living cell technologies

LIVING CELL TECHNOLOGIES ANNUAL REPORT 2006-2007

CONTENTS

INTRODUCTION

Introduc

LCT Overview

Living Cell Technologies is building a cell-based therapeutics business focused on diabetes and neurological disorders.

Using pigs isolated for 200 years on a sub-Antarctic Island, Living Cell Technologies (LCT) has developed an encapsulated pig islet cell implant (DiabeCell®) for type 1 diabetes. Currently undergoing a phase I/IIa trial, the patented product is manufactured under GMP. LCT has published a clinical report showing that a DiabeCell® prototype was still functioning 10 years post-transplant.

Other development products include neurotrophin-secreting cells for Huntington's disease, stroke and hearing loss. LCT's pig herd provides tissues and cells for a variety of markets. None of LCT's cell products require immune suppressants.

DiabeCell®

DiabeCell® is designed to treat type I diabetes. The product commenced phase I/IIa clinical trials in 2007. The treatment is an injectible transplant of pig pancreatic islet cells to regulate blood glucose levels.

NeurotrophinCell (NtCell)

NtCell is in development as a neuro-protectant for the treatment of neurological disorders, such as Huntington's disease and stroke. The encapsulated choroid plexus cells enable targeted delivery of neurotrophins to the site of disease with the aim of halting the progression of cell death and hence the disease. The product is in late stage pre-clinical work for neurological disorders. Early stage research is continuing into the effects on sensorineural hearing loss.

Biocert® Pigs

LCT's herd of biocertified pigs are free from infectious agents and provide a variety of tissues and cells for a range of markets. In addition to the pigs supplying cells for LCT's product portfolio, further opportunities are being investigated within the broader established pig tissue market. The pig herds are being bred to meet clinical trial requirements and can be scaled-up to meet market entry requirements within three years.


The New Zealand Herald

Here be VAMPIRES

Pig cell transplants bring new hope for sick Kiwis

Ministry gives go-ahead for tests on revolutionary treatment

DIABETES

LCT's GTAC trial approval was front page news

2007 Achievements

First in world under current guidelines to:

- Launch a Clinical Program: first patient treated. Clinical trials in Russia and New Zealand 2007–2008
- Gain approval for a xeno cell product human clinical trial in type 1 diabetes by regulatory authority with international review
- GMP certified manufacture of encapsulated pig pancreatic islets under current regulations
- Establish international accreditation of a xeno-diagnostic laboratory through International Accreditation New Zealand (IANZ) for testing and screening of pig cell transplant recipients

All of LCT's products are manufactured at our licensed GMP facilities in Auckland, New Zealand.

LCT is researching diseases such as hearing loss, haemophilia, Parkinson's disease, stroke and Huntington's disease at our Auckland facility and in collaboration with groups in Australia and the US.

LCT listed on the Australian Stock Exchange (ASX:LCT) in late 2004 and established a level 1 American Depositary Receipt program (OTC: LVCLY) in mid 2007.

The Company's core commercialisation strategy is to progress products through clinical trials, then offer the cell transplants to patients through marketing partners or through training of general surgeons.

LCT is well positioned to bring pig cell therapeutics to the market ahead of our competition and the Company is now poised for growth in value.

Chairman's Report

2007 marked a year of significant milestones for Living Cell Technologies and I am pleased to report that the Company is in an exciting and very commanding competitive position in the field of cell-based therapeutics.

LCT achieved a number of world-first capabilities in 2007 – including international regulatory review for entry into clinical trials and accreditation of our diagnostic monitoring laboratory. LCT is pleased to be leading the field in both the potential of this technology and the regulatory requirements.

The focus for LCT in the past year has been our DiabeCell® diabetes product, as it provides the greatest potential for near-term shareholder returns. To take this product into clinical trials has required a considerable effort over the past 15 years and the Company is delighted to see the product move closer to offering real hope for diabetes sufferers.

To enable such a strong commitment to progressing the DiabeCell® product, it has been necessary to prioritise our programs and resourcing. As a result, LCT reduced its US based facility in February 2007 and transferred ongoing work on the NeurotrophinCell product to its Auckland facility. Having the majority of research work and manufacturing on a single site has been beneficial for conserving LCT's resources, and allowed enhanced program communications.

LCT appointed Dr Paul Tan as its new Chief Executive Officer, following David Collinson's decision to step down from the role. My fellow Directors and I would like to sincerely thank David for all of his enthusiasm and dedication to the Company since its inception and are pleased that he continues to play an active role on the Board in the position of Founding Director.

We are also delighted that Paul has transitioned into the role so seamlessly at this crucial period in its development. Paul has considerable product development and clinical trial experience and is ideally positioned to take LCT to the next stage. In the short period since his appointment, Paul has enhanced the Company's capabilities, established the clinical trial program, launched our OTC US listing, and opened up new market opportunities. I have been delighted to hear feedback from the market and shareholders about Paul's effectiveness in the role and am sure he will continue to take the Company to new heights over the coming year.

We were extremely pleased with the response to LCT's Share Purchase Plan (SPP), with the underwritten SPP being well supported and over AUD$5.1 million raised through both the SPP and attached private placement. Thank you to our ongoing supporters that have been with the Company for a long time and continue to believe in the story and its potential.

As part of our strategy to continue to expand our shareholder base and support network, the Company has successfully launched a level 1 American Depositary Receipt program. This is the first step in establishing a US presence and hopefully an eventual listing.

To further build the Company's US presence and lay the groundwork for future commercial plans, LCT appointed Robert J Beckman, Dr Allan R Goldberg, and Philip N Sussman, Managing Partners of The Channel Group, LLC, to the Board of Directors of LCT's US subsidiary, LCT BioPharma Inc. Additionally, the group will assist management with a number of developments in the region and the Board welcomes their guidance and experience.

We also welcomed Laurie Hunter as an independent US director in August last year and Laurie has provided valuable input to the Company. I would like to take this opportunity to thank Al Vasconcellos, who retired from the Board in June 2007. Al led our US operations and was particularly active in building our US connections.

I wish to thank and acknowledge the outstanding efforts of management and staff in positioning LCT for the exciting years ahead. I trust you will enjoy reading about the significant progress LCT has made in the past year in this year's Annual Report.

Simon O'Loughlin
Chairman

Message from the CEO

I take great pleasure in presenting the 2007 Annual Report and describe a year of great challenge and reward.

The 2007 financial year has seen a number of very important milestones behind us, of which the most significant were achieving –

- The world's first GMP certified manufacture of encapsulated pig pancreatic islets under current regulations;
- First approval for a diabetes xeno human clinical trial program by international regulatory review;
- The only internationally accredited laboratory for testing and screening for pig cell transplant recipients; and
- **Launch of LCT's diabetes clinical program, with trials in two jurisdictions.**

It has been a pleasure to have taken on the role of CEO in this active period and to now report to shareholders on the progress made.

The highlight of the year was receiving the first regulatory approval for our DiabeCell® product to enter clinical trials. LCT's decision to conduct two simultaneous Phase I/IIa clinical trials is aimed at fast-tracking the commercial potential in one market, as well as optimising our dosing prior to the pivotal study.

LCT's clinical trial in Moscow commenced with the first patient being injected in June. Data from the trial are expected to be available during the first half of 2008.

We expect that the outcome of the study will lead towards filing an Investigational New Drug (IND) application for a pivotal clinical trial in the USA, as well as potential marketing of the DiabeCell® product within Russia from 2009. Further details on the trials are available on pages 16 and 17 of this report.

LCT has led the field in meeting regulatory requirements for live cell therapy. In 2003, the US Food and Drug Administration (FDA) set guidelines for xenotransplantation products. LCT has driven its research and product development based upon these guidelines and is pleased that the New Zealand Government has also set high standards for these products. LCT's approval to conduct clinical trials in NZ is a significant achievement, as the approval represents input and consultation between the NZ Government and international regulatory bodies. LCT is applying a similar protocol and guidelines to the clinical trial in Moscow.

The interest we are experiencing for the DiabeCell® product from diabetes sufferers is very encouraging and we are pleased that we are now progressing strongly towards the goal of providing a long-term solution and treatment for diabetes.

