CYCLOPHARM LIMITED

SUPPLEMENTARY PROSPECTUS

Offer of Non Renounceable Rights at $0.05 each by Vita Life Sciences Limited for Rights Issue Shares

This is a Supplementary Prospectus intended to be read with the Prospectus dated 27 March 2006 in relation to the offer of non-renounceable rights at $0.05 each by Vita Life Sciences Ltd for Shares in Cyclopharm Limited. Please contact the Head Office below if you need another copy.

This Offer is available to Vita Life Sciences Limited Shareholders. If you are in any doubt as to the action you should take, please consult your professional advisers.

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

This is an important document.

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

Head Office
Cyclopharm Limited (ABN 74 116 931 250)
Vita Life Sciences Limited (ABN 35 003 190 421)
Suite 630 Level 6
1 Queens Road
Melbourne VIC 3004
Telephone: (03) 9867 2811
Facsimile: (03) 9820 5957

IMPORTANT NOTICE

This Supplementary Prospectus is dated 10 October 2006 and was lodged with the Australian Securities and Investments Commission (ASIC) on 10 October 2006. ASIC and its officers take no responsibility for the contents of this Supplementary Prospectus. The exposure period is no longer relevant. No securities will be transferred on the basis of this Supplementary Prospectus after 26 April 2007.

The Offer contained in this Supplementary Prospectus is made by Vita Life Sciences Limited to those of its shareholders and option holders wishing to acquire shares it owns in Cyclopharm Limited. The Offer is made to Shareholders and option holders in Vita Life and is not available to the public.

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

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

Please have regard to the legal warnings, instructions and disclaimers identified on pages 2 3 and 4 of the Prospectus to the extent they apply to the issue of Rights Issue Shares.

Applications can *only* be made on the personalised Application Form forwarded with this Supplementary Prospectus. **If the personalised Application Form is missing, or you no longer have your copy of the Prospectus, please contact the Head Office as detailed below.**

CORPORATE DIRECTORY for CYCLOPHARM LIMITED and VITA LIFE SCIENCES LIMITED

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

Share Registry for Vita Life
Gould Ralph Pty Ltd
Level 42, AAP Centre
259 George Street
Sydney NSW 2000

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

Email Address: enquiries@cyclopharm.com.au

Web Sites: www.cyclopharm.com
www.vitalifesciences.com

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CHAIRMAN'S LETTER

10 October 2006

Dear Vita Life Shareholder

I last wrote to Vita Life Shareholders (and Noteholders) in the March 2006 Prospectus with a proposal to restore value to their respective holdings.

The necessary meetings were held and resolutions of Shareholders and Noteholders accepted the proposal put to them. Many Noteholders exchanged their notes for shares in Cyclopharm Limited and now it is possible to complete the limb of the proposal enabling Shareholders of Vita Life to subscribe for their rights entitlement and thus receive shares in Cyclopharm.

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

Until the Vita Life directors were able to determine how many Rights Issue Shares were available, no record date could be set, or offer to the relevant Shareholders finalised. This information was, of necessity, an omission from the Prospectus. In addition, new circumstances have arisen since the Prospectus was lodged and some statements require updating to ensure nothing there said becomes misleading or deceptive.

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

- replaced in their entirety by the reference identified below:

	Prospectus Page(s)	**Supplementary Prospectus Page(s)**
Key Dates	2	2
Terms of the Offer and how to apply for shares	11-13	2-4
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Application Form & Instructions	Penultimate	Personalised

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

	Prospectus Page(s)	**Supplementary Prospectus Page(s)**
Summary of Material Contracts	46-47	n/a
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I and my fellow Directors propose to subscribe for our Rights Issue Shares and I recommend Shareholders do the same. Please consider the information in this Supplementary Prospectus and the Prospectus before making any decision. **You must use your personalised Application Form to subscribe for Rights Issue Shares.**

Yours faithfully,

Vanda Gould
Chairman

PURPOSE OF THIS SUPPLEMENTARY PROSPECTUS

This Supplementary Prospectus is issued to facilitate Vita Life shareholders' subscription for Rights Issue Shares.

KEY DATES*	
Entitlement to subscribe for Rights Issue Shares for Shareholders recorded on share registry (Record Date)	11 October 2006
Offer opens for Rights Issue Shares	12 October 2006
Closing date for receipt of application for Rights Issue Shares	3 November 2006
Dispatch of shareholding statements for Rights Issue Shares **	9 November 2006

*This timetable is indicative only and the Directors reserve the right to close the Offer at an earlier or later date.
**The date of dispatch of the shareholding statements indicating acceptance of Rights Issue Shares is indicative only.

TERMS OF THE OFFER

Rights Issue Shares Offered

The Rights Issue Shares offered pursuant to this Prospectus comprise 59,091,450 Shares.

Vita Life's directors have determined the record date, which will be used for the purpose of determining Shareholders' entitlement to apply for rights to Rights Issue Shares as 11 October 2006.

The Rights Issue Shares are distributed to Shareholders (who exercise and pay for rights) in the ratio of 0.932665 Shares (Cyclopharm ordinary shares) for each 1 Vita Life share held on the record date as shown above, rounded down to the nearest whole number of shares.

Rights will cost $0.05 each to acquire and entitle the holder thereof to 1 Rights Issue Share. Rights Issue Shares applied for by Shareholders will be allotted at no additional cost to the Shareholder.

There is no minimum amount of Rights Issue Shares for which a Shareholder may apply.

Shareholders may apply for Oversubscription Rights Issue Shares being up to the same number of their entitlement to Rights Issue Shares. Where Vita Life receives applications for more than the number of Rights Issue Shares held by Vita Life then all Oversubscription Rights Issue Share applications will be reduced proportionately subject to no allocation of Rights Issue Shares, including Oversubscription Rights Issue Shares, being reduced to less than 2,500 Rights Issue Shares (unless less were applied for).

