VITA LIFE SCIENCES LIMITED

(ABN 35 003 190 421)

AND ITS CONTROLLED ENTITIES

Half Year Report

30 June 2006

Contents

Chairman's Statement

Dear Vita Life Shareholder,

The half year for Vita Life Sciences was a clear turning point for the Company. For the first time in several years the group recorded a profit after tax. The plan to retire Vita Life's substantial debt was approved by shareholders and was well underway by 30 June 2006.

Much of the profit of $5.15 million is attributable to the successful structuring of Cyclopharm Limited ("Cyclopharm") and the Vita Health group. However I am delighted to report the VitaHealth business recorded its fourth consecutive quarter of operating profits.

Whilst VitaHealth's profits over the past year have been modest, your directors and executives continue to work hard on improving this business, its margins and cash flow and its relationship with suppliers. My fellow directors and I are of the view the trading results of VitaHealth are sustainable and will continue to improve. Whilst we are delighted with the achievements to date of VitaHealth there is still much to be done but the future of this business is prospective.

Vita Life's indebtedness to Note holders is $5.70 million as at the date of this report. This compares to $19.19 million of Note holder debt at 31 December 2005. Plans are well advanced to reduce the remaining debt to Note holders to nil by year end with the sale of some of the Cyclopharm shares owned by Vita Life.

Shareholders will be aware of the initiatives taken by Vita Life in relation to Cyclopharm which we expect will ultimately result in the distribution of approximately 55 million Cyclopharm shares to Vita Life shareholders on a pro rata basis. The distribution of these shares is planned for the latter part of 2006 and once complete Vita Life will cease to be a shareholder in Cyclopharm and its primary business activity will be VitaHealth.

Financial Performance

Vita Life Group
The group's Sales revenue increased by 9.1% to $10.26 million when compared to the same period last year and operating expenses excluding provisions fell by 2.8%.

Vita Life's working capital was tight during the first half and it is in this environment the Company experienced solid progress. The VitaHealth business continues to build and the strategies that were put in place in 2005 are likely to deliver improved results in the medium term. Cyclopharm was again the substantial contributor to the group.

VitaHealth
Sales for the VitaHealth group grew by 11% and operating expenses were down by 8% (compared with the same period last year). Importantly, a key focus over the last year, advertising and promotional expenditure is down by 38% (compared to the same period last year). We are very pleased with this result as it reflects the success we have had in dealing with our trading partners and negotiating more equitable terms with them throughout Asia. We are noticing that increased fuel prices are impacting in Asia, and some competitors are reacting with heavy discounts and increased promotional activity. We are particularly pleased that in this environment we have not only achieved increased sales but we have also increased our gross margins across the Asian business.

VitaHealth continues to invest heavily in new product development. During the first half of the year 9 new products launched, of which 3 were for the Australian market, 1 of which is now in our top 20 sellers. In Singapore 3 new products were launched, 2 of which are now in the top 20 sellers and in Malaysia 3 new products were launched, of which all 3 are in the top 20 sellers.

Whilst material financial returns by way of operating profits are yet to be realised, the very fact that VitaHealth has recorded four consecutive quarters of operating profit is cause for optimism. Our VitaHealth Managing Director Mr Eddie Tie, and his team are working tirelessly to achieve acceptable returns and we are confident with the initiatives in place that we will ultimately be successful in this regard.

Cyclopharm
Sales for Cyclopharm of $4.36 million are comparable with the same period last year. Importantly these figures only included revenue from the sale of the new TechnegasPlus generator for May and June when it was released to the market. The full benefits from the sale of TechnegasPlus will be reflected in the second half as backorders are filled. Operating costs are up slightly as we invested in our people and expensed one off items relating to the production of the new TechnegasPlus generator.

Sales volumes of Patient Administration Sets are up slightly at 1,589 boxes when compared to the same period last year of 1,570 boxes.

