Living Cell Technologies Limited

Financial Report

For the Year Ended 30 June 2008

Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

For the Year Ended 30 June 2008

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Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

Directors' Report

For the Year Ended 30 June 2008

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2008.

1. General information

a Directors

The names of the directors in office at any time during, or since the end of, the year are:

Names	Appointed/Resigned
Simon O'Loughlin	
Robert Elliott	
David Collinson	
Laurie Hunter	
Paul Tan	
Charles Macek	Resigned 24 August 2007
David Brookes	Appointed 23 August 2007
Robert Caspari	Appointed 7 January 2008

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

b Company Secretary

The following person held the position of company secretary at the end of the year:

Nick Geddes FCA, FCIS

Nick is the principal of Australian Company Secretaries, a company secretarial practice, which he formed in 1993. He is a member of the National Council of Chartered Secretaries Australia and Chairman of the NSW Branch of that Institute, with previous experience as a Chartered Accountant and Company Secretary, including investment banking and development and venture capital in Europe, Africa the Middle East and Asia.

Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

Directors' Report

For the Year Ended 30 June 2008

2. Director Information

a Information on Directors

Simon O'Loughlin	Independent Director and Chairman BA Acc. Age : 51

Simon O'Loughlin is a legal practitioner with over 25 years experience as a corporate and commercial solicitor. He has had extensive involvement in the corporate world, especially in relation to the formation, structuring and listing of small to medium sized companies.

Simon is Chairman of WCP Diversified Investments Ltd and Bondi Mining Ltd, as well as a director of Aura Energy Ltd, Petratherm Ltd, Chesser Resources Ltd and Probiomics Ltd. In recent times he has been a director of Hindmarsh Resources Ltd and Gowit Ltd (now Agincourt Resources Ltd). Simon is a past President of the Save the Children Fund (SA Division) and a past Chairman of Taxation Institute of Australia (SA Division).

Simon's knowledge of Australian Corporate Law and ASX listing rules is critical for his role on the board and its committees. He was appointed Chairman on 25 August 2006.

Robert Elliott	Medical Director MBBS, MD, FRACP Age: 74

Professor Elliott trained as a Paediatrician at Adelaide University. He moved to New Zealand in 1970 to become the Foundation Professor, Department of Paediatrics at the University of Auckland. Professor Elliott co-founded LCT.

He is an Emeritus Professor of Child Health research, Professor of Paediatrics and a world leader in diabetes and autoimmune related research. Professor Elliott is on the board of the New Zealand Child Health Foundation and the Wings Trust (a NZ trust for the treatment of alcohol and substance abuse). He is also patron of the NZ Cystic Fibrosis Foundation. In 1999 he was awarded a CNZM (a Companion of the New Zealand Order of Merit) for services to the community.

David Collinson	Founding Director Age : 59 David Collinson is a New Zealand company director who, with Professor Robert Elliott, founded LCT's research and development activity in 1987 when his son became diabetic at the age of two. David has contributed a substantial amount of private capital to the establishment of LCT and has been instrumental in raising further funding for the development and growth of LCT. He has been the driving force behind the international development of the company and was CEO until he stepped down for health reasons on 24 January 2007. David is a director of J Collinson Ltd and is also a director of several new biotechnology companies in the food and health sector. He also founded the New Zealand Textile Importers Institute.
Laurie Hunter	Independent Director MA (Hons) Age : 61 Laurie has over 35 years experience as a stockbroker, investment banker and corporate investor in London, Paris and San Francisco. Laurie was a Member of The Stock Exchange, London, a partner at L.Messel & Co, London, a director of Shearson Lehman Hutton and founder of Hunter Capital. His recent focus has been on investing in and providing strategic advice to developing companies.

Paul Tan	Executive Director, Chief Operating Officer LCT Group, CEO LCT New Zealand Ltd MB.BS, FRACP Age 60 Dr Paul Tan has been an executive director since 23 February 2007 and was appointed as Chief Operating Officer of Living Cell Technologies and Chief Executive Officer of LCT New Zealand Ltd on 29 July 2008. Paul was previously Chief Executive Officer of the Group from 23 February 2007 until LCT appointed US Based Robert Caspari to the position of CEO of LCT on 29 July 2008. Paul had joined the the company in 2004 as the Managing Director of LCT'S New Zealand operations. Prior to this he was Chief Executive Officer of CenTec Ltd and founding Deputy Director and Head of Health Division at Genesis Research & Development Corporation Limited. Paul has been a research fellow, associate professor in immunology and a physician rheumatologist. He holds patents relating to the therapeutic uses of microbial products and is also a member of the Management Committee of the Auckland branch of NZBio.
David Brookes	Independent Director (Appointed 23 August 2007) MB.BS, FACRRM Age: 48 Dr Brookes has a Bachelor of Medicine and Bachelor of Surgery from Adelaide University and is a Fellow of the Australian College of Rural and Remote Medicine. He currently works as a general medical practitioner and has extensive experience in rural Australia, especially in paediatric and procedural practice.His involvement in the biotechnology sector started in the mid 1990's, as an analyst for broking firm Taylor Collison Ltd. He is also currently Chairman of Innovance Ltd (listed on the Newcastle stock exchange).

Robert Caspari	Director (Appointed 7 January 2008) CEO (Appointed 29 July 2008) MD Age 62 Dr. Caspari, based in Boulder, Colorado, was previously Senior Vice President Commercial Operations of Myogen, Inc.; Vice President and General Manager for Biopharmaceuticals at Novo Nordisk Pharmaceuticals, Inc.; Vice President Medical and Clinical Affairs of Baxter International; Senior Vice President Medical & Regulatory Affairs of Somatogen, Inc.; Vice President, Medical Affairs, Boehringer Mannheim Corporation; Senior Director of International Clinical Research at Schering-Plough Corporation; Director, Global New Product Management at Lederle Laboratories and more recently President and CEO of Aurogen, Inc.

b Meetings of Directors

During the financial year, 12 meetings of directors were held. Attendances by each director during the year were as follows:

	Directors' Meetings	
	Eligible to attend	Number attended
Simon O'Loughlin	12	11
Robert Elliott	12	11
David Collinson	12	11
Laurie Hunter	12	9
Paul Tan	12	12
Charles Macek	2	2
David Brookes	11	10
Robert Caspari	4	3

3. Business review

a Principal activities

The principal activity of the consolidated group during the financial year was:

- the clinical development of cell based therapeutics for the treatment of diabetes and pre-clinical research and development into neurological disorders.

There have been no significant changes in the nature of the consolidated group's principal activity during the financial year.

b Corporate structure

The companies within the economic entity make up a vertically integrated cell therapy business operating globally, through offices in Australia (Country of Incorporation), with fully owned subsidiaries in New Zealand and the United States. The parent entity is a public listed company (ASX : "LCT"; OTCQX: "LVCLY") incorporated and domiciled in Australia, with Dr Robert Caspari as CEO.

The economic entity has two main operating divisions:

The research, production and clinical division is located in Auckland, New Zealand. The facility includes GMP manufacturing and IANZ accredited diagnostic laboratories, as well as separate disease-free pig facilities. The facility is headed by LCT NZ CEO, Dr Paul Tan who has extensive international experience in operating facilities, conducting clinical studies and managing intellectual property portfolios.

Corporate affairs are managed between Auckland for financial control and reporting (under the management of Richard Justice, an experienced CFO with public company experience for companies

3. Business review continued

b Corporate structure continued

listed in New Zealand, Canada and the United States), Sydney for company secretarial matters and corporate governance (with Nick Geddes as Company Secretary) and the Melbourne based office (managed by LCT Australia's Interim General Manager Julia Hill) focusing on investor and corporate relations.

Encapsulation studies are maintained at Brown University in Rhode Island, through a contract with a former employee, Chris Thanos, who had been Director of Research for LCT BioPharma, Inc., LCT's fully owned subsidiary in the United States.

c Employees

As at 30 June 2008 the consolidated group employed 48 staff. (2007: 39).

d Review of operations

As a live cell therapy company, LCT focuses on developing treatments for implanting healthy living cells to replace or repair disease or damaged organs, for a range of life-threatening diseases. LCT's products do not require the use of immunosuppression to prevent rejection, due to the proprietary coating technology used with the cells (bio-encapsulation technology).

The core business of Living Cell Technologies Ltd ('LCT') focuses on a treatment for Type 1 diabetes to regulate blood glucose levels and avoid long term complications created by the disease. In addition, the company owns specialised pig breeding facilities that enable the use of pig cells and tissues for human medicinal purposes. The Company is also developing a suite of products for neurological and liver disorders, which are at various stages of pre-clinical development and discovery.

The Company has developed a good-manufacturing-practice (GMP) manufacturing unit for the production of cell based therapeutics, as well as an internationally accredited diagnostic laboratory for monitoring of potential viruses. This integrated infrastructure enables the Company to manufacture and supply cell based products directly to the market upon commercialisation.