Our commitment and excitement for the trials are based on the confirmation that the initial clinical trial patient for the diabetes prototype micro-capsules was still producing pig insulin in his blood, 10 years after transplant. This information, independently verified and published in an international journal, is the only long-term account of a successful pig islet cell transplant without the use of immunosuppression and gives us great confidence in the potential of the current product.

The pig herd continues to be a major asset of LCT. With a New Zealand Government grant and a consulting firm, LCT has begun to explore the potential for the pig tissues to be used in other established markets for pig derived biomaterials, which would enable earlier revenue opportunities for the Company. In the coming year, the pigs will continue as a strong focus with the importance of securing new facilities and increasing the number of breeding sows to meet our clinical trial commitments.

Maintaining compliance with manufacturing regulatory requirements is part of our business and during the year we received accreditation and approval of our manufacturing and diagnostic facilities through achieving GMP status for the production of cell therapy products for medicinal use, as well as international accreditation (IANZ) for our Molecular Diagnostic Laboratory and systems for the appropriate monitoring of patients. The accreditation also enables LCT to act as a service for assessment of other company/hospital virology data if it chooses.

The company has diligently kept expenditure to a minimum, despite the costs related to undertaking two clinical trials and expanding the pig facilities. This has largely been achieved through a majority of clinical trial expenses in Moscow being met by our Russian partner, as well as significant support provided through a grant by New

Zealand Trade and Enterprise for developing the product in New Zealand.

Commercially, the company has made a number of changes – with the appointment of The Channel Group in the United States to further assist the company in its dealings within the US market. Our US operations were further re-organised to focus the work in Rhode Island on materials development to ensure that the materials used in the encapsulation of LCT's cells are quality controlled, meet regulatory requirements and that our capsules are the best available for transplant. This year, we filed a patent and published the scientific basis for manufacturing capsules able to function long-term after transplant. LCT's capsules are the longest lasting described in the materials science reports to date.

The year started with a very pleasing result to our Share Purchase Plan (SPP), raising $5.1 million through the SPP and combined private placement. This investor support, coupled with ongoing assistance by the New Zealand Government has been very welcomed and essential in LCT starting clinical trials.

The year ahead will be defined by a distinctive shift towards commercialisation. We hope to be able to report a successful Phase I/IIa clinical study in patients with type 1 diabetes and that we are well on the way to filing an IND for a Phase III/pivotal trial in the USA. For our pig tissues, we hope to secure a licensing or sales partner, as well as progressing the development of our NeurotrophinCell and other portfolio products.

The pathway forward is very clear. The company is now in a position where it is open to strategic partners for its products and pig tissues. The company has a number of commercial avenues open to it – through both licensing, market co-development partners and direct sales of product through cell therapy centres or general surgeons.

Our management and staff have been strengthened and our facilities have been upgraded to best practice. Based on the fundamentals, LCT is well positioned to deliver solid performance over the ensuing years.

I wish to thank the Board and in particular, the LCT staff, who have worked extremely hard over the past year to bring the company to this exciting phase in its development.

I thank you for your support and look forward to another important and very significant year for your company.

Dr Paul LJ Tan
CEO

"LCT has worked closely with the regulatory authorities to establish the framework for conducting clinical trials with pig cells to a new benchmark. In doing so, LCT has built up considerable commercialisation capability and know-how that are essential for taking DiabeCell® to the clinic and market."

Year in Review

2007 Highlights

LCT has established itself in the past financial year as the only xenotransplantation company to have achieved clinical trial status and capabilities under the current regulatory environment. The Company has achieved all the necessary capabilities required to take the products through clinical trials to the market.

July 2006

- Pig cell transplant shows potential for stroke and Huntington's disease – published in journal *Xenotransplantation July 06* issue
- Granted diabetes patent in the US

August 2006

- Presented at the Royal Society of New Zealand 200th anniversary of the Auckland Islands meeting
- Lodged application to undertake a clinical trial for type I diabetes in New Zealand
- Simon O'Loughlin appointed as the new Chairman of LCT and Laurie Hunter appointed as an independent US Director

October 2006

- Diabetes patent granted across the European Union
- Awarded 'Frost & Sullivan Excellence in Technology Award' for emerging therapies in diabetes

December 2006

- Reported on possible diabetes prevention treatment through the use of NtCell to prevent or delay the onset of diabetes
- Granted approval to manufacture xeno products for human use

January 2007

- Dr Paul Tan appointed as new Chief Executive Officer

February 2007

- Closed a successful Share Purchase Plan and private placement raising $5.1 million

March 2007

- Reported major progress for islet transplantation with publication of 10-year survival and function of a pig cell transplant in a diabetic patient in the journal *Xenotransplantation 14: 157-161*.
- Regulatory review by NZ regulator Medsafe allowed LCT's Phase I/IIa DiabeCell® clinical trial program to proceed

May 2007

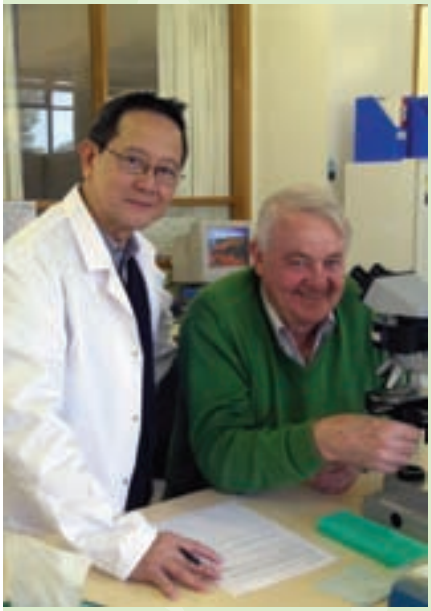
- LCT chosen to present at the US Venture Forum in San Francisco
- Awarded world-first IANZ accreditation for xenotransplantation facilities for diagnostics/monitoring of patients

June 2007

- Successfully dosed first patient in Phase I/IIa DiabeCell® clinical trial in Moscow
- Appointed Robert J. Beckman, Dr. Allan R. Goldberg and Philip N. Sussman, Managing Partners of The Channel Group, LLC (TCG), a New York based life science venture development and management firm, to the board of directors of Living Cell's US subsidiary LCT BioPharma Inc.

Valuation Triggers for 2008

- Start phase I/IIa DiabeCell® clinical trial in New Zealand (H2 2007)
- Expand the disease-free pig facilities to meet pivotal trial requirements (H2 2007)
- Expect Phase I/IIa DiabeCell® Moscow trial results (H1 2008)
- Expect Phase I/IIa DiabeCell® New Zealand trial results (H2 2009)



Dr Paul Tan (CEO) and Professor Bob Elliott (Medical Director)

Return on Investment

LCT Scale-Up

Clinical Trials

Phase I/IIa Trials 14 patients	Pivotal Trial 25–50 patients	**Approval of Non-Human Islet Cell Injection**

Pig Breeding

20 Sows for Phase I/IIa Trials	50 Sows for Pivotal Trial	**100 to 200 Sows & Set-Up of New Site for 1,000 Sows**

GMP Manufacturing

Pilot GMP Facility	Scale-Up for Pivotal Trial	**Scale-Up & Set-Up of New Site for Product Manufacturing**

Licensing of Technologies

Licensing & strategic partnerships for LCT's technologies	**Revenue/sale from cell therapeutics** **Earlier revenue from pig tissue**

How Will LCT Meet the Market?

All LCT Cell Products Use Porcine Cells

- Scale-up is feasible as seen in meat market
- Modular facilities for stepped expansion
- Breeding program enables commercial entry within three yrs.

Example:

Year	Sows	Piglets	Females (for breeding)	Males (for cells)
1	100	1,000	500	500
2	600	6,000	3,000	3,000
3	3,600	36,000	18,000	18,000

LCT Worldwide

LCT is an international cell-based therapy company, listed on the Australian Stock Exchange (ASX) and in the US over-the-counter market (OTC:LVCLY).

The Company operates out of Melbourne, Australia and Auckland, New Zealand, and has a fully owned subsidiary in the United States. The Company has strong links with partners in Perugia, Italy and Moscow, Russia.

