Cyclopharm Limited Annual Report 2008

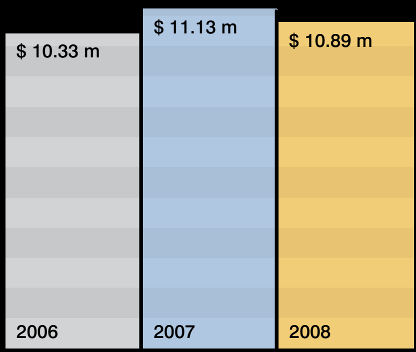
cyclopharm

Cyclopharm Limited and its Controlled Entities
ABN 74 116 931 250

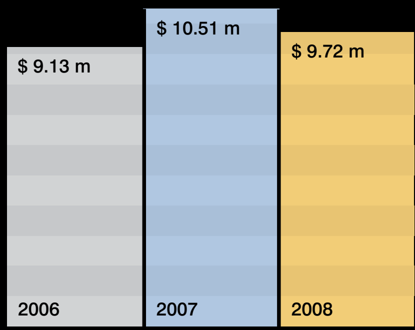
Cyclopharm Limited Annual Report 2008

Financial Highlights

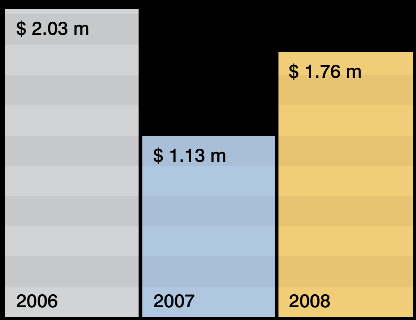
Full Year ending 31 December		2006	2007	2008	%Change
Sales Revenue	$'000	10,332	11,128	10,888	(2.2%)
NPAT	$'000	2,028	1,131	1,757	55.3%
EPS	cents	1.87	0.83	1.24	49.4%



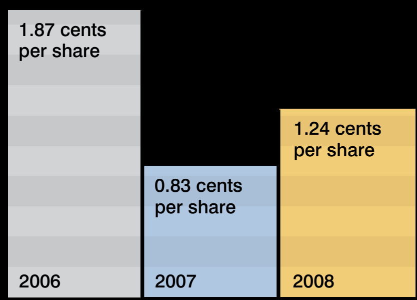
Sales flat



Operating cash receipts down 8%



Net profit after tax up 55%



EPS up 49%

11 March 2009

Dear Cyclopharm Shareholder,

We are delighted that the strength of our technology continues to generate sales with strong margins and cash flows to support our investment in future growth. Achievement of an after tax profit of $1,757,062 for the year represents an improved position as against our prospectus forecast.

Whilst we ordinarily would have considered a dividend, with the company facing an uncertain financial world, it is prudent that we retain funds until the financial climate improves.

In November 2008 we closed the rights issue fully subscribed; raising $3.18 million (before issue costs of $0.15m) through the support of 269 Shareholders. We are extremely grateful for the continued support from our Shareholders. We also appreciate the support of our bankers who increased our debt facilities to $6.45 million in December 2008. Our facilities were extended on the basis of a strengthened balance sheet, our robust cash flows and our business plan with its twofold platform for growth. Our two major growth strategies are to firstly, sell Technegas in the United States and secondly, to supply PET radiopharmaceuticals in Australia.

Expansion into the USA market has been a long-term goal of the company. In December 2008 we lodged the application to sell Technegas in the USA with the Food and Drug Administration (FDA). Based on early dialogue with the FDA, we have decided to temporarily withdraw our application in order to adjust the format. We believe that the modifications will ultimately enable a more expeditious review. While the decision to withdraw may have an impact on the timing of approval, we believe that our path forward is better defined from the feedback we have received. It is estimated that the FDA review period will take up to 12 months from the re-lodgement date. We look forward to keeping Shareholders updated with our progress.

Based on current incidence, it is estimated that 1 in 3 males and 1 in 4 females in Australia will be directly affected by cancer (excluding non-melanocytic skin cancers) before the age of 75. PET (Positron Emission Tomography) is clinically proven to better identify the location and extent of certain active cancer cells in the body. Physicians use PET to refine the decided course of action by either reducing the course of resection or the course of therapy. Ultimately PET gives patients a greater chance of survival and the highest possible standard of life.

In July 2008 we advised Shareholders of the Government's decision to expand approved PET indications to include ovarian cancer, colorectal cancer and recurrent melanoma. The impact of the Government's decision is twofold. Firstly, Australian cancer sufferers now have greater access to PET; and secondly, a total of 6 PET indications are now eligible for reimbursement. The Government's decision to increase approved PET indications and the growth in the PET/CT scanner base supports our strategy to develop an infrastructure footprint of PET Nuclear pharmacies in Australia.

Commissioning and production of PET radiopharmaceuticals from our first PET Nuclear pharmacy is expected this calendar year at Macquarie University Private Hospital (MUPH) in North Ryde, NSW. Your Directors are extremely pleased with the selection of location and strategic partner. MUPH has capacity for two PET/CT scanners and additionally will house a private teaching hospital which presents Cyclopharm with opportunities for collaborative PET research.

On behalf of my fellow Directors I would particularly like to commend our new Managing Director, Mr James McBrayer, for his stewardship over the past 7 months. Mr McBrayer's industry experience and enthusiasm have proven to be an invaluable asset to the company. I also take this opportunity to acknowledge the contributions of Professor Nabil Morcos and our management team. Finally, I thank our excellent team who service our valued customers in 53 countries throughout the world.

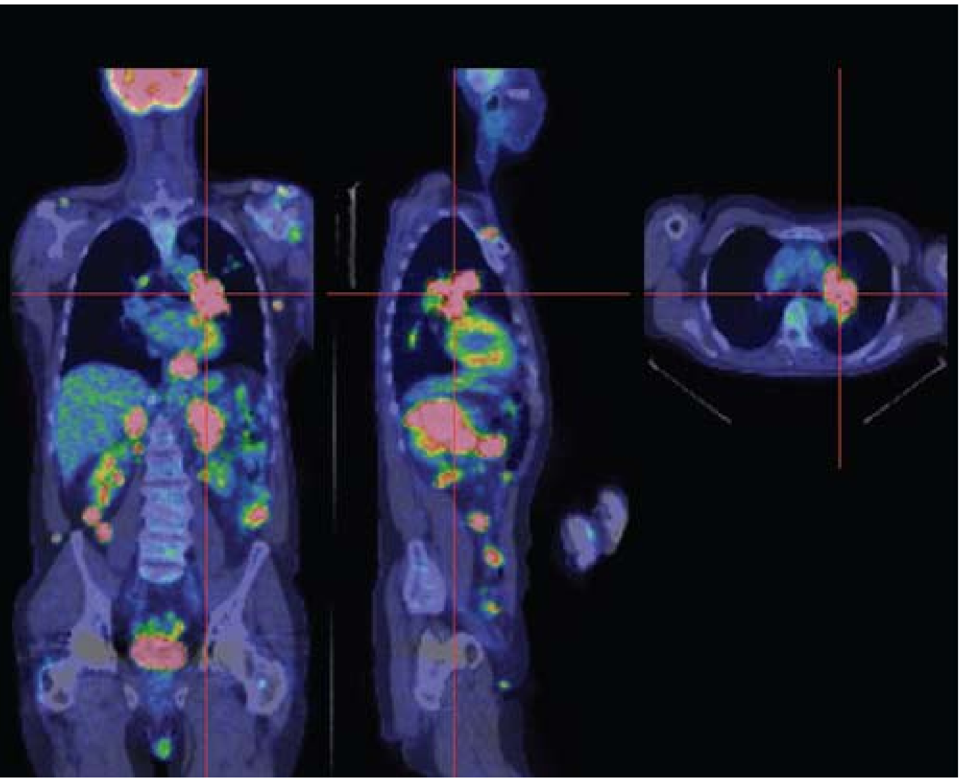
Whilst the global economic crisis places a gloom over the financial world in which we operate, it will also give us opportunity for growing the business and we are open to these options. Further, the products we sell save lives and the demand for our services will not materially be affected by developments in the broader economy. I look forward to reporting on future exciting developments in your company.

Yours faithfully,

Vanda Gould
Chairman

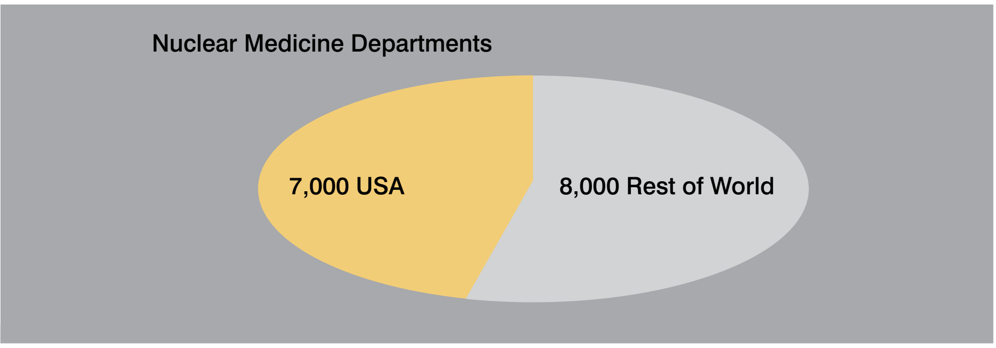
PET Nuclear Pharmacies

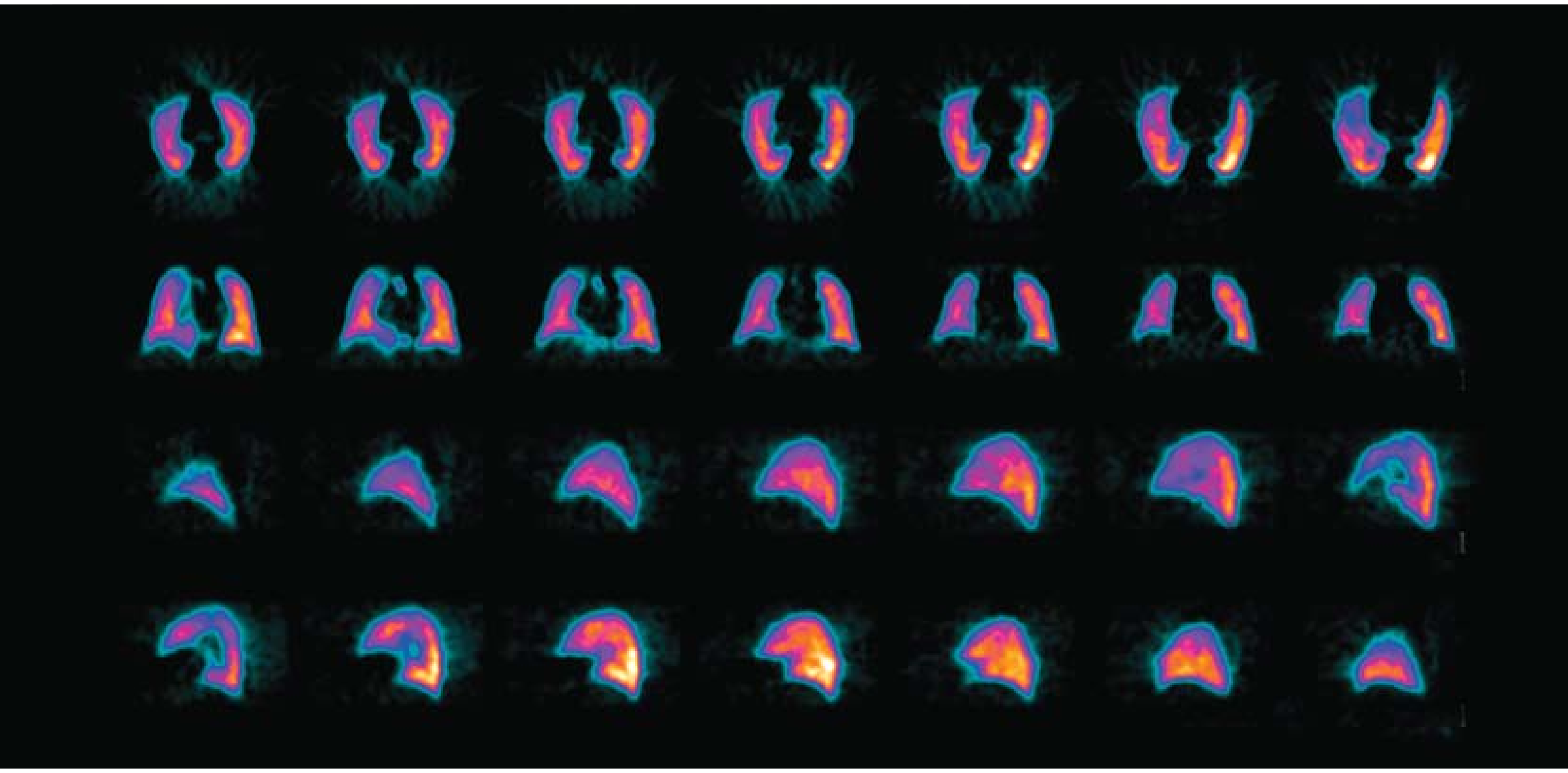
MUPH is not an asset of the Group



PET Nuclear Pharmacies
Cyclopharm will open its first PET Nuclear Pharmacy at Macquarie University Private Hospital late 2009 to produce PET radiopharmaceuticals. PET radio-pharmaceuticals are injected into patients and target specific tissues / organs, to help physicians improve their ability to detect and monitor the extent and stage of cancer, neurological disorders and cardiac disease.

Technegas





Technegas
Cyclopharm's proprietary technology Technegas produces radioactive nanoparticles that mimic gases. These particles are a gaseous substance inhaled by patients and are used by physicians to diagnose pulmonary emboli (blood clots in the lungs). Technegas is used in over 53 countries throughout the world. Cyclopharm is seeking approval to sell Technegas into the United States which accounts for approximately half of the potential world market for Technegas.

Managing Director's Review

Features

Welcome to the Cyclopharm Limited's (Cyclopharm) Annual Report for the year ending 31 December 2008. During my first seven months as Managing Director my attention has been focused on achieving quality revenue targets, improving our cost structure, preparing the company for its next stage of growth and progressing our two major strategic initiatives of achieving United States Food and Drug Administration (FDA) approval and establishing our first Positron Emission Tomography (PET) radiopharmaceutical manufacturing facility.

Based on the recent United States Food and Drug Administration (FDA) initial feedback, we are refining our New Drug Application (NDA) submitted in December 2008. Our case is founded on 20 years of practical experience with over 2,200,000 patients benefiting from the Technegas system. I share the Directors' belief that our application will be successful given the compelling academic evidence and support from industry experts.

Net profit after tax for the full year was $1,757,062 (2007: $1,131,239) up 55% on the preceding year. The combined sales of the Company's key products TechnegasPlus generators ("Generators") and Patient Administration Sets ("PAS"), were down slightly in volume and revenue terms, gross profit margins improved due to a shift in the sales mix (fewer Technegas Generators and more PAS).

