Cyclopharm Limited Annual Report 2007

cyclopharm

Cyclopharm Limited and its Controlled Entities
ABN 74 116 931 250

Cyclopharm Limited Annual Report 2007

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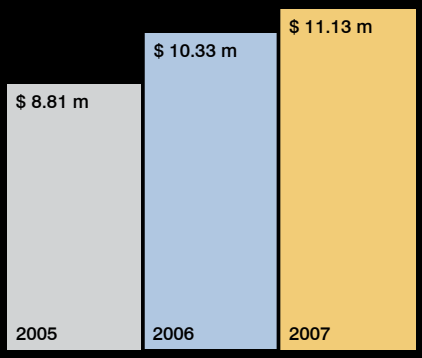
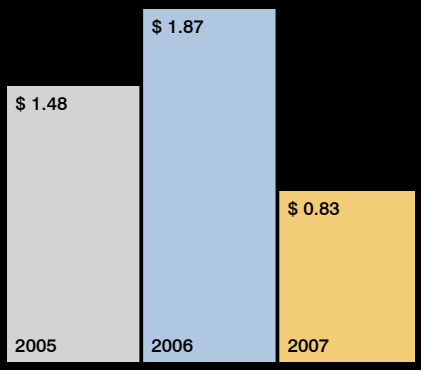
Financial Highlights

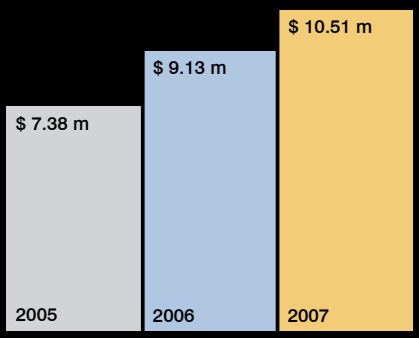
Year ending 31 December		2005	2006	2007	% Change
Sales Revenue	$'000	8,806	10,332	11,128	7.7%
NPAT	$'000	1,582	2,028	1,131	(44.2%)
EPS	cents	1.48	1.87	0.83	(55.6%)



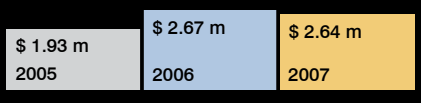
Sales revenue
up 8%



EPS
down 56%



Operating cash receipts
up 15%



Technegas profit
before income tax
consistent

cyclopharm
Nuclear Medicine

17 March 2008

Dear Cyclopharm Shareholder,

2007 was a significant milestone for the Company. In January, Cyclopharm completed a $7.0 million capital raising and listed on the Australian Securities Exchange and is now well placed to become a leading nuclear medicine company with an expanded product range.

Cyclopharm endeavours to provide cancer patients and other life threatening disease sufferers with access to PET (Positron Emission Tomography) diagnostic imaging. PET allows physicians to diagnose, monitor and prescribe the most effective cancer therapy and consequently gives patients a greater chance of survival and the highest possible standard of life.

Lord Halifax once commented, "The best way to suppose what may come is to remember what is past". This is relevant to the uptake of much technological advancement globally where frequently Australia has lagged behind technological acceptance relative to the United States (US) and Europe. The same can be said of PET. In the US, during the period from 2000 to 2005, PET procedures have grown 655% from 150,000 to 1,130,000, due to wide access to PET cameras and radiopharmaceuticals. Growth in access to PET scanners in the US has increased by 10.9 times (per million in population) compared to only 3.3 times in Australia. As the PET scanner base in Australia follows the US and European patterns, Cyclopharm is positioned to hospitals to meet the foreseeable demand.

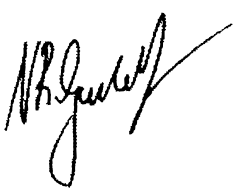
To fulfil our vision we plan to establish 3 PET pharmacies to service the foreseeable demand for PET radiopharmaceuticals. Throughout 2007, management have concentrated efforts to identify strategic locations and relationships to establish our PET pharmacies. We have secured sites in North Ryde, Sydney and Kensington, Melbourne.

The Kensington PET pharmacy site will be purpose designed and built and located within short proximity to key nuclear medicine departments. Cyclopharm has agreed to construct a second PET pharmacy site within the Macquarie Dalcross Private Hospital (Macquarie-Dalcross) in North Ryde. A private teaching hospital is to be housed within the Macquarie-Dalcross Hospital and presents Cyclopharm with opportunities for collaborative PET research.

Pleasingly, the Technegas business, our core nuclear medicine product, continues to assert its relevance as a leading diagnostic imaging tool in the detection of pulmonary embolisms. In 2007, Technegas sold its two-millionth patient administration set (PAS). Acceptance of the patented Australian technology by medical professionals worldwide provides us with comfort in our application to the US Federal Drug Administration (FDA). The application for US registration has been pursued for the past decade and finally appears to be within reach.

In conclusion, I would like to acknowledge the support of my fellow directors and the contributions of Cyclopharm management – particularly Professor Nabil Morcos whose contribution has been invaluable – and staff under Mr John Sharman's leadership. Within the next 9 months it is expected that Mr Sharman will step down as Managing Director. The Board, including Mr Sharman, agree it is desirable to have a person with nuclear medicine skills at the helm of the Company as it enters the challenges of PET pharmaceutical production. Mr Sharman has performed well and is to be thanked for his contribution to the Company.

Yours faithfully,



Vanda Gould
Chairman

Macquarie Dalcross Private Hospital, not an asset of the Company

Lloyd Street Kensington, proposed asset of the Company

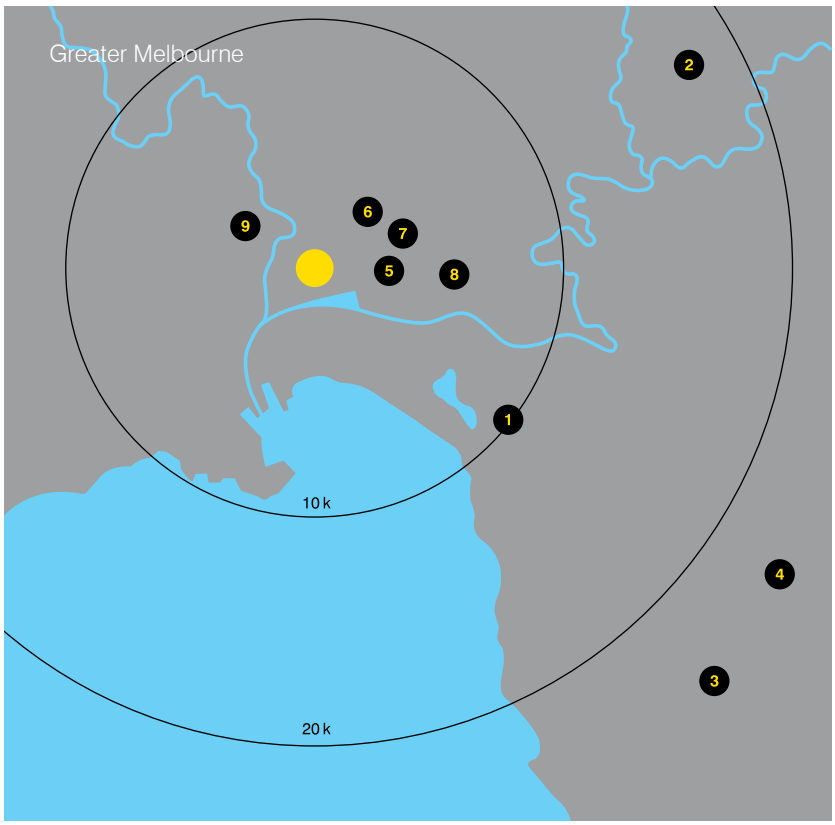
PET Central Pharmacies

Cyclopharm's PET Central Pharmacy for the Greater Sydney Area is to be located within the Macquarie Dalcross Private Hospital, North Ryde. The immediate catchment area and potential customers for the Company's products is shown on the adjacent map.

Macquarie Dalcross Private Hospital

Sydney

1 Central Coast Hospital
2 Liverpool Hospital
3 Macquarie Hospital
4 Mater Hospital
5 Prince of Wales Hospital
6 Royal North Shore Hospital
7 Royal Prince Alfred
8 St Vincent's Hospital
9 Sydney Adventist Hospital
10 Westmead Hospital
11 Wollongong Hospital



Cyclopharm's PET Central Pharmacy for the Greater Melbourne Area is to be located at a purpose built facility in Lloyd Street Kensington. The immediate catchment area and potential customers for the Company's products is shown on the adjacent map.

Lloyd Street Kensington

Melbourne

1 Alfred Hospital
2 Austin Hospital
3 MIA Moorabbin
4 Monash Medical Centre
5 Peter McCallum Hospital
6 Royal Children's Hospital
7 Royal Melbourne Hospital
8 St Vincent's Hospital
9 Western General Hospital

Features

Welcome to the 2007 Annual Report for Cyclopharm Limited ("Cyclopharm" or the "Company").

2007 was a very exciting year for our Company. We successfully listed on the Australian Securities Exchange ("ASX") in January 2007, and our Technegas business achieved record levels of sales and is well placed for future growth. We continue to develop our Molecular Imaging Business, acquiring our first site in Melbourne, where we have commenced the development of our PET pharmacy and executing agreements to commence the establishment of our second site in Sydney.

On a consolidated basis Cyclopharm's revenue increased 8% to a record full year level of $11.13 million (2006: $10.31 million). Record revenue was driven by the highest level of unit sales in the Company's history for our key products; TechnegasPlus generator ("Generators") and Patient Administration Sets ("PAS"). We are pleased with the continued success of Technegas as it underwrites the future performance of this division of Cyclopharm and is testimony to the enduring market leading nature of the Technegas technology.

As a result of higher operating costs EBIT was $1.61 million (2006: $2.63 million). Borrowings were reduced to $1.51 million (2006: $5.70 million).

Operating costs increased to $6.49 million (2006: $4.95 million). The higher operating costs reflect the investment the Company is making in the expansion of its sales and service network, the establishment of the Molecular Imaging business and corporate costs associated with Cyclopharm being an ASX listed company.

Net profit after tax attributable to members for the year was $1.13 million. Caution must be exercised when comparing the 2007 after tax result with prior years as the Molecular Imaging business had not been formed and Cyclopharm was part of an unlisted group at that time.