LCT's competitive advantages in the field of transplantation of living cells for the controlled, long-term delivery of therapeutic proteins include:

- a fully-owned specialised source of cells from a designated pathogen free pig herd, which have been internationally and independently reviewed;
- a GMP cell processing and manufacturing unit to enable the production of human medicines;
- international IANZ accredited diagnostic facilities for monitoring of transplant recipients;
- proprietary encapsulation technology to enable transplants without rejection; and
- a strong international intellectual property position.

In addition, LCT is the only company world-wide to have met the necessary capabilities and current

3. Business review continued

d Review of operations continued

criteria for human clinical trials of a xenotransplant product.

This financial year has been one of significant progress for LCT, having raised substantial capital and making remarkable inroads with the development of its lead cell therapy product DiabeCell® in clinical trials for the treatment of Type 1 diabetes. Early stage results received from the trial have already indicated clinical benefit at the lowest dose, helping to raise investor confidence.

Over the past 12 months, the company has focused on developing a global presence. Listing on the International OTCQX in New York, working with the Barbara Davis Centre for Diabetes in Denver, Colorado and appointing a US-based CEO, Dr Robert Caspari, have enabled the company to establish a stronger international position.

e Operating Results

The consolidated loss for the year of the consolidated group amounted to $6,794,037. (2007: Loss of $5,987,322).

4. Financial Review

a Financial Position

The net assets of the consolidated group have increased by $10,082,440 from $1,401,328 to $11,527,248 in 2008. The increase has largely resulted from the following factors:

- Share Capital increasing by $16,176,785 from $29,872,385 to $46,049,170
- Whereas the result for the year was a loss of $6,794,037.

b Cash from Operations

Net cash outflow from operating activities moved from $5,536,559 in the previous period to $5,598,158, a change of 1% reflecting the close scrutiny and control over operational overheads within the consolidated group.

4. Financial Review continued

c Liquidity and Funding

As at 30 June 2008 the consolidated group had $10,767,335 cash in the bank, compared to $2,449,768 as at the previous year end, which based on anticipated levels of operational cash flow requirements would allow the consolidated group to fund current operations for approximately 20 months, which is a significant improvement on the position at the previous year end.

5. Remuneration Report

This report details the nature and amount of remuneration for each key management person of Living Cell Technologies Limited, and for the executives receiving the highest remuneration.

a Remuneration policy

The remuneration policy of Living Cell Technologies Limited has been designed to align key management person and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of Living Cell Technologies Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount or remuneration for the key management person of the consolidated group is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants.

- All executives receive a base salary (which is based on factors such as length of service and experience), plus where appropriate superannuation, fringe benefits, options and performance incentives.

- The remuneration committee reviews executive packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management persons are also entitled to participate in the employee share and option arrangements.

The Australian based executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other

Directors' Report

For the Year Ended 30 June 2008

5. Remuneration Report continued

a Remuneration policy continued

retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align directors interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

b Key Management Personnel

Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Key Management	Position
Directors	
Bob Elliott	Medical Director
David Collinson	Founding Director
Paul Tan	CEO LCT NZ Ltd (Appointed 29 July 2008)
Robert Caspari	CEO (appointed 29 July 2008)
Specified Executives	
Richard Justice	Chief Financial Officer

5. Remuneration Report continued

c Remuneration of Key Management Personnel

The remuneration for each director and each of the four executive officers of the consolidated group receiving the highest remuneration during the year was as follows:

2008

	Short-term benefits			Post employment benefits	Share based payment	Total
	Cash, salary & commissions	Cash bonus	Non-cash Benefits	Superannuation	Options	
	$	$	$	$	$	$
Directors						
Robert Caspari	**25,000**	-	-	-	-	**25,000**
Simon O'Loughlin	-	-	-	**75,000**	**31,208**	**106,208**
Robert Elliott	**171,714**	-	-	-	-	**171,714**
Paul Tan	**257,571**	-	-	-	**121,367**	**378,938**
David Collinson	**100,000**	-	-	-	-	**100,000**
David Brookes	**27,500**	-	-	**18,333**	**76,469**	**122,302**
Laurie Hunter	**50,000**	-	-	-	**15,604**	**65,604**
Charles Macek	**8,333**	-	-	-	-	**8,333**
Specified Executives						
Richard Justice	**233,368**	-	-	-	**52,791**	**286,159**
	873,486	-	-	**93,333**	**297,439**	**1,264,258**

2007

	Short-term benefits			Post employment benefits	Share based payment	Total
	Cash, salary & commissions	Cash bonus	Non-cash Benefits	Superannuation	Options	
	$	$	$	$	$	$
Directors						
Michael Yates	10,000	-	-	-	-	10,000
Simon O'Loughlin	-	-	-	75,000	16,162	91,162
Robert Elliott	183,014	-	-	-	23,100	206,114
Paul Tan	214,960	-	-	-	3,633	218,593
David Collinson	177,556	-	-	-	23,100	200,656
Al Vasconcellos	368,436	-	-	-	-	368,436
Laurie Hunter	30,855	-	-	-	8,081	38,936
Charles Macek	-	-	-	50,000	23,685	73,685
Specified Executives						
Richard Justice	210,000	-	-	-	18,577	228,577
Paris Brooke	110,000	-	-	9,900	7,060	126,960
Dwaine Emerich	214,154	-	-	-	5,554	219,708
Chris Thanos	96,968	-	-	-	3,332	100,300
	1,615,943	-	-	134,900	132,284	1,883,127

5. Remuneration Report continued

d Options issued as part of remuneration for the year ended 30 June 2008

Options are issued to the directors and specified executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the directors and senior executives of Living Cell Technologies Limited and it's subsidiaries to increase goal congruence between executives, directors and shareholders.

				Terms & Conditions for Each Grant			
	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
Directors							
Paul Tan	500,000	500,000.00	7 March 2007	0.18	0.30	23 February 2008	23 February 2013
David Brookes	-	150,000.00	27 November 2007	0.25	0.20	28 August 2008	30 November 2012
David Brookes	-	250,000.00	27 November 2007	0.23	0.30	28 August 2008	30 November 2012
Total	**500,000**	**900,000.00**					

All options usually vest within one year to two years of grant date and expire within four to five years of vesting. Options granted have not been subject to performance conditions and are part of remuneration packages. Options may be granted to key management personnel with more than one year's full-time service.

Exercise prices have been structured at levels greater than the market price at date of the original grant by the Board, which will pre-date the ultimate shareholder approval, which is required for options to be issued to directors.

5. Remuneration Report continued

d Options issued as part of remuneration for the year ended continued

Remuneration value of options granted during the year and proportion of total remuneration:

	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Options Exercised	Options Lapsed
	$	%	$	$
Directors				
Simon O'Loughlin	31,208	29.4	-	-
Laurie Hunter	15,604	23.8	-	-
Paul Tan	121,367	32.0	-	-
David Brookes	76,469	62.5	-	-
Specified Executives				
Richard Justice	52,791	18.4	-	-
	297,439	-	-	-

e Employment contracts of directors and senior executives

The employment conditions of the chief executive officer, Robert Caspari, the executive directors and specified executives are formalised in contracts of employment as permanent employees of Living Cell Technologies Limited, or consultants to the company.

The employment contracts stipulate a range of one to three month resignation periods. The company may terminate an employment contract without cause by providing written notice in accordance with the terms in the employment agreements, or making payment in lieu of notice, based on the individual's annual salary component, together with a redundancy payment based on the individual's fixed salary component and length of service. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

6. Options

a Unissued shares under option

At the date of this report, the unissued ordinary shares of Living Cell Technologies Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
15 January 2004	30 June 2010	0.21	695,000
25 March 2004	30 June 2010	0.21	200,000
30 August 2004	30 June 2010	0.21	11,428,650
28 October 2004	15 November 2010	0.30	1,625,000
30 November 2004	30 November 2009	0.20	115,000
6 July 2005	14 November 2011	0.24	175,000
16 March 2006	16 March 2011	0.23	360,000
24 November 2006	12 December 2011	0.18	2,000,264
23 April 2007	1 February 2010	0.25	3,000,000
25 May 2007	25 May 2012	0.30	1,050,000
1 June 2007	1 June 2012	0.20	2,100,000
31 October 2007	30 November 2009	0.20	150,000
27 November 2007	30 November 2012	0.30	1,670,000
7 March 2008	23 February 2013	0.30	500,000
			25,068,914

b Options exercised during the year

During the year ended 30 June 2008, the following ordinary shares of Living Cell Technologies Limited were issued on the exercise of options. No further shares have been issued since that date. No amounts are unpaid on any of these shares.

