

Phosphagenics Limited

(ABN 32 056 482 403)

Appendix 4D

Half Year Report for the period ended on 30 June 2008

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inclusive of a full set of accounts per AASB 134 together with
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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 2008 reflect:

As is noted in the accompanying Directors' Report for the half-year period ended 30 June 2008 the accelerated R & D programme enabled the Company to announce the following important results:

The principal activity of Phosphagenics and its controlled entities for the half year period was the continued development of the Company's intellectual property on which \$3.705 million (2007: \$2.817 million) was expended to advance its research and development program with the following important results:

- 1. A pre-clinical study combining the Companies APA-01 product candidate and statin atorvastatin (Lipitor™) demonstrated a statistical significant reduction in serum lipids and inflammatory proteins involved in the development of atherosclerosis.*
- 2. The joint phase 2 human clinical trial with Nestlé Nutrition to establish the efficacy of Phosphagenics' Phospha E® in the management of metabolic syndrome is advancing at five sites in Australia.*
- 3. The completion, with favourable results, of a safety and irritation human clinical trial in the U.S. for its lead dermatological product, TPM/tretinoin (tretinoin is also known as retinoic acid).*
- 4. An independent panel of food safety experts unanimously concluded that Phosphagenics' patented Phospha E® is Generally Recognised As Safe (GRAS).*
- 5. Received ethics approval to commence treating patients with Type 1 diabetes in a phase 2 clinical trial using its patented transdermal insulin delivery system, TPM/insulin.*
- 6. Positive results of a pre-clinical study using TPM, the Company's patented drug delivery system, for the targeted delivery of lidocaine, demonstrating increased efficacy while restricting systemic exposure.*

For the 6 months ended 30 June 2008, the Company returned an after tax loss of \$4.121 million (2007: \$3.474 million).

Appendix 4D

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

Half Year Report Period Ended 30 June 2008

(Previous Corresponding Period: Half year ended 30 June 2007)

Results for announcement to the market

		\$A'000	\$A'000
		6 months 30 June 2008	6 months 30 June 2007
Revenues from ordinary activities	(Up 11%)	2,220	2,000
(Loss) from ordinary activities after tax attributable to members	(Up 19%)	(4,121)	(3,474)
Net (Loss) for the period attributable to members	(Up 19%)	(4,121)	(3,474)

Dividends (distributions)	Amount per security	Franked amount per security
6 months ended 30 June 2008 N/A	-	N/A ¢
6 months ended 30 June 2007 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 2008 the Company returned an after tax loss of \$4.121 million (2007: \$3.474 million).

During the period, the Company continued to advance its research and development program with the following results:

1. A pre-clinical study combining the Companies APA-01 product candidate and statin atorvastatin (Lipitor™) demonstrated a statistical significant reduction in serum lipids and inflammatory proteins involved in the development of atherosclerosis.
2. The joint phase 2 human clinical trial with Nestlé Nutrition to establish the efficacy of Phosphagenics' Phospha E® in the management of metabolic syndrome is advancing at five sites in Australia.
3. The completion, with favourable results, of a safety and irritation human clinical trial in the U.S. for its lead dermatological product, TPM/tretinoin (tretinoin is also known as retinoic acid).
4. An independent panel of food safety experts unanimously concluded that Phosphagenics' patented Phospha E® is Generally Recognised As Safe (GRAS).
5. Ethics approval to commence treating patients with Type 1 diabetes in a phase 2 clinical trial using its patented transdermal insulin delivery system, TPM/insulin.
6. Positive results of a pre-clinical study using TPM, the Company's patented drug delivery system, for the targeted delivery of lidocaine, demonstrating increased efficacy while restricting systemic exposure.

To ensure the Company has the ability to fund its research and development program, it raised equity capital of \$8.773 million during the period and as at 30 June 2008 funds in hand totalled \$15.630 million (2007: \$10.715 million); refer to the Cash Flow Statement. At 30 June 2008 Shareholders Equity totalled \$138.421 million (2007: \$133.761 million); refer to the Statement of Changes in Equity.

To examine in detail the information referred to above please visit the Company's website at: www.phosphagenics.com or contact the Company by telephone +613 9605 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 2008	30 June 2007
Net tangible assets per security	2.69 Cents	3.19 Cents

Section 3: STATUTORY SECTION 320 ACCOUNTS

The Financial Report for the half-year period ended 30 June 2008, as attached, is inclusive of:

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Phosphagenics Limited

ABN 32 056 482 403

Financial Report
for the half year ended 30 June 2008

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Directors' Report

The Directors of Phosphagenics Limited submit their report for the half-year ended 30 June 2008.