As for the Molecular Imaging division, we expect to commission our first PET Nuclear pharmacy in Sydney at the Macquarie University Private Hospital (MUPH) by the end of the calendar year. The Molecular Imaging business did not contribute revenue during 2008. The Directors are encouraged by the strong underlying performance of the Company's businesses in 2009 and the progress that has been made in delivering on our business plan for future growth.

Operating review

Technegas

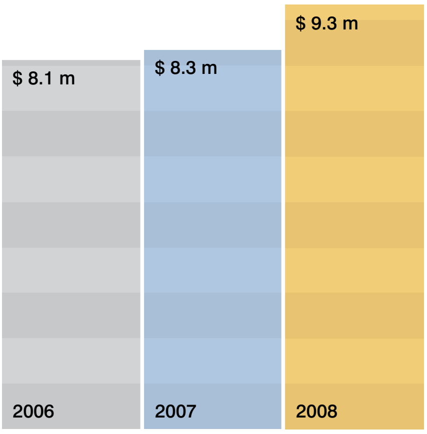
Technegas is a lung imaging device used primarily to diagnose the presence of blood clots in the lungs known as Pulmonary Emboli (PE). Since 1988 we have sold over 1,100 generators to nuclear medicine departments in 53 countries.

In recent years we have experienced increasing competition from Computed Tomography Pulmonary Angiogram ("CTPA"). Current clinical evidence suggests that CTPA use for the detection of lung imaging can increase the incidence of cancer due to the higher exposure to radiation. Many academics and physicians believe that it is unethical to put patients with suspected PE at risk by using CTPA to diagnose patients and should revert back to lung imaging agents of which Technegas is classified. We are actively campaigning for the safety of patients.

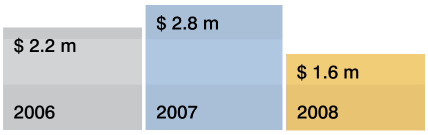
Revenue Composition

Overall sales revenue of $10.9 million from the Company's key products, Generators and PAS were comparable with the preceding year (2007: $11.1 million). PAS or consumable revenue grew 11.9% to $9.3 million (167,500 units) for the current period compared to that of the previous year (2007: $8.3 million or 176,700 units). Sales volumes of PAS were lower as management intentionally focussed on distributors, customers and regions yielding superior profit margins. Management will continue to target higher margin sales in 2009.

We recorded 44 Generator sales in 2008 a figure substantially lower than the last year (2007: 113). In 2007, we benefited in unit sales and sales revenue from the release of the then new TechnegasPlus Generator. Many of our existing and new customers took advantage of special introductory pricing offered on the new TechnegasPlus generator in 2007 the first major upgrade since 1986. The offer was not extended into 2008.



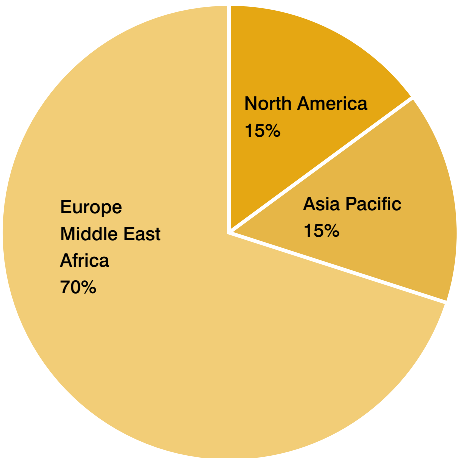
Group, PAS Revenue



Group, Technegas and Other

Regional Review

Europe remains our most significant market but the revenue contribution from North America continues to increase its importance to Group revenues. Canada is now Technegas's third largest market and a strong indicator for anticipated take up rates in the USA, when approval to sell Technegas is obtained from the USA FDA.



Managing Director's Review

Continued

Regional Review continued

Europe

Sales revenue decreased 1% on the same time last year despite Generator sales being dramatically down. Only 22 Generators were sold in 2008 compared with 82 in the prior year. Management did not forecast Generator sales in 2008 to replicate those of 2007 as we did not extend the introductory offer in 2008. Lower Generator revenue was mostly offset by a 24% increase in PAS revenues. Our strategy to focus on higher margin PAS sales was successful and drove profitability improvements. We will continue to apply this strategy in 2009, expand into new markets such as Russia and continue to ensure we have the best distributor partners possible.

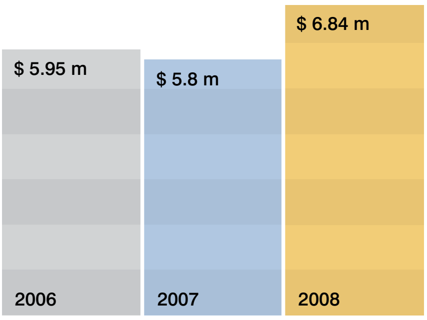
North America

Once again PAS sales in North America have continued to exceed expectations. Our current North American presence is comprised solely of sales to Canadian nuclear medicine departments. We see our success in Canada as an indicator to that of the United States if approval to sell Technegas is obtained.

We recorded 17% growth in total revenues in 2008. Generator revenues were 5% lower than 2007 but PAS revenues grew 24%. We have been pleased with the success of Technegas in Canada as this is the 5th year of consecutive growth in PAS unit sales. We estimate that we have captured approximately 50% of the addressable Canadian market share.

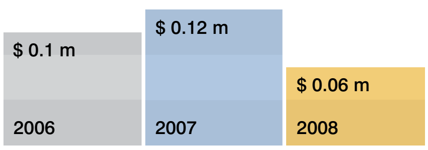
Asia Pacific

Revenues in the Asia Pacific region were 17% lower than the prior year. In Australia, Technegas enjoys a very high market share and revenue growth from this market has been flat in recent years. This pattern continued in the current period, revenue was 11% lower than 2007. In Asia, revenue fell 57% due to lower generator sales offset by a 7% increase in PAS box sales. We expect future growth to arise from new approvals pending in South Korea, Japan and China.

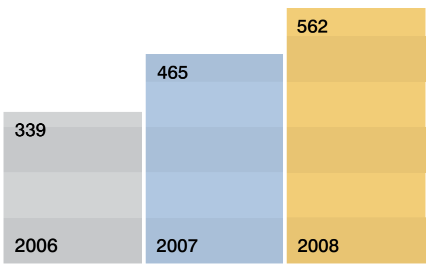


Europe, PAS Revenue

Asia Pacific, Total Revenue



Other, Total Revenue



North America, PAS Sales (boxes)

New Drug Application to sell Technegas in the USA

There are 42,000 estimated cases of PE each year in Australia (Source: Rees M. Australian Family Physician). In 2008, approximately 35,000 Technegas procedures were completed in Australia covering both confirmed and suspected PE.

PE is expected to occur in the USA at the same rate of population as in Australia and by extrapolating incidence rates there were approximately 600,000 cases of PE in the USA in 2005. Using a modest assumption of 5% market penetration, sales to the USA will match that of Australia. Given that we were able to obtain 9% of the Canadian market share in our first year of trading and 50% within 6 years of establishing our operations we are comfortable that our market share assumptions for the USA are reasonable. Our long term strategy is to build the installed generator base in the USA. Should we succeed in our strategy and obtain market penetration of 28% in the USA then the Company's revenues could double.

In the USA the two primary diagnostic tools for detecting PE are CTPA and Diethylenetriamine Pentacetic Acid (DTPA). Anecdotal evidence from within the medical fraternity suggests that the USA is moving away from Computed Tomography Pulmonary Angiogram ("CTPA") for lung imaging due to the higher risk of radiation exposure. Many physicians are reverting back to lung ventilation scans to diagnose pulmonary embolism. Technegas is widely accepted as a superior product for lung imaging when compared with other ventilation scanning methods. Our technology is safe, proven and has benefited over two million patients. For these reasons we are optimistic that we will significantly penetrate the potential market of 7,000 nuclear medicine departments in the USA.

On 19 December 2008 Cyclopharm lodged its application to sell Technegas in the USA with the FDA. Based on initial feedback from the FDA, we have decided to withdraw our application to address content that will assist the FDA in reviewing the application expeditiously. Following our resubmission the FDA response procedure is staged:

- Within 60 days from lodgement, the FDA is obliged to advise whether the application is accepted for review; and
- If the application is accepted for review, the FDA must provide a formal response within 12 months from the lodgement date.

It is estimated that the FDA review period will take up to 12 months from the re-lodgement date.

Establishment of sales and distribution functions in the USA

Assuming that the FDA approves our application, we will commence an education program in the USA in 2009. We plan to build a small sales team on both the East and West coasts where the majority of nuclear medicine centres are based. Our major objectives are firstly, to communicate to physicians and nuclear medicine departments that Technegas will soon be available for use in diagnosing PE and secondly, to develop an efficient warehousing and logistics infrastructure. We also intend to continue with our presence at major nuclear medicine conferences to raise awareness of the availability of Technegas.

Investigational New Drug (IND)

Technegas is currently used by medical practioners to diagnose PE however studies show that Technegas can also be used in the diagnosis of other pulmonary disease states. For example, there are an estimated 620,000 patients suffering from Chronic Obstructive Pulmonary Disease (COPD). In the USA there are 25,000,000 COPD sufferers. These estimates represent levels up to 25 times that of PE. Other possible indications include the use of Technegas with lung cancer in diagnosing pulmonary viability prior to and post lung resection.

Increasing the number of diagnostic applications is part of Cyclopharm's global expansion strategy. Cyclopharm will initiate an Investigational New Drug (IND) in the first quarter of 2009. This strategy will complement our application for the sale of Technegas in the treatment of PE in the USA.

Positron Emission Tomography (PET)

Based on current incidence, it is estimated that 1 in 3 males and 1 in 4 females in Australia will be directly affected by cancer (excluding non-melanocytic skin cancers) before the age of 75. PET (Positron Emission Tomography) is clinically proven to better identify the location and extent of certain active cancer cells in the body. Physicians use PET to refine the decided course of intervention by either reducing the course of resection or the course of therapy. Ultimately PET gives patients a greater chance of survival and the highest possible standard of life.

Australia has lagged behind the United States (USA) and Europe in its acceptance of PET. In the USA, PET procedures have grown 655% to 1,130,000, during the period from 2000 to 2005, due to wide access to PET cameras and radiopharmaceuticals. Growth in access to PET scanners in the USA has increased by 10.9 times (per million in population) compared to only 3.3 times in Australia. PET relies on PET radiopharmaceuticals to conduct procedures. As the PET scanner base in Australia follows the USA and European patterns, the foreseeable demand for PET radiopharmaceuticals will increase exponentially.

Lloyd Street, Kensington is a proposed asset of the Group

Melbourne: Lloyd Street, Kensington

- ☑ Land secured
- ○ Design under development
- ○ Construction to commence 2009

MUPH is not an asset of the Group

Sydney: Macquarie University Private Hospital (MUPH)

- ☑ Design phase completed
- ☑ Bunker construction completed
- ☑ Cyclotron selected
- ○ Fit-out commencing Q1 2009
- ○ Facility Certification scheduled Q4 2009

In previous correspondence to Shareholders we have commented that one of the inhibitors for growth is the PET scanner base and the limited number of PET procedures available for Medicare rebate compared to the USA and Europe. In July 2008, we advised Shareholders of the Government’s decision to expand PET approved indications to include ovarian cancer, colorectal cancer and recurrent melanoma. The impact of the Government’s decision is twofold. Firstly, Australian cancer sufferers now have greater access to PET and secondly, a total of 6 PET indications are now available for reimbursement. The Government’s decision to increase approved PET indications and the growth in the PET/CT scanner base supports our strategy to develop an infrastructure footprint of PET Nuclear pharmacies in Australia.

Our first PET nuclear pharmacy will be located at Macquarie University Private Hospital (MUPH). MUPH is an $80 million joint venture development between Macquarie University and Dalcross Private Hospital. The development will establish a major medical precinct within the Macquarie University Research Park to complement the Allied Health teaching services offered by Macquarie University. The Macquarie University Private Hospital will be a state of the art facility that will also deliver health education and research on site.

Commissioning and production of PET radiopharmaceuticals from (MUPH) is expected this calendar year. Your Directors are extremely pleased with our selection of location and strategic partner. MUPH has capacity for two PET/CT scanners and additionally will house a private teaching hospital which presents Cyclopharm with opportunities for collaborative PET research.

Managing Director's Review

Continued

Outlook

We expect modest growth in revenues in 2009 driven by improving market share due to awareness campaigns and developing markets. We forecast sales of a similar mix of Technegas generators and PAS box sales and therefore similar margins. Management have forecast minimal contribution from the Molecular Imaging division. We continue to believe in the strength of the technology and are confident that our submission to the FDA to sell Technegas generally in the USA will be approved.

We expect operating expenditure in 2009 to be higher primarily driven from increasing Cyclopharm's operational presence in North America and expanding the number of indications for Technegas. We expect 2009 profitability to be slightly lower than that of the year in review as we continue to progress our strategy toward global coverage. We see 2009 as broadening the base that will yield significant long term returns for the Company.

I would like to take this opportunity to thank my staff & management team, Professor Nabil Morcos, our trading partners and Shareholders. I would also like to thank our Chairman, Mr Vanda Gould, and my fellow Directors Mr John Sharman, Mr Henry Townsing and Mr David Heaney for their commitment and shared vision to enable nuclear medicine practitioners and other clinicians with the ability to improve patient outcomes.

James McBrayer
Managing Director

Sydney, 11 March 2009

Directors' Report

The Directors of Cyclopharm submit their report for the year ended 31 December 2008.

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 year unless otherwise stated.

Names, qualifications, experience and special responsibilities

Mr V R Gould – Non Executive Chairman
M Com, FCA, FCPA, B Com

Mr Gould has been a member of the Board since 21 November 2005. He is currently the Group Non-Executive Chairman appointed 1 March 2007 and also serves as Chairman of the Audit, Board Nominations, and Remuneration Committee of the Group.

Mr Gould has broad business experience having practiced as a chartered accountant for more than 30 years. As founding Chairman in 1984 of CVC Limited (listed on the ASX) he has overseen investments in several companies involved in the health services/medical industries including Cyclopharm. He is also chairman of Vita Life Sciences Limited (listed on the ASX) and several other private and public companies and educational establishments.

Mr Gould lives in Sydney and is 60 years old.

Mr J M McBrayer – Managing Director
BSPharm, GDM, FAICD, AIM

Mr McBrayer has been a member of the Board since 3 June 2008 at which time he accepted the role of Managing Director. Mr McBrayer serves as a member of the Board Nominations Committee.

Mr McBrayer has more than 20 years experience in nuclear medicine and is a trained Nuclear Pharmacist. Mr McBrayer held the role of Managing Director at Lipa Pharmaceuticals, Australia's largest contract manufacturer of over-the-counter products and senior management positions with Brambles Cleanaway business and Syncor, the world's largest radioactive diagnostic and therapeutic pharmaceutical provider.

Mr McBrayer lives in Sydney and is 43 years old.

