

# Vita Life Sciences Limited Annual Report 2009

Vita Life Sciences Limited  
ABN 35 003 190 421



Vita Life Sciences Ltd

Thailand

Vietnam

Malaysia

Singapore

China

Indonesia

Australia

VLS

# Contents

<b>Financial Highlights</b>	<b>1</b>
<b>Chairman's Letter</b>	<b>2</b>
<b>Managing Director's Review</b>	<b>3</b>
<b>Directors' Report</b>	<b>6</b>
<b>Auditor's Independence Declaration</b>	<b>16</b>
<b>Corporate Governance Statement</b>	<b>17</b>
<b>Consolidated Statement of Comprehensive Income</b>	<b>26</b>
<b>Statement of Financial Position</b>	<b>27</b>
<b>Statement of Cash Flows</b>	<b>28</b>
<b>Statement of Changes in Equity</b>	<b>29</b>
<b>Notes to the Financial Statements</b>	<b>31</b>
<b>Directors' Declaration</b>	<b>83</b>
<b>Independent Audit Report</b>	<b>84</b>
<b>ASX Additional Information</b>	<b>86</b>

# Financial Highlights

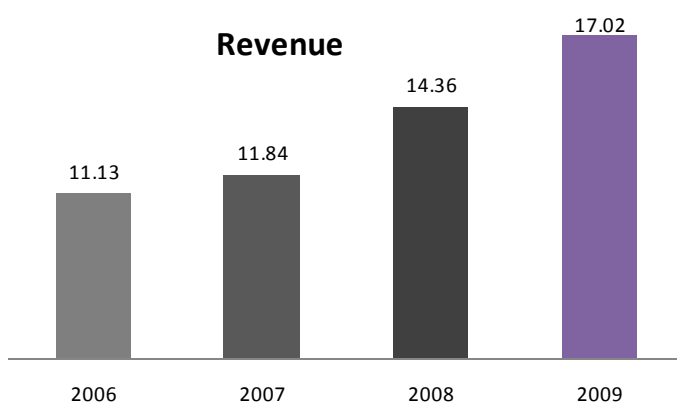
Year ended 31 December	2006 A\$million	2007 A\$million	2008 A\$million	2009 A\$million
<b>Revenue</b>	11.13	11.84	14.36	17.02
<b>Earnings Before Interest Expense and Tax</b>	10.03 <sup>1</sup>	0.03 <sup>2</sup>	0.49 <sup>3</sup>	(0.09) <sup>4</sup>
<b>Net profit / (loss) after tax</b>	9.81 <sup>1</sup>	(0.20) <sup>2</sup>	0.35 <sup>3</sup>	(0.33) <sup>4</sup>
<b>Shareholders' Funds</b>	(2.14)	2.88	3.85	3.90
<b>Borrowings</b>	(8.14)	(0.82)	(1.29)	(1.33)

1. Including profit on disposal of Cyclopharm Limited of \$11.8 million and Pan Liquidator dividend of \$0.70 million

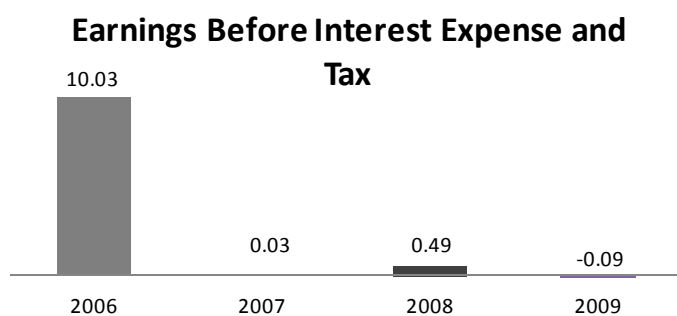
2. Including income from legal settlement of \$0.36 million and loss in new business units of \$0.29 million

3. Including Pan Liquidator dividend of \$1.04 million and loss in new business units of \$0.60 million

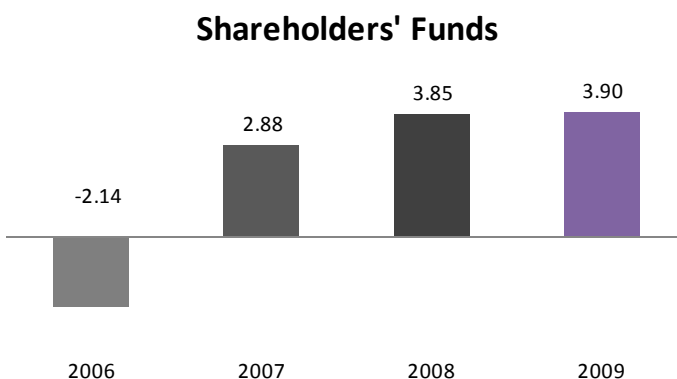
4. Including Pan TGA Claim costs of \$0.63 million and loss in new business units of \$0.71 million



Sales revenue: Increased by 18.5%



Loss before interest expense and taxation of \$0.09 million



Shareholders' funds: \$3.90 million  
(2008: \$3.85 million)



# Chairman's Letter

Dear Vita Life Shareholder,

The calendar year 2009 has seen the end of the beginning of the new Vita Life Sciences. No longer is the past acting as a brake on the future. If it wasn't for the legal costs in relation to the claim against the Commonwealth of Australia ("Pan TGA Claim"), the Group would have been demonstrably profitable. Accordingly we have now entered an exciting new phase in your Group's history where the destruction that took place during the Pan product recall has finally been remedied. Shareholders will remember that previously more than 50% of the Group's products were manufactured by Pan. Whilst it is true that the Group still has not regained the market share that was previously enjoyed in places like Malaysia and Singapore, we have now been able to establish a viable business and have great expectations for the future.

I want to thank shareholders for their patience and support during what has been a very difficult time in the Group's history. We are confident that the value of the business now significantly exceeds book value. For instance in previous years the Group had completely written off the acquisition costs of its wholly owned subsidiary, Herbs of Gold, which was devastated by the Pan recall. That subsidiary has now doubled in size since it was purchased in 2002. Each month seems to set a new sales record and I particularly want to thank our General Manager-Australia & New Zealand, Mr Nathan Cheong, for his efforts under the direction of our Managing Director, Mr Eddie Tie.

I particularly want to publicly thank and acknowledge the dedication and hard work of Mr Tie. He has done a fantastic job managing a company that involves travelling continually between operational offices in places like Shanghai, Bangkok, Vietnam and Australia. I particularly want the shareholders to support the Directors' recommendation of a substantial number of Long Term Incentive Plan shares being granted to him as a way of acknowledging his efforts and further incentivising him. Mr Tie has continued to purchase shares in the Company and is now a substantial shareholder and this in itself speaks highly of his commitment and dedication to the Group.

Whilst we expect the legal and professional costs of the Pan TGA Claim to be substantial, we are committed to seeking redress from the Commonwealth of Australia for its part in the Pan product recall which devastated the Vita Life business. Shareholders will recall that the Commonwealth of Australia has previously paid compensation of \$50 million to Pan's major shareholder, Mr Jim Selim. Whilst these legal costs will result in the Group being unprofitable in the short term, we anticipate the ultimate positive outcome to be a substantial lift in the financial base of Vita Life. Unfortunately this matter may not be resolved until the 2011 calendar year.

I want to thank you again for your support and I look forward to reporting substantial progress in the next annual report.



**Vanda Gould**

Chairman

26 March 2010

# Managing Director's Review

## Overview

Overall, the Vita Life Sciences Limited's ("Group") had an impressive year, reaching high sales level and achieving growth in each of its Established business units. One of the Group's foremost objectives was to continue its revenue base expansion. This objective was successfully achieved with the Group's sales revenue of \$17.02 million for the financial year, which was \$2.66 million or 18.5% higher than 2008. Strong sales growth was achieved in two of the Group's principal markets; Australia and Malaysia increased by 26.5% and 16.1% respectively.

The Group's loss of \$0.33 million (2008: profit after tax of \$0.35 million) was not representative of the performance of the business in 2009 as it includes a \$0.63 million charge for legal and professional costs associated with the Group's claim against the Commonwealth of Australia ("Pan TGA Claim").

On a normalised basis, profit after tax was \$0.30 million (excluding the Pan TGA Claim costs) compared to an operating loss of \$0.69 million in 2008 (excluding proceeds from Pan Liquidator of \$1.04 million).

Other key financial results were:

- Variable operating expenses (distribution and marketing expenses) were equivalent to 15.1% of sales revenue (2008: 16.6%). The improvement in variable operating costs as a percentage of sales revenue was mainly due to the implementation of cost control measures;
- Fixed operating expenses (occupancy, administrative and sundry expenses) were \$7.34 million (2008: \$6.74 million), before \$0.63 million Pan TGA Claim costs. Higher fixed operating expenses mainly arose from increase in salaries as a result of Health division's expanding staff base for its New and Established business units and higher sales incentives paid in line with sales revenue growth; and
- Net interest costs increased to \$0.23 million (2008: \$0.16 million) as a result of higher average borrowings of \$1.30 million in 2009 (2008: \$1.05 million) in line with increased trading activities.

In 2009, our achievements include the following:

- Expanded our Herbs of Gold product range, gained more retail shelf spaces thereby increasing sales in Australia;
- Introduced a large number of new products for our Established and New business units in the Asian region;
- Put in place an experienced management team for the Multi-Level Marketing ("MLM") business unit and substantially increased sales over the previous year;
- Increased the number of product approvals in the Chinese markets to more than 50;
- Doubled the sales in our New business units in Malaysia, Thailand and China.

In 2010, management will continue seeking opportunities whilst building on the Established and New business units. We will continue to provide distributors and retailers of our New business products with constant support including product training, marketing and sales materials.

# Managing Director's Review (Continued)

## Financial Performance

The Health division's Established business units remained the key driver of sales with growth of 18.5% during the financial year; Australia increased by 26.5%, Malaysia increased by 10.9% and Singapore increased by 3.3% (measured in local currency).

Other notable key components of the Health division's 2009 financial results were:

- Consistent overall gross margins of 60.3% (2008: 59.7%);
- Improvement in normalised EBIT of \$0.78 million (2008: Normalised loss before interest expense and taxation of \$0.29 million) demonstrated improved performance despite the global financial crisis in 2009;
- The Herbs of Gold and VitaHealth brands sold in Australia, Malaysia and Singapore increased their contribution to the Group's profit in 2009; and
- Investment cost / losses in new business units of \$0.71 million (2008: \$0.60 million).

Based on current performance, the Group is well positioned to grow revenue whilst maintaining existing profit margin ratios.

## New Businesses

As outlined in our previous years' Annual Report, the Health division's New business units were initiated with the focus on increasing sales, profitability and market share in the longer term. The New business units' progress in 2009 and outlook in 2010 can be summarised as follows:

- Employed an experienced management team in 2009 to build a successful long term multi-level marketing ("MLM") business unit. The new team, headed by the President and Vice-President, collectively have more than 60 years of experience in the industry. The team will focus on developing a successful MLM business unit across the Asian region. To date, sales in Malaysia have been strong and we expect continuing improved performance in 2010 as distributors' base expands and operations in Thailand commence;
- In 2009, the Group's wholly owned subsidiary, Herbs of Gold (Shanghai) Co. Limited in the People's Republic of China, obtained product approvals and sought its retail license. With more than 50 product approvals obtained, the subsidiary began selling products. Whilst the revenue contribution was not significant and incurred a loss due to set up and new product registration costs, this is truly an exciting venture which provides the Group with a tremendous growth opportunity;
- In Thailand, the number of product approvals had increased by 73.7% to 33 products in 2009. By the end of 2010, we aim to have 48 products registered in Thailand. The increase in product approvals led to the doubling of sales revenue from 2008 and this momentum is expected to continue in 2010;
- The Group's affordable or "discount" health supplement brand in Malaysia, Pharma Direct, broke even in the past 2 financial years but has not gained momentum as anticipated. In 2010, continued efforts will be made to provide the support to the business and increase its product range.

# Managing Director's Review (Continued)

## Regional Commentary

### ***Australia***

Herbs of Gold in Australia continues to be the Group's largest revenue contributor, accounting for 49.3% (2008: 46.2%) of the Group's total revenue.

The established unit reported a revenue growth of 26.5% and a healthy profit. The robust result demonstrates the benefits of an effective management team, focussed action in new product introductions, effective marketing activities and strong retailer partnerships. The product range is reviewed regularly to ensure it is competitive in a matured Australian market and meets the change in consumers' needs and lifestyles.

Whilst the Established business continues to do well in the Australian market, there are substantial growth opportunities, in terms of innovative products or new channels for the Herbs of Gold brand.

### ***Malaysia and Singapore***

The Group's Established businesses in Malaysia and Singapore delivered positive growth in local currencies of 10.9% and 3.3% respectively. This was a good performance despite the Malaysian and Singaporean economies experiencing negative economic growth. Sales in Singapore were particularly weak due to the severity of the financial crisis in Singapore. Sales growth was attributed to the successful positioning of the Vita Health brand and the successful partnerships with the established and growing independent pharmaceutical channels in both countries.

Both businesses continued to be profitable although the profitability is increasingly impacted by the higher advertising and promotional commitments demanded by large retailers. The Group will have to continue to balance profitability against market share.

## Investment Division

The Group has an equity interest of 6.3% (profit share of 20.1%) in a property project in Malaysia. The Investment division did not record any revenue during the financial year and the loss of \$0.02 million (2008: \$0.08 million) was mainly administrative costs.

## Outlook for 2010

The Health division's Established business units sales are expected to continue the growth trend established in 2009 into 2010. The New business units in China, Malaysia and Thailand are also expected to continue to expand. In addition, the Group has obtained approvals to commence multi-level marketing operation in Thailand and to sell over-the-counter products in Vietnam from the relevant authorities. These new businesses are expected to commence in the third quarter of 2010.

The Group's operating performance remains encouraging and the Directors expect to report improved EBIT over the preceding period. The Directors focus on increasing sales, profitability and market share in the long term remains unchanged.



**Eddie L S Tie**  
Managing Director  
26 March 2010



# Directors' Report

Your Directors submit their report for the year ended 31 December 2009.

## DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience and special responsibilities

#### **Mr Vanda R Gould**

##### **Non-Executive Chairman**

*B Com, M Com, FCA, FCPA*

Mr Gould has been a member of the Board since 1997. He is currently the Group Non-Executive Chairman appointed in 1999 and also serves as Chairman of the Audit and Risk, Board Nominations, and Remuneration Committees.

Mr Gould has broad business experience having practised as a chartered accountant for more than 30 years. As founding Chairman in 1984 of CVC Limited he has overseen investments in several companies involved in the medical industry. He is also chairman of several other private and public companies and educational establishments, including CVC Limited and Cyclopharm Limited which are listed on the Australian Securities Exchange ("ASX").

Mr Gould lives in Sydney and is 62 years old.

#### **Mr Eddie L S Tie**

##### **Managing Director**

*FCPA (Australia), FCCA (UK), CPA (M), CA (M), CFP*

Mr Tie has more than 25 years commercial experience including holding positions as Managing Director and Chief Executive Officer across companies involved in hotel and property development, manufacturing and education sectors. Earlier in his career he was the Finance Director for a regional subsidiary of a multinational information technology company and General Manager of finance of a publicly listed company in Malaysia.

Mr Tie was appointed Managing Director of Vita Healthcare Asia Pacific Sdn Bhd and Vita Life Sciences Limited ("Vita Life" or "Company") on 18 January 2005 and 1 January 2007 respectively.

Mr Tie lives in Kuala Lumpur, Malaysia and is 51 years old.

#### **Mr John S Sharman**

##### **Non-Executive Director**

*B Ec, M Fin, CA*

Mr Sharman was Finance Director and then Executive Director of Vita Life from October 2003 to August 2006. Mr Sharman serves as a member of the Audit and Risk Committee.

Mr Sharman has over 15 years experience in company management, private equity, investment banking and corporate finance. He has extensive experience in capital raisings, negotiation of key agreements, recovery and commercial strategies for performing and non-performing companies in all stages of company development.

Mr Sharman is a Director of ASX listed company, Cyclopharm Ltd .

Mr Sharman lives in Melbourne and is 44 years old.

## Directors' Report (Continued)

### Mr Henry G Townsing Non-Executive Director

*Dip Val*

Mr Townsing has more than 20 years experience in corporate finance and private equity. He was a director of Vita Life from 1985 to 1992 and was reappointed a director in 2004. He is a director of Normandy Finance & Investments Asia Ltd, one of Vita Life's largest shareholders, and several other companies.