Where the number of Rights Issue Shares allotted is less than the number applied for, the surplus money will be refunded to the applicant within five (5) days of allotment without interest. Vita Life will bear any applicable bank charges and retain any interest earned.

Vita Life Shareholders wishing to apply for Rights Issue Shares must complete the personalised Application Form accompanying this Prospectus. An application on the form in the Prospectus would be invalid.

The Rights Issue Shares are not extended to Shareholders with a registered address outside Australia. An explanatory note will be sent to these foreign Shareholders providing details.

General Terms Applying to Rights Issue Shares

Rights Issue Shares rank equally in all respects with all other Shares presently on issue and are non-renounceable.

Cyclopharm and Vita Life will bear the Offer costs including stamp duty (otherwise payable by purchasers) in the proportion 50:50.

Purpose of the Offer

The objective of the Offer is to facilitate the distribution of Rights Issue Shares owned by Vita Life to Vita Life Shareholders as approved by Shareholders in the general meeting held on 12 April 2006. If the issue is fully taken up, Vita Life's interest in Cyclopharm will reduce to 13,175,841 Shares or 11.7% of the issued share capital and Vita Life will raise $2,954,571. Vita Life will utilise the funds to reduce existing borrowings and pay offer costs (refer Offer costs on page 9 for details). If the issue is not taken up, or only taken up in part, Vita Life will continue to hold Cyclopharm shares or will otherwise sell them as its circumstances require, with the Offer costs continuing to be borne by Cyclopharm and Vita Life.

ASX Quotation

No application for quotation of Rights Issue Shares will be made to the ASX under the Prospectus or this Supplementary Prospectus.

Underwriting

The Offer is not underwritten.

Allotment of Shares

The Directors reserve the right to:

- allot the full number of Right Issue Shares applied for;
- allot any lesser number of Right Issue Shares than the number applied for (with the lesser number being at least 2,500, where applicable); or
- reject any application.

Minimum Subscription

There is no minimum subscription for rights by Shareholders when subscribing for all or part of their entitlement to Rights Issue Shares.

Brokerage

No brokerage or handling fees on applications for rights or Rights Issue Shares will be payable by Shareholders or by Cyclopharm.

Investor Enquiries

Additional copies of the Prospectus or this Supplementary Prospectus, or advice on how to complete the personalised Application Form, can be obtained by telephoning Cyclopharm's office in Melbourne on (03) 9867 2811.

Shareholders should, however, rely only on such information as is contained in the Prospectus and this Supplementary Prospectus as these and the Constitution will form the sole basis of any contract made with Cyclopharm and Vita Life.

HOW TO APPLY FOR SHARES

- Applications for Rights Issue Shares can only be made on the personalised Application Form accompanying this Supplementary Prospectus. Instructions as to how to complete an application are printed on the reverse side of the form. The personalised Application Form accompanying this Supplementary Prospectus must not be circulated unless it accompanies a copy of this Supplementary Prospectus and, to be valid, the printed name must not be altered.

- The application list for Rights Issue Shares will open on 12 October 2006, but applications can be received earlier. The list will remain open until the closing date 3 November 2006 unless altered). Accordingly, Shareholders are encouraged to submit their applications as soon as possible.

- No brokerage or stamp duty is payable by applicants. The amount payable on application will not vary during the period of the Offer and no further amount is payable on allotment.

- Completed personalised Application Forms, together with a cheque in Australian dollars, drawn on an Australian Bank or other Australian financial institution, made payable to "*Vita Life Sciences Limited"* should be posted or delivered to:

  Vita Life Sciences Limited
  Suite 630, 1 Queens Road
  Melbourne, VIC 3004

  and must be received at the above address by 5.00 p.m. Melbourne/Sydney time on 3 November 2006 unless the Directors alter that date. Other cheques (and their Application Forms) will be rejected.

MATERIAL EVENTS SINCE THE ISSUE OF THE PROSPECTUS

Since the date of the Prospectus, 27 March 2006, the following material events have taken place:

i. Appointment of Dr Bernard Salin as Non-Executive Director

Dr Bernard Salin joined the board of Cyclopharm as a non executive director on 1 September 2006. Dr Salin is the Chairman and President of Cyclopharma Laboratoires SA, Cyclopharm's business partner for the distribution of Technegas in Europe since 2000. Bernard has extensive business and radiopharmaceutical research experience and has held several keys positions including President and CEO for Pfizer Europe (Diagnostics Division).

ii. Appointment of Key Executives

John Sharman, Vita Life's Executive Director since mid 2004 was appointed Managing Director of Cyclopharm from 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 joined Cyclopharm as Chief Operating Officer and Director of Science on 1 August 2006. Nabil was formerly the Acting Head of the Radiopharmaceutical Research Institute at the Australian Nuclear Science and Technology Organisation.

iii. Borrowings

Cyclopharm completed a debt financing facility for $6.0 million from the National Australia Bank Limited on 19 July 2006. The loan facility was provided on commercial terms and as at the date of this Supplementary Prospectus the facility was drawn to $6,000,000.

iv. Sale of Existing Shares

Since the date of the Prospectus, Vita Life has sold the following Shares in accordance with the terms of the Prospectus:

- Vita Life sold 28,571,429 Cyclopharm shares (representing 26.8% of its issued capital) to 79 Noteholders at $0.21 per share on 19 May 2006; and

- Vita Life sold 5,828,000 Cyclopharm shares (representing 5.2% of its issued capital) at $0.30 per share during the period 31 August to 15 September 2006 to 4 professional and institutional investors.

v. Placement of New Shares

Since the date of the Prospectus, Cyclopharm has issued and, by way of placement, allotted 5,651,000 new Shares at $0.30 per share during the period 31 August to 22 September 2006 to 11 institutional and professional investors.

