report.

Vanda Gould
Chairman
Sydney,
5 May 2004

The 2003 results for Vita Life Sciences Ltd are very disappointing. The actions and accounting adjustments taken at the end of 2002 cleaned up many of the issues created by the previous management and made us feel VLS was in a reasonable position to enjoy a successful 2003. However, the recall of Pan-manufactured products (announced 28/4/03) has resulted in the company making a claim in excess of AUD$16 million. While there were a number of difficulties affecting our 2003 result the impact of the Pan recall is the key factor behind our unsatisfactory result.

In summary, on sales of AUD$23.2 million VLS lost AUD$17.5 million after tax, and after all write-offs and adjustments. The Pan recall was the single biggest negative factor, but write-offs of the capitalised expenses and carrying values of Vimed and the activity associated with the New Drug Application contributed about AUD$8.5 million of this loss. (These are non-cash events.) Legal costs were in excess of AUD$1 million. (The Statements of Financial Performance contained in this annual report provide the full financial result.)

The only bright financial spot in this picture was the operating result of Vita Medical, which made AUD$1.7 million of EBIT (before write-offs and management fees) on net sales of AUD$7.7 million.

The Future

Considering the magnitude of our losses in 2002 and now again in 2003 the obvious question is: What is the future for VLS? There is no doubt the answer to that question is that the future of VLS remains troubled and challenging. The key issues include:

- The recovery of VitaHealth from the Pan recall.
- The cost to VLS of carrying the debt taken on to contend with the losses inflicted by the Pan recall and alleged misconduct of the previous management.
- The on-going legal costs associated with the problems and (we allege) fraudulent activities of the previous administration.
- The on-going cost of cleaning up the operating problems which remain a legacy of the previous management.

Despite this list of formidable issues, the budget for VLS for 2004 projects a near break-even result in terms of profit, but a continuance of negative cash flows. It must be recognised that VLS is operating in an environment of considerable uncertainty, and the achievement of our budget is far from secure. However, to achieve our targets we have reduced the investment in programs aimed at the medium-term and have focused strictly on the near-term. We are conserving cash to deal with the recovery of the Health business and have introduced a profit-improvement plan to squeeze the maximum profit and cash from all the businesses in the short-term. At the end of the first quarter of 2004, VLS was AUD$350,000 ahead of budget as measured by EBIT.

In the 2003 half-year result it was noted that our on-going ability to operate was a function of support (additional investment) we were receiving from shareholders in the form of convertible notes. In other words, VLS was in a negative operating cash position and needed to issue further convertible notes to continue. (It should be noted the initial issue of convertible notes was made before the magnitude of the losses relating to Pan were known.) We need further support in 2004, but believe that we will finish 2004 in reasonable shape. We are confident we will be able to get the required support to rebuild the business but from the preceding commentary, shareholders should appreciate the future of VLS is very much at a crossroads.

In late March 2004 we sent a letter to Noteholders seeking approval to restructure the VitaHealth business and sell 10% of it. The Noteholders have since given unanimous approval with 96.4% of potential votes being lodged. This was the first element of support mentioned in the preceding paragraph. VitaHealth was valued at SGD$20m (pre-money) in this transaction. We are now finalising the arrangements for the sale of shares and for the purchaser to also become our joint venture partner in China. These transactions are intended to bring some cash into the company and position VitaHealth for entry into China. A future IPO of the VitaHealth business on an Asian stock exchange is our ultimate goal. We hope to be able to realise some of the upside potential of this business for shareholders and noteholders through these actions.

While I am optimistic about the positive effects of the proposed restructure, it is with extreme regret that I offer this report on our overall situation. It is important no-one is under any illusions regarding the challenges we face. Shareholders must understand it is difficult to ascribe any current value to the shares of VLS at this time.

VitaHealth

VitaHealth's management accounts report a loss of ($5.9) million (PAT) on sales (before PAN recall adjustments) of $15.5 million in 2003. The Pan recall, together with the voluntary recall of late 2002, had a huge impact on the business. The impact of the recall is still being felt throughout our business. Although our market share in the Singapore market has increased, the overall market is down as a result of erosion in consumer confidence. The same erosion has taken place in Malaysia and been exacerbated by the slowness of the product re-registration process there. At year end 2003 we were still unable to offer consumers stock-keeping-units which amounted to more than 30% of sales in the pre-recall period. (Malaysian sales represent about 50% of total VitaHealth sales.) Nonetheless, we have held market share and maintained our brand position in Malaysia. In February and March of '04 we had 18 more products re-registered and our situation has improved. At the end of the first quarter of 2004, the VitaHealth group had achieved sales of 97% of budget, but EBIT was below budget by almost SGD$200,000. Gross margins have been below budget as our cost of product and freight costs have been negatively affected by the new arrangements post-Pan. We expect gross margin to return to budget levels as the year progresses. For 2003, a relative bright spot was the performance of Herbs of Gold in Australia, where sales are back up to pre-recall levels, and growing.

Another negative impact in 2003 was the weakening of the Singapore dollar against the Australian dollar. This move put pressure on our margins at a time consumer confidence was low, hence making it difficult to raise prices to restore margins.

In Asian and Australian markets, 2003 was a year of successful new product introductions. In total, over 25 new products were introduced. It was the rapid introduction of these new products which allowed us to regain sales momentum after our existing products were decimated by the Pan affair. We also took the opportunity of the Pan debacle to prune our product portfolio and to begin working with new suppliers from the USA, Europe and Asia. We have enjoyed, and hereby acknowledge, the support of our suppliers, and believe it will be rewarded. In other areas, new packaging is gradually being phased-in and our Herbs of Gold brand commenced its roll out in Singapore in December 2003.

The strategic foundation of VitaHealth, as measured by the product portfolio, the care and maintenance of our brands, our management processes and the quality of our people, has never been better. The challenge is to overcome the effects of prior mismanagement and fraud, and the Pan recall, as well as to manage major litigation.

Vita Medical

In 2003 Vita Medical had sales of $7.7 million and PAT (after extraordinary items) a loss of ($2.93) million). Before write-offs and management charges VML's PBIT was AUD$1.77 million, or 23% of sales. Vita Medical had an outstanding year in Australia/New Zealand (27 Technegas generators placed or sold vs. 12 in 2002); excellent success penetrating the Canadian market (11 generators placed/sold in the first 6 months of operation with consumable sales beginning in 2004); a fair result in Asia (11 generators vs. 8) where the SARS outbreak substantially dampened our progress; but enjoyed only a small improvement in Europe (46 generators vs. 40 in 2002). Worldwide sales of consumables exceeded 3000 boxes, but only improved 1% on 2002, with Europe flat.

In 2004 we expect to see continued expansion in Canada; sales in Latin America for the first time; fewer generator sales in Australia and New Zealand but stable sales of consumables; and a significant increase in Asian sales. Most important, however, will be an improvement in our European business. Although Technegas is well established and the market is not growing, we expect to grow our market share (especially in Germany and Italy) and penetrate selected Middle Eastern hospitals in order to grow our business. In total, sales of consumables are expected to rise about 10%, but this is a combination of low growth in most markets with 70% of the overall volume increase coming from new sales in Canada.

At the end of the first quarter of 2004, the Vita Medical group was AUD$320,000 ahead of budgeted EBIT. Net sales were 3.5% ahead of budget and inventory had been reduced by AUD$230,000 versus year-end 2003.

The progress of the New Drug Application (aimed at getting Technegas approved for use in the USA) was slower than expected in 2003. Our tight cash position caused us to slow the trials taking place in Australian hospitals. We also encountered some issues at the end of 2003 with the FDA related to the format of our protocol. We have now cut spending and put the program into hibernation pending improved cash flow at VLS and an acceptable review of our protocol by the FDA. Therefore, we will not be submitting the NDA in 2004 and cannot enter the US market until or unless we complete the process. We have written off the, approximately, AUD$3.5 million of carrying value of the NDA program.

Vimed BioSciences

Our research effort into Thrombotrace made good, if slower than planned, progress in 2003. As in the case of the NDA, a lack of cash caused us to slow our efforts. Nonetheless, a working Thrombotrace generator has been in place at our laboratory at the ANU in Canberra and the database necessary to support any future requests for regulatory approval is well-structured. We are at the stage where animal experiments can now be conducted.

Unfortunately, however, we do not have the resources to continue funding Vimed at the previous level. We are attempting to put in place a much scaled-down effort. Dr David Shaw is no longer with Vimed and we are negotiating with the ANU regarding our joint, on-going participation. If we are unable to put in place a new set of arrangements Vimed will be put into administration. (A resolution seeking approval for this action was approved by Noteholders in late April). We have written off the capitalised expenses and carrying value which totalled about AUD$5 million.

Legal Issues

The case against Mr. Pang, the former Managing Director of VLS, began in the High Court of Singapore on 8 March 2004 and the closing oral submissions are scheduled for 28th-29th June. The background to this matter has been well ventilated and there are no new developments of substance. However, our case was well presented in court, and we remain confident of its strength.

Vita Medical is in a temporary stand-still situation with Nordion in Australia, though the related lawsuit in France is set to continue.

Several legal actions of lesser impact are on-going in Malaysia (where Vita is suing Pharmatech, Pang and others for passing-off and other offences) and Australia (where Vita is being sued for unfair dismissal and breach of contract).

In 2003 VLS spent over a million dollars in legal costs. The cost of the management distraction is impossible to measure. This is a huge burden for a company of our size, and is, obviously, a large negative cash-flow. We look forward to resolving all actions, on sensible and acceptable terms, as soon as possible.

Financing

The issuing of convertible notes in 2003 has created debt of $16.4 million to a group of noteholders, many of whom are existing shareholders. Interest on these notes amounts to about $1.7 million per annum. The first interest payment was substantially met with some professional investors taking more notes in lieu of cash. In principle agreements are in place for the July interest payment to be made via the issue of additional notes in lieu of cash. The on-going servicing of this debt is a challenge which is factored into our budget.

Other

As foreshadowed above and in the recent letters to shareholders and noteholders, the future course of action for Vita Life is to realise value through:

1. Conserving cash by deferring or ceasing the spending on market development and research activities.
2. Eliminating to the largest possible extent, the activities and expenditures of the corporate office of Vita Life; and
3. Ultimately selling, in whole or in part, the restructured VitaHealth group; and
4. Considering the future ownership of Vita Medical.

One clear implication of this strategy is that the role of the Managing Director of Vita Life will be very substantially altered and will ultimately disappear. While I support, and am one of the architects of this strategy, I also believe the most sensible approach to this new reality is to recognise it and manage the transition as smoothly as possible. Consequently, I have offered my resignation which the Board has accepted, with effect from 30 June 2004. The Board believes that considering the timing of the resignation and the structural changes anticipated in the business, the impact will be manageable.

Summary

The originally-conceived vision of the future of VLS has had to be substantially modified in the face of on-going difficulties, in particular the Pan recall. Our current approach is to focus on the near-term viability of VitaHealth, and to set it and Vita Medical on separate paths aimed at realising their inherent value. We believe this can be achieved but requires a strictly short-term focus which has compromised our NDA for Technegas and our research program.

While the company faces considerable difficulties, our overall objective remains to deliver as much value to shareholders as possible.

G K Adams
Managing Director
Sydney
5 May 2004

Director's Report

Your directors present their report on the consolidated entity consisting of Vita Life Sciences Limited and the entities it controlled at the end of, or during, the year ended 31 December 2003.

Directors

The following persons were directors of Vita Life Sciences Limited during or since the end of the financial year:

Vanda R Gould
Gerald K Adams
John S Sharman

Vanda Gould held office during the whole financial year and continues in office at the date of this report.

Gerald Adams held office during the whole financial year and continues in office at the date of this report.

John Sharman held office during the whole financial year and continues in office at the date of this report.

