PHOSPHAGENICS

29 August 2006

The Manager
Company Announcements Office
The Australian Stock Exchange Limited

Dear Sirs

re : Phosphagenics Limited

Half-Yearly Report : Appendix 4D

Enclosed for release to the market is the Company's report for the half-year ended 30 June 2006 inclusive of the audited Condensed Income Statement, Condensed Balance Sheet, Condensed Cash Flow Statement and Notes thereto.

Yours faithfully
Phosphagenics Limited

Mourice Garbutt
Company Secretary
poh\asx\half-yearly report 30 06 06

Phosphagenics Limited
ACN 056 482 403 ABN 32 056 482 403
Level 2, 90 William Street Melbourne VIC 3000
Telephone: 61 3 9605 5900 Facsimile: 61 3 9605 5999
Web page: www.phosphagenics.com Email: info@phosphagenics.com

Phosphagenics Limited

(ABN 32 056 482 403)

Appendix 4D

Half Year Report for the period ended on 30 June 2006

Table of Contents

Section 2: HIGHLIGHTS OF RESULTS, DIVIDENDS & ANALYSTS INFORMATION

The following comment is to be read in conjunction with the summarised results report:

The results for the half-year period ended 30 June 2006 reflect:

The decision taken by the Board of Directors in the December half year of financial year 2005 to accelerate the Company's Research & Development programme given the highly successful and encouraging results achieved by the Company's scientific team at Monash University in Melbourne.

As is noted in the accompanying Directors' Report this decision to accelerate the R & D programme enabled the Company to announce the following important results:

- *Successfully delivered peptides (e.g insulin) transdermally in large animals*
- *Started a multi phase transdermal morphine study, continuing from the Phase 1 study completed last year*
- *Concluded a Collaboration Agreement with Nestle for development of Phospha E for food and beverage markets*
- *Strengthened the Company's collaborative agreement with Alza Corporation*
- *Extended the Company's delivery technologies to routes of administration other than transdermal, e.g. oral*

Since the end of the June half-year period the Company has continued its accelerated research programme and, as announced on 24 August 2006, has achieved what Directors consider to be a pivotal breakthrough with the success of the Phase 1 clinical (human) trial in delivering insulin through the skin thereby demonstrating the ability of the Company's patented transdermal delivery product, TPM-02, to deliver large molecules through the skin. Full details of the results announced on 24 August 2006 can be viewed on the Company's website at: **www.phosphagenics.com**

In addition,and as announced in May, the Company has commenced the construction of production plant facilities in Melbourne which will permit a substantial increase in the Company's ability to produce tocopheryl phosphates.

During the period the Company established an American Depository Receipts –Level 1 Facility in the USA for 'over-the-counter' trading in the Company's securities and, in the UK, a certificated branch shares register.

As a result of the above, the Company has increased expenditures on the scientific and capital expenditures and recorded for the 6 months ended 30 June 2006,an after tax loss of $3.118 million (2005: $1.960 million). The increase in the loss incurred for the period being due principally to the additional R &D of $2.5 m(2005:$1.7m); associated consulting cost of $0.6 m (2005: $0.5 m)and staffing expenditures of $0.8 m (2005: $0.5 m).

Appendix 4D

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

Half Year Report
Period Ended 30 June 2006

(Previous Corresponding Period: Half year ended 30 June 2005)

Results for announcement to the market

$A'000

		6 months 30 June 2006	6 months 30 June 2005
Revenues from ordinary activities	Down 8%	1,665	1,814
Profit (Loss) from ordinary activities after tax attributable to members	(Up 59%)	(3,118)	(1,960)
Net profit (Loss) for the period attributable to members	(Up 59%)	(3,118)	(1,960)

Dividends (distributions)	Amount per security	Franked amount per security
6 months ended 30 June 2006 N/A	-	N/A ¢
6 months ended 30 June 2005 N/A	-	N/A ¢
Record date for determining entitlements to the dividend	N/A	

Brief explanation necessary to enable the figures above to be understood:

For the 6 months ended 30 June 2006 the Company returned an after tax loss of $3,118,432 (2005: $1,960,467).