Mr D J Heaney – Non Executive Director (Independent)

Mr Heaney was appointed to the Cyclopharm Board on 20 November 2007. David serves as a member of the Audit and Board Nominations Committees.

Mr Heaney is currently an executive director of Thompson Partners Pty Ltd and a non-executive director of Colorpak Limited and Mariner Financial Limited.

Mr Heaney has more than 38 years experience in all aspects of wholesale banking and finance, gained in senior management roles with The National Australia Bank Limited and subsidiary companies in both Australia and the USA.

Mr Heaney lives in Melbourne and is 64 years old.

Mr Heaney has also served as a director of the following other listed companies:

- Colorpak Limited – Appointed 24 January 2004
- Mariner Financial Limited – Appointed 27 May 2005
- The Gribbles Group Limited (between 29 June 2001 and 21 December 2004)

Mr J S Sharman – Non Executive Director
M.App.Fin, CA, B Ec

Mr Sharman has been a member of the Board since 21 November 2005. Mr Sharman has been involved with the Cyclopharm Group since early 2004 and resigned from his role as Managing Director of Cyclopharm on 3 June 2008. Mr Sharman serves as a member of the Board Nominations Committees.

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 also a Non-Executive Director of Vita Life Sciences Limited (listed on the ASX).

Mr Sharman lives in Melbourne and is 42 years old.

Mr H G Townsing – Non Executive Director (resigned 27 February 2009)
Dip Val

Mr Townsing was appointed to the Cyclopharm Board on 22 November 2005 and resigned on 27 February 2009. Mr Townsing served as a member of the Board Nominations and Remuneration Committee.

Mr Townsing has more than 20 years experience in corporate finance and private equity. He was a director of Vita Life Sciences Limited from 1985 to 1992 and was reappointed a director in 2004 and resigned in February 2009.

Mr Townsing lives in Melbourne and is 53 years old.

Dr B C Salin – Non Executive Director (resigned 25 January 2008)
Ph D

Dr Salin was appointed to the Cyclopharm Board on 1 September 2007. Dr Salin's resignation from the Board was announced on 25 January 2008.

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

Dr Salin lives in Clermont Ferrand, France and is 66 years old.

Interests in the shares of the Company and related bodies corporate

The movement during the reporting period in the number of ordinary Cyclopharm shares (no options are on issue) held directly, indirectly or beneficially, by Directors and key management personnel, including their personally-related entities is as follows:

	Interest	31 December 2007	Granted or cancelled under long term incentive schemes	Shares purchased under non-renounceable Rights Issue	On market purchases	On market sales	Off Market sales	31 December 2008
Directors								
Mr V R Gould	NBI	18,852,049	—	14,220,855	—	—	—	33,072,904
Mr D J Heaney	NBI	172,500	—	39,204	—	—	—	211,704
Mr J S McBrayer	BI	–	1,400,000	159,090	—	—	—	1,559,090
Dr B C Salin*	NBI	233,189	—	—	—	—	—	233,189
Mr J S Sharman	BI	3,384,755	(900,000)	10,000	—	—	—	2,494,755
Mr J S Sharman	NBI	182,905	—	—	—	—	—	182,905
Mr H G Townsing**	NBI	12,963,589	—	86,731	70,000	—	(708,327)	12,411,993
Key Management Personnel								
Prof N Morcos	BI	1,058,297	—	—	—	—	–	1,058,297
Mr C Buttigieg	BI	100,000	—	—	—	—	–	100,000
Mr C Buttigieg	NBI	100,000	—	—	—	—	–	100,000
Ms L Mc Lauchlin	BI	130,000	—	—	—	(30,000)	–	100,000
Mr Bjorn Altman	BI	100,000	—	—	—	—	–	100,000

NBI: Non beneficial interests
BI: Beneficial interest
*Dr Salin resigned on 25 January 2008
**Mr Townsing resigned on 27 February 2009

Dividends

No dividends were declared or paid during the financial year. Shareholders approved the Dividend Reinvestment Plan at the Annual General Meeting held on 1 May 2008.

The balance of franking credit available for future dividend payments is $61,730 (2007: $61,730).

On Market Buy-Back

The Company has not initiated an on market buy-back.

Principal Activities

During the year the principal continuing activities of the consolidated entity consisted of the manufacture and sale of medical equipment and radiopharmaceuticals, including associated research and development.

Operating and Financial Review

Operating Results for the Year

For the financial year the economic entity recorded a consolidated profit after tax attributable to members of $1,757,062 (2007: $1,131,239).

Significant Changes in State of Affairs

During the year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements. During the year in review, property, plant and equipment increased to $2,725,834 (2007: $973,402) due primarily to the development of our PET nuclear pharmacy at MUPH. Expenditure to expand our operations in North America was the primary basis for the increase in intangibles to $2,793,853 (2007: $1,909,545) in December 2008. In December 2008, our debt facilities were extended to $6.45 million and our borrowings increased to $2,733,250 (2007: $1,511,500).

Shares issued during the year

On 3 June 2008, 900,000 LTIP shares held by Mr John Sharman the former Managing Director were cancelled along with the corresponding non-recourse loan. On the same date, 1,400,000 LTIP Shares were issued to Mr James McBrayer upon appointment as Cyclopharm's Managing Director via a non-recourse loan.

On 28 November 2008, Cyclopharm completed the allotment of 31,800,000 rights issue shares to shareholders in relation to the 1:4.4 non-renounceable rights issue at an issue price of $0.10 per ordinary share raising $3,180,000 before costs of $153,820.

Significant Events after Balance Date

FDA

In December 2008 we lodged the application to sell Technegas in the USA with the Food and Drug Administration (FDA). Based on early dialogue with the FDA, we have decided to temporarily withdraw our application in order to adjust the content. We believe that the modifications will ultimately enable a more expeditious review. While the decision to withdraw may have an impact on the timing of approval, we believe that our path forward is better defined for the feedback we have received. It is estimated that the FDA review period will take up to 12 months from the re-lodgement date.

Likely Developments and Future Results

New Business - Molecular Imaging

Commissioning and production of PET radiopharmaceuticals from our first PET Nuclear pharmacy is expected this calendar year at MUPH in North Ryde, NSW.

Environmental Regulations

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

Retirement, Election and Continuation in Office of Directors

In accordance with the Company's Constitution all Directors have been elected by members at the Annual General Meeting (AGM) excluding Mr John Sharman. Mr Sharman was Managing Director at the time of the most recent AGM and was not required under the Constitution to be elected by members. Mr Sharman retired as Managing Director on 3 June 2008 and will stand for election at the upcoming AGM.

Mr McBrayer was appointed as Managing Director on 3 June 2008 and under the Constitution is exempt from election by members.

Dr Salin and Mr Townsing's resignation from the Board of Cyclopharm were announced on 25 January 2008 and 25 February 2009 respectively.

Indemnification and Insurance of Officers

In accordance with clause 49.1 of Cyclopharm's constitution and section 199A of the Corporations Act 2001 the Company has resolved to indemnify its Directors and officers for a liability to a third party provided that:

1. the liability does not arise from conduct involving a lack of good faith; or
2. the liability is for costs and expenses incurred by the director or officer in defending proceedings save as not permitted by law.

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

a) a wilful breach of duty; or

b) 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 for the year ending 31 December 2009 are $28,557 (For the year ending 31 December 2008 $26,180).

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.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 23.

Fees of $20,917 have been paid for share registry services and fees of $8,500 for taxation services are outstanding as payable to an associate of Russell Bedford NSW for the year ended 31 December 2008 for non-audit related services.

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

Remuneration Report

The Remuneration Report outlines the director and executive 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 25.4 to Aus 25.7.2 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 parent Company, and includes the five executives in the parent and the group receiving the highest remuneration.

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.

The remuneration disclosures set out in the tables on pages 17 and 18 have been audited.

Remuneration Report continued

2008 Consolidated	Short-term employee benefits: Salary & Fees $	Superannuation $	Cash Bonus $	Non-monetary benefits $	Post employment benefits: Superannuation $	Share-based payment $	Total $	Performance related %
Directors								
Vanda Gould Non-Executive Director	35,000	—	—	—	—	—	**35,000**	0%
David Heaney Non-Executive Director	22,500	—	—	—	—	—	**22,500**	0%
Bernard Salin [1] Non-Executive Director	—	—	—	—	—	—	**—**	0%
John Sharman [2] Non-Executive Director	15,000	—	—	—	—	—	**15,000**	0%
Henry Towning [3] Non-Executive Director	14,325	—	—	—	675	—	**15,000**	0%
Executive Directors								
James McBrayer [4] Managing Director	139,144	12,523	50,000	—	—	7,563	**209,230**	28%
John Sharman [2] Managing Director	83,160	—	—	—	—	54,560	**137,720**	40%
Total Directors Compensation	**309,129**	**12,523**	**50,000**	**—**	**675**	**62,123**	**434,450**	**26%**

1. Dr Salin's resignation was announced on 25 January 2008.
2. Mr Sharman resigned as Managing Director on 3 June 2008 and was appointed as a non-executive director.
3. Mr Townsing resigned on 27 February 2009.
4. Mr McBrayer was appointed Managing Director on 3 June 2008.

2008 Consolidated	Short-term employee benefits: Salary & Fees $	Superannuation $	Cash Bonus $	Non-monetary benefits $	Post employment benefits: Superannuation $	Share-based payment $	Total $	Performance related %
Key Management Personnel								
Nabil Morcos Chief Operating Officer	170,775	15,370	50,000	—	—	—	**236,145**	21%
Gary Somerville Quality and Regulatory Manager	107,305	9,657	5,000	—	—	—	**121,962**	4%
Graham Phillips Finance Manager	95,619	8,606	10,000	—	—	—	**114,225**	9%
Charles Buttigieg Sales and Marketing Manager, Australia	117,918	7,999	5,000	—	—	—	**130,917**	4%
Bjorn Altmann General Manager Europe	172,771	—	34,554	—	—	—	**207,325**	17%
Lynn McLauchlin General Manager Canada	128,707	—	30,077	—	—	3,950	**162,734**	21%
Total Key Management Personnel's Compensation	**793,095**	**41,632**	**134,631**	**—**	**—**	**3.950**	**973,308**	**14%**
Total Compensation	**1,102,224**	**54,155**	**184,631**	**—**	**675**	**66,073**	**1,407,758**	**18%**

Remuneration Report continued

	Short-term employee benefits				Post employment benefits		Total	Performance related
	Salary & Fees	Superannuation	Cash Bonus	Non-monetary benefits	Superannuation	Share-based payment		
2007 Consolidated	$	$	$	$	$	$	$	%
Directors								
Vanda Gould Non-Executive Director	30,000	—	—	—	—	—	**30,000**	0%
David Heaney Non-Executive Director	15,000	—	—	—	—	—	**15,000**	0%
Bernard Salin Non-Executive Director	19,355	—	—	—	—	—	**19,355**	0%
Henry Townsing Non-Executive Director	15,000	—	—	—	—	—	**15,000**	0%
Executive Directors								
John Sharman Managing Director	215,000	18,000	—	—	—	57,867	**290,867**	20%
Total Directors' Compensation	**294,355**	**18,000**	**—**	**—**	**—**	**57,867**	**370,222**	**16%**
	Short-term employee benefits				**Post employment benefits**		**Total**	**Performance related**
	Salary & Fees	Superannuation	Cash Bonus	Non-monetary benefits	Superannuation	Share-based payment		
2007 Consolidated	$	$	$	$	$	$	$	%
Key Management Personnel								
Nabil Morcos [1] Chief Operating Officer	166,443	14,979	—	—	—	—	**181,422**	0%
Gary Somerville Quality and Regulatory Manager	104,583	9,412	—	—	—	—	**113,995**	0%
Graham Phillips Finance Manager	93,193	8,387	6,000	—	—	—	**107,580**	6%
Charles Buttigieg Sales and Marketing Manager, Australia	103,398	7,999	—	—	—	3,950	**115,347**	3%
Bjorn Altmann General Manager Europe	120,726	—	29,032	—	—	3,950	**153,708**	21%
Lynn McLauchlin General Manager Canada	121,473	—	25,824	—	—	3,950	**151,247**	20%
Total Key Management Personnel's Compensation	**709,816**	**40,777**	**60,856**	**—**	**—**	**11,850**	**823,299**	**9%**
Total Compensation	**1,004,171**	**58,777**	**60,856**	**—**	**—**	**69,717**	**1,193,521**	**11%**

1. Professor Nabil Morcos commenced employment with Cyclomedica Australia in August 2007.

Remuneration Report continued

Remuneration committee

The Remuneration Committee currently comprises Mr Gould, Chairman of the Remuneration Committee and Mr Heaney.

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.

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 shareholder value;
- have a significant portion of executive remuneration 'at risk'; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive 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 calibre, 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 in March 2007 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 Director and Executive Remuneration 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.

Remuneration Report continued

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.

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.

Remuneration consists of the following key elements:

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

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive is set out in the Director and Executive Remuneration 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 Report.

Variable remuneration - Short Term Incentive

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.

Actual STI payments granted to each executive depends 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.

Remuneration Report continued

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.

Variable remuneration – Long Term Incentive

Long Term incentives are delivered under the Long Term Incentive Plan (LTIP), which is designed to reward sustainable, long-term performance in a transparent manner. Under the LTIP, individuals are granted LTIP shares, which have a two or three year performance period (Term). The number of LTIP Shares is determined by the Board. The number of LTIP shares that an individual will be entitled to at the end of the Term will depend on the extent to which the Hurdle has been met. Performance Hurdles are determined by the Board to align individual performance with the Company's performance.

At the Annual General Meeting held on 8 May 2007, Shareholders approved the Company's Long Term Incentive Plan ("Plan") and the issue of shares under a non-recourse loan to the Managing Director. On 29 June 2008, 3,000,000 new shares in the Cyclopharm were issued via non-recourse loans to key employees and the Managing Director. On 3 June 2008, 900,000 LTIP shares held by Mr John Sharman the former Managing Director were cancelled along with the corresponding non-recourse loan (not accounted for the in the Financial Statements).

The purpose of the Plan is to encourage employees, Directors and officers to share in the ownership of the Company and therefore retain and motivate senior executives to drive performance at both the individual and corporate level. Performance hurdles have been determined by the Board to align individual performance with the Company's key success factors.

Employment contracts

Managing Director

The Managing Director, Mr McBrayer, is employed under a rolling contract. Mr McBrayer's current contract was executed on 13 May 2008. Under the terms of the present contract:

- Mr McBrayer receives fixed remuneration of $260,000 (including superannuation) per annum rising to $300,000 on 1 January 2009 (subject to Board approval).
- Each year on 31 December, Mr McBrayer may be entitled to receive additional amounts up to a maximum of $50,000 based on achieving certain benchmarks and targets.
- Mr McBrayer may resign from his position and thus terminate this contract by giving 6 months written notice unless a mutually agreeable date can be agreed upon.
- The Company may terminate this employment agreement by providing 6 months written notice or providing payment in lieu of the notice period.
- 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.
- On 3 June 2008, two strictly limited recourse loans were made to Mr McBrayer under the Company's LTIP. The first loan was to enable the purchase of 700,000 shares for a period of 2 years at the price of 25 cents per share. The second loan was to enable the purchase of 700,000 shares for a period of 4 years at the price of 35 cents per share.