Melbourne, Australia

Corporate Office

- Investor and corporate relations
- Company Secretary (Sydney)

Auckland, New Zealand

Research/Manufacture/Clinical Facility

- Wholly owned subsidiary of LCT
- Focused on research and development
- Product manufacture for clinical studies
- Biocertified pigs for therapeutics (Invercargill and Auckland)
- GMP cell manufacturing unit
- IANZ accredited diagnostic screening laboratory
- Accounting/financial management

Collaborations

Australia

1 Melbourne

Bionic Ear Institute

2 Sydney

University of New South Wales

Germany

3 Berlin

Robert Koch Institute

Italy

4 Perugia

University of Perugia

New Zealand

5 Invercargill

Department of Conservation

6 Auckland

Genesis Research and Development
KODE Biotech Ltd
University of Auckland

Russia

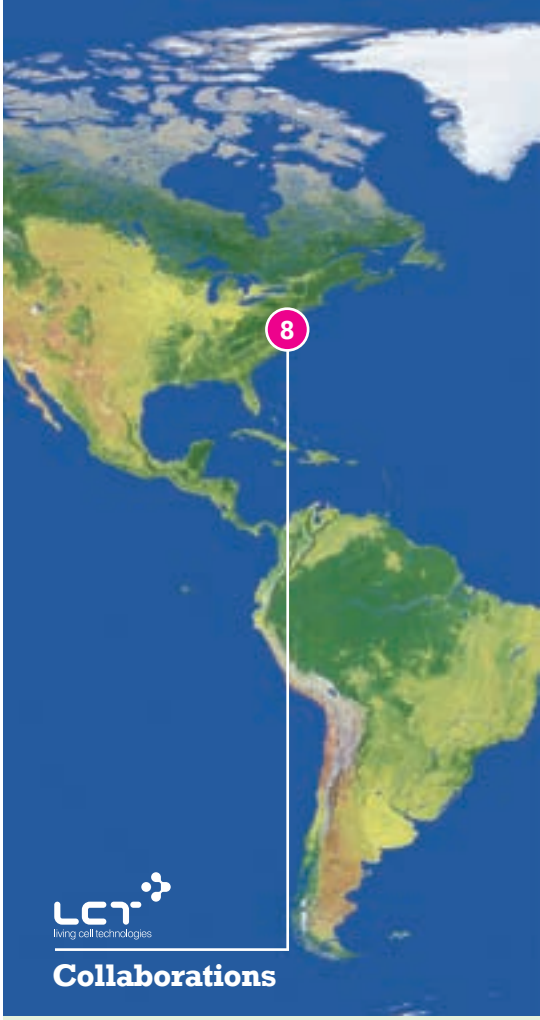
7 Moscow

Russian Academy of Medical Sciences, Sklifasovsky Institute

United States

8 Rhode Island

Brown University



Company Structure

Living Cell Technologies Ltd
ACN 104 028 042
Listed entity (ASX:LCT)

Living Cell Technologies Ltd
ACN 102 393 108

Operating Companies

LCT Australia Pty Ltd
ACN 106 546 570
Corporate and commercial

Living Cell Technologies New Zealand Ltd
Research, manufacture, clinical

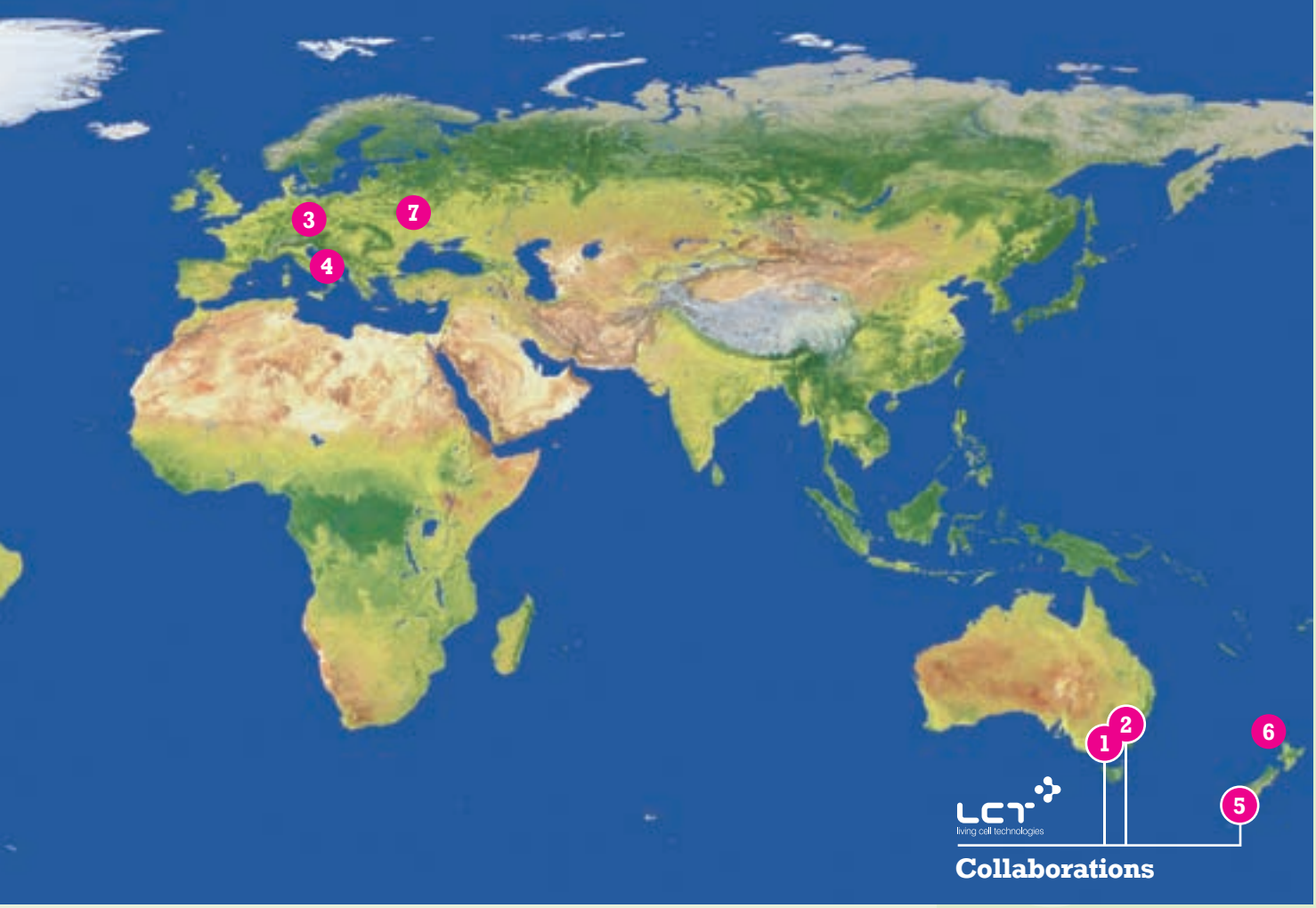
LCT BioPharma Inc
Commercial

IP Holding Companies

DiabeCell Pty Ltd
ACN 106 546 507
Diabetes patents

NeurotrophinCell Pty Ltd
ACN 102 393 108
CNS patents

Fac8Cell Pty Ltd
ACN 106 546 543
Liver cell patents



The Team

Board of Directors
David Brookes
David Collinson
Robert Elliott
Nicholas Geddes**
Laurie Hunter
Simon O'Loughlin
Paul Tan

Management
Paris Brooke
Robert Elliott
Richard Justice
Paul Tan

US Subsidiary Directors
Robert Beckman
Alan Goldberg
Philip Sussman

Group Administration
Dawn Hadfield
Jonathan Lane*
Linda Robinson
Natasha Wheeler

BioCert® Pig & Animal Facilities
Gailene Addison*
Olivia Anderson
Lana Cain
Isobel Cooper
Sandy Ferguson*
Gene Fowler*
Pamela Fraser*
Ross Fraser
Amanda Jarvie*
Brydee King*
Odette Lang*
Erena Pele-Toalepai*
Jason Veint*

Molecular & Diagnostics
Olga Garkavenko
Zeljko (Jack) Muzina
Divya Nathu
Shaun Wynyard

Neurosciences
Abigail Benn
Marilyn Geaney
Stephen Skinner

Materials Science & Encapsulation
Marija Muzina
Chris Thanos

DiabeCell® Manufacture
Livia Escobar
Mariella Giovannangelo
Kristin Lauppe
Olivia O'Donoghue
Colleen Pilcher
Edith Poole
Kathleen Schuler
Jared Smith
Philip Squire
Michele Tatnell
Marise Tihore
Sahar Zwain

Alginate Supply/Purification
Giuseppe Basta
Riccardo Calafiore
Giovanni Lucca

*denotes part-time

**Company Secretary (Australian Company Secretaries Pty Ltd)

Management Team

Dr Paul Tan

Chief Executive Officer

Dr Tan was previously CEO of CenTec Ltd and founding Deputy Director and head of health division at Genesis Research & Development Corporation Limited. He has wide experience on all aspects of product commercialisation, expansion of intellectual property, product development and managing critical paths, timelines and establishing and managing international partnerships. Dr Tan has been research fellow, associate professor in immunology and a physician rheumatologist and has international experience having worked in Canada, Australia, Singapore and New Zealand.