Mr Townsing lives in Melbourne and is 55 years old.

Mr Townsing resigned from the Board on 27 February 2009.

### Interests in the shares of the company and related bodies corporate

As at the date of this report, the interests of the all directors (except Mr Townsing who resigned as a Director on 27 February 2009) in the shares of Company were disclosed in the table below.

Director	At 1 January 2009	Purchases	LTIP Shares: Allotted / (Cancelled)	Disposal	At 31 December 2009 / On resignation
Mr Vanda R Gould - non beneficial	7,186,126	2,459,649	-	(8,095,418) N1	1,550,357
Mr Eddie L S Tie - beneficial	2,885,500	450,388	(15,000)	-	3,320,888
- non beneficial	30,000	-	-	-	30,000
Mr John S Sharman - beneficial	316,750	500	(250,000)	-	67,250
- non beneficial	161,200	-	-	(143,700) N2	17,500
Mr Henry G Townsing - non beneficial (N3)	4,863,396	-	-	-	4,863,396

\* Refer to Remuneration Report for details of Long Term Incentives

N1: Mr Gould no longer has relevant interests in 143,700 and 7,951,718 shares from 12 August 2009 and 9 November 2009 respectively.

N2: Mr Sharman no longer has relevant interest in these shares from 12 August 2009.

N3: Table reflects Mr Henry G Townsing's interests between 1 January 2009 and 27 February 2009.

### DIVIDENDS

No dividends were declared or paid during the financial year.

### PRINCIPAL ACTIVITIES

The principal activities during the financial year of entities within the consolidated entity consisted of formulating, packaging, sales and distribution of vitamins and supplements and investment.

### OPERATING, FINANCIAL REVIEW AND LIKELY DEVELOPMENTS

The Group's operating loss before tax for the financial year ended 31 December 2009 was \$333,299 (2008: profit before tax of \$305,871). A tax credit of \$5,106 (2008: tax credit of \$47,606) arose resulting in a loss after tax of \$328,193 (2008: profit after tax of \$353,477).

A detailed review of operations and likely developments is included in the Chairman's Report and the Managing Director's Review of Operations.

# Directors' Report (Continued)

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

### (a) 2009 Share Issues

On 7 August 2009, the Company completed its rights issue offer of 1 for 7.73 non-renounceable rights issue to all Australian and New Zealand registered shareholders at \$0.20 per share ("Rights Issue").

A total of 6,250,000 new fully paid ordinary shares were issued at \$0.20 each raising \$1.25 million before issue costs of \$54,302. The net proceeds from the Rights Issue will be utilised towards the legal and professional fees in relation to the Company's legal claim against the Commonwealth of Australia.

### (b) Share Buy-Back

On 2 September 2009, the Company announced an on-market share buy-back of up to 10% of the Company's shares on issue funded from the Group's existing cash reserves. On 1 October 2009, the Company bought back 254,921 shares at \$0.18 per share or total consideration of \$45,886 excluding cost of \$459.

## SIGNIFICANT EVENTS AFTER BALANCE DATE

There is no subsequent event after balance date that affects the operating results or financial position of the Company and its subsidiaries.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

The Officers of the Company covered by the insurance policy include the Directors, the Company Secretary and Executive Officers. The indemnification of the Directors and officers will extend for a period of at least 6 years in relation to events taking place during their tenure (unless the Corporations Act 2001 otherwise precludes this time frame of protection).

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

The Company has resolved to indemnify its Directors and officers for a liability to a third party unless:

- the liability does not arise out of conduct involving a lack of good faith; or
- the liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.

During or since the financial year, the Company has paid premiums in respect of a contract insuring all Directors of Vita Life Sciences Limited ("Vita Life") against legal costs incurred in defending proceedings for conduct involving:

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

The total amount of insurance contract premiums paid was \$16,796 (2008: \$16,132).

The Company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company or any related body corporate.

## Directors' Report (Continued)

### ENVIRONMENTAL REGULATIONS

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

### DIRECTORS' MEETING

The number of meetings of Directors (including meetings of committee of directors) held during the year and the number of meetings attended by each director were as follows:

Director	Board Meetings		Audit Committee Meetings		Board Nomination Committee		Remuneration Committee Meetings	
	Held by members	Attended	Held by members	Attended	Held by members	Attended	Held by members	Attended
Mr Vanda R Gould	10	10	2	2	1	1	1	1
Mr John S Sharman	10	9	2	2	*	*	*	*
Mr Henry G Townsing (1)	2	2	*	*	1	1	1	1
Mr Eddie L S Tie	10	10	*	*	*	*	*	*

\* Not a member of the committees

(1) Henry G Townsing resigned as a Director on 27 February 2009.

### AUDITOR'S INDEPENDENCE DECLARATION

The Directors have received an Independence Declaration from the external auditor, Russell Bedford NSW. A copy of this Declaration follows the Directors Report.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Russell Bedford NSW (and its associates) received or are due to receive the following amounts for the provision of non-audit services:

	\$
Tax compliance services	59,110
Share registry services	33,304
	<b>92,414</b>

### INVESTMENT AND BUSINESS RISK MANAGEMENT

The board, based on the recommendations of the Managing Director, Mr Tie and the Directors, makes decisions on investments for the Company. The board considers that the general retention by it, or the power to make the final investment or divestment decision by a majority vote provides an effective review of the investment strategy. A majority of the Directors must approve any modification to the investment parameters applying to the Company's assets. Any modification to the investment strategy is notified to the ASX and any proposed major change in investment strategy is first put to shareholders for their approval.

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures currently adopted by the Board include:

- monthly reporting to the Board in respect of operations and the Company financial position, with a comparison of actual results against budget;
- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks; and
- other measures which are either in place or can be adopted to manage or mitigate those risks.

# Directors' Report (Continued)

## SHAREHOLDING BY DIRECTORS AND EXECUTIVES

Company policy restricts trading by the Directors in their Shares to certain times and circumstances. Directors and senior executives will only be entitled to trade their Shares without restriction for up to four weeks following announcements of the Company's half yearly and preliminary final results, any detailed announcements concerning profit forecasts and after the Annual General Meeting.

## ETHICAL STANDARDS

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

- comply with the law;
- act in the best interests of the Company;
- be responsible and accountable for their actions; and
- observe the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

## 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.

## REMUNERATION REPORT

The Remuneration Report outlines Directors and executives remuneration arrangements of the Company and the group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 29.2 to Aus 29.5 of AASB 124 *Related Party Disclosures*, which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04. For the purposes of this report key management personnel of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the group, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives, general managers and secretaries of the parent and the group.

### Remuneration committee

The Remuneration Committee comprises Mr Gould, Chairman of the Remuneration Committee, and Mr Townsing during the financial year.

The Remuneration Committee is responsible for:

- reviewing and approving the remuneration of Directors and other senior executives; and
- reviewing the remuneration policies of the Company generally.

Total remuneration for all existing non-executive Directors during the financial year was \$47,500. These fees are within the aggregate remuneration of \$100,000 for all non-executive Directors as approved by shareholders at the Annual General Meeting held on 6 July 2006.



# Directors' Report (Continued)

## REMUNERATION REPORT (CONTINUED)

### Remuneration philosophy

The performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives;
- link executive rewards to the performance of the Company and the creation of shareholders' value;
- have a significant portion of executive remuneration 'at risk';
- establish appropriate, demanding performance hurdles for variable executive remuneration.

### Remuneration structure

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

### Non-executive director remuneration

#### *Objective*

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest caliber, whilst incurring a cost that is acceptable to shareholders.

#### *Structure*

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 6 July 2006 when shareholders approved an aggregate remuneration of \$100,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Each Director receives a fee (as set out in the Remuneration of Key Management Personnel table) for being a Director of the Company. Directors' fees cover all main Board activities and the membership of committees. There are no additional fees for committee membership. These fees exclude any additional 'fee for service' based on arrangements with the Company, which may be agreed from time to time. Agreed out of pocket expenses are payable in addition to Directors' fees. There is no retirement or other long service benefits that accrue upon appointment to the Board. Retiring non-executive Directors are not currently entitled to receive a retirement allowance.

### Executive remuneration

#### *Objective*

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- reward executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Remuneration Committee engages external consultants as needed to provide independent advice and the recommendations of the Managing Director.

#### *Structure*

The Remuneration Committee has entered into a detailed contract of employment with the Managing Director and a standard contract with other executives. Details of these contracts are provided below.

# Directors' Report (Continued)

## REMUNERATION REPORT (CONTINUED)

### Executive remuneration (Continued)

#### *Structure (Continued)*

Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation and non-monetary benefits); and
- Variable remuneration
  - short term incentive; and
  - long term incentive.

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive is set out in the Remuneration of Key Management Personnel table.

#### *Fixed Remuneration*

##### Objective

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of Company, business unit and individual performance, relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

##### Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the group. The fixed remuneration component of executives is detailed in the Remuneration of Key Management Personnel table.

#### *Variable remuneration - Short Term Incentive ("STI")*

##### Objective

The objective of the STI is to link the achievement of the group's operational targets with remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

##### Structure

Actual STI payments granted to each executive depend on the extent to which specific targets set at the beginning of the year are met. The targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial, corporate and individual measures of performance. Typically included measures are sales, net profit after tax, customer service, risk management and leadership/team contribution. These measures were chosen as they represent the key drivers for short term success of the business and provide a framework for long term value.

Actual STI payments granted to each executive depend on the extent to which specific targets set at the beginning of the year are met. The targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial, corporate and individual measures of performance. Typically included measures are sales, net profit after tax, customer service, risk management and leadership/team contribution. These measures were chosen as they represent the key drivers for short term success of the business and provide a framework for long term value.

The group has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, after consideration of performance against KPI's, the Remuneration Committee, in line with their responsibilities, determine the amount, if any, of the short term incentive to be paid to each executive. This process usually occurs within 3 months of reporting date.

The aggregate of annual STI payments available for executives across the Group is subject to the approval of the Remuneration Committee. Payments are delivered as a cash bonus in the following reporting period. Participation in the Short Term Incentive Plan is at the Directors discretion.

# Directors' Report (Continued)

## REMUNERATION REPORT (CONTINUED)

### Executive remuneration (Continued)

#### *Variable remuneration – Long Term Incentives*

##### Objective

The Company has established a Long Term Incentive Plan ("Plan") to encourage employees or officers to share in the ownership of the Company, in order to promote the long-term success of the Company.

The plan was implemented in 2003 and at the date of this report the Company had allocated 1,162,500 plan shares equivalent to 2.1% of the Company's capital. The principal terms and conditions of the Plan are:

- The Company lends money on a non-recourse basis to employees to buy Company shares at an interest rate as determined by the Remuneration Committee. Interest to be paid is to be derived from dividends paid by the Company or capitalised against the loan;
- The total allocation of share capital able to be issued is not to exceed 7.5% of issued capital;
- The term of the loan is up to 5 years at which point all outstanding monies must be repaid or the shares are forfeited;
- Hurdles as determined by the Remuneration Committee and approved by the Board. Where hurdles are not met the Plan shares will be forfeited and the employee will not be required to make further payment;
- Vesting periods as determined by the Remuneration Committee and approved by the Board; and
- Any dividends paid will be applied to the principal and or interest charged on the loan.

### Employment contracts

#### *Managing Director*

The Managing Director, Mr Tie, is employed under a rolling contract which commenced January 2005.

The principal terms of Mr Tie's contract are:

- Fixed remuneration of \$144,638 (including superannuation) per annum for the year ended 31 December 2009. The remuneration is reviewed by the Remuneration Committee on yearly basis.
- Mr Tie may resign from his position and thus terminate this contract by giving three months written notice unless a mutually agreeable date can be agreed upon.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the Managing Director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.
- Mr Tie is entitled to receive Plan shares subject to shareholders' approval. Refer to note 24 Share Based Payment of the financial statements for information on Plan shares issued to Mr Tie.
- Effective 1 April 2010, Mr Tie:
  - May be entitled to receive bonus on achieving certain benchmarks and targets;
  - May be entitled to a redundancy payment equivalent to 12 months of his remuneration at the time subject to certain conditions being met;
  - The Company may terminate this employment agreement by providing six months written notice or providing payment in lieu of the notice period (based on the fixed component of Mr Tie's remuneration).

#### *Other Executives (standard contracts)*

All executives have rolling contracts. The Company may terminate the executive's employment agreement by providing (depending on the individual's contract) between 1 to 3 months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

# Directors' Report (Continued)

## REMUNERATION REPORT (CONTINUED)

### Remuneration of Key Management Personnel (Audited)

Table 1: Remuneration for the year ended 31 December 2009

Consolidated	Short term employee benefits			Share based payments	Total	Performance rated
	Salary & Fees	Bonus	Superannuation			
	\$	\$	\$	\$	\$	%
<b>2009</b>						
<b>Directors</b>						
Mr Vanda R Gould Non-Executive Director	30,000	-	-	-	30,000	n/a
Mr Eddie L S Tie (1) Managing Director	128,943	-	15,695	10,744	155,382	7%
Mr John S Sharman Non-Executive Director	15,000	-	-	-	15,000	n/a
Mr Henry G Townsing (2) Non-Executive Director	2,500	-	-	-	2,500	n/a
<b>Total Directors Compensation</b>	<b>176,443</b>	<b>-</b>	<b>15,695</b>	<b>10,744</b>	<b>202,882</b>	<b>5%</b>
<b>Key Management Personnel</b>						
L M Leong General Manager - Singapore, China & Indonesia	152,840	20,497	9,665	-	183,002	11%
Nathan A Cheong General Manager - Australia & New Zealand	133,000	22,000	10,800	-	165,800	13%
Y T Ong General Manager - Malaysia & Thailand	112,717	25,072	16,911	-	154,700	16%
Geoffrey Pak (3) President - Multi-Level Marketing	132,381	-	-	-	132,381	0%
Edmund E M Sim General Manager - Regional Regulatory & Vietnam	97,885	17,113	9,664	-	124,662	14%
SS Ding Assistant General Manager - Finance & Operations	41,572	-	4,990	-	46,562	0%
C L Khoo (4) Chief Financial Officer	33,449	5,014	4,792	-	43,255	12%
<b>Total Key Management Compensation</b>	<b>703,844</b>	<b>89,696</b>	<b>56,822</b>	<b>-</b>	<b>850,362</b>	<b>11%</b>
<b>Grand total</b>	<b>880,287</b>	<b>89,696</b>	<b>72,517</b>	<b>10,744</b>	<b>1,053,244</b>	<b>10%</b>

(1) In 2009, the Group cancelled 130,000 and 825,000 ordinary shares issued to Mr. Eddie L S Tie in 2006 and 2007 pursuant to Vita Life's Long Incentive Plan. Subsequent to the cancellation, Mr Eddie L S Tie received an allotment of 935,000 ordinary shares in 2009 pursuant to Vita Life's Long Term Incentive Plan valued at \$10,744 (2008: \$14,856), as disclosed in Note 24 to the financial statements;

(2) Mr Henry G Townsing resigned from the Board of Directors on 27 February 2009;

(3) Mr Geoffrey Pak joined the Group' Multi-Level Marketing business unit on 15 July 2009;

(4) Mr C L Khoo resigned from the position of Chief Financial Officer on 30 June 2009 as he migrated to Australia and took up another position within the Group.

# Directors' Report (Continued)

## REMUNERATION REPORT (CONTINUED)

### Remuneration of Key Management Personnel (Audited) (Continued) Table 2 Remuneration for the year ended 31 December 2008

Consolidated	Short term employee benefits					Performance rated %
	Salary & Fees	Bonus	Superannuation	Share based payments	Total	
	\$	\$	\$	\$	\$	
2008						
Directors						
Mr Vanda R Gould Non-Executive Director	30,000	-	-	-	30,000	n/a
Mr Eddie L S Tie (1) Managing Director	127,111	-	15,253	14,856	157,220	9%
Mr John S Sharman Non-Executive Director	15,000	-	-	-	15,000	n/a
Mr Henry G Townsing (2) Non-Executive Director	15,000	-	-	-	15,000	n/a
Total Directors Compensation	187,111	-	15,253	14,856	217,220	7%
Key Management Personnel						
Y T Ong Chief Operating Officer-VHAP	106,032	4,237	12,223	-	122,492	3%
L M Leong Country Manager- Singapore	113,533	12,030	9,231	-	134,794	9%
Nathan Cheong Country Manager- Australia	113,000	5,000	9,000	-	127,000	4%
C L Khoo Chief Financial Officer	68,583	4,618	8,792	-	81,993	6%
Edmund E M Sim Senior Manager, Regional Regulatory	86,896	9,085	9,056	-	105,037	9%
Total Key Management Compensation	488,044	34,970	48,302	-	571,316	6%
Grand total	675,155	34,970	63,555	14,856	788,536	6%

(1) Mr Eddie L S Tie received allotment of 825,000 ordinary shares in 2007 pursuant to Vita Life's Long Term Incentive Plan valued at \$14,856 (2007: \$15,153), as disclosed in Note 24 to the financial statements;

(2) Mr Henry G Townsing resigned from the Board of Directors on 27 February 2009.

