



PHOSPHAGENICS

2 July 2004

**The Manager
Company Announcements Office
The Australian Stock Exchange Limited**

Dear Sir

**re : NOTICE OF INTENTION TO SEEK ADMISSION TO
“ALTERNATIVE INVESTMENT MARKET”**

Further to the Company's release this morning of the Supplementary Document.

The Company encloses for release to the market a copy of the Company's Annual Statutory Financial Statements for the year ended 31 December 2003 prepared in accordance with Aus GAAP and restated into IFRS.

These Statements and the Supplementary Document appear on the Company's website at:

www.phosphagenics.com

Yours faithfully
Phosphagenics Limited

per Mourice Garbutt
Company Secretary
phasx\aim financial statements 31 12 03

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
(Formerly Vital Capital Ltd)

ABN 32 056 482 403

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

**PRESENTED IN ACCORDANCE WITH
INTERNATIONAL ACCOUNTING STANDARDS**

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 \$	2002 \$
Other revenue from ordinary activities	3	240,203	255,213
Employee and directors benefits expense		(158,129)	(136,355)
Occupancy and communication expenses		(221,949)	(191,275)
Consulting and professional services		(480,883)	(593,362)
Administrative expenses		(96,993)	(89,598)
Other expenses from ordinary activities		(88,054)	(127,035)
Impairment Loss	9	(62,032)	(803,998)
Realised profit on marketable securities		70,000	-
Unrealised profit/(loss) on marketable securities		13,754	(240,324)
Loss from operations		(784,083)	(1,926,734)
Share of losses of equity accounted investments	4	(1,529,227)	(2,338,356)
Loss from ordinary activities before income tax expense		(2,313,310)	(4,265,090)
Income tax expense	6	-	-
Net loss after income tax		<u>(2,313,310)</u>	<u>(4,265,090)</u>
Basic earnings per share (cents per share)	17	(1.51)	(2.89)
Diluted earnings per share (cents per share)	17	(1.51)	(2.89)

The above Income Statement should be read in conjunction with the notes to and forming part of the financial statements.

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	Share Capital \$	Accumulated Losses \$
Balance at 1 January 2002		33,933,715	(19,274,609)
Net Loss		-	(4,265,090)
Issue of Share Capital		814,745	-
Exercise of Options		1,500	-
Balance at 31 December 2002		<u>34,749,960</u>	<u>(23,539,699)</u>
Equity Transaction Costs		(286,751)	-
Net Loss		-	(2,313,310)
Issue of Share Capital		5,235,500	-
Exercise of Options		2,104	-
Balance at 31 December 2003		<u><u>39,700,813</u></u>	<u><u>(25,853,009)</u></u>

The above Statement of Changes in Equity should be read in conjunction with the notes to and forming part of the financial statements.

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
BALANCE SHEET
AS AT 31 DECEMBER 2003

	Note	2003 \$	2002 \$
CURRENT ASSETS			
Cash and cash equivalents		2,311,753	2,196,023
Trade and other receivables	10	65,708	31,459
Other financial assets	7	13,782	-
Other		32,277	22,045
TOTAL CURRENT ASSETS		<u>2,423,520</u>	<u>2,249,527</u>
NON-CURRENT ASSETS			
Equity accounted investments	8	11,353,629	8,871,368
Property, plant and equipment	11	95,773	119,716
TOTAL NON-CURRENT ASSETS		<u>11,449,402</u>	<u>8,991,084</u>
TOTAL ASSETS		<u><u>13,872,922</u></u>	<u><u>11,240,611</u></u>
CURRENT LIABILITIES			
Trade and other payables	12	25,118	30,350
TOTAL CURRENT LIABILITIES		<u>25,118</u>	<u>30,350</u>
TOTAL LIABILITIES		<u>25,118</u>	<u>30,350</u>
NET ASSETS		<u><u>13,847,804</u></u>	<u><u>11,210,261</u></u>
SHAREHOLDERS' EQUITY			
Share capital	13	39,700,813	34,749,960
Accumulated losses		(25,853,009)	(23,539,699)
TOTAL SHAREHOLDERS' EQUITY		<u><u>13,847,804</u></u>	<u><u>11,210,261</u></u>

The above Balance Sheet should be read in conjunction with the notes to and forming part of the financial statements.