Other Executives (standard contracts)

All executives have rolling contracts. The Company may terminate the executive's employment agreement by providing depending on the individuals contract between 1 to 3 months written notice or providing payment in lieu of the notice period. 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' Meetings

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

Director	Cyclopharm 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 V R Gould	12	12	4	4	1	1	2	2
Mr J S Sharman	12	12	—	—	1	1	—	—
Mr D J Heaney	12	11	3	3	1	1	—	—
Mr H G Townsing	12	11	—	—	1	1	2	2
Mr J M McBrayer	8	8	—	—	—	—	—	—

Proceedings on Behalf of the Company

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

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

This report is made and signed in accordance with a resolution of the Directors:

James McBrayer
Managing Director

Sydney, 11 March 2009

Russell Bedford
New South Wales

Level 42, Suncorp Place
259 George Street
Sydney NSW 2000
Australia

T: +61 2 9032 3050
F: +61 2 9032 3058
E: mail@russellbedfordnsw.com.au
W: www.russellbedford.com.au

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

Dear Members of the Board,

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

TO THE DIRECTORS OF CYCLOPHARM LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2008 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

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

Sydney, 11 March 2009

Corporate Governance

The Directors of Cyclopharm are responsible for the corporate governance of the Cyclopharm Group ("Group"). The Board guides and monitors the business and affairs of Cyclopharm 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, Cyclopharm 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 24 of the ASX best practice recommendations as at 31 December 2008. The Company considers that its recommendations comply with the best practice recommendations, other than recommendations 2.1, 2.2 and 4.2 an explanation for the departure is provided in this statement in sections 2(c), 2(d) and 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 (refer to best practice summary)

The Company's Constitution requires a minimum of 3 Directors and a maximum of 9 Directors. As at 31 December 2008, there were four 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 Board announced Dr Salin's resignation from the Board on 25 January 2008. The Board announced the appointment of Mr McBrayer on 3 June 2008.

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 (refer to best practice summary)

(c) Chairman

The Board does not strictly comply with the ASX Recommendations 2.1 and 2.2 in that the Chairman, whilst a non-executive, is not an independent director because other entities of which he is a director have approximately 19.4% of the Shares (the Recommendations permit 5%). The Board has considered this matter and decided, Mr Gould abstaining from expressing a view, that the non-compliance does not effect 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 Cyclopharm 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 (refer to best practice summary)

(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 Cyclopharm group member.

There is a majority of non-executive Directors but there is not a majority of independent Directors on the Board. Mr Heaney is the only director to satisfy the Recommendations' various tests of independence. The Board has considered this matter, and whilst no vote was taken to avoid the issue of abstentions, the consensus was that the composition of the Board vis-à-vis independence was appropriate having regard to where Cyclopharm was at in terms of its history and the Company's stage of development.

ASX Recommendation 2.1, 2.6 (refer to best practice summary)

(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.*

(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 eleven 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 (refer to best practice summary)

(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. All current members of the Board are members of the Board Nominations Committee 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 (refer to best practice summary)

(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 (refer to best practice summary)

(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 (refer to best practice summary)

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 Cyclopharm's website, at www.cyclopharm.com.au. The Audit and Risk Committee comprises three Directors, the majority being non-executive Directors. The non-executive Directors are Mr Gould, Chairman of the Audit Committee and Mr Heaney. The qualifications of the committee are located in the Directors' Report on page 12. 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 composition of the Committee does not comply with ASX Recommendation 4.2. The Committee is comprised of only non-executive Directors however Mr Gould is not considered an independent director under the terms defined by the ASX. Please refer to 2. The Board of Directors (c) Chairman for discussion of non-compliance. 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 Heaney 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 Board will hold eleven scheduled meetings each year and, other meetings may be held at short notice as required.

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 an security;
- The adequacy of the process for reporting and responding to significant control and regulatory breaches;
- The effectiveness f the compliance function in ensuring adherence to applicable laws and regulations, including the actioning 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 4.2, 4.3, 4.4, 4.5 (refer to best practice summary)

(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 Cyclopharm's website, at www.cyclopharm.com.au.

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 (refer to best practice summary)

(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 Cyclopharm's website, at www.cyclopharm.com.au.

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 9.2 (refer to best practice summary)

4. Recognising and managing risk

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.

(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 (refer to best practice summary)

The Board, based on the recommendations of the Managing Director, Mr McBrayer, 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 an manage risks in all of the Company's activities.

(c) Managing Director and Chief Financial Officer Certification

The Managing Director and Chief Financial Officer (or equivalent) 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 an internal compliance and control system is operating efficiently and effectively in all material respects.

ASX recommendations 7.3 (refer to best practice summary)

(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.

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 element of the fee or salary of each director and each of the highest-paid officers of the Company are set out in the Remuneration Report on page 16. 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 9.1, 9.2, 9.3 (refer to best practice summary)

(b) Equity-based key management personnel remuneration

The Long Term Incentive Plan (LTIP) was approved by Shareholders at the Annual General Meeting held on 8 May 2007 in Melbourne. The purpose of the LTIP 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 LTIP 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 and 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 (refer to best practice summary)

(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 Cyclopharm.

ASX Recommendations 5.1, 6.1 (refer to best practice summary)

7. Ethical and responsible decision-making

(a) Code of Ethics and Conduct

The Board endeavours to ensure that the Directors, officers and employees of Cyclopharm 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, 10.1 (refer to best practice summary)

(b) Policy concerning trading in Company securities

On 19 February 2009, the Board resolved to adopt a new Policy concerning trading in Company securities. An executive, director or relevant employees ('employee') must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities. An employee should not deal in securities of Cyclopharm without receiving clearance from a Committee comprised of the Managing Director and the Chairman (or in the absence of either of these two directors by any other director) who has ensured that there is no unpublished price sensitive information.

Generally, an employee must not be given clearance to deal in any securities of Cyclopharm during a prohibited period. A 'prohibited period' means:

- any close period (that is for the period of one month before the publication of annual and half-yearly fi nancial results);
- any period when there exists any matter which constitutes unpublished price sensitive information in relation to Cyclopharm's securities; or
- any period when the person responsible for the clearance otherwise has reason to believe that the proposed dealing is in breach of this Policy.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

ASX Recommendations 3.2 (refer to best practice summary)

8 Checklist for summarising the best practice recommendations and compliance

ASX Principle	Reference	Compliance
Principle 1: Lay solid foundations for management and oversight		
1.1 Formalise and disclose the functions reserved to the board and those delegated to management	2b	comply
1.2 Companies should disclose the process for evaluating the performance of senior executives	2g 5a 5b	comply
1.3 Provide the information indicated in the Guide to reporting on Principle 1	2a 2b 5a 5b	comply
Principle 2: Structure the board to add value		
2.1 A Majority of the board should be independent directors	2a 2d 2h	do not comply
2.2 The chair should be an independent director	2c	do not 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

8 Checklist for summarising the best practice recommendations and compliance continued

ASX Principle	Reference	Compliance
Principle 3: Promote ethical and responsible decision-making		
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		
3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices		
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees	7b	comply
3.3 Provide the information indicated in the Guide to reporting on this Principle 3	7a	comply
Principle 4: Safeguard integrity in financial reporting		
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		
4.2.4 has at least three members		
4.3 The audit committee should have a formal charter	3a	comply
4.5 Provide the information in the Guide to reporting on this Principle 4	2a 3a	comply
Principle 5: Make timely and balanced disclosure		
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	6a	comply
5.2 Provide the information in the Guide to reporting on this Principle 5	6a	comply
Principle 6: Respect the rights of shareholders		
6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage participation at general meetings	6a 6b	comply
6.2 Provide the information indicated in the Guide to reporting on this Principle 6	3a	comply
Principle 7: Recognise and manage risk		
7.1 The board or appropriate board committee should establish policies on risk oversight and management	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 effectively managed and disclose that management has reported to it as to the effectiveness of the company's management of business risks.	4a	comply
7.3 The chief executive officer (or equivalent) and chief financial officer (or equivalent) should state to the board in writing that in accordance with section 295A of the Corporations Act:	4c	comply
7.3.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board		
7.3.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects		
7.4 Provide the information in the Guide to reporting on this Principle 7	4a	comply
Principle 8: Remunerate fairly and responsibly		
8.1 The board should establish a remuneration committee	3c 5a	comply
8.2 Clearly distinguish the structure of non-executive director's remuneration from that of executives	5a	comply
8.3 Provide the information in the Guide to reporting on this Principle 9	5a	comply

Income Statement

for the year ended 31 December 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Continuing Operations					
Sales revenue	4	10,888,269	11,128,224	—	—
Finance revenue		49,377	101,406	14,589	86,251
Other revenue	4	—	—	524,320	784,110
Total Revenue		**10,937,646**	**11,229,630**	**538,909**	870,361
Costs of materials and manufacturing	4a	(2,531,571)	(3,121,918)	—	—
Employee benefits expense	4e	(3,267,330)	(3,211,965)	(358,102)	(447,027)
Advertising and promotion expense		(208,304)	(202,702)	—	—
Depreciation and amortisation expense	4c	(331,184)	(315,391)	—	—
Freight and duty expense		(443,921)	(457,334)	—	—
Research and development expense	4d	(35,989)	(28,762)	—	(5,000)
Administration expense	4f	(1,843,893)	(2,164,542)	(448,738)	(429,868)
Other expenses		(125,019)	(113,671)	(148,918)	—
Profit / (loss) before tax and finance costs		**2,150,435**	**1,613,345**	**(416,849)**	**(11,534)**
Finance costs	4b	(253,961)	(223,607)	(237,584)	(201,472)
Profit / (loss) before income tax		**1,896,474**	**1,389,738**	**(654,433)**	**(213,006)**
Income tax (expense) / credit	5	(139,412)	(258,499)	227,045	65,600
Net profit / (loss) attributable to members of the parent		**1,757,062**	**1,131,239**	**(427,388)**	**(147,406)**

Earnings per share (cents per share)	6	**cents**	**cents**
Basic earnings per share for continuing operations		1.24	0.83
Basic earnings per share		1.24	0.83
Diluted earnings per share		1.24	0.83

The Income Statement is to be read in conjunction with the notes to the financial statements.

Balance Sheet

as at 31 December 2008

		Consolidated		Parent	
		2008	2007	2008	2007
	Notes	$	$	$	$
Assets					
Current Assets					
Cash and cash equivalents	7	4,206,271	1,204,543	2,669,372	486,609
Trade and other receivables	8	4,727,077	3,978,850	1,094,318	21,098
Inventories	9	2,855,366	2,348,074	—	—
Other assets		654,869	232,262	—	—
Total Current Assets		**12,443,583**	**7,763,729**	**3,763,690**	**507,707**
Non-current Assets					
Trade and other receivables	8	—	3,422	3,746,699	3,143,803
Property, plant and equipment	10	2,725,834	973,402	—	—
Investments in subsidiaries	11	—	—	6,122,017	6,084,516
Intangible assets	12	2,793,853	1,909,545	—	—
Deferred tax assets	5	616,379	327,451	463,084	246,763
Total Non-current Assets		**6,136,066**	**3,213,820**	**10,331,800**	**9,475,082**
Total Assets		**18,579,649**	**10,977,549**	**14,095,490**	**9,982,789**
Liabilities					
Current Liabilities					
Trade and other payables	13	1,561,023	1,252,937	79,357	147,599
Provisions	15	371,534	331,981	53,500	60,000
Tax liabilities	5	5,071	—	—	9,636
Total Current Liabilities		**1,937,628**	**1,584,918**	**132,857**	**217,235**
Non-current Liabilities					
Interest bearing loans and borrowings	14	2,733,250	1,511,500	2,733,250	1,511,500
Provisions	15	31,359	23,645	—	—
Deferred tax liabilities	5	821,856	515,342	821,856	515,342
Total Non-current Liabilities		**3,586,465**	**2,050,487**	**3,555,106**	**2,026,842**
Total Liabilities		**5,524,093**	**3,635,405**	**3,687,963**	**2,244,077**
Net Assets / (Liabilities)		**13,055,556**	**7,342,144**	**10,407,527**	**7,738,712**
Equity					
Contributed Equity	16	10,867,403	7,841,223	11,030,432	8,004,252
Employee equity benefits reserve	23	143,689	73,666	143,689	73,666
Foreign currency translation reserve		528,980	(331,254)	—	—
Retained Profits (Accumulated losses)		1,515,484	(241,491)	(766,594)	(339,206)
Total Equity		**13,055,556**	**7,342,144**	**10,407,527**	**7,738,712**

The Balance Sheet is to be read in conjunction with the notes to the financial statements.