Signed in accordance with a resolution of the Directors.



**Eddie L S Tie**  
Managing Director  
26 March 2010





**Russell Bedford**

New South Wales

Level 42, Suncorp Place  
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Australia

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The Board of Directors  
Vita Life Sciences Limited  
Suite 630 Level 6,  
1 Queens Road, St Kilda Towers  
MELBOURNE VIC 3004

Dear Members of the Board,

**AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C  
OF THE CORPORATIONS ACT 2001**

**TO THE DIRECTORS OF VITA LIFE SCIENCES LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2009 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Yours faithfully,

**RUSSELL BEDFORD NSW**

MALCOLM BEARD, M.Com., F.C.A.  
Partner

Sydney, 26 March 2010

# Corporate Governance Statement

The Directors of Vita Life Sciences Limited ("Vita Life") are responsible for the corporate governance of the Vita Life Group ("Group"). The Board guides and monitors the business and affairs of Vita Life on behalf of the shareholders by whom they are elected and to whom they are accountable.

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

## 1 Compliance with ASX best practice recommendations

The ASX Listing Rules require a statement in a listed company's Annual Report which discloses the extent to which the ASX 27 best practice recommendations have been followed in the reporting period. As a listed company, Vita Life must identify those recommendations which have not been followed and provide reasons for non-compliance.

This Statement sets out in detail the Company's compliance with the ASX Corporate Governance Council's best practice recommendations.

The Company considers that practices comply with 26 of the ASX best practice recommendations as at 31 December 2009. The Company considers that its recommendations comply with the best practice recommendations, other than recommendations 4.2 an explanation for the departure is provided in this statement in section 3(a). A checklist summarising this is set out in section 8 of this Statement.

## 2 The Board of Directors

### (a) Membership

The Board has a range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, including details of director backgrounds is contained within the Directors Report.

#### ASX Recommendation 2.6

The Company's Constitution requires a minimum of 3 directors and a maximum of 9 directors. As at 31 December 2009, there were two non-executive Directors and one executive director, in conformity with the Company's policy that the Board has a majority of non-executive directors. The Chairman, Mr Gould, is a non-executive director. The terms and conditions of appointment and retirement of directors are set out in the Company's Constitution. The Board believes that its membership should have enough directors to serve on various committees of the Board without overburdening the Directors or making it difficult for them to fully discharge their responsibilities.

### (b) Board role and responsibilities

The Board is responsible to shareholders and investors for the Group's overall corporate governance.

The Board has established and approved a Board Charter. Under this Charter the Board is responsible for:

- Considering and approving the corporate strategies proposed by the Managing Director and monitoring their implementation;
- Approving, overseeing and monitoring financial and other reporting to shareholders, investors, employees and other stakeholders of the Company;
- Ensuring that the Company has the appropriate human, financial and physical resources to execute its strategies;
- Appointing and monitoring the performance of, and removing the Managing Director;
- Ratifying the appointment, and where appropriate, the removal of the Chief Financial Officer (or equivalent) and / or Company Secretary;
- Reviewing the effectiveness of the Company's policies and procedures regarding risk management, including internal controls and accounting systems; and
- Ensuring appropriate governance structures are in place including standards of ethical behaviour and a culture of corporate and social responsibility.

*ASX Recommendations 1.1, 2.6*

# Corporate Governance Statement (Continued)

## 2 The Board of Directors (Continued)

### (c) Chairman

The Chairman, satisfies the requirements for an Independent Chairman under ASX Recommendations 2.1 and 2.2 as Mr Gould is a non-executive, and has approximately 2.9% of the Shares (Recommendations permit 5%). Mr Gould is the Chairman of CVC Limited, whose subsidiary Stinoc Pty Limited controls 14.8% of the Shares of Vita Life. Mr Gould has advised the Board that under the Corporations Act tests he does not control these Shares and therefore has not disclosed them as part of his director's interest. However, given Mr Gould's role as Chairman of CVC Limited and Vita Life Sciences Limited, Vita Life's Board has considered this matter and decided, Mr Gould abstaining from expressing a view, that the Mr Gould's role at CVC Limited does not affect the operation of the Company and that so long as Mr Gould continues to act as he has since his appointment to the Boards of various entities making up the Vita Life Group, there is no reason to treat his actions as otherwise than that of an independent, non executive.

The Chairman is elected by the full Board of directors and is responsible for:

- Leadership of the Board;
- The efficient organisation and conduct of the Board's functions;
- The promotion of constructive and respectful relations between Board members and between the Board and management;
- Contributing to the briefing of Directors in relation to issues arising at Board meetings;
- Facilitating the effective contribution of all Directors; and
- Committing the time necessary to effectively discharge the role of the Chairman.

ASX Recommendation 2.3

### (d) Independent directors

The Company recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. The Board assesses each of the directors against specific criteria to decide whether they are in a position to exercise independent judgement.

Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each director's individual circumstances rather than general materiality thresholds.

In assessing independence, the Board considers whether the director has a business or other relationship with the Company, directly or as a partner, shareholder or officer of a Company or other entity that has an interest or a business relationship with the Company or another Vita Life group member.

Mr Gould and Mr Sharman meet the Recommendations' various test of independence. Therefore there is a majority of independent non-executive Directors and independent Directors on the Board.

ASX Recommendation 2.1, 2.6

### (e) Avoidance of conflicts of interest by a director

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised of any interest that could potentially conflict with those of the Company.

In the event that a conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over other Board members further when that matter is being considered the Director may not vote on that matter, in accordance with the Corporations Act.

# Corporate Governance Statement (Continued)

## 2 The Board of Directors (Continued)

### (f) Board Meetings

The Board regularly monitors the operational and financial performance of the Company and the economic entity against budget and other key financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

The number of times the Board has formerly met and the number of meetings attended by directors during the financial year are reported in the Directors' Report. The Board Charter dictates that the Board will hold ten scheduled meetings each year and, other meetings may be held at short notice as required.

### (g) Review of Board Performance

The process for conducting the Board's annual performance review was agreed by the Board and was performed by the Chairman of the Board. Matters covered in the annual performance review include:

- The Board's contribution to developing strategy and policy;
- Interaction between the Board and management, and between Board members;
- The Board's processes to monitor business performance and compliance, control risk and evaluate Management;
- Board composition and structure; and
- The operation of the Board, including the conduct of Board meetings, Board Committee meetings and group behaviours.

ASX Recommendation 2.5

### (h) Nomination and appointment of new directors

Recommendations for nominations of new directors are made by the Board Nominations Committee and considered by the Board in full. Mr Townsing and Mr Gould are members of the Board Nominations Committee during the financial year and Mr Gould is Chairman of the Committee. Board membership is reviewed annually by the Committee to ensure the Board has appropriate mix of qualifications, skills and experience. External advisers may be used in this process. Candidates are appointed by the Board and must stand for election at the next general meeting of shareholders. If a new director is appointed during that year, that person will stand for election by shareholders at the next annual general meeting. Shareholders are provided with relevant information on the candidates for election. The Nominations Committee reviews appointment criteria from time to time and makes recommendations concerning the re-election of any director by shareholders.

ASX Recommendations 2.1, 2.4

### (i) Retirement and re-election of directors

The Company's Constitution states that one-third of directors excluding the Managing Director must retire each year. The maximum term that each director can serve in any single term is three years. A director appointed during the year must, under the Constitution, retire at the next annual general meeting. At that meeting, they can stand for re-election. The Board Nominations Committee conducts a peer review of those directors during the year in which that director will become eligible for re-election.

ASX Recommendation 2.4

### (j) Board access to information and advice

All directors have unrestricted access to Company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. Each Director has the right, subject to prior consultation with the Chairman, to seek independent professional advice at the Company's expense if such advice is essential to the proper discharge of the Director's duties. The Chairman may notify other Directors of the approach with any resulting advice being made available to all other Board members.

ASX Recommendation 2.5, 2.6

# Corporate Governance Statement (Continued)

## 3 Board Committees

To assist the Board in fulfilling its duties and responsibilities, it has established the following committees:

- Audit and Risk Committee;
- Board Nominations Committee; and
- Remuneration Committee.

### a) Audit and Risk Committee

The Audit and Risk Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Vita Life's website, at [www.vitalifesciences.com](http://www.vitalifesciences.com). The Audit and Risk Committee comprises two Directors, who are non-executive Directors. The non-executive Directors are Mr Gould, Chairman of the Audit Committee and Mr Sharman. The qualifications of the committee are located in the Directors Report. The Audit Committee's responsibilities include:

- Reviewing procedures, and monitoring and advising on the quality of financial reporting (including accounting policies and financial presentation);
- Reviewing the proposed fees, scope, performance and outcome of external audits. However, the auditors are appointed by the Board;
- Reviewing the procedures and practices that have been implemented by management regarding internal control systems;
- Ensuring that management have established and implemented a system for managing material financial and non-financial risks impacting the Company;
- Reviewing the corporate governance practices and policies of the Company; and
- Reviewing procedures and practices for protecting intellectual property (ip) and aligning ip to strategy.

The Committee does not comply with the requirement to have an independent chairperson, who is not the chairperson of the Board. The Board believes that Mr Gould is the most appropriate person to be elected Chairman of the Committee. The Board does not comply with the ASX requirement to have at least 3 members on the Audit Committee. The Board believes that the experience that Mr Gould and Mr Sharman have in the finance industry adequately mitigates this non-compliance.

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

The Audit and Risk Committee monitors and reviews:

- The effectiveness and appropriateness of the framework used by the Company for managing operational risk;
- The adequacy of the Company's internal controls including information systems controls and security;
- The adequacy of the process for reporting and responding to significant control and regulatory breaches;
- The effectiveness of the compliance function in ensuring adherence to applicable laws and regulations, including the action of legal and regulatory developments which may have a significant impact;
- Operational risk issues;
- Action plans to address control improvement areas.

The Company's Auditor, is requested to attend the Annual General Meeting and to be available to answer shareholders questions about the conduct of the audit and the preparation and content of the Auditor's Report.

ASX Recommendations 4.1, 4.2, 4.3, 4.4



# Corporate Governance Statement (Continued)

## 3 Board Committees (Continued)

### (b) Board Nominations Committee

The Board Nominations Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Vita Life's website, at [www.vitalifesciences.com](http://www.vitalifesciences.com).

The primary function of the Nominations Committee is performing review procedures to assist the Board in fulfilling its oversight responsibility to shareholders by ensuring that the Board comprises individuals best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance. The Committee as delegated by the Board is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;
- performance review process of the Board, its Committees and individual directors;
- developing and implementing induction programs for new directors and ongoing education for existing directors;
- developing eligibility criteria for nominating directors;
- recommending appointment of directors of the Board;
- reviewing director independence; and
- succession planning for the Board.

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

*ASX Recommendations 2.4, 2.6*

### (c) Remuneration Committee

The Remuneration Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Vita Life's website, at [www.vitalifesciences.com](http://www.vitalifesciences.com).

The Remuneration Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, senior executives and non-executive directors. Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights and responsibilities. Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to personal and corporate performance contribution to long-term growth, relevant comparative information and independent expert advice. As well as base salary, remuneration packages may include superannuation and retirement and termination entitlements.

The Remuneration Report, which has been included in the Directors' Report, provides information on the Group's remuneration policies and payment details for Directors and key management personnel.

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

*ASX Recommendation 8.1*

## 4 Recognising and managing risks

A range of factors and risks some of which are beyond the Company's control can influence performance. The Company has in place a range of procedures to identify, assess and control risks which are reviewed by the Audit and Risk Committee and also by the Board periodically.

# Corporate Governance Statement (Continued)

## 4 Recognising and managing risks (Continued)

### (a) Board oversight of the risk management system

The Board is responsible for approving and overseeing the risk management system. The Board reviews, at least annually, the effectiveness of the implementation of the risk management controls and procedures.

The Company recognises four main types of risk:

- Market risk, relates to the risk to earnings from changes in market conditions including economic activity, interest rates, investor sentiment and world events.
- Operational risk, relates to inadequacy of or a failure of internal processes, people or systems or from external events.
- Credit risk, relates to the risk that the other party to a transaction will not honour their obligation; and
- Regulatory risk, relates to the risk that there may be changes to legislation (including but not limited to laws which relate to corporations and taxation) in the future which restricts or limits in some way the Company's activities.

*ASX recommendations 7.1, 7.4*

The Board, based on the recommendations of the Managing Director, Mr Tie, makes decisions on investments for the Company. The Board considers that the general retention by it of the power to make the final investment or divestment decision by majority vote provides an effective review of the investment strategy.

A majority of the Directors must approve any modification to the investment parameters applying to the Company's assets. Any proposed major change in investment strategy is first put to Shareholders for their approval.

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures currently adopted by the Board include:

- monthly reporting to the Board in respect of operations and the Company's financial position, with a comparison of actual results against budget; and
- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

### (b) Risk management roles and responsibilities

The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Executive management is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities.

*ASX Recommendation 7.2*

### (c) Managing Director and Chief Financial Officer Certification

The Managing Director and Chief Financial Officer provide to the Board written certification that in all material respects:

- The Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- The statement given to the Board on the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and controls which implements the policies adopted by the Board; and
- The Company's risk management and internal controls are operating efficiently and effectively in all material respects.

*ASX recommendations 7.3*

### (d) Internal review and risk evaluation

Assurance is provided to the Board by senior management on the adequacy and effectiveness of management controls for risk.

# Corporate Governance Statement (Continued)

## 5 Remuneration

### (a) Overview

The Remuneration Committee is responsible for reviewing the compensation arrangements for the Managing Director and other key personnel. The Remuneration Committee is also responsible for reviewing management incentive schemes, superannuation, retirement and termination entitlements, fringe benefits policies, and professional indemnity and liability insurance policies. The nature and amount of each element of the fee or salary of each director and each of the Company's officers and executives are set out in the Remuneration Report on page 14 and 15. Non-executive Directors' fees and payments are reviewed annually by the Board. Executive Directors are, subject to the information above, paid in salary or fees.

*ASX recommendations 8.1, 8.2, 8.3*

### (b) Equity-based key management personnel remuneration

The Long Term Incentive Plan ("Plan") and Mr Tie's participation in the Plan as a Director of the Company were approved by shareholders at the Annual General Meetings held on 31 May 2007 and 21 May 2009 in Melbourne. The purpose of the Plan is to attract, retain and motivate employees and officers of the Company to drive performance at both the individual and corporate level. Any further participation by Directors in the Plan will require shareholders approval in accordance with the ASX Listing Rules.

## 6 Timely and balanced disclosure

The Company believes that all shareholders should have equal and timely access to material information about the Company including its financial situation, performance, ownership and governance. The Company's market disclosure policy approved by the Board governs how the Company communicates with shareholders and the market. Shareholders are encouraged to participate in general meetings.

### (a) Market disclosure policy and practices

This policy includes provision for communications by the Company to:

- Be factual and subject to internal vetting and authorisation before issue;
- Be made in a timely manner;
- Not omit material information;
- Be expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions; and
- Be in compliance with ASX Listing Rules continuous disclosure requirements

The policy also contains guidelines on information that may be price sensitive. The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements with the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX.

*ASX Recommendations 5.1, 5.2, 6.1, 6.2*

### (b) Communication strategy

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

*ASX Recommendations 6.1, 6.2*

# Corporate Governance Statement (Continued)

## 7 Ethical and responsible decision-making

### (a) Code of Ethics and Conduct

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

- comply with the law;
- act in the best interests of the Company;
- be responsible and accountable for their actions; and
- observe the ethical principles of fairness, honesty and truthfulness, including prompt disclosure of potential conflicts.