Grant Date	Exercise Price	Number of Shares Issued
5 December 2007	0.21	42,500
8 May 2008	0.30	20,000
8 May 2008	0.30	5,000
31 January 2008	0.01	5,752,312
17 March 2008	0.01	3,224,868
		9,044,680

7. Indemnifying Officers

Insurance premiums paid for directors

The company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a willful breach of duty in relation to the company. The amount of the premium was $ 68,873.

8. Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

9. Other items

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

(i) On 5 November 2007 the company issued 20.2 million shares, which raised $2,223,457, through a private placement of ordinary shares to Navigroup Management Limited.

(ii) On 30 November 2007 the company issued 20.2 million shares, which raised $6,063,925, through a placement of ordinary shares to existing shareholders.

(iii) On 31 January 2008 the company issued 5.75 million shares, which raised $57,523 through warrants exercised by Convertible Note holders.

(iv)On 17 March 2008 the company issued 1.95 million shares, in relation to $341,389 from accrued interest owing to Convertible Note holders.

(v) On 17 March 2008 the company issued 3.2 million shares, which raised $32,249 through warrants exercised by Convertible Note holders.

(vi)On 17 March 2008 the company issued 24.15 million shares, which raised $6,408,169, through a private placement to Palmert Members Ltd.

(vii) On 17 March 2008 the company issued 9.9 million shares, in relation to $1,733,310 being the value of the Convertible Note, which was converted into ordinary shares.

10. After Balance Date Events

On 22 July 2008 further interim results were released by the company describing clinical benefit in all patients who have received implants of DiabeCell®, the Company's encapsulated porcine islet cells for the treatment of type 1 diabetes. Six patients with insulin dependent diabetes had received DiabeCell® implants. Five patients in the first group received the lowest dose of 5,000 islet equivalents (IEQ/kg) and two of them have received a second implant of the same dose. To date, no remarkable adverse events have occurred during the trial, which has enabled LCT to meet clinical milestones in relation to safety for up to 12 months follow up. The trial has been expanded to a second group of five patients and the sixth patient in the trial has been implanted with the higher dose of 10,000 IEQ/kg. The clinical benefit observed in all five patients receiving the lowest dose far exceeded expectations. In the first group, following DiabeCell® implants, reductions in daily insulin requirements ranged from 23% to as much as 100% while maintaining good control of blood glucose levels in four out of five patients

On 29 July 2008 the company announced the expansion of its management team and the appointment of one of its directors, Dr. Robert Caspari, M.D., as Chief Executive Officer of the Company. Dr. Caspari is based in Boulder, Colorado and is to lead LCT from there in recognition of the growing U.S. presence of the company. LCT has listed its American Depository Receipts on the International OTCQX with the Bank of New York Mellon as its Principal American Liaison. The Company has also started working with the Barbara Davis Center for Diabetes, Denver, Colorado, towards conducting a clinical trial there in 2009. The appointment of Dr. Caspari comes as the Company elevates operations and business activities internationally. Dr. Paul Tan, LCT New Zealand's current CEO who is based in Auckland, New Zealand, will remain the CEO of LCT New Zealand Limited, LCT's subsidiary in New Zealand, and assumes the role of Chief Operating Officer for LCT.

11. Auditors Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 18 of the financial report.

12. Future Developments, Prospects and Business Strategies

Following a highly successful 2007/2008 year LCT is now well placed to leverage from its strong financial position and promising clinical data. The following developments are intended to be implemented in the near future:

(i) continue to expand our clinical trials;

(ii) continue to improve and expand our manufacturing capabilities;

(iii) place the Company favourably for commercialisation of our lead product DiabeCell®.

(iv) conclude the initial trial in Russia;

(v) advance discussions with FDA;

These developments together with the current strategy of continuous improvement and adherence to quality control will assist in the achievement of the Consolidated Group's key milestones of commencing a second clinical trial, whilst identifying other countries for doing clinical trials and complete the new facility for expansion of the pig herd and continue discussions with potential strategic partners.

13. Environmental Issues

The Consolidated Group's operations are not regulated under a law of the Commonwealth or of a State or territory.

14. Non-audit services

There were no non-audit services performed by PKF during the year.

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

Director: ....

Dated this ....23rd..... day of ...September..... 2008

Chartered Accountants
& Business Advisers

Auditor's Independence Declaration

As lead auditor for the audit of Living Cell Technologies Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Living Cell Technologies Limited and the entities it controlled during the year.

PKF

Arthur Milner
Partner

Sydney, 23 September 2008

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Living Cell Technologies Limited

Corporate Governance Statement

The board of directors of the company is responsible for the corporate governance of the consolidated entity. The board guides and monitors the business and affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The format of the Corporate Governance Statement is largely unchanged in comparison to last year. A major review of the Company's Corporate Governance Statement must contain certain specific information and must disclose the extent to which the company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. These disclosures have been updated for the current year where circumstances have changed. The Corporate Governance Statement for Living Cell Technologies Ltd is now structured with reference to the Corporate Governance Council's principles and recommendations (1st Edition), which are as follows:

Principle 1. Lay solid foundations for management and oversight
Principle 2. Structure the board to add value
Principle 3. Promote ethical and responsible decision making
Principle 4. Safeguard integrity in financial reporting
Principle 5. Make timely and balanced disclosure
Principle 6. Respect the rights of shareholders
Principle 7. Recognise and manage risk
Principle 8. Encourage enhanced performance
Principle 9. Remunerate fairly and responsibly
Principle 10. Recognise the legitimate interests of stakeholders

Living Cell Technologies Ltd's corporate governance practices were in place throughout the year ended and were fully compliant with the Council's best practice recommendations apart from the following recommendations:

Recommendation 2.1 A majority of the board should be independent directors
Due to the size of the company, and the strategic relationships, the directors have determined that it is inappropriate to increase the number of directors to the size where there can be a majority of independent directors. However, this decision does not limit the size of the board, nor preclude the appointment of additional independent directors in the future.

At present three out of the total of seven directors on the board are independent.

Recommendation 4.3 The board should establish an audit committee and structure the audit committee so that it consists of only non-executive directors, a majority of independent directors and at least three members.
Previously it was reported that some directors were constrained from being members of the audit committee by Sarbanes Oxley legislation relating to the maximum number of audit committees on which they could serve, and as a result the Committee did not function. As reported above a major review of Corporate Governance is under way and this review includes the membership, functioning and responsibilities of the Audit Committee.

Recommendation 8.1 Disclose the process for performance evaluation of the board, its committees and individual directors and key executives.
The company has no formal board / committee / director evaluation process at present.

For further information on corporate governance policies adopted by the company, refer to our website:
www.lctglobal.com

Board Composition

The skills, experience and expertise of each director in office at the date of the annual report is included in the Directors' Report section on "Directors' Information, commencing on page 2. Directors of Living Cell Technologies Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with - or could reasonably be perceived to materially interfere with - the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the company and individual director perspective.

The name of independent directors of the company are:

Simon O'Loughlin
Laurie Hunter
David Brookes

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the company.

Trading Policy

The company's policy regarding directors and employees trading in its securities is set by the Board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

Audit Committee

The Audit Committee will be re-constituted as part of the Company's review of Corporate Governance.

Performance Evaluation

A performance evaluation of the board has not been conducted in the current year.

Remuneration Policies

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives
- Attraction of quality management to the company

A full discussion of the company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period, please refer to the remuneration report, which is contained within the Director's Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

Remuneration Committee

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team.

A Remuneration Committee has been formed to:

- set policies for senior officers' remuneration;
- set policies for directors' remuneration;
- make specific recommendations to the board on remuneration of directors and senior officers;
- set the terms and conditions of employment of a Chief Executive Officer (CEO);
- undertake a detailed review of the CEO's performance, at least annually, including setting, with the CEO, goals for the coming year and reviewing progress in achieving these goals; and
- approve the recommendations of the CEO on the remuneration of all line managers.

The Remuneration Committee comprises two independent directors and the Remuneration Committee does not contain any executive directors. The Remuneration Committee presently comprises Simon O'Loughlin and David Brookes, both independent directors.

There are no schemes for retirement benefits other than statutory superannuation for non-executive directors.

Nomination Committee

A Nomination Committee has been formed to:

- devise criteria for board membership;
- identify specific candidates with skills for nomination;
- provide advice on corporate governance;
- make recommendations to the board for new directors and membership of corporate governance committees;
- assist the chairperson in advising directors about their performance and possible retirement; and
- monitor management succession plans, including the CEO and line management.

The Nomination Committee presently comprises Laurie Hunter and David Brookes, both independent directors.

Scientific Committee

The Scientific Committee has been formed and is responsible for review and reporting to the Board of:

- Scientific developments and improvements;
- Regulatory matters associated with the science;
- Feasibility of commercialisation and research of existing and new products; and
- Patents and other intellectual property developments.

The Scientific Committee is chaired by an independent adviser to the Board. The CEO is not a member of the Scientific Committee.