At the beginning of the year we were budgeting for a record year of sales of Technegas Generators as a result of the launch of the new Technegas Plus generator. Demand for the new generator continues to be very strong however, we have experienced some delays in production as suppliers adjust to the new specifications and componentry for the generator. We believe we have worked with our suppliers to overcome the "teething" problems associated with the new generator and we are expecting a very strong second half.

The new drug application programme relating to the sale of Technegas in the USA is continuing with its filing with the FDA planned for early 2008.

The new business initiatives within Cyclopharm are exciting and offer the opportunity for shareholders to restore value as Cyclopharm develops and implements its business plan.

Key Appointments

John Sharman Vita Life's Executive Director since mid 2004 has been appointed Managing Director of Cyclopharm effective 1 September 2006. John has an intimate working knowledge of Cyclopharm and is well placed to take the company forward. John will continue as a director of Vita Life but as a non executive.

Professor Nabil Morcos has joined Cyclopharm as Chief Operating Officer and Director of Science. Nabil was formally the Head of Radiopharmaceutical Research Institute at the Australian Nuclear Science and Technology Organisation. Professor Morcos is a world leader in nuclear medical technologies and is a highly respected figure.

Dr Bernard Salin has joined the board of Cyclopharm as a non executive director. Dr Salin is the Chairman and President of Cyclopharma Laboratoires SA, Cyclopharm's business partner for the distribution Technegas in Europe since 2000. Bernard has extensive business and radiopharmaceutical research experience holding several keys positions including President and CEO for Pfizer Europe (Diagnostics Division).

Cyclopharm has achieved the first step in its strategy to become the regions leading radiopharmaceutical company listed on the ASX. It has substantially increased its expertise and skills and now has the intellectual and financial capacity to successfully implement its plans.

I would like to thank my fellow directors, executives and our staff. It seems we are now well on the road to redemption and with good management we should to achieve our objective of restoring value to shareholders.

Yours faithfully

Vanda Gould
Chairman
18th October 2006

Directors' Report

Your Directors present their report on the consolidated entity consisting of Vita Life Sciences Limited ("Vita Life") and the entities it controlled at the end of, or during, the half year ended 30 June 2006.

Directors

The following persons were Directors of Vita Life Sciences Limited for the whole of the half year and up to the date of this report:

Vanda R Gould
John S Sharman
Henry G Townsing

Vanda Gould held office during the whole financial year and continues in office at the date of this report. Mr Gould was re-elected as Chairman during the AGM held on 6 July 2006.

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

Henry Townsing 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

Financial Results

During the half year the economic entity recorded a profit from ordinary activities of $5,156,118.

Dividends – Vita Life Sciences Limited

The Directors have resolved not to pay a dividend for the half year.

Significant Changes in State of Affairs

The directors comment on the following matters:

Pan Pharmaceuticals Administration – Dividend
During the 2005 year Vita Life finalised its claims with the Pan Pharmaceuticals Liquidator save for our loss of profit claim for our Australian business. We have agreed with the Liquidator that we will suspend our action pending the outcome of a legal case between the Liquidator and a third party, which, we believe, has similar facts to our claim. To date Vita Life has received $970,704, as a dividend from Pan and these proceeds, they have been applied to the retirement of debt.

Cancellation of Shares
Vita Life registered the judgement it obtained in the High Court of Singapore and New South Wales to auction the 6,869,151 Vita Life shares held by Pang Seng Meng in settlement of that debt. Prior to auctioning these shares, Mr Pang's sister filed a claim for 2,698,260 Vita Life shares and certain other assets, not related to Vita Life. At that time Vita Life passed the entire holding of 6,869,151 to the Sheriff of New South Wales, pending the outcome of the legal dispute. Pursuant to a series of legal negotiations, the Sheriff of New South Wales handed 4,170,891 Vita Life shares back to the Official Assignee of Singapore who proceeded to sell these 4,170,891 shares at public auction on Friday, 18 August 2006. Legal proceedings continue in Singapore and Australia in relation to Mr Pang's sister's claim for the remaining shares.