*ASX Recommendations 3.1, 3.2, 3.3*

### (b) Policy concerning trading in Company securities

The Company has compliance standards and procedures which deal with staff trading in shares when they are in possession of inside information. Employees are made aware of the legal and ethical aspects associated with their private investment activities, especially as they relate to potential insider trading and front running. All staff must keep an up-to-date register of their securities holdings, including the dates of acquisition and disposal.

Directors and key management personnel are only entitled to trade their shares without restriction for up to four weeks following announcements of the Company's half yearly and preliminary final results, any detailed announcements concerning profit forecasts, and after the Company's annual general meeting or with the consent of the Chairman.

*ASX Recommendations 3.2*

## 8 Checklist for summarising the best practice recommendations and compliance

ASX Principle	Reference	Compliance
<b>Principle 1: Lay solid foundations for management and oversight</b>		
1.1 Companies should establish the function reserved to the board and those delegated to senior executives and disclose those functions.	2b	Comply
1.2 Companies should disclose the process for evaluating the performance of senior executives.	5a, 5b	Comply
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	2a, 2b, 5a, 5b	Comply
<b>Principle 2: Structure the board to add value</b>		
2.1 A majority of the board should be independent directors.	2a, 2d, 2h	Comply
2.2 The chair should be an independent director.	2c	Comply
2.3 The roles of chair and managing director should not be exercised by the same individual.	2a, 2c	Comply
2.4 The board should establish a nomination committee.	2h, 2i, 3b	Comply
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	2g, 3c	Comply
2.6 Provide the information in the Guide to reporting on this Principle 2.	2a, 2b, 2d, 2j, 3b	Comply
<b>Principle 3: Promote ethical and responsible decision-making</b>		
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:	7a	Comply
3.1.1 the practices necessary to maintain confidence in the company's integrity;		
3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and		
3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.		
3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or summary of the policy.	7b	Comply
3.3 Provide the information indicated in the Guide to reporting on Principle 3.	7a	Comply

# Corporate Governance Statement (Continued)

## 8 Checklist for summarising the best practice recommendations and compliance (continued)

ASX Principle	Reference	Compliance
<b>Principle 4: Safeguard integrity in financial reporting</b>		
4.1 The board should establish an audit committee.	3a	Comply
4.2 The audit committee should be structured so that it:	3a	Do not comply
4.2.1 consists only of non-executive directors;		
4.2.2 consists of a majority of independent directors;		
4.2.3 is chaired by an independent chair, who is not the chair of the board; and		
4.2.4 has at least three members		
4.3 The audit committee should have a formal charter.	3a	Comply
4.4 Provide the information in the Guide to reporting on this Principle 4.	2a, 3a	Comply
<b>Principle 5: Make timely and balanced disclosure</b>		
5.1 Companies should establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	6a	Comply
5.2 Provide the information in the Guide to reporting on this Principle 5.	6a	Comply
<b>Principle 6: Respect the rights of shareholders</b>		
6.1 Companies should design a communications policy for promoting effective communication with shareholders and encourage participation at general meetings and disclose their policy or a summary of that policy.	6a, 6b	Comply
6.2 Provide the information indicated in the Guide to reporting on Principle 6.	6a, 6b	Comply
<b>Principle 7: Recognise and manage risk</b>		
7.1 Companies should establish policies for the oversight and management of material businesses risks and disclose a summary of those policies.	4a	Comply
7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of business risks.	4b	Comply
7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.	4c	Comply
7.4 Provide the information in the Guide to reporting on this Principle 7	4a	Comply
<b>Principle 8: Remunerate fairly and responsibly</b>		
8.1 The board should establish a remuneration committee	3c, 5a	Comply
8.2 Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.	3c, 5a	Comply
8.3 Provide the information in the Guide to reporting on this Principle 8	5a	Comply



## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

for the year ended 31 December 2009		Consolidated		Company	
		2009	2008	2009	2008
	Notes	\$	\$	\$	\$
<b>CONTINUING OPERATIONS</b>					
Sale of goods		17,015,128	14,356,081	-	-
Cost of sales		(6,751,168)	(5,792,221)	-	-
<b>Gross profit</b>		<b>10,263,960</b>	<b>8,563,860</b>	<b>-</b>	<b>-</b>
Other income	5 (a)	261,111	1,145,525	65,362	1,140,395
Distribution expenses		(1,120,518)	(1,002,180)	-	-
Marketing expenses		(1,453,519)	(1,374,520)	-	-
Occupancy expenses		(577,319)	(543,134)	(56,126)	(56,682)
Administrative expenses	5 (b)	(7,159,534)	(5,982,817)	(1,670,334)	(1,052,554)
Other expenses	5 (c)	(239,012)	(213,896)	(133,954)	(28,195)
Share of associates loss		(82,635)	(127,927)	-	-
<b>(Loss) / profit from continuing operations before interest and taxes</b>		<b>(107,466)</b>	<b>464,911</b>	<b>(1,795,052)</b>	<b>2,964</b>
Finance income	5 (d)	13,997	24,960	134,777	135,970
Finance costs	5 (e)	(239,830)	(184,000)	(112,287)	(90,918)
<b>(Loss) / profit before income tax</b>		<b>(333,299)</b>	<b>305,871</b>	<b>(1,772,562)</b>	<b>48,016</b>
Income tax credit	7	5,106	47,606	225,793	81,702
<b>Net (loss) / profit for the year</b>		<b>(328,193)</b>	<b>353,477</b>	<b>(1,546,769)</b>	<b>129,718</b>
<b>Other comprehensive (expense) / income after income tax</b>					
Exchange differences on translating foreign controlled entities		(644,978)	514,085	-	-
Other comprehensive (expense) / income for the year, net of income tax		(644,978)	514,085	-	-
<b>Total comprehensive (expense) / income for the year</b>		<b>(973,171)</b>	<b>867,562</b>	<b>(1,546,769)</b>	<b>129,718</b>
Profit attributable to minority interest		-	-	-	-
(Loss) / profit attributable to members of the parent		(328,193)	353,477	(1,546,769)	129,718
		(328,193)	353,477	(1,546,769)	129,718
<b>Total comprehensive (expense) / income attributable to:</b>					
Minority interest		-	-	-	-
Members of the parent		(973,171)	867,562	(1,546,769)	129,718
		(973,171)	867,562	(1,546,769)	129,718
<b>Earnings per share (cents per share)</b>	6				
- basic earnings per share for continuing operations		(0.65)	0.73		
- basic earnings per share		(0.65)	0.73		
- diluted earnings per share		(0.65)	0.73		

The accompanying notes should be read in conjunction with the above Consolidated Statement of Comprehensive Income

# Statement of Financial Position

as at 31 December 2009		Consolidated		Company	
	Notes	2009 \$	2008 \$	2009 \$	2008 \$
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	8	1,075,743	1,292,810	78,104	390,145
Trade and other receivables	9	2,803,291	2,144,768	1,426,039	2,436,916
Inventories	10	2,501,197	2,534,666	-	-
Other current assets	11	222,387	244,251	9,322	70,166
<b>Total Current Assets</b>		<b>6,602,618</b>	<b>6,216,495</b>	<b>1,513,465</b>	<b>2,897,227</b>
<b>Non Current Assets</b>					
Trade and other receivables	9	489,764	622,768	214,226	394,699
Investment in subsidiaries	12	-	-	10,392,304	4,392,304
Investment in associates	13	1,468,949	1,450,086	-	-
Property, plant and equipment	14	139,976	229,355	-	194
Intangible assets	15	52,858	73,710	-	-
Deferred tax assets	7	55,901	48,174	-	-
<b>Total Non Current Assets</b>		<b>2,207,448</b>	<b>2,424,093</b>	<b>10,606,530</b>	<b>4,787,197</b>
<b>Total Assets</b>		<b>8,810,066</b>	<b>8,640,588</b>	<b>12,119,995</b>	<b>7,684,424</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	16	3,269,652	3,179,145	6,933,714	2,113,645
Interest bearing loans and borrowings	17	1,320,821	1,277,610	700,000	700,000
Current tax liability		46,097	86,123	-	-
Provisions	18	254,113	235,675	-	-
<b>Total Current Liabilities</b>		<b>4,890,683</b>	<b>4,778,553</b>	<b>7,633,714</b>	<b>2,813,645</b>
<b>Non Current Liabilities</b>					
Interest bearing loans and borrowings	17	13,177	8,631	342,451	341,613
Provisions	18	5,325	7,780	-	-
<b>Total Non Current Liabilities</b>		<b>18,502</b>	<b>16,411</b>	<b>342,451</b>	<b>341,613</b>
<b>Total Liabilities</b>		<b>4,909,185</b>	<b>4,794,964</b>	<b>7,976,165</b>	<b>3,155,258</b>
<b>Net Assets</b>		<b>3,900,881</b>	<b>3,845,624</b>	<b>4,143,830</b>	<b>4,529,166</b>
<b>Equity</b>					
Issued capital	19	45,699,176	44,549,823	45,699,176	44,549,823
Accumulated losses		(40,756,672)	(40,428,479)	(41,597,435)	(40,050,666)
Employee share based payments reserve	24	42,089	30,009	42,089	30,009
Foreign currency translation reserve		(1,573,476)	(928,498)	-	-
<b>Parent entity interest</b>		<b>3,411,117</b>	<b>3,222,855</b>	<b>4,143,830</b>	<b>4,529,166</b>
Minority interest		489,764	622,769	-	-
<b>Total Equity</b>		<b>3,900,881</b>	<b>3,845,624</b>	<b>4,143,830</b>	<b>4,529,166</b>

The accompanying notes should be read in conjunction with the above Statement of Financial Position

# Statement of Cash Flows

	Notes	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipt from customers		18,370,623	14,934,436	-	-
Payments to suppliers and employees		(19,524,809)	(15,780,047)	(1,181,652)	(1,328,250)
Borrowing costs		(221,706)	(176,786)	(110,966)	(89,418)
Income tax credit (paid) / received		(42,647)	18,110	225,793	81,702
Interest received		13,997	24,960	134,777	135,970
Proceeds from Pan Pharmaceuticals Ltd Liquidator		-	1,042,012	-	1,042,012
Income from settlement of legal case		-	355,000	-	355,000
Recovery of receivables previously written off		-	149,731	-	149,731
<b>Net cash flows (used in) / from operating activities</b>	8 (e)	(1,404,542)	567,416	(932,048)	346,747
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment		2,577	319	-	-
Purchase of property, plant and equipment		(70,604)	(76,530)	-	-
Additional investment in associates		(143,488)	-	-	-
<b>Net cash flows used in investing activities</b>		(211,515)	(76,211)	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		1,250,000	-	1,250,000	-
Share issue costs		(54,302)	-	(54,302)	-
Shares bought back		(46,345)	-	(46,345)	-
Proceeds from external borrowings		109,908	499,802	-	-
Loans to related parties		-	-	(529,346)	(298,799)
Loans to associated entities		(42,944)	(236,069)	-	-
<b>Net cash flows from / (used in) from financing activities</b>		1,216,317	263,733	620,007	(298,799)
Net (decrease) / increase in cash and cash equivalents		(399,740)	754,938	(312,041)	47,948
Net foreign exchange differences		244,824	(46,750)	-	-
Cash and cash equivalents at beginning of the year		1,230,659	522,471	390,145	342,197
<b>Cash and cash equivalents at end of the year</b>	8 (d)	<b>1,075,743</b>	<b>1,230,659</b>	<b>78,104</b>	<b>390,145</b>

The accompanying notes should be read in conjunction with the above Statement of Cash Flows

# Statement of Changes in Equity

for the year ended 31 December 2009

	Issued Capital \$	Accumulated Losses \$	Employee Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Attributable to Equity Holders of Parent \$	Minority Interests \$	Total \$
<b>CONSOLIDATED</b>							
<b>Balance at 1 Jan 2008</b>	44,280,194	(40,449,910)	15,153	(1,442,583)	2,402,854	476,874	2,879,728
Profit attributable to members of parent entity	-	353,477	-	-	353,477	-	353,477
Acquisition of minority interest	269,629	(332,046)	-	-	(62,417)	62,417	-
Employee share option scheme	-	-	14,856	-	14,856	-	14,856
Exchange difference on translation of minority interests	-	-	-	-	-	83,478	83,478
Total comprehensive income for the year	-	-	-	514,085	514,085	-	514,085
<b>Balance at 31 Dec 2008</b>	<b>44,549,823</b>	<b>(40,428,479)</b>	<b>30,009</b>	<b>(928,498)</b>	<b>3,222,855</b>	<b>622,769</b>	<b>3,845,624</b>
<b>Balance at 1 Jan 2009</b>	44,549,823	(40,428,479)	30,009	(928,498)	3,222,855	622,769	3,845,624
Loss attributable to members of parent entity	-	(328,193)	-	-	(328,193)	-	(328,193)
Issue of share capital	1,250,000	-	-	-	1,250,000	-	1,250,000
Share issue costs	(54,302)	-	-	-	(54,302)	-	(54,302)
Shares bought back	(46,345)	-	-	-	(46,345)	-	(46,345)
Employee share option scheme	-	-	12,080	-	12,080	-	12,080
Exchange difference on translation of minority interests	-	-	-	-	-	(133,005)	(133,005)
Total comprehensive expense for the year	-	-	-	(644,978)	(644,978)	-	(644,978)
<b>Balance at 31 Dec 2009</b>	<b>45,699,176</b>	<b>(40,756,672)</b>	<b>42,089</b>	<b>(1,573,476)</b>	<b>3,411,117</b>	<b>489,764</b>	<b>3,900,881</b>

The accompanying notes should be read in conjunction with the above Statement of Changes in Equity

## Statement of Changes in Equity (Continued)

for the year ended 31 December 2009

	Issued Capital \$	Accumulated Losses \$	Employee Share Based Payments Reserve \$	Total \$
<b>PARENT</b>				
<b>Balance at 1 Jan 2008</b>	44,280,194	(40,180,384)	15,153	4,114,963
Profit attributable to members of parent entity	-	129,718	-	129,718
Acquisition of minority interest (Note 19)	269,629	-	-	269,629
Employee share option scheme	-	-	14,856	14,856
Total comprehensive expense for the year	-	-	-	-
<b>Balance at 31 Dec 2008</b>	<u>44,549,823</u>	<u>(40,050,666)</u>	<u>30,009</u>	<u>4,529,166</u>
<b>Balance at 1 Jan 2009</b>	44,549,823	(40,050,666)	30,009	4,529,166
Loss attributable to members of parent entity	-	(1,546,769)	-	(1,546,769)
Issue of share capital	1,250,000	-	-	1,250,000
Share issue costs	(54,302)	-	-	(54,302)
Share buy back	(46,345)	-	-	(46,345)
Employee share option scheme	-	-	12,080	12,080
Total comprehensive expense for the year	-	-	-	-
<b>Balance at 31 Dec 2009</b>	<u>45,699,176</u>	<u>(41,597,435)</u>	<u>42,089</u>	<u>4,143,830</u>

The accompanying notes should be read in conjunction with the above Statement of Changes in Equity

# Notes to the Financial Statements

For the Year Ended 31 December 2009

## 1 CORPORATE INFORMATION

The financial report of Vita Life Sciences Limited ("Company" or "Vita Life") for the year ended 31 December 2009 was authorised for issue in accordance with a resolution of the Directors on the date of this report.

Vita Life is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX").

The nature of the operations and principal activities of Vita Life and its controlled entities ("the Group") are described in the Directors' Report.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Material accounting policies adopted in the preparation of the financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accrual basis and is based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report is presented in Australian dollars.

### (b) Statement of compliance

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

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2009. Interests in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that currently exercisable or convertible are considered when assessing whether a group controls another entity.

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

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.



# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (c) Basis of consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Vita Life are accounted for at cost in the separate financial statements of the parent entity.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests represent the interests in Vita Life Sciences Sdn Bhd not held by the Group. Minority interests are allocated their share of net profit or loss after tax in the consolidated statement of comprehensive income and are presented within Equity in the consolidated statement of financial position, separately from the parent shareholders' equity.

### (d) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus cost directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising from the issue of equity instruments are recognised directly in equity.

Except for non-current assets classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the consolidated statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present values as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (e) Foreign currency translation

#### (i) Functional and presentation currency

Both the functional and presentation currency of Vita Life and its Australian subsidiaries are Australian dollars (\$).