Overall, we are satisfied with the progress of the Company's businesses in 2007 as its Technegas footprint has expanded, providing an expanded platform for future growth, and the Molecular Imaging business has begun to take shape.

Divisional Analysis

	Technegas 2007	Technegas 2006	Molecular Imaging 2007	Molecular Imaging 2006	Corporate 2007	Corporate 2006	Total 2007	Total 2006
Revenue	**$**	$	**$**	$	**$**	$	**$**	$
Technegas Generators and other	2,825,405	2,234,685	—	—	—	—	2,865,405	2,234,685
Patient Administration Sets	8,302,819	8,097,147	—	—	—	—	8,302,819	8,097,147
	11,128,224	10,331,832	—	—	—	—	11,128,224	10,331,832
Finance revenue	15,155	—	—	—	86,251	10,856	101,406	10,856
Total divisional revenue	**11,143,379**	**10,331,832**	**—**	**—**	**86,251**	**10,856**	**11,229,630**	**10,342,688**
Expenditure	(8,478,742)	(7,543,042)	(399,039)	(114,938)	(738,504)	(58,544)	(9,616,285)	(7,716,524)
Profit before tax and finance costs	**2,664,637**	**2,788,790**	**(399,039)**	**(114,938)**	**(652,253)**	**(47,688)**	**1,613,345**	**2,626,164**
Finance costs	(21,870)	(123,430)	(265)	—	(201,472)	(163,427)	(223,607)	(286,857)
Profit before income tax	**2,642,767**	**2,665,360**	**(399,304)**	**(114,938)**	**(853,725)**	**(211,115)**	**1,389,738**	**2,339,307**

Molecular Imaging

The Molecular Imaging business is to initially build 3 PET Central Pharmacies ("PET Pharmacies") in Australia. These Pharmacies require extensive and technical input prior to construction. Since raising the necessary capital to commence this business in January 2007, a large part of the planning, design and site feasibilities for the Company's Pharmacies and customer (hospital) PET radiopharmaceutical drug requirements have been completed.

In January 2008, we announced that we have secured the site for our first Pharmacy in Kensington, Victoria. The property is centrally located to many of Melbourne's major hospitals. Construction of the facility is expected to be finished in the third quarter of this year, at which time the fit out of the PET Pharmacy can commence. Production of radiopharmaceuticals is planned for 2009.

At the time of writing this report we have executed agreements with Macquarie University Private Hospital to lease a premises to establish a second PET Pharmacy in North Ryde, Sydney.

Upon securing our second site, the next phases are:

1. To construct and fit-out the PET Pharmacies;
2. Obtain Good Manufacturing Practice certification for each PET Pharmacy; and
3. Obtain regulatory approval for the radio-pharmaceuticals that are to be produced and sold to hospitals with PET imaging facilities.

We remain positive in our outlook for PET radiopharmaceuticals. There have been a number of key important developments around the world in terms of Molecular Imaging businesses and the Board of Cyclopharm remain positive in our outlook for our Company.

No revenue was earned in 2007 by the Molecular Imaging division and costs associated with its development were as follows:

- Expensed (Income Statement) $ 339,304
- Capitalised (Balance Sheet) $ 58,168

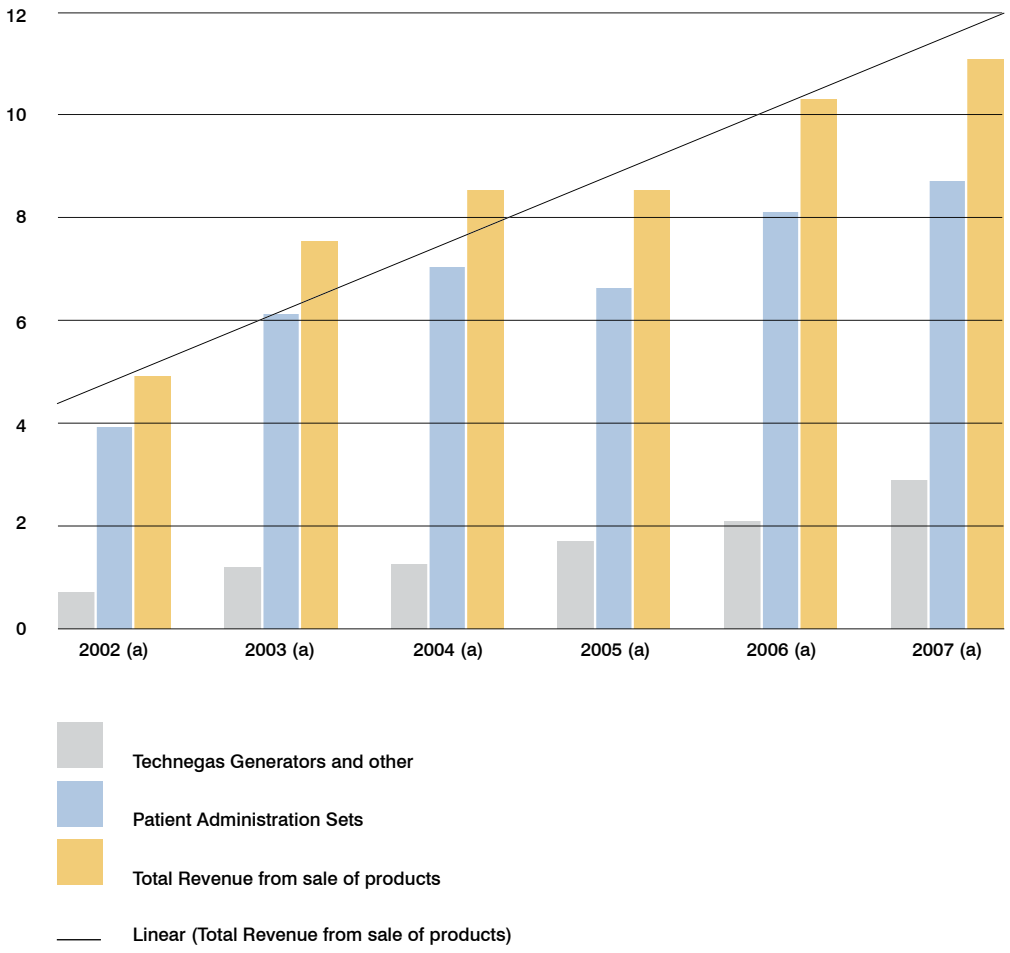
Whilst the government has been slow to revise the Medicare rebate for PET imaging, the emergence of combined technology PET/CT cameras is injecting new commercial viability into the market. We believe this has encouraged radiology and imaging companies to aggressively revise their strategy and to introduce PET imaging capabilities more rapidly. This should result in a significant increase in the number of camera's available to image patients, which ultimately should increase the size of our market demand substantially.

Operating Review

Technegas

As noted above, Cyclopharm's Technegas division achieved record sales levels for PAS and Generators.

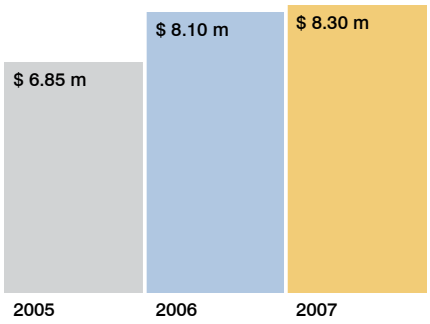
Technegas Revenue Composition by product



Technegas performed extremely well in key markets and the acceptance of the Generator by hospitals (113 units installed in 2007 and 4 units placed and commitments for a further 40 placement generators) bodes well for increased use of PAS (consumables) in future periods. These Generator sales delivered revenue of $2.83 million (2006: $2.23 million). The commitment by hospitals to either replace their old Technegas generator or install new Generators for the first time is a testimony to the Company's proprietary technology. Importantly, it "cements" Technegas as the preferred diagnostic method for detecting pulmonary emboli with the Company's existing customers and expanding markets. This inturn underpins the recurring revenue base from the one time, one patient use of PAS.

PAS or consumable revenue amounted to $8.30 million (176,700 units) for the current period (2006: $8.09 million and 171,050 units). Revenue from all activities relating to Technegas was up 8% to $11.13 m (2006: $10.33 m).

Revenue Composition



Group, PAS Revenue

Group, Technegas and Other Revenue

Regional Review

Canada

Canada continues to be our star performer achieving accretive generator and PAS volume growth of 100% and 37% respectively. We achieved revenue growth of 46% compared to the prior year and expect growth to continue in 2008.

Europe

France

France our largest market continued to perform solidly. Revenue increased to $2.84 million or 15%. The sale of 27 generators (2006: 16 generators) demonstrates the success of our replacement strategy and underlines the importance of Technegas in this market. We are grateful to our trading partners Cyclopharma Laboratories SA for their continued support in this market.

Germany

We achieved strong sales of Technegas generators in Germany with 15 generator sales (2006: 9 generators) and revenue growth of 50%. Much of the success in Germany is attributed to the acceptance of our "small user package" which has been successful in building the installed base of generators in Germany to drive PAS usage.

Europe other

Pleasingly, the regulatory approvals identified as restricting sales in the first half of 2007 were received late in the year. During the year we appointed new distributors in Portugal and Italy. Consequently, sales grew by 6%. During 2007, we agreed to place 40 generators in Italy which will underpin the use of our product by the medical community in Italy.

Asia

Generator sales to Asia declined from 14 generators in 2006 to 9 generators in 2007. The decline resulted from the embargo on purchasing medical equipment by the Chinese government as a result of the corruption scandal that effected sales of medical equipment during 2006 and during the first half of the 2007 year. PAS sales grew 62% on the prior year. China and Hong Kong were strong performers and we are hopeful for continued growth in these markets.

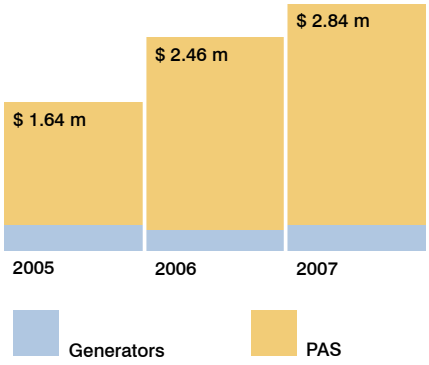
Australia

Sales of PAS grew 6% to 36.750 units in 2007. Generator sales declined from 19 units in 2006 to 6 units in 2007 as key customers replaced their older Technegas machine with the newer TechnegasPlus machine in 2006.