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003	2002
		\$	\$
Cash Flows from Operating Activities			
Interest received		96,075	127,715
Other receipts from non-operating activities		153,439	165,462
Payments to suppliers and employees		(1,151,351)	(1,266,440)
Net goods and services tax		70,234	74,699
Net cash used in operating activities	20(2)	<u>(831,603)</u>	<u>(898,564)</u>
Cash Flows from Investing Activities			
Payments for other equity accounted investments		(4,073,520)	(1,000,008)
Proceeds from sale of investments		70,000	-
Payments for plant and equipment		-	(5,248)
Net cash used in investing activities		<u>(4,003,520)</u>	<u>(1,005,256)</u>
Cash Flows from Financing Activities			
Net proceeds from share issues		4,948,749	814,745
Proceeds from exercise of options		2,104	1,500
Net cash provided by financing activities		<u>4,950,853</u>	<u>816,245</u>
Net increase/(decrease) in cash held		115,730	(1,087,575)
Cash and cash equivalents at beginning of the period		<u>2,196,023</u>	<u>3,283,598</u>
Cash and cash equivalent at the end of the period	20(1)	<u><u>2,311,753</u></u>	<u><u>2,196,023</u></u>

The above Cash Flows Statement should be read in conjunction with the notes to and forming part of the financial statements.

**PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

1. INTRODUCTION

Phosphagenics Limited (formerly Vital Capital Ltd) is a public company, listed on the Australian Stock Exchange and incorporated in Australia.

Activities

Activities comprise investment and the provision of capital, management skills and commercial expertise to encourage the formation and development of Australian small and medium sized businesses within the guidelines of the Australian Pooled Development Fund Act 1992. At a General Meeting on 29 January 2004 the members approved changes to the company structure which when completed will leave the company to concentrate in the development of the technologies owned by Vital Health Sciences Limited. Refer to note 19 for further details.

Currency

The financial statements are presented in Australian dollars.

Number of Employees

The number of employees at 31 December 2003 was nil (2002: 1).

Registered Office

The registered office of the company in Australia is at Level 2, 90 William Street, Melbourne Vic 3000.

Authorisation of Financial Statements

The financial statements were authorised for issue on 27 February 2004 by the directors.

2. SUMMARY OF ACCOUNTING POLICIES

Overall Policy

The principal accounting policies adopted by the company are stated in order to assist in a general understanding of the financial statements.

The financial statements have been drawn up in accordance with International Accounting Standards/International Financial Reporting Standards (IFRS's) and Interpretations of those Standards. IFRS's include IAS's and interpretations issued by the International Accounting Standards Board.

There have been no changes in accounting policy compared with the previous year.

(a) Basis of Accounting

The financial statements have been prepared on the historical cost basis and except for the revaluation of investments described in (c) below, do not take into account current valuations of assets.

The carrying amounts of non-current assets do not exceed the net amounts that are expected to be recovered through the cash inflows and outflows arising from their continued use and subsequent disposal of the assets. The expected net cash flows included in determining impaired values have been discounted to their present values.

Where a group of assets work together to generate net cash inflows the recoverable amount test is applied to that group of assets.

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

2. SUMMARY OF ACCOUNTING POLICIES (Cont'd)

(b) Income Tax

Income tax has been brought to account using a method of tax effect accounting whereby income tax expense for the period is calculated on the accounting result after adjusting for items which, as a result of their treatment under income tax legislation, create permanent differences between that profit/loss and the taxable income/loss. The tax effect of timing differences which arises from the recognition in the accounts of items of revenue and expenses in periods different from those in which they are assessable or allowable for income tax purposes, are represented in the Balance Sheet as "Deferred Tax Assets" or "Deferred Tax Liabilities", as the case may be at current tax rates. A Deferred Tax Asset is only carried forward as an asset where realisation of the benefit can be regarded as being assured beyond reasonable doubt. The company is a registered Pooled Development Fund ("PDF") and as such is entitled to certain tax concessions. With the exception of these tax concessions PDF's are taxed in the same was as other companies. The tax concessions applying to PDF's are as follows:

The taxable income of a PDF is to be divided into two components and taxed at different rates. The two components of a PKF's taxable income are set out below:

- ◆ The Small and Medium Enterprises income component taxed at 15%; and
- ◆ The Unregulated Investment component taxed at 25%.