Payment of Convertible Notes
Pursuant to shareholder approval obtained during our general meeting held on 12 April 2006;

1. 28,571,429 shares in Cyclopharm (representing 26.8% of the issued capital of Cyclopharm) were sold to Note holders, raising $6.0 million. The effect of Vita Life's sale of 28,571,429 shares in Cyclopharm was to reduce its outstanding obligations to Note holders by $6.0 million.

2. In addition Note holders passed a resolution to discount Vita Life's repayment obligations by 10% of the face value of all Notes. The result of this resolution was to reduce the total amount owing to Note holders by $1,318,442 (face value of Notes reduced from $1.00 to $0.90 per Note).

3. Pursuant to the terms of its Convertible Notes, Vita Life issued 2,080,820 new shares at $0.25 cents per share to Note holders, in return for retiring $520,205 of Convertible Note debt.

4. Cyclopharm completed its debt financing facility with the National Australia Bank on 19 July 2006, and $5,701,144 ($0.45 per Note) was paid to Note holders.

5. The total repayment to Note holders to date is $13,488,297. The balance outstanding of $5,701,144 ($0.45 per Note) to be repaid to Note holders from the sale of Cyclopharm shares held by Vita Life not later than 30 June 2007.

Other Directors report disclosure requirements

The following have been disclosed in the Chairman's report:

- Review of operations;
- Likely development and expected results of operations.

After balance date events

Appointment of Prof Nabil Morcos
Professor Nabil Morcos has joined our group as the Chief Operating Officer and Director of Science at Cyclopharm. He holds a Ph.D. in Nuclear and Radiochemistry and a professor position in the Environmental Engineering Department at Vanderbilt University (Nashville TN, U.S.A.). He did several stints at Brookhaven National Laboratory (U.S.A.) in the Chemistry and Radioactive Waste Management Divisions in support of the U.S. Nuclear Regulatory Commission with respect to waste form characterisation and performance. He spent a total of twelve years in the Radiopharmaceutical research industry where he developed several products from concept to market and patents including the Squibb Tc-99m generator. He holds 16 patents in the radiopharmaceutical arena and related medical areas. He also spent the last ten years before joining ANSTO working for the U.S. DOE at INEEL and Hanford working on the Plutonium Production Legacy Waste as a radiochemistry and safety advisor to the DOE. He has authored and co-authored more than 50 peer-reviewed publications, a reference textbook, 2 book chapters, and co-discovered several radioisotopes and isomeric states.

Appointment of Dr Bernard Salin non Executive Director, Cyclopharm
Dr Salin holds a Ph.D. in Biophysics and Biochemistry from University of Paris (la Sorbone). Bernard is also according to the "code national Français de la Santé" expert in Radioprotection for Sealed and non Sealed Sources.

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

Sale of Cyclopharm held by Vita Life
As of the date of this report Vita Life has sold 5,828,000 shares in Cyclopharm at $0.30 realising $1,748,400.

Issue of New Shares by Cyclopharm
As of the date of this report Cyclopharm has issued 5,651,000 new ordinary shares at $0.30 each raising $1,695,300. These funds will be used by Cyclopharm to execute its business plan, which is to establish Australia's leading radiopharmaceutical company.

Mr John Sharman
Cyclopharm Limited has appointed Mr Sharman as its Managing Director effective 1 September 2006. Together with Professor Morcos they will be responsible for executing Cyclopharm's business plans and strategies.

Options

As part of an loan facility provided to Vita Life by Barleigh Wells Ltd, Vita Life has granted options for Vita Life shares to Barleigh Wells Ltd. The original agreement entitled Barleigh Wells to certain security for its loan, limited at all times to the total amount of money lent to the Company, and 10 options for each $1.00 of facility used. The Company drew $2.92 million under the facility and after several rounds of negotiations, Barleigh Wells Ltd have agreed to accept 12.0 million options as full settlement of its option entitlement.