Cash Flow Statement

for the year ended 31 December 2008

		Consolidated		Parent	
		2008	2007	2008	2007
	Notes	$	$	$	$
Operating activities					
Receipts from customers		9,720,857	10,512,326	—	—
Payments to suppliers and employees		(8,030,245)	(10,228,798)	(2,103,720)	(1,380,522)
Interest received		49,377	86,178	14,589	86,251
Borrowing costs paid		(253,961)	(223,607)	(237,585)	(201,472)
Income tax paid		—	—	—	—
Net cash flows from / (used) operating activities	7	**1,486,028**	**146,099**	**(2,326,716)**	**(1,495,743)**
Investing activities					
Acquisition of minority interest in subsidiaries		—	—	(37,501)	(19,653)
Purchase of property, plant and equipment		(2,043,060)	(404,013)	—	—
Payments for defered expenditure		(783,126)	(907,677)	—	—
Net cash flows used in investing activities		**(2,826,186)**	**(1,311,690)**	**(37,501)**	**(19,653)**
Financing activities					
Proceeds from issue of shares		3,180,000	7,018,484	3,180,000	7,018,484
Costs of raising capital		(153,820)	(396,634)	(153,820)	(396,646)
Proceeds from borrowings		1,221,750	161,500	1,221,750	161,500
Repayment of borrowings		—	(4,350,000)	—	(4,350,000)
Loans from / (repaid) related entities		—	—	299,050	49,887
Repayment of loan from external entity		—	(1,566,322)	—	(1,102,065)
Net cash flows from financing activities		**4,247,930**	**867,028**	**4,546,980**	**1,381,160**
Net increase / (decrease) in cash and cash equivalents		**2,907,772**	**(298,563)**	**2,182,763**	**(134,236)**
Cash and cash equivalents					
at beginning of the period		**1,204,543**	**1,403,328**	486,609	620,845
net foreign exchange differences from translation of cash and cash equivalents		93,956	99,778	—	—
at end of the period	7	**4,206,271**	**1,204,543**	**2,669,372**	**486,609**

The Cash Flow Statement is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2008

Consolidated	Share capital $	Other Contributed Equity $	Total Contributed Equity $	Accumulated Profits $	Foreign Currency Translation Reserve $	Employee Equity Benefits Reserve $	Attributable to Equity Holders of the Parent $	Total $
Balance at 1 January 2007	**6,515,030**	**(5,277,327)**	**1,237,703**	**(1,372,730)**	**(431,033)**	**—**	**(566,060)**	**(566,060)**
Cost of share based payments	—	—	—	—	—	73,666	73,666	73,666
Currency translation difference	—	—	—	—	99,779	—	99,779	99,779
Total income (expense) for the year recognised directly in equity	—	—	—	—	99,779	73,666	173,445	173,445
Profit for the year	—	—	—	1,131,239	—	—	1,131,239	1,131,239
Total income (expense) for the year	**—**	**—**	**—**	**1,131,239**	**99,779**	**73,666**	**1,304,684**	**1,304,684**
Issue of share capital	7,018,484	—	7,018,484	—	—	—	7,018,484	7,018,484
Capital raising costs	(396,634)	—	(396,634)	—	—	—	(396,634)	(396,634)
Other	—	(18,330)	(18,330)	—	—	—	(18,330)	(18,330)
Balance at 31 December 2007	**13,136,880**	**(5,295,657)**	**7,841,223**	**(241,491)**	**(331,254)**	**73,666**	**7,342,144**	**7,342,144**
Balance at 1 January 2008	**13,136,880**	**(5,295,657)**	**7,841,223**	**(241,491)**	**(331,254)**	**73,666**	**7,342,144**	**7,342,144**
Cost of share based payments	—	—	—	—	—	70,023	70,023	70,023
Currency translation difference	—	—	—	—	860,234	—	860,234	860,234
Total income (expense) for the year recognised directly in equity	—	—	—	—	860,234	70,023	930,257	930,257
Profit for the year	—	—	—	1,757,062	—	—	1,757,062	1,757,062
Total (expense) for the year	**—**	**—**	**—**	**1,757,062**	**860,234**	**70,023**	**2,687,319**	**2,687,319**
Issue of share capital	3,180,000	—	3,180,000	—	—	—	3,180,000	3,180,000
Capital raising costs	(153,820)	—	(153,820)	—	—	—	(153,820)	(153,820)
Other	—	—	—	(87)	—	—	(87)	(87)
Balance at 31 December 2008	**16,163,060**	**(5,295,657)**	**10,867,403**	**1,515,484**	**528,980**	**143,689**	**13,055,556**	**13,055,556**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2008

Parent	Share capital $	Accumulated Losses $	Attributable to Equity Holders of the Parent $	Employee Equity Benefits Reserve $	Total $
Balance at 1 January 2007	**1,382,414**	**(191,800)**	**1,190,614**	**—**	**1,190,614**
Loss for the year	—	(147,406)	(147,406)	—	(147,406)
Issue of share capital	7,018,484	—	7,018,484	—	7,018,484
Cost of share base payment	—	—	—	73,666	73,666
Capital raising costs	(396,646)	—	(396,646)	—	(396,646)
Balance at 31 December 2007	**8,004,252**	**(339,206)**	**7,665,046**	**73,666**	**7,738,712**
Balance at 1 January 2008	**8,004,252**	**(339,206)**	**7,665,046**	**73,666**	**7,738,712**
Cost of share base payment	—	—	—	70,023	70,023
Loss for the year	—	(427,388)	(427,388)	—	(427,388)
Issue of share capital	3,180,000	—	3,180,000	—	3,180,000
Capital raising costs	(153,820)	—	(153,820)	—	(153,820)
Balance at 31 December 2008	**11,030,432**	**(766,594)**	**10,263,838**	**143,689**	**10,407,527**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

1. Corporate Information

The financial report of Cyclopharm Limited ("Cyclopharm" or the "Company") for the year ended 31 December 2008 was authorised for issue by a resolution of the Directors' on the same date.

Cyclopharm is a Company limited by shares incorporated and domiciled in Australia.
The shares are publicly traded on the Australian Securities Exchange ("ASX").

The nature of the operations and principal activities of the Group are described in 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 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

b) Statement of compliance

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

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 *Operating Segments*.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the amendments may have an impact on the Group's segment disclosures as segment information included in internal management reports is more detailed than is currently reported under AASB 114 *Segment Reporting*.	1 January 2009
AASB 2008-6	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]	Amending standard issued as a consequence of revisions to AASB 123 *Borrowing Costs.*	1 January 2009	TThe amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has capitalised all borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	1 January 2009
AASB 2008-8	Amendments to Australian Accounting Standards arising from AASB 101	Amending standard issued as a consequence of revisions to AASB 101 *Presentation of Financial Statements*	1 January 2009	The amendments are expected to only affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current AASB 101. The Group has not determined at this stage whether to present the new statement of comprehensive income as a single or two statements.	1 January 2009

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 8	Operating Segments	New standard replacing AASB 114 *Segment Reporting*, which adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2008-3 above.	1 January 2009
AASB 101 (revised)	Presentation of Financial Statements	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	Refer to AASB 2008-8 above.	1 January 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 July 2009	The Group does currently have share-based payment arrangement that could be affected by these amendments. The amendments are not expected to have any impact on the Group's financial report.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. The choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009

* designates the beginning of the applicable annual reporting period unless otherwise stated.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Cyclopharm and its subsidiaries as at 31 December each year ('the Group').

Subsidiaries

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

The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Transactions eliminated on consolidation

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

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

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

d) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Group companies

The functional currency of the overseas subsidiaries Cyclomedica Ireland Limited, Cyclomedica Germany GmbH, Cyclomedica Europe Limited, is European Euro (Euro €) and Cyclomedica Canada Limited is Canadian dollars (Can $).

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

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

Exchange differences arising on the translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the entity is disposed. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

e) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 31 May 2006, 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 basis without adjusting for intercompany transactions" 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 are assumed by the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to (from) 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 are recognised by the head entity only.

f) 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 Income Statement during the financial period in which they are incurred.

Certain expenditure in establishing and commissioning Cyclopharm's PET central Pharmacies has been capitalised. No amortisation has been applied as the asset is not yet deemed held for use. No impairment provision has been deemed appropriate. The Directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred.

Notes

Continued

Impairment

The carrying amount of plant and equipment is reviewed annually by Directors to consider impairment. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

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

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

	Basis	**Method**
Plant and equipment	10-33%	Straight-line method
Leasehold Improvements	20-50%	Straight-line method
Motor vehicles	20-25%	Straight-line method
	Patents and licences	**Technegas Development costs**
Useful lives	Indefinite	Finite
Method used	Not depreciated or revalued	8 - 10 years - Straight line
Internally generated / Acquired	Acquired	Internally generated
Impairment test / Recoverable Amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment

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 Income Statement in the year the item is derecognised.

g) Borrowing costs

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

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

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

h) Intangibles

Intangible assets

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

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the Income Statement through the 'administrative expenses' line item.

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

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

Research and development costs

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

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

Expenditure on the development of the TechnegasPlus generator has been capitalised. A useful life of 9 years has been applied and amortisation for the year included in the Income Statement. No impairment provision has been deemed appropriate. The Directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred.

Expenditure on costs incurred in the application to the Food & Drug Administration authority have been capitalised. A useful life has not been determined as Cyclopharm have not yet received approval from the Food & Drug Administration authorities. No impairment provision has been deemed appropriate. The Directors are satisfied that the future economic benefits will eventuate to justify the capitalisation of the expenditure incurred.

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

i) Inventories

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

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

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

j) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. A specific estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

k) Cash and cash equivalents

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

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 60 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. Gains and losses are recognised in the Income Statement when the liabilities are derecognised and as well as through the amortisation process.

n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, for which it is probable that an outflow of economic benefits will result and that an outflow can be reliably measured. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

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) Employee share and performance share schemes

The fair value of performance rights issued under the Cyclopharm Long Term Incentive Plan are recognised as a personnel expense over the vesting period with a corresponding increase in Employee Equity Benefits Reserve.

The fair value of the implied option attached to shares granted is determined using a pricing model that takes into account factors that include exercise price, the term of the performance option, the vesting and performance criteria, the share price at grant date and the expected price volatility of the underlying share. The fair value calculation excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of performance options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of performance rights that are expected to become exercisable. The personnel expense recognised each period takes into account the most recent estimate.

Shares issued under employee and executive share plans are held in trust until vesting date. Unvested shares held by the trust are consolidated into the group financial statements.

q) Leases

Operating Leases

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

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 and therefore control of the goods have passed to the buyer and can be measured reliably. Control is considered to have passed to the buyer at the time of delivery of the goods to the customer.

Interest

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

Dividends

Revenue from quoted investments is recognised in the Income Statement on the day which the relevant investment is first quoted on an “ex-basis”. Dividend revenue is recognised net of any franking credits.

Revenue from distributions from controlled entities is recognised by the Company when they are declared by the controlled entities. Revenue from dividends from associates and other investments is recognised when dividends are received. Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

Research and development grants

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

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

s) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred is not recoverable from the Australian Taxation Office(“ATO”), and is therefore recognised as part of the asset’s cost or as part of the expense item. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Balance Sheet. Cash flows are presented in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

t) 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 de-recognition 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.

Impairment of financial assets

The Group assesses at each Balance Sheet date whether a financial asset or group of financial assets is impaired.

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.

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.

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.

u) Contributed equity

Share 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 proceeds.

Other contributed equity
In accordance with UIG 1052 Tax Consolidation Accounting, additional contributed equity was recorded to recognise the transfer of tax liabilities from Vita Medical Limited to Vita Life Sciences Limited, being the parent of the Australian tax consolidated group at the relevant time. This event occurred prior to Cyclopharm acquiring its interests in the net assets of Vita Medical Limited.

As part of the restructure a subsidiary of Cyclopharm, Vita Medical Australia Pty Ltd acquired all the assets, liabilities and business from Vita Medical Limited, the former group parent.

With effect from 31 May 2006, Cyclopharm also acquired 100% of the other group operating subsidiaries from the ultimate holding company, Vita Life Sciences Limited. Accordingly, the group comprises Cyclopharm and the following wholly owned subsidiaries:

- Cyclomedica Australia Pty Ltd (formerly Vita Medical Australia Pty Ltd)
- Cyclomedica Ireland Ltd (formerly Vitamedica Europe Ltd)
- Cyclomedica Europe Ltd
- Cyclomedica Canada Limited (formerly Vita Medical Canada Ltd)
- Cyclomedica Germany GmbH
- Allrad 28 Pty Ltd
- Allrad 29 Pty Ltd

These entities collectively comprise the medical diagnostic equipment and associated consumables business formerly operated as the Vita Medical Group – now known as the

Cyclopharm Group. The transaction has been accounted for as a 'reverse acquisition' as defined in *AASB 3 Business Combinations* whereby Cyclopharm is the legal parent and Cyclomedica Australia Pty Limited is the financial parent, which for accounting purposes is deemed to be the acquirer.

The consideration for the minority interests of the controlled entities and costs of acquisition have been charged to other contributed equity in accordance with *AASB 127 Consolidated and Separate Financial Statements.*

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. Where a change in the number of ordinary shares on issue without a corresponding change in recognised resources during the year the number of ordinary shares for all periods presented are correspondingly adjusted as if the event had occurred at the beginning of the earliest period presented.

Diluted earnings per share
Diluted earnings per share adjusts 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. Where a change in the number of ordinary shares on issue without a corresponding change in recognised resources during the year the number of ordinary shares for all periods presented are correspondingly adjusted as if the event had occurred at the beginning of the earliest period presented.

3. Segment Reporting

The Group's primary segment reporting format is business segments as the Group's risks and returns are affected predominantly by differences in the products and services produced. The Group's secondary segment is geographical.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Technegas segment is a supplier of diagnostic equipment and consumables used by physicians in the detection of pulmonary embolism.

The Molecular Imaging segment will produce radiopharmaceuticals to be used by physicians in the detection of cancer, neurological disorders and cardiac disease.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

Business segments

The tables under the heading business segments present revenue and profit information and certain asset and liability information regarding business segments for the years ended 31 December 2008 and 31 December 2007.

Geographical segments

The tables under the heading geographical segment present revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 31 December 2008 and 31 December 2007.

3. Segment Reporting continued

Business Segments

Consolidated For the period ended 31 December 2008	Technegas $	Molecular Imaging $	Unallocated $	Total $
Revenue				
Sales to external customers	10,888,269	—	—	10,888,269
Finance revenue	34,788	—	14,589	49,377
Total segment revenue	**10,923,057**	**—**	**14,589**	**10,937,646**
Result				
Profit / (loss) before tax and finance costs	**3,433,856**	**(299,731)**	**(983,690)**	**2,150,435**
Finance costs	(12,692)	(3,684)	(237,585)	(253,961)
Profit / (Loss) before income tax	**3,421,164**	**(303,415)**	**(1,221,275)**	**1,896,474**
Income tax expense	(139,412)	—	—	(139,412)
Profit / (Loss) after income tax	**3,281,752**	**(303,415)**	**(1,221,275)**	**1,757,062**
Assets and liabilities				
Segment assets	12,457,415	1,895,450	4,226,784	18,579,649
Segment liabilities	(1,827,954)	(8,176)	(3,687,963)	(5,524,093)
Other segment information				
Capital expenditure	(1,942,606)	(1,375,346)	—	(3,317,952)
Depreciation	(290,628)	—	—	(290,628)
Amortisation	(40,556)	—	—	(40,556)

Consolidated For the period ended 31 December 2007	Technegas $	Molecular Imaging $	Unallocated $	Total $
Revenue				
Sales to external customers	11,128,224	—	—	11,128,224
Finance revenue	15,155	—	86,251	101,406
Total segment revenue	**11,143,379**	**—**	**86,251**	**11,229,630**
Result				
Profit / (loss) before tax and finance costs	**2,664,637**	**(399,039)**	**(652,253)**	**1,613,345**
Finance costs	(21,870)	(265)	(201,472)	(223,607)
Profit / (Loss) before income tax	**2,642,767**	**(399,304)**	**(853,725)**	**1,389,738**
Income tax expense	(258,499)	—	—	(258,499)
Profit / (Loss) after income tax	**2,384,268**	**(399,304)**	**(853,725)**	**1,131,239**
Assets and liabilities				
Segment assets	9,196,729	58,168	1,722,652	10,977,549
Segment liabilities	(1,866,862)	(39,808)	(1,728,735)	(3,635,405)
Other segment information				
Capital expenditure	(1,280,099)	(58,168)	—	(1,338,267)
Depreciation	(277,093)	—	—	(277,093)
Amortisation	(38,298)	—	—	(38,298)

3. Segment Reporting continued

Geographical Segment

Consolidated For the year ended 31 December 2008	Asia Pacific $	Europe $	North America $	Other $	Total $
Revenue					
Sales to external customers	1,697,126	7,515,940	1,614,409	60,794	10,888,269
Finance revenue	49,088	289	—	—	49,377
Total segment revenue	**1,746,214**	**7,516,229**	**1,614,409**	**60,794**	**10,937,646**
Assets and liabilities					
Segment assets	10,940,325	6,701,320	938,004	—	18,579,649
Segment liabilities	(5,008,730)	(431,779)	(83,585)	—	(5,524,094)