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 50 YEARS) BVSC (HONS) MVPM
NON EXECUTIVE INDEPENDENT DIRECTOR SINCE JULY 1999 AND CHAIRMAN SINCE OCTOBER 2000
LAST RE-ELECTED MAY 2007**

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 and Animal Health Australia Ltd and is a Trustee of the Australian Wool Education Trust. In addition, Professor Vizard has been a board member of a number of statutory scientific and commercial organisations.

Professor Vizard is a member of the Company's Audit, Compliance and Corporate Governance Committee.

**HARRY ROSEN (AGED 61 YEARS) BA , LLB
EXECUTIVE DIRECTOR APPOINTED TO THE BOARD IN JUNE 1999
APPOINTED MANAGING DIRECTOR DECEMBER 2005
LAST RE-ELECTED MAY 2004 (* AS MANAGING DIRECTOR MR ROSEN IS NOT REQUIRED TO RETIRE BY ROTATION)**

Mr Rosen 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 U.S. in the nutrition and health care industries.

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 (BA-Psychology) and Melbourne University (LLB).

**JONATHAN LANCELOT ADDISON (AGED 55 YEARS) BEC (TAS), ASIC, CFTP (SNR)
NON EXECUTIVE DIRECTOR SINCE NOVEMBER 2002
LAST RE-ELECTED MAY 2008**

Mr Addison has over 30 years in the investment management industry, including wide experience in superannuation. Currently he is the Investment Manager (formerly Fund Manager) of the Meat Industry Employee Superannuation Fund ("MIESF") whom he joined in June 1999 and where he is responsible for the investment 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.

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 also holds Non-Executive Directorships with Austcorp Capital Funds Management Limited, African Enterprise Limited, African Enterprises New Zealand Limited, Hawksbridge Limited and Global Masters Fund Limited.

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

**PROFESSOR JOHN MILLS (AGED 68 YEARS) BS (HONS), MD, FACP, FRACP
NON-EXECUTIVE INDEPENDENT DIRECTOR SINCE MARCH 2004
LAST RE-ELECTED MAY 2007**

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 Executive Chairman of Cavid AB, Executive Director of TissuePath Pty Ltd, a Non-Executive Director of GBS Venture Partners Pty Ltd and, previously, a Non-Executive Director and Chairman of Amrad Corporation and Managing Director of Narhex Life Sciences Limited. He holds professional 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 the pharmaceutical 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 33 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, clinical and development research in Australia and internationally. She achieves this through leadership of a team of experienced pharmaceutical scientists and chemists and strategic collaborations.

In this role, Dr Ogru has developed commercial opportunities for both the Company's nutraceutical division and pharmaceutical technologies, such as transdermal drug delivery and drug enhancement platforms for cancer, heart disease and chronic pain management.

Dr Ogru has many years experience in both the academic and commercial aspects of the industry and has publications in peer-reviewed journals. Prior to joining Phosphagenics in 2001, Dr Ogru carried out significant research on obesity and diabetes. Additionally she has considerable experience in the management and coordination of pre-clinical and clinical development of pharmaceutical products.

**MICHAEL RICHARD DWYER ASHTON (AGED 62 YEARS) B.PHARM, MBA
NON-EXECUTIVE DIRECTOR APPOINTED TO THE BOARD ON 8 JULY 2008**

Mr Ashton has more than 30 years' experience in the international pharmaceutical industry having held senior management positions with Merck Inc. and Pfizer Inc., and executive board positions with Fauldings Inc. and SkyePharma Plc.

Mr Ashton was CEO and Director of SkyePharma Plc., initially he was responsible for the re-organisation of SkyePharma AG as a public enterprise (1996 – 1998). In 1998 he took over responsibility of the operations of the SkyePharma Plc. group and re-organised the international structure in Europe and the U.S. and the world wide Business Development Group.

Earlier Mr Ashton was Chairman, President and CEO of Faulding Inc., the U.S. subsidiary he opened for FH Faulding, Australia's largest pharmaceutical company, and CEO of Purepac Inc. During that time, he supervised the start-up of David Bull in the U.S. and Canada and oversaw restructuring of Purepac Inc., into a leader of the U.S. generic pharmaceutical industry.