The terms and conditions applying to the options granted to Barleigh Wells by Vita Life have been finalised and are summarised as follows:

- Date of initial issue of options: 1 February 2004.
- Expiry date of all options: 31 January 2009.
- Number: 12 million
- Exercise price: Each option confers on the holder the right to take up an ordinary fully paid share in Vita Life. The exercise price for each option is $0.10.

Environment regulations

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the board believe that the consolidated entity has adequate systems in place for the management of its environmental requirements as they apply to the consolidated entity.

Retirement, election and continuation in office of Directors

Henry George Townsing was elected as a director on 31 May 2005 at the 2004 Annual General Meeting and continues to hold office.

John Stewart Sharman was re-elected as a director on 31 May 2005 and continues to hold office.

Vanda Gould was elected as a director on 31 May 2003. Pursuant to the company's constitution Directors are required to stand for re-election every three years. Mr Gould was re-elected as Chairman during the Annual General Meeting held on 6 July 2006.

Insurance of officers

During the year the Company was unable to obtain Directors insurance. 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 auditor of the Company or any related body corporate. In accordance with clause 29.1 of the Vita Life Sciences Limited constitution and section 199A of the Corporations Act 2001 the company has resolved to indemnify its Directors and officers for a liability to a third party unless it arises out of conduct which is not in good faith.

The indemnification of the Directors and officers will extend for a period of at least 6 years in relation to events taking place during their tenure (unless the Corporations Act 2001 otherwise precludes this time frame of protection.)

Related party transaction

During the half year CVC Venture Managers Pty Ltd ACN 002 700 361 was paid consultancy fees. Mr John Sharman and Mr Vanda Gould are both Directors of CVC Venture Managers Pty Ltd and Vita Life.

For the six months ended 30 June 2006, CVC Venture Managers was entitled to consulting fees of $83,124.90 (plus GST) and has been reimbursed for direct costs it incurs on behalf of Vita Life of $49,202.53 (plus GST). CVC Venture Managers is responsible for paying Mr Sharman's salary from some of the consulting fees received from Vita Life.

Mr Vanda Gould does not receive any remuneration from CVC Venture Managers.

Proceedings on behalf of the company

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

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

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

Dated in Sydney this 18 day of October 2006.

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

Director

Auditors Independence Declaration

Gould Ralph & Company Chartered Accountants

18 October 2006

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

Dear Members of the Board,

AUDITORS INDEPENDENCE DECLARATION

This declaration is made in connection with our review of the financial report of the consolidated entity consisting of Vita Life Sciences Limited and the entities it controlled at the end of, or during, the six months ended 30 June 2006 and in accordance with the provisions of the Corporations Act 2001.

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

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

in relation to this review.

Yours faithfully,
GOULD RALPH & COMPANY

G C RALPH, M.COM, FCA
Partner

Consolidated Income Statement

	Notes	Consolidated Half-Year 2006	2005
Revenue			
Sale of Goods	2	10,260,266	9,400,972
Finance Income		15,806	25,207
		10,276,072	9,426,179
Cost of Sales		(4,151,165)	(3,435,746)
Gross Profit		**6,124,907**	**5,990,433**
Other income	2	6,634,995	231,614
Employee expenses		(2,641,744)	(2,560,322)
Advertising and promotion expenditure		(794,199)	(1,585,808)
Depreciation and amortisation expenses		(131,222)	(166,399)
Research and development expense		(61,202)	(82,168)
Professional and consultancy costs		(891,059)	(858,154)
Insurance		(108,685)	(111,388)
Motor vehicle costs		(68,862)	(75,111)
Occupancy		(480,679)	(552,716)
Travel and accommodation		(359,390)	(341,221)
Provisions & write offs		(299,568)	(68,327)
Other expenses		(326,965)	(180,722)
Profit/(Loss) before tax and finance costs		**6,596,327**	**(360,289)**
Borrowing costs		(1,297,482)	(1,121,239)
Profit/(Loss) before income tax		**5,298,845**	**(1,481,528)**
Income tax expense		(142,415)	(128,699)
Net profit/(Loss) after tax		**5,156,430**	**(1,610,227)**
Net profit attributable to minority interests		(312)	73,144
Net profit/(Loss) attributable to members of the parent		**5,156,118**	**(1,537,083)**
Basic earnings per ordinary share		11 cents	(2.9 cents)
Diluted earnings per ordinary share		11 cents	(2.9 cents)