Consolidated For the year ended 31 December 2007	Asia Pacific $	Europe $	North America $	Other $	Total $
Revenue					
Sales to external customers	2,022,091	7,593,663	1,385,927	126,543	11,128,224
Finance revenue	101,197	209	—	—	101,406
Total segment revenue	**2,123,288**	**7,593,872**	**1,385,927**	**126,543**	**11,229,630**
Assets and liabilities					
Segment assets	5,221,513	5,153,555	602,481	—	10,977,549
Segment liabilities	(3,278,548)	(277,566)	(79,291)	—	(3,635,405)

4. Revenues and Expenses

		Consolidated			Parent
		2008	2007	2008	2007
		$	$	$	$
Revenue					
Sales revenue		10,888,269	11,128,224	—	—
Other Revenue					
Management Fees		—	—	524,320	784,110
Expenses					
a) Cost of materials and manufacturing					
Cost of materials and manufacturing		**2,531,571**	3,121,918	**—**	—
b) Finance costs					
Interest on loans from external parties		**253,961**	223,607	**237,584**	201,472
c) Depreciation and amortisation					
Amortisation of leased plant & equipment		—	753	—	—
Depreciation of plant and equipment		284,408	270,890	—	—
Depreciation of leasehold improvements		6,220	6,203	—	—
Amortisation of intangibles		40,556	37,545	—	—
		331,184	315,391	**—**	—
d) Research & development					
Research costs		35,989	28,762	—	5,000
		35,989	28,762	**—**	5,000
e) Employee benefits expense					
Salaries and wages		3,091,500	3,015,962	197,426	254,624
Non-Executive Director fees and consultant fees		105,807	122,337	90,653	118,737
Share-based payment expense	23a	70,023	73,666	70,023	73,666
		3,267,330	3,211,965	**358,102**	447,027
f) Administration expense					
Legal and professional costs		802,987	845,650	370,627	281,197
Office and facility costs		534,534	802,665	69,406	120,821
Travel and motor vehicle costs		506,372	516,227	8,705	27,850
		1,843,893	2,164,542	**448,738**	429,868

Notes

Continued

5. Income Tax

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Current income tax (expense) / benefit	(59,593)	(197,439)	196,330	47,600
Deferred tax (expense) / benefit	(79,819)	(61,060)	30,715	18,000
Income tax reported in income statement	**(139,412)**	**(258,499)**	**227,045**	**65,600**

A reconciliation income tax benefit / (expense) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Accounting profit / (loss) before income tax	**1,896,474**	**1,389,739**	**(654,433)**	**(213,006)**
Statutory income tax rate of 30%	(568,942)	(416,922)	196,330	63,902
Expenditure not allowable for income tax purposes	(883)	(972)	(79)	—
Share based payments for which no deduction is obtained	(21,007)	(22,100)	(21,007)	(22,100)
Share issue costs taken directly to equity	51,801	23,798	51,801	23,798
Effects of lower rates on overseas income	509,349	219,483	—	—
Tax expense offset against carry forward tax losses	(104,268)	(63,355)	—	—
Tax losses not recognised in foreign subsidiaries	(5,462)	1,569	—	—
Total income tax (expense) / benefit	**(139,412)**	**(258,499)**	**227,045**	**65,600**
Effective income tax rate	(7.4%)	(18.6%)	(34.7%)	(30.8%)
Current tax liabilities				
Current income tax (receivable) / liability	**5.071**	—	—	**9,636**
Deferred tax assets / liabilities				
Deferred tax assets and liablities relate to the following:				
Deferred tax assets from temporary differences on:				
Provisions	121,817	104,122	1,950	18,000
Tax losses of parent entity brought to account	384,768	155,773	384,768	155,773
Tax losses / (payable) transferred from Australian subsidiaries	104,268	63,355	146,564	72,990
Other	5,526	4,201	(70,198)	—
Total deferred tax assets	**616,379**	**327,451**	**463,084**	**246,763**
Deferred tax liabilities from temporary differences on:				
Capitalised expenditure	821,856	515,342	821,856	515,342
Total deferred tax liabilities	**821,856**	**515,342**	**821,856**	**515,342**

6. Net Tangible Assets and Earnings Per Share

Net Tangible Assets per share

	Consolidated	
	2008	2007
	$	$
Net assets per share	0.09	0.08
Net tangible assets per share	0.07	0.07
	Number	Number
Weighted average number of ordinary shares for net assets per share	141,876,726	136,151,755

Earnings per share

	Consolidated	
	2008	2007
	cents	cents
	$	$
Basic earnings per share for continuing operations	1.24	0.83
Basic earning per share	1.24	0.83
Diluted earnings per share	1.24	0.83
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	141,876,726	136,151,755

7. Cash and Cash Equivalents

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Cash at bank and in hand	4,206,271	1,204,543	2,669,372	486,609
Total cash and cash equivalents	**4,206,271**	1,204,543	**2,669,372**	486,609

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

The fair value of cash equivalents is $4,206,271 (2007: $1,204,543).

Reconciliation of Cash Flow Statement	**2008**	2007	**2008**	2007
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:				
Cash at bank and in hand	4,206,271	1,204,543	2,669,372	486,609
	4,206,271	1,204,543	**2,669,372**	486,609
a) Reconciliation of net profit / (loss) after tax to net cash flows from operations				
Net profit / (loss) after tax	**1,757,062**	1,131,239	**(427,388)**	(147,406)
Adjustments for non-cash income and expense items				
Depreciation	290,628	277,093	—	—
Amortisation	40,556	38,298	—	—
Movement provision for doubtful debts	(375,188)	(3,027)	—	—
Movement provision for employee benefits	66,694	18,233	—	—
Impairment writedown	(141,738)	—	—	—
Movement in foreign exchange	766,278	—	—	—
Movement in employee benefits reserveaa	70,023	73,666	70,023	73,666
Movement in other provisions	(19,514)	(12,072)	(6,500)	60,000
	2,454,801	1,523,430	**(363,865)**	(13,740)
Increase / decrease in assets and liabilities				
(Increase) / decrease in receivables	(783,997)	(605,202)	(1,073,220)	(645,491)
(Increase) / decrease in inventories	(507,292)	(334,586)	—	—
(Increase) / decrease in other receivables	(8,227)	(7,668)	—	—
(Increase) / decrease in deferred tax assets	(288,928)	(182,557)	—	—
Increase / (decrease) in related party loans	—	(15,227)	(821,389)	(923,376)
Increase / (decrease) in creditors	308,086	(292,221)	(68,242)	86,864
Increase / (decrease) in current tax liabilities	5,071	(199,233)	—	—
Increase / (decrease) in deferred tax liabilities	306,514	259,363	—	—
Net cash from operating activities	**1,486,028**	146,099	**(2,326,716)**	(1,495,743)

8. Trade and Other Receivables

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Current				
Trade receivables, third parties	4,402,804	3,618,807	—	—
Provision for impairment	—	(375,188)	—	—
	4,402,804	3,243,619	—	—
Related party receivable	—	—	1,071,123	—
Other receivables	324,273	735,231	23,195	21,098
Total trade and other receivables	**4,727,077**	**3,978,850**	**1,094,318**	**21,098**
Non-current				
Loans to external parties	—	3,422	—	—
Loans to related parties	—	—	3,746,699	3,143,803
Total other receivables	**—**	**3,422**	**3,746,699**	**3,143,803**

Terms and conditions

Terms and conditions relating to the above financial instruments

a. Trade receivables are non-interest bearing and generally on 30 and 60 day terms.

b. Other debtors are non-interest bearing and have repayment terms between 30 and 90 days.

c. Related party details are set out in the Note 19 Related party disclosures, controlled entities.

9. Inventories

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Raw materials at cost	924,729	869,074	—	—
Finished goods at lower of costs or net realisable value	1,930,637	1,479,000	—	—
	2,855,366	**2,348,074**	—	—

During the year 35 Technegas Classic generators accepted from customers as trade-ins following the release of the Technegas Plus generator in 2007 were written off. Management assessed that the carrying value of the inventory was lower than the net realisable value and consequently the inventory was reduced by $258,394 and the charge taken to the Income Statement in the current year.

10. Property, Plant and Equipment

Year ended 31 December 2008 Consolidated	Land and buildings $	Leasehold improvements $	Plant and Equipment $	Leased Plant and Equipment $	Capital Work in Progress $	Total $
1 January 2008 at written down value	161,500	30,165	781,737	—	—	973,402
Additions / Transfers	—	—	817,836	—	1,375,346	2,193,182
Disposals / Transfers	—	—	(150,122)	—	—	(150,122)
Depreciation for the year	—	(6,220)	(284,408)	—	—	(290,628)
31 December 2008 at written down value	**161,500**	**23,945**	**1,165,043**	**—**	**1,375,346**	**2,725,834**
1 January 2008						
Cost value	161,500	206,189	1,978,663	114,049	—	2,460,401
Accumulated depreciation	—	(176,024)	(1,196,926)	(114,049)	—	(1,486,999)
Impairment	—	—	—	—	—	—
Net carrying amount	**161,500**	**30,165**	**781,737**	**—**	**—**	**973,402**
31 December 2008						
Cost value	161,500	206,189	2,796,499	114,049	1,375,346	4,653,583
Accumulated depreciation	—	(182,244)	(1,631,456)	(114,049)	—	(1,927,749)
Net carrying amount	**161,500**	**23,945**	**1,165,043**	**—**	**1,375,346**	**2,725,834**

The asset class Capital Work in Progress relates solely to the development of the PET nuclear pharmacies at Macquarie University Private Hospital, New South Wales and Lloyd Street, Victoria. In the current year $58,168 in capitalised molecular imaging costs arising in previous years was transferred from intangibles to fixed assets and development costs of $1,317,178 incurred in the current year were capitalised.

Year ended 31 December 2007 Consolidated	Land and buildings $	Leasehold improvements $	Plant and Equipment $	Leased Plant and Equipment $	Capital Work in Progress $	Total $
1 January 2007 at written down value	—	36,368	793,914	753	16,200	847,235
Additions	161,500	—	286,277	—	—	447,777
Disposals / Transfers	—	—	(27,564)	—	(16,200)	(43,764)
Depreciation for the year	—	(6,203)	(270,890)	(753)	—	(277,846)
31 December 2007 at written down value	**161,500**	**30,165**	**781,737**	—	—	**973,402**
1 January 2007						
Cost value	—	206,189	1,955,227	146,210	16,200	2,323,826
Accumulated depreciation	—	(169,821)	(1,161,313)	(145,457)	—	(1,476,591)
Net carrying amount	—	**36,368**	**793,914**	**753**	**16,200**	**847,235**
31 December 2007						
Cost value	161,500	206,189	1,978,663	114,049	—	2,460,401
Accumulated depreciation	—	(176,024)	(1,196,926)	(114,049)	—	(1,486,999)
Net carrying amount	**161,500**	**30,165**	**781,737**	—	—	**973,402**

11. Investments in Subsidiaries

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Investments in controlled entities at cost	—	—	6,122,017	6,084,516
Total investments	—	—	**6,122,017**	**6,084,516**

Refer to Note 19 for details of subsidiary names, locations and ownership interests.

12. Intangible Assets

Consolidated	Molecular Imaging $	Intellectual Property $	Technegas Development $	FDA Development $	Software $	Total $
Balance at *1 January 2008*	58,168	54,774	223,440	1,431,425	141,738	1,909,545
Arising during the year	—	58,162	—	1,066,608	—	1,124,770
Amortisation	—	(9,752)	(30,804)	—	—	(40,556)
Impairment write down	—	—	—	—	(140,000)	(140,000)
Transferred to Capital WIP	(58,168)	—	—	—	—	(58,168)
Foreign exchange movement	—	—	—	—	(1,738)	(1,738)
Balance at *31 December 2008*	**—**	**103,184**	**192,636**	**2,498,033**	**—**	**2,793,853**
31 December 2008						
Non-Current	—	103,184	192,636	2,498,033	—	2,793,853
Total	**—**	**103,184**	**192,636**	**2,498,033**	**—**	**2,793,853**
31 December 2007						
Non-Current	58,168	54,774	223,440	1,431,425	141,738	1,909,545
Total	**58,168**	**54,774**	**223,440**	**1,431,425**	**141,738**	**1,909,545**

The recoverable amount of FDA and Technegas development costs been assessed using a discounted cash flow methodology forecasting three years of pre-tax cash flows.

The following describes each key assumption on which management has based its value in use calculations:

(a) Three year pre tax cash flow projections, based upon management approved budgets and growth rates covering a one year period, with the subsequent periods based upon management expectations of growth excluding the impact of possible future acquisitions, business improvement capital expenditure and restructuring.

(b) The discount factor used was 12.5% in 2008 (2007: 12.0%).

(c) The Directors have concluded that the recoverable amount of the FDA development costs and other intangibles exceed their carrying value.

(d) At the reporting date the Director's have assessed the software asset class as impaired due to a reduction in expected future cash flows. Consequently the asset class has been written down to nil (2007: $141,738).

13. Trade and other payables

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Trade payables, third parties	915,318	943,267	29,357	120,932
Other payables and accruals	645,705	309,670	50,000	26,667
Total trade and other payables	**1,561,023**	1,252,937	**79,357**	147,599

Terms and conditions

Terms and conditions relating to the above financial instruments:

(i) Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

(ii) Other payables and accruals are non-interest bearing and have an average term of 4 months.

(iii) The non-interest bearing loan, related party loan is payable when called upon.
Related party details are set out in the Note 19 Related party disclosures, controlled entities.

14. Interest Bearing Loans and Borrowings

		Consolidated		Parent	
		2008	2007	2008	2007
	Notes	$	$	$	$
Non-current					
Bank loan - secured		2,733,250	1,511,500	2,733,250	1,511,500
Total interest bearings loans and borrowings		**2,733,250**	**1,511,500**	**2,733,250**	**1,511,500**

a) Financing facilities available:

At reporting date, the following financing facilities had been negotiated and were available:

		Consolidated		Parent	
		2008	2007	2008	2007
	Notes	$	$	$	$
Total facilities available:					
secured bank loans, third party		6,450,000	4,944,300	6,450,000	4,944,300
		6,450,000	**4,944,300**	**6,450,000**	**4,944,300**
Facilities used at reporting date:					
secured bank loans, third party		2,733,250	1,511,500	2,733,250	1,511,500
		2,733,250	**1,511,500**	**2,733,250**	**1,511,500**
Facilities unused at reporting date:					
secured bank loans, third party		3,716,750	3,432,800	3,716,750	3,432,800
		3,716,750	**3,432,800**	**3,716,750**	**3,432,800**
Total facilities		6,450,000	4,944,300	6,450,000	4,944,300
Facilities used at reporting date:		(2,733,250)	(1,511,500)	(2,733,250)	(1,511,500)
Facilities unused at reporting date:		**3,716,750**	**3,432,800**	**3,716,750**	**3,432,800**

(b) Secured Bank Loans

(i) Cyclopharm has an amortising bank bill facility provided by the National Australia Bank of $1.35 million. The entirety of the facility must be repaid by 31 July 2011. The facility is secured by a first registered mortgage debenture over Cyclopharm Limited and a guarantee and indemnity for $6,450,000 from Cyclomedica Australia Pty Ltd, CycloPET Pty Ltd, Allrad No. 28 Pty Ltd and Allrad No. 29 Pty Ltd. Supported by Fixed and Floating Charge and First Registered Debenture charges over these companies.