During the period, the Company continued and accelerated its research programme with the following results:

- successfully delivering peptides e.g. insulin transdermally in large animals
- started a multi phase morphine study, continuing from Phase 1 study completed last year
- concluded a Collaboration Agreement with Nestle for development of Phospha E for food and beverage markets
- strengthened the Company's collaborative agreement with Alza Corporation
- extended the Company's drug delivery technologies to other routes of administration e.g. oral

To examine in detail the information referred to above please visit the Company's recently upgraded website at: www.phosphagenics.com or contact the Company by telephone +613 9606 5900 or by facsimile +613 9605 5999

Net Tangible Assets Per Security

Net tangible assets per security (with the comparative figure for the previous corresponding period):

	30 June 2006	30 June 2005
Net tangible assets per security	1.82 Cents	1.06 Cents

Section 3: STATUTORY SECTION 320 ACCOUNTS

As attached and inclusive of a full set of accounts per AASB 134 together with the Audit Review report.

3.1 Directors' Report & Declaration
3.2 Audit Review & Audit Independence Statement
3.3 Financial Report for the Half-Year ended 30 June 2006 including Notes

Phosphagenics Limited

ABN 32 056 482 403

Half-Year Report

for the half-year ended 30 June 2006

Contents

Directors' Report

The Directors of Phosphagenics Limited submit their report for the half-year ended 30 June 2006.

DIRECTORS

The names and particulars of the Directors of Phosphagenics Limited in office at any time during or since the end of the period:

Currently in Office:

ASSOCIATE PROFESSOR ANDREW LANCELOT VIZARD (AGED 48 YEARS) BVSC (HONS) MVPM NON EXECUTIVE INDEPENDENT DIRECTOR SINCE JULY 1999 AND CHAIRMAN SINCE OCTOBER 2000
LAST RE-ELECTED MAY 2005

With a background in research and agricultural consultancy, Professor Vizard is the Senior Consultant with and former Director of the Mackinnon Project at the University of Melbourne. This enterprise is recognized as a leader in delivering practical advice to farmer and agribusiness on a wide range of agricultural and economic issues. Professor Vizard is the author of over 50 scientific papers.

Professor Vizard is currently a non-executive Director of Ridley Corporation Ltd, Animal Health Australia Ltd, the Australian Poultry Industry Cooperative Research Centre and the Zoological Parks and Gardens Board of Victoria. He also sits on the Scientific Advisory Board for the Hermon Slade Foundation. No other listed directorships have been held within the past 3 year period.

Professor Vizard is a member of the Company's Audit, Compliance and Corporate Governance Committee and is the Company's representative on the Board of Directors of the Vital Health Sciences Pty Ltd group.

HARRY ROSEN (AGED 59 YEARS) B.A (PSYCHOLOGY)., LLS.B.
EXECUTIVE DIRECTOR APPOINTED TO THE BOARD IN JUNE 1999
APPOINTED MANAGING DIRECTOR DECEMBER 2005
LAST RE-ELECTED MAY 2004

Mr Rosen is Managing Director of Phosphagenics Limited and is a practicing lawyer. He is one of the founders of Betatene Limited and Denehurst Limited, two formerly ASX listed companies which commercialised significant research and development. Betatene is the world's largest producer of natural beta carotene. After the purchase of Betatene Limited by Henkel Corporation, Mr Rosen served as Vice President, Corporate Development. As a Vice President of Henkel Corporation, he worked for a number of years in the USA in the nutrition and health care industries.
No other listed directorships have been held within the past 3 year period.

Mr Rosen has consulted to many technology companies assisting them with the commercialisation of new technologies. He has had significant experience in the areas of seed capital raising, stock exchange listings, taxation and corporate law. Mr Rosen graduated from the Australian National University (B.A.-Psychology) in 1970 and Melbourne University (LLB) in 1973.