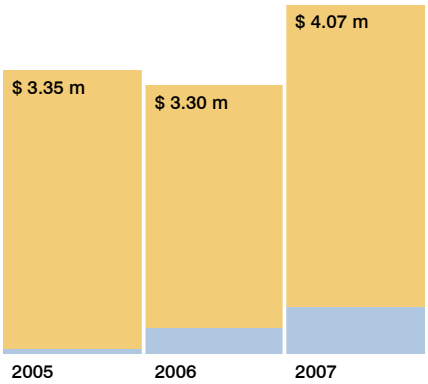
Latin America

Cyclopharm continues to invest time and effort into developing the Latin American market. Certain regulatory approvals expected during 2007, such as Brazil, are yet to be received and we expect 2008 to show a significant improvement.

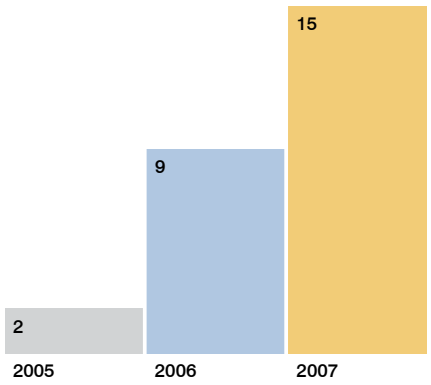
France revenue



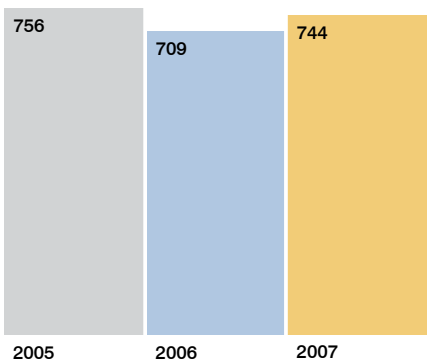
Europe-Other revenue



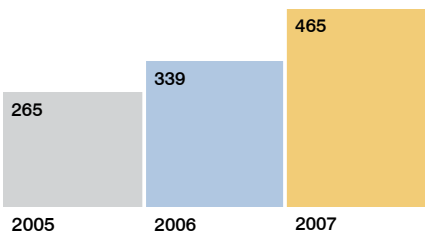
Germany, Technegas Generator Sales



Australia, PAS Sales (boxes)



Canada, PAS Sales (boxes)



New Markets

Russia
During 2007, Cyclopharm completed its first sale of Technegas products into Russia. Russia represents the largest market in Europe where Technegas is not sold. There are in excess of 700 Nuclear Medical departments in Russia which, are all potential users of Technegas.

Brazil
Brazil represents a substantial opportunity for Technegas within Latin America. Our regulatory approval has experienced frustrating bureaucratic delays but we continue to work with local authorities to obtain regulatory approval in this market. Brazil has 350 nuclear medical departments and has one of the best funded health systems in the region.

Other
We continued to develop new markets where possible. We continue to invest time and work to develop Tunisia and Oman, Panama, Dominican Republic, Columbia, Peru and Venezuela. We have made inroads into Argentina, Uruguay, Chile, Costa Rica and Mexico.

United States of America - FDA
We continue to focus energies on obtaining approval to sell Technegas products in the USA and we are making good progress in this regard. There are more than 7,000 Nuclear Medical sites in the USA and if Technegas is approved for sale the financial opportunity for Cyclopharm is immense.

We are collecting anecdotal evidence that suggests the USA is moving away from CTPA practises for lung imaging because of the higher risk of radiation exposure and adverse reaction to contrast media used in this sort of study. This is a very positive trend for Technegas, as physicians move back towards lung ventilation type scans to diagnose Pulmonary Embolism. Technegas is widely regarded as a superior product for lung imaging when compared with other ventilation scanning methods.

As previously advised, the FDA registration program requires preparation and submission of a detailed New Drug Application ("NDA") that describes the manufacturing and quality control procedures, in vitro and in vivo pre-clinical information, and a minimum of two well controlled clinical studies in human patients. Our NDA must include evidence of clinical effectiveness and completely describe the safety characteristics of Technegas.

Our Phase III clinical trial was finalised in October 2007, a milestone event for Cyclopharm in its quest to have Technegas approved for sale in the USA. All the information associated with our clinical trial, including the data base and all other associated materials have been provided to our regulatory experts in the USA, Certus International, who together with Dr Robert Wolfangel are responsible for preparing and submitting our final NDA.

Substantial work has been completed in terms of finalising our NDA application. The studies required have been collected, logged in the database, audited and verified. Data analysis and the preparation of the statistical and medical summary reports have commenced. The Meta analysis which will accompany the safety data contained in the data base is progressing very well and is designed to consolidate and statistically analyse data selected from several well-controlled clinical studies published in peer reviewed journals. The process of completing all the parts of our NDA is progressing well.

New Markets continued

The strength of our NDA application rests on the findings of the Company's experts. Cyclopharm remains optimistic that the clinical findings will conclusively document a diagnostic advantage for Technegas (as it has in all other western and developed countries in the world) and this advantage will receive a positive recommendation from the FDA.

Whilst Cyclopharm originally planned to submit our NDA by December 2007, our experts have experienced some minor delays in terms of obtaining all the information they required to complete and submit our application. We believe we are on track to submit our NDA during the first half of 2008. Whilst we are still hoping to have approval to sell Technegas in the United States towards the end of 2008, it is increasingly likely that our approval, if obtained, will be in early 2009.

Operating Expenditure

An analysis of operating expenditure as it relates to each of our business units is detailed below.

Summary of expenses by business division

	Technegas 2007	Technegas 2006	Molecular Imaging 2007	Molecular Imaging 2006	Corporate 2007	Corporate 2006	Total 2007	Total 2006
Revenue	**$**	$	**$**	$	**$**	$	**$**	$
Total divisional revenue	(11,143,379)	(10,331,832)	—	—	(86,251)	(10,856)	(11,229,630)	(10,342,688)
Expenditure*	(8,478,742)	(7,543,042)	(399,039)	(114,938)	(738,504)	(58,544)	(9,616,285)	(7,716,524)
Percentage of revenue	76%	73%					86%	75%

* Includes costs of materials and manufacturing.

Technegas

Costs in our Technegas business were negatively impacted by one off Legal and Patent costs relating to the developments of new Technegas products and charges relating to prior periods ($370,000). Most other operating costs relating to the Technegas business were in line with previous years.

Molecular Imaging

Costs of $339,304 associated with the Molecular Imaging business were expensed during the year and no revenue was earned during the period.

Corporate

2007 was the first year that Cyclopharm became a publicly listed company and as such costs associated with being a publicly listed company have been incurred for the first time. These included items such as the staff share plan costs, compliance cost, administrative costs and directors' fees. Total corporate costs were $738,504 (2006: $58,544).

Outlook

Cyclopharm is well placed to achieve its business strategies for 2008 and beyond. We remain focussed on developing Cyclopharm into a substantial radiopharmaceutical company in the region. Our negotitations to establish our PET Pharmacies continue to develop and we are making good progress. As a Company we are focus to choose the right partners and locations for our PET Pharmacies.

The Company will continue to aggressively pursue the development of its Molecular Imaging business. Concurrently, we will continue to focus on developing new markets for Technegas, aggressively pursuing approval by the USA FDA to sell Technegas in the USA.

Our Technegas product is well poistioned for growth with new markets likely to come on stream in 2008, including our key focus and we believe our opportunity to develop this market, should we obtain the necessary approvals is substantial.

With the impact of new contracted sales in Italy and some new markets opening up for Technegas we expect the Company to experience substantial growth in 2008. Management have not forecast any contribution from the Molecular Imaging division or the sale of Technegas in the USA. We expect operating ependiture to be lower in 2008 and certain operating costs will be reduced. Costs associated with the construction and commissioning of our PET Pharmacies will be capitalised in 2008 (2007: $399,304 expensed).

It is my intention to step down as Managing Director by the end of the year. Cyclopharm's next phase of development should be in the hands of a radiopharmaceutical practioner. I would like to take this opportunity to publicly thank my staff and 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 Henry Townsing, Mr David Heaney and Dr Bernard Salin (who resigned in January 2008) for their commitment in building Cyclopharm into a very significant radiopharmaceutical company.

John Sharman
Managing Director

Directors' Report

The Directors of Cyclopharm submit their report for the year ended 31 December 2007.

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 2006 and also serves as Chairman of the Audit, Board Nominations, and Remuneration Committees 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 59 years old.

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

Mr Sharman has been a member of the Board since 21 November 2005. He was appointed Managing Director of Cyclopharm on 1 September 2006. Prior to that John was the Executive Director of Vita Life and has been effectively in control of the Cyclopharm Group since early 2004. John 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 41 years old.

Mr D J Heaney – Non-Executive Director
Mr Heaney was appointed to the Cyclopharm Board on 20 November 2006. David serves as a member of the Audit and Board Nominations Committees.

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

David 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 US.

David lives in Melbourne and is 63 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)
- Redflex Holdings Limited (between 22 March 2002 and 25 November 2002).

Mr H G Townsing – Non Executive Director
Dip Val

Mr Townsing has been a member of the Board since 22 November 2005. Mr Townsing serves as a member of the Board Nominations and Remuneration Committee.

Henry 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. Henry is currently a non-Executive director of the re-listed Vita Life Sciences entity at the date of this report. He is a director of Normandy Finance & Investments Asia Ltd and several other companies.

Henry lives in Melbourne and is 52 years old.

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

Mr Salin was appointed to the Cyclopharm Board on 1 September 2006. Dr Salin's resignation from the Board was announced on 25 January 2008.

Bernard 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.

Bernard lives in Clermont Ferrand, France and is 65 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 2006	Granted as remuneration under long term incentive schemes	Shares purchased under Initial Public Offering	On market purchases	On market sales	31 December 2007
Directors							
Mr V R Gould	NBI	12,860,443	—	4,148,000	3,331,418	(1,487,812)	18,852,049
Mr D J Heaney	NBI	100,000	—	72,500	—	—	172,500
Mr B C Salin	NBI	233,189	—	—	—	—	233,189
Mr J S Sharman	BI	1,477,255	1,400,000	1,007,500	—	(500,000)	3,384,755
Mr J S Sharman	NBI	243,726	—	—	28,000	(88,821)	182,905
Mr H G Townsing	NBI	13,257,807	—	127,126	—	(421,344)	12,963,589
Key Management Personnel							
Prof N Morcos	BI	58,297	1,000,000	—	—	—	1,058,297
Mr C Buttigieg	NBI	30,000	100,000	50,000	20,000	—	200,000
Ms L Mc Lauchlin	BI	30,000	100,000	—	—	—	130,000
Mr Bjorn Altman	BI	—	100,000	—	—	—	100,000

NBI: Non beneficial interests
BI: Beneficial interest

Dividends

No dividends were declared or paid during the financial year.