(c) Investments

Classification

Investments have been classified as either current or non-current assets.

Valuation – Current Investments

Current assets are valued at market value and any increment or decrement will be brought to account in determining the operating result for the period.

Associated Entities – Non-Current Investment

The company has material non-current investments in two associated entities, Vital Health Sciences Ltd (formerly Tocovite Pty Ltd) and Petrecycle Ltd (see Note 8).

Investments in associates are accounted for using the equity method in the financial report of the company. Any impairment in the carrying value of a non-current investment is accounted for in accordance with IAS36 "Impairment of Assets".

Associates comprise entities over which the Company has significant influence and holds an ownership interest.

Under the equity method of accounting:

- (i) the carrying amounts of investments in associates are increased or decreased to recognize the Company's share of the post-acquisition profits or losses and other changes in net assets of the associates; and
- (ii) the Company's share of the post-acquisition profits or losses of associates is included in the Income Statement.

Income Recognition

Dividend revenue is recognised when received.

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

2. SUMMARY OF ACCOUNTING POLICIES (Cont'd)

(c) Investments (Cont'd)

Disposal of Investments

On disposal of an investment the difference between net disposal proceeds and the carrying amount is charged or credited to the Income Statement.

Derivatives

The Company does not deal in derivative financial instruments.

(d) Plant and Equipment

Plant and equipment is stated at cost. All plant and equipment are depreciated at 20% using straight-line method.

(e) Receivables

Accounts receivable and other receivables represent the principal amounts due at balance date less any provision for doubtful accounts.

(f) Payables

Payables represent the principal amounts outstanding at balance date.

(g) Borrowings

As a PDF, the Company is not permitted to borrow money. Bank overdrafts are recognised in the financial statements on the basis of the amounts outstanding at balance date.

(h) Operating Revenue

Operating revenue includes interest income on cash deposits and other revenue. Unrealised gains on marketable securities arising from the valuation of the securities at market prices at year-end are also included in operating revenue.

(i) Operating Leases

Operating Lease payments are charged to expense on a basis, which is representative of the pattern of benefits derived from the leased property.

	2003	2002
	\$	\$
3. OTHER REVENUE FROM ORDINARY ACTIVITIES		
Non-Operating Revenue:		
Interest	96,075	116,199
Other Income (i)	144,128	139,014
	<u>240,203</u>	<u>255,213</u>

(i) Other income relates to a portion of rental expenses and related costs that have been recovered from the Associates' and other third parties. The company's rental expense relates to the lease of its head office at 90 William Street, Melbourne.

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

4. SHARE OF LOSSES OF EQUITY ACCOUNTED INVESTMENTS

	Note	Ownership Interest		2003	2002
		2003	2002	\$	\$
ADOIL PTY LTD					
Principal activity: Process for refining edible oils economically.	(i)	-	33.3%	45,142	7,307
NATRAHERBAL PTY LTD					
Principal activity: Natraherbal is developing projects for high allicin garlic which is known to have therapeutic benefits.	(ii)	-	40.0%	-	453,466
PETRECYCLE LIMITED					
Principal activity: Plastic polymer recycling.		32.83%	30.0%	431,998	571,602
VITAL HEALTH SCIENCES LTD (formerly Tocovite Pty Ltd)					
Principal activity: Healthcare & Bio Science Technologies.		36.70%	35.5%	1,052,087	1,305,981
TOTALS				<u>1,529,227</u>	<u>2,338,356</u>

Note (i): During the 31 December 2003 financial year, Vital Health Sciences Ltd acquired the company's shares in Adoil Pty Ltd for \$1.

(ii): During the 31 December 2003 financial year, the company disposed of its interest in Natraherbal Pty Ltd for \$1.