Richard Justice

Chief Financial Officer

Mr Justice is a qualified accountant, with postgraduate business management qualifications and extensive experience in the financial and operational management of high growth organisations. Mr Justice was previously Director and CEO of a major South Pacific IT company. The company was listed initially on the ASE and TSE, before securing a main board NASDAQ listing. Mr Justice led the NASDAQ listing process and assisted in the capital raising program in Canada and the United States, as well as the raising of debt funding in Australasia.

Professor Robert Elliott

Medical Director

Professor Elliott co-founded LCT in 1987. He was Foundation Professor, Department of Paediatrics at the University of Auckland and is an Emeritus Professor of child health research 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 drug 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.

Paris Brooke

General Manager

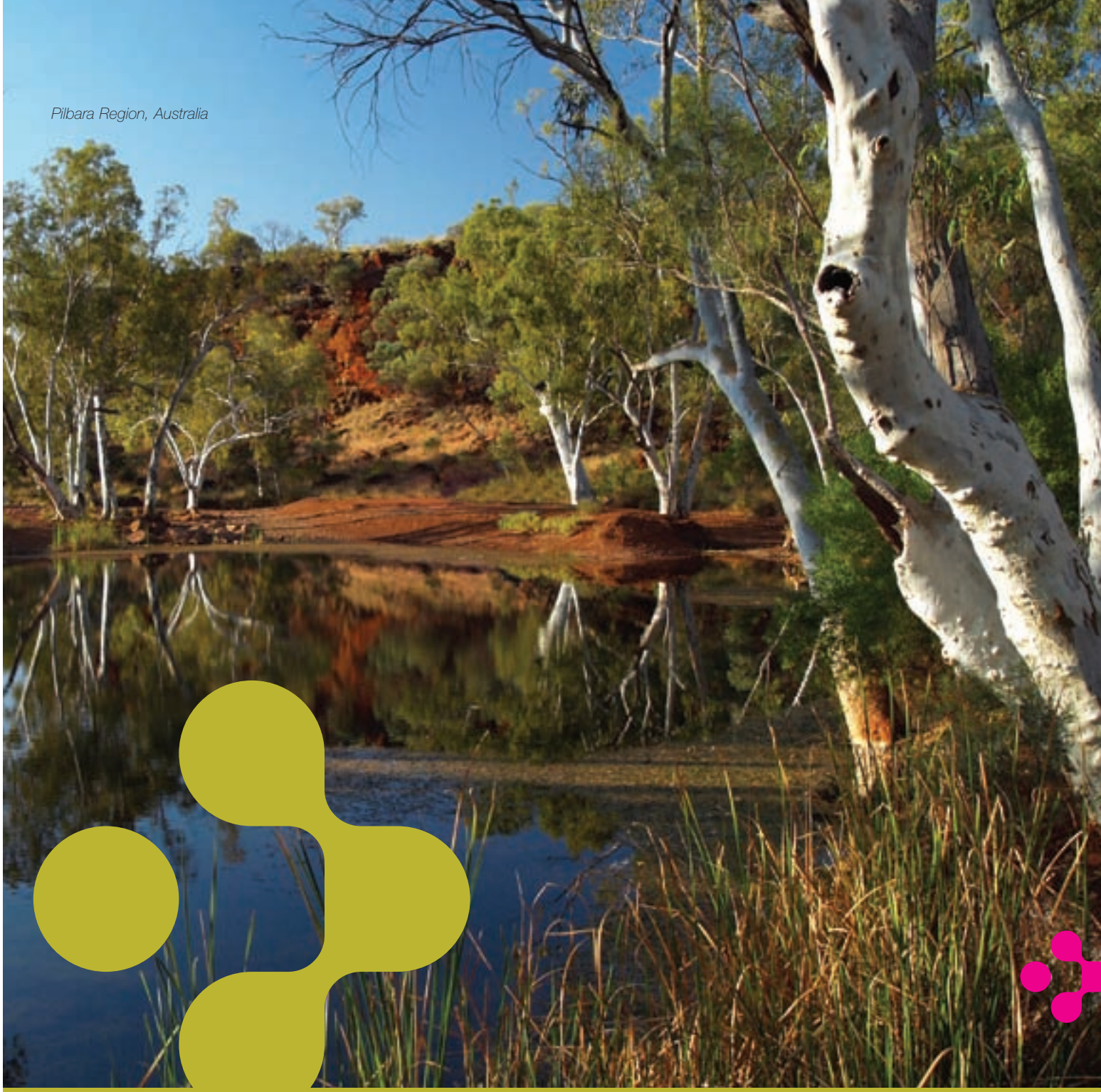
Ms Brooke previously held the position of Policy and Communication Manager at AusBiotech – Australia's Biotechnology Industry Organisation, where she drove federal industry advocacy programs to position the biotechnology industry. Ms Brooke has also been instrumental in helping build the Australian sector through her management of SDA Biotech, a communication advisory firm, and development of BioNetwork, the first national magazine in Australia dedicated to biotechnology. She has post-graduate qualifications in Scientific Communication.

Dr Paul Tan

Richard Justice

Professor Robert Elliott

Paris Brooke



Pilbara Region, Australia

CAPABILITIES

Capabilit

Xenotransplantation

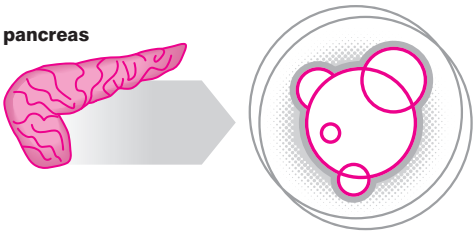
Cell Implants for Diabetes

01.

Due to a shortage of human donor organs for cell transplants, pigs cells are used as a safe alternative.

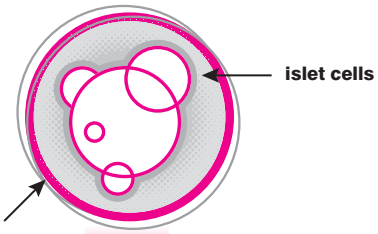
02.

Pig islet cells are isolated from the pancreas of neonatal pigs.



03.

Pig islet cells are put inside an alginate micro-capsule (size of the grain of sand) ready for injection.

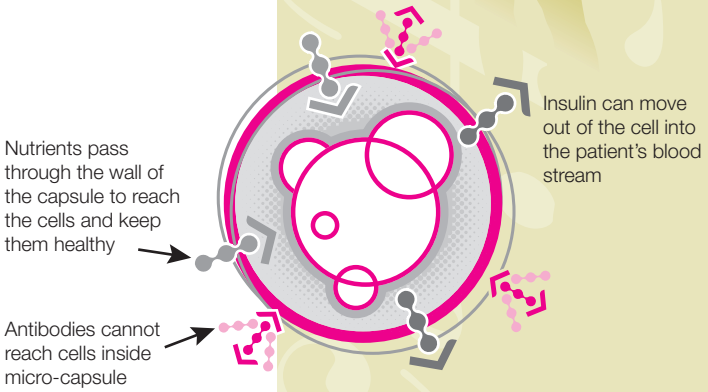


04.