Directors' Report continued

JONATHAN LANCELOT ADDISON (AGED 53 YEARS) B.EC (TAS), ASIC, CFTP (SNR) NON EXECUTIVE DIRECTOR SINCE NOVEMBER 2002
LAST RE-ELECTED MAY 2005

Mr Addison has over 27 years in the investment management industry, including wide experience in superannuation. Currently he is the Fund Manager of the Meat Industry Employee Superannuation Fund ("MIESF") whom he joined in June 1999 and where he is responsible for the overall management of MIESF.

MIESF, a self-administered industry superannuation fund established in 1981 which operates nationally, currently holds 21,800,000 shares in Phosphagenics Limited being 4.36 per cent of the Company's issued voting share capital.

Prior to his appointment to MIESF, Mr Addison was a Director and Asset Consultant within the Corporate Finance section of PricewaterhouseCoopers and in this role was responsible for establishing an investment consulting practice with clients ranging from superannuation funds to insurance funds and funds managers. Prior to that, he was Manager Investment Consultant at Sedgwick Noble Lowndes.

Mr Addison is the Chairman of the Company's Audit, Compliance and Corporate Governance Committee.

Mr Addison also holds non-executive directorships with Austcorp Capital Funds Management Limited, African Enterprise Limited, Hawksbridge Limited and Global Masters Fund Limited.
No other listed company directorships have been held during the last 3 year period.

PROFESSOR JOHN MILLS (AGED 66 YEARS) BS, MD, FACP, FRACP
NON-EXECUTIVE INDEPENDENT DIRECTOR SINCE MARCH 2004
LAST RE-ELECTED MAY 2004

Professor Mills has a long and distinguished career in medical research, clinical medicine and biomedical business. In addition to his position as a non-executive director of Phosphagenics, he is Managing Director of Narhex Life Sciences (ASX: NLS) and Executive Chairman of Narhex's wholly-owned Swedish subsidiary, Cavidi AB. He is also a non-executive director of GBS Venture Partners Pty Ltd, and TissuPath Pty Ltd, and has previously been a non-executive director and Chairman of AMRAD Corporation. He holds professorial appointments at Monash University and RMIT, and is a consulting physician at the Alfred and Austin hospitals in Melbourne.

Professor Mills has published over 200 scientific articles and has served as a consultant to industry and governments, the World Health Organization and the United Nations.

Professor Mills is a member of the Company's Audit, Compliance and Corporate Governance Committee and is also a member of Phosphagenics Limited's Scientific Advisory Board.

DR ESRA OGRU (AGED 31 YEARS) BSC (HONS) PHD
EXECUTIVE DIRECTOR RESEARCH & DEVELOPMENT
SINCE OCTOBER 2005
LAST RE-ELECTED MAY 2006

Dr Ogru is responsible for the co-ordination and management of pre-clinical and clinical research for Phosphagenics.

After receiving her PhD in Biochemistry from Monash University, Dr Ogru conducted postdoctoral research at Monash University, Department of Biochemistry and Molecular Biology, where she was a member of the Obesity and Diabetes research group involved in the pre-clinical and clinical development of anti-obesity peptides.

Dr Ogru is experienced in many aspects of academic and commercial research and has publications in peer-reviewed journals.

Directors' Report continued

MICHAEL DAVID PRESTON (AGED 60 YEARS) M.A., F.C.A.
NON-EXECUTIVE DIRECTOR SINCE NOVEMBER 2004
LAST RE-ELECTED MAY 2005

Mr Preston is a principal partner and founder of Alberdale & Co., an FSA-regulated corporate finance and business advisory firm based in London with offices in USA. Alberdale specialises in media, technology and life sciences and manages a high technology venture capital fund concentrating in life sciences. Mr Preston was previously a founder of Sterling Publishing Group PLC, a business publishing company that was publicly listed in London in 1985. He was also a founder of the Broad Street Group PLC, a marketing services company that was publicly listed in London in 1986 and eventually acquired by the French group BDDP. Mr Preston has extensive experience as a financial and strategic adviser to many growing companies in the UK and USA. He is a Fellow of the Institute of Chartered Accountants in England and Wales and shares his time between New York and London.