vi. Shareholders

Since the date of the Prospectus, Vita Life's shareholding in Cyclopharm has reduced from 100% to 64.3% as at the date of this Supplementary Prospectus (refer paragraph iv. above). As at the date of this Supplementary Prospectus, Cyclopharm's 10 largest shareholders controlled 95.3% of Cyclopharm's issued capital (as shown in the table below) and 82 shareholders held the balance of Shares. The 10 largest are:

	Shares	
Vita Life Sciences Limited	72,267,266	64.3%
Chemical Trustee Limited	9,524,584	8.5%
Lloyds & Casanove Investment Limited	7,746,809	6.9%
Indo-Suez Investments limited	4,370,522	3.9%
Southgate Investments Funds Limited	4,091,097	3.6%
Stinoc Pty Limited	3,330,000	3.0%
Sandhurst Trustees Limited	1,665,000	1.5%
Barleigh Wells Limited	1,665,000	1.5%
Normandy Finance & Investments Asia Ltd	1,327,967	1.2%
City & Westminister Limited	1,022,777	0.9%

vii. Repayment of Vita Life's Notes

In accordance with the terms of the Prospectus, Vita Life has reduced the principal amount owing to its Noteholders from $19,189,442 to $5,701,145 as at the date of this Supplementary Prospectus. The $5,701,145 that remains owing to Noteholders is to be repaid from the sale of Shares held by Vita Life after the distribution of the Rights Issue Shares (refer to Purpose of the Offer on page 3 for further details).

viii. Long Term Incentive Plan

The Directors have resolved to implement a share incentive plan (Long Term Incentive Plan) for executives and employees of the Cyclopharm Group. The terms of the plan are being developed by Directors and its implementation will be subject to Shareholder approval at the next annual general meeting of Cyclopharm to be held during the second quarter of 2007.

ix. Completion of Material Contracts

Sale & Purchase of Business between Vita Medical Limited (VML) and Vita Medical
Under this agreement VML sold and Vita Medical purchased all of VML's assets (including its rights to intellectual property) and assumes VML's operating liabilities (including assuming the creditors, employee entitlements and taxation expenses of VML). Vita Medical offered employment to all of VML's employees on terms at least as favourable as their former terms of employment and Vita Medical assumed responsibility for salary and other employment conditions. Completion of this agreement took place on 19 May 2006.

Sale & Purchase of Assets between Vimed Biosciences Pty Ltd (VMB) and Allrad No 28 Pty Ltd
Under this agreement VMB sold and Allrad No 28 purchased all of VMB's assets (including its rights to intellectual property) and assumed the creditors, employee entitlements and taxation expenses of VMB. Completion of this agreement took place on 19 May 2006.

Share Sale Agreement between Vita Life, Vitamedica Europe and Vita Medical Canada
Vita Medical Canada is a company limited by shares incorporated in Canada, and engages in the sale and marketing of nuclear medical products and, in particular, the sale and marketing of products relating to the Technegas System. Under this agreement, Vita Life sold all the shares of Vita Medical Canada to Vitamedica Europe, and Vitamedica Europe purchased all of the issued capital in Vita Medical Canada. Completion of this agreement took place on 19 May 2006.

Share Sale Agreement between VMB, Vitamedica Europe *and Allrad No 28 Pty Ltd*
Allrad No 28 owns certain items of intellectual property which have been licensed or assigned to other entities for the purposes of commercializing those items of intellectual property. Under this agreement VMB sold all the shares of Allrad No 28 to Vitamedica Europe, and Vitamedica Europe purchased all of the issued capital in Allrad No 28. Completion of this agreement took place on 19 May 2006.

Share Sale Agreement between VMB, Vitamedica Europe and Allrad No 29 Pty Ltd
Allrad No 29 owns certain items of intellectual property which have been licensed or assigned to other entities for the purposes of commercializing those items of intellectual property. Under this agreement, VMB sold all the shares of Allrad No 29 to Vitamedica Europe, and Vitamedica Europe purchased all of the issued capital in Allrad No 29. Completion of this agreement took place on 19 May 2006.

Share Sale Agreement between Vita Life and VML
Under this agreement dated 31 December 2005, VML sold, and Vita Life purchased all the ordinary shares of Vita Medical. Completion of this agreement took place on 19 May 2006.

Share Sale Agreement between Vita Life, Cyclopharm and Vitamedica Europe
Under this agreement, Vita Life sold, and Cyclopharm bought, the issued capital of Vitamedica Europe. Completion of this agreement took place on 19 May 2006.

Completion of Share Sale Agreement between Vitamedica Europe, Cyclopharma Laboratories SA (CLSA) and Cyclomedica Europe (Cyclomedica)
Cyclomedica is a company limited by shares incorporated in Ireland, and engages in the sale and marketing of nuclear medical products and, in particular, the sale and marketing of products relating to the Technegas System. Under this agreement, CLSA agreed to sell its 5,000 shares representing 50% of the issued capital of Cyclomedica to Vitamedica Europe for €100,000 ($170,940 approximately). Completion of this agreement took place on 1 June 2006 and Cyclomedica became a wholly owned subsidiary of the Cyclopharm Group. Completion of this sale alters Chart 1 on page 7 of the Prospectus.

Rights Attaching to Vita Life's Options
As part of an unsecured loan facility provided to Vita Life by Barleigh Wells Ltd, Vita Life has granted options for Shares to Barleigh Wells Ltd. Since the date of the Prospectus the terms and conditions applying to the options issued by Vita Life have been finalised and are:

Date of initial issue of options: 1 February 2004	Expiry date of all options: 31 January 2009
Number: 12,000,000 options	Issue price: no charge – part of loan facility arrangement
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.	Exercise period: the options may be exercised in whole or in part by notice in writing to Vita Life received at any time on or before 31 January 2009. The Options lapse five years from the date of issue.
Transfers: the options may be transferred at any time in whole or in part.	Voting rights: the options will not, in themselves, carry any voting rights or dividend entitlements.
Share issues including rights issues: the options will be treated as if they were fully paid shares and may participate in new issues without the prior exercise of any option.	The options will, for the purpose of Vita Life's distribution of its Cyclopharm shares to Vita Life shareholders, be entitled to participate in such distribution of Shares.

x. Summary of Material Arrangements

The first 3 agreements identified below were entered into with entities in which Dr Salin is a director and shareholder. He was not a director of Cyclopharm at the relevant execution dates.