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of:

(a) packaging, sales and distribution of vitamins and supplements, and
(b) manufacture and sale of medical diagnostic equipment including associated research and development

Dividends – Vita Life Sciences Limited

The directors have resolved not to pay a final dividend for the year.

Matters subsequent to the end of the financial year

- Assignment/sale of insurance proceeds

  Certain of the Company's subsidiary companies have a claim against ACE Insurance Limited and against the Administrator of Pan Pharmaceutical. The company has entered into an agreement on commercial arms length terms with a third party and used these claims to secure $1 million.

- Managing Director

  Mr Gerald Adams, Managing Director of Vita Life Sciences Limited, has offered his resignation effective 30 June 2004, which the Board has accepted.

- Pan administration – dividend

  Subsidiary companies of Vita Life have lodged claims amounting to A$16 million against Pan Pharmaceuticals, including amounts for loss of profit. The Administrator has not admitted any amount as a final claim as at the date of this report. However, we expect that at least half of our total claim will be admitted. The Administrator has advised that a first dividend (which we anticipate may be between 15-20 cents in the dollar of our final admitted claim) is expected within the next two or three months.

- Issue of new shares and restructure of the VitaHealth division

The VitaHealth group is currently being restructured. At the conclusion of the restructure, the VitaHealth group will be in a position to conclude an agreement to issue new shares for 10% of Vita Healthcare Asia Pacific Sdn Bhd ("VHAP") (the newly created holding company for the assets of the VitaHealth group of companies) to a strategic investor – Vital BioTech Holdings Limited ("Vital BioTech").

Vital BioTech is a listed company on the Hong Kong stock exchange. It distributes pharmaceutical products throughout China and has substantial proprietary technology in the area of drug delivery. Additional information about Vital BioTech can be gained at its website on www.vitalbiotech.com.

VitaHealth's agreement with Vital BioTech is in two parts and provides for:

1. The new holding company of the VitaHealth group, VHAP, to issue new shares equivalent to 10% of its capital in return for SGD2.225 million.

2. The issue of new shares to Vital BioTech is part of an agreement which results in VHAP then committing SGD1.0 million to purchase a 21% interest in a joint venture company, with Vital BioTech owning the remaining 79%. The purpose of the joint venture is to distribute VitaHealth products in China and the main points of interest about the joint venture agreements are noted below:

   a. the SGD1 million committed by VHAP is expected to be drawn down in two tranches over approximately 2 months;

   b. concurrently, Vital BioTech has committed to inject SDG3.5 million into the joint venture company in three tranches over the first 4 months of operation;

   c. VHAP has agreed to lend an additional SGD1.225 million to the joint venture. The drawdown of this loan is expected to occur sometime towards the end of the first year of operation;

   d. the funds for the loan from VHAP to the joint venture company will be obtained by using a bank facility which is ultimately secured by a third party guarantor. Details of the guarantee arrangements are as follows:

      i. VHAP/VLS has agreed to pay a guarantee fee (via the issuing of new shares) equivalent to 5% of its issued capital; or

      ii. in certain circumstances where VHAP is not listed on the Singapore or Malaysian stock exchanges within approximately 3 years (20 February 2007), then the loan made to the joint venture company will not be repaid to VHAP and the guarantor will be called upon to make good its guarantee. In this circumstance the guarantor will have caused the payment of SGD1.225 million to VHAP which has agreed (via the issuing of new shares) that the guarantee fee will become 10% of its issued capital. Where VHAP is not listed on the Singapore or Malaysian stock exchanges within approximately 3 years (20 February 2007) there are arrangements in place to buy back Vital BioTech's 10% holding for a nominal value thus ensuring that only 10% of VHAP's shares are owned by third parties.

   e. should VHAP be listed on the Singapore or Malaysian stock exchange, VHAP has the option to buy a controlling stake of the joint venture company and ultimately it has the option to purchase 100% of the company. Conversely Vital has the option to require VHAP to acquire its interest in exchange for shares.

Vital BioTech has had considerable success to date in distributing product in China and we believe that by establishing this joint venture, VitaHealth has a unique opportunity to gain a foothold in the Chinese market.

- Vimed BioSciences and the New Drug Application ("NDA") for Technegas in the USA

  Shareholders are aware that the financial situation of Vita Life is extremely difficult and the Company is at the cross roads in terms of its future. In an effort to preserve the integrity of the existing businesses and to preserve our cash we have ceased all discretionary spending and suspended the NDA programme. As at the time of this report we continue to negotiate with various stakeholders in relation to the future of Vimed BioSciences Pty Ltd. Where a satisfactory outcome cannot be reached in terms of the future of Vimed BioSciences Pty Ltd the directors may be forced to place it into voluntary administration. We are currently negotiating with the Australian National University over the future of Vimed BioSciences technology "Thrombotrace", however no final position has been reached.

  In relation to the NDA programme, we have tried to ensure that we are in a position to recommence the programme once funds become available. We cannot give any guidance as to when, if ever, the NDA programme will be recommenced.

Environmental regulation

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.

Information on directors

Director	Experience	Special responsibilities	Particulars of directors' interests in shares and options of Vita Life Sciences Limited		Particulars of directors' interests in Convertible Unsecured Notes of Vita Life Sciences Limited	
			Ordinary shares	Ordinary options	Ordinary shares	Ordinary options
V R Gould B.Comm. M.Comm. FCA, FCPA	Non-executive director for 3.5 years. Chairman for 3.5 years. Director of several public and private companies.	Non-executive Chairman. Chairman of the Audit Committee and the Remuneration Committee.	7,790,699	-	-	4,464,546
G K Adams MBA	Managing Director for 1.5 years. Former Managing Director and General Manager of multinational companies.	Managing Director	-	2,550,000	-	-
J S Sharman B.Ec, Master of Applied Finance, ICAA	Non-executive director for 1.5 years. Investment Director for CVC Venture Managers Pty Limited. Former Director of Finance and Treasury of major accounting practice.	Member of the Audit Committee and the Remuneration Committee	30,000	-	-	-

Meetings of directors

The number of meetings of the company's board of directors held during the year ended 31 December 2003 were:

	Board meetings attended	Eligible to attend
V R Gould (Chairman)	10	11
G K Adams (Executive Director)	11	11
J S Sharman (Non-Executive Director)	11	11

During the financial year, remuneration and audit committee discussions were performed at board level.

Retirement, election and continuation in office of directors

No directors retired during the year.

No directors were elected during the year.

Directors' and executives' emoluments

The remuneration committee, consisting of non-executive directors, advises the board on remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as base salary, remuneration packages include superannuation, retirement and termination entitlements, performance related bonuses and fringe benefits. Executives are also eligible to participate in the Vita Life Sciences Directors' Share Option Plan or Employees' Share Option Plan as appropriate.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

Remuneration and other terms of employment for the Managing Director and other senior executives are formulised in service agreements.

Remuneration of non-executive directors is determined by the board within the maximum amount approved by the shareholders from time to time.

As disclosed later in this report, CVC Venture Managers Pty Ltd has received fees for services provided during the year. Vita Life Sciences Limited pays CVC Venture Managers Pty Ltd a monthly amount of $14,533 (including GST) for Mr J S Sharman in relation to his secondment to Vita Life Sciences Limited. Mr Vanda Gould does not receive any remuneration from CVC Venture Managers Pty Ltd. The additional remuneration is disclosed in Note 33.

The board undertakes an annual review of its performance and the performance of the board committees against goals set at the start of the year.

Details of the nature and amount of each element of the emoluments of each director of Vita Life Sciences Limited and each of the two officers of the company and the consolidated entity receiving the highest emoluments are set out in the following tables.

Non-executive directors of Vita Life Sciences Limited

Name	Director's base fee $
V R Gould	30,000
J S Sharman	15,000

No directors fees have been paid to Mr Gould since July 2002. The Company has however accrued $45,000. No directors fees have been paid to Mr Sharman since his appointment. The Company has accrued $17,500.

Executive directors of Vita Life Sciences Limited

Name	Base salary $	Bonus $	Superannuation $	Total $
G K Adams *Managing Director*	344,036	-	30,964	375,000

Other executives of Vita Life Sciences Limited

Name	Base salary $	Bonus $	Superannuation $	Total $
B Ryan-Agnew *Finance Manager (commenced 6/11/03)*	96,330	-	8,670	105,000

Other executives of the consolidated entity

Name	Base salary $	Motor vehicle $	Bonus $	Superannuation $	Other benefits $	Total $
D D Shaw *Chief Operating Officer Vimed BioSciences*	$269,941	$25,211	-	$24,294	-	$319,446
D O'Hare *General Manager Vitamedica Group*	$122,500	$22,840	-	$12,250	$3,485	$161,075
S Ang *Managing Director VitaHealth Lab Singapore*	$140,630	$19,951	$16,476	$10,505	-	$187,562
M Trevaskis *Country Manager – VitaHealth Australia*	$115,000	$20,000	$7,414	$10,350	-	$152,764
J Goh *Operations Manager – VitaHealth Lab Malaysia*	$89,579	$4,570	$7,465	$9,334	-	$110,948

Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of Vita Life Sciences Limited granted during or since the end of the financial year to any of the directors or the 5 most highly remunerated officers of the company and consolidated entity as part of their remuneration were nil.

Shares under option

A summary of the current shares under option are:

Director	Options granted
G K Adams	2,550,000

The options were granted under the Vita Life Sciences Directors' Share Option Plan on 31 May 2002.

Date options granted	Expiry Date	Exercise Price	Options issued
20 June 2001	29 May 2004	$2.55	300,000
31 May 2002	31 May 2005	$1.50	750,000
31 May 2002	31 May 2006	$2.75	750,000
31 May 2002	31 May 2007	$3.00	750,000
			2,550,000

No options have been granted since the end of the financial year. All options expire on the earlier of their expiry date or termination of employment. During and since the end of the financial year no options were exercised.

Insurance of officers

During the current financial year, the parent entity paid a premium of $23,171 (2002: $59,578) to insure certain Officers of the Company and related corporate identities on the basis of providing 'Run Off Cover'. This insurance only provided cover in regard to new issues arising during 2003 that related to the year 2002 and prior.

The Officers of the company who were not covered by any insurance policy include the Directors, the Company Secretary and Executive Officers.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an

indemnify its directors and officers for a liability to a third party unless it arises out of conduct which is not in good faith.

This is resolved in particular as the company has, to date, been unable to procure directors and officers insurance from the period beginning 1 January 2003.

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.)

Related party transaction

During the year CVC Venture Managers Pty Ltd ACN 002 700 361 was appointed as lead advisor and manager of the Unsecured Convertible Note issue and received $143,056 for that service including reimbursement expenses. Mr John Sharman and Mr Vanda Gould are both Directors of CVC Venture Managers and Vita Life Sciences.

In October 2003, Mr Sharman agreed to a short term secondment to undertake the role of Finance Director for Vita Life. CVC Venture Managers receives a monthly fee for that service. Mr Sharman in currently engaged full time for Vita Life Sciences.

In total, Vita Life paid CVC Venture Managers $205,770.99 during the 2003 financial year.

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.

State of Affiars

1. Convertible Unsecured Notes

During the year the Company issues $16.3 million Convertible Unsecured Notes (“Notes”) by way of its prospectus dated 13 March 2003 and Supplimentary Prospectus dated 19 May 2003. Full details of the terms and condition of these Notes are contained in these two documents. Briefly the Notes have the following characteristics:

(a) The first instalment of Notes were issued on 19 May 2003

(b) Interest on the notes accrues at 10.75% per annum

(c) Interest is payable on each 1 January and 1 July

(d) Each note can be converted into four ordinary shares on any 30 June or 31 December in 2004, 2005 and also at the Maturity Date being 14 April 2006

(e) Notes may be redeemed on 14 April 2006 (or earlier if there is an event of default)

(f) The Notes are secured by a fixed and floating charge over certain companies within the group

During the year certain Note holders agreed to receive additional Notes in leiu of their cash entitlement. The Company expects that the July interest instalment will also be met mostly by issuing additional Notes in leiu of interest

2. Asset write downs

(a) Vimed – During the year the Company took steps to substantially reduce the research and development expenditure being incurred on Vimed. Accordingly the Company has written off the entire carrying value of the Vimed being $3,031,686

(b) New Drug Application - During the year the Company took steps to substantially reduce the expenditure being incurred on New Drug Application program in the USA for Technegas. Accordingly the Company has written off the entire carrying value of the New Drug Application being $3,516,841

Other directors report disclosure requirements

The following have been disclosed in the Managing Director’s report:

- Review of operations;
- Significant changes in the state of affairs, and
- Likely development and expected results of operations.