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

Consolidated Balance Sheet

	Consolidated June 2006 $	Consolidated December 2005 $
Current assets		
Cash and cash equivalents	1,474,373	993,301
Trade and other receivables	3,916,809	3,590,329
Inventories	4,018,299	3,160,395
Deferred tax assets	23,364	25,042
Prepayments	126,958	56,692
Other current assets	793,325	446,818
Total current assets	**10,353,128**	**8,272,577**
Non current assets		
Property, plant & equipment	1,106,015	1,245,163
Intangible assets	6,574,012	6,429,897
Total non current assets	**7,680,027**	**7,675,060**
Total assets	**18,033,155**	**15,947,637**
Current liabilities		
Trade and other payables	7,265,314	7,038,553
Short-term borrowings	3,239,737	2,955,186
Current tax liabilities	544,096	474,431
Short-term provisions	403,420	639,946
Total current liabilities	**11,452,567**	**11,108,116**
Non current liabilities		
Long-term borrowings	11,408,453	18,435,939
Long-term provisions	1,420,340	186,755
Total non current liabilities	**12,828,793**	**18,622,694**
Total liabilities	**24,281,360**	**29,730,810**
Net assets	**(6,248,205)**	**(13,783,173)**
Equity		
Contributed Equity	38,896,649	38,081,445
Accumulated losses	(44,847,735)	(50,003,853)
Other reserves	(880,095)	(1,823,229)
Parent entity interest	**(6,831,181)**	**(13,745,637)**
Minority interest	582,976	(37,536)
Total equity	**(6,248,205)**	**(13,783,173)**

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

Consolidated Statement of Changes in Equity

	Contributed Equity $	Accumulated Losses $	Reserves $	Minority Interests $	Total Equity $
Balance at 1 January 2006	38,081,445	(50,003,853)	(1,823,229)	(37,536)	(13,783,173)
Profit for the year	-	5,156,118	-	-	5,156,118
Equity contributions	815,204	-	-	-	815,204
Minority Interest	-	-	-	(312)	(312)
Currency translation	-	-	943,134	620,824	1,563,958
Balance at 30 June 2006	**38,896,649**	**(44,847,735)**	**(880,095)**	**582,976**	**(6,248,205)**

	Contributed Equity $	Accumulated Losses $	Reserves $	Minority Interests $	Total Equity $
Balance at 1 January 2005	38,081,445	(49,724,537)	188,896	189,490	(11,264,706)
Loss for the year	-	(1,537,083)	-	-	(1,537,083)
Minority Interest	-	-	-	(73,144)	(73,144)
Currency translation	-	-	(487,530)	(807)	(488,337)
Balance at 30 June 2005	**38,081,445**	**(51,261,620)**	**(298,634)**	**115,539**	**(13,363,270)**