Heads of Agreement between Cyclopharm and Cyclopharma Laboratories SA (CLSA)
Cyclopharm has agreed to a licensing agreement for technology from CLSA. This agreement includes the licensing of hardware, software and know-how to facilitate high volume dose production of PET radiopharmaceuticals by Cyclopharm for delivery to nuclear medicine departments in Australia. The agreement also entitles Cyclopharm to sell capital equipment supplied by CLSA to provide a turnkey solution to establish PET radiopharmaceutical central pharmacies.

At the time of this Supplementary Prospectus Cyclopharm had not commenced its PET radiopharmaceutical business. Directors are considering various capital raising options to enable the potential extension of Cyclopharm's radiopharmaceutical business to proceed.

New Distribution Agreement
Cyclomedica has reappointed CLSA as the exclusive distributor of the Technegas System in France for the period 1 April 2006 to 31 December 2008.

New Manufacturing & Regulatory Agreements
Cyclomedica has reappointed CLSA as the exclusive manufacturer of Patient Administration Sets for the European Union. CLSA has also been appointed as the European Union Authorised Representative for Cyclopharm's products distributed in the European Union as required by the Medical Device Directive 93/42/EEC.

FDA Trial
The Cyclopharm Group is currently in the process of preparing a "New Drug Application" seeking approval of the FDA for Technegas to be sold in the United States of America. To obtain the FDA approval Clinquest Inc, a specialist clinical research organisation from Boston, United States of America has been retained to manage the Phase III clinical trial. Since the issue of the Prospectus, 2 Canadian hospitals have agreed to conduct trials. The trial program involves 170 patient studies and, as at 29 September 2006, 115 patient studies were completed. Completion of the New Drug Application is planned for early 2007 but is dependent on the collection of patient study data and patient participation rates.

The funds raised from the placement of Shares described in v. above will primarily be used to fund the balance of costs associated with the application to the FDA.

xi. Specific Risk Factors

Litigation
So far as the Directors are aware, after reasonable enquiry, there are no claims or legal or arbitration proceedings which are likely to have a significant effect on the business, financial position or financial condition of the Cyclopharm Group beyond the provisions currently included in the consolidated financial statements.

Various members of the Vita Life group of companies are subject to actual and potential claims and legal or arbitration proceedings. The potential magnitude has been assessed as have the prospects of defending the claim, along with the prospects of recouping all or part of the claim from the claimant or third parties, including insurers. Where appropriate, provisions against these claims, etc. have been raised in the consolidated financial statements.

The Directors believe, however, that it is appropriate to set out specific reference in this Supplementary Prospectus to the following matters:

- Cyclomedica is currently suing a former distributor in Germany for non payment of amounts due to it of approximately €198,784 ($339,802 approximately). The matter is expected to have a date allocated for the hearing of the matter in 2006.

- In 2002, MDS Nordion SA (MDS) sued Vita Medical Limited (VML) (not part of the Cyclopharm Group) and other parties in two separate legal actions in Australia and France. The proceedings seek damages for alleged wrongful termination of a distribution agreement in 2000 between the parties in the sum of approximately €14.6 million (A$24.9m). The French proceedings were heard in May 2006 and judgment is expected to be delivered in November 2006. The Australian proceedings have not been set down for trial. VML and Cyclopharm have certain common directors and with Shareholder approval (refer paragraph ix. above), Vita Medical has purchased the business of VML. If damages were awarded against VML, which the Directors do not concede or accept as likely, the security charges and guarantees Barleigh Wells Ltd (a lender to Vita Life) has over VML would operate and Barleigh Wells Ltd would have priority over any award in favour of MDS. The Directors believe MDS has been made aware that there were, and are, security charges and guarantees operating and having priority over any claim MDS may have.

- In December 2003, Kate Helena Fraser and Global Herbs Pty Ltd issued proceedings against Vita Life and a subsidiary (not part of the Cyclopharm Group) for breach of contract seeking $750,000 plus interest and costs. In May 2006 the matter was settled for $475,000.

- Ms Pang Mui Hua previously lodged a "Notice of Claim" against various Vita Life group companies (not part of the Cyclopharm Group) claiming 2,698,260 Vita Life shares held by the New South Wales Sheriff. On legal advice the Vita Life group of companies has consented to withdraw its claim in respect of those shares. A Deed of Release is being negotiated by the parties at the date of this Supplementary Prospectus.

- The Singapore Official Assignee of Mr Pang Seng Meng Bankruptcy No 1006 of 2005 on 18 August 2006 sold by public auction 4,170,891 Vita Life shares and some of these shares were purchased by interested parties as disclosed in Permitted Interests of Directors on page 8 and 9.

- A director of Vita Life and Cyclopharm, Mr Townsing is also an executive director of the venture capital companies, Normandy Finance & Investments Asia Ltd and CVC Venture Managers. Refer to "Directors Interests and Remuneration" on pages 48 to 51 of the Prospectus. In his capacity as a nominee of a Normandy group company (unrelated to the Cyclopharm Group) Mr Townsing became a director of a Singaporean domiciled private company to which the Normandy group had loaned money. In civil proceedings the Singaporean company sued Mr Townsing and gained judgment against him for breach of directors' duties and was awarded damages. Mr Townsing has appealed the decision and the appeal was heard on 15 September 2006. Judgment was reserved and is expected to be handed down by the end of 2006.

- Vita Life and a subsidiary (not part of the Cyclopharm Group) issued proceedings in 2005 against Arthur Andersen and Ernst & Young in Singapore. Vita Life and its subsidiary seek, as yet unspecified, damages in negligence in the preparation of and/or misstatements in the audit reports of the subsidiary and damages for breach of duty and the terms of the audit agreement. Arthur Andersen and Ernst & Young filed their defence on 19 May 2006. The parties have been ordered to finalise inspection of documents.