This report is made in accordance with a resolution of the directors.

V R Gould
Chairman
Sydney
5 May 2004

Corporate Governance Statement

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, unless otherwise stated.

The Company is a holding company and its main corporate governance practices, as applied to all subsidiary companies, are summarised below.

Board composition

The Board is responsible to Shareholders for the Company's overall corporate governance. For the majority of the year the Board was comprised of two Non-Executive Directors and one Executive Director. Mr Sharman was seconded to an Executive role as Finance Director in October 2003. The chairman, Mr V R Gould, is a Non-Executive Director.

The Board's responsibilities include:

- Establishing the criteria for Board membership;
- Reviewing the composition of the Board;
- Identifying and nominating possible new candidates for the Board and assessing proposed new appointments;
- Reporting to shareholders;
- Reviewing and determining strategic direction and policy; and
- Establishing management goals and monitoring their achievement.

In addition to the eleven scheduled full meetings each year, other meetings may be held at short notice as required.

Appointment and retirement of Non-executive directors

It is the Board's policy to consider the appointment and retirement of Non-Executive Directors on a case-by-case basis. In doing so, the Board must take into account the requirements of the Constitution and the Corporations Law.

Currently, the Board requires Directors to be re-elected by rotation at least every three years, and they must retire at the Annual General Meeting following their seventieth birthday.

Remuneration arrangements for Directors and Senior Executives

The Remuneration Committee currently comprises Mr V R Gould, Chairman of the Remuneration Committee and Mr J S Sharman.

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.

In determining the remuneration to be paid to Non-Executive Directors, consideration is given to the level of remuneration given by companies of comparable size and type.

Retiring Non-Executive Directors are not currently entitled to receive a retiree allowance.

Audit Committee

Due to the size of the Company we have not reconstituted the Audit Committee. Issues usually dealt with by the Audit Committee are addressed at Board level and include:

- the appointment as external auditors, and the terms and conditions of their appointment;
- Reviewing the performance of the external auditors and monitoring the level of fees charged;
- Monitoring compliance with the Corporations Law and other legal requirements;
- Reviewing internal and external audit reports and evaluating for the Board the adequacy of internal controls and management responses – this task includes identifying any deficiencies or breakdowns in controls and ensuring that appropriate remedial action is taken.

Investment and business risk management

The Board makes decisions on investments for the company, considering 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.

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.

Independent professional advice

In fulfilling their duties, each Director and each committee of the Board dealing with corporate governance matters may obtain independent professional advice at the Company's expense. Prior approval of the Chairman is required, whose approval must not be unreasonably withheld.

Shareholdings by directors

Company policy restricts trading by the Directors in their shares to certain times and circumstances.

Ethical standards

The Board endeavours to ensure that the Directors, Officers and employees of Vita Life Sciences act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. All officers and employees are expected to:

- Comply with the law;
- Act in the best interests of the Company;
- Be responsible and accountable for their actions; and
- Observe the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

	Note	Consolidated		Company	
		2003	2002	2003	2002
		$	$	$	$
Revenue from ordinary activities	2	**23,208,708**	**14,112,356**	**925,866**	**2,455,982**
Changes in inventories of finished goods and work in progress	3b	2,303,869	(3,551,767)	-	-
Raw materials and consumables used	3b	(8,510,426)	(6,599,966)	-	-
Employee expenses		(6,468,333)	(8,724,381)	(844,324)	(961,990)
Advertising and promotion expenditure		(3,610,959)	(5,575,950)	(118)	(15,802)
Depreciation and amortisation expenses	3b	(948,661)	(1,320,171)	(29,193)	(27,575)
Borrowing costs	3b	(1,785,393)	(550,454)	(1,698,773)	(285,311)
Research and development expense	3b	(95,969)	(52,161)	-	-
Professional and consultancy costs		(218,788)	(327,109)	(95,568)	(120,988)
Insurance		(328,446)	(346,783)	(97,022)	(103,817)
Motor vehicle costs		(219,877)	(322,656)	(4,982)	(729)
Occupancy		(1,793,923)	(1,510,609)	(192,738)	(208,734)
Travel and accommodation		(895,660)	(1,288,102)	(189,905)	(282,825)
Provisions & write offs		(8,499,740)	(9,699,837)	(10,347,907)	(27,163,865)
Legal costs		(1,284,480)	(2,842,855)	(750,496)	(1,443,977)
Unrealised foreign exchange loss		(941,900)	(564,782)	-	-
Pan Pharmaceutical recall costs		(4,820,017)	-	(18,227)	-
Other expenses from ordinary activities		(2,316,022)	(1,209,681)	(71,842)	(47,169)
Profit/(loss) from ordinary activities		**(17,226,017)**	**(30,374,908)**	**(13,415,229)**	**(28,206,800)**
Income tax (expense) / benefit relating to ordinary activities	5a	(291,841)	415,496	-	(888,169)
Net profit/(loss)		**(17,517,858)**	**(29,959,412)**	**(13,415,229)**	**(29,094,969)**
Net (profit)/loss attributable to outside equity interests		90,087	115,822	-	-
Net profit/(loss) attributable to members of the parent entity	22	**(17,427,771)**	**(29,843,590)**	**(13,415,229)**	**(29,094,969)**
Non-owner transaction changes in equity					
Net exchange difference on translation of financial statements of self-sustaining foreign operations	21	(934,172)	(1,128,621)	-	-
Total changes in equity from non–owner related transactions attributable to members of the parent entity	25	**(18,361,943)**	**(30,972,211)**	**(13,415,229)**	**(29,094,969)**
Basic earnings per ordinary share	6	(35.4) Cents	(57.8) Cents		
Diluted earnings per ordinary share	6	(35.4) Cents	(57.8) Cents		

The statements of financial performance are to be read in conjunction with the accompanying notes.

Statements of Financial Position
as at 31 December 2003

	Note	Consolidated		Company	
		2003	2002	2003	2002
		$	$	$	$
Current Assets					
Cash assets	8	679,696	1,784,947	179,506	99
Receivables	9	2,283,795	4,030,951	18,559	241,604
Inventories	10	5,693,160	6,776,502	-	-
Other	11	844,658	390,508	40,095	9,231
Total Current Assets		**9,501,309**	**12,982,908**	**238,160**	**250,934**
Non Current Assets					
Receivables	9	-	-	3,097,354	5,645,406
Other financial assets	12	2,000	2,000	6,553,344	7,384,342
Property, plant & equipment	13	2,391,221	2,964,473	52,866	65,362
Intangibles	14	7,678,160	8,162,289	-	-
Deferred tax assets	5d	-	151,422	-	-
Other	15	24,409	4,623,835	-	-
Total Non Current Assets		**10,095,790**	**15,904,019**	**9,703,564**	**13,095,110**
Total Assets		**19,597,099**	**28,886,927**	**9,941,724**	**13,346,044**
Current Liabilities					
Payables	16	9,046,910	7,542,553	1,663,128	1,654,754
Interest bearing liabilities	17	1,221,744	3,776,856	-	1,348,206
Current tax liabilities	5b	200,149	524,846	-	104,363
Provisions	19	1,282,058	1,200,532	877,127	767,872
Total Current Liabilities		**11,750,861**	**13,044,787**	**2,540,255**	**3,875,195**
Non Current Liabilities					
Interest bearing liabilities	17	17,062,047	5,944,145	16,708,723	5,362,874
Deferred tax liabilities	5c	-	667,674	-	-
Provisions	19	111,395	113,814	19,950	19,950
Total Non Current Liabilities		**17,173,442**	**6,725,633**	**16,728,673**	**5,382,824**
Total Liabilities		**28,924,303**	**19,770,420**	**19,268,928**	**9,258,019**
Net Assets		**(9,327,204)**	**9,116,507**	**(9,327,204)**	**4,088,025**
Equity					
Contributed equity	20	37,831,445	37,831,445	37,831,445	37,831,445
Reserves	21	(177,837)	756,335	-	-
(Accumulated losses)	22	(46,792,538)	(29,364,767)	(47,158,649)	(33,743,420)
Shareholders' equity attributable to members of the Company		(9,138,930)	9,223,013	(9,327,204)	4,088,025
Outside equity interest in controlled entities	24	(188,274)	(106,506)	-	-
Total Equity	25	**(9,327,204)**	**9,116,507**	**(9,327,204)**	**4,088,025**

The statements of financial position should be read in conjunction with the accompanying notes.

	Note	Consolidated		Company	
		2003	2002	2003	2002
		$	$	$	$
Cash flows from operating activities					
Cash receipts in the course of operations		18,410,187	28,120,003	300	-
Cash payments in the course of operations		(27,952,302)	(30,368,448)	(2,719,066)	(1,935,382)
Dividends received		-	500	-	-
Interest received		66,232	29,243	47,209	12,334
Borrowing costs		(374,784)	(559,271)	(309,768)	(282,655)
Income taxes paid	5b	(629,033)	(425,533)	(48,898)	(168,710)
Grant income		-	160,000	-	-
Other		128,999	(157)	10,142	7,637
Net cash provided by / (used in) operating activities	31b	**(10,350,701)**	**(3,043,663)**	**(3,020,081)**	**(2,366,776)**
Cash flows from investing activities					
Loans to controlled entities		1,239,745	-	(5,766,884)	(3,425,009)
Payments for property, plant and equipment		(285,925)	(273,351)	(3,618)	(12,556)
Proceeds from sale of property, plant and equipment		-	284,295	-	-
Proceeds on sale of investments		-	64,391	-	-
Proceeds on disposal of subsidiary	29b	184,400-	-	-	-
Payments for research and development		-	(1,228,466)	-	-
Payments for FDA approval capitalised		-	(923,643)	-	-
Net cash provided by / (used in) investing activities		**1,138,220**	**(2,076,774)**	**(5,770,502)**	**(3,437,565)**
Cash flows from financing activities					
Proceeds from issue of shares		550,767	-	-	-
Proceeds from borrowings		12,,258,152	6,132,150	11,818,196	5,334,407
Repayment of borrowings		(3,665,030)	(331,783)	(3,350,000)	(63,559)
Finance lease payments		-	(79,716)	-	-
Dividends paid		-	-	-	-
Net cash provided by / (used in) financing activities		**9,143,889**	**5,720,651**	**8,468,196**	**5,270,848**
Net increase (decrease) in cash held		**(68,592)**	**600,214**	**677,613**	**(533,493)**
Cash at beginning of the financial period		(264,669)	(864,883)	(498,107)	35,386
Cash at the end of the financial period	31a	**(333,261)**	**(264,669)**	**179,506**	**(498,107)**
Non-cash financing and investing activities	31b				

The statements of cash flows are to be read in conjunction with the accompanying notes.

Note 1. Statement of significant accounting policies

The significant policies which have been adopted in the preparation of these Financial Statements are:

(a) Basis of preparation

The Financial Statements are a general-purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non current assets.

These accounting policies have been consistently applied by each entity in the economic entity and, except where stated, are consistent with those of the previous year.

(b) Going concern

As at 31 December 2003, the Company's and economic entity's liabilities exceeded assets by $9,327,204 and current liabilities exceeded current assets by $2,302,094 (company) and $2,249,552 (economic entity).