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

Consolidated Cash Flow Statement

	Consolidated 2006 $	Consolidated 2005 $
Cash flows from operating activities		
Cash receipts in the course of operations	11,432,713	9,700,436
Cash payments in the course of operations	(10,220,195)	(9,843,776)
Interest received	12,304	12,621
Borrowing costs	(330,844)	(92,823)
Income taxes paid	(423,107)	(190,895)
Dividends received / (paid)	701,068	(141,944)
Other	(202,635)	226,038
Net cash provided by / (used in) operating activities	**969,304**	**(330,343)**
Cash flows from investing activities		
Payments for property, plant and equipment	(26,877)	(67,113)
Proceeds from sale of property, plant and equipment	(2,398)	-
Payments for FDA approval	(65,804)	172
Other	(1,322,416)	339,467
Net cash provided by / (used in) investing activities	**(1,417,495)**	**272,526**
Cash flows from financing activities		
Proceeds from issue of shares	549,805	-
Proceeds from borrowings	2,950,000	750,000
Repayment of borrowings	(2,588,668)	(533,693)
Net cash provided by / (used in) financing activities	**911,137**	**216,307**
Net increase (decrease) in cash held	**462,946**	**158,490**
Cash at beginning of the financial period	1,003,959	337,086
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies	7,468	(32,814)
Cash at the end of the financial period	**1,474,373**	**462,762**

The cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. Basis of Preparation of Half-Year Financial Statements

The half-year consolidated financial statements ("Interim Financial Report") are a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard *AASB 134: Interim Financial Reporting*, Urgent Issues Group Consensus Views, and other authoritative pronouncements of the Australian Accounting Standards Board.

This financial report is to be read in conjunction with the annual financial report for the year ended 31 December 2005 and any public announcements made by Vita Life Sciences Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs.

Accounting Policies

(a) Basis of consolidation

The half-year consolidated financial statements comprise the Interim Financial Statements of Vita Life Sciences Limited and its subsidiaries as at 30 June each half-year ('the Group').

A controlled entity is any entity Vita Life Sciences Limited has the power to control the financial and operating policies of as to obtain benefits from its activites.

All controlled entities have a December financial year end and use consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions between entities in the economic entity, including unrealised profits or losses arising from intra-group transactions, have been eliminated in full on consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Vita Life Sciences Limited has control.

For business combinations involving entities under common control, which are outside the scope of *AASB 3: Business Combinations*, the Company applies the purchase method of accounting by the legal parent.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate items in the consolidated financial report.

Notes to the Financial Statements continued

(b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

Group companies

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

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

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

(c) Property, plant and equipment

Plant and Equipment

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

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

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

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

Notes to the Financial Statements continued

Depreciation

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

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

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

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

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

(d) Borrowing costs

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

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

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

(e) Intangibles

Goodwill

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

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

Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Notes to the Financial Statements continued

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the ‘administrative expenses’ line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles, annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

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

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

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

(f) Inventories

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

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

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

(g) Trade and other receivables

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

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

(h) Cash and cash equivalents

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

Notes to the Financial Statements continued

(i) Interest-bearing loans and borrowings

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

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

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

(j) Provisions

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

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

(k) Employee Benefits

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

(l) Leases

Finance Leases

Leases of fixed assts, which substantially transfer to the Group all the risks and benefits incidental to ownership of the leased item, but not the legal ownership, are classified as Finance leases. Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease.

Notes to the Financial Statements continued

(m) Revenue

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

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

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

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

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

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

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

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

(n) Income tax

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

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

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

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

Notes to the Financial Statements continued

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

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

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

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

(p) Comparative Figures

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

(q) Financial Instruments Recognition

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

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

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

2. Revenues and Expenses

	2006	2005
(a) Sales Revenue		
Gross Sales Revenue	10,872,289	10,264,045
Sales Returns and adjustments	(612,023)	(863,073)
Net revenue from ordinary activities	**10,260,266**	**9,400,972**
(b) Other Revenue		
Pan Pharmaceutical dividend	701,067	231,614
Gain on redemption of Convertible Notes	6,045,306	-
Other	(111,378)	-
Total other revenue	**6,634,995**	**231,614**

Notes to the Financial Statements continued

3. Going concern

As at 30 June 2006, the economic entity had current liabilities which exceeded current assets by $1.09 million. Cash flow forecasts indicate that no further financial support will be required over the next 12 months to enable the company and economic entity to meet debts arising in the ordinary course of the business. Ultimately, whether or not the company will require additional cash over the next twelve months is dependant on the operating performance of VitaHealth.