ADDITIONAL INFORMATION

Financial Report

Cyclopharm's Independent Financial Report for the half year ended 30 June 2006 is contained in the Appendix.

Permitted Interests of Directors

Subject to the *Corporations Act* and the Constitution of Cyclopharm, a Director (and any firm, body or entity in which a Director has a direct or indirect interest) may in any capacity:

- enter into any contract or arrangement with Cyclopharm;

- be appointed to and hold any office or place of profit under Cyclopharm other than that of auditor; and

- act in a professional capacity other than as auditor,

and may receive and retain for his or her own benefit any remuneration, profits or benefits as if he or she were not a Director.

The Directors have the following beneficial and non beneficial interests in the following securities in Cyclopharm and Vita Life:

Director	Related Company	Number of Cyclopharm Shares	Number of Vita Life Shares	Number of Vita Life Notes
V R Gould	Non beneficial interests	1,248,751	7,098,334	112,947
BC Salin	Non beneficial interest	-	200,000	-
J S Sharman	Beneficial interest	-	1,267,000	-
	Non beneficial interests	31,017	50,000	182,437
H G Townsing	Non beneficial interests	1,408,696	11,525,041	293,607
Total		**2,688,464**	**20,140,375**	**588,991**

Summary of Offer Costs

The Offer costs associated with this Supplementary Prospectus (excluding GST) are estimated as follows:

	To be paid by		
	Cyclopharm 50%	**Vita Life 50%**	**Total**
Commission to CVC Venture Managers - Rights Issue Shares*	199,434	199,434	398,867
Professional fees (financial, legal & accounting)**	15,000	15,000	30,000
Printing & distribution	5,000	5,000	10,000
Sundry expenses	500	500	1,000
Total	**$219,934**	**$219,934**	**$439,867**

* Assumes the maximum number of Rights Issue Shares are allotted and Cyclopharm shares have an IPO value of $0.30 each. The commission reduces proportionately based on the actual number of Rights Issue Shares allotted.

** Gould Ralph & Company has prepared the Investigating Accountant's Report contained in this Supplementary Prospectus for which Cyclopharm has paid, or agreed to pay, $10,000 (excluding disbursements & GST). This sentence supplements the first two sentences of the last paragraph of page 51 of the Prospectus.

Consents & Disclaimer of Responsibility

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

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

Save as stated above, and in the references to GRC and GRPL in the Corporate Directory and on this page, neither GRC nor GRPL has authorised or caused the issue of this Supplementary Prospectus and does not make, or purport to make, any statement in this Supplementary Prospectus. Each expressly disclaims and takes no responsibility for any omissions from this Supplementary Prospectus.

Documents Available for Inspection

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

Authorisation of this Supplementary Prospectus

The Directors of Cyclopharm report that, in their opinion, since the date of the Investigating Accountant's Report on pages 12 to 27, there have not been any circumstances that have arisen or that have materially affected, or will materially affect, the assets and liabilities, financial position, profits or losses, or prospects of Cyclopharm, other than as disclosed in this Supplementary Prospectus or because they are matters that may reasonably be expected to be known to shareholders of Vita Life Sciences Limited, and their professional advisers.

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

H. G. Townsing°

°signing this Supplementary Prospectus in his capacity as a director of Vita Life Sciences Limited and a director of Cyclopharm Limited.

Glossary of Terms

Term	Meaning
$ or A$	Australian dollars, being the lawful currency of Australia
€ or Euro	Euros, being the lawful currency of the countries in Europe relevant to this Supplementary Prospectus. In this Supplementary Prospectus (other than the Independent Accountant's Report) the exchange rate used is A$1 = €0.585.
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited ABN 98 008 624 691
Business Day	Any day other than a Saturday, Sunday, bank holiday or public holiday in Melbourne.
CLSA	Cyclopharma Laboratories SA (RCS 432 554 996), Biôpole Clermont-Limagne 63360, Saint Beauzire, France
Constitution	The constitution of Cyclopharm as amended from time to time.
Corporations Act	*Corporations Act 2001* (C'wlth) as amended and includes any regulations made under that Act
Cyclomedica	Cyclomedica Europe Ltd (Rec 353 656), a wholly owned subsidiary of Vitamedica Europe.
Cyclomedica Germany	Cyclomedica Germany GmbH (Company No DE8144 33262) AG, a wholly owned subsidiary of Vitamedica Europe
Cyclopharm Group	Cyclopharm, Vita Medical, Vitamedica Europe, Vita Medical Canada, Vitamedica Germany, Cyclomedica, Allrad No 28 Pty Ltd and Allrad No 29 Pty Ltd
Cyclopharm	Cyclopharm Limited ACN 116 931 250 with its registered office at Building 75, Business and Technology Park, New Illawarra Road, Lucas Heights, NSW 2234
Directors	The Directors of Cyclopharm being Messrs VR Gould, BC Salin, JS Sharman and HG Townsing
FDA	Federal Drug Administration of the United States of America
Notes	Unsecured Convertible Notes issued by Vita Life pursuant to a trust deed made on 13 March 2003 between Vita Life and J P Morgan as trustee for the holders and "Noteholders" has a corresponding meaning.
Offer	The offer and transfer of Rights Issue Shares under this Supplementary Prospectus
Oversubscription Rights Issue Shares	Those Rights Issue Shares Shareholders apply for that are in excess of their respective Rights Issue Share entitlement up to the same number again.
Prospectus	The Prospectus issued by Cyclopharm and Vita Life dated 27 March 2006
Rights Issue Shares	59,091,425 Cyclopharm shares owned by Vita Life at the date of this Supplementary Prospectus
Shareholders	The registered holders of ordinary shares in Vita Life as at 5.00pm (Melbourne time) on 11 October 2006
Shares	Fully paid ordinary shares in the capital of Cyclopharm
Vita Life	Vita Life Sciences Limited ACN 003 190 421 with its registered office at Building 75, Business & Technology Park, New Illawarra Road, Lucas Heights, NSW 2234
Vita Medical	Vita Medical Australia Pty Ltd, ACN 003 071 556, a wholly owned subsidiary of Cyclopharm
Vita Medical Canada	Vita Medical Canada Ltd (Company No 202 7079), a wholly owned subsidiary of Cyclopharm
Vitamedica Europe	Vitamedica Europe Ltd (Rec 332 779), a wholly owned subsidiary of Cyclopharm