The pig islet cells in their capsules are loaded into a small syringe and injected into the patients abdominal cavity.

05.

Pig islet cells are able to function well inside the patient's abdomen to control the patient blood glucose levels. No immunosuppression drugs are required because the patients' antibodies and immune cells are not able to enter inside the tiny capsule and reject the pig islet cells.



Artwork: Night and Day Communications

Biocertified Pig Herd

- LCT owns a medical grade, safe and readily available source of porcine tissues.
- The biocertified high-health status porcine tissues are free of infectious agents
- The pig herd has been benchmarked and regulatory reviewed internationally

LCT's sub-Antarctic Pig Herd

To be used as a source of cells and tissues for human therapeutics, pigs need to be bred in isolation from other animals, protected from possible infections and be raised on feed that is free of mammalian components for three generations.

LCT has a global sustainable advantage of access to a unique herd derived from the sub-Antarctic Auckland Islands pigs. These have essentially been in a quarantine environment since being deposited on the island by Captain Bowen over 200 years ago.

LCT maintains the herd for the provision of cells such as islets and choroid plexus cells for use in the clinical development of its cell therapeutics.

The combination of this uniquely pristine breeding stock and almost a decade of monitoring and specific pathogen free vigilance ensures that LCT's Biocert® pigs are free from pathogens found in other herds.

The LCT team has created value by having closed herds within a Designated Pathogen Free (DPF) barrier facility that are well characterised and documented to be free of relevant infections for more than three generations (FDA requirement).

Subsequent international screening of other herds (including US herds), indicates that LCT's Biocert® herd is the cleanest source of pig tissues currently available – with a regulatory licence to produce xeno cell products for human use.

The pigs are bred in isolation and shown to have a low copy number of the ubiquitous porcine endogenous retroviruses (PERV) found in the genome of all pigs. The pigs do not secrete infectious PERV.

LCT currently has two sites, comprised of a DPF facility and a further breeding stock facility. Additional housing facilities are currently in development.

Market Status

- Porcine herd and tissues to be free of infectious agents (FDA requirement) **Status: Completed**
- International virology benchmarking of pig tissues against other commercial and high-health status herds **Status: Completed**
- Tissue preparation and production facilities / procedures under strict GMP **Status: Completed**
- Additional barrier disease pathogen free facility for scale-up of pig breeding facilities to meet further market opportunities **Status: In progress**
- Unique agreement between LCT and the New Zealand Department of Conservation for access to the Auckland Islands for additional future breeding stock **Status: Signed**

LCT's Auckland Island pigs in the DPF facility.

GMP and IANZ Accredited Facilities

LCT is the first Company world-wide to receive International Accreditation New Zealand (IANZ) accreditation for a xenotransplantation laboratory. This accreditation will ensure that LCT's laboratory test reports are accepted in 49 countries, including the US, Canada, United Kingdom, Australia and New Zealand.

LCT's accredited laboratory will use specific diagnostic and monitoring tests to minimise the risk of animal viruses passing to humans when transplanting animal cell products such as DiabeCell® into human patients. The accredited laboratory will have the capability of testing for potential infections in recipients and to test for a range of appropriate viruses. This is a unique capability that has been developed by the Company over many years and is fully owned by LCT.

Although there has not been a single case of pig to human viral infection after hundreds of treatments and decades of use, the IANZ accreditation is a requirement before regulatory approval is provided for human clinical trial.

Under LCT's Good Manufacturing Practice (GMP) accreditation, the Company is accredited to manufacture animal cell therapeutics for human use.

Clinical Trial Program

LCT's DiabeCell® diabetes product is entering two clinical trials in 2007 in separate jurisdictions

Ability to optimise dosing regimen and test for safety

The clinical trials will be followed by a Phase III / Pivotal Trial prior to market entry.

Enabling Implants Without Rejection

DiabeCell® – a neo-natal pig pancreatic islet cell implant for insulin-dependent (type 1) diabetes. Islet cells are encapsulated and injected into the peritoneal cavity to provide long-term production of insulin in response to the patient's blood glucose levels. The product has demonstrated the ability to administer long-term insulin, as required by the patient, without the need for immunosuppression.

Moscow, Russia

Trial Overview:

- 2 injections, 6 months apart
- 6 patients will be injected with 5,000 IEQ's (islet equivalents) for each implant
- Trial – 12 months in duration, with 1 year follow-up monitoring of patients
- In progress at the Sklifasovsky Institute, Moscow, Russia
- A US Contract Research Organisation is monitoring the trial, with LCT's Russian partner covering clinical costs
- Primary efficacy endpoint – reduction in HbA_{1C} levels over the 12-month post-transplant period compared with baseline
- Interim results available H1 2008 calendar year
- Final results available H2 2008 calendar year

Trial Name: A Phase I/IIa, Open-Label Investigation of the Safety and Effectiveness of DiabeCell® (Immunoprotected Alginate-Encapsulated Porcine Islets) for Xenotransplantation in Patients with Type 1 Diabetes. Protocol LCT/DIA-07R

LCT's human clinical trial of DiabeCell® in Russia will include six type 1 (insulin-dependent) diabetics in two stages.

There will be six adult patients treated between the ages of 21 and 65 years. The candidates must have had type 1 diabetes for at least 10 years with no other complications and provide full consent for follow-up monitoring.

The patients will receive an initial injection followed by a second transplant six months later.

The procedure is minimally invasive and will be administered into the abdomen through a laparoscope.

Primary Safety Endpoints

- Occurrence of hypoglycaemic episodes in the post-transplant period in comparison with those occurring during the establishment period.
- Occurrence of perioperative reactions (e.g. wound infections, local tissue reactions to the alginate micro-capsules at the time of transplantation).
- Occurrence of other adverse events or serious adverse events.
- Abnormal laboratory test results, physical examination findings, or ECG findings.
- Clinical and laboratory evidence of xenogeneic infection in transplant recipients via regular monitoring at predefined time points (ongoing).
- Clinical and laboratory evidence of xenogeneic infection in partners/close contacts of the transplant recipients (ongoing).

Primary Efficacy Endpoint

- Reduction in HbA_{1C} levels over the 12-month post-transplant period compared with baseline.

Secondary Efficacy Endpoints:

- Glucose lability assessed using 72-hour continuous glucose monitoring in comparison with baseline.
- Reductions in hypoglycaemia and nocturnal hypoglycaemia over the 12-month post-transplant period compared with baseline.
- Reductions in the average daily insulin dose of >20% compared with baseline.
- Changes in endogenous insulin secretion as determined by the plasma C-peptide response to intravenous glucagon stimulation compared with baseline.
- Quality-of-life changes, as assessed by the ADDQoL quality-of-life questionnaire at 6 and 12 months post-transplant compared with baseline.

Auckland, New Zealand

Trial Overview:

- 1 transplant injection
- 8 patients will be injected with 10-15,000 IEQ's (islet equivalents) for the transplant
- 12 months duration, 2 year follow-up monitoring
- To be conducted at Middlemore Hospital, Auckland, New Zealand
- Primary efficacy endpoint – reduction in HbA_{1C} levels over the 12-month post-transplant period compared with baseline
- Interim results expected to be available H2 2008 calendar year
- Final results expected to be available H2 2009

Trial Name: A Phase I/IIa, Open-label Investigation of the Safety and Effectiveness of DiabeCell® (Immunoprotected Alginate Encapsulated Porcine Islets for Xenotransplantation) in Patients with Type 1 Diabetes. Protocol LCT/DIA-06.

LCT's human clinical trial of DiabeCell® in Auckland will include eight type 1 (insulin-dependent) diabetics, between 35 and 65 years of age. The candidates must have had type 1 diabetes for at least 10 years with no other complications and provide full consent for follow-up monitoring.

After initial baseline monitoring, the patients will receive a cell injection into the abdomen via a laparoscope.

Primary Safety Endpoints

- Occurrence of hypoglycaemic episodes in the post-transplant period in comparison with those occurring during the establishment period.
- Occurrence of perioperative reactions (e.g. wound infections, local tissue reactions to the alginate micro-capsules at the time of transplantation).
- Occurrence of other adverse events or serious adverse events.
- Abnormal laboratory test results, physical examination findings, or ECG findings.
- Clinical and laboratory evidence of xenogeneic infection in transplant recipients via regular monitoring at predefined time points (ongoing).
- Clinical and laboratory evidence of xenogeneic infection in partners/close contacts of the transplant recipients (ongoing).