The company has obtained financial support from an investor which has indicated it could make a $3.0 million facility available. At the time of writing this report the company has used $2.9 million of that facility.

The company has $5.70 million Unsecured Convertible Notes on issue, down from $19.2 million.

The Directors believe they will have the continued support of the major Note holders and lenders and that the economic entity has adequate funding to continue operations. Consequently 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 to 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.

Notes to the Financial Statements continued

4. Segment reporting

Primary reporting – business segments

	Health 2006 $	Medical 2006 $	Other 2006 $	Consolidated 2006 $
Revenue				
Segment revenue	6,514,866	4,357,423	-	10,872,289
Profit before income tax expense				
Segment result	4,691	954,690	4,339,464	5,298,845
Income tax (expense)/benefit				(142,415)
Profit after income tax				**5,156,430**
Segment assets	4,691,400	12,194,359	1,147,396	18,033,155
Segment liabilities	(3,670,922)	(9,030,113)	(11,580,325)	(24,281,360)

Primary reporting – business segments

	Health 2005 $	Medical 2005 $	Other 2005 $	Consolidated 2005 $
Revenue				
Segment revenue	5,903,270	4,360,775	-	10,264,045
Profit before income tax expense				
Segment result	(1,263,764)	1,227,600	(1,445,364)	(1,481,528)
Income tax (expense)/benefit				(128,699)
Loss after income tax				**(1,610,227)**
Segment assets	3,702,086	11,600,789	1,178,272	16,481,147
Segment liabilities	(13,511,688)	(2,531,968)	(13,800,761)	(29,844,417)

Notes to the Financial Statements continued

5. Contingent assets and liabilities

CURRENT PROCEEDINGS

1. **Vita Health Laboratories Pte Ltd, Vita Health Laboratories (Hong Kong) Ltd, Vita Corporation Pte Ltd and Vita Life Sciences Limited v Pang Seng Meng File No. 10843 of 2005**

   The Plaintiffs registered the judgment obtained in the High Court of Singapore (Suite 640/2002/S) in Australia. As a result of registering the Singaporean judgment the New South Wales Sheriff levied the VLS shares held by Pang Seng Meng in settlement of the judgment. Prior to the Sheriff auctioning the shares, Ms Pang Mui Hua filed a Notice of Claim claiming 2,698,260 of the 6,869,151 shares held by the Sheriff. The Singaporean Official Assignee also filed a Notice of Claim claiming the remaining 4,170,891 shares not claimed by Ms Pang. As the Singaporean Official Assignee and VLS' claims were complementary VLS has withdrawn its claim to the 4,170,891 shares and agreed to act as the agent of the Singaporean Official Assignee in auctioning the 4,170,891 shares. The 4,170,891 shares were successfully auctioned on 11 August 2006 and the proceeds less VLS' costs have been remitted to the Singaporean Official Assignee.

<u>**Contingent assets**</u>

2. **Vita Health Laboratories (Australia) Pty Ltd & Vita Health Laboratories (Singapore) Pte Ltd & Vita Health Laboratories (HK) Ltd v Pharmatech Industries Sdn Bdh & Medispecs Sdn Bdh & Khoo Seng Kang & Gan Hook Chun & Pang Seng Meng & Pang Seng Hock. Civil Suit No. D1-22-1551-2002 - High Court of Malaya at Kuala Lumpar**

   The allegations made by the Vita Companies are against the Vita Companies 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 packing agreement.

   The next Pre-Trial Conference is listed for 16 October 2006 and the trial is expected to be listed for hearing sometime in early 2007.