Gould Ralph & Company Chartered Accountants

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The Directors
Vita Life Sciences Limited
Building 75, Business & Technology Park
New Illawarra Road
LUCAS HEIGHTS NSW 2234

9 October 2006

The Directors
Cyclopharm Limited
Suite 630, Level 6
1 Queens Road
MELBOURNE VIC 3004

Dear Sirs

INDEPENDENT ACCOUNTANT'S REPORT

1. INTRODUCTION

We have prepared this Independent Accountant's Report at the request of the Directors of Vita Life Sciences Limited ("Vita Life") and Cyclopharm Limited ("Cyclopharm" or the "Company") for inclusion in a Supplementary Prospectus to be dated on or about 10 October 2006.

The Supplementary Prospectus invites participation in the Offer by Vita Life of Non Renounceable Rights at $0.05 each for up to 59,091,450 Shares in Cyclopharm which are exercisable at no further cost.

The purpose of this report is to set out the financial position of Cyclopharm and its subsidiaries ("Cyclopharm Group") as at 30 June 2006; set out the results of Cyclopharm and the consolidated results of the Cyclopharm Group for the period the six months to 30 June 2006; and provide an understanding of the Adjusted Historical Consolidated results of the entities that currently comprise the Cyclopharm Group as if they had been subsidiaries for the full six month period ended 30 June 2006.

This report does not address the rights attaching to the shares to be transferred or issued in accordance with the Supplementary Prospectus, the risks associated with the investment, nor forms the basis of an independent expert's opinion with respect to a valuation of Cyclopharm or the Rights price of 5 cents.

2. BACKGROUND

Cyclopharm was incorporated as a public company on 31 October 2005 and, at the date of this report, is 64.3% owned by Vita Life.

Member of Russell Bedford International - with affiliated offices worldwide
Liability limited by a scheme approved under Professional Standards Legislation

On 31 May 2006, Cyclopharm completed the acquisition of its subsidiaries that collectively constitute the nuclear medical products business (including the Technegas business). These acquisitions were approved by Vita Life Shareholders and Noteholders at meetings held on 12 April 2006.

Details of Cyclopharm subsidiaries are set out in Table 1 as follows:

Table 1 – Details of Cyclopharm Subsidiaries

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

The acquisitions resulted in Cyclopharm being indebted to Vita Life in the sum of $6.7million. On 19 July 2006, the company obtained $6.0 million Senior Debt from the National Australia Bank of which $5.7 million was used to substantially repay the loan from Vita Life.

3. SCOPE OF WORK

We have been requested to prepare a report for inclusion in the Supplementary Prospectus, dealing with the following financial information:

- A Summary Income Statement of Cyclopharm Limited (the parent) for the six months ended 30 June 2006 and a Summary Balance Sheet of the Company as at 30 June 2006;
- A Summary Income Statement of the consolidated Cyclopharm Group for the six months ended 30 June 2006 (in practice only for the period from 1 June 2006 to 30 June 2006) and a Summary Balance Sheet of the consolidated Cyclopharm Group as at 30 June 2006;
- A Summary Income Statement illustrating the consolidated Adjusted Historical results of the current Cyclopharm Group for the six months ended 30 June 2006 assuming the group entities were consolidated for the full six month period.

Review of Historical Financial Information and Pro-forma Financial Information

The 30 June 2006 historical financial statements of the relevant entities were subjected to review by Gould Ralph & Company in accord with Australian Auditing Standards.

We have conducted an independent review of the historical Summary Financial Statements and Adjusted Historical Summary Financial Statements for the six months ended 30 June 2006 in order to express an opinion on their preparation and presentation. The Company's directors are responsible for the financial statements from which the information in the Annexure has been extracted.

We undertook the independent review in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the Adjusted Historical summary financial statements are not presented fairly in accordance with the measurement requirements of applicable Accounting Standards, other mandatory professional reporting requirements in Australia and the assumptions set out above. Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements.

We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:-

(a) Review of the financial statements;

(b) Analytical review procedures applied to the financial data;

(c) Comparison of consistency in application of applicable accounting standards and accounting policies;

(d) Review of work papers, accounting records and other documents; and

(e) Inquiry of Directors, management, foreign subsidiary auditors and others.

These review procedures were substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards, the purposes of which is the expression of an audit opinion on the financial statements. Accordingly, we do not express such an opinion.

The opinion expressed in this report has been formed on the above basis.

4. **OPINION**

In our opinion, the summary financial statements, comprising the summary income statements, summary balance sheets and notes thereto, have been properly prepared in accordance with the recognition and measurement principles (but not necessarily all the disclosure requirements) prescribed in Accounting Standards and other mandatory professional reporting requirements and the accounting policies adopted by the Cyclopharm Group described in the Annexure.