The functional currency of the main operating overseas subsidiaries Vita Healthcare Asia Pacific Sdn Bhd, Swiss Bio Pharma Sdn Bhd, Vitaron Jaya Sdn Bhd, Vita Life Sciences Sdn Bhd and Pharma Direct Sdn Bhd are in Malaysian Ringgit (RM), whilst Vitahealth IP Pte Ltd, VitaHealth Asia Pacific (S) Pte Ltd and Vita Corporation Pte Limited are in Singapore dollars (SGD).

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (e) Foreign currency translation (continued)

#### (ii) *Transactional and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying 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 date.

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 rate at the date when the fair value was determined.

The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of comprehensive income.

### (f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (g) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor or default payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

### (h) Inventory

Inventories including raw materials are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated selling costs. Costs incurred in bringing each product to its present location and condition is 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.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (i) Property, plant and equipment

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

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

#### Depreciation

The depreciable amounts of all fixed assets including capitalised lease assets are depreciated on a straight-line basis over the estimated useful lives. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

	<u>Rate</u>	<u>Method</u>
Plant and equipment	10-33%	Straight-line method
Leasehold Improvements	20-50%	Straight-line method

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year the item is derecognised.

### (j) Goodwill and Intangibles

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

From the initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (j) Goodwill and Intangibles (continued)

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses recognised for goodwill are not subsequently reversed.

#### **Intangibles**

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, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated 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.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at that cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on prospective basis.

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

	<u><b>Patents and licences</b></u>	<u><b>Development costs</b></u>
<b>Useful lives</b>	Indefinite	Finite
<b>Method used</b>	Not depreciated or revalued	3 years – Straight line
<b>Internally generated or Acquired</b>	Acquired	Internally generated
<b>Impairment test or Recoverable amount testing</b>	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end annually for indicator of impairment

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (k) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

### (l) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables are normally settled within 30 to 90 days.

### (m) Interest bearing loans and borrowings

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

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

#### Borrowing costs

Borrowing costs are recognised as an expense when incurred. 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.

### (n) 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 consolidated statement of comprehensive income net of any reimbursement.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (n) Provisions (continued)

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.

### (o) Employee entitlements

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled plus related on-costs. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories.

### (p) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the gross proceeds.

### (q) Leases

#### **Finance Leases**

Leases of fixed assets, 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 consolidated statement of comprehensive income 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)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (r) Revenue recognition

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

#### ***Sale of goods***

Revenue is recognised (net of returns, discounts and allowances) when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

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

#### ***Interest***

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

#### ***Dividends***

Revenue is recognised when the Group’s right to receive the payment is established.

### (s) Investments in associates

The Group’s investment in associates is accounted for using the equity method of accounting in the consolidated financial statements. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in the associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group’s share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group’s net investment in associates.

The Group’s share of its associates’ post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates is recognised as reduction in the carrying amount of the investment.

When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting date of the associates and the Group are identical and the associates’ accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (t) Income and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax base 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 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 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.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 date.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (t) Income and other taxes (continued)

#### *Tax consolidation*

The Company is the head entity of the tax consolidated group comprising all the Australian wholly owned subsidiaries. The implementation date for the tax consolidated group was for the tax period ended 30 June 2003.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using a "Stand-Alone Taxpayer" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under consolidation.

Any current tax Australian liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax consolidated group and are recognised as amounts receivable from (payable to) other entities in the tax consolidated group. Any difference between these amounts is recognised by the head entity as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

#### *Other taxes*

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax ("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 statement of financial position. Cash flows are presented in the Statement Cash Flows 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.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (u) Financial instruments

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

#### ***Financial assets at fair value through profit and loss***

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Recognition and Measurement of Financial Instruments.

#### ***Loans and receivables***

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

### **De-recognition of financial instruments**

#### ***Financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

#### ***Financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (u) Financial instruments (continued)

#### ***Financial assets carried at amortised cost***

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

#### ***Financial assets carried at cost***

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

### (v) Earnings per share

#### ***Basic earnings per share***

Basic earnings per share is determined by dividing the net profit/(loss) after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### ***Diluted earnings per share***

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (w) Share-based payment transactions

#### *(i) Equity settled transactions:*

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Vita Life Sciences Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the consolidated statement of comprehensive income is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charge to the consolidated statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards are vested than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.



# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (x) New accounting standards and interpretations not yet adopted

There are no changes to accounting policies applicable for the financial year ended 31 December 2009 for the Company and the consolidated entity.

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

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:

- acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the statement of financial position of the original parent at the date of reorganisation.

The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (x) New accounting standards and interpretations not yet adopted (continued)

AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.

AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third statement of financial position as at the beginning of the comparative period will be required.

AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

AASB 2008-2: Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2] (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation.

AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 2 Summary of Significant Accounting Policies (continued)

### (x) New accounting standards and interpretations not yet adopted (continued)

AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Group.

AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.

AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Group.

AASB Interpretation 17: Distributions of Non-cash Assets to Owners (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 3 Significant Accounting Judgments, Estimates and Assumptions (continued)

### *Capitalised development costs*

Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

### *Taxation*

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecovered tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the consolidated statement of comprehensive income.

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted.

### *Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 4 SEGMENT INFORMATION

The Group's primary segment reporting format is geographical segment as the Group's risk and returns are affected predominantly by the differences in the locations it operates.

Secondary segment information reported is business segment.

### Geographical segment

The consolidated entity operates in the regions identified as Australia, Malaysia, Singapore and others.

The following tables present revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 31 December 2009 and 31 December 2008.

	Continuing Operations				Total
	Australia \$	Singapore \$	Malaysia \$	Others \$	\$
<b>Year ended 31 December 2009</b>					
<b>Revenue</b>					
Sales to external customers	8,389,030	3,316,915	5,166,876	142,307	17,015,128
<b>Segment results</b>					
(Loss) / profit before tax and finance costs	(317,109) *	278,728	141,988	(114,441)	(10,834)
Finance costs	(221,959)	(1,951)	(14,370)	(1,550)	(239,830)
Share of loss of associates	-	-	(82,635)	-	(82,635)
Loss before income tax					(333,299)
Income tax credit					5,106
<b>Net loss for the year</b>					<u>(328,193)</u>
<b>Assets and liabilities</b>					
Segment assets	3,724,705	1,083,374	2,321,405	211,633	7,341,117
Investment in associates					1,468,949
Total assets					<u>8,810,066</u>
Segment liabilities	3,179,728	642,922	1,063,385	23,150	4,909,185
Total liabilities					<u>4,909,185</u>
<b>Other segment</b>					
Capital expenditure	(4,134)	-	(48,399)	(18,071)	(70,604)
Depreciation	(31,119)	(17,234)	(79,549)	(2,423)	(130,325)
Amortisation	-	(7,230)	(9,717)	-	(16,947)

\* Includes Pan TGA Claim costs of \$0.63 million.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 4 Segment Information (continued)

	Continuing Operations				
	Australia	Singapor	Malaysia	Others	Total
	\$	\$	\$	\$	\$
<b>Year ended 31 December 2008</b>					
<b>Revenue</b>					
Sales to external customers	6,628,838	3,075,643	4,450,436	201,164	14,356,081
<b>Segment results</b>					
Profit / (loss) before tax and finance costs	425,383 ^	184,007	100,707	(92,299)	617,798
Finance costs	(174,979)	(2,256)	(8,226)	1,461	(184,000)
Share of loss of associates	-	-	(127,927)	-	(127,927)
Profit before income tax					305,871
Income tax credit					47,606
<b>Net profit for the year</b>					<b>353,477</b>
<b>Assets and liabilities</b>					
Segment assets	3,574,950	1,462,226	1,953,018	200,308	7,190,502
Investment in associates					1,450,086
Total assets					<b>8,640,588</b>
Segment liabilities	2,999,924	732,049	950,265	112,726	4,794,964
Total liabilities					<b>4,794,964</b>
<b>Other segment</b>					
Capital expenditure	(3,701)	(13,365)	(58,732)	(732)	(76,530)
Depreciation	(32,038)	(20,392)	(89,613)	(1,118)	(143,161)
Amortisation	-	(10,061)	(8,698)	-	(18,759)

^ Includes proceeds from Pan Liquidator of \$1.04 million.

### Business segments

The Group operates in the industry segment of the sale of health supplements, vitamins and investments.

#### Business Industry

#### Products/Services

Health

Sale of vitamins and supplements

Investment

General investments

The following table presents revenue, expenditures and certain asset and liabilities information regarding business segments for the year ended 31 December 2009 and 31 December 2008.



# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 4 Segment Information (continued)

	Continuing Operations		
	Health	Investment	Total
	\$	\$	\$
<b>Year ended 31 December 2009</b>			
<b>Revenue</b>			
Sales to external customers	17,015,128	-	17,015,128
<b>Result</b>			
Segment results	153,106 *	(16,039)	137,067
Unallocated expenses	-	-	(230,536)
Loss before tax and finance costs			(93,469)
Finance costs			(239,830)
Loss before income tax			(333,299)
Income tax credit			5,106
<b>Net loss for the year</b>			(328,193)
<b>Assets and liabilities</b>			
Segment assets	7,068,111	273,006	7,341,117
Investment in associates			1,468,949
Total assets			8,810,066
Segment liabilities	4,899,851	9,334	4,909,185
Total liabilities			4,909,185

\* Includes Pan TGA Claim costs of \$0.63 million.

	Continuing Operations		
	Health	Investment	Total
	\$	\$	\$
<b>Year ended 31 December 2008</b>			
<b>Revenue</b>			
Sales to external customers	14,356,081	-	14,356,081
<b>Result</b>			
Segment results	754,727 ^	(70,179)	684,548
Unallocated expenses	-	-	(194,677)
Profit before tax and finance costs			489,871
Finance costs			(184,000)
Profit before income tax			305,871
Income taxes			47,606
<b>Net profit for the year</b>			353,477
<b>Assets and liabilities</b>			
Segment assets	6,971,847	218,655	7,190,502
Investment in associates			1,450,086
Total assets			8,640,588
Segment liabilities	4,787,209	7,755	4,794,964
Total liabilities			4,794,964

^ Includes proceeds from Pan Liquidator of \$1.04 million.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 5 REVENUE AND EXPENSES

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>(a) Other income</b>				
Refund of general interest charges and penalties from ATO	164,110	-	62,742	-
Government grant	62,583	-	-	-
Multi-level marketing membership registration fee	17,819	-	-	-
Gain on disposal of property, plant and equipment	2,328	319	-	-
Other income	14,271	20,189	503	15,378
Proceeds from Pan Pharmaceuticals Ltd Liquidator	-	1,042,012	-	1,042,012
Unrealised foreign exchange gains	-	83,005	2,117	83,005
	<b>261,111</b>	<b>1,145,525</b>	<b>65,362</b>	<b>1,140,395</b>
<b>(b) Administrative expenses</b>				
Legal and other professional fees	(823,374)	(583,202)	(693,390)	(449,877)
Consultants	(606,233)	(316,783)	(429,212)	(255,252)
Allowance for impairment loss	(5,500)	(57,803)	(445,931)	(225,384)
Wages, salaries and other employee expenses	(4,645,896)	(3,977,839)	-	-
Defined contribution superannuation expense	(380,124)	(358,005)	-	-
Travelling expenses	(337,867)	(357,775)	(40,253)	(34,732)
Share based payment expense	(12,080)	(14,856)	(12,080)	(14,856)
Depreciation	(130,325)	(143,161)	(194)	(649)
Amortisation	(16,947)	(18,759)	-	-
Other administrative expenses	(201,188)	(154,634)	(49,274)	(71,804)
	<b>(7,159,534)</b>	<b>(5,982,817)</b>	<b>(1,670,334)</b>	<b>(1,052,554)</b>
<b>(c) Other expenses</b>				
Product registration costs	(142,484)	(124,646)	-	-
Foreign currency expenses	(86,018)	(41,678)	(133,004)	(18,558)
Other non-operating expenses	(10,510)	(47,572)	(950)	(9,637)
	<b>(239,012)</b>	<b>(213,896)</b>	<b>(133,954)</b>	<b>(28,195)</b>
<b>(d) Finance income</b>				
Interest received - external parties	13,997	24,960	5,127	16,747
Interest received - related parties	-	-	129,650	119,223
	<b>13,997</b>	<b>24,960</b>	<b>134,777</b>	<b>135,970</b>
<b>(e) Finance expenses</b>				
Interest expense - external parties	(156,887)	(118,885)	(110,966)	(89,418)
Bank charges	(18,124)	(7,214)	(1,321)	(1,500)
Finance charges - hire purchase and lease contracts	(64,819)	(57,901)	-	-
	<b>(239,830)</b>	<b>(184,000)</b>	<b>(112,287)</b>	<b>(90,918)</b>

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 6 EARNINGS PER SHARE

	CONSOLIDATED	
	2009 \$	2008 \$
<b>(a) (Loss) / earnings used in calculating earnings per share</b>		
Net (loss) / profit attributable to equity holders from continuing operations	(328,193)	353,477
Net (loss) / profit attributable to equity holders of the parent	<b>(328,193)</b>	<b>353,477</b>
	Number	Number
<b>(b) Weighted average number of shares</b>		
Weighted average number of ordinary shares for basic earnings per share	50,869,109	48,196,932
Adjusted weighted average number of ordinary shares for diluted earnings per share	50,869,109	48,196,932

## 7 INCOME TAXES

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>(a) Income tax expense</b>				
The major components of income tax expense are:				
<i>Income Statement:</i>				
<i>Current income tax</i>				
Current income tax charge	296,176	126,772	-	-
Tax benefits arising from previously unrecognised tax losses of prior years	(225,792)	(126,204)	(225,792)	(81,702)
Prior year under / (over)provision	(67,763)	-	-	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(7,727)	(48,174)	-	-
Income tax (credit) / expense reported in the income statement	<b>(5,106)</b>	<b>(47,606)</b>	<b>(225,792)</b>	<b>(81,702)</b>

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 7 INCOME TAXES (CONTINUED)

### (b) Numerical reconciliation between aggregate tax expense recognised in the consolidated statement of comprehensive income and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Total accounting (loss) / profit before income tax	(333,299)	305,871	(1,772,562)	48,016
At the parent entity's statutory income tax 30% (2008: 30%)	(99,990)	91,761	(531,769)	14,405
Adjustment in respect of current income tax of previous year	(67,763)	-	-	-
Foreign tax rate adjustment	4,979	13,901	-	-
Travel and staff amenities expenses	6,716	49,050	6,038	3,882
Share based payments	3,624	4,457	3,624	4,457
Other expenditure not allowable for income tax purpose	44,289	11,439	119,926	47,071
Tax losses and timing differences not brought to account / (recognised)	103,039	(218,214)	176,389	(151,517)
<b>Aggregate income taxes</b>	<b>(5,106)</b>	<b>(47,606)</b>	<b>(225,792)</b>	<b>(81,702)</b>

### (c) Deferred income tax at 31 December relates to the following:

<i>Deferred tax assets</i>				
Doubtful debts	20,681	18,069	-	-
Inventory obsolescence	16,252	18,390	-	-
Provision:				
Annual leave	15,593	9,382	-	-
Long service leave	1,597	2,333	-	-
Other provision	1,778	-	-	-
<b>Net deferred tax assets</b>	<b>55,901</b>	<b>48,174</b>	<b>-</b>	<b>-</b>

### (d) Tax losses

The Group has Australian carry forward tax losses for which no deferred tax assets is recognised on the statement of financial position of \$15.60 million which are available indefinitely for offset against future taxable income of the companies in which losses arose. The benefit of these tax losses has not been brought to account as the probable recognition criteria has not been satisfied.

### (e) Unrecognised temporary differences

At 31 December 2009, there is no recognised or unrecognised deferred tax liability (2008: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates, as the Group has no liability for additional taxation should such amounts be remitted.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 7 INCOME TAXES (CONTINUED)

### (f) Tax consolidation

#### (i) Members of the tax consolidated group and the tax sharing agreement

The Company is the head entity of the tax consolidated group comprising all the Australian wholly owned subsidiaries. The implementation date for the tax consolidated group was for the tax period ended 30 June 2003. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

#### (ii) Tax effect accounting by members of the tax consolidated group

#### Measurement method adopted under AASB 112 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. Current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*.

The current and deferred tax amounts of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using a "Stand-Alone Taxpayer" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under consolidation.