	2003	2002
	\$	\$
5. LOSS FROM ORDINARY ACTIVITIES		
Depreciation	<u>23,943</u>	<u>28,035</u>
Operating Lease Payments	<u>123,275</u>	<u>118,763</u>

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003	2002
	\$	\$
6. TAXATION		
The difference between income tax expense/(benefit) provided in the financial reports and the prima facie income tax expense/(benefit) on net loss from ordinary activities is reconciled as follows:		
Net Loss from Ordinary Activities	<u>(2,313,310)</u>	<u>(4,265,090)</u>
Prima facie tax (benefit)/expense calculated at 15% except for interest income at 25%	(337,433)	(628,144)
Add: Tax Effect of:		
Non-Deductible Expenses	12,323	16,329
Losses not brought to account	<u>325,110</u>	<u>611,815</u>
Income Tax Attributable to Operating Profit	<u>-</u>	<u>-</u>

It is anticipated losses accumulated whilst the company is a pooled development fund are unlikely to be available to the company when it surrenders its pooled development fund licence. It is not anticipated these losses will be recouped prior to this date.

7. OTHER FINANCIAL ASSETS

Current

Shares in listed companies at market value
 Cost 2003: \$500,000 (2002: \$500,000) comprising:

Shares	<u>13,782</u>	<u>-</u>
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Net Fair Values

The carrying amount of other financial assets equals fair value by reference to the quoted market prices.

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 \$	2002 \$
8. EQUITY ACCOUNTED INVESTMENTS		
Shares in Unlisted Associate Companies	11,353,629	8,871,368
- Equity accounted	11,353,629	8,764,194
- At impaired value amount	-	107,174
	<u>11,353,629</u>	<u>8,871,368</u>

The cost of investments in Unlisted Associates at 2003: \$21,248,528 (2002: \$17,175,008).

Net Fair Values

The carrying values of equity investments at recoverable amount approximate net fair values and have been determined by reference to the fair value of net assets of an Associate at period end.

Material Investments in Entities being Associates:

Petrecycle Limited

Principal activity: Plastic polymer recycling.

Carrying amount of the investment	5,489,908	4,671,906
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Percentage ownership interest held is 32.83% (2002: 30%).

Natraherbal Pty Ltd [Note (a)]

Principal activity: Natraherbal is developing projects for high allicin garlic, which is known to have therapeutic benefits.

Carrying amount of the investment at impaired amount	-	-
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In December 2003, the Company disposed of its interest in Natraherbal Pty Ltd for \$1.

For details of write-down of Natraherbal Pty Ltd investment to recoverable amount in the 31 December 2003 and 31 December 2002 financial years, refer to Note 4.

Percentage ownership interest held is 0% (2001: 40%)

Vital Health Sciences Ltd

Principal activity: Vital Health Sciences is currently developing healthcare and bioscience technologies

Carrying amount of the investment	5,863,721	4,092,288
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Percentage ownership interest held is 36.7% (2002: 35.5%)

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003	2002
	\$	\$
8. EQUITY ACCOUNTED INVESTMENTS (Cont'd)		
<i>Adoil Pty Ltd [Note (b)]</i>		
Principal activity: Process for refining edible oils economically.		
Carrying amount of the investment at impaired amount	-	107,174
Percentage ownership interest held is 0% (2002: 33.3%).		
	<u>11,353,629</u>	<u>8,871,368</u>
During the 31 December 2003 financial year, Vital Health Sciences Ltd acquired the company's shares in Adoil Pty Ltd for \$1.		
For details of write-down to impaired value refer to note 4.		
Share of Associates Net Loss		
Results of associates net loss before income tax	(1,529,227)	(2,338,356)
Share of associates' income tax benefit attributable to loss from ordinary activities	-	-
	<u>(1,529,227)</u>	<u>(2,338,356)</u>
Movements in Carrying Amounts of Investments		
Beginning of Year	8,871,368	11,013,714
Capital Investment	4,073,520	1,000,008
Impairment	(62,032)	(803,998)
Share of Losses (Refer note (c))	(1,529,227)	(2,338,356)
End of Year	<u>11,353,629</u>	<u>8,871,368</u>

Note (a) – During the 31 December 2003 financial year, the Company disposed of its interest in Natraherbal Pty Ltd for \$1.