DIRECTOR RESIGNING DURING THE PERIOD

DR IAN GRANT PATTISON (AGED 56 YEARS) BSC. (HONS) PHD.
CHIEF OPERATING OFFICER, DIRECTOR SINCE DECEMBER 2005
LAST RE-ELECTED MAY 2006

Prior to joining Phosphagenics Limited Dr Pattison was the Asia/Pacific Director in charge of the Nutrition and Health Division of Cognis, a large German based specialty chemical company.

Previously he was Managing Director of Betatene, an innovative Australian company, which has led the world in the production and sale of natural beta-carotene from algae.

Dr. Pattison's earlier career was in the Australian mining industry in various research, operating, engineering, marketing and management positions. He graduated from the University of Melbourne, with BSc (Hons) and PhD. No other listed directorships have been held within the past 3 year period.

On 4 March 2004, Dr Pattison was appointed as a Director of Phosphagenics and of Vital Health Sciences Pty Ltd.

Dr. Pattison resigned as Chief Operating Officer and as a Director of Phosphagenics and Vital Health Sciences Pty Ltd on 30 June 2006.

Company Secretary

The following person held the position of Company Secretary during and at the end of the financial period:

MOURICE GARBUTT CPA, FCIS, JP

PRINCIPAL ACTIVITIES

The principal activities of the Company are the production, sale and licensing of products for the nutraceutical and pharmaceutical industries.

RESULTS

For the 6 months ended 30 June 2006, the Company returned an after tax loss of $3.118 million (2005: $1.960 million). The increase in the loss incurred for the period is due principally to the additional research that the Company has undertaken and arising from the decision taken by Directors in the December half of 2005 to bring forward the R & D programme given the highly successful results achieved by the Company's scientific team at Monash University.

On a comparative basis research expenditures rose from $1.77 million in 2005 to $2.481 million for the current six month period to June 2006; refer the summary in the **Review and Results of Operations** set out below.

Since the end of the June half-year period the Company has continued its accelerated research programme and, as announced on 24 August 2006, has achieved what Directors consider to be a pivotal breakthrough with the success

Directors' Report continued

of the Phase 1 clinical (human) trial in delivering insulin through the skin thereby demonstrating the ability of the Company's patented transdermal delivery product, TPM-02, to deliver large molecules through the skin. Full details of the results announced on 24 August 2006 can be viewed on the Company's website at: **www.phosphagenics.com**

DIVIDENDS

The Directors have not recommended the payment of any dividends and no dividends were declared, paid or reinvested in the period to 30 June 2006.

REVIEW AND RESULTS OF OPERATIONS

During the period, the Company continued with and accelerated its research programme with the following important results:

- Successfully delivered peptides (e.g insulin) transdermally in large animals
- Started a multi phase transdermal morphine study, continuing from the Phase 1 study completed last year
- Concluded a Collaboration Agreement with Nestle for development of Phospha E for food and beverage markets
- Strengthened the Company's collaborative agreement with Alza Corporation
- Extended the Company's delivery technologies to routes of administration other than transdermal, e.g. oral
- Established an American Depository Receipt – level 1 facility in USA.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period to 30 June 2006 there was no significant change in the state of affairs of the consolidated entity other than that referred to in the half-year report or notes thereto.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There has not been any matter or circumstance, other than that referred to in the half-year report and notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly this information has not been disclosed in this report.