Any current tax Australian liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax consolidated group and are recognised as amounts receivable from (payable to) other entities in the tax consolidated group. Any difference between these amounts is recognised by the head entity as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

#### Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement, which sets out the funding obligations of members of the tax consolidated group. Payments required to / (from) head entity are equal to the current tax liability / (assets) assumed from the members of the tax consolidated group. The inter-entity receivable (payable) is at call.

#### Tax consolidation contributions / (distributions)

The Company has recognised the following amount as tax-consolidation contribution adjustment:

	PARENT	
	2009 \$	2008 \$
Total increase in intercompany receivable of Vita Life Sciences Limited	307,494	81,702

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 8 CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash at bank and in hand (a)	795,077	1,109,387	78,104	390,145
Short term deposit (b)	280,666	183,423	-	-
<b>Total cash and cash equivalents</b>	<b>1,075,743</b>	<b>1,292,810</b>	<b>78,104</b>	<b>390,145</b>

- (a) Cash at bank of \$311,116 (2008: \$459,830) earns interest at floating rates based on daily bank deposit rates.
- (b) Short term deposit earns interest at the respective short-term deposit rates.
- (c) The fair value of cash equivalents for the Group and the parent are \$1,075,743 (2008:\$1,292,810) and \$78,104 (2008: \$390,145) respectively.
- (d) Reconciliation of Statement of Cash Flows

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following:				
Cash at bank and in hand	795,077	1,109,387	78,104	390,145
Short term deposit	280,666	183,423	-	-
Bank overdrafts - secured	-	(62,151)	-	-
	<b>1,075,743</b>	<b>1,230,659</b>	<b>78,104</b>	<b>390,145</b>

- (e) Reconciliation of net (loss) / profit after tax to net cash flow from operations.

<b>Net (loss) / profit after tax</b>	(328,193)	353,477	(1,546,769)	129,718
<b>Adjustments for non-cash income and expense items:</b>				
Depreciation	130,325	143,161	194	649
Amortisation	16,947	18,759	-	-
Net profit on disposal of property, plant & equipment	(2,328)	(319)	-	-
Shared based payment expense	12,080	14,856	12,080	14,856
Allowance for impairment loss	5,500	57,803	445,931	225,384
	<b>(165,669)</b>	<b>587,737</b>	<b>(1,088,564)</b>	<b>370,607</b>
<b>Increase/decrease in assets and liabilities:</b>				
Decrease / (Increase) in inventories	33,469	(569,528)	-	-
(Increase) / decrease in receivables	(664,023)	(273,459)	(138,267)	610,200
Decrease / (increase) in other assets	94,197	(37,512)	60,844	(70,166)
(Decrease) / increase in income tax payable	(40,026)	18,678	-	-
(Decrease) / increase in trade and other payables	(47,084)	400,255	100,935	(449,165)
Increase / (decrease) in other liabilities	15,983	55,094	-	(31,250)
Effect of foreign exchange translation of assets and liabilities	(631,389)	386,151	133,004	(83,479)
<b>Net cash (used in) / from operating activities</b>	<b>(1,404,542)</b>	<b>567,416</b>	<b>(932,048)</b>	<b>346,747</b>

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 9 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Current</b>				
Trade receivables, third parties	2,235,927	1,921,365	-	-
Allowance for impairment loss (a)	(80,732)	(75,232)	-	-
	2,155,195	1,846,133	-	-
Other receivables:				
Other receivables (b)	612,212	289,842	173,057	51,000
Net tax receivable	35,884	8,793	24,741	8,531
	2,803,291	2,144,768	197,798	59,531
Loan to controlled entities (c)	-	-	5,675,011	6,425,693
Allowance for impairment loss (a)	-	-	(4,446,770)	(4,048,308)
	<b>2,803,291</b>	<b>2,144,768</b>	<b>1,426,039</b>	<b>2,436,916</b>
<b>Non- current</b>				
Related party receivables (d)	489,764	622,768	489,764	622,768
Allowance for impairment loss (a)	-	-	(275,538)	(228,069)
	<b>489,764</b>	<b>622,768</b>	<b>214,226</b>	<b>394,699</b>

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and generally on 30 to 90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$5,500 (2008: \$57,803) has been recognised by the Group and \$445,931 (2008: \$225,384) by the parent. These amounts have been included in the administrative expenses.

Movement in the provision for impairment loss were as follows:

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
At 1 January	75,232	17,429	4,276,377	4,050,993
Charge for the year	5,500	57,803	445,931	225,384
	<b>80,732</b>	<b>75,232</b>	<b>4,722,308</b>	<b>4,276,377</b>

- (b) Other receivables are non-interest bearing and have repayment terms between 30 to 90 days. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.
- (c) Loans to controlled entities are interest free and have no fixed repayment term. For terms and conditions relating to related parties, refer to note 21.



# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 9 TRADE AND OTHER RECEIVABLES (CONTINUED)

- (d) Related party receivable (non-current) of \$489,764 (2008: \$622,768) is loan to a company controlled by a Director of a subsidiary. The loan is non-interest bearing and is secured over the 30% shareholding of Vita Life Sciences Sdn Bhd, a company registered in Malaysia.
- (e) Fair value  
The carrying value for trade and other receivables is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.
- (f) Foreign exchange and interest rate risk  
Details regarding foreign exchange and interest rate risks exposure are disclosed in Note 23.

## 10 INVENTORIES

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Raw materials at cost	943,849	427,684	-	-
Finished goods at lower of cost and net realisable value	1,557,348	2,106,982	-	-
	<b>2,501,197</b>	<b>2,534,666</b>	<b>-</b>	<b>-</b>

### (a) Inventory expense

Inventories recognised as an expense for the year ended 31 December 2009 totalled \$6,652,766 (2008: \$5,648,310) for the Group. This expense has been included in the cost of sales line item as a cost of inventories.

## 11 OTHER ASSETS

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Prepayments	157,107	183,376	9,322	70,166
Security deposits	65,280	60,875	-	-
	<b>222,387</b>	<b>244,251</b>	<b>9,322</b>	<b>70,166</b>

## 12 INVESTMENT IN SUBSIDIARIES

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Investment in controlled entities at cost	-	-	10,392,304	4,392,304

- (a) Details regarding subsidiaries are disclosed in Note 21.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 13 INVESTMENT IN ASSOCIATES

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Non- current</b>				
<i>Unlisted</i>				
- Mitre Focus Sdn Bhd (a) (i)	931,160	1,186,107	-	-
- Vita Life Sciences (Thailand) Co. Ltd (a) (ii)	155,179	13,770	-	-
- Vitahealth (Thailand) Co. Ltd (a) (iii)	382,610	250,209	-	-
Investments in associates	<b>1,468,949</b>	<b>1,450,086</b>	-	-

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>(a) Details of the carrying value of investments and share of profits / (losses) in associates the associates:</b>				
(i) Mitre Focus Sdn Bhd				
- Investment in associate at cost	22	22	-	-
- Loan to associate	931,558	1,186,347	-	-
- Cumulative share of associate's loss	(420)	(262)	-	-
Carrying value of investment in associate	<b>931,160</b>	<b>1,186,107</b>	-	-
(ii) Vita Life Sciences (Thailand) Co. Ltd				
- Investment in associate at cost	160,421	16,933	-	-
- Cumulative share of associate's loss	(5,242)	(3,163)	-	-
Carrying value of investment in associate	<b>155,179</b>	<b>13,770</b>	-	-
(iii) Vitahealth (Thailand) Co. Ltd				
- Investment in associate at cost	31,473	34,571	-	-
- Loan to associate	558,073	377,538	-	-
- Cumulative share of associate's loss	(206,936)	(161,900)	-	-
Carrying value of investment in associate	<b>382,610</b>	<b>250,209</b>	-	-

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 13 INVESTMENT IN ASSOCIATES (CONTINUED)

	Place of Incorporation	Ownership Interest	
		2009	2008
		%	%
<hr/>			
<b>(b) Investment details</b>			
<b>Name of Company</b>			
<i>Unlisted</i>			
- Mitre Focus Sdn Bhd	Malaysia	6.3	6.3
- Vita Life Sciences (Thailand) Co. Ltd	Thailand	49.0	49.0
- Vitahealth (Thailand) Co. Ltd	Thailand	74.0	74.0

		CONSOLIDATED	
		2009	2008
		\$	\$
<b>(c) Summarised financial information</b>			
The following illustrates summarised financial information relating to the Group's associates:			
<b>Extract from the associates' statement of financial position:</b>			
Current assets	586,773	163,046	
Non - current assets	2,460,854	3,120,544	
	3,047,627	3,283,590	
Current liabilities	(3,023,324)	(3,465,551)	
	(3,023,324)	(3,465,551)	
Net assets / (liabilities)	24,303	(181,961)	
Share of associates' net assets / (liabilities)	(58,744)	(140,355)	
<b>Extract from the associates' income statements:</b>			
Revenue	257,513	85,003	
Net loss	(140,576)	(135,735)	

(d) The reporting date of associates is 31 December 2009. The reporting date coincides with the Company's reporting date.

(e) Loans to associates are interest free and have no fixed repayment term.

(f) The Group's effective equity interest in Vitahealth (Thailand) Co. Ltd is by virtue of Vita Life Sciences (Thailand) Co. Ltd's (an associate of the Group) direct equity interest of 51% and the Group's direct equity interest of 49%. Given this ownership structure, the Group has no control but only exercises significant influence over Vitahealth (Thailand) Co. Ltd.

(g) As at 31 December 2009, there are no contingent liabilities relating to the associates.

## Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

### 14 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amounts at the beginning and end of the period:

	Group				Parent	
	Leasehold improvements	Plant and equipment	Leased Plant and Equipment	Total	Plant and Equipment	Total
	\$	\$	\$	\$	\$	\$
<b>Year ended 31 December 2009</b>						
At 1 January 2009 net of accumulated depreciation and impairment	52,111	167,617	9,627	229,355	194	194
Additions	14,210	56,394	-	70,604	-	-
Disposals	-	(249)	-	(249)	-	-
Exchange differences	(7,590)	(23,864)	2,045	(29,409)	-	-
Reclassification of property, plant & equipment	-	943	(943)	-	-	-
Depreciation / amortisation for the year	(38,813)	(87,278)	(4,234)	(130,325)	(194)	(194)
At 31 December 2009 net of accumulated depreciation and impairment	<b>19,918</b>	<b>113,563</b>	<b>6,495</b>	<b>139,976</b>	-	-
<b>At 31 December 2009</b>						
Cost value	244,475	1,389,191	134,790	1,768,456	33,729	33,729
Accumulated depreciation and impairment	(224,557)	(1,275,628)	(128,295)	(1,628,480)	(33,729)	(33,729)
<b>Net carrying amount</b>	<b>19,918</b>	<b>113,563</b>	<b>6,495</b>	<b>139,976</b>	-	-

## Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

### 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliation of carrying amounts at the beginning and end of the period (continued):

	Group				Parent	
	Leasehold improvements \$	Plant and equipment \$	Leased Plant and Equipment \$	Total \$	Plant and Equipment \$	Total \$
<b>Year ended 31 December 2008</b>						
At 1 January 2008 net of accumulated depreciation and impairment	74,597	186,808	12,754	274,159	843	843
Additions	13,381	63,149	-	76,530	-	-
Exchange differences	7,917	13,907	3	21,827	-	-
Depreciation / amortisation for the year	(43,784)	(96,247)	(3,130)	(143,161)	(649)	(649)
At 31 December 2008 net of accumulated depreciation and impairment	<b>52,111</b>	<b>167,617</b>	<b>9,627</b>	<b>229,355</b>	<b>194</b>	<b>194</b>
<b>At 31 December 2008</b>						
Cost value	291,512	1,532,480	143,435	1,967,427	33,729	33,729
Accumulated depreciation and impairment	(239,401)	(1,364,863)	(133,808)	(1,738,072)	(33,535)	(33,535)
<b>Net carrying amount</b>	<b>52,111</b>	<b>167,617</b>	<b>9,627</b>	<b>229,355</b>	<b>194</b>	<b>194</b>

The net carrying value of plant and equipment held under finance lease contracts at 31 December 2009 is \$6,495 (2008: \$9,627).

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 15 INTANGIBLES ASSETS

Reconciliation of carrying amounts at the beginning and end of the period:

	Development costs \$
<b>Consolidated</b>	
<b>Year ended 31 December 2009</b>	
At 1 January 2009 net of accumulated depreciation and impairment	73,710
Additions	2,575
Amortisation	(16,947)
Exchange differences	(6,480)
At 31 December 2009 net of accumulated depreciation and impairment	<b>52,858</b>
<b>At 31 December 2009</b>	
Gross carrying amount	337,182
Accumulated amortisation and impairment	(284,324)
<b>Total</b>	<b>52,858</b>
<b>Year ended 31 December 2008</b>	
At 1 January 2008 net of accumulated depreciation and impairment	72,733
Additions	18,258
Impairment / amortisation	(18,759)
Exchange differences	1,478
At 31 December 2008 net of accumulated depreciation and impairment	<b>73,710</b>
<b>At 31 December 2008</b>	
Gross carrying amount	412,287
Accumulated amortisation and impairment	(338,577)
<b>Total</b>	<b>73,710</b>

### (a) Development costs

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 3 years. The amortisation has been recognised in the consolidated statement of comprehensive income in the line item 'administrative expense'. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 16 TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Current</b>				
Trade payables (a)	1,945,182	2,164,036	148,410	152,205
Net tax payable	98,760	46,880	-	-
Other payables and accruals	1,069,317	949,427	274,502	169,772
	3,113,259	3,160,343	422,912	321,977
Loan from controlled entities (b)	-	-	6,510,802	1,791,668
Loan from associated entities (b)	156,393	18,802	-	-
	<b>3,269,652</b>	<b>3,179,145</b>	<b>6,933,714</b>	<b>2,113,645</b>

- (a) Trade payables are non-interest bearing and are normally settled within 90-day terms. Other payables are non-interest bearing and have an average term of 3 months.
- (b) The loans from controlled and associated entities are interest free and have no fixed repayment term. For terms and conditions relating to related parties, refer to note 21.
- (c) Fair value  
Due to the short term nature of these payables, their carrying values are assumed to approximate their fair value.
- (d) Interest rate, foreign exchange and liquidity risks  
Information regarding interest rate, foreign exchange and liquidity risks is set out in note 23.

## 17 INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Current</b>				
Trade financing facility - secured (a)	598,681	496,300	-	-
Secured loans (b)	717,400	700,000	700,000	700,000
Lease liabilities - secured (c)	4,740	19,159	-	-
Bank overdrafts - secured (d)	-	62,151	-	-
	<b>1,320,821</b>	<b>1,277,610</b>	<b>700,000</b>	<b>700,000</b>
<b>Non - Current</b>				
Related party loan - unsecured	-	-	342,451	341,613
Secured loans (b)	10,500	-	-	-
Lease liabilities - secured (c)	2,677	8,631	-	-
	<b>13,177</b>	<b>8,631</b>	<b>342,451</b>	<b>341,613</b>



# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 17 INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
At reporting date, the following financing facilities has been negotiated and were available:				
<b>Total facilities available:</b>				
Trade financing facility - secured	1,000,000	1,200,000	-	-
Secured loans	3,027,900	3,000,000	3,000,000	3,000,000
Bank overdraft	330,604	166,072	-	-
	<b>4,358,504</b>	<b>4,366,072</b>	<b>3,000,000</b>	<b>3,000,000</b>
<b>Facilities utilised at balance date:</b>				
Trade financing facility - secured	598,681	496,300	-	-
Secured loans	717,400	700,000	700,000	700,000
Bank overdraft	-	62,151	-	-
	<b>1,316,081</b>	<b>1,258,451</b>	<b>700,000</b>	<b>700,000</b>
<b>Facilities not utilised at balance date:</b>				
Trade financing facility - secured	401,319	703,700	-	-
Secured loans	2,310,500	2,300,000	2,300,000	2,300,000
Bank overdraft	330,604	103,921	-	-
	<b>3,042,423</b>	<b>3,107,621</b>	<b>2,300,000</b>	<b>2,300,000</b>

### (a) Trade financing facility

Trade financing facility is provided by an Australian bank to a subsidiary. The weighted average interest rate for the facility as at 31 December 2009 is 13.0% (2008: 11.9%). The facility has a fixed and floating charge over the assets and undertakings of the subsidiary.