(b) – During the 31 December 2003 financial year, Vital Health Sciences Limited acquired the company's shares in Adoil Pty Ltd for \$1.

(c) – Share of losses attributable to the company includes operating loss directly attributable to Associates of \$904,269 and amortization of goodwill on acquisition of investments in Associates of \$624,958.

Contingent Liabilities

There is a contingent liability in respect of Vital Health Sciences Limited (VHS), an Associate at 31 December 2003 (2002: \$Nil).

A former consulting firm has lodged a claim for fees. VHS has rejected this claim and has lodged a counterclaim. Estimate of the maximum amount that may become payable is \$51,000.

Commitments

There are no material commitments in respect of Associates at 31 December 2003 (2002: \$Nil).

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 \$	2002 \$
9. WRITE-DOWN OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD TO IMPAIRED VALUE		
Expense from ordinary activities resulting from write-down of investment in Natraherbal Pty Ltd to impaired value (Refer note (a))	-	(570,536)
Expense from ordinary activities resulting from write-down of investment in Adoil Pty Ltd to impaired value (Refer note (b))	(62,032)	(233,462)
	<u>(62,032)</u>	<u>(803,998)</u>
Notes:		
(a) The write down to impaired value for Natraherbal Pty Ltd was due to the net cash inflows that were expected to be received on commercialisation of its intellectually property would not be received due to delays in the commercialisation of its technology.		
(b) In the 31 December 2003 financial year, the investment in Adoil Pty Ltd was written down to its recoverable value of \$1. At 31 December 2002, the writedown to impaired value was based on the company's share of the net assets of Adoil Pty Ltd. These net assets were primarily cash assets.		
10. TRADE AND OTHER RECEIVABLES		
Trade Debtors	7,765	-
Other debtors	57,943	31,459
	<u>65,708</u>	<u>31,459</u>
Net Fair Values		
The carrying amount of accounts receivable approximate Net Fair Values as determined by reference to expected net cash inflows.		
11. PROPERTY, PLANT AND EQUIPMENT		
Furniture and equipment at cost	195,305	195,305
Less: Accumulated depreciation	(99,532)	(75,589)
	<u>95,773</u>	<u>119,716</u>
Movement in Furniture & Equipment		
Written down value at beginning of year	119,716	142,503
Additions	-	5,248
Depreciation for year	(23,943)	(28,035)
Written down value at end of year	<u>95,773</u>	<u>119,716</u>

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003	2002
	\$	\$
12. TRADE AND OTHER PAYABLES		
Trade Creditors	317	7,054
Accruals	22,160	23,296
Other creditors	2,641	-
	<u>25,118</u>	<u>30,350</u>

All payables are unsecured and are payable in Australian dollars.

Net Fair Values

The carrying amounts of accounts payable approximate Net Fair Values as determined by reference to expected net cash outflows.

13. SHARE CAPITAL

(a) Issued Shares

172,100,867 (2002: 151,148,349) Fully Paid Ordinary Shares

39,700,813	<u>34,749,960</u>
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Number of Shares

The movement in the number of ordinary shares of the Company is as follows:

Opening balance	151,148,349	147,185,808
Shares issued	20,942,000	3,955,041
Exercise of options	10,518	7,500
	<u>172,100,867</u>	<u>151,148,349</u>
Closing balance		

(b) Share Options

June 2009 options exercisable at 20 cents each

In the period June 1999 to December 2003, inclusive, a total of 245,315 options have been exercised at 20 cents each of which 10,518 were exercised in the current year.

POHOB Options at 31 December 2003

For the financial year ended 31 December 2003 the following movements occurred in quoted POHOB options.

Balance 31 December 2003	60,168,148
Balance 31 December 2002	<u>60,178,666</u>
Net movement in period	(10,518)
Represented by:	
Issues	-
Reductions	
Exercised in the period	<u>(10,518)</u>
Net Movement in 2003	(10,518)

As at close of business on 31 December 2003 there was a total of 60,168,148 unexercised options.