The balance of franking credit available for future dividend payments is $61,730 (2006: $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 $1,131,239 (2006: $2,027,980).

Shares issued during the year

On 11 January 2007, Cyclopharm completed its IPO raising $6,308,953 (after offer costs) issuing 23,394,949 new shares and welcomed 440 new shareholders. Cyclopharm was admitted to the official list of the Australian Securities Exchange on 18 January 2007. These monies were raised to part fund the balance of costs associated with the Company's application to the US Food & Drug Administration (FDA) to facilitate the sale of Technegas in the USA, to provide the working capital and to part fund capital investment required to establish three PET central pharmacies in Australia.

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, Mr John Sharman. On 29 June 2007, 3,000,000 new shares in the Cyclopharm were issued via non-recourse loans to key employees and the Managing Director under the Plan.

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.

Significant Events after Balance Date

PET Central Pharmacy Site

In January 2008, we announced that we had exchanged contracts on a property in Kensington, Melbourne to be established as the location of our first PET pharmacy site. The Kensington site will be purpose designed and built and located within short proximity to key nuclear medicine departments.

In March 2008, we announced that we have entered into an agreement with Macquarie University Private Hospital to lease a premises to establish a PET pharmacy in North Ryde, Sydney. Cyclopharm will have the opportunity to collaborate with world class clinicians and researchers.

Likely Developments and Future Results

FDA

Cyclopharm's New Drug Application (aimed at getting Technegas approved for sale in the USA) is progressing. Our plan is to make our first sales into the USA sometime during 2009.

New Business - Molecular Imaging

Work continues toward developing our PET pharmacies to supply PET radiopharmaceuticals to the Australian market.

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 were elected by members at the Annual General Meeting held on 8 May 2007 excluding Mr John Sharman, the Managing Director. As Managing Director, the Constitution does not require Mr John Sharman to be elected by members.

Dr Bernard Salin's resignation from the Board of Cyclopharm was announced on 25 January 2008 to the ASX.

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 2008 was $26,180 (For the year ending 31 December 2007 $22,707).

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 25.

Fees of $13,900 have been paid for share registry services and fees of $19,000 for taxation services are outstanding as payable to Gould Ralph Pty Limited (an associate of Russell Bedford NSW) for the year ended 31 December 2007 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 Managing Director, senior executives, general managers and secretaries of the parent and the group.

The remuneration disclosures set out in the tables on pages 19 to 20 have been audited.

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**	15%

* Dr Salin resigned from the Board of Cyclopharm Limited in January 2008.

	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 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%

* In mid August 2007, Mr Bjorn Altmann extended his role from General Manager – Germany to the role of General Manager – Europe.

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	Termination benefits		
2006 Consolidated	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Directors									
Vanda Gould Non-Executive Director	15,000	—	—	—	—	—	—	**15,000**	0%
David Heaney Non-Executive Director	1,250	—	—	—	—	—	—	**1,250**	0%
Bernard Salin Non-Executive Director	6,645	—	—	—	—	—	—	**6,645**	0%
Henry Townsing Non-Executive Director	7,500	—	—	—	—	—	—	**7,500**	0%
Executive Directors									
John Sharman Managing Director	54,733	—	—	—	—	—	—	**54,733**	0%
David Rundell* Chief Executive Officer	43,576	3,920	—	—	—	—	—	**47,496**	0%
Total Directors' Compensation	**128,704**	**3,920**	**—**	**—**	**—**	**—**	**—**	**132,624**	0%

*Mr David Rundell was a director of Vita Medical Limited and resigned on 5 May 2006.

	Short-term employee benefits				Post employment benefits			Total	Performance related
	Salary & Fees	Superannuation	Cash Bonus	Non-monetary benefits	Superannuation	Share-based payment	Termination benefits		
2006 Consolidated	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Key Management Personnel									
Nabil Morcos* Chief Operating Officer	68,750	6,188	—	—	—	—	—	**74,938**	0%
Gary Somerville Quality and Regulatory Manager	99,756	8,972	—	—	—	—	—	**108,728**	0%
Graham Phillips Finance Manager	88,896	7,992	11,000	—	—	—	—	**107,888**	10%
Charles Buttigieg Sales and Marketing Manager, Australia	86,592	7,784	—	17,919	—	—	—	**112,295**	0%
Jean-Louis Claude** General Manager Europe	149,502	—	16,612	6,638	—	—	—	**172,752**	10%
Lynn McLauchlin General Manager Canada	128,966	—	28,060	—	—	—	—	**157,026**	18%
Total Key Management Personnel's Compensation	**622,462**	**30,936**	**55,672**	**24,557**	**—**	—	—	**733,627**	8%
Total Compensation	**751,166**	**34,856**	**55,672**	**24,557**	**—**	—	—	**866,251**	6%

* Professor Nabil Morcos commenced employment with Cyclomedica Australia in August 2006.
** All employment arrangements with Mr Jean-Louis Claude ceased in July 2007.

Remuneration Report continued

Remuneration committee

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

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 2006 when shareholders approved an aggregate remuneration of $100,000 per year.

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

Each director receives a fee as set out in the 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.

Remuneration Report continued

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

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

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 2007, 3,000,000 new shares in the Cyclopharm were issued via non-recourse loans to key employees and the Managing Director.

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 Sharman, is employed under a rolling contract. Mr Sharman's current contract commenced on 1 September 2006. Under the terms of the present contract:

- Mr Sharman receives fixed remuneration of $200,000 (plus superannuation) per annum.
- Mr Sharman 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's is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

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	11	10	2	2	—	—	1	1
Mr J S Sharman	11	10	—	—	—	—	—	—
Mr D J Heaney	11	11	2	1	—	—	—	—
Mr B C Salin	11	4	—	—	—	—	—	—
Mr H G Townsing	11	10	—	—	—	—	1	1

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.

Dated at Melbourne this 17th day of March 2008.

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

John Sharman
Managing Director

Russell Bedford
New South Wales

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

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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 2007 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, 17 March 2008

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 2007. 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 2007, 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 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 13.6% 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 14. 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 of 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 8.2 (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 Sharman, 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 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 of the highest-paid officers of the Company are set out in the Remuneration Report. Non-executive Directors' fees and payments are reviewed annually by the Board. Executive Directors are, subject to the information above, paid in salary or fees.

ASX recommendations 8.1, 8.2, 8.3 (refer to best practice summary)

(b) Equity-based key management personnel remuneration

The Long Term Incentive Plan (LTIP) and Mr Sharman's participation in the LTIP as a Director of the Company were 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

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

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

ASX Recommendations 3.2 (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
2.5 Provide the information in the Guide to reporting on this Principle 2	2a 2b 2d 2j 3b	comply

continued

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		
7.3 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 8	5b	comply

Income Statement

for the year ended 31 December 2007

		Consolidated		Parent	
		2007	2006	2007	2006
	Notes	$	$	$	$
Continuing Operations					
Sales revenue	4	11,128,224	10,331,832	—	—
Finance revenue		101,406	10,856	86,251	—
Other revenue	4	—	—	784,110	—
Total Revenue		**11,229,630**	**10,342,688**	**870,361**	—
Costs of materials and manufacturing	4a	(3,121,918)	(2,858,065)	—	—
Employee benefits expense	4e	(3,211,965)	(2,355,334)	(447,027)	(51,870)
Advertising and promotion expense		(202,702)	(136,331)	—	—
Depreciation and amortisation expense	4c	(315,391)	(230,982)	—	—
Freight and duty expense		(457,334)	(296,917)	—	—
Research and development expense	4d	(28,762)	(20,162)	(5,000)	—
Administration expense	4f	(2,164,542)	(1,572,594)	(429,868)	(12,384)
Other expenses		(113,671)	(246,139)	—	—
Profit / (loss) before tax and finance costs		**1,613,345**	**2,626,164**	**(11,534)**	**(64,254)**
Finance costs	4b	(223,607)	(286,857)	(201,472)	(234,519)
Profit / (loss) before income tax		**1,389,738**	**2,339,307**	**(213,006)**	**(298,773)**
Income tax (expense) / credit	5	(258,499)	(311,327)	65,600	106,973
Net profit / (loss) attributable to members of the parent		**1,131,239**	**2,027,980**	**(147,406)**	**(191,800)**

Earnings per share (cents per share)	6	**cents**	cents
Basic earnings per share for continuing operations		0.83	1.87
Basic earnings per share		0.83	1.87
Diluted earnings per share		0.83	1.87

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

Balance Sheet

as at 31 December 2007

		Consolidated		Parent	
		2007	2006	2007	2006
	Notes	$	$	$	$
Assets					
Current Assets					
Cash and cash equivalents	7	1,204,543	1,403,328	486,609	620,845
Trade and other receivables	8	3,978,850	3,445,122	21,098	16,326
Inventories	9	2,348,074	2,013,488	—	—
Other assets – prepayments		232,262	148,606	—	—
Total Current Assets		**7,763,729**	**7,010,544**	**507,707**	**637,171**
Trade and other receivables	8	3,422	145,830	3,143,803	1,307,458
Property, plant and equipment	10	973,402	847,235	—	—
Other financial assets	11	—	—	6,084,516	6,064,863
Intangible assets	12	1,909,545	1,057,743	—	—
Deferred tax assets	5	327,451	144,894	246,763	43,922
Total Non-current Assets		**3,213,820**	**2,195,702**	**9,475,082**	**7,416,243**
Total Assets		**10,977,549**	**9,206,246**	**9,982,789**	**8,053,414**
Liabilities					
Current Liabilities					
Trade and other payables	13	1,252,937	2,647,223	147,599	1,162,800
Interest bearing loans and borrowings	14	—	1,346,893	—	725,000
Provisions	15	331,981	228,697	60,000	—
Tax liabilities	5	—	197,745	9,636	—
Total Current Liabilities		**1,584,918**	**4,420,558**	**217,235**	**1,887,800**
Non-current Liabilities					
Interest bearing loans and borrowings	14	1,511,500	4,975,000	1,511,500	4,975,000
Provisions	15	23,645	120,769	—	—
Deferred tax liabilities	5	515,342	255,979	515,342	—
Total Non-current Liabilities		**2,050,487**	**5,351,748**	**2,026,842**	**4,975,000**
Total Liabilities		**3,635,405**	**9,772,306**	**2,244,077**	**6,862,800**
Net Assets / (Liabilities)		**7,342,144**	**(566,060)**	**7,738,712**	**1,190,614**
Equity					
Contributed Equity	16	7,841,223	1,237,703	8,004,252	1,382,414
Employee equity benefits reserve	23	73,666	—	73,666	—
Foreign currency translation reserve		(331,254)	(431,033)	—	—
Accumulated (losses)		(241,491)	(1,372,730)	(339,206)	(191,800)
Total Equity		**7,342,144**	**(566,060)**	**7,738,712**	**1,190,614**