In addition, Mr Ashton served with Pfizer International for 13 years in various roles, which included Director of Pharmaceutical Business Development for Europe/Canada, Vice President of Pharmaceutical Development for

Africa/Middle East, Pharmaceutical Business Director of Nigeria and Group Product Manager for the International Division in New York.

Mr Ashton previously applied his pharmacist background to various management positions during six years at Merck Sharp and Dohme in Sydney and the U.S.

Mr Ashton is a member of the Boards of Hikma Pharmaceuticals Plc, Proximagen Neuroscience Plc and Transition Therapeutics Inc.

Mr Ashton holds a Bachelor of Pharmacy degree from Sydney University and a Masters in Business Administration from Rutgers University, New Jersey, USA.

FORMER DIRECTORS:

MICHAEL DAVID PRESTON (AGED 62 YEARS) MA, FCA
NON-EXECUTIVE DIRECTOR FOR THE PERIOD NOVEMBER 2004 TO 23 MAY 2008
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 the U.S. 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 U.S. He is a Fellow of the Institute of Chartered Accountants in England and Wales and shares his time between New York and London.

As announced at the Annual General Meeting (“AGM”) of shareholders in May 2008 Mr Preston, in view of the growing demands on his time from his UK & U.S. business activities, did not seek re-election at the AGM held on 23 May 2008 and, as a consequence, automatically ceased to be a director of the Company at the conclusion of that meeting.

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 2008, the Company returned an after tax loss of \$4.121 million (2007: \$3.474 million). The principal activity of Phosphagenics and its controlled entities for the half year period was the continued development of the Company’s intellectual property on which \$3.705 million (2007: \$2.817 million) was expended.

To ensure the Company has the ability to fund its research and development program, it raised equity capital of \$8.773 million during the period and as at 30 June 2008 funds in hand totalled \$15.630 million (2007: \$10.715 million); refer to the Cash Flow Statement. As at 30 June 2008 Shareholders Equity totalled \$138.421 million (2007: \$133.761 million); refer to the Statement of Changes in Equity.

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 2008.

REVIEW AND RESULTS OF OPERATIONS

During the period, the Company continued to advance its research and development program with the following important results:

1. A pre-clinical study combining the Companies APA-01 product candidate and statin atorvastatin (Lipitor™) demonstrated a statistical significant reduction in serum lipids and inflammatory proteins involved in the development of atherosclerosis.
2. The joint phase 2 human clinical trial with Nestlé Nutrition to establish the efficacy of Phosphagenics' Phospha E® in the management of metabolic syndrome is advancing at five sites in Australia.
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4. An independent panel of food safety experts unanimously concluded that Phosphagenics' patented Phospha E® is Generally Recognised As Safe (GRAS).
5. Received ethics approval to commence treating patients with Type 1 diabetes in a phase 2 clinical trial using its patented transdermal insulin delivery system, TPM/insulin.
6. Positive results of a pre-clinical study using TPM, the Company's patented drug delivery system, for the targeted delivery of lidocaine, demonstrating increased efficacy while restricting systemic exposure.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period to 30 June 2008 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.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless stated otherwise) 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:

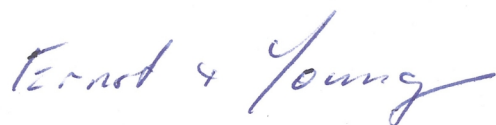


Associate Professor Andrew Lancelot Vizard
Chairman and Independent Director

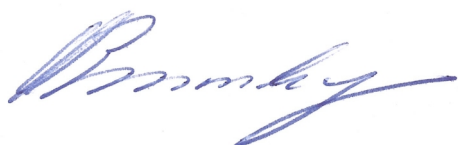
Dated this 28th day of August 2008

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 2008, 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.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Don Brumley'.

Don Brumley
Partner
Melbourne
28 August 2008

Income Statement

for the half-year ended 30 June 2008

	Notes	Consolidated	
		30 June 2008 \$'000	30 June 2007 \$'000
Revenue			
Sale of Goods	3a	446	92
Income from Government Grants	3a	457	335
Royalties	3a	539	860
Finance Revenue	3a	406	550
Total Revenue		1,848	1,837
Cost of Sales		(160)	(3)
Gross Profit		1,688	1,834
Rental Revenue	3a	49	43
Other income	3a	323	120
Employee and Directors benefits expenses	3b	(1,078)	(839)
Occupancy and communications expenses		(298)	(266)
Consulting and professional expenses		(470)	(734)
Administration expenses		(223)	(264)
Research expenses		(3,705)	(2,817)
Other expenses	3c	(407)	(551)
Loss before income tax		(4,121)	(3,474)
Income tax (expense)/credit	4	-	-
Loss attributable to members of the parent entity		(4,121)	(3,474)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent			
- basic earnings per share		(0.70 cents)	(0.58 cents)
- diluted earnings per share		(0.70 cents)	(0.58 cents)