Other Information

Further information relating to the company's corporate governance practices and policies have been made publicly available on the company's web site.

Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

Income Statement

For the Year Ended 30 June 2008

		Consolidated		Parent	
		2008	**2007**	**2008**	**2007**
	Note	**$**	**$**	**$**	**$**
Revenue - trading	22(a)	**32,619**	18,211	**-**	-
Other income	2(b)	**1,322,285**	926,573	**286,886**	87,008
Employee benefits expense		**(2,587,835)**	(3,354,737)	**(331,231)**	(188,215)
Employee benefits expense - share/option based remuneration		**(556,136)**	(147,175)	**(556,136)**	(147,175)
Depreciation, amortisation and impairment expense		**(194,547)**	(197,556)	**-**	-
Finance costs		**(202,125)**	(294,001)	**(202,122)**	(293,971)
Freight and cartage		**(84,551)**	(24,836)	**-**	-
Advertising		**(97,663)**	(55,175)	**(85,383)**	(7,448)
Research and development costs		**(651,033)**	(1,148,518)	**-**	-
Writedown loans to recoverable amounts		**-**	-	**(3,380,831)**	(4,862,431)
Lease expenses		**(234,552)**	(312,685)	**-**	-
Travel - overseas		**(324,403)**	(264,790)	**(232,209)**	(160,359)
Consulting and professional fees		**(1,474,460)**	(536,392)	**(825,778)**	(625,114)
Printing and stationery		**(45,166)**	(52,936)	**(28,626)**	(25,327)
Telephone and fax		**(56,660)**	(82,112)	**(3,688)**	(1,100)
Foreign exchange gains (losses)		**(881,609)**	309,013	**(589,149)**	185,765
Auditors remuneration	22	**(70,813)**	(93,732)	**(57,750)**	(81,042)
Other expenses		**(687,388)**	(676,474)	**(274,843)**	(148,671)
Loss before income tax		**(6,794,037)**	(5,987,322)	**(6,280,860)**	(6,268,080)
Income tax expense	3	**-**	-	**-**	-
Loss attributable to members of the parent entity		**(6,794,037)**	(5,987,322)	**(6,280,860)**	(6,268,080)

Earnings Per Share:

Continuing operations:					
Basic & diluted earnings per share (cents per share)	4	**(3.64)**	(4.50)	**-**	-

Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

Balance Sheet

As At 30 June 2008

	Note	Consolidated		Parent	
		2008	**2007**	**2008**	**2007**
		$	**$**	**$**	**$**
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents		**10,767,335**	2,449,768	**10,631,030**	2,004,303
Trade and other receivables	5	**172,930**	32,793	**33,264**	19,345
Inventories	6	**38,969**	43,308	**-**	-
Other current assets	7	**5,005**	41,888	**-**	19,261
TOTAL CURRENT ASSETS		**10,984,239**	2,567,757	**10,664,294**	2,042,909
NON-CURRENT ASSETS					
Property, plant and equipment	9	**916,603**	909,089	**-**	-
Biological assets	10	**340,600**	340,600	**-**	-
TOTAL NON-CURRENT ASSETS		**1,257,203**	1,249,689	**-**	-
TOTAL ASSETS		**12,241,442**	3,817,446	**10,664,294**	2,042,909
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	12	**489,464**	408,725	**230,274**	182,969
Short-term financial liabilities	14	**28,785**	1,877,982	**-**	1,877,982
Provisions	15	**159,964**	129,411	**-**	-
TOTAL CURRENT LIABILITIES		**678,213**	2,416,118	**230,274**	2,060,951
NON-CURRENT LIABILITIES					
Long-term financial liabilities	27	**35,981**	-	**-**	-
TOTAL NON-CURRENT LIABILITIES		**35,981**	-	**-**	-
TOTAL LIABILITIES		**714,194**	2,416,118	**230,274**	2,060,951
NET ASSETS		**11,527,248**	1,401,328	**10,434,020**	(18,042)
EQUITY					
Issued capital	17	**46,049,170**	29,872,385	**46,049,170**	29,872,385
Reserves	19	**1,345,271**	1,070,404	**1,174,846**	1,087,016
Accumulated losses	19	**(35,867,193)**	(29,541,461)	**(36,789,996)**	(30,977,443)
TOTAL EQUITY		**11,527,248**	1,401,328	**10,434,020**	(18,042)

Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

Statement of Changes in Equity

For the Year Ended 30 June 2008

2008 Consolidated

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Convertible Instruments Reserve	Total
	$	$	$	$	$	$
Balance at 1 July 2007	**29,872,385**	**(29,541,461)**	**(16,611)**	**1,009,631**	**77,384**	**1,401,328**
Shares issued during the year	**16,876,427**	**-**	**-**	**556,136**	**-**	**17,432,563**
Loss attributable to members of parent entity	**-**	**(6,794,037)**	**-**	**-**	**-**	**(6,794,037)**
Transaction costs	**(699,642)**	**-**	**-**	**-**	**-**	**(699,642)**
Adjustments from translation of foreign controlled entities	**-**	**-**	**187,036**	**-**	**-**	**187,036**
Transfer from convertible intruments reserve to retained earnings	**-**	**77,384**	**-**	**-**	**(77,384)**	**-**
Cancellation of options	**-**	**390,921**	**-**	**(390,921)**	**-**	**-**
Sub-total	**16,176,785**	**(6,325,732)**	**187,036**	**165,215**	**(77,384)**	**10,125,920**
Balance at 30 June 2008	**46,049,170**	**(35,867,193)**	**170,425**	**1,174,846**	**-**	**11,527,248**

2007 Consolidated

	Ordinary Shares	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Convertible Instruments Reserve	Total
	$	$	$	$	$	$
Balance at 1 July 2006	24,685,152	(23,543,341)	27,389	549,474	77,384	1,796,058
Loss attributable to members of the parent entity	-	(5,987,322)	-	-	-	(5,987,322)
Shares issued during the year	5,872,799	-	-	460,157	-	6,332,956
Transaction costs	(685,566)	-	-	-	-	(685,566)
- foreign currency translation reserve	-	-	(44,000)	-	-	(44,000)
Adjustments from translation of foreign controlled entities	-	(10,798)	-	-	-	(10,798)
Sub-total	5,187,233	(5,998,120)	(44,000)	460,157	-	(394,730)
Balance at 30 June 2007	29,872,385	(29,541,461)	(16,611)	1,009,631	77,384	1,401,328

Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

Statement of Changes in Equity

For the Year Ended 30 June 2008

2008 Parent

	Ordinary Shares	Accumulated Losses	Option Reserve	Convertible Instruments Reserve	Total
	$	$	$	$	$
Balance at 1 July 2007	**29,872,385**	**(30,977,442)**	**1,009,631**	**77,384**	**(18,042)**
Shares issued during the year	**16,876,427**	**-**	**556,137**	**-**	**17,432,564**
Loss attributable to members of the parent entity	**-**	**(6,280,860)**	**-**	**-**	**(6,280,860)**
Transaction costs	**(699,642)**	**-**	**-**	**-**	**(699,642)**
Transfer from convertible instruments reserve to retained earnings	**-**	**77,384**	**-**	**(77,384)**	**-**
Cancellation of options	**-**	**390,922**	**(390,922)**	**-**	**-**
Sub-total	**16,176,785**	**(5,812,554)**	**165,215**	**(77,384)**	**10,452,062**
Balance at 30 June 2008	**46,049,170**	**(36,789,996)**	**1,174,846**	**-**	**10,434,020**

2007 Parent

	Ordinary Shares	Accumulated Losses	Option Reserve	Convertible Instruments Reserve	Total
	$	$	$	$	$
Balance at 1 July 2006	24,685,152	(24,709,362)	549,474	77,384	602,648
Loss attributable to members of the parent entity	-	(6,268,080)	-	-	(6,268,080)
Shares issued during the year	5,872,799	-	460,157	-	6,332,956
Transaction costs	(685,566)	-	-	-	(685,566)
Sub-total	5,187,233	(6,268,080)	460,157	-	(620,690)
Balance at 30 June 2007	29,872,385	(30,977,442)	1,009,631	77,384	(18,042)

Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

Cash Flow Statement

For the Year Ended 30 June 2008

		Consolidated		Parent	
		2008	**2007**	**2008**	**2007**
	Note	**$**	**$**	**$**	**$**
Cash from operating activities:					
Receipts from customers and government grants		**1,011,154**	829,711	**-**	-
Payments to suppliers and employees		**(6,896,341)**	(6,463,835)	**(5,762,245)**	(5,795,850)
Dividends received		**406**	397	**-**	270
Interest received		**292,031**	97,207	**286,886**	87,008
Finance costs		**(5,408)**	(39)	**-**	(9)
Net cash used in operating activities	23	**(5,598,158)**	(5,536,559)	**(5,475,359)**	(5,708,581)
Cash flows from investing activities:					
Proceeds from sale of plant and equipment		**36,437**	-	**-**	-
Net movement of property, plant and equipment		**(183,315)**	(157,283)	**-**	-
Net cash used in investing activities		**(146,878)**	**(157,283)**	**-**	-
Cash flows from financing activities:					
Proceeds from issue of shares		**14,801,728**	5,705,308	**14,801,728**	5,705,308
Repayment of borrowings		**(39,483)**	-	**-**	-
Payment of transaction costs		**(699,642)**	(518,075)	**(699,642)**	(518,075)
Net cash provided by financing activities		**14,062,603**	5,187,233	**14,102,086**	5,187,233
Net increase (decrease) in cash held		**8,317,567**	(506,609)	**8,626,727**	(521,348)
Cash and cash equivalents at beginning of financial year		**2,449,768**	2,956,377	**2,004,303**	2,525,651
Cash and cash equivalents at end of financial year	23(a)	**10,767,335**	2,449,768	**10,631,030**	2,004,303

1 Statement of Significant Accounting Policies

(a) General Information

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of Living Cell Technologies Limited and the Consolidated Group, and Living Cell Technologies Limited as an individual Parent Entity. Living Cell Technologies Limited is a listed public company, incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Reporting Standards.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(b) Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

(i) Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(c) Principles of Consolidation

A list of controlled entities is contained in Note 24 to the financial statements. All controlled entities have a June financial year-end.

As at year end the assets, liabilities of all controlled entities have been included in the consolidated financial statements as well as their results for the year.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

A controlled entity is an entity Living Cell Technologies Limited has the power to control the financial and operating policies of, so as to obtain benefits from its activities.

1 Statement of Significant Accounting Policies continued

(d) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

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

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

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

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the consolidated group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(e) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

1 Statement of Significant Accounting Policies continued

(f) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(g) Inventories

Inventories consist of materials used in laboratory testing and are measured at the lower of cost and net realisable value.

(h) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollected debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(i) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

1 Statement of Significant Accounting Policies continued

(i) Property, Plant and Equipment continued

Class of Fixed Asset	
Plant and Equipment	7.5% - 48%
Furniture, Fixtures and Fittings	9.5% - 60%
Motor Vehicles	26%
Office Equipment	18% - 80%
Leasehold improvements	7.5 - 48%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(j) Biological Assets

Biological assets are recorded at cost.

(k) Investments

Non-current investments are carried at the lower of cost and recoverable amount. The carrying amount of non-current investments is reviewed annually by directors to ensure that it is not in excess of the recoverable amount of these investments.

(i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

(ii) Loans and receivables

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

1 Statement of Significant Accounting Policies continued

(l) Intangibles

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(m) Impairment of Assets

Impairment determination

At each reporting date, the consolidated group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

(n) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(o) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

(p) Interest Bearing Liabilities

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

Finance lease liability is determined in accordance with the requirements of AASB 117 "Leases".

(q) Provisions

Provisions are recognised when the consolidated group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

1 Statement of Significant Accounting Policies continued

(r) Contributed Equity

Issued capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(s) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of services is recognised upon the delivery of the service to the customers.

Revenue from unconditional government grants received is reported as income when the grant becomes receivable. If such a grant is conditional it is recognised as income only when the conditions have been met.

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

(t) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

The Consolidated Group operates an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or the options granted.

1 Statement of Significant Accounting Policies continued

(u) Borrowing Costs

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

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

(v) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(w) Earnings per Share

Basic EPS is calculated as net profit/(loss) attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

(x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

1 Statement of Significant Accounting Policies continued

(x) Goods and Services Tax (GST) continued

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(y) New or Amended Australian Accounting Standards

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB No.	Title	Issue Date	Operative Date
8	Operating Standards	Feb 2007	1 Jan 2009
101	Presentation of Financial Statements (Amended)	Sept 2007	1 Jan 2009
123	Borrowing Costs (Amended)	June 2007	1 Jan 2009
3	Business combinations (Amended)	Mar 2008	1 Jul 2009
127	Consolidated and Separate Statements (Amended)	Mar 2008	1 Jul 2009
2008-1	Amendments to Australian Accounting Standards - share based Payments: Vesting Conditions and Cancellations	Mar 2008	1 Jan 2009
2008-5	Amendments to Australian Accounting Standards arising from the annual Improvements Project arising from the Annual Improvements Project	Jul 2008	1 Jan 2009
2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Jul 2008	1 Jul 2009
2008-7	Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	Jul 2008	1 Jan 2009
4	Determining whether an Arrangement contains a Lease [revised]	Feb 2007	1 Jan 2008
12	Service Concession Arrangements	Feb 2007	1 Jan 2008
129	Service Concession Arrangements: Disclosures [revised]	Feb 2007	1 Jan 2008

1 Statement of Significant Accounting Policies continued

(z) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and based on current trends and economic data, obtained both externally and within the group.

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

2 Income

(a) Revenue - Trading

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
sale of goods	**563**	755	**-**	-
services revenue	**32,056**	17,456	**-**	-
Total Revenue - Trading	**32,619**	18,211	**-**	-

(b) Other Revenue

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
- interest received - other persons	**292,031**	97,207	**286,886**	87,008
- dividend received - other corporations	**406**	397	**-**	-
- donations	**-**	26	**-**	-
- other revenue	**19,327**	81	**-**	-
- Government grants	**1,010,521**	828,862	**-**	-
Total Other Revenue	**1,322,285**	926,573	**286,886**	87,008

Notes to the Financial Statements

For the Year Ended 30 June 2008

3 Income Tax Expense

(a) The prima facie tax benefit, using tax rates applicable in the country of operation, on loss from ordinary activities before income tax is reconciled to the income tax as follows:

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2008: 30%)				
- economic entity	**(2,038,211)**	(1,588,638)	**-**	-
- parent entity	**-**	-	**(870,009)**	(421,695)
Tax effect of non-allowable & non-assessable items:				
- Deductible capital expenditure	**(38,745)**	(38,939)	**(38,745)**	(38,939)
- Unrealised foreign exchange gains	**244,894**	(97,227)	**176,745**	(55,729)
- Other items (net)	**4,024**	9,588	**633**	1,035
- Tax effect of temporary differences	**14,718**	13,841	**-**	-
- Deferred tax asset not brought to account	**1,813,320**	1,701,375	**731,376**	515,328
Income tax benefit attributable to entity	**-**	-	**-**	-

Notes to the Financial Statements

For the Year Ended 30 June 2008

4 Earnings/Loss per share

	Consolidated	
	2008	**2007**
	$	**$**
Earnings used in calculation of basic and diluted EPS	**(6,794,037)**	(5,987,322)
Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS	**191,748,497**	133,326,103

5 Trade and Other Receivables

(a) Current receivables

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Trade receivables	**135,322**	1,375	**-**	-
Other receivables	**37,608**	31,418	**33,264**	19,345
Total Current Trade & Other Receivables	**172,930**	32,793	**33,264**	19,345

(b) Non current receivables

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Amounts receivable from:				
- wholly-owned entities	**-**	-	**22,400,726**	19,019,896
- provision for impairment of receivables from wholly-owned entities	**-**	-	**(22,400,726)**	(19,019,896)
Total Non Current Trade & Other Receivables	**-**	-	**-**	-

5 Trade and Other Receivables continued

(c) Allowance for impairment loss

Trade receivable are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence than an individual trade receivable is impaired. There is no impairment loss for the current year (2007:$Nil) by the Group and no impairment loss for the parent company in the current year (2007:$Nil).

(d) Aged analysis

At 30 June 2008, there were no trade receivables, bad debts or doubtful debts.