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 2007

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Operating activities					
Receipts from customers		10,512,326	9,125,112	—	—
Payments to suppliers and employees		(10,228,798)	(7,618,288)	(1,380,522)	(80,559)
Interest received		86,178	10,856	86,251	—
Borrowing costs paid		(223,607)	(286,856)	(201,472)	(234,519)
Income tax paid		—	(61,730)	—	—
Net cash flows from / (used) operating activities	7	**146,099**	**1,169,094**	**(1,495,743)**	**(315,078)**
Investing activities					
Acquisition of minority interest in subsidiaries		—	(6,168,095)	(19,653)	(6,064,863)
Purchase of property, plant and equipment		(404,013)	(17,695)	—	—
Payments for defered expenditure		(907,677)	(495,574)	—	—
Other		—	800	—	—
Net cash flows used in investing activities		**(1,311,690)**	**(6,680,564)**	**(19,653)**	**(6,064,863)**
Financing activities					
Proceeds from issue of shares		7,018,484	1,695,300	7,018,484	1,695,300
Costs of raising capital		(396,634)	(312,897)	(396,646)	(312,897)
Proceeds from borrowings		161,500	6,000,000	161,500	6,000,000
Repayment of borrowings		(4,350,000)	(300,000)	(4,350,000)	(300,000)
Loans from / (repaid) related entities		—	1,102,055	—	1,269,763
Loans to related entities		—	(1,238,377)	49,887	(1,351,380)
Repayment of loan from external entity		(1,566,322)	—	(1,102,065)	—
Net cash flows from financing activities		**867,028**	**6,946,081**	**1,381,160**	**7,000,786**
Net (decrease) / increase in cash and cash equivalents		**(298,563)**	**1,434,611**	**(134,236)**	**620,845**
Cash and cash equivalents					
at beginning of the period	7	**1,403,328**	**152,552**	620,845	—
net foreign exchange differences from translation of cash and cash equivalents		99,778	(183,835)	—	—
at end of the period	7	**1,204,543**	**1,403,328**	**486,609**	**620,845**

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 2007

Consolidated	Share capital $	Other Contributed Equity $	Total Contributed Equity $	Accumulated (Losses) $
Balance at 1 January 2006	**5,132,627**	**1,294,724**	**6,427,351**	**(2,690,316)**
Currency translation difference	—	—	—	—
Total income (expense) for the year recognised directly in equity	—	—	—	—
Profit for the year	—	—	—	2,027,980
Total income (expense) for the year	—	—	—	**2,027,980**
Equity dividend	—	—	—	(694,460)
Acquisition of minority interest in controlled entities	—	(6,572,051)	(6,572,051)	—
Issue of share capital	1,695,300	—	1,695,300	—
Capital raising costs	(312,897)	—	(312,897)	—
Other	—	—	—	(15,934)
Balance at 31 December 2006	**6,515,030**	**(5,277,327)**	**1,237,703**	**(1,372,730)**
Balance at 1 January 2007	**6,515,030**	**(5,277,327)**	**1,237,703**	**(1,372,730)**
Cost of share based payments	—	—	—	—
Currency translation difference	—	—	—	—
Total income (expense) for the half year recognised directly in equity	—	—	—	—
Profit for the year	—	—	—	1,131,239
Total (expense) for the year	—	—	—	**1,131,239**
Issue of share capital	7,018,484	—	7,018,484	—
Capital raising costs	(396,634)	—	(396,634)	—
Other	—	(18,330)	(18,330)	—
Balance at 31 December 2007	**13,136,880**	**(5,295,657)**	**7,841,223**	**(241,491)**

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

Foreign Currency Translation Reserve	Employee Equity Benefits Reserve	Attributable to Equity Holders of the Parent	Minority Interests	Total
$	$	$	$	$
(624,412)	**—**	**3,112,623**	**(66,816)**	**3,045,807**
193,379	—	193,379	—	193,379
193,379	—	193,379	—	193,379
—	—	2,027,980	—	2,027,980
193,379	**—**	**2,221,359**	**—**	**2,221,359**
—	—	(694,460)	—	(694,460)
—	—	(6,572,051)	66,816	(6,505,235)
—	—	1,695,300	—	1,695,300
—	—	(312,897)	—	(312,897)
—	—	(15,934)	—	(15,934)
(431,033)	**—**	**(566,060)**	**—**	**(566,060)**
(431,033)	**—**	**(566,060)**	**—**	**(566,060)**
—	73,666	73,666	—	73,666
99,779	—	99,779	—	99,779
99,779	73,666	173,445	—	173,445
—	—	1,131,239	—	1,131,239
99,779	**73,666**	**1,304,684**	**—**	**1,304,684**
—	—	7,018,484	—	7,018,484
—	—	(396,634)	—	(396,634)
—	—	(18,330)	—	(18,330)
(331,254)	**73,666**	**7,342,144**	**—**	**7,342,144**

Statement of Changes in Equity

for the year ended 31 December 2007

Parent	Share capital $	Accumulated Losses $	Foreign Currency Translation Reserve $	Attributable to Equity Holders of the Parent $	Minority Interest $	Employee Equity Benefits Reserve $	Total $
Balance at 1 January 2006	**10**	**—**	**—**	**10**	**—**	**—**	**10**
Loss for the year	—	(191,800)	—	(191,800)	—	—	(191,800)
Issue of share capital	1,695,300	—	—	1,695,300	—	—	1,695,300
Capital raising costs	(312,896)	—	—	(312,896)	—	—	(312,896)
Balance at 31 December 2006	**1,382,414**	**(191,800)**	**—**	**1,190,614**	**—**	**—**	**1,190,614**
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	(396,645)	—	—	(396,646)	—	—	(396,646)
Balance at 31 December 2007	**8,004,252**	**(339,206)**	**—**	**7,665,046**	**—**	**73,666**	**7,738,712**

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 2007 was authorised for issue with a resolution of the directors on 14 March 2008.

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 Director's 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 2007-3	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 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116, AASB 138, and Interpretations 1 &12]	Amending standard issued as a consequence of revisions to AASB 123 *Borrowing Costs.*	1 January 2009	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no 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 2007-8	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
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 2007-3 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 2007-8 above,	1 January 2009
AASB 123 (revised)	Borrowing Costs	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset must be capitalised.	1 January 2009	Refer to AASB 2007-6 above.	1 January 2008
AASB Interpretation 4 (revised)	Determining whether an Arrangement contains a Lease	The revised Interpretation specifically scopes out arrangements that fall within the scope of AASB Interpretation 12.	1 January 2008	Refer to AASB 2007-2 above.	1 January 2008

*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 *AASB 3 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 profit and loss, 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 Australian 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 Australian tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is transferred to the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax consolidated group.

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

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

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.

Impairment

The carrying amount of plant and equipment is reviewed annually by directors to ensure for 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	**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 as the assets are substantially ready for their intended use or sale.

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

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

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 8 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.

Certain expenditure in establishing and commissioning Cyclopharm's PET central Pharmacies have 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.

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;
- 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 performance 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

Finance Leases

Leases of fixed assets, which substantially transfer to the Group all the risks and benefits incidental to ownership of the leased item, but not the legal ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the 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 AASB 139: Recognition and Measurement of Financial Instruments.

Loans and receivables

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

De-recognition of financial instruments

Financial assets

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

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

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

Financial liabilities

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

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 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 following 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 2006 and 31 December 2007.

Geographic segments

The following tables under the heading Geographic Segments present revenue information and certain asset information regarding business segments for the years ended 31 December 2006 and 31 December 2007.

Business Segments

Consolidated	Technegas	Molecular Imaging	Unallocated	Total
For the period ended 31 December 2007	**$**	**$**	**$**	**$**
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**
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

Business Segments

Consolidated	Technegas	Molecular Imaging	Unallocated	Total
For the period ended 31 December 2006	**$**	**$**	**$**	**$**
Revenue				
Sales to external customers	10,331,832	—	—	10,331,832
Finance revenue	—	—	10,856	10,856
Total segment revenue	**10,331,832**	**—**	**10,856**	**10,342,688**
Result				
Profit / (loss) before tax and finance costs	**2,788,790**	**(114,938)**	**(47,688)**	**2,626,164**
Finance costs	(123,430)	—	(163,427)	(286,857)
Profit / (Loss) before income tax	**2,665,360**	**(114,938)**	**(211,115)**	**2,339,307**
Assets and liabilities				
Segment assets	8,380,269	—	825,977	9,206,246
Segment liabilities	(4,011,571)	—	(5,760,735)	(9,772,306)
Other segment information				
Capital expenditure	(966,296)	—	—	(966,296)
Depreciation	(201,165)	—	—	(201,165)
Amortisation	(29,817)	—	—	(29,817)

Geographic Segments

Consolidated	Australia	Europe	Canada	Asia	Other	Total
For the year ended 31 December 2007	**$**	**$**	**$**	**$**	**$**	**$**
Revenue						
Sales to external customers	1,763,451	7,593,663	1,385,927	258,640	126,543	11,128,224
Finance revenue	101,197	209	—	—	—	101,406
Total segment revenue	**1,864,648**	**7,593,872**	**1,385,927**	**258,640**	**126,543**	**11,229,630**
Assets						
Segment assets	5,221,513	5,153,555	602,481	—	—	10,977,549

Consolidated	Australia	Europe	Canada	Asia	Other	Total
For the year ended 31 December 2006	**$**	**$**	**$**	**$**	**$**	**$**
Revenue						
Sales to external customers	1,807,130	7,000,494	947,086	418,757	158,365	10,331,832
Finance revenue	10,856	—	—	—	—	10,856
Total segment revenue	**1,817,986**	**7,000,494**	**947,086**	**418,757**	**158,365**	**10,342,688**
Assets						
Segment assets	4,217,200	4,381,106	607,940	—	—	9,206,246