Directors' Report continued

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

REGISTERED OFFICE

Level 2, 90 William Street, Melbourne, Victoria 3000

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

Associate Professor
Andrew Lancelot Vizard
Chairman and Independent Director

Dated this 29 day of August 2006

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 8650 7777
DX 293 Melbourne

Auditor's Independence Declaration to the Directors of Phosphagenics Limited

In relation to our review of the financial report of Phosphagenics Limited for the half-year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Don Brumley
Partner
29 August 2006

Condensed Income Statement

for the half-year ended 30 June 2006

		Consolidated	
		2006	2005
	Notes	$'000	$'000
Sales revenue	4a	202	-
Finance revenue	4a	316	153
Other income	4a	1,147	1,661
Depreciation		(64)	(30)
Amortisation		(8)	(3)
Salaries and employee benefits expense	4b	(860)	(551)
Consulting and professional services		(649)	(465)
Research and development expenses		(2,481)	(1,770)
Other expenses	4c	(721)	(955)
Loss before income tax		**(3,118)**	**(1,960)**
Income tax (expense)/credit	5	-	-
Net loss attributable to members of the parent		**(3,118)**	**(1,960)**
Earnings per share (cents per share)			
- basic, for profit for the half-year attributable to ordinary equity holders of the parent		(0.57 cents)	(0.39 cents)
- diluted, for profit for the half-year attributable to ordinary equity holders of the parent		(0.57 cents)	(0.39 cents)

Condensed Balance Sheet

as at 30 June 2006

	Notes	Consolidated As at 30 June 2006 $'000	Consolidated As at 31 December 2005 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	8,971	13,189
Trade and other receivables		1,433	1,003
Inventories		59	66
Prepayments		99	390
Total Current Assets		**10,562**	**14,648**
Non-current Assets			
Intangible Assets		121,846	121,552
Goodwill		34,261	34,261
Property, plant and equipment		845	611
Total Non-current Assets		**156,952**	**156,424**
TOTAL ASSETS		**167,514**	**171,072**
LIABILITIES			
Current Liabilities			
Trade and other payables		1,414	1,623
Government grants		-	356
Provisions		22	38
Total Current Liabilities		**1,436**	**2,017**
Non-current Liabilities			
Deferred tax liabilities		36,918	36,918
Total Non-current Liabilities		**36,918**	**36,918**
TOTAL LIABILITIES		**38,354**	**38,935**
NET ASSETS		**129,160**	**132,137**
EQUITY			
Contributed Equity	12	145,306	145,306
Retained earnings		(44,146)	(41,028)
Reserves		28,000	27,859
Total Equity		**129,160**	**132,137**

Condensed Cash Flow Statement

for the half-year ended 30 June 2006

		Consolidated	
		2006	**2005**
	Notes	**$'000**	**$'000**
Cash flows from operating activities			
Receipts from customers and related parties		625	1,141
Payments to suppliers and employees		(4,864)	(3,786)
Net cash flows from used in operating activities		**(4,239)**	**(2,645)**
Cash flows from investing activities			
Interest received		316	161
Purchase of property, plant and equipment		(295)	(25)
Net cash flows from investing activities		**21**	**136**
Cash flows from financing activities			
Proceeds from exercise of options		-	8
Net cash flows from financing activities		**-**	**8**
Net increase (decrease) in cash and cash equivalents		(4,218)	(2,501)
Cash and cash equivalents at beginning of the period		13,189	7,222
Cash and cash equivalents at end of the period	7	**8,971**	**4,721**

Condensed Statement of Changes in Equity

for the half-year ended 30 June 2006

	Consolidated				
	Ordinary shares	**Employee Benefits Reserve**	**Revaluation Reserve**	**Retained earnings**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at					
1 January 2006	145,306	47	27,812	(41,028)	132,137
Loss for the period	-	-	-	(3,118)	(3,118)
Total income and expense for the period.	-	-	-	(3,118)	(3,118)
Employee equity settled benefits	-	141	-	-	141
Balance at					
30 June 2006	**145,306**	**188**	**27,812**	**(44,146)**	**129,160**
Balance at					
1 January 2005	134,731	-	31,096	(33,704)	132,123
Loss for the period	-	-	-	(1,960)	(1,960)
Total income and expense for the period.	-	-	-	(1,960)	(1,960)
Exercise of options	10	-	-	-	10
Balance at					
30 June 2005	**134,741**	**-**	**31,096**	**(35,664)**	**130,173**

Notes to the Financial Statements

for the half-year ended 30 June 2006

1. Corporate information

The financial report of Phosphagenics Limited for the half-year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 28 August 2006.