Terms and Conditions of Contributed Equity

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 sale of all surplus assets in proportion to the number of and amounts paid up to shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 \$	2002 \$
14. AUDITORS' REMUNERATION		
Remuneration paid or due and payable to the auditors of the Company in connection with:		
Audit and Review of Financial Reports	42,372	33,727
Other Services	-	13,878
	<u>42,372</u>	<u>47,605</u>

15. DIRECTORS' REMUNERATION

Total income paid or payable, or otherwise made available to all Directors of the Company from the Company or any Related Party	<u>133,554</u>	<u>166,463</u>
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Number of directors whose total income falls within the following bands:

\$Nil	2	3
\$0 - \$ 9,999	1	1
\$20,000 - \$29,999	3	1
\$60,000 - \$69,999	1	1
\$70,000 - \$79,999	-	1
	<u>7</u>	<u>7</u>

Names of directors holding office at any time during the year:

A L Vizard
H Rosen
S Korman
A D Fisher
P J Lewinsky
S M West
J L Addison

16. RELATED PARTY TRANSACTIONS

Interest of Directors in Shares and Options in the Company.

(a) Directors Shareholdings

P J Lewinsky	225,000	225,000
H Rosen	2,663,000	2,375,000
A L Vizard	52,135	52,135
J L Addison	4,000	4,000
	<u>2,944,135</u>	<u>2,656,135</u>

Refer to Directors' Report for further information.

(b) Director's Options

P J Lewinsky	2,900,000	2,900,000
H Rosen	5,050,000	5,050,000
S M West	2,675,000	2,675,000
A L Vizard	1,200,000	1,200,000
S Korman	1,000,000	1,000,000
A D Fisher	300,000	300,000
	<u>13,125,000</u>	<u>13,125,000</u>

There were no options acquired during the financial year from the Company.

PHOSPHAGENICS LIMITED
(Formerly Vital Capital Ltd)
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 \$	2002 \$
16. RELATED PARTY TRANSACTIONS (Cont'd)		
(c) Transactions with Associates		
During the year the company charged a service fee to the Associate Companies for administration services and to recover a portion of its rental expense from Associate Companies under normal commercial arrangements as follows:		
Vital Health Sciences Limited	30,240	35,160
Natraherbal Pty Ltd	-	12,000
Petrecycle Limited	30,240	29,160
	<u>30,240</u>	<u>76,320</u>

17. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share.

Basic and dilutive EPS (cents per share)	(1.51)	(2.89)
	<u>(1.51)</u>	<u>(2.89)</u>
Earnings used in the calculation of basic and dilutive EPS	(2,313,310)	(4,265,090)
	<u>(2,313,310)</u>	<u>(4,265,090)</u>
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS and dilutive EPS	152,927,990	147,483,414
	<u>152,927,990</u>	<u>147,483,414</u>
Potential ordinary shares that are not dilutive and not used in the calculation of diluted earnings per share:		
▪ Share Options	60,168,148	60,178,666
	<u>60,168,148</u>	<u>60,178,666</u>

The share options outstanding were not dilutive, as their conversion would result in a reduction in the loss per share.

18. SEGMENT INFORMATION

The Company operates as a registered Pooled Development Fund. The Company's only primary business segment is investment and its only secondary geographical segment is operating in Australia.

19. EVENTS SUBSEQUENT TO BALANCE DATE

At a General Meeting of the members of the company held on 29 January 2004, the members approved the following resolutions:

- (i) The acquisition by the Company of all shares in Vital Health Sciences Limited not held by the Company and the issue by the Company of 297,294,235 ordinary shares credited as fully paid in consideration of the acquisition of shares in Vital Health Sciences limited in accordance with the terms of agreements between the vendors of shares in Vital Health Sciences Limited and the Company.
- (ii) That the Company change its name to "Phosphagenics Limited" as from 9 February 2004.
- (iii) That the Company approve the placement of 20,942,000 fully paid ordinary shares issued on 7 November 2003 at 25 cents per share.
- (iv) That, in accordance with clause 59 of the Company's constitution, the maximum aggregate sum of non-executive directors' fees be set at \$300,000 per annum.
- (v) Discontinuing Operation.
 The investment in Petrecycle Limited is to be disposed of through the payment of an in specie dividend on the basis of one Petrecycle Limited share for each 10 shares held in the company at 9 February 2004.