Subsequent to balance date, a further $1,000,000 funding has been obtained from the sale/assignment of the group's rights against insurers and the liquidator of PAN Pharmaceuticals (refer note 37), deferred payment arrangements have been negotiated with creditors and positive cash flows have been generated from current operations. Subject to the continued support of the major noteholders to capitalise the note interest obligations, the Directors believe that the company has adequate funding to continue operations for at least 12 months from the date of approval of this financial report. The longer- term ability to continue as a going concern is dependent upon the return to profitable operations and ongoing positive cash flows from operations and/or sale of the underlying businesses. Consequent to this further financial support, the Directors believe it appropriate to prepare the financial statements on a going concern basis.

The Directors note that in the alternative, and in particular, any further deterioration in the operating performance or cash flows of the underlying businesses, circumstances may require the company and/or certain controlled entities be placed in external administration. If part or the whole of the economic entity is not able to continue as a going concern, it may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts and/or to the amounts and classification of liabilities that might be necessary in that eventuality.

(c) Principles of consolidation

Controlled entities
The statements of controlled entities are included from the date control commences until the date control ceases.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Joint venture entities
Unless consolidated due to the existence of effective control, investments in joint ventures entities, including partnerships, are accounted for using the equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the joint venture entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in consolidated reserves.

(d) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sale of goods
Revenue from the sale of goods is recognised (net of returns, discounts and allowance) only when the following conditions are satisfied:

(i) the risks and rewards of ownership of the goods has transferred to the customer;

(ii) it is probable that the economic benefits associated with the transaction will flow to the Company;
(iii) the amount of revenue can be measured reliably.

Consequently, transfers of goods to major distributors are considered as consignment inventory and revenue is recognised upon the achievement of “in-market” sales.

Interest revenue
Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets
The net profit from non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Any related balance in the asset revaluation reserve is transferred to the capital profits reserve on disposal.

Dividends
Revenue from dividends and distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

Revenue from dividends from associates is recognised by the parent entity when dividends are received.

Revenue from dividends from other investments are recognised when received.

Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

Research and development grants
Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue. Where a grant is received relating to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred research and development costs.

Contribution of assets
Contribution of assets and contributions to assist in the acquisition of assets, being non-reciprocal transfers, are recognised as revenue at fair value of the asset received when the consolidated entity gains control of the contribution.

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(f) Foreign Currency Transactions

Transactions
Foreign currency transactions are translated to Australian currency at the rate of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that day.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account in the profit and loss account in the financial year in which the exchange rates change, as exchange gains or losses.

Translation of controlled foreign entities
The balance sheets of the controlled entities incorporated overseas (being self sustaining foreign operations) are translated at the rates of exchange ruling at balance date. The profit and loss accounts are translated at an average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

(g) Borrowing costs

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) Income Tax

The group filed its tax returns, commencing 1 July 2002, on a consolidated basis. The Company acts as the head entity of the tax consolidation group.

Income tax expense is calculated on operating profit, adjusted for any permanent differences between taxable and accounting income.

The tax effect of timing differences which arise from items being brought to account in different accounting periods for income tax and accounting purposes is carried forward in the balance sheet as a future income tax benefit or a deferred income tax liability.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits, which relate to tax losses, are only brought to account when their realisation is virtually certain.

(i) Acquisition of assets

All assets acquired including property, plant and equipment and intangible assets are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

The costs of assets constructed or internally generated by the consolidated entity, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets.

Subsequent additional costs
Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Costs that do not meet the criteria for capitalisation are expensed as incurred.

(j) Revisions of accounting estimates

Revisions to accounting estimates are recognised prospectively in current and future periods only.

(k) Cash

For the purpose of the statements of cash flows, cash includes deposits at call, which are readily convertible to cash on hand and are subject to insignificant risk of changes in value, net of outstanding bank overdrafts.

(l) Receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of manufactured products include direct materials, direct labour, and an appropriate portion of variable and fixed overhead which is applied on the basis of normal operating capacity.

Net realisable value is determined on the basis of each entity's selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(n) Investments

Controlled entities
Investments in controlled entities are carried in the Company's financial statements at the lower of cost and net recoverable amount.

Joint ventures
In the Company's financial statements investments in joint venture entities other than partnerships are carried at the lower of cost and recoverable amounts. Joint venture partnerships are equity accounted for as set out in Note 1(c).

Other entities
Investments in other listed entities are measured at fair value, being the lower of cost and current quoted market price. Investments in other unlisted entities are carried at the lower of cost or recoverable amount.

(o) Leased assets

Finance leases
Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases
Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(p) Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets acquired arising upon the acquisition of a business entity, is amortised on a straight line basis over a 20 year period being the period of time during which benefits are expected to arise.

The unamortised balance of goodwill is reviewed at least annually. Where the balance exceeds the value of expected future benefits, the difference is charged to the profit and loss account.

(q) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

(r) Depreciation and amortisation

All assets including intangibles, have limited useful lives and are depreciated / amortised using the straight line method over their estimated useful lives and finance lease assets which are amortised over the term of the relevant lease or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation rate used for each class of asset are as follows:

Plant and equipment	10% - 33%
Leasehold improvements	20% - 50%
Motor vehicles	20% - 25%

(s) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received.

Subject to specific arrangements, trade accounts are normally settled within 90 days.

(t) Bank loans

Bank loans are carried in the statement of financial position at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in “Other creditors and accruals”.

(u) Employee entitlements

Annual leave

The provisions for employee entitlements to annual leave represents the amount which the Economic Entity has a present obligation to pay resulting from employees’ services provided up to balance date. The provisions have been calculated at normal amounts based on current wage & salary rates.

Long service leave

The liability for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees’ services provided up to balance date. The provisions have been calculated at nominal amounts based on current wage and salary rates.

Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Economic Entity’s experience with staff departures. Related on-costs have also been included in the liability.

(v) Deferred expenditure

Costs incurred on material items of expenditure are deferred to future financial years to the extent that management consider it is probable that the future economic benefits embodied in the expenditure will eventuate and can be measured reliably, do not relate solely to revenue that has already been brought to account and will contribute to the future earning capacity of the entity.

Deferred expenditure is amortised over the period of realisation.

(w) Research and development

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred.

All costs associated with Vimed and the NDA have been written off during the financial year.

(x) Provisions

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, except where noted below.

(y) Comparatives

Where applicable, comparative disclosures have been restated to comply with changes in reporting requirements.

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Note 2. Revenues from ordinary activities				
Revenue from operating activities				
Sale of goods	22,917,084	32,764,356	-	-
Adjustment to reflect changed terms of sale	-	(14,627,237)	-	-
Adjustment to reverse purported price increase in Malaysia	-	(4,288,837)	-	-
	22,917,084	**13,848,282**	**-**	**-**
Grant revenue	-	160,000	-	-
Licence fees	-	17,753	-	-
Management fees - controlled entities	-	-	835,000	2,418,048
	22,917,084	**14,026,035**	**835,000**	**2,418,048**
Revenue from outside the operating activities				
Gross proceeds from sale of non-current assets	184,400	-	184,400	-
Interest revenue	92,250	38,567	81,464	21,953
Other	41,974	47,754	9,401	15,981
	291,624	**86,321**	**90,866**	**37,934**
	23,208,708	**14,112,356**	**925,866**	**2,455,982**

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Note 3. Profit from ordinary activities has been determined after the following:				
(a) Individually significant expenses included in profit from ordinary activities before income tax expense:				
Product recall costs	4,820,017	-	18,227	-
Provisions and write downs of:				
- Receivables	-	4,610,222	8,729,808	-
- Investments in controlled entities	-	-	-	27,163,865
- Inventories	646,433	3,071,436	-	-
- Goodwill	-	2,018,179	-	-
- Deferred FDA costs	3,516,841	-	-	-
- Research and development costs	3,031,686	-	-	-
(b) Profit from ordinary activities before income tax expense:				
Expenses:				
Cost of goods sold	6,206,556	10,151,733	-	-
Depreciation of:				
Plant and equipment	471,834	712,564	29,193	27,575
Less capitalised depreciation expense	-	(48,179)	-	-
	471,834	**664,385**	**29,193**	**27,575**
Amortisation of:				
Product licences / trade marks	-	80,678	-	-
Goodwill	476,827	575,108	-	-
	476,827	655,786	-	-
Total depreciation and amortisation	**948,661**	**1,320,171**	**29,193**	**27,575**
Borrowing costs:				
Bank loans and overdraft	83,031	495,581	-	285,311
Finance charges on capitalised leases	-	79,622	-	-
Less capitalised interest expense	-	(24,749)	-	-
Loan interest	421,631	-	418,041	-
Interest - convertible notes	899,600	-	899,601	-
Convertible notes issue expense	377,542	-	377,542	-
Commercial bills	3,589	-	3,589	-
	1,785,393	**550,454**	**1,698,773**	**285,311**
Net bad and doubtful debts expense including movement in provision for doubtful debts	256,011	4,610,222	8,742,890	-
Net foreign exchange loss/(gain)	662,354	946,836	(1,166)	1,193
Research and development expenditure expensed as incurred	95,969	52,161	-	-
Write downs in:				
Deferred FDA costs	3,516,841	-	-	-
Goodwill	-	2,018,179	-	-
Research and development expenditure	3,031,686	-	-	-
Inventories	646,433	3,071,436	-	-
Investment in controlled entities	-	-	-	27,163,865

Net (gain)/loss on disposal of non-current assets:				
Property, plant and equipment	(33,115)	25,542	-	-
Investments	-	-	(184,400)	-

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Note 4. Auditors remuneration				
Audit services				
Auditors of the company	116,978	148,541	116,978	53,541
Other auditors	66,767	71,614	-	-
	183,745	**220,155**	**116,978**	**53,541**
Other services				
Auditors of the company	61,888	65,520	61,888	65,520
Other auditors	27,168	9,130	-	-
	89,056	**74,650**	**61,888**	**65,520**

Note 5. Taxation

The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Profit/(loss) from ordinary activities before income tax expense	**(17,226,017)**	**(30,374,908)**	**(13,415,229)**	**(28,206,800)**
(a) Income tax expense				
Income tax expense/(benefit) calculated at 30% (2002: 30%)	(5,167,805)	(9,112,472)	(4,024,568)	(8,462,040)
Increase in income tax due to:				
Amortisation and write-off of goodwill	476,827	778,166	-	-
Non-deductible expenses (including entertainment)	57,123	45,669	-	-
Write down of assets	-	343,359	-	9,054,824
Decrease in income tax expense due to:				
Effect of lower rates of tax on overseas income	-	(8,779)	-	-
Income tax expense/(benefit) on operating profit before individually significant income tax items	(4,633,855)	(7,954,057)	(4,024,568)	592,784
Individually significant income tax items:				
Tax expense on the intra-group transfer of technology not subject to rollover relief	-	(903,600)	-	-
Tax losses not carried forward as future income tax benefit	4,925,696	8,076,333	4,024,568	-
	291,841	(781,324)	-	592,784
Add: Income tax under / (over) provided in prior year	-	365,828	-	295,385
Income tax expense/(benefit) attributable to operating profit	**291,841**	**(415,496)**	**-**	**888,169**

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Income tax expense / (credit) attributable to operating profit is made up of:				
Current income tax provision	291,841	(1,392,887)	-	66,055
Deferred income tax provision	-	626,010	-	(4,476)
Future income tax benefit	-	(14,447)	-	531,205
Under / (over) provision in prior year	-	365,828	-	295,385
	291,841	**(415,496)**	**-**	**888,169**
(b) Current tax liabilities				
Provision for current income tax				
Movements during the year:				
Balance at beginning of year	524,846	1,952,149	104,363	(88,367)
Income tax paid: operating activities	(629,033)	(425,533)	(48,898)	(168,710)
	-	1,526,616	-	(257,077)
Current year's income tax expense on operating profit	291,841	(1,392,887)	-	66,055
Foreign exchange translation difference	12,495	39,646	(55,465)	-
Under / (over) provision in prior year	-	351,471	-	295,385
	200,149	**524,846**	**-**	**104,363**
(c) Deferred tax liabilities				
Provision for deferred income tax				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:				
Expenditure currently deductible for tax but deferred and amortised for accounting purposes	**-**	**667,674**	**-**	**-**
(d) Deferred tax assets				
Future income tax benefit				
Future income tax benefit comprises the estimated expense at the applicable rate of 30% on the following items:				
Provisions and accrued employee entitlements not currently deductible	**-**	**151,422**	**4,024,568**	**-**

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Future income tax benefit not taken to account				
The potential future income tax benefit in controlled entities, which are companies, arising from tax losses and timing differences have not been recognised as assets because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt:				
Tax losses carried forward	**13,984,033**	**9,058,337**	**4,024,568**	**-**

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

(ii) the relevant company and / or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company and / or the consolidated entity in realising the benefit.