Accordingly:

(a) Based on our review of the historical summary Balance Sheet and Income Statement of Cyclopharm as set out in the Annexure, nothing has come to our attention which causes us to believe that those financial statements do not present fairly the financial position of Cyclopharm as at 30 June 2006, and its income for the six months ended 30 June 2006;

(b) Based on our review of the historical summary Balance Sheet and Income Statement of the consolidated Cyclopharm Group as set out in the Annexure, nothing has come to our attention which causes us to believe that the historical summary financial statements of the Cyclopharm Group do not present fairly the financial position of the consolidated Cyclopharm Group as at 30 June 2006, and its income for the six months ended 30 June 2006;

(c) Based on our review of the Adjusted Historical consolidated summary income statement of the Cyclopharm Group, as set out in the Annexure, nothing has come to our attention which causes us to believe that the Adjusted Historical consolidated income statement does not present fairly the consolidated income of the entities comprising the Cyclopharm Group for the full six month period ended 30 June 2006 as if the Cyclopharm Group had been constituted at the beginning of that period;

5. SUBSEQUENT EVENTS

Apart from the matters dealt with in the report and having regard to the scope of our report, to the best of our knowledge and belief, no material items, transactions or events outside of the ordinary business of the Cyclopharm Group have come to our attention which would require comment on or adjustment to the information referred to in our report or that would cause the information to be misleading or deceptive.

6. INDEPENDENCE DISCLOSURE

Gould Ralph & Company does not have any pecuniary interest that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to this report. Gould Ralph & Company will receive a professional fee for the preparation of this Report. Additionally, Gould Ralph & Company act as statutory auditors of Cyclopharm and an associated entity, Gould Ralph Pty Ltd, has been appointed to provide public share registry services to Cyclopharm. Gould Ralph & Company also act as statutory auditors of Vita Life and Gould Ralph Pty Ltd provides share registry and taxation compliance services to Vita Life.

The partners of Gould Ralph & Company do not have any interest in any shares of the Company, Vita Life or its subsidiaries.

Consent has been given to the inclusion of this Independent Accountant's Report in the Prospectus in the form and context in which it appears. However, the giving of this consent should not be taken as an endorsement of Cyclopharm or a recommendation by the author of any participation in the offer by intending investors. Neither the author nor Gould Ralph & Company gives any assurance or guarantee whatsoever with respect to the future success of, or financial returns associated with, the subscription for shares being offered pursuant to this Prospectus.

Yours faithfully
GOULD RALPH & COMPANY

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

CYCLOPHARM LIMITED

Summary Income Statements

for the six months ended 30 June 2006

	Note	Company Actual 30-Jun-06 (Reviewed) $	Consolidated Actual 30-Jun-06 (Reviewed) $	Consolidated Adjusted Historical 30-Jun-06 (Reviewed) $
Continuing operations				
Revenue				
Sale of goods		-	743,657	4,357,423
Finance income		-	549	4,219
Other revenue		10,000	2,229	-
		10,000	**746,435**	**4,361,642**
Raw Materials and consumables used		-	(170,528)	(1,045,817)
Employee benefits expense		-	(153,817)	(1,139,192)
Advertising and promotion expenditure		-	(124)	(59,265)
Depreciation and amortisation expense		-	(6,847)	(43,442)
Freight and duty expense		-	(7,735)	(102,957)
Finance costs		-	(19,404)	(25,694)
Research and development costs		-	(2)	(61,203)
Administration expense		(6,000)	(119,789)	(823,363)
Other expenses		-	(116,422)	(106,019)
Profit before income tax expense		**4,000**	**151,767**	**954,690**
Income tax expense		-	(39,710)	(140,853)
Profit for the period		**4,000**	**112,057**	**813,837**
Profit attributable to members of the parent entity		**4,000**	**112,057**	**813,837**

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

CYCLOPHARM LIMITED
Summary Balance Sheets
as at 30 June 2006

	Note	Company Actual 30-Jun-06 (Reviewed) $	Consolidated Actual 30-Jun-06 (Reviewed) $
ASSETS			
Current Assets			
Cash and cash equivalents	3	10	540,822
Receivables	4	10,000	2,488,240
Inventories	5	-	1,545,620
Deferred tax asset		-	15,323
Prepayments		-	154,002
Total Current Assets		**10,010**	**4,744,007**
Non-Current Assets			
Receivables	4	694,460	118,670
Financial assets	6	6,352,984	-
Property, plant and equipment	7	-	973,454
Intangible assets	8	-	6,726,533
Total Non-Current Assets		**7,047,444**	**7,818,657**
Total Assets		**7,057,454**	**12,562,664**
LIABILITIES			
Current Liabilities			
Trade and other payables	9	352,984	1,762,320
Borrowings	10	-	-
Income tax payable		-	150,192
Provisions	11	-	200,614
Total Current Liabilities		**352,984**	**2,113,126**
Non Current Liabilities			
Borrowings	10	6,700,460	7,321,518
Provisions	11	-	113,232
Total Non Current Liabilities		**6,700,460**	**7,434,750**
Total Liabilities		**7,053,444**	**9,547,876**
Net Assets		**4,010**	**3,014,788**
EQUITY			
Contributed equity	12	10	5,132,626
Foreign Currency Translation Reserve		-	(487,219)
Retained profits/ (accumulated losses)		4,000	(1,630,619)
Total equity		**4,010**	**3,014,788**

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

CYCLOPHARM LIMITED
Notes to the financial statements
as at 30 June 2006

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The summary financial statements have been prepared on a historical cost basis.

The summary financial statements represent a special-purpose financial report, in that they do not disclose all of the information required in general purpose financial reports prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards.

(b) Statement of compliance

The financial report complies with the recognition and measurement requirements (but not necessarily all the disclosure requirements) of Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS').

(c) Basis of consolidation

The consolidated entity financial statements comprise the financial statements of Cyclopharm Limited and its subsidiaries as at 30 June 2006 ("the Group").

The financial statements of subsidiaries are prepared using consistent accounting policies.

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

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

(d) Foreign currency translation

Both the functional and presentation currency of Cyclopharm Limited and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiaries (Vita Medica Europe Limited, Cyclomedica Europe Limited, Cyclomedica Germany GmbH, Vita Medical Canada Limited) is European euro (EUR$) and Canadian dollars (CAD$) respectively.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Cyclopharm Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

1. Summary of Significant Accounting Policies (Continued)

(e) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

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

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Revaluations
Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet unless it reverses a revaluation decrease of the same asset previously recognised in the income statement.

Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the same asset in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve is made to retained earnings for the depreciation relating to the revaluation surplus.

In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

(f) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

1. Summary of Significant Accounting Policies (Continued)

(g) Intangible assets

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

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

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

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

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived 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
Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

A summary of the policies applied to the Group's intangible assets is as follows:

	Patents and Licences	**Development Costs**
Useful lives	Indefinite	Finite
Method used	Not depreciated or revalued	10 years — Straight line
Internally generated / Acquired	Acquired	Internally generated
Impairment test / Recoverable amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

1. Summary of Significant Accounting Policies (Continued)

(h) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value.
Costs incurred in bringing each product to its present location and condition 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 a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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.

(j) Trade and other receivables

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

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

(k) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

(l) 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.

1. Summary of Significant Accounting Policies (Continued)

(m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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.

If the effect of the time value of money 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, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(n) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, 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.

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.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(o) Revenue

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

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest
Revenue is recognised as the interest accrues (using the effective interest 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.

1. Summary of Significant Accounting Policies (Continued)

(p) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates *AASB 112.34* and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(q) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

2. Adjusted Historical Statements

The Adjusted Historical consolidated income statement reflects the actual historical results for the six months ended 30 June 2006, on a consolidated basis, of the operations of the entities that comprise the Cyclopharm Group as if the acquisition of the group's entities was completed on 1 January 2006.

CYCLOPHARM LIMITED

Notes to the financial statements

as at 30 June 2006

	Note	Company Actual 30-Jun-06 (Reviewed) $	Consolidated Actual 30-Jun-06 (Reviewed) $
3. Cash and cash equivalents			
Cash		10	540,822
		10	**540,822**
4. Receivables			
Current			
Trade debtors		-	2,656,745
Provision for doubtful debts		-	(451,290)
		-	2,205,455
Other debtors		10,000	282,785
		10,000	**2,488,240**
Non-current			
Related party receivables		**694,460**	**118,671**
5. Inventories			
Raw materials - at cost		-	651,990
Finished goods - at lower of cost or net realisable value		-	1,006,630
Provision for Stock Obsolescence		-	(113,000)
		-	**1,545,620**
6. Financial assets			
Investment in controlled entities		6,352,984	-
		6,352,984	**-**
7. Property, plant and equipment			
Leasehold improvements			
At cost		-	198,850
Accumulated depreciation		-	(166,757)
		-	32,093
Plant and equipment			
At cost		-	1,409,808
Accumulated depreciation		-	(790,076)
		-	619,732
Leased plant and equipment			
At cost		-	739,638
Accumulated depreciation		-	(418,009)
		-	321,629
Total carrying value		**-**	**973,454**

CYCLOPHARM LIMITED
Notes to the financial statements
as at 30 June 2006

	Note	Company Actual 30-Jun-06 (Reviewed) $	Consolidated Actual 30-Jun-06 (Reviewed) $
8. Intangible assets			
Product development costs - at cost		-	194,846
Goodwill		-	6,531,687
		-	**6,726,533**
9. Current trade and other payables			
Trade creditors		-	1,052,147
Other creditors and accruals		352,984	710,173
		352,984	**1,762,320**
10. Borrowings			
Unsecured			
Loans from related entities		**6,700,460**	**7,321,518**
11. Provisions			
Current			
Employee benefits		-	148,114
Warranties		-	7,500
Other		-	45,000
		-	**200,614**
Non current			
Employee benefits		-	113,232
		-	**113,232**
12. Contributed equity			
Issued and paid up capital			
106,666,667 (Historical - 10) Ordinary shares , fully paid		**10**	**5,132,626**

CYCLOPHARM LIMITED
Notes to the financial statements
as at 30 June 2006

13. Segments
Geographic Segments

Adjusted Historical 6 months ended 30 June 2006	Australia	Asia	Europe	Canada	Other	Consolidated
	$	$	$	$	$	$
Sales Revenue	821,704	98,286	3,014,422	364,175	58,836	4,357,423
Other	4,219	-	-	-	-	4,219
Total revenue	**825,923**	**98,286**	**3,014,422**	**364,175**	**58,836**	**4,361,642**
Segment operating profit/ (loss) before income tax and minority interest	(949,953)	(9,925)	1,666,888	204,884	42,796	954,690
Income tax expense	-	-	(140,853)	-	-	(140,853)
Profit from ordinary activities after income tax (before minority interesst)	**(949,953)**	**(9,925)**	**1,526,035**	**204,884**	**42,796**	**813,837**

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

Industry Segments

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

	Note	Company Actual 30-Jun-06 (Reviewed) $	Consolidated Actual 30-Jun-06 (Reviewed) $
14. 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:			
United states dollars			
Amounts receivable		-	2,296
Amounts payable		-	15,725
Euros			
Amounts receivable		-	1,318,313
Amounts payable		-	348,889
Canadian dollars			
Amounts receivable		-	116,417
Amounts payable		-	5,326

15. Additional financial instruments disclosure

(a) Interest rate risk

	Note	Weighted average interest rate	Fixed interest maturing in: Floating interest rate	1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
2006								
Financial assets								
Cash assets	3	3.65%	540,822	-	-	-	-	540,822
Receivables	4	-	-	-	-	-	2,488,240	2,488,240
			540,822	-	-	-	**2,488,240**	**3,029,062**
Financial liabilities								
Payables	9	-	-	-	-	-	1,762,320	1,762,320
Loans	10	-	-	-	-	-	7,321,518	7,321,518
Lease liabilities	10	10.05%	-	-	-	-	-	-
Employee entitlements	11	-	-	-	261,346	-	-	261,346
			-	**-**	**261,346**	**-**	**9,083,838**	**9,345,184**

(b) 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. 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.

16. Events subsequent to balance date

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

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

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