Phosphagenics Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in Note 3.

2. Summary of significant accounting policies

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial report of Phosphagenics Limited as at 31 December 2005.

It is also recommended that the half-year financial report be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

a) Basis of Preparation

The half-year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Accounting Standards, including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar ($) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in that annual financial statements for the year ended 31 December 2005, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 January 2006, as described in Note 2(d).

2. Summary of significant accounting policies (cont)

c) Changes in accounting policies

Australian Accounting Standards and UIG Interpretations that have recently been amended and are effective from 1 January 2006 are outlined in the table below.

Reference	Title	Summary	Application Date of Standard	Impact on Group Accounting Policies	Application Date
AASB 2005-1	Amendments to Australian Accounting Standards	Amendment to AASB 139 to allow the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in certain circumstances.	For annual reporting periods beginning on or after 1 January 2006	A highly probable forecast intra-group transaction denominated in a currency other than the entity's functional currency, can be designated as a hedged item in the consolidated accounts, with the resulting gain or loss from the hedge recognised in the consolidated result. For the half-year ended 30 June 2006, there has been no financial impact.	01-Jan-06
AASB 2005-4	Amendments to Australian Accounting Standards [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038]	Amendments relate to the restriction on designating fianancial instruments at fair value through profit & loss.	For annual reporting periods beginning on after 1 January 2006.	No change in accounting policy required as the items that are designated at fair value through profit or loss are classified as held for trading and as such is not impacted by the restriction.	01-Jan-06
AASB 2005-5	Amendments to Australian Accounting Standards [AASB 1 & AASB 139]	Consequential amendments made to AASB 1 due to the issue of UIG Interpretations 4 Determining whether an Arrangement contains a Lease. Consequential amendments made to AASB 139 due to the issue of UIG Interpretations 5 Rights to Interests arising from Decommisioning, Restoration and Environmental Rehabilitation Funds.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	01-Jan-06
AASB 2005-6	Amendments to Australian Accounting Standards [AASB 3]	The definition of 'contribution by owners' is removed and the AASB 3 scope exclusion for business combination involving entities or businesses under common control is adopted.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	01-Jan-06

2. Summary of significant accounting policies (cont)

c) Changes in accounting policies (continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Accounting Policies	Application Date
AASB 2005-9	Amendments to Austalian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]	The amendments to all four standards provide guidance as to which standard applies to financial guarantee contracts under certain circumstances.	For annual reporting periods beginning on or after 1 January 2006	All financial guarantees given from the parent to its subsidiaries will be required to be accounted for under AASB's 132 & 139. These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	01-Jan-06
AASB 2006-1	Amendments to Australian Accounting Standards [AASB 121]	The amendment clarifies the requirements relating to an entity's investment in foreign operations and assists the financial reporting of entities with investments in operations that have a different functional currency.	For annual reporting periods ending on or after 31 December 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	01-Jan-06
UIG 4	Determining whether an Arrangement contains a lease	Specifics criteria for determining whether an arrangement is, or contains, a lease.	For annual periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	01-Jan-06

d) Basis of consolidation

The consolidated half-year financial statements comprise the financial statements of Phosphagenics Limited and its subsidiaries as at 30 June 2006 ('the Group').

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.

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.