	2003	2002
Note 6. Earnings per share	**No.**	**No.**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	51,869,007	51,869,007
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	51,869,007	51,869,007
	$	**$**
Adjusted net profit/(loss) used in the calculation of both basic and diluted earnings per share	(18,361,903)	(29,959,412)

Classification of securities as potential ordinary shares

The options issued in connection with the Share Option Plan are not considered dilutive and have not been included in either basic or diluted EPS calculations.

Note 7. Segment Reporting

Primary reporting – business segments

	Health		Medical		Other		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	$	$	$	$	$	$	$	$
Revenue								
External sales	15,463,193	8,887,579	7,745,515	5,172,224	-	52,553	23,208,708	14,112,356
Inter-segment sales	-	-	-	-	-	-	-	-
Total segment revenue	15,463,193	8,887,579	7,745,515	5,172,224	-	52,553	23,208,708	14,112,356
Result								
Segment result	(5,899,831)	(26,230,212)	(2,935,158)	(1,242,313)	(8,391,028)	(2,902,383)	(17,226,017)	(30,374,908)
Profit from ordinary activities before income tax expense							(17,226,017)	(30,374,908)
Income tax (expense)/benefit							(291,841)	415,496
Profit from ordinary activities after income tax							**(17,517,858)**	**(29,959,412)**
Net profit							**(17,517,858)**	**(29,959,412)**
Segment assets	2,354,542	13,436,207	5,686,578	15,272,090	11,555,979	178,630	19,597,099	28,886,927
Segment liabilities	18,946,031	8,114,444	3,210,449	2,324,182	6,767,823	9,331,793	28,924,303	19,770,420
Acquisition of non current assets	(686,189)	651,877	(1,743,560)	499,445	5,338,261	303,845	4,913,386	1,455,167
Depreciation and amortisation	472,296	783,080	123,581	452,760	352,784	84,331	948,661	1,320,171
Individually significant items								
Adjustment to reflect changed terms of sale	-	14,627,237	-	-	-	-	-	14,627,237
"Malaysia"	-	4,288,837	-	-	-	-	-	4,288,837
Product recall costs	4,801,790	-	-	-	18,227	-	4,820,017	-
Write Down of receivables	-	4,610,222	-	-	-	-	-	4,061,222
Write down in inventories	646,433	3,071,436	-	-	-	-	646,433	3,071,436
Write down of goodwill	-	2,018,179	-	-	-	-	-	2,018,179
Write down deferred FDA costs	-	-	3,516,841	-	-	-	3,516,841	-
Write down of research & development costls	-	-	-	-	3,031,686	-	3,031,686	-

Business Industry segments	**Product / services**
Health	OTC vitamins and supplements
Medical	Medical diagnostic equipment
Other	Unallocated corporate costs

Secondary reporting - geographic segments

	Australia		Asia		Europe		Other		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	$	$	$	$	$	$	$	$	$	$
External Revenue	5,364,457	9,970,897	11,766,498	866,220	5,770,699	3,222,065	15,430	(33,147)	22,917,084	14,026,035
Segment assets	9,854,945	21,688,055	4,289,424	2,295,365	5,094,975	4,800,885	357,755	102,622	19,597,099	28,886,927
Acquisition of non current assets	6,299,060	559,392	(312,129)	507,558	(1,073,545)	388,217	-	-	4,913,386	1,455,167

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

The countries in Asia include Singapore, Malaysia, Taiwan, Hong Kong, Indonesia, Philippines, Vietnam, China, Japan, Cambodia and Laos. European distributors operated from France, Belgium, England, Germany and Sweden.

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Note. 8 Cash				
Cash	501,470	1,564,713	179,506	99
Short term deposits	178,226	220,234	-	-
	679,696	**1,784,947**	**179,506**	**99**

The deposits are bearing interest at rates between 4 % and 5% per annum.

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Note 9. Receivables				
Current				
Trade debtors	2,852,698	3,634,875	31,641	23,991
Less: Provision for doubtful debts	(568,903)	(826,249)	(13,082)	-
	2,283,795	2,808,626	18,559	23,991
Other debtors	3,542,478	4,562,939	-	15,749
Less: Provision for doubtful debts	(3,542,478)	(3,542,478)	-	-
	-	1,020,461	-	15,749
Other loans	-	201,864	-	201,864
	2,283,795	**4,030,951**	**18,559**	**241,604**
Non-current				
Loans to controlled entities	**-**	**-**	**3,097,354**	**5,645,406**

Other debtor amounts generally arise from transactions outside the operating activities of the consolidated entity. Included in other debtors is a receivable for $3,542,478 (2002:$ 3,542,478) which the Company claims as owed by the former managing director. As a result of the uncertainty surrounding the ongoing litigation the Directors considered it appropriate to provide in full against this debt.

Note 10. Inventories

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Current				
Raw materials – at cost	2,918,036	1,697,509	-	-
Work in progress – at cost	-	73,192	-	-
Finished goods – at net realisable value	2,775,124	5,005,801	-	-
	5,693,160	**6,776,502**	**-**	**-**

Inventories totalling $4,103,868 (2002: $6,776,502) have been pledged as part of the assets security for the overdraft facilities. Refer note 17.

Note 11. Other current assets

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Prepayments	233,280	228,911	28,528	9,231
Security deposits	176,328	161,597	-	-
Other	435,050	-	11,567	-
	844,658	**390,508**	**40,095**	**9,231**

Note 12. Other financial assets

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Non-current				
Investments in controlled entities	-	-	6,553,344	7,384,342
Investments in listed entities – at cost	2,000	2,000	-	-
	2,000	**2,000**	**6,553,344**	**7,384,342**

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Note 13. Property plant and equipment				
Leasehold improvements				
At cost	287,332	318,637	-	-
Accumulated depreciation	(186,839)	(155,465)	-	-
	100,493	163,172	-	-
Plant and equipment				
At cost	2,167,389	3,472,129	89,896	138,245
Accumulated depreciation	(1,387,836)	(1,577,467)	(37,030)	(72,883)
	779,553	1,894,662	52,866	65,362
Leased Plant and equipment				
At capitalised cost	2,092,892	1,229,671	-	-
Accumulated amortisation	(581,717)	(323,032)	-	-
	1,511,175	906,639	-	-
Total carrying value	**2,391,221**	**2,964,473**	**52,866**	**65,362**

Reconciliations

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

	Consolidated 2003	Consolidated 2002	Company 2003	Company 2002
Buildings				
Carrying amount at the beginning of the year	-	301,967	-	-
Disposals	-	(301,967)	-	-
Carrying amount at the end of the year	**-**	**-**	**-**	**-**

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Leasehold improvements				
Carrying amount at the beginning of the year	163,172	37,482	-	-
Additions	3,464	196,520	-	-
Disposals	(24,313)	(19,738)	-	-
Amortisation	(41,830)	(50,213)	-	-
Net foreign currency differences on translation of self-sustaining operations	-	(879)	-	-
Carrying amount at the end of the year	**100,493**	**163,172**	**-**	**-**
Plant and Equipment				
Carrying amount at the beginning of the year	1,894,662	2,029,373	65,362	90,043
Additions	45,413	599,749	45,411	12,410
Disposals	(452,865)	(276,076)	(28,715)	(940)
Depreciation	(707,657)	(432,608)	(29,192)	(36,151)
Net foreign currency differences on translation of self-sustaining operations	-	(25,776)	-	-
Carrying amount at the end of the year	**779,553**	**1,894,662**	**52,866**	**65,362**
Leased plant and equipment				
Carrying amount at the beginning of the year	906,639	868,544	-	-
Additions	1,133,221	658,898	-	-
Disposals	-	(412,403)	-	-
Amortisation	(528,685)	(229,743)	-	-
Net foreign currency differences on translation of self-sustaining operations	-	21,343	-	-
Carrying amount at the end of the year	**1,511,175**	**906,639**	**-**	**-**

Note 14. Intangibles

Goodwill – at cost	11,447,490	9,429,310	-	-
Accumulated amortisation	(3,769,330)	(1,289,358)	-	-
	7,678,160	8,139,952	-	-
Patents and trademarks – at cost	128,325	187,037	-	-
Accumulated amortisation	(128,325)	(164,700)	-	-
	-	22,337	-	-
	7,678,160	**8,162,289**	**-**	**-**

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $

Note 15. Other non-current assets

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Deferred USA FDA approval costs				
Expenditure brought forward	2,199,828	1,276,185	-	-
Deferred in current period	-	923,643	-	-
Written off	(2,199,828)		-	-
	-	2,199,828	-	-
Research and development costs				
Expenditure brought forward	2,359,737	956,906	-	-
Deferred in current period	-	1,402,831	-	-
Written off	(2,359,737)		-	-
	-	2,359,737	-	-
Capital work in progress	24,409	64,270	-	-
	24,409	**4,623,835**	**-**	**-**

Note 16. Payables

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Trade creditors	4,529,665	2,703,626	381,202	378,628
Other creditors and accruals	4,517,245	4,838,927	1,281,926	1,276,126
	9,046,910	**7,542,553**	**1,663,128**	**1,654,754**

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Note 17. Interest bearing liabilities				
Current				
Bank overdraft – secured	1,012,957	2,049,616	-	498,206
Loans – secured	-	1,377,560	-	850,000
Loans – unsecured	-	26,485	-	-
Lease liabilities	208,787	323,195	-	-
	1,221,744	**3,776,856**	**-**	**1,348,206**
Non-current				
Loans – secured	-	5,362,874	-	5,362,874
Loans – unsecured	366,043	8,878	341,417	-
Lease liabilities	320,588	572,393	-	-
Convertible notes issued	16,367,306	-	16,367,306	-
Other	8,110	-	-	-
	17,062,047	**5,944,145**	**16,708,723**	**5,362,874**
Financing arrangements				
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
Bank overdrafts	1,012,957	2,049,616	-	500,000
Trade Finance	391,000	515,000	-	-
Bank Bills	-	850,000	-	850,000
	1,403,957	3,414,616		1,350,000
Facilities utilised at balance date:				
Bank overdrafts	1,012,957	2,049,616	-	498,206
Trade Finance	-	515,000	-	-
Bank Bills	-	850,000	-	850,000
	1,012,957	3,414,616	-	1,348,206
Facilities not utilised at balance date:				
Bank overdrafts	-	-	-	1,794
Trade Finance	391,000	-	-	-
Bank Bills	-	-	-	-
	391,000	-	-	1,794

Bank overdrafts:
Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 31 December 2003 is 5.75% (2002: 5.50 %).
The bank overdrafts of the controlled entities are secured by guarantees from the Company.