6 Inventories

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Stores at cost	**38,969**	43,308	**-**	-
Total Inventories	**38,969**	43,308	**-**	-

7 Other Assets

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Prepayments	**5,005**	41,888	**-**	19,261
Total Other Assets	**5,005**	41,888	**-**	19,261

8 Financial Assets

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Unlisted investments, at cost				
- shares in controlled entities	**-**	-	**8,161,681**	8,161,681
Less: impairment provision	**-**	-	**(8,161,681)**	(8,161,681)
Total Financial Assets	**-**	-	**-**	-

Notes to the Financial Statements

For the Year Ended 30 June 2008

9 Property, Plant and Equipment

(a) Detailed table

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
PLANT AND EQUIPMENT				
Capital works in progress	**16,066**	-	-	-
Total capital works in progress	**16,066**	-	-	-
Plant and equipment				
At cost	**879,910**	756,559	-	-
Less accumulated depreciation	**(369,728)**	(303,940)	-	-
Total plant and equipment	**510,182**	452,619	-	-
Furniture, fixture and fittings				
At cost	**86,168**	95,557	-	-
Less accumulated depreciation	**(39,532)**	(34,182)	-	-
Total furniture, fixture and fittings	**46,636**	61,375	-	-
Motor vehicles				
At cost	**5,637**	6,462	-	-
Less accumulated depreciation	**(4,240)**	(4,297)	-	-
Total motor vehicles	**1,397**	2,164	-	-
Office equipment				
At cost	**169,265**	168,533	-	-
Less accumulated depreciation	**(120,277)**	(117,600)	-	-
Total office equipment	**48,989**	50,933	-	-
Leasehold improvements				
At cost	**455,182**	488,781	-	-
Less accumulated depreciation	**(161,849)**	(146,783)	-	-
Total leasehold improvements	**293,333**	341,998	-	-
Total plant and equipment	**916,603**	909,089	-	-
Total property, plant and equipment	**916,603**	909,089	-	-

9 Property, Plant and Equipment continued

(b) Movements in Carrying Amounts

Consolidated

	Capital works in progress $	Plant and Equipment	Furniture, Fixtures and Fittings	Motor Vehicles	Office Equipment	Leasehold Improvements	Total
Current Year							
Balance at 1 July 2007	**-**	**452,620**	**61,374**	**2,164**	**50,933**	**341,998**	**909,089**
Additions	**16,066**	**233,883**	**2,809**	**-**	**36,065**	**28,796**	**317,619**
Disposals	**-**	**(15,733)**	**-**	**-**	**(1,503)**	**-**	**(17,236)**
Depreciation expense	**-**	**(113,846)**	**(10,520)**	**(532)**	**(33,037)**	**(36,612)**	**(194,547)**
Foreign exchange movements	**-**	**(46,741)**	**(7,028)**	**(235)**	**(3,469)**	**(40,849)**	**(98,322)**
Balance at 30 June 2008	**16,066**	**510,182**	**46,636**	**1,397**	**48,989**	**293,333**	**916,603**
Prior Year							
Balance at 1 July 2006	-	482,393	57,287	2,630	65,531	341,520	949,361
Additions	-	77,492	11,246	-	18,724	-	107,462
Disposals	-	(10,828)	(454)	-	-	-	(11,282)
Depreciation expense	-	(110,169)	(12,567)	(731)	(37,730)	(36,358)	(197,555)
Foreign exchange movements	-	13,732	5,862	265	4,408	36,836	61,103
Balance at 30 June 2007	-	452,619	61,375	2,164	50,933	341,998	**909,089**

10 Biological Assets

(a) Value of asset

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Animals - Pig herd at cost	**340,600**	340,600	**-**	-
Total Biological Assets	**340,600**	340,600	**-**	-

(b) Nature of asset

On 30 June 2005 the company purchased a herd of Auckland Island pigs which are critical to plans to produce pig cells for xenotransplantation, because they are free of infectious diseases common with other pig strains and they meet FDA requirements for donors of pig cells for human xenotransplantation.

(c) Significant assumptions

The Auckland Island pig herd has been valued at cost and not depreciated, as fair value cannot be reliably measured, given the highly specialised and unique characteristics of the pig herd.

11 Deferred Tax Asset

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Deferred tax asset not recognised				
Tax losses	**7,952,755**	6,139,435	**1,993,216**	1,261,841
Total deferred tax asset	**7,952,755**	6,139,435	**1,993,216**	1,261,841

The benefits of available tax losses carried forward will only be realised if the conditions for deductibility are met.

Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

Notes to the Financial Statements

For the Year Ended 30 June 2008

12 Trade and Other Payables

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Unsecured				
Trade payables	**435,061**	365,288	**230,274**	182,969
Accrued employee entitlements	**54,169**	42,996	**-**	-
Other payables	**234**	441	**-**	-
Total Trade and Other Payables	**489,464**	408,725	**230,274**	182,969

13 Financial liabilities

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Unsecured					
Financial Liabilites	16(b)	**64,766**	-	**-**	-
		64,766	-	**-**	-
Convertible Note - current	14	**-**	1,877,982	**-**	1,877,982
Total Financial Liabilities		**64,766**	1,877,982	**-**	1,877,982

14 Convertible notes

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Balance at the beginning of the year	**1,877,982**	1,887,418	**1,877,982**	1,877,418
Accrued Interest	**196,717**	294,637	**196,717**	294,637
Net total	**2,074,699**	2,182,055	**2,074,699**	2,182,055
Foreign exchange loss	**-**	(304,073)	**-**	(304,073)
Converted to shares	**(2,074,699)**	-	**(2,074,699)**	-
Carrying amount at year end	**-**	1,877,982	**-**	1,877,982

On 29 June 2006 the company received proceeds from the issue of Convertible Notes totaling $2,053,800 (being $1,500,000 USD). These convertible notes had an interest rate of 12% per annum, and matured on 30 November 2007, with the note holders having the option to convert to

14 Convertible notes continued

ordinary shares at $0.175 per share.

All noteholders elected to convert the face value of their convertible notes plus accrued interest, in line with the terms of the Convertible Note Agreement. A total of 11,885,422 shares were issued at 17.5 cents per share in settlement of the note and accrued interest, which totalled $2,074,699.

15 Provisions

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
CURRENT				
Employee benefits	**159,964**	129,411	**-**	-
Total Provisions	**159,964**	129,411	**-**	-

Consolidated Movement in Provisions

	Employee entitlements	Total
	$	$
Opening balance at 1 July 2007	**129,411**	**129,411**
Additional provisions	**30,553**	**30,553**
Balance at 30 June 2008	**159,964**	**159,964**

16 Capital and Leasing Commitments

(a) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Payable - minimum lease payments				
- not later than 12 months	**225,999**	210,985	**-**	-
- between 12 months and 5 years	**528,453**	556,715	**-**	-
- greater than 5 years	**758,667**	276,972	**-**	-
	1,513,119	1,044,672	**-**	-

The operating leases related to a number of property leases the company has entered into with terms and conditions as follows;

The lease of 2 offices and laboratories in Papatoetoe, New Zealand, is a non-cancellable lease with a 5 year term, with 3 years until expiry and rent payable in advance. Contingent rental provisions require the minimum lease payments to be reviewed every 2 years.

The animal laboratory lease is a non-cancellable lease with a 6 year lease term with 1 ½ years until expiry and a right of renewal for a further 6 year term with rent payable monthly in advance. Contingent rental provisions require the minimum lease payments to be reviewed every 2 years.

The southern animal facility sub lease is an annually renewable agreement with rent payable yearly in advance, with review arrangements annually at 30 June.

The land for a new facility to be constructed for housing the pigs on the South Island is a 20 year lease with rent renewal every 3 years.

The lease of the northern animal facility is a non-cancellable lease with a 10 year term, with 8 years until expiry and a right of renewal for a further 10 year term, with rent payable monthly in advance. Contingent rental provisions require the minimum lease payments to be reviewed every 2 years.

16 Capital and Leasing Commitments continued

(b) Finance Lease Commitments

		Consolidated		Parent	
		2008	2007	2008	2007
	Note	$	$	$	$
Payable - minimum lease payments					
- no later than 12 months		**32,383**	-	**-**	-
- between 12 months and 5 years		**40,479**	-	**-**	-
Lease payments		**72,862**	-	**-**	-
Less future finance changes		**(8,096)**	-	**-**	-
Present value of lease payments		**64,766**	-	**-**	-

Living Cell Technologies NZ Ltd entered into an agreement with Roche Diagnostics NZ Ltd with a lease to buy a LightCycler® 480 Real Time PCR Instrument, with a 36 month term payable each month with 27 months remaining on the lease at balance date.

17 Issued Capital

(a) Issued capital

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
- 2008 - 238,323,752 Ordinary shares fully paid (2007: 152,846,910)	**46,049,170**	29,872,385	**46,049,170**	29,872,385
Total Issued Capital	**46,049,170**	29,872,385	**46,049,170**	29,872,385

(b) Authorised capital

The authorised share capital of the company is 238,323,752 shares (2007 : 152,846,910) of nil par value.

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

17 Issued Capital continued

(c) Movements in shares on issue

	2008 Number of shares	2008 $	2007 Number of shares	2007 $
Ordinary Shares				
Beginning of the financial year	152,846,910	29,872,385	118,639,933	24,685,152
Issued during the year				
- private share issues	64,576,740	14,695,531	22,756,053	3,868,811
- contractors fees	-	-	136,920	20,538
- convertible notes and accrued interest converted	11,855,422	2,074,699	-	-
Share purchase plan	-	-	11,214,004	1,962,450
- staff options exercised	67,500	16,425	100,000	21,000
- options exercised	8,977,180	89,772	-	-
Transaction costs in capital raising	-	(699,642)	-	(685,566)
Total	**238,323,752**	**46,049,170**	**152,846,910**	**29,872,385**

(d) Options

For information relating to Living Cell Technologies Limited employee option plan, including details of options issued and lapsed during the financial year and the options outstanding at year-end, as well as information relating to share options issued to key management personnel during the financial year, refer to the Remuneration Report in section 5.d of the Directors' Report.