Primary Efficacy Endpoint

- Reduction in HbA_{1C} levels over the 12-month post-transplant period compared with baseline.

Secondary Efficacy Endpoints:

- Glucose lability assessed using 72-hour continuous glucose monitoring in comparison with baseline.
- Reductions in hypoglycaemia and nocturnal hypoglycaemia over the 12-month post-transplant period compared with baseline.
- Reductions in the average daily insulin dose of >20% compared with baseline.
- Changes in endogenous insulin secretion as determined by the plasma C-peptide response to intravenous glucagon stimulation.
- Quality-of-life changes, as assessed by the ADDQoL quality-of-life questionnaire at 6 and 12 months post-transplant compared with baseline.

Anyone interested in participating in a future trial, or wanting to be kept informed of trial results can send an email to lct@lctglobal.com to be included on the diabetes trial update database.

At work in LCT's molecular diagnostic laboratory

Patents

LCT currently holds 19 granted patents and has 37 patents filed and pending. Seven new patents have been granted or allowed in the past financial year and an additional five new patents filed.

Each of LCT's 12 patent families are held within wholly-owned subsidiaries, specifically created to maintain the intellectual property and enable ease of licensing and sales opportunities.

LCT's Scientific advisor Dr John Court (left) with Medical Director, Professor Bob Elliott

Patent Families

Product Category/ IP Holding Company	Series #	Description
DiabeCell Pty Ltd *Area of porcine islet cell transplantation (xenotransplantation) and treatment of diabetes*	1–5	Directed to the preparation and use of porcine islets in the treatment of human diabetes.
NeurotrophinCell Pty Ltd *Use of choroid plexus (CP) cells in the treatment of neurological disorders and diabetes*	7, 10, 12	Directed to the preparation and use of CP cells for transplantation into the nervous system to treat any neurological disorder and hearing loss.
Fac8Cell Pty Ltd *Use of liver associated cells in the treatment of haemophilia and other metabolic disorders*	6	Directed to the use of liver-associated cells that secrete factor VIII and other liver secretory factors, to treat liver disorders, such as haemophilia, liver failure and disorders of metabolism.
Living Cell Products Pty Ltd *Areas of lung cell delivery modes, pig breeding and cell encapsulation methods*	8	Directed to the use of encapsulated cells and to a delivery device containing the encapsulated cells, for delivery via the lungs.
	9	Directed to a method of breeding disease-free Auckland Island pigs and cells and tissues from the pigs for use in xenotransplantation.
	11	Directed to a new method of encapsulating cells for xenotransplantation.

Patents Granted in the Past Financial Year

Series No.	Country	Patents Granted or Allowed 2006/2007		Date granted	Patent expiry
2.6	USA	09/857,325 NPE of PCT/NZ01/00006 Published as 20030044391	Preparation and xenotransplantation of porcine islet *Elliott, Calafiore, Basta* *DiabeCell Pty Ltd*	6 June 2006	19 January 2021
2.8	Europe	1248640	Preparation and xenotransplantation of porcine islet *Elliott, Calafiore, Basta* *DiabeCell Pty Ltd*	4 October 2006	19 January 2021
4.6	South Africa	2005/10451	Porcine islets cultured with porcine sertoli cells for xenotransplantation *Elliott, Skinner, Orellana* *DiabeCell Pty Ltd*	27 December 2006	24 June 2023
6.4	New Zealand	532057 / 532059 / 535131	Culture & use of cells that secrete liver secretory factors *Elliott, Garkavenko, Vasconcellos, Emerich, Thanos* *Fac8Cell Pty Ltd*	12 October 2006	31 March 2025
8.5	Singapore	105628	Methods of treatment in situ in the lungs of mammals *Elliott, Skinner* *Living Cell Products Pty Ltd*	30 June 2006	01 November 2022
10.1	New Zealand	536009	Choroid plexus preparation and uses thereof *Elliott, Skinner, Orellana* *NeurotrophinCell Pty Ltd*	10 May 2007	18 April 2025
10.2	New Zealand	540597	Cell implantation to prevent and/or treat autoimmune disease *Elliott, Skinner, Tan* *NeurotrophinCell Pty Ltd*	7 June 2007	7 June 2026

Patents Filed in the Past Financial Year

No.	Country	Title	Filing Date
10.4	PCT	Cell implantation to prevent and/or treat autoimmune disease	7 June 2006 (priority date 8 June 2005)
11.2	PCT	Encapsulation system	24 October 2006
12.2	USA	Methods and compositions for treating hearing loss	6 March 2007
12.3	Australia	Methods and compositions for treating hearing loss	6 March 2007
12.4	Canada	Methods and compositions for treating hearing loss	6 March 2007

Cell-based Therapy for Diabetes

Type 1 Diabetes – Clinical Description

- Type 1 diabetes (5% to 10% of all cases of diabetes) caused by autoimmune destruction of beta cells (a type of islet cell) of the pancreas
- Beta cells responsible for producing insulin to prevent high levels of blood sugar
- Type 1 diabetes associated with kidney failure, blindness, nerve damage, and life-threatening cardiovascular problems
- No known preventive measures – diet and exercise cannot prevent or reverse type 1 diabetes
- Administration of insulin and careful monitoring of blood glucose levels is the only treatment
- Treatment must be maintained for life

Insulin Delivery – Advantages of LCT Approach

- Insulin is currently administered to diabetic patients using:
  - Subcutaneous injection
  - Pump
  - Inhalation
- LCT delivers insulin by injecting encapsulated porcine islet cells into the upper abdomen of patients, placing the cells over the pancreas and under the liver
- Key advantages of LCT's cell-based delivery of insulin:
  - Built-in regulatory mechanism that responds to blood glucose levels
  - Potential to improve health and clinical outcomes over other methods of insulin delivery

History of Efforts to Accomplish Cell-based Insulin Therapy

1924 First attempt to graft pancreatic tissue

1967 Isolation of islet cells

1970s Studies showing that transplanted islet cells can reverse diabetes in rodents and non-human primates

1980s Improved isolation techniques and immunosuppressive regimens used in human trials

Prior to 1998 Approximately 300 patients received islet transplantations; vast majority of operations carried out in conjunction with kidney transplants

2000 Edmonton Protocol for transplanting islet cells reported and later adopted by islet transplant centres around the world

- More than 1,200 type 1 diabetes patients have received islet transplants at over 40 institutions worldwide
- Non-human islet transplantation into humans has been carried out in Sweden, Russia, Mexico, New Zealand, and China

Edmonton Protocol for Islet Transplantation

- Collagenase used to isolate islet cells from pancreas of recently deceased human donors
- Two donors required per recipient
- Islets infused through a catheter into liver
- Ultrasound and radiography used to guide placement of catheter into portal vein of liver
- Operation conducted in a transplant centre
- Chronic administration of immuno-suppressive drugs is necessary to prevent rejection

Edmonton Protocol Challenges

- Immune rejection of transplant
- Limited donor pool, and thus supply of islet cells
- Life-time administration of immunosuppressive drugs
  - potential for serious side effects (eg. 7% to 21% of patients suffer renal failure)
- Variable success – dependent on:
  - skill and experience of transplant team
  - time lapse between death of donor and transplant
- Potential for transmission of infectious agents

LCT's DiabeCell® Advantages

- No immunosuppressive drugs are used or needed
- Laparoscopic surgery can be performed by general surgeon; transplant team and centre not needed
- Neo-natal pig islet cells – supply is potentially unlimited
  - Pigs are relatively easy to breed
  - Porcine insulin and human insulin differ by only one amino acid and have nearly identical binding properties and activity
  - Pig insulin has been used therapeutically for 80 years to treat type 1 diabetes

Mitre Peak, Milford Sound, New Zealand

PRODUCTS

Products

Pipeline of Products

DiabeCell® – neo-natal porcine pancreatic islet cells encapsulated in alginate and injected to regulate blood glucose levels in type I diabetics

BioCertified Pigs – LCT is prepared to license biocertified pigs to strategic partners as a source of porcine-derived biomaterials

Encapsulation – a proprietary gel that coats the pig cells to form micro-capsules ready for implant, preventing immune rejection

NeurotrophinCell – porcine choroid plexus cells encapsulated in alginate and placed to act as neuroprotection for a range of neurological disorders

Fac8Cell – porcine hepatocytes encapsulated in alginate and implanted for the treatment of liver disorders

NeurotrophinCell (NtCell)

Research into the treatment of Huntington's disease, stroke and sensorineural hearing loss

Natural porcine choroid plexus cells are sourced from LCT's biocertified pig herd and microencapsulated in an alginate-based gel coating. The resulting micro-capsules are placed at the site of the disease and enable targeted delivery of beneficial proteins and neurotrophic factors.