Bank trade finance loans:
Vita Health Laboratories Pte Ltd (Singapore) has available to it an bank overdraft available to it of AUD$1,012,957 ($1,000,000 Singapore dollars) and a AUD$391,000 ($500,000 Singapore dollars) Trade Finance facility from OCBC Bank secured by a term deposit of AUD$132,940 ($170,000 Singapore dollars).

Bank bill acceptance facility:
All bill facilities have been repaid.

Lease liabilities:
Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Convertible notes:
The convertible notes issued during the 2003 year are secured by the assets of certain operating subsidiaries of the group. The security ranks second behind senior debt and comprisies Indemnities and Guarantees supported by Fixed and Floating Charges over the assets of certain controlled entities.

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
The carrying amount of assets pledged as security are:				
Receivables	895,084	4,030,951	-	5,626,624
Inventory	2,634,844	6,776,502	-	-
Plant and equipment	268,400	2,964,473	-	65,362
	3,798,328	**13,771,926**	**-**	**5,691,986**

Note 18. 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 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
United States dollars				
Amounts payable:				
Current	366,077	(44,426)	-	-
Amounts receivable				
Current	88,437	113,155	-	-
Singapore dollars				
Amounts payable:				
Current	662,302	620,474	-	-
Amounts receivable				
Current	183,200	687,065	-	-
Euros				
Amounts payable:				
Current	1,353,075	815,226	-	-
Amounts receivable				
Current	1,332,509	1,257,123	-	-
Hong Kong dollars				
Amounts payable:				
Current	9,245	831	-	-
Amounts receivable				
Current	106,268	130,917	-	-
Malaysian Ringgits				
Amounts payable:				
Current	889,327	223,465	-	-
Amounts receivable				
Current	439,851	19,198	-	-

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
New Taiwan dollars				
Amounts payable:				
Current	4,201	58,385	-	-
Amounts receivable				
Current	-	198,912	-	-
UK Pound				
Amounts payable:				
Current	3,880	658	-	-
Philippine Pesos				
Amounts payable:				
Current	80	-	-	-
New Zealand dollars				
Amounts payable:				
Current	-	5,667	-	-
Swiss Francs				
Amounts payable:				
Current	2,741	-	-	-

Note 19. Provisions

Current:				
Employee entitlements	311,495	310,411	30,399	36,262
Replacement of goods	-	25,000	-	-
Warranties	7,500	7,500	-	-
Rebates	-	69,760	-	-
Deferred share issue	730,050	786,301	730,050	730,050
Other	233,013	1,560	116,678	1,560
	1,282,058	**1,200,532**	**877,127**	**767,872**
Non-current:				
Employee entitlements	91,445	93,864	-	-
Deferred share issue	19,950	19,950	19,950	19,950
	111,395	**113,814**	**19,950**	**19,950**

Note 20. Contributed equity

	Company 2003 Number	Company 2002 Number	Company 2003 $	Company 2002 $
Issued and paid-up share capital				
Ordinary shares, fully paid	**51,869,878**	**51,869,878**	**37,831,445**	**37,831,445**
(a) Ordinary shares				
Balance at the beginning of the year	51,869,878	51,863,534	37,831,445	37,818,440
Shares issued				
- 20 February 2002 Ordinary shares issued under Customer Incentive Plan	-	6,344	-	13,005
Balance at end of year	**51,869,878**	**51,869,878**	**37,831,445**	**37,831,445**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.
In the event of winding up the Company ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

Note 21. Reserves

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Foreign currency translation	**(177,837)**	**756,335**	**-**	**-**
Movements during the year				
Foreign currency translation				
Balance at the beginning of the year	756,335	1,884,956	-	-
Net translation adjustment	(934,172)	(1,128,621)	-	-
Balance at end of year	**(177,837)**	**756,335**	**-**	**-**

Nature and purpose of reserves

Foreign currency reserve
The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation.

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $

Note 22. Retained Profit/(Accumulated losses)

Retained profits/(accumulated losses) at beginning of year	(29,364,767)	478,823	(33,743,420)	(4,648,451)
Net profit/(loss) attributable to members of the parent entity	(17,427,771)	(29,843,590)	(13,415,229)	(29,094,969)
Retained profits/(accumulated losses) at the end of the year	**(46,792,538)**	**(29,364,767)**	**(47,158,649)**	**(33,743,420)**

Note 23. Dividends

The company did not declare any dividends during the year.

Note 24. Outside equity interests

	2003 $	2002 $
Outside equity interests in controlled entities comprise:		
Opening balance of interest	(115,822)	-
Interest in operating profit/(loss) after income tax	(90,087)	(115,822)
Interest in share capital	9,316	9,316
Exchange rate difference	8,319	-
Total outside equity interests	**(188,274)**	**(106,506)**

Note 25. Total equity reconciliation

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Total equity at the beginning of the year	9,116,507	40,182,219	4,088,025	33,169,989
Total changes in parent entity interest in equity recognised in statement of financial performance	(18,361,943)	(30,972,211)	(13,415,229)	(29,094,969)
Transactions with owners as owners:				
- contributions of equity	-	13,005	-	13,005
Total changes in outside equity interest	(81,768)	(106,506)	-	-
Total equity at the end of the year	**(9,327,204)**	**9,116,507**	**(9,327,204)**	**4,088,025**

Note 26. Financial instruments

(a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risks and the effective weighted average interest rate by maturity periods is set out in the following table:

	Note	Weighted average interest rate (%)	Floating interest rate	Fixed interest maturing in 1 year or less	Fixed interest maturing in 1 to 5 years	Non-interest bearing	Total
2003							
Financial assets							
Cash assets	8	4.5	501,470	178,226	-	-	679,696
Receivables	9		-	-	-	2,283,795	2,283,795
Investments	12		-	-	-	2,000	2,000
			501,470	**178,226**	**-**	**2,285,795**	**2,965,491**
Financial liabilities							
Payables	16		-	-	-	9,046,910	9,046,910
Bank overdrafts and loans	17	5.75	1,012,957	-	-	-	1,012,957
Loans-unsecured	17	12.00	-	366,043	-	-	366,043
Convertible notes	17	10.75	-	-	16,367,306	-	16,367,306
Lease liabilities	17		-	208,787	320,588	-	529,375
Employee entitlements	19,33		-	311,495	91,445	-	402,940
			1,012,957	**886,325**	**16,779,339**	**9,046,910**	**27,725,531**
2002							
Financial assets							
Cash assets	8	3.50	1,564,713	220,234	-	-	1,784,947
Receivables	9		-	-	-	4,030,951	4,030,951
Investments	12		-	-	-	2,000	2,000
			1,564,713	**220,234**	**-**	**4,032,951**	**6,090,898**
Financial liabilities							
Payables	16		-	-	-	7,542,553	7,542,553
Bank overdrafts and loans	17	5.50	2,049,616	26,485	8,878	-	2,084,979
Lease liabilities	17	8.91	-	323,195	572,393	-	895,588
Loans – secured	17	12.00	-	1,377,560	5,362,874	-	6,740,434
Employee entitlements	19,33		-	310,411	93,864	-	404,275
			2,049,616	**2,037,651**	**6,038,009**	**7,542,553**	**17,667,829**

(b) Off balance sheet derivative instruments

The group does not enter into forward foreign exchange contracts, or other off balance sheet derivative instruments.

Foreign currency amounts are translated at rates current at the balance date. Unhedged amounts are as disclosed at Note 18.

(c) Credit risk exposures

Credit risk on financial assets of consolidated entity which have been recognised on the statement of financial position, other than investment in shares is generally the carrying amount net of any provisions.

Credit risk represents the loss that would be recognised if counter parties failed to perform as contracted.

Significant counter parties include:	2003	2002
Zuellig Malaysia Snd Bhd, Malaysia	21%	5%
Cyclopharma Laboratoires SA, France	15%	26%
Health Minders Ltd	18%	18%
Diethelm Singapore Pte Ltd	21%	17%
Other	25%	34%
	100%	100%

(d) 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.

Net fair values

Recognised financial instruments

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

	Consolidated			
	2003		2002	
	Carrying amount $	Net fair value $	Carrying amount $	Net fair value $
Financial assets				
Cash assets	679,696	679,696	1,784,947	1,784,947
Receivables	2,283,795	2,283,795	4,030,951	4,030,951
Investments:	2,000	2,000	2,000	12,320
Financial liabilities				
Payables	9,046,910	9,046,910	7,542,553	7,542,553
Bank overdrafts and loans	1,012,957	1,012,957	2,084,979	2,084,979
Lease liabilities	529,375	529,375	895,588	895,588
Loans - secured	366,043	366,043	6,740,434	6,740,434
Convertible notes	16,367,306	16,367,306	-	-
Employee entitlements	402,940	402,940	404,275	404,275

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.

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2000 $
Note 27. Commitments for expenditure				
Operating lease commitments				
Operating lease commitments are payable:				
Within one year	207,843	562,827	-	51,840
One year or later and not later than five years	172,029	893,352	-	-
	379,872	**1,456,179**	**-**	**51,840**
Finance lease commitments				
Finance lease commitments are payable:				
Within one year	247,867	294,476	-	-
One year or later and not later than five years	352,272	758,660	-	-
	600,139	1,053,136	-	-
Less: Future lease finance charges	(70,764)	(157,548)	-	-
	529,375	**895,588**	**-**	**-**
Lease liabilities provided for in the financial statements:				
Current	208,787	323,195	-	-
Non-current	320,588	572,393	-	-
Total lease liability	**529,375**	**895,588**	**-**	**-**

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.

Note 28. Contingent assets and liabilities

Details of contingent assets and liabilities where the probability of fuure receipts/payments is not considered remote are set out below, as well as details of contingent liabilities, which although considered remote, the directors consider should be disclosed.

The Directors are of the opinion that, unless separately disclosed, provisons are not required in respect of these matters,as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

(a) Contingent assets not considered remote

VitaHealth Laboratories Pte Ltd, VitaHealth Laboratories (Hong Kong) Ltd, Vita Corporation Pte Ltd and Vita Life Sciences Limited v Pang Seng Meng Suit No. 640/2002/S. High Court of the People Republic of Singapore
The Singaporean proceedings claim the company has suffered loss and damage as a result of a number of wrongdoings and alleged breaches of the Singapore Law in particular alleged breaches of the Singaporean Companies Act by the former Managing Director, Pang Seng Meng. The claim has been amended to claim the sum of $6,661,198.11, addition to further unspecified damages to be determined by the court

The matter is set down for trial commencing 8 March 2004 and completing by 28 April 2004. The Defendant has made no counterclaim against the Plaintiffs.

VitaHealth Laboratories (Australia) Pty Ltd & Ors v Pharmatech Industries Sdn Bdh & Ors. Kula Lumpur High Court Suit No. D1-22-1551-2002
The allegations made by the Company are against the Company's contract packer and distributor in Malaysia, two senior managers in charge of the Malaysian businesses, the former Managing Director and his brother. Damages are unspecified.

The Company has settled against the Malaysian distributor. The Malaysian contract packer has lodged a counter claim for RM 10 million alleging wrongful termination of the packaging agreement.

The trial is expected to be listed for hearing sometime in 2005.

VitaHealth Laboratories Pte Ltd v Ace Insurance Limited Suit No. S1235/2003/R. High Court of the People Republic of Singapore
The claim arises out of the Pan Recall. The Plaintiff seeks the sum of S$1,000,000.00 pursuant to an insurance policy held with the Defendant. The Defendant has lodged a defence and further and better particulars of the defence have been requested. A Pre-Trial Conference has been scheduled for 17 May 2004.

The Company's legal advisers note that the Company has a very strong case.

The economic entity's interest in this claim has been reduced by the sale and assignment of rights as set out in note 28(b) below.