4. Revenues and Expenses

		Consolidated		Parent	
		2007	2006	2007	2006
		$	$	$	$
Revenue					
Sales revenue		11,128,224	10,331,832	—	—
Other Revenue					
Management Fees		—	—	784,110	—
Expenses					
a) Cost of materials and manufacturing					
Cost of materials and manufacturing		3,121,918	2,858,065	—	—
b) Finance costs					
Interest on loans from external parties		223,607	249,402	201,472	71,092
Interest on loans from related parties		—	37,455	—	163,427
Total finance costs		**223,607**	**286,857**	**201,472**	**234,519**
c) Depreciation and amortisation					
Amortisation of leased plant & equipment		753	6,712	—	—
Depreciation of plant and equipment		270,890	195,277	—	—
Depreciation of leasehold improvements		6,203	5,888	—	—
Amortisation of intangibles		37,545	23,105	—	—
		315,391	**230,982**	—	—
d) Research & development					
Research costs		28,762	20,162	5,000	—
		28,762	**20,162**	**5,000**	—
e) Employee benefits expense					
Salaries and wages		3,015,962	2,285,450	254,624	6,433
Director and consultant fees		122,337	69,884	118,737	45,437
Share-based payment expense	23a	73,666	—	73,666	—
		3,211,965	2,355,334	447,027	51,870
f) Administration expense					
Legal, Patent renewal and professional costs		845,650	486,766	281,197	—
Office and facility costs		802,665	563,169	120,821	10,836
Travel and motor vehicle costs		516,227	522,659	27,850	1,548
		2,164,542	1,572,594	429,868	12,384

5. Income Tax

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Current income tax (expense) / benefit	(197,439)	(453,896)	47,600	106,973
Deferred tax (expense) / benefit	(61,060)	142,569	18,000	—
Income tax reported in income statement	**(258,499)**	**(311,327)**	**65,600**	**106,973**
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:				
Accounting profit / (loss) before income tax	**1,389,739**	**2,339,307**	**(213,006)**	**(298,773)**
Statutory income tax rate of 30%	(416,922)	(701,792)	63,902	89,632
Expenditure not allowable for income tax purposes	(972)	(12,531)	—	(233)
Share based payments for which no deduction is obtained	(22,100)	—	(22,100)	—
Share issue costs taken directly to equity	23,798	18,774	23,798	18,774
Effects of lower rates on overseas income	219,483	247,896	—	—
Tax expense offset against carry forward tax losses	(63,355)	64,251	—	(1,200)
Tax losses not recognised in foreign subsidiaries	1,569	72,075	—	—
Total income tax (expense) / benefit	**(258,499)**	**(311,327)**	**65,600**	**106,973**
Effective income tax rate	(18.6%)	(13.3%)	(30.8%)	(35.8%)
Current tax liabilities				
Current income tax liability	**—**	**197,745**	**9,636**	—
Deferred tax assets / liabilities				
Deferred tax assets and liablities relate to the following:				
Deferred tax assets from temporary differences on:				
Provisions	104,122	97,340	18,000	—
Tax losses of parent entity brought to account	155,773	108,173	155,773	108,173
Tax losses / (payable) transferred from subsidiary	63,355	(64,251)	72,990	(64,251)
Other	4,201	3,632	—	—
Total deferred tax assets	**327,451**	**144,894**	**246,763**	**43,922**
Deferred tax liabilities from temporary differences on:				
Capitalised expenditure	515,342	255,979	515,342	—
Total deferred tax liabilities	**515,342**	**255,979**	**515,342**	—

6. Net Tangible Assets and Earnings Per Share

Net Tangible Assets per share

	Consolidated	
	2007	2006
	$	$
Net assets per share	0.08	0.08
Net tangible assets per share	0.07	0.08
	Number	Number
Weighted average number of ordinary shares for net assets per share	136,151,755	108,555,494

Earnings per share

	Consolidated	
	2007	2006
	cents	cents
	$	$
Basic earnings per share for continuing operations	0.83	1.87
Basic earning per share	0.83	1.87
Diluted earnings per share	0.83	1.87
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	136,151,755	108,555,494

7. Cash and Cash Equivalents

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Cash at bank and in hand	1,204,543	1,403,328	486,609	620,845
Total cash and cash equivalents	**1,204,543**	**1,403,328**	**486,609**	**620,845**

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.
The fair value of cash equivalents is $1,204,543 (2006: $1,403,328).

Reconciliation of Cash Flow Statement	**2007**	**2006**	**2007**	**2006**
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:				
Cash at bank and in hand	1,204,543	1,403,328	486,609	620,845
	1,204,543	**1,403,328**	**486,609**	**620,845**
a) Reconciliation of net profit / (loss) after tax to net cash flows from operations				
Net profit / (loss) after tax	1,131,239	2,027,980	(147,406)	(191,800)
Adjustments for non-cash income and expense items				
Depreciation	277,093	201,165	—	—
Amortisation	38,298	29,817	—	—
Movement provision for doubtful debts	(3,027)	(70,478)	—	—
Movement provision for employee benefits	18,233	66,917	—	—
Movement provision for warranties	—	(7,500)	—	—
Movement in related party loan balance resulting from transfer of tax liability	—	—	—	(63,051)
Movement in employee equity benefits reserve	73,666	—	73,666	—
Movement in other provisions	(12,072)	55,000	60,000	—
	1,523,430	**2,302,901**	**(13,740)**	**(254,851)**
Increase / decrease in assets and liabilities				
(Increase) / decrease in receivables	(605,203)	(237,428)	(645,491)	(16,305)
(Increase) / decrease in inventories	(334,586)	(796,135)	—	—
(Increase) / decrease in other receivables	(7,668)	(539,661)	—	—
(Increase) / decrease in deferred tax assets	(182,557)	(51,992)	—	(43,922)
(Increase) / decrease in related party loans	(15,227)	185,909	(923,376)	—
(Increase) / decrease in creditors	(292,221)	(42,978)	86,864	—
(Increase) / decrease in current tax liabilities	(199,233)	156,013	—	—
(Increase) / decrease in deferred tax liabilities	259,364	192,465	—	—
Net cash from operating activities	**146,099**	**1,169,094**	**(1,495,743)**	**(315,078)**

8. Trade and Other Receivables

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Current				
Trade receivables, third parties	3,618,807	3,013,604	—	—
Provision for impairment	(375,188)	(378,215)	—	—
	3,243,619	2,635,389	—	—
Other receivables	735,231	809,733	21,098	16,326
	3,978,850	**3,445,122**	**21,098**	**16,326**
Non-current				
Loans to external parties	3,422	—	—	—
Loans to related parties	—	145,830	3,143,803	1,307,458
Total other receivables	**3,422**	**145,830**	**3,143,803**	**1,307,458**

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 receivables are non-interest bearing and have repayment terms between 30 and 90 days.

c. Related party receivables have a term of greater than 365 days.

9. Inventories

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Raw materials at cost	869,074	1,036,652	—	—
Finished goods at lower of costs or net realisable value	1,479,000	976,836	—	—
	2,348,074	**2,013,488**	—	—

10. Property, Plant and Equipment

Year ended 31 December 2007	Land and buildings	Leasedhold improvements	Plant and Equipment	Leased Plant and Equipment	Capital Work in Progress	Total
Consolidated	**$**	**$**	**$**	**$**	**$**	**$**
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**

The net carrying amount of plant and equipment held under finance lease contracts at 31 December 2007 is $0 (2006: $0).

Year ended 31 December 2006	Leasedhold improvements	Plant and Equipment	Leased Plant and Equipment	Capital Work in Progress	Total
Consolidated	**$**	**$**	**$**	**$**	**$**
1 January 2006					
at written down value	34,918	1,046,143	7,465	—	1,088,526
Additions	—	133,031	—	16,200	149,231
Disposals / Transfers	7,338	(189,983)	—	—	(182,645)
Depreciation for the year	(5,888)	(195,277)	(6,712)	—	(207,877)
31 December 2006					
at written down value	**36,368**	**793,914**	**753**	**16,200**	**847,235**
1 January 2006					
Cost value	198,851	1,748,356	156,590	—	2,103,797
Accumulated depreciation	(163,933)	(702,213)	(149,125)	—	(1,015,271)
Net carrying amount	**34,918**	**1,046,143**	**7,465**	**—**	**1,088,526**
31 December 2006					
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**

The net carrying value of plant and equipment held under finance lease contracts at 31 December 2006 is $0 (2005: $7,465).
Leased assets are pledged as security for the related finance lease.

11. Other Financial Assets

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Investments in controlled entities at cost	—	—	6,084,516	6,064,863
Total investments	—	—	6,084,516	6,064,863

Refer to Note 19 Related Party Disclosures 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 2007	—	61,599	254,160	599,103	142,881	1,057,743
Arising during the year	58,168	—	—	832,322	—	890,490
Amortisation	—	(6,825)	(30,720)	—	—	(37,545)
Foreign exchange movement	—	—	—	—	(1,143)	(1,143)
Balance at						
31 December 2007	**58,168**	**54,774**	**223,440**	**1,431,425**	**141,738**	**1,909,545**
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**
31 December 2007						
Non-Current	—	61,599	254,160	599,103	142,881	1,057,743
Total	**—**	**61,599**	**254,160**	**599,103**	**142,881**	**1,057,743**

The recoverable amount of FDA and Technegas development costs and Molecular Imaging costs have been determined on a discounted cash flow methodology based on 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 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 12.0% in 2007 (2006: 12.0%).

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

13. Trade and other payables

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Trade payables, third parties	943,267	1,155,063	120,932	22,366
Other payables and accruals	309,670	390,095	26,667	38,369
Non interest bearing loan, related party	—	1,102,065	—	1,102,065
Total trade and other payables	**1,252,937**	**2,647,223**	**147,599**	**1,162,800**

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. Further details are set out in the Note 19 Related party disclosures.