The weighted average fair value of options granted during the year was $0.225 (2007: $0.065).

17 Issued Capital continued

(d) Options continued

The price was calculated by using the Black Scholes option pricing model applying the following inputs:

	2008	**2007**
Expected share volatility (%)	**65.57**	65.57
Risk free interest rate (%)	**6.45**	6.45
Weighted average expected life of the option (years)	**4.81**	4.28
Weighted average option price ($)	**0.29**	0.26
Weighted average share price at grant date ($)	**0.36**	0.14

18 Capital Management

The consolidated group and the parent entity's objective when managing capital are to safeguard the ability to continue as a going concern so that they can provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting the capital structure in response to these risks and in the market. This includes additional share issues.

There are no externally imposed capital requirements.

19 Share capital and reserves

(a) Total equity

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Share capital				
Share capital - ordinary	**46,049,170**	29,872,385	**46,049,170**	29,872,385
Total share capital	**46,049,170**	29,872,385	**46,049,170**	29,872,385
Reserves				
Foreign currency translation reserve	**170,425**	(16,611)	**-**	-
Convertible instruments reserve	**-**	77,384	**-**	77,384
Option reserve	**1,174,846**	1,009,631	**1,174,846**	1,009,632
Total reserves	**1,345,271**	1,070,404	**1,174,846**	1,087,016
Accumulated losses				
Opening balance	**(29,541,461)**	(23,543,341)	**(30,977,443)**	(24,709,363)
Foreign currency translation reserve	**-**	(10,798)	**-**	-
Cancellation of options	**390,921**	-	**390,923**	-
Transfer of convertible instrument reserve	**77,384**	-	**77,384**	-
Net loss for the period	**(6,794,037)**	(5,987,322)	**(6,280,860)**	(6,268,080)
Total accumulated losses	**(35,867,193)**	(29,541,461)	**(36,789,996)**	(30,977,443)
Total equity	**11,527,248**	1,401,328	**10,434,020**	(18,042)

(b) Reserves

Foreign currency translation reserve
The foreign currency translation reserve comprises all translation exchange differences arising on the retranslation of opening net assets together with differences between income statements translated at average and closing rates.

Option reserve
The option reserve reflects the accumulated costs associated with the granting of options to directors and staff.

Convertible instrument reserve
The convertible instruments reserve is the total of amounts recognised as equity associated with convertible notes issued by the company.

20 Currency translation rates

(a) Detailed table

	Currency	2008 AUD	2007 AUD
Year end rates used for the consolidated balance sheets, to translate the following currencies into Australian dollars (AUD), are:			
	USD	**1.04**	1.18
	NZD	**0.79**	0.91
Average rates of the year used for the consolidated income and cash flow statements, to translate the following currencies into Australian dollars (AUD), are:			
	USD	**1.12**	1.27
	NZD	**0.86**	0.87

21 Key Management Personnel Compensation

(a) Key Management Personnel

Names and positions held of key management personnel in office at any time during the financial year are:

Directors	Position
Simon O'Loughlin	Independent Director and Chairman
David Collinson	Founding Director
Paul Tan	Executive Director, Chief Operating Officer LCT Group, CEO LCT NZ Ltd
Robert Elliott	Medical Director
Laurie Hunter	Independent Director
David Brookes	Independent Director (appointed 23 August 2007)
Robert Caspari	Director, Group CEO (Appointed 29 July 2008)
Executives	
Richard Justice	Chief Financial Officer

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

21 Key Management Personnel Compensation continued

(b) Options and Rights Holdings

Number of Options Held by Directors & Key Management Personnel

	Balance 01/07/2007	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2008	Total Exercisable	Total Unexercisable
Directors							
Simon O'Loughlin	950,000	-	-	-	950,000	950,000	-
Paul Tan	800,000	500,000	-	-	1,300,000	1,300,000	-
David Collinson	2,473,300	-	-	-	2,473,300	2,473,300	-
Robert Elliott	2,373,300	-	-	-	2,373,300	2,373,300	-
Laurie Hunter	400,000	-	-	-	400,000	400,000	-
David Brookes	-	400,000	-	-	400,000	-	400,000
Specified Executives							
Richard Justice	1,125,000	-	-	-	1,125,000	1,125,000	-
Total	**8,121,600**	**900,000**	**-**	**-**	**9,021,600**	**8,621,600**	**400,000**

The net change other column above includes those options that have been forfeited by holders as well as options issued during the year under review.

(c) Shareholdings

Number of Shares held by Directors & Key Management Personnel

	Balance 01/07/2007	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/2008
Directors					
Simon O'Loughlin	328,571	-	-	38,571	367,142
Paul Tan	148,571	-	-	-	148,571
David Collinson	10,077,483	-	-	385,495	10,462,978
Robert Elliott	2,202,209	-	-	394,583	2,596,792
Laurie Hunter	634,956	-	-	2,010,705	2,645,661
David Brookes	-	-	-	485,000	485,000
Specified Executives					
Richard Justice	93,571	-	-	25,000	118,571
	13,485,361	-	-	3,339,354	16,824,715

* Net change other refers to shares purchased or sold during the financial year.

22 Auditors' Remuneration

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Remuneration of PKF Sydney:				
- Auditing or reviewing the consolidated financial report & Australian based subsidiaries	**57,750**	81,042	**57,750**	81,042
Remuneration of Ross Mellville PKF Auckland:				
- Auditing New Zealand based subsidiaries	**13,063**	12,690	**-**	-
- Total	**70,813**	93,732	**57,750**	81,042

23 Cash Flow Information

Reconciliation of Cash Flow from Operations with Loss after Income Tax

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Net loss for the period	**(6,794,037)**	(5,987,322)	**(6,280,860)**	(6,268,080)
Non-cash flows in loss:				
Depreciation	**194,547**	197,556	**-**	-
Interest	**196,717**	294,637	**196,717**	294,637
Transfer of convertible note instrument reserve	**(77,384)**	-	**(77,384)**	-
Net gain/(loss) on assets purchased	**28,785**	-	**-**	-
Net foreign currency (gains) / losses	**881,609**	(309,012)	**589,149**	(185,765)
Share options expensed	**165,215**	460,157	**165,214**	460,157
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	**(140,137)**	(31,517)	**(13,919)**	(14,460)
(Increase)/decrease in prepayments	**36,883**	(29,458)	**19,261**	(19,260)
(Increase)/decrease in inventories	**4,339**	(10,820)	**-**	-
Increase/(decrease) in trade payables and accruals	**(196,513)**	(188,256)	**(73,537)**	24,190
Increase/(decrease) on sale of assets	**(19,201)**	-	**-**	-
Increase/(decrease) in lease payments	**39,482**	-	**-**	-
Increase/(decrease) in provisions	**50,984**	9,344	**-**	-

23 Cash Flow Information continued

Reconciliation of Cash Flow from Operations with Loss after Income Tax continued

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Increase/(decrease) in employee entitlements	**30,553**	58,132	**-**	-
Cash flow from operations	**(5,598,158)**	(5,536,559)	**(5,475,359)**	(5,708,581)

(a) Reconciliation of cash

		Consolidated		Parent	
		2008	**2007**	**2008**	**2007**
	Note	**$**	**$**	**$**	**$**
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:					
Cash and cash equivalents		**10,767,335**	2,449,765	**10,631,030**	2,004,303
		10,767,335	2,449,765	**10,631,030**	2,004,303

24 Controlled Entities

Name	Country of incorporation	Percentage Owned 2008	Percentage Owned 2007
Parent Entity:			
Living Cell Technologies Ltd	Australia		
Subsidiaries of parent entity:			
Living Cell Products Pty Ltd	Australia	**100**	100
LCT Australia Pty Ltd	Australia	**100**	100
Living Cell Technologies New Zealand Ltd	New Zealand	**100**	100
Pancell New Zealand Ltd	New Zealand	**100**	100
LCT BioPharma Inc	USA	**100**	100
Fac8Cell Pty Ltd	Australia	**100**	100
DiaBCell Pty Ltd	Australia	**100**	100
NeurotrophinCell Pty Ltd	Australia	**100**	100

25 Related Party Transactions

Wholly-owned group transactions

(i) Loans

All loan balances between the companies in the consolidated group have been fully provided for and eliminated on consolidation.

(ii) Service Fee

LCT BioPharma Inc, Living Cell Technologies New Zealand Ltd and Pancell New Zealand Ltd charge LCT Products Pty Ltd a service fee based on direct costs incurred and an appropriate mark up. The financial affect of the service fee has been eliminated on consolidation.