(ii) Cyclopharm has a 15 month multi-option facility (MOF) provided by the National Australia Bank for $5.1 million. The facility is secured by a first registered mortgage debenture over Cyclopharm Limited and a guarantee and indemnity for $6,450,000 from Cyclomedica Australia Pty Ltd, CycloPET Pty Ltd, Allrad No. 28 Pty Ltd and Allrad No. 29 Pty Ltd. Supported by Fixed and Floating Charge and First Registered Debenture charges over these companies.

15. Provisions

Consolidated	Employee Entitlements $	Other $	Consolidated Total $	Parent Other $	Parent Total $
Balance at *1 January 2008*	**282,699**	**72,927**	**355,626**	**60,000**	**60,000**
Arising during the year	129,660	99,649	229,309	53,500	53,500
Utilised	(62,966)	(119,076)	(182,042)	(60,000)	(60,000)
Balance at *31 December 2008*	**349,393**	**53,500**	**402,893**	**53,500**	**53,500**
31 December 2008					
Current	318,034	53,500	371,534	53,500	53,500
Non-Current	31,359	—	31,359	—	—
Total	**349,393**	**53,500**	**402,893**	**53,500**	**53,500**
Number of employees					
Number of employees at year end	35			2	
31 December 2007					
Current	259,054	72,927	331,981	60,000	60,000
Non-Current	23,645	—	23,645	—	—
Total	**282,699**	**72,927**	**355,626**	**60,000**	**60,000**
Number of employees					
Number of employees at year end	36			2	

Consolidated
Other provisions consist solely of year-end audit fees accrual of $53,500 (2007: $60,000).
During the year a distributor commission accrued at the end of 2007 of $12,928 was written back to the Income Statement.

Parent
Other provisions consist solely of year-end audit fees accrual of $53,500 (2007: $60,000).

16. Contributed Equity

				Consolidated			Parent
		2008	2007	2008	2007	2008	2007
	Notes	Number	Number	$	$	$	$
Issued and paid up capital							
Ordinary shares	(a)	171,112,616	138,712,616	16,163,060	13,136,880	11,030,432	8,004,252
Other contributed equity	(b)	—	—	(5,295,657)	(5,295,657)	—	—
Total issued and paid up capital		**171,112,616**	**138,712,616**	**10,867,403**	**7,841,223**	**11,030,432**	**8,004,252**
Ordinary shares							
(a) Issued and paid up capital							
Balance at the beginning of the period		138,712,616	112,317,667	13,136,880	6,515,030	8,004,252	1,382,414
Issue of 31,800,000 shares at $0.10	(i)	31,800,000	—	3,180,000	—	3,180,000	—
Capital raising costs	(ii)	—	—	(153,820)	(396,634)	(153,820)	(396,646)
Issue of shares to directors and employees	(iii)	1,500,000	3,000,000	—	—	—	—
Cancelation of shares to directors and employees	(iv)	(900,000)	—	—	—	—	—
Issue of 23,394,949 ordinary shares at $0.30	(v)	—	23,394,949	—	7,018,484	—	7,018,484
Balance at end of period		**171,112,616**	**138,712,616**	**16,163,060**	**13,136,880**	**11,030,432**	**8,004,252**
(b) Other contributed equity							
Balance at the beginning of the period		—	—	(5,295,657)	(5,277,327)	—	—
Acquisition of minority interests in controlled entities		—	—	—	(18,330)	—	—
Balance at end of period		**—**	—	**(5,295,657)**	**(5,295,657)**	**—**	—

(i) On 28 November 2008, Cyclopharm allotted 31,800,000 rights issue shares to shareholders in relation to the 1:4.4 non-renounceable rights issue.

(ii) The total of costs relating to non-renounceable rights issue was $153,820. In 2007, the Company incurred costs of $396,634 in relation to the IPO.

(iii) On 3 June 2008, 1,400,000 LTIP Shares were issued to Mr James McBrayer upon appointment as Cyclopharm's Managing Director via a non-recourse loan. A further 100,000 shares were issued to other employees on 7 February 2008.

(iv) On 3 June 2008, 900,000 LTIP shares held by Mr John Sharman the former Managing Director were cancelled along with the corresponding non-recourse loan (not accounted for the in the Financial Statements). A further 100,000 shares previously issued to other employees were cancelled.

(v) On 11 January 2007, Cyclopharm completed its IPO allotment of 23,394,949 ordinary shares raising $7,018,484.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

When managing capital, management's objective is to ensure the entity 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 assess the capital structure to take advantage of favourable costs of capital and/or high returns on assets. As the market in continually changing, management may issue dividends to shareholders, issue new shares, increase its 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 2008.

16. Contributed Equity continued

Management monitor capital through the gearing ratio (net debt/total capital). Management aim to ensure that the Group's gearing ratio does not exceed 45%. The Group has satisfied its year-end externally imposed capital requirements of its banking facilities detailed in Note 14 (b).

		Consolidated		Parent	
		2008	2007	2008	2007
	Notes	$	$	$	$
Total interet bearing loans and borrowings	14	2,733,250	1,511,500	2,733,250	1,511,500
Less cash and cash equivalents	7	(4,206,271)	(1,204,543)	(2,669,372)	(486,609)
Net (cash) / debt		**(1,473,021)**	**306,957**	**63,878**	**1,024,891**
Total equity		13,055,556	7,342,144	10,407,527	7,738,712
Gearing ratio*		(11.3%)	4.2%	0.6%	13.2%

* A negative ratio denotes that net cash exceeded net borrowings at the reporting date.

17. Financial Risk Management Objectives

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts and cash and short-term deposits. The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while 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, foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analysis and monitoring of specified credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

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

Primary responsibility for identification and control of financial risks rests with the Audit and Risk Management Committee under the authority from the Board. The Board reviews and agrees policies for managing each of the risks identified below, including for interest rate risk, credit allowances and cash flow forecast projections. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At 31 December 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre tax profit would have been affected as follows:

17. Financial Risk Management Objectives continued

	Notes	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Judgements of reasonably possible movements:					
Profit / (loss) before income tax					
+1.0% (100 basis points)		(21,224)	(15,115)	(21,224)	(15,115)
+0.5% (50 basis points)		10,612	7,558	10,612	7,558

The movements in profit are due to possible higher or lower interest costs from variable rate debt and cash balances.

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

(a) Cash flow interest rate risk (continued)

Consolidated Year ended 31 December 2008	Note	Weighted average interest rate %	Non interest bearing	Floating interest rate	Fixed interest maturing in 1 year or less	Fixed interest maturing in 1 to 5 years	More than 5 years	Total
Financial Assets								
Cash and cash equivalents	7	0.25%	—	4,206,271	—	—	—	4,206,271
Trade and other receivables	8	n/a	4,727,077	—	—	—	—	4,727,077
Total Financial Assets			**4,727,077**	**4,206,271**	—	—	—	**8,933,348**
Financial Liabilities								
Trade payables, third parties	13	n/a	1,561,023	—	—	—	—	1,561,023
Secured bank loans, third party	14	7.72%	—	—	—	2,733,250	—	2,733,250
Employee entitlements	15	n/a	349,393	—	—	—	—	349,393
Total Financial Liabilities			**1,910,416**	**—**	**—**	**2,733,250**	**—**	**4,643,666**
Net exposure			**2,816,661**	**4,206,271**	**—**	**(2,733,250)**	**—**	**4,289,682**

Consolidated Year ended 31 December 2007	Note	Weighted average interest rate %	Non interest bearing	Floating interest rate	Fixed interest maturing in 1 year or less	Fixed interest maturing in 1 to 5 years	More than 5 years	Total
Financial Assets								
Cash and cash equivalents	7	1.33%	—	1,204,543	—	—	—	1,204,543
Trade and other receivables	8	n/a	3,978,850	—	—	—	—	3,978,850
Total Financial Assets			3,978,850	1,204,543	—	—	—	5,183,393
Financial Liabilities								
Trade payables, third parties	13	n/a	1,252,937	—	—	—	—	1,252,937
Secured bank loans, third party	14	6.98%	—	—	—	1,511,500	—	1,511,500
Employee entitlements	15	n/a	282,699	—	—	—	—	282,699
Total Financial Liabilities			1,535,636	—	—	1,511,500	—	3,047,136
Net exposure			2,443,214	1,204,543	—	(1,511,500)	—	2,136,257

17. Financial Risk Management Objectives continued

b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and 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 applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties and as such collateral is not requested nor is it the Group's policy to scrutinise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures such as reviewing their industry reputation, financial position and credit rating. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is constantly managed.

There are no significant unprovided concentrations of credit risk within the Group.

c) Liquidity risk

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

The Group's policy is to monitor the maturity of borrowings at all times. At 31 December 2008, 0% of the Group's debt will mature in less than one year (2007: 0%)

Refer to the table below the heading 17 (a) Cash flow interest rate risk which 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 eg inventories and 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, Cyclopharm monitors its Group's expected settlement of financial assets and liabilities on an ongoing basis.

The Group monitors rolling forecast of liquidity reserves on the basis of expected cash flow. At balance date the Group has $3,716,750 (2007: $3,432,800) in unused credit facilities available for use.

Consolidated	Note	Less than 6 months	6 months to 1 year $	1 year to 5 years $	Greater than 5 years $	Total
Year Ended 31 December 2008						
Trade payables, third parties	13	1,561,023	—	—	—	1,561,023
Secured bank loans, third party	14	—	—	2,733,250	—	2,733,250
Year Ended 31 December 2007						
Trade payables, third parties	13	1,252,937	—	—	—	1,252,937
Secured bank loans, third party	14	—	—	1,511,500	—	1,511,500

d) Commodity price risk

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

17. Financial Risk Management Objectives continued

e) Foreign currency risk

As a result of significant investment operations in Europe, the Group's Balance Sheet can be affected significantly by movements in the EURO / A$ exchange rates. The Group does not hedge this exposure.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. Approximately 84% (2007: 80%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 65% (2007: 55%) of costs are denominated in the unit's functional currency.

At 31 December 2008, the Group had the following financial instrument exposure to foreign currency fluctuations:

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
United States dollars				
Amounts payable	343,880	82,088	—	—
Amounts receivable	58,917	131,705	—	—
Euros				
Amounts payable	166,671	203,482	—	—
Amounts receivable	3,613,941	2,760,992	—	—
Canadian dollars				
Amounts payable	—	377	—	—
Amounts receivable	458,852	212,214	—	—
Net Exposure	**(3,621,159)**	**(2,818,964)**	**—**	**—**

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Fair values

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

Foreign currency sensitivity

Currency risk is measured using sensitivity analysis. A portion of Cyclopharm's receivables and payables are exposed to movements in the values of those currencies relative to the Australian dollar. Cyclopharm management have determined that it is not cost effective to hedge against foreign currency fluctuations.

Cyclopharm is exposed to USA Dollars (USD) and European Euro (Euro) movements.
The following table details Cyclopharm's sensitivity to a 10% change in the Australian dollar against respective currencies with all other variables held constant as at reporting date for unhedged foreign exposure risk. A positive number indicates an increase in net profit/equity.

A sensitivity has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed on a historic basis and market expectation for future movement.

17. Financial Risk Management Objectives continued

	Consolidated		Parent	
	Increase in AUD of 10% $	Decrease in AUD of 10% $	Increase in AUD of 10% $	Decrease in AUD of 10% $
Euro				
31 December 2008				
Net profit	(509,351)	622,538	—	—
Equity increase/(decrease)	(509,351)	622,538	—	—
31 December 2007				
Net profit	(156,811)	264,369	—	—
Equity increase/(decrease)	(156,811)	264,369	—	—

18. Commitments

(a) Operating lease commitments

The Group has entered into commercial leases on certain buildings. These leases have an average life of between 3 years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. The Group also has entered into commercial leases on motor vehicles that have an average life of approximately 3 to 5 years.

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

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
Operating Lease Commitments				
Minimum lease payments				
Due not later than one year	170,266	182,910	—	—
Due later than 1 year & not later than 5 years	649,356	641,392	—	—
Total operating lease commitments	**819,622**	824,302	—	—
Operating lease expenses recognised as an expense during the period:	148,579	148,579	—	—

(b) Finance lease commitments

The Group had no finance lease commitments for the year ended 31 December 2008.

18. Commitments continued

(c) Other commitments

	Notes	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
The company has the following other commitments:					
Due later than 1 year & not later than 5 years	(i)	2,733,250	1,511,500	2,733,250	1,511,500
Total		**2,733,250**	1,511,500	**2,733,250**	1,511,500

(i) Cyclopharm has a 15 month multi-option facility (MOF) provided by the National Australia Bank for $5.1 million. At balance date $1.38 million had been drawn down against this facility.

(ii) Cyclopharm has an amortising bank bill facility provided by the National Australia Bank of $1.35 million. At balance date $1.35 million had been drawn down against this facility. Repayments under the amortising facility are expected to commence in July 2010 and the entirety of the facility must be repaid by 31 July 2011.

(d) Capital Commitments

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
The company has the following capital expenditure commitments contracted for property, plant and equipment:				
Due later than 1 year & not later than 5 years	1,615,000	1,615,000	—	—
Total	**1,615,000**	1,615,000	**—**	—

CycloPET Pty Ltd, Cyclopharm's Molecular Imaging division executed a Contract of Sale to purchase land and building in Kensington, Melbourne. A deposit has been paid to the Vendor's agent.

19. Related Party Disclosures

The consolidated financial statements include the financial statements of Cyclopharm and the subsidiaries as stated under the controlled entities note.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to Note 8 Trade and other receivables, Note 13 Trade and other payables and Note 14 Interest bearing loans and borrowings):

Consolidated		Sales to related parties $	Purchases from related parties $	Other Transactions with related parties $	Amounts owed by related parties $	Amounts owed to related parties
CVC Venture Managers Pty Ltd	2008	—	—	145,107	—	2,035
	2007	—	—	50,879	—	10,770
Nucleus Consulting	2008	—	—	63,068	—	—
	2007	—	—	—	—	—
VA Consulting Pty Ltd	2008	—	—	152,284	—	—
	2007	—	—	233,000	—	8,250
Cyclopharm Laboratoires SA	2008	4,836,614	—	1,036,897	1,526,431	110,191
	2007	2,844,674	—	636,677	1,064,653	116,323

Parent		Sales to related parties $	Purchases from related parties $	Other Transactions with related parties $	Amounts owed by related parties $	Amounts owed to related parties
CVC Venture Managers Pty Ltd	2008	—	—	145,107	—	2,035
	2007	—	—	50,879	—	10,770
VA Consulting Pty Ltd	2008	—	—	152,284	—	—
	2007	—	—	233,000	—	8,250

Ultimate parent entity

Cyclopharm Limited is the ultimate parent entity in the wholly owned group.