3. **Vita Health Laboratories Pte Ltd v McGrath, Honey and Pan Pharmaceuticals Limited (In Liquidation) File No. 1789 of 2005 –Supreme Court of New South Wales**

   The proceedings relate to an appeal by Vita against the liquidators rejection of its claim for future loss of profits suffered as a result of the Pan Recall.

   The matter has been stood over to enable a separate appeal between Australian NaturalCare Products Limited ("**ANP**") and the Liquidator to be concluded. The ANP appeal is similar in nature to the Vita appeal and therefore the outcome of the ANP appeal shall influence how running of the Vita appeal. The ANP hearing concluded on 09 June 2006. The judgment has been reserved and was not available at the date of this report. The Vita appeal has been adjourned by consent pending publication of the ANP judgment.

4. **Vita Life Sciences Limited and Vita Health Laboratories Pte Ltd v Arthur Andersen and Ernst Young Case No. S454/2005/F**

   Vita has issued proceedings against Arthur Andersen alleging breach of contract and negligence in the preparation of the Vita Health Laboratories Pte Ltd audits between 1997 and 2001.

   The proceedings have progressed to discovery which is expected to be completed by October 2006. The matter is expected to be set down for hearing in early 2007.

Notes to the Financial Statements continued

5. Pan Pharmaceuticals Liquidation

Vita has received total dividends of $0.15 in the dollar, totalling $970,704. In their Third Annual Report the Liquidators have estimated the final dividend to be between $0.22 and $0.52. The final dividend is largely dependent on the outcome of claims against Mr Selim, the former Chairman and majority shareholder of Pan.

The Liquidator has confirmed that there is a reasonable prospect of payment of a third interim dividend of $0.05 by the end of 2006.

Contingent Liabilities

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

and

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

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

The French proceedings were heard on 28 May 2006. The judgment is expected to be handed down on 06 September 2006.

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

7. Cyclomedica Europe Ltd v IsoTrade GmbH, Monchengladbach, Germany

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

6. Events occurring after balance date

Issue of Unsecured Convertible Notes

Under the Prospectus issued on 13 March 2003 and the Supplementary Prospectus dated 19 May 2003, an additional 691,638 Unsecured Convertible Notes have been issued since 30 June 2005 in lieu of interest.

Apart from the information disclosed in this report there are no other events that have occurred between the balance date and reporting date anticipated to have significant effect on the company.

Director's Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 10 to 24:

    a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and

    b) give a true and fair view of the economic entity's financial position as at 30 June 2006 and of its performance for the half-year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

John S. Sharman
Director

Dated this 18th day of October 2006

Independent Review Report

Gould Ralph & Company Chartered Accountants

TO THE MEMBERS OF VITA LIFE SCIENCES LIMITED

Scope
We have reviewed the financial report of Vita Life Sciences Limited for the half-year ended 30 June 2006 as set out on pages 10 to 25. The company's directors are responsible for the financial report. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the economic entity's financial position, and performance as represented by the results of its operations and its cash flows.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Independence
In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001.*

Review Statement
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Vita Life Sciences Limited is not in accordance with:

(a) the *Corporations Act 2001,* including:

  (i) giving a true and fair view of the company's consolidated financial position as at 30 June 2006 and of its consolidated performance for the half-year ended on that date; and

  (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Emphasis of Matters
Without qualification to the review statement, attention is drawn to the following matters:

Inherent Uncertainty Regarding Continuation as a Going Concern
As a result of the matters described in Note 3, 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.

Inherent Uncertainty Regarding Litigations
As indicated in Note 5 to the financial statements, Vita Life Sciences Limited 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 recognized nor has provision been made for any liability that may result, other than legal costs, in the financial statements.

GOULD RALPH & COMPANY
Chartered Accountants

GREGORY C. RALPH, M.Com, F.C.A.
Partner
Sydney,18th October 2006