### (b) Secured loan

The loan is provided by an external foreign company. The facility is secured over the assets and undertakings of the Company and the consolidated entity.

### (c) Lease liabilities

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

### (d) Bank overdrafts

Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 31 December 2009 is 7.50% p.a. (2008: 7.73% p.a.). The bank overdraft of the controlled entity is secured by way of a pledge of the short term deposits of the controlled entity.

### (e) Fair value

Due to the short term nature of these loans, their carrying value is assumed to approximate their fair value.

### (f) Interest rate, foreign exchange and liquidity risks

Details regarding the interest rate, foreign exchange and liquidity risks are disclosed in Note 23.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 17 INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

### (g) Default and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

## 18 PROVISIONS

	Employee Entitlements \$	Others \$	Total \$
<b>Consolidated</b>			
<b>Balance at 1 January 2009</b>	<b>89,010</b>	<b>154,445</b>	<b>243,455</b>
Arising during the year	8,598	7,385	15,983
<b>Balance at 31 December 2009</b>	<b>97,608</b>	<b>161,830</b>	<b>259,438</b>
<b>At 31 December 2009</b>			
Current	92,283	161,830	254,113
Non-Current	5,325	-	5,325
	<b>97,608</b>	<b>161,830</b>	<b>259,438</b>
<b>At 31 December 2008</b>			
Current	81,230	154,445	235,675
Non-Current	7,780	-	7,780
	<b>89,010</b>	<b>154,445</b>	<b>243,455</b>

### (a) Employee entitlements

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 19 ISSUED CAPITAL

	2009	2008	2009	2008
	Number	Number	\$	\$
<b>Issued and paid up capital</b>				
Ordinary shares	<b>54,285,307</b>	<b>48,580,228</b>	<b>45,699,176</b>	<b>44,549,823</b>
<b>Ordinary shares</b>				
Balance at beginning of the year	48,580,228	46,994,175	44,549,823	44,280,194
Shares issued during the year (a)	6,250,000	-	1,250,000	-
Share issue costs (a)	-	-	(54,302)	-
Share buy back (b)	(254,921)	-	(46,345)	-
Cancellation of Plan Shares of certain employees and Director (c)	(1,375,000)	-	-	-
Issued of shares to employee / director (d)	1,085,000	-	-	-
Acquisition of minority interest	-	1,586,053	-	269,629
Balance at end of the year	<b>54,285,307</b>	<b>48,580,228</b>	<b>45,699,176</b>	<b>44,549,823</b>

### (a) 2009 Share Issues

On 7 August 2009, the Company completed its rights issue offer of 1 for 7.73 non-renounceable rights issue to all Australian and New Zealand registered shareholders at \$0.20 per share ("Rights Issue").

A total of 6,250,000 new fully paid ordinary shares were issued at \$0.20 each raising \$1.25 million before issue costs of \$54,302. The net proceeds from the Rights Issue will be utilised towards the legal and professional fees in relation to the Company's legal claim against the Commonwealth of Australia.

### (b) Share Buy-Back

On 2 September 2009, the Company announced an on-market share buy-back of up to 10% of the Company's shares on issue funded from the Group's existing cash reserves. On 1 October 2009, the Company bought back 254,921 shares at \$0.18 per share or total consideration of \$45,886 excluding cost of \$459.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 19 ISSUED CAPITAL (CONTINUED)

### (c) Cancellation of Long Term Incentive Plan Shares (“Plan”) of certain employees and director

At the Company’s 2004 and 2005 Annual General Meeting, shareholders approved limited recourse loans be granted to certain employees and a Director. Subsequently, Plan shares were issued to employees and a Director.

In view of the limited recourse loans having fallen due for certain employees and the Director, the Plan shares were offered, in accordance with the terms of the Plan, as settlement of the loan provided by the Company for the purchase of Plan shares. On 23 June and 25 August 2009, the Company cancelled 425,000 and 950,000 Plan shares of certain employees and the Managing Director respectively.

### (d) Long Term Incentive Plan Shares (“Plan Share”) Issued to certain employees and director

At the Company’s 2009 Annual General Meeting, shareholders approved limited recourse loans be granted to a director of a subsidiary of the Group and the Managing Director. On 23 June and 25 August 2009, 150,000 and 935,000 Plan shares were issued to the director of a subsidiary and the Managing Director respectively.

The cost of the equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The cost is recognised in the consolidated statement of comprehensive income together with a corresponding increase in equity, over the period in which the performance and / or service conditions are fulfilled (the vesting period), ending on the date on which the employees become fully entitled to the award (the vesting date).

As at 31 December 2009, the Company recognised \$12,080 (2008: \$14,856) in the consolidated statement of comprehensive income with a corresponding increase in employee share based payment reserve.

### (e) Capital management

When managing capital, management’s objective is to ensure the Company continues as a going concern as well as to maintain optimal returns for shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management constantly assesses the capital structure to take advantage of favourable costs of capital and / or high returns on assets. As the market is continuously changing, management may issue dividends to shareholders, return capital to shareholders, issue new shares, increase the short or long term borrowings or sell assets to reduce borrowings.

The Directors did not declare a dividend during the financial year ended 31 December 2009 (2008: Nil).

Management monitor capital through gearing ratio (net debt over total capital). Management aims to not exceed gearing ratio of 45%.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 19 ISSUED CAPITAL (CONTINUED)

### (e) Capital management (Continued)

The gearing ratio based on continuing operations as at 31 December 2009 and 2008 were as follows:

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Total interest bearing loans and borrowings	1,333,998	1,286,241	1,042,451	1,041,613
Less cash and cash equivalents	(1,075,743)	(1,292,810)	(78,104)	(390,145)
Net debt / (cash)	258,255	(6,569)	964,347	651,468
Total equity	3,900,881	3,845,624	4,143,830	4,529,166
Total capital	4,159,136	3,839,055	5,108,177	5,180,634
Gearing ratio	6.2%	-0.2%	18.9%	12.6%

## 20 RESERVES

### Nature and purpose of reserves

#### (a) Employee share based payments reserve

The employee share based payments reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration.

#### (b) Foreign currency translation reserve

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

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 21 RELATED PARTY DISCLOSURE

### (a) Subsidiaries

The consolidated financial statements include the financial statements of Vita Life Sciences Limited and the subsidiaries listed in the following table.

Name	Place of Incorporation	Percentage of Equity Interest	
		2009	2008
		%	%
Tetley Research Pty Limited	Australia	100	100
Tetley Treadmills Pty Limited	Australia	100	100
Tetley Manufacturing Pty Limited	Australia	100	100
Vimed BioSciences Pty Limited	Australia	100	100
Allrad No. 19 Pty Limited	Australia	100	100
Lovin Pharma International Limited	Ireland	100	100
Herbs of Gold Pty Limited	Australia	100	100
Herbs of Gold (Shanghai) Co. Limited	People's Republic of China	100	100
VitaHealth Laboratories Australia Pty Limited	Australia	100	100
Premier Foods Pty Limited	Australia	100	100
Vita Corporation Pte Limited	Singapore	100	100
VitaHealth Laboratories (HK) Limited	Hong Kong	100	100
Vita Healthcare Asia Pacific Sdn Bhd	Malaysia	100	100
Swiss Bio Pharma Sdn Bhd	Malaysia	100	100
Vitaron Jaya Sdn Bhd	Malaysia	100	100
Vita Life Sciences Sdn Bhd	Malaysia	70	70
VitaHealth Asia Pacific (S) Pte Limited	Singapore	100	100
Vita Life Science (S) Pte Limited	Singapore	100	-
VitaHealth IP Pte Limited	Singapore	100	100
Sino Metro Developments Limited	British Virgin Island	100	100
VitaHealth (Macao Commercial Offshore) Limited	Macao	100	100
Pharma Direct Sdn Bhd	Malaysia	100	100

### (b) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 22.

### (c) Ultimate holding company

Vita Life Sciences Limited is the ultimate holding company for the Group.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 21 RELATED PARTY DISCLOSURE (CONTINUED)

### (d) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Other transactions with related parties</b>				
CVC Venture Managers Pty Ltd (i)	110,116	148,656	110,116	148,656

(i) CVC Venture Managers Pty Ltd, a Director related party, was paid \$110,116 (2008: \$111,156) for consultancy fees during the financial year.

#### *Terms and conditions of transactions with related parties*

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding related party receivables and payables at year-end are unsecured, interest free and settlement occurs in cash.

## 22 KEY MANAGEMENT PERSONNEL

### (a) Details of Key Management Personnel

#### *Directors*

Vanda Gould	Chairman (Non-executive)
Eddie L S Tie	Managing Director
J S Sharman	Director (Non-executive)
H G Townsing	Director (Non-executive) (Resigned on 27 February 2009)

#### *Executives*

L M Leong	General Manager – Singapore, China and Indonesia
Nathan A Cheong	General Manager – Australia and New Zealand
Y T Ong	General Manager – Malaysia and Thailand
Geoffrey Pak	President – Multi-Level Marketing
Edmund E M Sim	General Manager – Regional Regulatory and Vietnam
SS Ding	Assistant General Manager – Finance and Operations
C L Khoo	Chief Financial Officer (Resigned 30 June 2009)

### (b) Compensation of Key Management Personnel

In accordance with the Corporations Amendment Regulations 2005 (No.4), the Company has transferred the remuneration disclosures required by AASB 124: *Related Party Disclosures* from the notes to the financial statements, to the Directors' Report under the heading of 'Remuneration Report'.



# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank overdrafts, secured loans, finance leases, cash and short-term deposits.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and credit risk. The Group manages these risks in accordance with the Group's financial risk management policy. The objective of this policy is to support the delivery of the Group's financial targets whilst protecting future financial security. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk.

The Board review and agrees policies for managing each of these risks and they are summarised below.

### *Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's short term borrowing obligations. The level of borrowings is disclosed in note 17. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash at bank and in hand	795,077	1,109,387	78,104	390,145
Short term deposit	280,666	183,423	-	-
	1,075,743	1,292,810	78,104	390,145
<b>Financial liabilities</b>				
Trade financing facility - secured	598,681	496,300	-	-
Bank overdrafts - secured	-	62,151	-	-
	598,681	558,451	-	-
<b>Net exposure</b>	<b>477,062</b>	<b>734,359</b>	<b>78,104</b>	<b>390,145</b>

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Risk exposures and responses

At 31 December 2009, if interest rate had moved, as illustrated in the table below, with all variables held constant, post tax profit and equity would have been affected as follows:

	Annual Post Tax Profit Higher/ (Lower)		Equity Higher/ (Lower)	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Consolidated</b>				
+ 1.00% (100 basis points)	3,328	3,296	3,328	3,296
- 0.50% (50 basis points)	(1,821)	(1,648)	(1,821)	(1,648)
<b>Parent</b>				
+ 1.00% (100 basis points)	3,749	3,486	3,749	3,486
- 0.50% (50 basis points)	(1,875)	(1,743)	(1,875)	(1,743)

### Credit risk

Credit risk arises from the financial assets of the Group which comprise trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each application note. The Group does not have any assets which are past due on balance date.

The Group trades only with recognised, creditworthy third parties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

For transactions that are not denominated in the measurement currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Managing Director or Executive Director of that business.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### *Foreign currency risk*

As a result of significant operations in the Asian countries, the Group's statement of financial position can be affected significantly by movements in the exchange rates of these countries. The Group does not hedge this exposure. The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

At 31 December 2009, the Group had the following exposure to foreign currency:

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents				
- Singapore Dollar (SGD)	313,753	462,175	-	-
- Malaysia Ringgit (RM)	508,848	252,982	-	-
- Hong Kong Dollar (HKD)	87,063	40,650	-	-
- Chinese Yuan Renminbi (RMB)	57,802	81,843	-	-
Trade and other receivables				
- Singapore Dollar (SGD)	193,712	247,194	-	-
- Malaysia Ringgit (RM)	1,370,139	1,307,177	336,663	394,699
- Hong Kong Dollar (HKD)	1,427	16,916	-	-
- Chinese Yuan Renminbi (RMB)	18,849	6,612	-	-
	<b>2,551,593</b>	<b>2,415,549</b>	<b>336,663</b>	<b>394,699</b>
<b>Financial liabilities</b>				
Trade and other payables				
- Singapore Dollar (SGD)	545,794	643,259	-	-
- Malaysia Ringgit (RM)	910,375	750,771	-	-
- Hong Kong Dollar (HKD)	14,117	90,849	-	-
- Chinese Yuan Renminbi (RMB)	10,649	3,403	-	-
Bank overdrafts				
- Malaysia Ringgit (RM)	-	62,151	-	-
	<b>1,480,935</b>	<b>1,550,433</b>	<b>-</b>	<b>-</b>
<b>Net exposure</b>	<b>1,070,658</b>	<b>865,116</b>	<b>336,663</b>	<b>394,699</b>

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### *Foreign currency risk (continued)*

The following sensitivity is based on the foreign currency risk expenses in existence at the balance date.

At 31 December 2009, had the Australian Dollar moved, as illustrated in the table below, with all variables held constant, post tax profit and equity would have been affected as follows:

	Annual Post Tax Profit Higher/ (Lower)		Equity Higher/ (Lower)	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Consolidated</b>				
AUD/ SGD + 10.0%	(34,655)	(18,858)	(246,793)	162,710
AUD/ SGD - 5.0%	20,615	10,877	143,265	(93,476)
 AUD/ RM + 10.0%	 9,782	 21,328	 (729,358)	 (411,974)
AUD/ RM - 5.0%	(1,961)	(8,152)	426,561	225,796
 AUD/ HK + 10.0%	 (10,552)	 (6,324)	 (8,746)	 (52,279)
AUD/ HK - 5.0%	6,108	3,661	5,063	30,267
 AUD/ RMB + 10.0%	 12,950	 8,000	 (7,678)	 (6,318)
AUD/ RMB - 5.0%	(7,498)	(4,632)	4,446	3,658

### *Price risk*

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

### *Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and loans.

The table below reflects all contractually fixed pay-offs for settlement of financial liabilities and collection of financial assets. Trade payables and other financial liabilities generally originate from the financing of assets used in our ongoing operations such as investments in working capital (inventories, trade receivables and investment in property plant and equipment). These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Group monitors its expected settlement of financial assets and liabilities on an ongoing basis.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### *Liquidity risk (Continued)*

At 31 December 2009, the Group and the Company has available approximately \$3.0 million (2008: \$3.1 million) of unused credit facilities available for immediate use.

Consolidated	Weighted average interest rate	Floating	Fixed interest maturing		Total
			1 year or less	1 to 5 years	
<b>2009</b>					
<b><i>Financial Assets</i></b>					
Cash assets	2.04%	795,077	280,666	-	1,075,743
Trade and other receivables	n/a	-	2,803,291	489,764	3,293,055
		795,077	3,083,957	489,764	4,368,798
<b><i>Financial Liabilities</i></b>					
Trade and other payables	n/a	-	3,269,652	-	3,269,652
Trade finance facility	11.89%	598,681	-	-	598,681
Secured loans	12.50%	700,000	-	-	700,000
Lease liabilities	12.00%	-	4,740	2,677	7,417
		1,298,681	3,274,392	2,677	4,575,750
<b>2008</b>					
<b><i>Financial Assets</i></b>					
Cash assets	3.92%	1,109,387	183,423	-	1,292,810
Trade and other receivables	n/a	-	2,144,768	622,768	2,767,536
		1,109,387	2,328,191	622,768	4,060,346
<b><i>Financial Liabilities</i></b>					
Trade and other payables	n/a	-	3,179,145	-	3,179,145
Trade finance facility	11.89%	496,300	-	-	496,300
Secured loans	12.50%	700,000	-	-	700,000
Bank overdrafts - secured	7.73%	62,151	-	-	62,151
Lease liabilities	12.00%	-	19,159	8,631	27,790
		1,258,451	3,198,304	8,631	4,465,386

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

*Liquidity risk (Continued)*

Liquidity risk (Continued)

Parent		Floating	Fixed interest maturing		Total
			1 year or less	1 to 5 years	
<b>2009</b>					
<b>Financial Assets</b>					
Cash assets	1.37%	78,104	-	-	78,104
Trade and other receivables	n/a	-	197,798	214,226	412,024
		78,104	197,798	214,226	490,128
<b>Financial Liabilities</b>					
Trade and other payables	n/a	-	422,912	-	422,912
Secured loans	12.50%	-	700,000	-	700,000
		-	1,122,912	-	1,122,912
<b>2008</b>					
<b>Financial Assets</b>					
Cash assets	4.82%	390,145	-	-	390,145
Trade and other receivables	n/a	-	59,531	394,699	454,230
		390,145	59,531	394,699	844,375
<b>Financial Liabilities</b>					
Trade and other payables	n/a	-	321,977	-	321,977
Secured loans	12.50%	-	700,000	-	700,000
		-	1,021,977	-	1,021,977

*Fair value*

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

## 24 SHARE BASED PAYMENTS PLAN

### (a) Recognised share based payment expenses

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Expense arising from equity-settled share based payment transactions (Note 5 (b) )	12,080	14,856	12,080	14,856
	<b>12,080</b>	<b>14,856</b>	<b>12,080</b>	<b>14,856</b>

The share-based payment plans are described below. Refer to note 24 (b) for cancellations or modifications to any of the plans during 2009 and 2008.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 24 SHARE BASED PAYMENT PLANS (CONTINUED)

### (b) Type of share based payment plans

#### (i) Shares

Long Term Incentive Plan ("Plan") Shares are granted to certain executive directors and certain employees.