- LCT's NtCell treatment implants into the brain choroid plexus cells that produce hormones and factors important for the health and survival of brain tissue.
- The NtCell product secretes significant concentrations of the neurotrophins BDNF, GDNF and NT-3, among others.
- The neurotrophins are protective and help repair damage resulting from diseases or injury.
- LCT's pre-clinical studies in Huntington's disease and stroke models (small animal and primate studies) have indicated a significant reduction in cell loss and no evidence of adverse side-effects.
- Research results show NtCell capable of protecting brain tissue that would otherwise die, potentially forestalling or even preventing the debilitating consequences of neurodegenerative diseases.
- NtCell enables targeted delivery of neurotrophins over an extended period.

LCT is collaborating with the Bionic Ear Institute in Australia to assess the potential of NtCell on sensorineural hearing loss. Bio-capsules containing NtCell are placed near the nerve which sends auditory information to the brain. NtCell secretes neurotrophins which prevent degeneration of the auditory nerve.

Fac8Cell

Transplantation of liver cells has the potential to treat inherited diseases characterised by lack of enzymes or blood proteins, including a range of bleeding disorders. Haemophilia is a bleeding disorder where essential blood clotting factors are deficient. Only partial restoration (1 to 2%) of clotting factor is sufficient to prevent clinically significant bleeding. LCT is also assessing the possibility of assisting people with acquired liver failure until whole organ transplants become available.

Using pig liver cells has posed problems with the encapsulation process used for other cell types.

In early research work, single liver cells have been able to penetrate the micro-capsule wall coating. LCT has now overcome this problem by growing the cells in clusters and altering the components of the capsule wall.

Testing of this new encapsulation in mice has shown good biocompatibility. The stage is set for further pre-clinical work to establish their effectiveness in animal models of inborn errors of metabolism.

Regulatory Requirements

The use of micro-encapsulated porcine cells in human therapy requires:

- Porcine herd to be free of infectious agents (FDA requirement) **Status: Completed**
- Cell preparation and production facilities / procedures under strict GMP **Status: Achieved for diabetes product**
- Micro-encapsulation of cells characterised **Status: Completed**
- Ability to monitor transplant recipients in an accredited diagnostic facility. **Status: Achieved**

DiabeCell® – refer to page 23
Porcine Tissues – refer to page 24
Encapsulation – refer to page 25

Disease	Discovery	Pre-clinical	Phase I/II
Type 1 Diabetes DiabeCell®			
Huntington's, Neurodegenerative diseases NeurotrophinCell (NtCell)			
Haemophilia Fac8Cell			

DiabeCell®

For the Treatment of Type I Diabetes

DiabeCell® – neo-natal pig pancreatic islet cells encapsulated in alginate and injected to regulate blood glucose levels in type I diabetics

2007	Phase I/IIa Clinical Trials
H1 2008	Phase I/IIa Interim Results
H2 2008	Phase I/IIa Final Results (Russia)
H2 2009	Phase I/IIa Final Results (New Zealand)
2009	Start Phase III/Pivotal Trial

The Diabetes Market

- Total diabetes sufferers by 2010 – 240 million (WHO)
- Type 1 diabetes market (10% total) – 24 million
- Initial Type 1 market (1%) – 2.4 million
- Based on anticipated cost per treatment (1% market) – revenue in excess US$100 million

Other Treatments

The main treatments for diabetes are the use of insulin injections and insulin pumps. The delivery of insulin can be difficult to regulate and only offers short-term relief. It is also possible to receive a human islet cell transplant. The Edmonton protocol enables the transplanting of human islet cells but requires immuno-suppression. The extremely limited availability of human islets (from cadavers) makes this procedure unavailable to large patient numbers.

Stem cell technology is developing, but in the field of diabetes is still a long-term potential, rather than offering a near-term solution. Manufacturing and ethical considerations are still to be overcome.

The use of pig cells has been recognised by the Juvenile Diabetes Research Foundation (JDRF) and the National Institutes of Health (NIH) as a viable and important therapeutic alternative to existing treatments. Pig insulin is almost identical to human insulin and has been used clinically for over eighty years.

DiabeCell® – Product Developments

DiabeCell® is a pig pancreatic islet cell therapy for the treatment of insulin-dependent (type 1) diabetes and poorly-controlled insulin dependent type 2 diabetes. The pig islet cells produce insulin and help regulate blood glucose levels of the recipient.

The cells are coated in a seaweed-derived gel to form a micro-capsule, which isolates the transplanted cells from the patient's immune system and eliminates the need for toxic immunosuppressant drugs. The micro-capsules are injected into the abdomen via a simple medical procedure under local anaesthetic.

- Successful safety and efficacy of DiabeCell® in pre-clinical primate diabetes trial
- Approval to conduct Phase I/IIa clinical trial in Moscow, Russia and Auckland, New Zealand to test two different dose regimens (refer page 16–17 for clinical trial information)
- Published long-term function and safety data of islet cells in human patient (*Xenotransplantation*, March 2007 issue)
- International accreditation of diagnostic facility for monitoring of transplant patients (world first achievement)
- Good Manufacturing Practice approval to manufacture pig cell therapeutics for human medical use (world first achievement)

LCT is in the unique position of having human data from an earlier study conducted in New Zealand. In 1996, a human clinical trial for an early prototype of the DiabeCell® product was approved. After the treatment, an Auckland man achieved better control of his diabetes, his required insulin dosage was reduced by as much as 34 per cent and an inspection of his abdominal cavity nine years later revealed a small number of intact capsules and the presence of insulin. In 2007 it was independently confirmed that pig insulin can still be detected in his blood.

Commercial Model

1. Revenue from licensing

- Russian commercial partners: license rights to develop & commercialise
- Licensing to pharmaceutical company in US, EU, China
- Use of licensing funds to develop product in other jurisdictions

2. Taking product to market

- NZ & Russia Phase I/IIa data enable future fund raising in US & EU
- Marketing initially through existing transplant centres of excellence in Russia (previously available Xeno product), NZ and subsequently other centres

3. Revenue from product supply

- Licensing rights linked to/ separate from a contract to supply pigs for the product
- Separate manufacturing contract to supply DiabeCell®

LCT intends to offer its DiabeCell® therapy through trained general surgeons. LCT is in discussions with potential partners to assist in the long-term scale-up of the pig facilities to meet market demand. It is possible to scale the pig production facility to market entry requirements within three years.

Porcine Tissues

LCT owns a medical grade, safe and readily available source of porcine tissues

Porcine tissues are used in a variety of established markets, especially tissue regeneration and repair

The global market for the regeneration and repair of tissue is estimated at US$25 billion

Opportunities in the Porcine Tissue Market

LCT has the potential to provide tissue from its virally clean pig herd for human medical devices. Medical devices using tissue engineering require interdisciplinary input from specialties such as medical science, animal husbandry and cell biology, which are all areas of LCT's core competency.

LCT is currently utilising cells from neo-natal piglets for its product portfolio. However, there is considerable potential to value-add through offering further tissues and serum as products through either a non-exclusive licence or sales agreement.

The human tissue products market has been estimated at more than US$80 billion in the US. In another study the total global market for the regeneration and repair of tissue has been more conservatively estimated at US$25 billion.[1]

It is also clear that medical devices using mammalian tissue are offering new treatment options for orthopedic indications, skin damage, and cardiovascular diseases and for neurological diseases and organ failure. There are over 82 companies selling more than 190 products in the orthopedic biomaterials sector alone with the US market estimated at $1.38 billion in 2004.[2]

The opportunity exists to obtain competitive market advantage through the use of high-health status pig tissues within this existing substantial market, to provide companies with a competitive and regulatory edge. LCT has complete exclusive access to the use of this unique pig herd for medical purposes.