Pan Liquidation
VitaHealth Laboratories (Australia) Pty Ltd has filed a Formal Proof of Debt for the sum of A$4,822,464.24 and Vita Health Laboratories Singapore Pte Ltd has filed a Formal Proof of Debt in the sum of A$2,179,187. The Formal Proof of Debts contains provision for a number of claims that are the subject of dispute with the Liquidator. The Liquidator has not as yet admitted the Formal Proof of Debts. It is suspected that the final claim that the Liquidator will admit will be in the vicinity of A$8,000,000 to A$9,000,000.

The economic entity's interest in this claim has been reduced by the sale and assignment of rights as set out in note 28(b) below.

(b) Sale and Assignment of rights to ACE Insurance Limited proceeds and claims against liquidator of Pan Pharaceuticals

The economic entity has sold and assigned its rights to proceeds from claims against ACE Insurance Limited and against the liquidator of PAN Pharmaceuticals pursuant to a Deed of Sale and Assignment for a sum of $1,000,000. The assignment is limited to the sum of $1,000,000 (exclusive of interest) provided by the assignee. Accordingly, any recoveries above that amount will revert to the economic entity. This arrangement facilitated security for the provision of $1,000,000 funding to the Company.

(c) Contingent liabilities not considered remote

Kate Helena Fraser and Global Herbs Pty Ltd v VitaHealth Laboratories (Australia) Pty Ltd and Vita Life Sciences Pty Ltd File No. 6343 of 2003. Supreme Court of New South Wales
Plaintiff seeks the sum of $750,000 or alternatively $665,039.09. As the Defendants have requested Further & Better Particulars of the Plaintiffs Statement of Claim no defence has as yet been filed.

The Defendants intend defending the matter and filing a counterclaim. The particulars of the counterclaim have not as yet been finalised.

MDS Nordion SA v Vita Medical Ltd & Ors No. 50133 of 2002. Supreme Court of New South Wales and MDS Nordion France v Vita Medical Ltd & Ors. France
VML has been joined as a defendant to two separate proceedings in Australia and France. The proceedings seek damages for alleged wrongful termination of a distribution agreement between the parties in the sum of approximately 14.6 million Euros. VML ha filed a defence and counterclaim. The proceedings in Australia has progressed to mediation but has not as yet been resolved.

The French proceedings are expected to be heard sometime in 2004.

Vita Health Laboratories (Australia) Pty Ltd & Ors. V Pharmatech Industries Sdn Bdh & Ors. Kula Lumpur High Court Suit No. D1-22-1551-2002
As noted above the Malaysian contract packer has lodged a counterclaim for RM 10 million alleging wrongful termination of the packaging agreement.

(d) Contingent liabilities considered remote

Thomas Wayne Koziol v Vita Medical Limited No. IRC 1797 of 2003. Industrial Relations Commission of New South Wales
Plaintiff has filed an unfair contracts claim in the NSW Industrial Relations commission. The Plaintiff seeks damages of $219,532. The Company is defending the matter and it is expected to be set down for hearing in late 2004.

Bank facilities of controlled entities
The Company has guaranteed the bank facilities of controlled entities.

Trade Payables of Controlled Entities
The Company has guaranteed the unspecified trade payables of various controlled entities in order to attain extended settlement terms.

Note 29. Controlled entities

(a) Particulars in relation to controlled entities	Note	Place of incorporation	Ordinary Share Consolidated Entity Interest 2003 %	2002 %
Name				
Vita Life Sciences Limited	1,4	Australia		
Controlled entities				
Vimed BioSciences Pty Limited	4	Australia	100	100
Vimed BioSciences Inc		USA	100	100
Allrad No. 19 Pty Limited	4	Australia	100	100
Allrad No. 28 Pty Limited	4	Australia	100	100
Allrad No. 29 Pty Limited	4	Australia	100	100
Vita Medical Limited	4	Australia	100	100
Vitamedica Europe Limited	5	Ireland	100	100
Tetley Research Pty Limited	4	Australia	100	100
Tetley Treadmills Pty Limited	4	Australia	100	100
Lovin Pharma International Limited	5	Ireland	100	100
Power Herbs Pty Limited	4	Australia	100	100
Vita Corporation Pte Limited	6	Singapore	100	100
Swiss Bio Pharma Sdn Bhd	7	Malaysia	100	100
Vita Health Laboratories Singapore Pte Limited	6	Singapore	100	100
Vita Health Laboratories Hong Kong Limited	8	Hong Kong	100	100
Vitaron Jaya Sdn Bhd	9	Malaysia	100	100
Vita Health Laboratories Australia Pty Limited	4	Australia	100	100
Vita Health Laboratories Indochina Pte Limited	6	Singapore	100	100
Premier Foods Pty Limited	4	Australia	100	100
Herbs of Gold Pty Limited	4	Australia	100	100
Southpack Laboratories Pty Limited	2,4	Australia	-	100
Cyclomedica Europe Limited	3,5	Ireland	50	50

Notes

1. Vita Life Sciences Limited is the ultimate parent entity in the wholly owned group.
2. Southpack Laboratories Pty Limited was sold during the year.
3. Cyclomedica Europe Limited is a Joint Venture owned 50% by Vitamedica Europe Ltd and 50% by Cyclopharma Laboratoires SA (France). As a result of effective control by the VLS group, the company's results have been consolidated in full in the economic entity.
4. Audited by Gould Ralph & Company, Australia.
5. Audited by HLB Nathans, Republic of Ireland.
6.Audited by Chio Lim & Associates, Singapore.
7.Audited by Horwath Kuala Lumpur Office, Malaysia.
8 Audited by Horwath Hong Kong Group Limited, Hong Kong.
9 Audited by Yoong Siew Wah & Co., Malaysia.

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
(b) Disposal of controlled entities				
During the financial year, Southpack Laboratories Pty Limited was sold. The details are as follows:				
Cash acquired	184,400	-	-	-
Net consideration	**184,400**	**-**	**-**	**-**
Fair value of net assets of entity disposed:				
Property, plant and equipment	50,000	-	-	-
	50,000	**-**	**-**	**-**
Gain on disposal	134,400	-	-	-
Consideration	**184,400**	**-**	**-**	**-**

Note 30. Interest in joint venture operation

2003

During the financial year there was no activity in the joint venture within the People's Republic of China.

2002

During the 2002 financial year, the Company wrote off its investment of $186,725 in a Joint Venture operation where the principal activity was to be the sale and distribution of health products in the People's Republic of China.

Note 31. Notes to the statement of cash flows

(a) Reconciliation of cash

	Consolidated		Company	
	2003	**2002**	**2003**	**2002**
	$	**$**	**$**	**$**
For the purposes of the statement of cash flows, cash includes cash on hand, at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year is shown in the statements of cash flows and is reconciled to the related items in the statements of financial position as follows:				
Cash assets	679,696	1,784,947	179,506	99
Bank overdraft	(1,012,957)	(2,049,616)	-	(498,206)
	(333,261)	**(264,669)**	**179,506**	**(498,107)**

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
(b) Reconciliation of profit from ordinary activities after income tax to net cash inflow from operating activities					
Profit / (loss) from ordinary activities after income tax		(17,517,858)	(29,959,412)	(13,415,229)	(29,094,969)
Add / (less) non-cash items					
(Profit) / loss on sale of non-current assets		(134,400)	(25,542)	-	-
Amortisation / depreciation		948,661	3,338,950	29,193	27,575
Investment write off		6,548,527	186,725	8,729,808	-
Unrealised foreign exchange (gain) / loss		941,900	584,929	-	-
		(9,213,215)	**(25,874,350)**	**(4,656,228)**	**(29,067,394)**
Change in assets and liabilities:					
(Increase) / decrease in inventories		1,083,342	455,119	-	-
(Increase) / decrease in receivables		1,747,156	34,568,316	223,045	13,045
(Increase) / decrease in other loans		-	566,576	2,548.052	(2,350,576)
Increase / (decrease) in creditors		1,504,357	(4,481,171)	8,374	1,266,820
Increase / (decrease) in provisions		79,107	(1,472,747)	109,225	27,771,329
Increase / (decrease) in other liabilities		(5,551,448)	(6,805,406)	(1,252,549)	-
Net cash provided by / (used in) operating activities		**(10,350,701)**	**(3,043,663)**	**(3,020,081)**	**(2,366,776)**

Non-cash financing and investment activities:
During the financial year the consolidated entity acquired property, plant and equipment with an aggregate fair value of $658,898 (2002: $1,060,408) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

Note 32. Employee entitlements

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Aggregate liability for employee entitlements, including on costs					
Current	19	311,495	310,412	30,399	36,262
Non-current	19	91,445	93,863	-	-
		402,940	**404,275**	**30,399**	**36,262**
Number of employees					
Number of employees at year end		168	187	4	5

Employee share option plan

The Company has an employee share option plan approved at the annual general meeting on 28 May 2001.

The plan provides for employees of the Company and its controlled entities to receive options over ordinary shares at the discretion of the Board. Each option is convertible to one ordinary share. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The exercise price of the options, determined in accordance with the Terms and Conditions of the plan, is based on the weighted average price of the Company's shares traded during the five business days preceding the date of granting the option.

All options expire on the earlier of their expiry date or termination of the employee's employment.

There are no unissued ordinary shares of the Company under option as at 31 December 2003.

Note 33. Directors remuneration

	2003	2002
Directors income The number of directors of the Company whose income from the Company or any related party falls with in the following bands:		
$0 - $9,999	-	3
$30,000 - $39,999	-	1
$40,000 - $49,999	1	-
$70,000 - $79,999	-	1
$240,000 - $249,999	1	1
$340,000 - $349,999	1	-

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	1,529,758	1,188,050	800,813	424,464

Directors' income includes amounts paid by the Company during the year to indemnify directors, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses' insurance contracts, in accordance with common commercial practice.

Mr Vanda Gould receives no remuneration from CVC Venture Managers Pty Ltd.

The Company pays CVC Venture Managers Pty Ltd $14,533 per month (inclusive of GST) for Mr John Sharman's secondment as a director of the Company. Mr John Sharman receives a salary of $160,000 p.a from CVC Venture Managers Pty Ltd.

Directors share option plan

The Company has a director share option plan approved at the annual general meeting on 28 May 2001.

The plan provides for directors of the Company and its controlled entities to receive options over ordinary shares at the discretion of the Board. Each option is convertible to one ordinary share. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The exercise price of the options, determined in accordance with the Terms and Conditions of the plan, is based on the weighted average price of the Company's shares traded during the five business days preceding the date of granting the option.

All options expire on the earlier of their expiry date or termination of the director's employment.

Unissued ordinary shares of the Company under option are:

Issue date	Expiry date	Exercise price	Options issued	Options expired		Unissued shares and options available	
				2003	2002	2003	2002
20 Jun 2001	29 May 2004	$2.55	900,000	600,000	600,000	300,000	300,000
31 May 2002	31 May 2005	$1.50	750,000	-	-	750,000	750,000
31 May 2002	31 May 2006	$2.75	750,000	-	-	750,000	750,000
31 May 2002	31 May 2007	$3.00	750,000	-	-	750,000	750,000
			3,150,000	**600,000**	**600,000**	**2,550,000**	**2,550,000**

	Consolidated		Company	
	2003	2002	2003	2002
Note 34. Executives remuneration				
The number of Australian based executive officers of the Company and of controlled entities, whose remuneration from the Company or related parties, and from entities in the consolidated entity, falls with in the following bands:				
$100,000 - $109,999	1	1	1	-
$110,000 - $119,999	1	-	-	-
$130,000 – $139,999	-	1	-	1
$150,000 - $159,999	1	-	-	-
$160,000 - $169,999	1	-	-	-
$240,000-$249,999	1	1	1	1
$310,000 - $319,999	1	-	-	-
$340,000-$349,999	1	-	1	-

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is $100,000 or more	987,349	907,012	573,915	379,361

Executive officers are those officers involved in the strategic direction, general management or control of a business at a company or operating division level.