In valuing transactions settled by way of issue of shares, no account is taken of any performance conditions, other than market conditions linked to the price of the shares of Vita Life.

All Plan Shares issued have market performance conditions and certain performance conditions ("Hurdles") so as to align shareholder return and reward for the Company's selected management and staff ("Participants").

The Board has residual discretion to accelerate vesting i.e. reduce or waive the Hurdles and exercise of Plan Shares in the event of a takeover or merger or any other circumstance in accordance with the terms of the Plan.

Plan Shares in relation to which Hurdles have not been satisfied i.e. that do not vest will lapse and will not be able to be exercised, except in the circumstances described below.

Plan Shares which have not vested will lapse where a Participant ceases employment with the Company other than on retirement, redundancy, death or total and permanent disablement or unless as otherwise determined by the Board in its absolute discretion.

Where a Participant has ceased employment with the Company as a result of resignation, retirement, redundancy, death or total and permanent disablement prior to the end of a performance period only Plan Shares that have vested may be retained by the Participant on a pro-rata basis. If an option holder ceases employment for any reasons mentioned above prior to the first anniversary of the grant date, the Participant forfeits all entitlement to Shares.

#### (ii) Plan Shares issued in 2004 and 2006

At the Company's Annual General Meetings held on 31 May 2004 and 12 April 2006, shareholders approved the issue of the 250,000 and 377,500 Plan Shares to a Director, a director of a subsidiary and certain Company's Executives.

In view of the limited recourse loans having fallen due for certain Participants, the Plan Shares were offered, in accordance with the terms of the Plan, as settlement of the loan provided by the Company for the purchase of Plan Shares. Between 24 June and 25 August 2009, the Company cancelled 250,000 and 300,000 Plan Shares issued in 2004 and 2006 respectively.

#### (iii) Plan Shares issued in 2007

At the Company's Annual General Meeting held on 31 May 2007, shareholders approved the issue of the Plan Shares to Mr Eddie L S Tie, the Company's Managing Director. On 29 June 2007, 825,000 new shares were allotted under the Plan.

In view of the limited recourse loans having fallen due for the Director, the Plan shares were offered, in accordance with the terms of the Plan, as settlement of the loan provided by the Company for the purchase of Plan shares. On 25 August 2009, the Company cancelled 825,000 Plan shares of the Managing Director issued in 2007.



# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 24 SHARE BASED PAYMENT PLANS (CONTINUED)

### (b ) Type of share based payment plans (Continued)

#### (iv) Plan Shares issued in 2009

At the Company's 2009 Annual General Meeting, shareholders approved limited recourse loans be granted to a director of a subsidiary of the Group and the Managing Director. On 23 June and 25 August 2009, 150,000 and 935,000 Plan shares were issued to the director of a subsidiary and the Managing Director respectively.

#### (v) Options

AASB 2 *Share based Payment* requires that the benefit to an employee arising from an employee share scheme such as the Vita Life Plan be treated as an expense in which the benefit is gained. The employee benefit is deemed to be the implied option ("Implied Option") arising from the Plan.

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, and movements in share options issued during the year.

	2009 No.	2008 No.	2009 WAEP	2008 WAEP
Outstanding at the beginning of the year	1,452,500	1,452,500	1.21	1.21
Granted during the year	1,085,000	-	0.21	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(1,375,000)	-	(1.16)	-
Outstanding at the end of the year	<b>1,162,500</b>	<b>1,452,500</b>	<b>0.26</b>	<b>1.21</b>

The outstanding balance of the implied options as at 31 December 2009 is represented by:

- 38,750 options over ordinary shares with an exercise price of \$1.00 each, exercisable until 31 December 2009 with no performance hurdle;
- 38,750 options over ordinary shares with an exercise price of \$1.00 each, exercisable until 31 December 2010 with no performance hurdle;
- 75,000 options over ordinary shares with an exercise price of \$0.20 each, exercisable until 30 June 2011 with no performance hurdle;
- 75,000 options over ordinary shares with an exercise price of \$0.23 each, exercisable until 30 June 2012 with no performance hurdle;
- 325,000 options over ordinary shares with an exercise price of \$0.20 each, exercisable until 31 December 2010 with no performance hurdle;
- 305,000 options over ordinary shares with an exercise price of \$0.20 each, exercisable upon Health division meeting cumulative profit before tax of not less than \$2 million for the 2 years ending 31 December 2009 and 2010 with expiry of the option on 30 June 2011; and
- 305,000 options over ordinary shares with an exercise price of \$0.23 each, exercisable upon Health division meeting cumulative profit before tax of not less than \$4.0 million for the 3 years ending 31 December 2009, 2010 and 2011 with expiry of the option on 30 June 2012.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 24 SHARE BASED PAYMENT PLANS (CONTINUED)

(vi) *Range of exercise price, weighted average remaining contractual life and weighted average fair value*

The range of exercise prices for options outstanding at the end of the year was \$0.20 - \$1.00.

The weighted average remaining contractual life for the share options outstanding at 31 December 2009 is 1.70 years (2008: 1.04 years).

The weighted average fair value of options granted during the year was \$0.03 (2008: \$0.03).

(vii) *Implied option pricing*

The following assumptions were used to derive a value for the Implied Options granted using the Black Scholes Option model as at the grant date, taking into account the terms and conditions upon which the Shares were granted:

	Plan Shares issued in					
	2009		2007		2006	
Exercise price per option	\$ 0.23	\$ 0.20	\$ 0.23	\$ 0.20	\$ 1.00	
Dividend yield	-	-	-	-	-	-
Expected annual volatility	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Risk-free interest rate (p.a.)	4%- 5%	4%- 5%	6.00%	6.00%	6.00%	6.00%
Expected life of implied option (Years)	2.5 years	1.0 - 1.5 years	3 years	2 - 2.5 years	3.5 - 5 years	
Fair value per option	\$0.03 - \$0.04	\$0.02 - \$0.04	\$ 0.04	\$0.04 - \$0.05	\$0.00 - \$0.40	
Exercise price per option	\$0.23	\$0.20	\$0.23	\$0.20	\$1.00	
Share price at grant date	\$0.18 - \$0.20	\$0.18 - \$0.20	\$0.20	\$0.20	\$0.05	
Model used	Black Scholes		Black Scholes		Black Scholes	

In respect of the Implied Options arising from the Shares granted in 2006, 2007 and 2009, the expected volatility was determined using historic data over a 29 month period from August 2007 to December 2009. The expected volatility for the Implied Options was adjusted to reflect comparable companies in terms of industry and market capitalisation. The Implied Options arising from the Plan are not listed and as such do not have a market value.

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 25 COMMITMENTS

### Operating lease commitments – Group as lessee

The Group has entered into commercial property leases for various offices and warehouse facilities.

These leases have an average life of between 1 and 3 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Within one year	216,135	239,301	29,760	32,400
After one year but not more than five years	133,321	98,216	52,080	-
	<b>349,456</b>	<b>337,517</b>	<b>81,840</b>	<b>32,400</b>

### Finance lease and hire purchase commitments

The Group has finance leases for various items of plant and machinery expiring from 1 to 5 years. At the end of the lease terms the Group has the opportunity to purchase the equipment at deemed market rate.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments (included within borrowings) are as follows:

Consolidated	CONSOLIDATED	
	2009 Minimum lease payments \$	2008 Minimum lease payments \$
Within one year	7,502	14,721
After one year but not more than five years	-	13,569
Total minimum lease payments	7,502	28,290
Less amounts representing finance charges	(85)	(500)
<b>Present value of minimum lease payments</b>	<b>7,417</b>	<b>27,790</b>

# Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

## 26 NET TANGIBLE ASSET PER SHARE

	CONSOLIDATED	
	2009	2008
	\$	\$
Net assets per share	0.08	0.08
Net tangible assets per share	0.07	0.08
	Number	Number
Weighted average number of ordinary shares for net assets per share	50,869,109	48,196,932

## 27 SIGNIFICANT EVENTS AFTER BALANCE DATE

There is no subsequent event after balance date that affects the operating results or financial position of the Company and its subsidiaries.

## 28 CONTINGENCIES

### *Contingent assets*

#### *Pan TGA Claim*

From 2003 onwards, the Group suffered substantial losses as a consequence of the Pan product recall, which resulted from regulatory action taken by the Therapeutic Goods Administration ("TGA") against Pan in April 2003. The Group filed a Statement of Claim against the Commonwealth of Australia in April 2009 for alleged misfeasance in public office and negligence by the TGA and its officers.

The quantum of the Company's damages is currently being evaluated by an independent expert. The Company has incurred legal and professional expenses of \$634,548 for the year ended 31 December 2009.

## Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2009

### 29 AUDITORS' REMUNERATION

The auditor of Vita Life Sciences Limited is Russell Bedford NSW.

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<i>Amount receivable or due and receivable by Russell Bedford NSW for:</i>				
An audit or review of the financial report of the entity and any other entity in the consolidated group	84,000	82,000	70,000	70,000
Other services in relation to the entity and any other entity in the consolidated group				
- tax compliance services	59,110	40,800	59,110	40,800
- share registry	33,304	28,264	33,304	28,264
	<b>176,414</b>	<b>151,064</b>	<b>162,414</b>	<b>139,064</b>
<i>Amount receivable or due and receivable by non Russell Bedford NSW audit firms for:</i>				
- audit or review of the financial report	41,557	36,615	-	-
	<b>217,971</b>	<b>187,679</b>	<b>162,414</b>	<b>139,064</b>

## Directors' Declaration

The Directors of the Company declare that:

1. The financial statements, notes and the additional disclosures are in accordance with the *Corporations Act 2001* and:
  - (a) Comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) Give a true and fair view of the financial position as at 31 December 2009 and of the performance for the year ended on that date of the Company and consolidated group;
2. The Chief Executive Officer and Chief Finance Officer have each declared that:
  - (a) The financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - (b) The financial statements and notes for the financial year comply with Accounting Standards; and
  - (c) The financial statements and notes for the financial year give a true and fair view.
3. 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,



**Eddie L S Tie**  
 Managing Director  
 26 March 2010



**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF VITA LIFE SCIENCES LIMITED****Report on the Financial Report**

We have audited the accompanying financial report of Vita Life Sciences Limited (the company) and Vita Life Sciences Limited and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

***Directors' Responsibility for the Financial Report***

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial statements, comprising the financial statements and notes, complies with IFRS.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.



### **Auditor's Opinion**

In our opinion:

- a. the financial report of Vita Life Sciences Limited and Vita Life Sciences Limited and controlled entities is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the company and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b).

### **Report on the Remuneration Report**

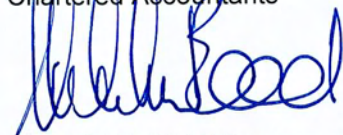
We have audited the Remuneration Report included in pages 10 to 15 of the report of the directors for the year ended 31 December 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Auditor's Opinion**

In our opinion the Remuneration Report of Vita Life Sciences Limited for the year ended 31 December 2009 complies with s 300A of the *Corporations Act 2001*.

**RUSSELL BEDFORD NSW**

Chartered Accountants



MALCOLM BEARD, M.Com. F.C.A.

Partner

Sydney, 26 March 2010

## ASX Additional Information

The following information is current as at 11 March 2010.

### A. SUBSTANTIAL SHAREHOLDERS

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

Shareholder	No of ordinary shares held	Percentage held of issued ordinary capital
Stinoc Pty Limited (a subsidiary of CVC Limited)	8,041,718	14.8%
Chemical Trustee Limited	7,564,049	13.9%
Barleigh Wells Limited	7,371,832	13.6%
Eddie L S Tie	3,320,888	6.1%

### B. DISTRIBUTION OF EQUITY SECURITY HOLDERS

(i) Analysis of number of equity security holders by size of holding as at 11 March 2010:

Category	Ordinary shareholders
1 - 1,000	71
1,001 - 5,000	335
5,001 - 10,000	157
10,001 - 100,000	207
100,001 and over	36
	<hr/> 806

(ii) There were 115 holders of less than a marketable parcel of ordinary shares.

### C. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders	Ordinary shares	
	Number held	Percentage of shares issued
Stinoc Pty Limited	8,041,718	14.8%
Chemical Trustee Limited	7,564,049	13.9%
Barleigh Wells Limited	7,371,832	13.6%
Eddie L S Tie	3,320,888	6.1%
Normandy Finance & Investments Asia Limited	2,148,317	2.9%
Vital Bio Tech Holdings Limited	1,586,053	2.8%
Normandy Nominees Limited	1,495,224	2.5%
Llyods & Casanove Investment Partners Limited	1,402,461	2.5%
OCI Construction Limited	1,368,688	2.4%
Abasus Investments Limited	1,358,535	2.3%
South Seas Holdings Pty Limited	1,281,164	2.1%
Hua Wang Bank Berhad	1,269,377	2.1%
Derrin Brothers Properties Limited	1,156,053	2.1%
Andrew Tan Teik Wei	1,154,776	1.6%
Normandy Finance & Investments Limited	864,494	1.2%
Phillip Securities Pte Limited	519,565	0.9%
Sycamore Pty Limited	485,611	0.8%
Universal Trustee (Malaysia) Berhad	428,531	0.6%
T & P Holdings Pty Limited	365,947	0.6%
Daud Yunus	341,830	0.5%

### D. VOTING RIGHTS

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

# Corporate Directory

## Board of Directors

### Vanda Gould

Non-Executive Chairman

### Eddie L S Tie

Managing Director

### John Sharman

Non-Executive Director

## Company Secretary

Terry Kong

## Corporate Office

Suite 630, Level 6  
1 Queens Road  
Melbourne VIC 3004  
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T: 61 (02) 9545 2633  
F: 61 (02) 9545 1311

## Asian Regional Office

81G, Jalan SS 21/60  
Damansara Utama  
47400 Petaling Jaya  
Malaysia  
T: 60 (03) 7729 3873  
F: 60 (03) 7727 4658

## Securities Exchange Listing

The ordinary shares of Vita Life Sciences Limited are listed on the Australian Securities Exchange Ltd (code: VSC).

## Auditor

Russell Bedford NSW  
Level 42, SunCorp Place  
259 George Street  
Sydney NSW 2000

## Banker

Westpac Banking Corporation

National Australia Bank Limited

## Solicitor

Piper Alderman

Henry Davis York

## Share Registry

Gould Ralph Pty Ltd  
Level 42, SunCorp Place  
259 George Street  
Sydney NSW 2000  
T: 61 (02) 9032 3000  
F: 61 (02) 9032 3088

### *Change of Address*

Shareholders who have changed address should advise our share registry in writing.

### *Annual Report Mailing*

Shareholders who do not want the annual report or who are receiving more than one copy should advise the share registry in writing.

## Vita Life Website

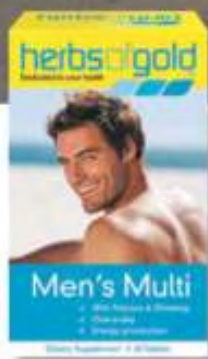
Vita Life has a website containing information about the Company, its Business and Products.

**[www.vitalifesciences.com.au](http://www.vitalifesciences.com.au)**



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# Vita Life Sciences Limited Annual Report 2009

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ABN 35 003 190 421

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[www.vitalifesciences.com.au](http://www.vitalifesciences.com.au)