Terms and conditions of transactions with related parties

- During the year payments of $145,107 (2007: $50,879) were made to CVC Venture Managers (an entity of which Mr Sharman and Mr Gould are Non-Executive Directors) $30,227 in relation to the rental of office space and $114,880 in relation to underwriting the non renounceable rights issue in November 2008. After paying third party costs including sub-underwriting fees, CVC Venture Managers retained $30,000 for its own benefit. Mr Gould does not receive any benefits from CVC Venture Managers.
- During the year payments of $63,068 (2007: $0) were made to Nucleus Consulting (an entity controlled by Mr McBrayer) in relation to Mr McBrayer's role as a consultant prior to his appointment as Managing Director on 3 June 2008.
- During the year payments of $152,284 (2007: $233,000) were made to VA Consulting Pty Ltd (an entity controlled by Mr Sharman). Of this amount, payments of $83,160 until 3 June 2008 were made in relation Mr Sharman's role as Managing Director, $54,124 for his role as litigation case manager and $15,000 for his role as a non-executive director.
- Cyclomedica Europe Limited and Cyclomedica Ireland Limited, both wholly owned subsidiaries of Cyclopharm have ongoing agreements with Cyclopharma Laboratoires SA (CLSA) for regulatory, distribution, technical and manufacturing services. CLSA was a related party until January 2008, when Dr Salin who has held positions as President and CEO of CLSA resigned from the Board of Cyclopharm. These terms and conditions of the agreements are at arms-length and were in place prior to Dr Salin joining the Board of Cyclopharm. Total payments made to CLSA for the year ended 31 December 2008 were $1,036,897 (2007: $636,677) composed of $189,423 (2007: $151,935 for European regulatory services, $475,466 (2007: $484,742) for manufacturing services to meet European requirements; and technical services and a refundable deposit of $372,008 (2007: $0) relating to the Molecular Imaging License Agreement. Sales to CLSA of Technegas generators and consumables are made at commercial rates.
- Cyclomedica Australia manufactures products that are sold to its overseas subsidiaries.

19. Related Party Disclosures continued

Controlled Entities

	Note	Country of Incorporation	Percentage of equity interest held	
			2008	2007
Cyclopharm Limited	1,2	Australia		
Controlled entities				
CycloPET Pty Ltd	2	Australia	100%	100%
Cyclomedica Australia Pty Limited	2	Australia	100%	100%
Cyclomedica Ireland Limited	3	Ireland	100%	100%
Cyclomedica Europe Limited	3	Ireland	100%	100%
Cyclomedica Germany GmbH	5	Germany	100%	100%
Cyclomedica Canada Limited	4	Canada	100%	100%
Allrad No 28. Pty Ltd	2	Australia	100%	100%
Allrad No 29. Pty Ltd	2	Australia	100%	100%

Notes

1. Cyclopharm Limited is the ultimate parent entity in the wholly owned group.
2. Audited by Russell Bedford NSW, Australia.
3. Audited by HLB Nathans, Republic of Ireland.
4. Audited by Schwartz Levitsky & Feldman & LLP, Toronto, Canada.
5. Audited by Bilzanzia GmbH Wirtschaftsprufungsgesellschaft, Germany.

20. Events after the Balance Sheet Date

New Drug Application

In December 2008 Cyclopharm lodged the application to sell Technegas in the USA with the Food and Drug Administration (FDA). Based on early dialogue with the FDA, we have decided to temporarily withdraw our application in order to adjust the content. We believe that the modifications will ultimately enable a more expeditious review. While the decision to withdraw may have an impact on the timing of approval, we believe that our path forward is better defined for the feedback we have received. It is estimated that the FDA review period will take up to 12 months from the re-lodgement date.

Notes

Continued

21. Auditors' Remuneration

The following total remuneration was received, or is due and receivable, by auditors of the Company in respect of:

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
Amounts received or due and receivable by Russell Bedford NSW and associated entities for:				
Audit and review of the financial statements	89,000	89,356	89,000	89,356
Other services:				
tax compliance	8,500	19,000	8,500	19,000
share registry	20,917	13,900	20,917	13,900
	118,417	122,256	**118,417**	122,256
Amounts received or due and receivable by auditors other than Russell Bedford NSW for:				
Audit of the financial statements	70,482	66,559	—	—
Other services:	7,982	7,452	—	—
	78,464	74,011	—	—
Total auditors' remuneration	**196,881**	196,267	**118,417**	122,256

22. Director and Key Management Personnel Disclosure.

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'.

23. Share-Based Payment Plans

(a) Recognised share-based payment expenses

The expense recognised for employee services received in relation to share-based payments during the year is shown in the table below:

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Expense arising from equity-settled share-based payment transactions (note 4)	70,023	73,666	70,023	73,666

The accumulated share-based payment expense to 31 December 2008 was $143,689 (2007: $73,666).

b) Type of share-based payment plans

The share-based payment plan is described below. There have not been any modifications to the Long Term Incentive Plan ("Plan") following its approval by members at the Annual General Meeting held on 8 May 2007.

Shares

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

In valuing transactions settled by way of issue of shares, performance conditions and market conditions linked to the price of the shares of Cyclopharm Limited are taken into account. All shares issued have market performance conditions so as to align shareholder return and reward for the Company's selected management and staff ("Participants").

The Shares vest upon the satisfaction of certain performance conditions ("Hurdles") within the term ("Term") specified for Participants in the Plan. The Board has residual discretion to accelerate vesting (i.e. Reduce or waive the Hurdles) and exercise of Shares in the event of a takeover or merger or any other circumstance in accordance with the terms of the 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 exercise, except in the circumstances described below. Shares which have not vested will lapse where a Participant ceases employment with Cyclopharm 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 Cyclopharm as a result of resignation, retirement, redundancy, death or total and permanent disablement prior to the end of a performance period only 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.

LTIP Shares issued

At the Annual General Meeting held on 8 May 2007, Shareholders approved the Company's Plan and the issue of shares under a non-recourse loan to the Managing Director, Mr John Sharman. On 29 June 2008, 3,000,000 new Plan Shares in Cyclopharm were issued via non-recourse loans to key employees and the Managing Director under the Plan. On 3 June 2008, 900,000 LTIP shares held by Mr John Sharman the former Managing Director were cancelled along with the corresponding non-recourse loan (not accounted for the in the Financial Statements).

On 3 June 2008, 1,400,000 LTIP Shares were issued to Mr James McBrayer upon appointment as Cyclopharm's Managing Director via a non-recourse loan.

23. Share-Based Payment Plans continued

Options

AASB 2 Share-Based Payment requires that the benefit to an employee arising from an employee share scheme such as the Cyclopharm Long Term Incentive Plan be treated as an expense in which the benefit is gained. No benefit to the employee arises from the Plan Shares as a corresponding loan applies to the issued Shares (although not required to be accounted for in the Financial Statements) instead the employee benefit is deemed to be the implied option ("Implied Option") arising from the Plan.

The International Financial Reporting Council have determined that where employee shares are issued under a non-recourse loan payment plan, the loan assets and the increment to share capital should not be recognised at grant date but rather, the transactions be treated as share options. Consequently the value of the discount which has been determined using a binomial pricing model will be charged to the income statement over the vesting period. Other increments to share capital will be recognized as the share loans are settled by the relevant employees.

c) Summary of shares granted

The following table illustrates the number of movements in share options during the current year:

Consolidated	2008 Number	2007 Number
Date of Issue		
Balance at the beginning of the year	2,900,000	—
Granted during the year	1,500,000	3,000,000
Exercised during the year	—	—
Expired during the year	(900,000)	(100,000)
Balance at the end of the year	**3,500,000**	**2,900,000**
Excercisable at the end of the year	—	—
Number of recipients	2	9
Exercise price	$0.25 to $0.45	$0.30 to $0.45
Weighted Average Exercise price	$0.34	$0.35
Exercise period from	7/2/08 or 3/6/08	8/05/2007
To	7/02/2010 or 3/06/2012	8/05/2009 or 8/05/2010
Expiration day	7/02/2010 or 3/06/2012	8/05/2009 or 8/05/2010

23. Share-Based Payment Plans continued

(d) Option pricing models

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:

Exercise price per option	$ 0.25	$ 0.30	$ 0.35	$ 0.35	$0.45	$0.45
Grant Date	3/06/2008	29/06/2007	3/06/2008	29/06/2007	7/02/2008	29/06/2007
Dividend yield	—	—	—	—	—	—
Expected annual volatility	38%	37%	38%	37%	38%	37%
Risk-free interest rate (p.a.)	7.25%	7.00%	7.25%	7.00%	7.00%	7.00%
Expected life of implied option (years)	2 years	2 years	4 years	3 years	2 years	2 years
Fair value per option	$ 0.042	$ 0.124	$ 0.046	$ 0.123	$ 0.004	$ 0.079
Share price at grant date	$ 0.210	$ 0.360	$ 0.210	$ 0.360	$ 0.180	$ 0.360
Model used	Black Scholes	Black Scholes	Black Scholes	Black Scholes	Black Scholes	Black Scholes

Expected volatility percentages used for the Option pricing calculations were determined using historic data over a 12 month and were 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.

24. Contingent Asset

Cyclopharm has sought advice in respect of a potential claim for damages against Clinquest Inc, a company that was engaged from 2000 to 2007 to obtain approval from the Food and Drug Administration to sell Technegas in the United States. As a result of the legal advice received a demand for arbitration was served on Clinquest Inc.

Directors' Declaration

In the opinion of the Directors of Cyclopharm Limited:

1 (a) The financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001: and

(b) The remuneration disclosures that are contained in the Remuneration Report on pages 16 to 19 of the Directors' Report comply with the Australian Accounting Standard AASB 124 Related Party Disclosures; and

(c) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 31 December 2008.

Signed in accordance with a resolution of the Directors:

James S McBrayer

James McBrayer
Managing Director

Sydney, 11 March 2009

Russell Bedford
New South Wales

Level 42, Suncorp Place
259 George Street
Sydney NSW 2000
Australia

T: +61 2 9032 3050
F: +61 2 9032 3058
E: mail@russellbedfordnsw.com.au
W: www.russellbedford.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF CYCLOPHARM LIMITED

Report on the Financial Report
We have audited the accompanying financial report of Cyclopharm Limited (the company) and the consolidated entity, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration. The consolidated entity comprises both the company and the entities it controlled during that 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 controls 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 the Australian Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditors' 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 judgement, 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 controls 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 controls. 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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.* We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report we were engaged to undertake services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's opinion

In our opinion:

1. the financial report of Cyclopharm Limited is in accordance with:

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

      (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2008 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.

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b)

Report on Remuneration Report

We have audited the Remuneration Report included on pages 17 to 18 of the directors' report for the year ended 31 December 2008.The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 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 Cyclopharm Limited for the year ended 31 December 2008, complies with section 300A of the Corporations Act 2001.

RUSSELL BEDFORD NSW
Chartered Accountants

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

Sydney, 11 March 2009

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

ASX Additional Information

The following information is current at 27 February 2009.

A. Substantial Shareholders

The following have advised that they have a relevant interest in the capital of Cyclopharm 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 Ltd)	30,460,158	17.81%
Chemical Trustee Limited	23,108,303	13.51%
Barleigh Wells Limited	17,052,895	9.97%
Lloyds & Casanove Investment Partners Limited	9,865,180	5.77%
Normandy Finance & Investments Limited and Associates	6,010,000	3.51%

B. Distribution of Equity Security Holders

(i) Analysis of numbers of equity security holders by size of holding as at 31 January 2008:

Category	Ordinary Shareholders
1 - 1,000	26
1,001 - 5,000	316
5,001 - 10,000	220
10,001 - 100,000	531
100,001 and over	115
Total	**1,208**

(ii) There were 355 holders of less than a marketable parcel of ordinary shares.

C. Equity Security Holders

	Ordinary shares	
Twenty largest quoted equity security holders	**Number held**	**Percentage of issued shares***
1 Stinoc Pty Limited	30,460,158	17.81%
2 Chemical Trustee Limited	23,108,303	13.51%
3 Barleigh Wells Limited	17,052,895	9.97%
4 Lloyds & Casanove Investment Partners Limited	9,865,180	5.77%
5 Mr Kevin Tay Hak-Leong	6,585,985	3.85%
6 Normandy Finance & Investments Asia Pty Ltd	6,010,000	3.51%
7 Indo-Suez Investments Limited	5,363,822	3.14%
8 Normandy Nominees Ltd	4,630,263	2.71%
9 HSBC Custody Nominees (Australia) Limited	2,986,994	1.75%
10 Derrin Brothers Properties Limited	2,831,655	1.66%
11 Mr John Sharman	2,494,755	1.46%
12 Hua Wang Bank Berhad	2,165,740	1.27%
13 Southgate Investments Funds Limited	2,000,000	1.17%
14 ANZ Nominees Limited	1,654,545	0.97%
15 Mr James McBrayer	1,559,090	0.91%
16 Amanah Raya (Labuan) Limited	1,410,964	0.83%
17 OCI Construction Limited	1,406,054	0.82%
18 Abasus Investments Limited	1,278,916	0.75%
19 City & Westminister Limited	1,255,226	0.73%
20 Newridge Engineers Limited	1,108,459	0.65%
	125,229,004	**73.23%**

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.

General Information

Directors

Vanda Gould
Non-Executive Chairman

James McBrayer
Managing Director

David Heaney
Non-Executive Director

John Sharman
Non-Executive Director

Company Secretary

William Richardson

Registered Office

Cyclopharm Limited
Suite 630, Level 6
1 Queens Road
Melbourne Victoria 3004
T: 03 9867 2811
F: 03 9820 5957

Cyclomedica Australia
Building 75
Business & Technology Park
New Illawarra Road
Lucas Heights NSW 2234
T: 02 9541 0411
F: 02 9543 0960

CycloPET
Building 75
Business & Technology Park
New Illawarra Road
Lucas Heights NSW 2234

Cyclomedica Canada
Suite 454-2025 Guelph Line
Burlington ON L7P 4X4
Canada

Cyclomedica Germany
Berliner Str. 28-30
D-38226 Salzgitter
Germany

Cyclomedica Europe
Biôpole Clermont-Limagne
63360 Saint Beauzire
France

Cyclomedica Ireland
Ulysses House
Foley Street
Dublin 1 Ireland

Auditors

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

Share Registry

Gould Ralph Pty Ltd
Level 42
259 George Street
Sydney NSW 2000
T: 02 9032 3000
F: 02 9032 3088

Bankers

National Australia Bank
Level 2, 151 Rathdowne Street
Carlton Victoria 3053

Solicitors

Piper Alderman
Level 24, 385 Bourke Street
Melbourne Victoria 3000

Stock Exchange Listing

The ordinary shares of Cyclopharm Limited are listed on the Australian Securities Exchange Ltd (code: CYC).

Cyclopharm Limited Annual Report 2008