Investments in subsidiaries are carried in the parent's balance sheet at the lower of cost and recoverable amount.

e) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

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

2. Summary of significant accounting policies (cont)

e) Goodwill (cont)

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

f) Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalized at cost and from a business combination are capitalized 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 capitalized and expenditure is charged against profits in the period in which the expenditure is incurred.

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

Research and development costs

Research costs are expensed as incurred.

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

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

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

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

2. Summary of significant accounting policies (cont)

f) Intangible assets (cont)

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

	Other Identifiable intangibles	**Development Costs**
Useful lives	Finite	Finite
Method used	Amortised over legal patent term	15 years – straight line
Internally generated/acquired	Acquired	Internally generated
Impairment test/ recoverable amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year end; Reviewed annually for indicator of impairment

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

(g) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. The deferred tax liability recorded in the accounts relate principally to the patents and licences that the Company has.

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

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

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

3. SEGMENT REPORTING

The Group comprises the following business segments:

- Nutraceuticals – licensing of dietary supplements, production and sale of products for the personal care industry.
- Pharmaceuticals – licensing of pharmaceuticals and transdermal technologies.

Business Segments

The following table presents revenue and profit information regarding business segments for the half-year periods ended 30 June 2006 and 30 June 2005.

	Continuing Operations			*Total Operations*
	Nutraceuticals	Pharmaceuticals	Other	Total
Half-year ended 30 June 2006				
Segment revenue	660	647	358	1,665
Segment result	243	(1,981)	(1,380)	(3,118)
Half-year ended 30 June 2005				
Segment revenue	582	1,037	195	1,814
Segment result	(72)	(678)	(1,210)	(1,960)

4. REVENUES AND EXPENSES

	Consolidated	
	2006	**2005**
	$'000	**$'000**
a) Income		
Sales revenue	**202**	**-**
	-	
Interest revenue	316	153
Total finance revenue	**316**	**153**
Income from Start grant	444	1,037
Royalties	338	582
Rental Revenue	41	42
Other income	324	-
Total other income	**1,147**	**1,661**
Total income	**1,665**	**1,814**
b) Salaries and employee benefits expense		
Salaries and wages	(660)	(456)
Superannuation	(59)	(95)
Employee equity settled benefits	(141)	-
Total salaries and employee benefits expense	**(860)**	**(551)**
c) Other expenses		
Administration expenses	(194)	(731)
Occupancy and Communication expenses	(229)	(79)
Other operating expenses	(298)	(145)
Total other expenses	**(721)**	**(955)**

d) Seasonality of Operations

Phosphagenics Limited operations are not affected by seasonality.

5. INCOME TAX

The major components of income tax expense for the half-year ended 30 June 2006 and 30 June 2005 are:

	Consolidated	
	2006	2005
Consolidated Income Statement	**$'000**	**$'000**
Current income tax		
Current income tax credit/(expense)	-	-
Adjustments in respect of current income tax of previous years.	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	-	-
Income tax reported in the consolidated income statement	**-**	**-**

6. DIVIDENDS PAID AND PROPOSED

There were no dividends declared or paid during the half year ended 30 June 2006. (2005: NIL)

7. CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2006	**31 December 2005**
	$'000	**$'000**
For the purposes of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	971	3,189
Term deposits	8,000	10,000
	8,971	**13,189**
Bank overdrafts	-	-
	8,971	**13,189**

8. SHARE BASED PAYMENTS

During the six months ended 30 June 2006, 2,600,000 share options were granted under the Employee Share Option Plan and 500,000 POH share options were issued pursuant to a consultancy agreement. The exercise price of the options of $0.2346 and $0.24 respectively is equal to the market price of the shares at the date of grant. The options will become exercisable between 28 April 2006 and 1 January 2008. The fair value of the options granted is estimated as at the date of grant using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 30 June 2006 and 2005:

	30 June 2006	30 June 2005
Dividend yield (%)	-	-
Expected volatility (%)	49.0	-
Risk-free interest rate (%)	5.67	-
Early exercise multiple/expected life	5.0	-
Contractual life (years)	5.0	-

The estimated fair value of each option at grant date is $0.091 (ESOP) and $0.089 (POH)

9. INVENTORIES

There were no inventory write-downs recognised as an expense during the half-year ended 30 June 2006 (2005: NIL).