Balance Sheet

as at 30 June 2008

	Notes	Consolidated	
		As at 30 June 2008 \$'000	As at 31 December 2007 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	6	15,630	10,715
Trade and other receivables		1,000	1,577
Inventories		9	15
Prepayments		189	64
Total Current Assets		16,828	12,371
Non-current Assets			
Intangible Assets		123,251	122,987
Goodwill		34,261	34,261
Property, plant and equipment		1,869	1,902
Total Non-current Assets		159,381	159,150
TOTAL ASSETS		176,209	171,521
LIABILITIES			
Current Liabilities			
Trade and other payables		615	818
Provisions		255	23
Total Current Liabilities		870	841
Non-Current Liabilities			
Deferred tax liabilities		36,918	36,918
Total Non-current Liabilities		36,918	36,918
TOTAL LIABILITIES		37,788	37,759
NET ASSETS		138,421	133,762
EQUITY			
Contributed Equity	11	170,316	161,544
Retained earnings		(60,163)	(50,042)
Reserves		28,268	28,260
Total Equity		138,421	133,762

Cash Flow Statement

for the half-year ended 30 June 2008

	Notes	Consolidated	
		30 June 2008 \$'000	30 June 2007 \$'000
Cash flows from operating activities			
Receipts from customers and related parties		1,628	499
Receipts of Government grants		457	42
Payments to suppliers and employees		(6,099)	(6,058)
Net cash flows from used in operating activities		(4,014)	(5,517)
Cash flows from investing activities			
Interest received		286	567
Purchase of property, plant and equipment		(130)	(108)
Net cash flows from investing activities		156	459
Cash flows from financing activities			
Proceeds from share issues		8,773	6,935
Net cash flows from financing activities		8,773	6,935
Net increase in cash and cash equivalents		4,915	1,877
Cash and cash equivalents at beginning of the period		10,715	14,425
Cash and cash equivalents at end of the period	6	15,630	16,302

Statement of Changes in Equity

for the half-year ended 30 June 2008

	Consolidated				
	Ordinary Shares	Employee Benefits Reserve	Revaluation Reserve	Retained Losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2008	161,543	448	27,812	(56,042)	133,761
Loss for the period *	-	-	-	(4,121)	(4,121)
Employee equity settled benefits	-	8	-	-	8
Issue of shares	8,773	-	-	-	8,773
Balance at 30 June 2008	170,316	456	27,812	(60,163)	138,421
Balance at 1 January 2007	154,608	208	27,812	(47,154)	135,474
Loss for the period *	-	-	-	(3,474)	(3,474)
Employee equity settled benefits	-	156	-	-	156
Issue of shares	6,935	-	-	-	6,935
Balance at 30 June 2007	161,543	364	27,812	(50,628)	139,091

* Balances represent the total recognised income and expense for the period.

Condensed Notes to the Financial Statements

for the half-year ended 30 June 2008

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

This general purpose condensed financial report for the half year ended 30 June 2008 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act, 2001.

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.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2007 and be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2008 in accordance with the continuous disclosure obligations of the ASX Listing rules.

Changes in Accounting Policy

Since 1 January 2008 The Group has adopted the following Standards and Interpretations mandatory for annual Periods beginning on or after 1 January 2008. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132,101,114,117,133,139,1,4,1023 and 1038)
- Interpretation 8 Scope of AASB 2 Share-based payments
- Interpretation 9 Reassessment of Embedded Derivatives
- Interpretation 10 Interim Financial Reporting

2. 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 2008 and 30 June 2007.