14. Interest Bearing Loans and Borrowings

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Current				
Bank loan - secured	—	725,000	—	725,000
Related party loan - unsecured	—	621,893	—	—
Interest bearing loans and borrowings (current)	**—**	**1,346,893**	**—**	**725,000**
Non-current				
Bank loan - secured	1,511,500	4,975,000	1,511,500	4,975,000
Interest bearing loans and borrowings (non-current)	**1,511,500**	**4,975,000**	**1,511,500**	**4,975,000**
Total interest bearings loans and borrowings	**1,511,500**	**6,321,893**	**1,511,500**	**5,700,000**

14. Interest Bearing Loans and Borrowings continued

a) Financing facilities available:

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

		Consolidated		Parent	
		2007	2006	2007	2006
	Notes	$	$	$	$
Total facilities available:					
interest bearing loans, related parties		—	621,893	—	—
non interest bearing loans, related parties		—	1,102,065	—	1,102,065
secured bank loans, third party		4,944,300	6,000,000	4,944,300	6,000,000
		4,944,300	**7,723,958**	**4,944,300**	**7,102,065**
Facilities used at reporting date:					
interest bearing loans, related parties	14	—	621,893	—	—
non interest bearing loans, related parties	13	—	1,102,065	—	1,102,065
secured bank loans, third party	14	1,511,500	5,700,000	1,511,500	5,700,000
		1,511,500	**7,423,958**	**1,511,500**	**6,802,065**
Facilities unused at reporting date:					
interest bearing loans, related parties		—	—	—	—
non interest bearing loans, related parties		—	—	—	—
secured bank loans, third party		3,432,800	300,000	3,432,800	300,000
		3,432,800	**300,000**	**3,432,800**	**300,000**
Total facilities		4,944,300	7,723,958	4,944,300	7,102,065
Facilities used at reporting date:		(1,511,500)	(7,423,958)	(1,511,500)	(6,802,065)
Facilities unused at reporting date:		**3,432,800**	**300,000**	**3,432,800**	**300,000**

(b) Secured Bank Loan

This loan has been drawn down under a 5 year multi-option amortising facility (MOF) provided by the National Australia Bank. The facility is secured by a first registered mortgage debenture over Cyclopharm Limited and a guarantee and indemnity for $6,000,000 from Cyclomedica Australia Pty Ltd, Cyclomedica Germany GmbH, Cyclomedica Canada Limited, Cyclomedica Europe Ltd, Allrad No. 28 Pty Ltd and Allrad No. 29 Pty Ltd. Supported by First Registered Debenture charges over these companies.

15. Provisions

			Consolidated		Parent
	Employee Entitlements	Other	Total	Other	Total
Consolidated	**$**	**$**	**$**	**$**	**$**
Balance at *1 January 2007*	**264,466**	**85,000**	**349,466**	**—**	**—**
Arising during the year	114,615	52,927	167,542	60,000	60,000
Utilised	(96,382)	(65,000)	(161,382)	—	—
Balance at *31 December 2007*	**282,699**	**72,927**	**355,626**	**60,000**	**60,000**
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	
31 December 2006					
Current	143,697	85,000	228,697	—	—
Non-Current	120,769	—	120,769	—	—
Total	**264,466**	**85,000**	**349,466**	**—**	**—**
Number of employees					
Number of employees at year end	31			2	

Consolidated
Other provisions consist of year end audit fees accrual of $60,000 (2006: $60,000) and a distributor commission of $12,928 (2006: $25,000).

Parent
Other provisions consist of year end audit fees accrual of $60,000 (2006: $0).

16. Contributed Equity

				Consolidated		Parent	
		2007	2006	2007	2006	2007	2006
	Notes	Number	Number	$	$	$	$
Issued and paid up capital							
Ordinary shares	(a)	138,712,616	112,317,667	13,136,880	6,515,030	8,004,252	1,382,414
Other contributed equity	(b)	—	—	(5,295,657)	(5,277,327)	—	—
Total issued and paid up capital		**138,712,616**	**112,317,667**	**7,841,223**	**1.237,703**	**8,004,252**	**1,382,414**
Ordinary shares							
(a) Issued and paid up capital							
Balance at the beginning of the period		112,317,667	10	6,515,030	5,132,627	1,382,414	10
Conversion of ordinary share capital	(i)	—	106,666,657	—	—	—	—
Issue of 5,651,000 ordinary shares at $0.30	(ii)	—	5,651,000	—	1,695,300	—	1,695,300
Capital raising costs	(iii)	—	—	(396,634)	(312,897)	(396,646)	(312,896)
Issue of 23,394,949 ordinary shares at $0.30	(iv)	23,394,949	—	7,018,484	—	7,018,484	—
Issue of 3,000,000 shares to directors and employees	(v)	3,000,000	—	—	—	—	—
Balance at end of period		**138,712,616**	112,317,667	**13,136,880**	6,515,030	**8,004,252**	1,382,414
(b) Other contributed equity							
Balance at the beginning of the period		—	—	(5,277,327)	1,294,724	—	—
Acquisition of minority interests in controlled entities		—	—	(18,330)	(6,572,051)	—	—
Balance at end of period		—	—	**(5,295,657)**	(5,277,327)	—	—

(i) On 1 January 2006, Cyclopharm split its 10 ordinary shares on issue to 106,666,667 ordinary shares.

(ii) Cyclopharm by way of a placement allotted 5,651,000 new ordinary shares at $0.30 each during September 2006 raising $1,695,300.

(iii) The total of costs relating to IPO and listing Cyclopharm on ASX Limited was $709,531 being $312,897 and $396,634 incurred in 2006 and 2007 respectively.

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

(v) On 29 June 2007, 3,000,000 new shares in the Cyclopharm were issued via non-recourse loans to key employees and the Managing Director following approval by shareholders at the Annual General Meeting held on 8 May 2007.

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.

Capital Management

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 is continually changing, management may issue dividends to shareholders, return capital 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 2007.

Management monitor capital through the gearing ratio (net debt/total capital). Management aim to not exceed a gearing ratio of 45%.
The Group has satisfied its year-end externally imposed capital requirements of its Multi Option Facility detailed in Note 14 (b).

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 2007, 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:

		Consolidated		Parent	
		2007	2006	2007	2006
	Notes	$	$	$	$
Judgements of reasonably possible movements:					
Profit / (loss) before income tax					
+1.0% (100 basis points)		(15,115)	(57,000)	(15,115)	(57,000)
+0.5% (50 basis points)		7,558	28,500	7,558	28,500

The movements in profit are due to possible higher or lower interest costs from variable rate debt and cash balances. The sensitivity is lower in 2007 than 2006 because of the reduction in outstanding borrowings that occurred due to the repayment of debt following capital being raised from the initial public offering in January 2007. The effects on retained profits equates to the effect on profits.

17. Financial Risk Management Objectives continued

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 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	4.40%	—	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**

Consolidated Year ended 31 December 2006	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	4.15%	—	1,403,328	—	—	—	1,403,328
Trade and other receivables	8	n/a	3,445,122	—	—	—	—	3,445,122
Total Financial Assets			**3,445,122**	**1,403,328**	—	—	—	**4,848,450**
Financial Liabilities								
Trade payables, third parties	13	n/a	1,545,157	—	—	—	—	1,545,157
Non Interest bearing loans, related parties	13	n/a	1,102,065	—	—	—	—	1,102,065
Interest bearing loans, related parties	14	6.50%	—	—	621,893	—	—	621,893
Secured bank loans, third party	14	6.35%	—	—	725,000	4,975,000	—	5,700,000
Employee entitlements	15	n/a	264,466	—	—	—	—	264,466
Total Financial Liabilities			**2,911,688**	—	**1,346,893**	**4,975,000**	—	**9,233,581**
Net exposure			**533,434**	**1,403,328**	**(1,346,893)**	**(4,975,000)**	—	**(4,385,131)**

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. At year end, a new distributor of Cyclomedica Europe Limited (CME) was contractually obliged to pay CME $196,721 (€120,000) by 31 December 2007. Due to the trade receivable being recovered beyond its terms of trade in February 2008, the amount has been disclosed as a past due trade receivable that is not impaired as at 31 December 2007.

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 that no more than 35% of borrowings should mature in any 12 month period, unless approved by the Board. At 31 December, 0% of the Group's debt will mature in less than one year (2006: 12.7%)

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 $3,432,800 in unused credit facilities available for use.

(d) Commodity price risk

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

(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 80% of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 55% of costs are denominated in the unit's functional currency.

The Company has a natural hedge in Europe and Canada as local currency is held by the operating subsidiaries and the operating subsidiaries invoice customers and pay costs in local currency.

At 31 December 2007, the Group had the following financial instrument exposure to foreign currency fluctuations:

17. Financial Risk Management Objectives continued

		Consolidated		Parent	
		2007	2006	2007	2006
	Notes	$	$	$	$
United States dollars					
Amounts payable		82,088	147,506	—	—
Amounts receivable		131,705	20,500	—	—
Euros					
Amounts payable		203,482	270,007	—	—
Amounts receivable		2,760,992	2,463,195	—	—
Canadian dollars					
Amounts payable		377	—	—	—
Amounts receivable		212,214	225,012	—	—
Net Exposure		**(2,818,964)**	**(2,291,194)**	**—**	**—**

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.

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	
	2007	2006	2007	2006
	$	$	$	$
Operating Lease Commitments				
Minimum lease payments				
Not later than one year	182,910	175,826	—	—
Later than 1 year & not later than 5 years	641,392	642,693	—	—
More than 5 years	—	—	—	—
Total operating lease commitments	**824,302**	**818,519**	**—**	**—**
Operating lease expenses recognised as an expense during the period:	148,579	126,240	—	—

18. Commitments continued

(b) Finance lease commitments

The Group had no finance lease commitments for the year ended 31 December 2007.

(c) Other commitments

		Consolidated		Parent	
		2007	2006	2007	2006
	Notes	$	$	$	$
The company has the following other commitments:					
No later than one year		—	—	—	—
Later than 1 year & not later than 5 years		1,511,500	—	—	—
More than 5 years		—	—	—	—
Total		**1,511,500**	—	—	—

The Group has a amortising loan facility available through the National Bank. At balance date $1,511,500 was drawn on the facility. All drawn funds are required to be repaid by July 2011.

(c) Capital commitments

		Consolidated		Parent	
		2007	2006	2007	2006
	Notes	$	$	$	$
The company has the following capital expenditure commitments contracted for property, plant and equipment:					
Not later than one year		—	—	—	—
Later than 1 year & not later than 5 years		1,615,000	—	—	—
More than 5 years		—	—	—	—
Total		**1,615,000**	—	—	—

CycloPET Pty Ltd, Cyclopharm's Molecular Imaging division executed a Contract of Sale to purchase land and building in Kensington, Melbourne to be established as its first PET Central Pharmacy. A deposit $161,500 has been paid to the Vendor's agent and the remaining balance of $1,615,000 is expected to be paid in the 2009 financial year.