10. PROPERTY, PLANT & EQUIPMENT

Acquisitions and disposals

During the half-year ended 30 June 2006, the Group acquired assets with a cost of $273,953 (2005: $19,435). The Company commenced construction of plant at Clayton to enable the Company to undertake production of Vital ET.

There were no disposals by the Group during the half-year ended 30 June 2006 (2005:NIL).

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

At 30 June 2006 the Group has commitments of $475,789 (2005: 101,000) relating to non-cancellable operating leases over the office accommodation.

12. CONTRIBUTED EQUITY

	Consolidated	
	30 June 2006	31 December 2005
	$'000	$'000
Issued and paid up capital		
Ordinary shares fully paid (i)	145,306	145,306

(i) Ordinary shares

Fully paid ordinary shares carry one vote per share and carry the right to receive dividends

Movement in ordinary shares on issue	*Thousands*	*$*
At 1 July 2005	499,883	134,741
Issue of shares cash	46,875	11,234
Transaction costs on share issue	-	(669)
At 31 December 2005	546,758	145,306
Issue of shares cash	-	-
Transaction costs on share issue	-	-
At 30 June 2006	546,758	145,306

(i) Share options

There were no options exercised during the period.

13. RELATED PARTY DISCLOSURE

The following table provides the total amount of transactions that were entered into with related parties for the half-year ended 30 June 2006 and 2005:

		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		$'000	$'000	$'000	$'000
Controlled Entities					
Vital Health Sciences Pty Ltd	*2006*	-	-	-	(5,400,000)
	2005	-	-	-	(3,000,000)
Other group companies:					
Preform Technologies Pty Ltd	*2006*	-	-	-	-
	2005	-	-	-	-
Adoil Pty Ltd	*2006*	-	-	-	-
	2005	-	-	-	-

Terms and conditions of transactions with related parties

13. RELATED PARTY DISCLOSURE (CONT)

During the half-year ended 30 June 2006 Vital Health Sciences borrowed an additional $2,400,000 from Phosphagenics Limited (2005: $3,000,000) to help fund the Company's research activities. No part of these funds has been repaid. There are no terms and conditions attached to this loan. The balance outstanding at 30 June 2006 is $5,400,000 (2005: $3,000,000).

No amounts were provided for doubtful debts relating to debts due from related parties at reporting date (2005: NIL).

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

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

For the half-year ended 30 June 2006, the Group has not made any allowance for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2005: NIL).

14. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred between the balance sheet date and the date when these financial statements were authorised for issue.

Directors' Declaration

In accordance with a resolution of the directors of Phosphagenics Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the company 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 30 June 2006 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards and Corporations Regulations 2001: and

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

On behalf of the Board

Associate Professor
Andrew Lancelot Vizard
Chairman and Independent Director

Melbourne, 29 August 2006

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 8650 7777
DX 293 Melbourne

Independent review report to members of Phosphagenics Limited

Scope

The financial report and directors' responsibility

The financial report comprises the condensed income statement, condensed balance sheet, condensed cash flow statement, condensed statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Phosphagenics Limited (the company) and the entities it controlled during the period, and the directors' declaration for the company, for the period ended 30 June 2006.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Phosphagenics Limited and the entities it controlled during the period is not in accordance with:

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

(i) giving a true and fair view of the financial position of the consolidated entity at 30 June 2006 and of its performance for the period ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Ernst + Young

Ernst & Young

Don Brumley
Partner
Melbourne
29 August 2006

Section 4: AUDIT ALERT

As at 30 June 2006 and as the date of this Report there are no matters of dispute or qualification or likely dispute or qualification.