	Continuing Operations			Total Operations
	Nutraceuticals \$'000	Pharmaceuticals \$'000	Unallocated \$'000	Consolidated \$'000
Half-year ended 30 June 2008				
Segment revenue	1,308	457	455	2,220
Segment result	553	(3,262)	(1,412)	(4,121)
Half-year ended 30 June 2007				
Segment revenue	1,069	335	596	2,000
Segment result	970	(2,682)	(1,762)	(3,474)

3. REVENUES AND EXPENSES

	Consolidated	
	30 June 2008	30 June 2007
	\$'000	\$'000
a) Revenue & Income		
Sales revenue	446	92
Income from Commercial Ready grant	457	335
Royalties	539	860
	1,442	1,287
Interest revenue	406	550
Total finance revenue	406	550
Rental Revenue	49	43
Other income	323	120
Total revenue and income	2,220	2,000
b) Salaries and employee benefits expense		
Salaries and wages	(966)	(589)
Superannuation	(104)	(94)
Employee equity settled benefits	(8)	(156)
Total salaries and employee benefits expense	(1,078)	(839)
c) Other expenses		
Other operating expenses	(407)	(551)
Total other expenses	(407)	(551)
d) Seasonality of Operations		
Phosphagenics Limited operations are not affected by seasonality		

4. INCOME TAX

The major components of income tax expense for the half-year ended 30 June 2008 and 30 June 2007 are:

	Consolidated	
	30 June 2008 \$'000	30 June 2007 \$'000
Consolidated Income Statement		
<i>Current income tax</i>		
Current income tax credit/(expense)	-	-
Adjustments in respect of current income tax of previous years	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	-	-
Income tax reported in the consolidated income statement	-	-

5. DIVIDENDS PAID AND PROPOSED

There were no dividends declared or paid during the half year ended 30 June 2008. (2007: NIL)

6. CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2008 \$'000	31 December 2007 \$'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	582	1,715
Short-term deposits	15,048	9,000
	<u>15,630</u>	<u>10,715</u>
Total Cash and Cash Equivalents	<u>15,630</u>	<u>10,715</u>

7. SHARE BASED PAYMENTS

During the six months ended 30 June 2008, no share options were granted under the Employee Share Option Plan (2007: 900,000). The following table lists the inputs to the model used for the half-year ended 30 June 2008.

	Consolidated	
	30 June 2008	30 June 2007
Dividend yield (%)	-	-
Expected volatility (%)	-	43.00
Risk-free interest rate (%)	-	6.08
Early exercise multiple / expected life	-	5.00
Contractual life (years)	-	5.00

8. INVENTORIES

There were no inventory write-downs recognised as an expense during the half-year ended 30 June 2008 (2007: NIL).

9. PROPERTY, PLANT & EQUIPMENT**Acquisitions and disposals**

During the half-year ended 30 June 2008, the Group acquired assets with a cost of \$142,625 (2007: \$568,063).

10. COMMITMENTS AND CONTINGENCIES**Lease Commitments**

At 30 June 2008 the Group has commitments of \$154,920 (2007: \$221,539) relating to non-cancellable operating leases over the office and production facilities, which expire in 2008 and 2009.

11. CONTRIBUTED EQUITY

	Consolidated	
	30 June 2008 \$'000	31 December 2007 \$'000
Issued and paid up capital		
Ordinary shares fully paid (i)	170,316	161,544
 (i) Ordinary shares Fully paid ordinary shares carry one vote per share and carry the right to receive dividends		
<i>Movement in ordinary shares on issue</i>	<i>(No. '000's)</i>	<i>(\$'000's)</i>
At 1 January 2008	603,440	161,544
Issue of shares	60,102	9,015
Transaction costs on share issue	-	(243)
At 30 June 2008	<u>663,542</u>	<u>170,316</u>
 At 1 January 2007	 580,105	 154,608
Issue of shares	23,333	7,001
Exercise of options	2	-
Transaction costs on share issue	-	(65)
At 31 December 2007	<u>603,440</u>	<u>161,544</u>
 (ii) Share options		
There were no options exercised during the period.	-	-

12. 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 consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2008 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standards AASB 134: Interim Financial Reporting 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

A handwritten signature in black ink, appearing to be 'A. J. ...', written over a faint rectangular box.

Melbourne, 28th August 2008

To the members of Phosphagenics Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Phosphagenics Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2008 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Phosphagenics Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

To the members of Phosphagenics Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Phosphagenics Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end.

Directors' Responsibility for the Half-Year Financial Report

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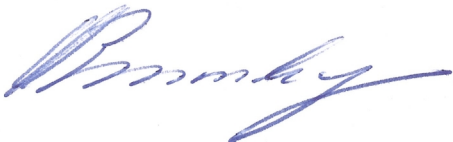
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Phosphagenics Limited is not in accordance with the Corporations Act 2001, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2008 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Don Brumley'.

Don Brumley
Partner
Melbourne
28 August 2008

Section 4: AUDIT ALERT

As at 30 June 2008 and as the date of this Report there are no matters of dispute or qualification or likely dispute or qualification.