26 Segment Reporting

(a) Segment products and locations

The company operates one business segment of research and development and product development into living cell technologies. Geographically, the majority of the research and development was performed in New Zealand and the balance was performed in the USA. The corporate office is located in Australia.

(b) Geographical Segments

	New Zealand		USA		Australia		Consolidated	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	**$ 1,052,722**	$ 855,064	**$ -**	$ -	**$ 302,182**	$ 89,720	**$ 1,354,904**	$ 944,784
Assets	**$ 1,394,862**	$ 1,522,482	**$ 89,448**	$ 114,482	**$ 10,713,652**	$ 2,180,482	**12,197,962**	3,817,446
Fixed assets acquired	**$ 317,619**	$ 107,462	**$ -**	$ -	**$ -**	$ -	**317,619**	107,462

(c) Accounting Policies

Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, and property, plant and equipment, net of allowances and accumulated depreciation. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings.

27 Financial Instruments

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits. These activities expose the Group to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Although the Group does not have documented policies and procedures, the Directors manage the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate and foreign exchange risk and by being aware of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through general business budgets and forecasts.

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Financial Assets:				
Cash and cash equivalents	**10,767,335**	2,449,768	**10,631,030**	2,004,303
Receivables	**172,930**	32,793	**33,264**	19,345
Inventories	**38,969**	43,308	**-**	-
Other current assets	**5,005**	41,888	**-**	19,261
Total Financial Assets	**10,984,239**	2,567,757	**10,664,294**	2,042,909
Financial Liabilities:				
Convertible Note	**-**	1,877,982	**-**	1,877,982
Trade and sundry payables	**489,464**	408,725	**230,274**	182,969
Lease liabilities	**64,766**	-	**-**	-
Provisions	**-**	-	**-**	-
Total Financial Liabilities	**554,230**	2,286,707	**230,274**	2,060,951

27 Financial Instruments continued

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's short term deposits held.

Interest Rate Risk Sensitivity Analysis

At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Net Profit Higher/Lower		Net Assets Higher/Lower	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Consolidated				
+ 1% (100 basis points)	**57,789**	17,674	**57,789**	17,674
- 0.5% (50 basis points)	**(28,894)**	(8,837)	**(28,894)**	(8,837)
Parent				
+ 1% (100 basis points)	**85,316**	15,820	**85,316**	15,820
- 0.5% (50 basis points)	**(42,660)**	(7,910)	**(42,660)**	(7,910)

27 Financial Instruments continued

Foreign Currency Risk

At 30 June 2008, the group had exposure to fluctuations in foreign currency arising from the sale and purchase of goods and services in currencies other than the consolidated group's measurement currency.

		Consolidated		Parent	
		2008	2007	2008	2007
		$	$	$	$
Financial Assets					
Cash and cash equivalents:	NZD	**6,139,820**	941,631	**6,045,949**	619,200
	USD	**1,183,408**	116,878	**1,178,967**	111,379
Trade and term receivables	NZD	**135,322**	1,375	**-**	-
Other receivables	NZD	**17,214**	9,990	**13,082**	687
Inventories (current)	NZD	**38,969**	43,308	**-**	-
Other assets (current)	NZD	**5,005**	22,627	**-**	-
Property, plant and equipment:	NZD	**820,444**	782,839	**-**	-
	USD	**85,007**	110,142	**-**	-
Biological assets	NZD	**297,120**	340,600	**-**	-
Financial Liabilities					
Trade and other payables:	NZD	**(256,921)**	(195,937)	**-**	-
	USD	**(2,270)**	(23,780)	**-**	-
Short term borrowings	NZD	**(28,785)**	(129,411)	**-**	-
Current provisions	NZD	**(159,964)**	-	**-**	-
Trade and other payables (non current)	NZD	**(35,981)**	-	**-**	-
Share capital	NZD	**-**	(91)	**-**	-
Retained earnings:	NZD	**131,161**	434,971	**-**	-
	USD	**(221,638)**	3,616	**-**	-
Net exposure		**8,147,911**	2,458,758	**7,237,998**	731,266

27 Financial Instruments continued

The following sensitivity analysis is based on the foreign currency rate risk exposure in existence at the balance sheet date.

At 30 June 2008, if the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit/(loss) and equity would have been affected as follows:

	Net Loss Higher (Lower)		Net Assets Higher (Lower)	
	2008	2007	2008	2007
	$	$	$	$
Consolidated				
AUD/NZD 10%	**321,572**	269,116	**308,456**	225,628
AUD/NZD -5%	**(160,786)**	(134,558)	**(154,228)**	(112,814)
AUD/USD 10%	**65,760**	160,205	**87,924**	159,843
AUD/USD -5%	**(32,880)**	(80,103)	**(43,962)**	(79,922)
Parent				
AUD/NZD 10%	**13,082**	326	**604,595**	61,920
AUD/NZD -5%	**(6,541)**	(163)	**(302,297)**	(30,960)
AUD/USD 10%	**1,335**	2,343	**117,897**	11,138
AUD/USD -5%	**(667)**	(1,171)	**(58,948)**	(5,569)

Price risk

The consolidated group's exposure to commodity and equity securities price risk is minimal.

Liquidity Risk

The consolidated group manages liquidity risk by monitoring forecast cash flows and ensuring that sufficient working capital is available to enable the company to achieve identified strategic objectives.

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any allowances for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy to consider the credit worthiness of all customers who wish to trade on credit terms.

27 Financial Instruments continued

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk.

The tables below analyse the group and the parent entity's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual cash flows.

	< 6 months	6 - 12 months	1 - 5 years	Total
	$	$	$	$
Consolidated				
Financial liabilities	-	28,785	35,981	64,766
Parent				
Financial liabilities	-	-	-	-
Net maturity	**-**	**28,785**	**35,981**	**64,766**

28 Company Details

The registered office of the company is:

Living Cell Technologies Limited
Level 5, NAB House
255 George Street
Sydney NSW 2001

Living Cell Technologies Limited ABN 14 104 028 042 and Controlled Entities

Directors' Declaration

The directors of Living Cell Technologies limited declare that:

(a) in the directors' opinion the financial statements and notes on pages 1 to 60, and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 9 to 13, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1; and

(c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001; and

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

The directors have been given the declarations by the chief executive officer and the chief financial officer for the financial year ended 30 June 2008, required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.

Dated at 23 day of September 2008

....

Director

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Living Cell Technologies Limited

Report on the Financial Report

We have audited the accompanying financial report of Living Cell Technologies 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 year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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PKF

Chartered Accountants
& Business Advisers

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of Living Cell Technologies Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the entity's financial position as at 30 June 2008 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 9 to 13 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Living Cell Technologies Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

PKF

PKF

Arthur Milner
Partner

Sydney, 23 September 2008

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Living Cell Technologies Limited

ASX Additional Information

The shareholder information set out below was applicable as at 19 September 2008.

1. Distribution of Shareholders

Analysis of number of shareholders by size of holding.

Category of holding		Number	Number of Shares
1	- 1,000	100	28,491
1,001	- 5,000	404	1,248,707
5,001	- 10,000	297	2,517,547
10,001	- 100,000	799	30,411,044
100,001	- shares and over	207	204,162,963
Total		1,807	238,368,752

2. Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are:

	Number of Shares	Percentage of total shares
ANZ Nominees Limited	28,649,161	12.02
Coalco International Limited	24,150,408	10.13
Navigroup Management Limited	20,213,249	8.48
HSBC Custody Nominees (Australia) Limited	13,922,892	5.84
K One W One Limited	10,451,006	4.38
Mr Graham Collinson and Mr David Collinson	5,259,578	2.21
Foundation Services Ltd	4,977,626	2.09
Merryll Lynch (Australia) Nomines Pty Limited	4,103,849	1.72
Bushell Nominees Pty Ltd	3,847,087	1.61
Hugh Green Investments Limited	3,769,850	1.58
UBS Nominees Pty Ltd	3,385,269	1.42
J P Morgan Nominees Australia Limited	3,302,567	1.39
David Allen Collinson & Graeme Louis Collinson	2,647,675	1.11
Citicorp Nominees Pty Limited	2,168,518	0.91
Mr Robert Bartlett Elliott	2,048,955	0.86
Hunter Capital International Inc	2,010,705	0.84
Nutsville Pty Ltd	1,901,000	0.80
SOF Management LLC	1,859,309	0.78
Mr David Alan Collinson and Graeme Louis Collinson	1,688,480	0.71
Ashabia Pty Ltd	1,647,700	0.69
Total	**142,004,884**	**59.57**

3. Substantial Shareholders

The names of substantial shareholders who have notified the company in accordance with section 671B of the Corporations Act 2001 are:

Shareholder	Number of Shares
Persistency Private Equity Limited	25,610,891
Coalco International Limited (Coalco)	24,150,408

4. Voting Rights

All ordinary shares carry one vote per share without restriction.