Executives' remuneration includes amounts paid by the Company during the year to indemnify executives, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses' insurance contracts, in accordance with common commercial practice.

Note 35. Related parties

Directors
The name of each person holding the position of director of Vita Life Sciences Limited during the year are Messrs V.R. Gould, G.K. Adams and J.S. Sharman.

Remuneration and retirement benefits
Details of directors' remuneration are set out in Note 34.

Loans to/(from) directors and director related entities
The year end balances of loans to/(from) directors and director related entities are as follows:

	Consolidated		Company	
	2003	**2002**	**2003**	**2002**
	$	**$**	**$**	**$**
CVC Limited	-	(1,000,000)	-	(2,000,000)
CVC Biz Vision Limited	-	(1,000,000)	-	-
V.R. Gould	(75,000)	(42,500)	(75,000)	(42,500)
J.S. Sharman	(15,000)	(2,500)	(15,000)	(2,500)
Normandy Finance and Investments Asia Limited	(341,417)	(862,864)	(341,417)	(862,864)
S.M. Pang	3,542,478	3,542,478	-	-
	3,111,061	**634,614**	**(431,417)**	**(2,907,864)**

The loans (from) V.R. Gould and J.S. Sharman represent accrued and unpaid Directors fees.

The loan to S.M. Pang represents a receivable which the Company claim is owed by him. As a result of the uncertainty surrounding the ongoing litigation the Directors have considered it appropriate to provide in full against this debt.

Directors' holdings of shares and share options

The interests of directors of the reporting entity and their director related entities in shares and share options of entities within the consolidated entity at year end are set out below:

	2003	**2002**
Vita Life Sciences Limited		
Ordinary shares		
V.R. Gould	7,790,699	11,441,450
J.S. Sharman	-	30,000
	7,790,699	**11,471,450**
Options over ordinary shares		
G.K. Adams	2,250,000	2,250,000
	2,250,000	**2,250,000**
Options in convertible unsecured notes		
V.R. Gould	4,464,546	-

Directors' transactions with the Company or its controlled entities

Directors' of the Company, or their director related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The terms and conditions of the transactions with directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arms length basis.

The aggregate amounts recognised during the year relating to directors and their director related entities were as follows:

		Consolidated		Company	
		2003	2002	2003	2002
Director	**Transaction**	$	$	$	$
V.R. Gould	Consultancy fees	205,771	-	205,771	-
J.S. Sharman	Consultancy fees	205,771	-	205,771	-
V.R. Gould	Finance charge	175,042	46,882	175,042	46,882
H.G. Townsing	Finance charge	60,862	51,769	60,862	51,769

The amounts disclosed for V.R. Gould and J.S. Sharman represents the same fees charged by CVC Venture Managers Pty Ltd.

Non-director related parties

The class of non-director related parties are:
Wholly owned controlled entities
Joint venture entities
Directors of related parties and their director related entities

Transactions

All transactions with non-director related parties are on normal terms and conditions.

The aggregate amounts included in the profit from ordinary activities before income tax expense that resulted from transactions from non-director related parties are:

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Management fee revenue				
Wholly owned controlled entities	-	-	880,000	2,418,048

The aggregate amounts of loans from entities in the wholly-owned group at balance date are

	Consolidated		Company	
	2003	**2002**	**2003**	**2002**
	$	**$**	**$**	**$**
Non-current receivables	-	-	3,097,354	5,645,406
Non-current payables	-	-	-	215,457

During the year the Company made a provision for non-recoverability of $8,729,808 (2002: $11,850,552) against these loans. This Company wrote down the value of its' investments and receivables in subsidiary companies to the value of their net assets. The amounts above are net of provisions.

Mr SM Pang has acted as guarantor for the debts owed by Vita Health Indonesia and Vita Health Philippines.

Ultimate parent entity

Vita Life Sciences Limited is the ultimate parent entity in the wholly owned group.

Note 36. Economic dependency

Zuellig Pharma Sdn Bhd is a company incorporated in Malaysia. Whilst acting as the Vita Health Laboratories Pte Limited principal distributor in Malaysia, it accounts for approximately 21% (2002: 29%) of sales by the economic entity.

Health Minders Limited is a company incorporated in Australia. It acts as a distributor for Herbs of Gold Pty Limited in Australia. It accounts for approximately 19% (2002: 19%) of sales by the economic entity.

Cyclopharma Laboratoires SA is a company incorporated in France. It acts as a distributor for Cyclomedica Europe Limited in France only. It accounts for approximately 8% (2002: 8%) of sales by the economic entity.

Note 37. Events subsequent to balance date

Matters subsequent to the end of the financial year

a) Assignment/sale of insurance proceeds

Certain of the Company's subsidiary companies have a claim against ACE Insurance Limited and against the Administrator of Pan Pharmaceutical. The company has entered into an agreement on commercial arms length terms with a third party and used these claims to secure $1,000,000 funding by sale/assignment of those rights in the aggregate of $1,000,000. Hence, any claims ultimately receivable above $1,000,000 are to the benefit of the economic entity.

b) Pan administration – dividend

Subsidiary companies of Vita Life have lodged claims amounting to A$16 million against Pan Pharmaceuticals, including amounts for loss of profit. The Administrator has not admitted any amount as a final claim as at the date of this report. However, we expect that at least half of our total claim will be admitted. The Administrator has advised that a first dividend (which we anticipate may be between 15-20 cents in the dollar of our final admitted claim) is expected within the next two or three months. Refer also to note 37(a) regarding partial sale/assignment of these claims.

c) Managing Director

Mr Gerald Adams, Managing Director of Vita Life Sciences Limited, has offered his resignation effective 30 June 2004, which the Board has accepted.

d) Issue of new shares and restructure of the VitaHealth division

The VitaHealth group is currently being restructured. At the conclusion of the restructure, the VitaHealth group will be in a position to conclude an agreement to issue new shares for 10% of Vita Healthcare Asia Pacific Sdn Bhd ("VHAP") (the newly created holding company for the assets of the VitaHealth group of companies) to a strategic investor – Vital BioTech Holdings Limited ("Vital BioTech").

Vital BioTech is a listed company on the Hong Kong stock exchange. It distributes pharmaceutical products throughout China and has substantial proprietary technology in the area of drug delivery. Additional information about Vital BioTech can be gained at its website on www.vitalbiotech.com.

VitaHealth's agreement with Vital BioTech is in two parts and provides for:

3. The new holding company of the VitaHealth group, VHAP, to issue new shares equivalent to 10% of its capital in return for SGD2.225 million.

4. The issue of new shares to Vital BioTech is part of an agreement which results in VHAP then committing SGD1.0 million to purchase a 21% interest in a joint venture company, with Vital BioTech owning the remaining 79%. The purpose of the joint venture is to distribute VitaHealth products in China and the main points of interest about the joint venture agreements are noted below:

    a. the SGD1 million committed by VHAP is expected to be drawn down in two tranches over approximately 2 months;

    b. concurrently, Vital BioTech has committed to inject SDG3.5 million into the joint venture company in three tranches over the first 4 months of operation;

c. VHAP has agreed to lend an additional SGD1.225 million to the joint venture. The drawdown of this loan is expected to occur sometime towards the end of the first year of operation;

d. the funds for the loan from VHAP to the joint venture company will be obtained by using a bank facility which is ultimately secured by a third party guarantor. Details of the guarantee arrangements are as follows:

   i. VHAP/VLS has agreed to pay a guarantee fee (via the issuing of new shares) equivalent to 5% of its issued capital; or

   ii. in certain circumstances where VHAP is not listed on the Singapore or Malaysian stock exchanges within approximately 3 years (20 February 2007), then the loan made to the joint venture company will not be repaid to VHAP and the guarantor will be called upon to make good its guarantee. In this circumstance the guarantor will have caused the payment of SGD1.225 million to VHAP which has agreed (via the issuing of new shares) that the guarantee fee will become 10% of its issued capital. Where VHAP is not listed on the Singapore or Malaysian stock exchanges within approximately 3 years (20 February 2007) there are arrangements in place to buy back Vital BioTech's 10% holding for a nominal value thus ensuring that only 10% of VHAP's shares are owned by third parties.

e. should VHAP be listed on the Singapore or Malaysian stock exchange, VHAP has the option to buy a controlling stake of the joint venture company and ultimately it has the option to purchase 100% of the company. Conversely Vital has the option to require VHAP to acquire its interest in exchange for shares.

Vital BioTech has had considerable success to date in distributing product in China and we believe that by establishing this joint venture, VitaHealth has a unique opportunity to gain a foothold in the Chinese market.

e) Vimed BioSciences and the New Drug Application ("NDA") for Technegas in the USA

Shareholders are aware that the financial situation of Vita Life is extremely difficult and the Company is at the cross roads in terms of its future. In an effort to preserve the integrity of the existing businesses and to preserve our cash we have ceased all discretionary spending and suspended the NDA programme. As at the time of this report we continue to negotiate with various stakeholders in relation to the future of Vimed BioSciences Pty Ltd. Where a satisfactory outcome cannot be reached in terms of the future of Vimed BioSciences Pty Ltd the directors may be forced to place it into voluntary administration. We are currently negotiating with the Australian National University over the future of Vimed BioSciences technology "Thrombotrace", however no final position has been reached.

In relation to the NDA programme, we have tried to ensure that we are in a position to recommence the programme once funds become available. We cannot give any guidance as to when, if ever, the NDA programme will be recommenced.

Directors' Declaration

In the opinion of the Directors of Vita Life Sciences Limited ("the Company"):

(a) The Financial Statements and notes of the Company and the consolidated entity are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 December 2003 and of their performance, as represented by the results of their operations and cash flows, for the year ended on that date; and

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

(b) Subject to the continuing support of noteholders and other matters set out in Note 1(b) to the financial statements, 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 5th day of May 2004.

Signed in accordance with a resolution of Directors.

V.R. Gould
Chairman

Gould Ralph & Company Chartered Accountants

To the members of Vita Life Sciences Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Vita Life Sciences Limited (the company and the consolidated entity), for the year ended 31 December 2003. The consolidated entity comprises both the Company and the entities it controlled during that 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 and the consolidated entity's financial position, and of their 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 miscellaneous professional services. The provision of these services has not impaired our independence.

Audit Opinion

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

the Corporations Act 2001 including:

(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 31 December 2003 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.

Emphasis of Matters

Without qualification to the opinion expressed above, attention is drawn to the following matters

Inherent Uncertainty Regarding Litigations

As indicated in Note 28 to the financial statements, Vita Life Sciences and several controlled entities are parties, both as appellant and defendant, to various separate litigations which give rise to potentially material contingent assets and liabilities. Whilst the company believes it will be successful in each of these cases, as with most litigation, the outcomes cannot presently be determined with an acceptable degree of reliability and accordingly no asset has been recognised nor has provision for any liability that may result, other than legal costs, been made in the financial statements.

Inherent Uncertainty Regarding Continuation as a Going Concern

As a result of the matters described in Note 1(b), there is significant uncertainty whether the entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

GOULD RALPH & COMPANY
Chartered Accountants

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

Sydney, 5 May 2004

This Page Has Been Left Blank Intentionally

Corporate Office
Building 75
Business & Technology Park
New Illawarra Road
Lucas Heights
New South Wales 2234
Australia
Telephone: +61 2 9541 2099
Facsimile: +61 2 9541 2066

Asian Regional Office
#20-01/07 Keypoint
371 Beach Road
Singapore 199597
Telephone: (65) 6 278 2778
Facsimile: (65) 6 275 7807

European Regional Office
2nd Floor, Nathan House
Christchurch Square
Dublin 8, Ireland
Telephone: (353) 1 454 4333
Facsimile: (353) 1 454 4690

enquiries@vitalifesciences.com.au
www.vitalifesciences.com

Vita Life Sciences Limited
ACN 003 190 421
ABN 35 003 190 421

VITA LIFE SCIENCES