The financial effects of the above transactions have not been recognized in the financial report.

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20. NOTES TO THE CASH FLOW STATEMENT

(1) Reconciliation of Cash

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks, deposits at call and bills of exchange with a maturity date no later than three months. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related Balance Sheet items as follows:

	2003	2002
	\$	\$
Cash	2,311,753	2,196,023

(2) Reconciliation of Net Cash Used In Operating Activities to Operating Loss after Income Tax

Operating Loss after Income Tax	(2,313,310)	(4,265,090)
Adjustment for Non-Cash Income and Expense Items:		
Realised Losses/(Profits) on Marketable Securities	(70,000)	-
Unrealised Losses/(Profits) on Marketable Securities	(13,782)	240,234
Depreciation	23,943	28,035
Net Expense from Aggregate Share of Associates':		
Loss from Ordinary Activities after Tax	1,529,227	2,338,356
Diminution of investments in associates	62,032	803,970
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables	(34,249)	4,045
Decrease in Payables	(5,235)	(26,069)
Increase in Other Current Assets	(10,229)	(22,045)
Net Cash Used In Operating Activities	<u>(831,603)</u>	<u>(898,564)</u>

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21. FINANCIAL INSTRUMENTS: INTEREST RATE RISK AND CREDIT RISK

The Company manages its exposure to interest rate fluctuations through a formal set of policies and procedures approved by the Board of Directors. The Company does not engage in any significant financial instrument transactions, which are speculative in nature.

Interest Rate Risk Exposure

Exposure to interest rate risks on financial assets and liabilities are summarised as follows:

	Non Interest Bearing \$	Floating Interest Rate \$	Total \$
2003			
Financial Assets			
Cash - Current	-	2,311,753	2,311,753
Accounts Receivable - Current	65,708	-	65,708
Equity Accounted Investments – Non Current	11,353,629	-	11,353,629
	<u>11,419,337</u>	<u>2,311,753</u>	<u>13,731,090</u>
Weighted Average Interest Rate	-	4.8%	
Financial Liabilities			
Payables - Current	25,115	-	25,115
Net Financial Assets	<u>11,394,222</u>	<u>2,311,753</u>	<u>13,705,975</u>
2002			
Financial Assets			
Cash - Current	-	2,196,023	2,196,023
Accounts Receivable - Current	31,459	-	31,459
Equity Accounted Investments – Non Current	8,871,368	-	8,871,368
	<u>8,902,827</u>	<u>2,196,023</u>	<u>11,098,850</u>
Weighted Average Interest Rate	-	4.8%	
Financial Liabilities			
Payables - Current	30,350	-	30,350
Net Financial Assets	<u>8,872,477</u>	<u>2,196,023</u>	<u>11,068,500</u>

Credit Risk Exposure

The maximum credit risk exposure of financial assets excluding investments is represented by the carrying amounts of assets recognised in the balance sheet net of any provisions for losses. The credit risk in respect of cash assets is minimised as counter-parties are recognised financial institutions with acceptable credit ratings of AAA, determined by a recognised rating agency.

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	2003	2002
	\$	\$
22. DIVIDEND IMPUTATION		
Balance of Franking Account at Year End	-	-
	<u> </u>	<u> </u>
23. COMMITMENTS FOR EXPENDITURE		
Non-cancellable operating lease commitments are:		
Not later than one year	102,729	90,400
Later than one year but not later than 5 years	246,549	-
	<u> </u>	<u> </u>
	<u>349,278</u>	<u>90,400</u>

Non-cancellable operating leases relate to the rent of office accommodation for a period of 10 months. The company has an option to extend its rental lease for a further period of 3 years.

24. STATUTORY INFORMATION

The registered office of the Company is Level 2, 90 William Street, Melbourne, Victoria 3000.

The Company was incorporated and is domiciled in Australia.

The number of employees at 31 December 2003 is 0 (2002: 1).