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):

19. Related Party Disclosures continued

Consolidated		Sales to related parties $	Purchases from related parties $	Other Transactions with related parties $	Dividend paid to related party $	Amounts owed by related parties $	Amounts owed to related parties $
CVC Venture Managers Pty Ltd	*2007*	—	—	50,879	—	—	10,770
	2006	—	—	365,963	—	—	—
VA Consulting Pty Ltd	*2007*	—	—	233,000	—	—	8,250
	2006	—	—	19,983	—	—	—
Pilmora Pty Ltd	*2007*	—	—	15,000	—	—	—
	2006	—	—	7,500	—	—	—
Cyclopharm Laboratoires SA	*2007*	2,844,674	—	636,677	—	1,064,653	116,323
	2006	2,499,500	—	695,915	—	1,179,381	189,714
Vita Life Sciences Limited	*2007*	—	—	36,643	—	—	36,643
	2006	—	—	—	4,269,871	145,830	1,723,958

Parent		Sales to related parties $	Purchases from related parties $	Other Transactions with related parties $	Dividend paid to related party $	Amounts owed by related parties $	Amounts owed to related parties $
CVC Venture Managers Pty Ltd	*2007*	—	—	50,879	—	—	10,770
	2006	—	—	365,963	—	—	—
VA Consulting Pty Ltd	*2007*	—	—	233,000	—	—	8,250
	2006	—	—	19,983	—	—	—
Pilmora Pty Ltd	*2007*	—	—	15,000	—	—	—
	2006	—	—	7,500	—	—	—
Vita Life Sciences Limited	*2007*	—	—	36,643	—	—	36,643
	2006	—	—	—	—	—	1,102,065

19. Related Party Disclosures continued

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 $233,000 were made to VA Consulting Pty Ltd (an entity controlled by Mr Sharman) in relation to Mr Sharman's (Managing Director) consultancy.
- During the year payments of $15,000 were made to Pilmora Pty Ltd (an entity controlled by Mr Townsing) in relation to Mr Townsing's fees as a non-executive director.
- During the year payments of $50,879 were made to CVC Venture Managers (an entity of which Mr Sharman and Mr Gould are Non-Executive Directors) in relation to the rental of office space.
- 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 is a related party as Dr Salin has held positions as President and CEO. These agreements are at arms-length and were in place prior to Professor Bernard Salin joining the Board of Directors of Cyclopharm. Total payments made to CLSA for the year ended 31 December 2007 were $636,677 (2006: $695,915) composed of $151,935 (2006: $158,346) for European regulatory services, $484,742 (2006: $537,569) for manufacturing services to meet European requirements; and technical services. Sales to CLSA of Technegas generators and consumables are made at commercial rates. Dr Salin resigned from the Board in January 2008.
- Vita Life Sciences Limited, Cyclopharm's former parent entity sold down its remaining 11.8% holding to nil during the Initial Public Offering in January 2007.
- Cyclomedica Australia Pty Ltd manufactures Technegas products which it sells to its overseas subsidiaries listed in the Controlled Entities table below.
- All related party transactions have arms length terms and conditions. Shareholder approval has been obtained where required.

Controlled Entities

	Note	Country of Incorporation	Percentage of equity interest held	
			2007	2006
Cyclopharm Limited	1,2	Australia		
Controlled entities				
CycloPET Pty Ltd	2	Australia	100%	0%
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

PET Central Pharmacy Site

In January 2008, we announced that we had exchanged contracts on a property in Kensington, Victoria to be established as the location of our first PET pharmacy site. The Kensington site will be purpose designed and built and located within short proximity to key nuclear medicine departments. For further details refer to Note 18 (b).

In March 2008, we announced that we had entered into an agreement with Macquarie University Private Hospital to sublease a premises to establish a PET pharmacy in North Ryde, NSW. Cyclopharm will have the opportunity to collaborate with world class clinicians and researchers.

21. Auditors' Remuneration

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

	Consolidated		Parent	
	2007	2006	**2007**	2006
	$	$	**$**	$
Amounts received or due and receivable by Russell Bedford NSW and antecedent firm for:				
Audit and review of the financial statements	89,356	60,000	89,356	—
Other services:				
tax compliance	19,000	—	9,000	—
share registry	13,900	—	13,900	—
	122,256	**60,000**	**122,256**	—
Amounts received or due and receivables by auditors other than Russell Bedford NSW for:				
Audit and review of the financial statements	66,559	65,314	—	—
Other services:	7,452	7,452	—	—
	74,011	**72,766**	—	—
Total auditors' remuneration	**196,267**	**132,766**	**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	
	2007	2006	2007	2006
	$	$	$	$
Expense arising from equity-settled share-based payment transactions (note 4)	73,666	—	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").

LTIP Shares issued in 2007

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 2007, 3,000,000 new Plan Shares in Cyclopharm were issued via non-recourse loans to key employees and the Managing Director under the Plan.

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.

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 recognised as the share loans are settled by the relevant employees.

(c) Summary of shares granted

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

Consolidated	2007 Number	2006 Number
Date of Issue		
Balance at the beginning of the year	—	—
Granted during the year	3,000,000	—
Exercised during the year	—	—
Expired during the year	(100,000)	—
Balance at the end of the year	**2,900,000**	—
Excercisable at the end of the year	—	—
Number of recipients	9	—
Exercise price	$0.30 to $0.45	—
Weighted Average Exercise price	$0.35	—
Exercise period from	8/05/2007	—
To	8/05/2009 or 8/05/2010	—
Expiration day	8/05/2009 or 8/05/2010	—

The weighted average remaining contractual life for Long Term Incentive Plan Shares is 2.33 years.

(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:

23. Share Based Payment Plans continued

Exercise price per option	$ 0.30	$ 0.35	$ 0.45
Dividend yield	—	—	
Expected annual volatility	37%	37%	37%
Risk-free interest rate (p.a.)	7.00%	7.00%	7.00%
Expected life of implied option (years)	2 years	3 years	2 years
Fair value per option	$ 0.124	$ 0.123	$ 0.079
Share price at grant date	$ 0.36	$ 0.36	$ 0.36
Model used	Black Scholes	Black Scholes	Black Scholes

In respect to the Implied Options arising from the Shares granted in 2007, the expected volatility was determined using historic data over a 12 month period from January 2007 to January 2008. The expected volatility for the Implied Options was adjusted to reflect comparable companies in terms of industry and market capitalisation. The Implied Options arising from the Plan are not listed and as such do not have a market value.

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 2007 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 19 to 20 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 2007.

Dated at Melbourne this 17th day of March 2008.

Signed in accordance with a resolution of the directors:

John Sharman
Managing Director

Russell Bedford
New South Wales

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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 2007, 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.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in the directors' report and not in the financial report.

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 that the financial report, comprising the financial statements and notes, comply with International Financial Reporting Standards.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

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 and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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.

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

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

Auditor's opinion

In our opinion:

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

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

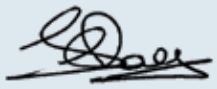
(i) giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) other mandatory financial reporting requirements in Australia.

(c) the remuneration disclosures that are contained on pages 19 to 20 of the remuneration report of the directors' report comply with Accounting Standard AASB 124.

2. the consolidated/parent financial statements and notes or financial report also comply with International Financial Reporting Standards as disclosed in Note 2(b)

RUSSELL BEDFORD NSW
Chartered Accountants



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

Sydney, 17 March 2008

ASX Additional Information

The following information is current at 29 February 2008.

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)	16,585,418	11.96%
Barleigh Wells Limited	13,894,952	10.02%
Chemical Trustee Limited	12,286,142	8.86%
Normandy Finance & Investments Limited and Associates	12,144,519	8.76%
Lloyds & Casanove Investment Partners Limited	8,038,295	5.79%

B. Distribution of Equity Security Holders

(i) Analysis of numbers of equity security holders by size of holding as at 29 February 2008:

Category	Ordinary Shareholders
1 - 1,000	31
1,001 - 5,000	374
5,001 - 10,000	240
10,001 - 100,000	598
100,001 and over	110
Total	**1,353**

(ii) There were 72 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	16,585,418	11.96%
2 Barleigh Wells Limited	13,894,952	10.02%
3 Chemical Trustee Limited	12,286,142	8.86%
4 Lloyds & Casanove Investment Partners Limited	8,038,295	5.79%
5 Normandy Finance & Investments Asia Limited	6,512,057	4.69%
6 Normandy Nominees Ltd	4,620,263	3.33%
7 Indo-Suez Investments Limited	4,370,522	3.15%
8 John Sharman	3,384,755	2.44%
9 Mr Kevin Tay Hak Leong	3,346,191	2.41%
10 HSBC Custody Nominees (Australia) Limited	2,986,994	2.15%
11 Derrin Brothers Properties Limited	2,307,275	1.66%
12 ANZ Nominees Limited	2,221,330	1.60%
13 Southgate Investments Funds Limited	2,000,000	1.44%
14 Hua Wang Bank Berhad	1,637,750	1.18%
15 Universal Trustee (Malaysia) Bhd	1,407,520	1.01%
16 OCI Construction Limited	1,406,054	1.01%
17 Abasus Investments Limited	1,042,080	0.75%
18 Madam Lim Gek Kuan	1,033,204	0.74%
19 City & Westminister Limited	1,022,777	0.74%
20 Kitson Pty Ltd	1,014,795	0.73%
	91,118,374	**65.69%**

*Cyclopharm issued 3,000,000 Long Term Incentive Plan shares to Officers and Employees on 29 June 2007 increasing issued shares to 138,712,616.

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

John Sharman
Managing Director

David Heaney
Non-Executive Director

Henry Townsing
Non-Executive Director

Company Secretary
William Richardson

Registered Office

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F: 02 9543 0960

CycloPET
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Business & Technology Park
New Illawarra Road
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F: 02 9543 0960

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Germany

Cyclomedica Europe
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France

Cyclomedica Ireland
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Foley Street
Dublin 1 Ireland

Auditors

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

Bankers
National Australia Bank
Level 3, 330 Collins Street
Melbourne VIC 3000

Solicitors
Piper Alderman
Level 24, 385 Bourke Street
Melbourne VIC 3000

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

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

Cyclopharm Limited Annual Report 2007