Market Segments

Cardiovascular Disease

Cardiovascular disease causes 40% of deaths and is the most significant cause of death in the industrialised world. Porcine tissues are currently used in vascular grafts and heart valves. Biomaterials used in vascular grafts have projected sales in 2008 of almost US$1.0 billion.[3]

Cartilage and Ligaments

The use of porcine submucosa is currently being tested as a natural scaffold grafted onto medial ligaments to promote ligament growth[4]. Current global costs for reconstructions are estimated at US$2–3 billion. Small intestinal submucosa (SIS) is tissue which shows great promise for the repair of damaged tissues in humans.

Bone

The world-wide orthopedic market has been estimated at US$23 billion in 2006[5]. There is the opportunity to enhance the performance of bone transplant products by using tissues such as porcine collagen.

Skin

The market for skin wound healing products is growing at 10–15% per year and represents a multi-billion dollar opportunity[6]. There is future market opportunity to provide porcine collagen to generate porous collagen scaffold for use in artificial skin medical device products that promote cell migration and re-vascularisation. Studies analysing the collagen structure in a variety of animals have found that porcine collagen structure is the most similar to that of humans[7]. There is an existing market for collagen and since the advent of Mad Cow Disease (BSE) there has been a market need for a safe and acceptable collagen source to replace bovine collagen used in existing collagen-based healthcare products.

Soft Tissue Patches

Soft tissue patches are required in some surgical procedures to assist internal tissue repair such as in hernias, open heart surgery and neurological surgery. The overall market is growing at a compound annual growth rate of over 10% to a projected US$585 million in 2009[8].

Corneal Transplants

The technique involves inserting a pig lens between the iris and the eye's natural lens. Health Canada has approved the use of contact lens implants made out of pig tissue. The lens can be implanted in the eye to correct extreme near- or far-sightedness.

Drug Delivery

The US drug delivery market will reach nearly US$91 billion by 2009[9]. The pharmaceutical industry is looking to novel drug delivery systems, such as those provided by collagen-based products to extend the patent life on up to $80 billion of drugs that are due to come off patent.

1 http://www.healthpointcapital.com/reports/product_info.php?products_id=32

2 http://www.healthpointcapital.com/reports/product_info.php?products_id=32

3 BBC Research, Biocompatible Materials for the human body: End Markets, 2003.

4 http://www.umc.pitt.edu/media/pcc030922/bioengineering_profile.html

5 http://media.corporate-ir.net/media_files/irol/12/129751/WMGI2005AR.pdf

6 http://www.renovo.com/itemdetails.asp?s_id=11&news_id=6

7 Collagen fibre arrangement in the tibial plateau articular cartilage of man and other mammalian species, M. J. Kaab et al., *Journal of Anatomy* (1998), 193: 23-34 Cambridge University Press http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=9355

8 http://www.researchandmarkets.com/reportinfo.asp?report_id=339994

9 http://www.fuji-keizai.com/e/report/dds_e.html

Encapsulation

LCT's Micro-Capsules

A proprietary gel that coats the pig cells to form micro-capsules ready for implant

LCT's encapsulation process has been shown to exceed other alginate encapsulation methods

The coating enables pig cells to be transplanted into a patient without rejection or need for immunosuppression

Enabling Transplant without Rejection

The encapsulation process is a crucial component of LCT's revolutionary cell therapy approach for treating disease.

The living cells are covered in a seaweed-derived coating (alginate) to form micro-capsules and then injected into the patient via a syringe. The capsules eliminate the need for toxic immunosuppressant drugs after implantation of the cells into the human body.

Over the last 20 years, there has been remarkable progress in alginate micro-encapsulation in protein and cell therapy for the treatment of various diseases. However the process has previously been unpredictable, making stability and reproducibility of the material difficult. LCT has characterised and purified the alginate supply into a highly specialised method of encapsulation, enabling further control of the biocapsule function and the rate of degradation.

A recent study, published in the peer-reviewed scientific *Journal of Biomedical Materials Research Part A* compared the stability and longevity of LCT's micro-encapsulation technology to other baseline technologies. The study revealed that LCT's micro-capsules, when implanted in rats, were able to survive for a longer period in the abdomen than other technologies.

LCT has produced a stable micro-capsule made of ultra-pure alginate that is capable of surviving in diverse transplant sites, including the harsh environment inside the abdomen, for at least 215 days, the study endpoint. This is in contrast to the baseline (commercially available alginate) formulated capsules that remained stable for less than 60 days in the abdomen.

According to an alginate pioneer, and LCT's collaborator, Professor Riccardo Calafiore at the University of Perugia in Italy: "We have found a way to purify alginate for making smooth, long-surviving capsules without surface pitting, so that inner layers and cells inside are not exposed. This purified alginate can now be made consistently from a natural seaweed-derived material." LCT holds an exclusive licence and rights to the Perugia alginate.

Alginate in its purest form can be an extremely biocompatible barrier – being resistant to attack to the host immune system, while simultaneously enabling diffusion of cell secreted proteins across the micro-capsule membrane wall into the body.

The micro-capsules are prepared within LCT's accredited GMP facility.

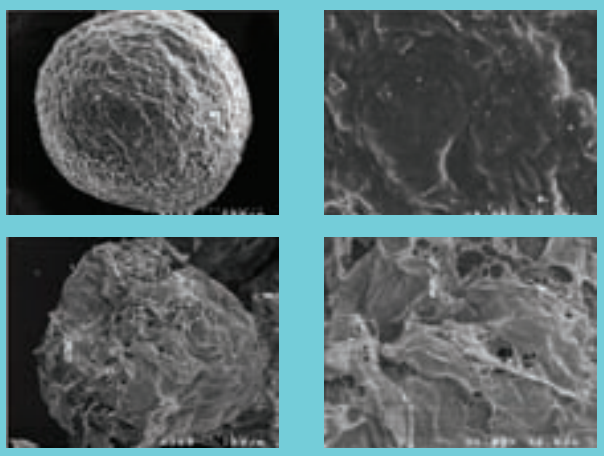
Technically speaking...

The use of LCT's alginate encapsulation technology offers versatility and stability in multiple locations in the body for a variety of indications. It provides immuno-isolation and has shown demonstrated efficacy in animal models of Huntington's disease, stroke, haemophilia, and diabetes.

LCT uses a highly purified and well characterised alginate in combination with a biocompatible polypeptide coating. LCT micro-capsules are monodisperse and can each withstand roughly 1 gram of force before rupture, which demonstrates the extremely high strength of the 550 micron hydrogel capsules. This offers significant versatility when contemplating implantation techniques and indication-specific target sites and enables extremely reliable quality control.

The LCT micro-capsule is suitable for numerous applications requiring flexibility in delivery, since the basic properties of the micro-capsule can be maintained while tailoring the system to the desired application, including membrane characteristics like flux, wall strength, dose, and biocompatibility. Some potential encapsulation candidates include stem cells, cell lines, or primary cells.

Low magnification *High magnification*



LCT's micro-capsule showing strength and uniformity (top) at 215 days, compared with the degrading commercially available capsule at 60 days (bottom).

Collaborative Programs

1. Diabetes Programs

- University of Auckland, New Zealand
- Russian Academy of Medical Sciences, Sklifasovsky Institute, Russia

LCT has worked with the University of Auckland to independently assess results from a 10-year follow-up monitoring of a patient transplanted with the forerunner to the DiabeCell® product. Chromatography (HPLC) on clinical and pre-clinical samples from diabetic transplant patients were tested to detect porcine insulin in their serum.

LCT's main clinical study program is occurring in Russia with the implantation of encapsulated neo-natal porcine islets in diabetic patients. The first patient was injected in June 2007.

2. Encapsulation Technologies

- University of Perugia, Italy
- Brown University, USA

LCT maintains a strong strategic relationship with the Department of Medicine and Endocrine and Metabolic Services, University of Perugia, Italy as it continues to develop its encapsulation technology and purification of alginate.

LCT is working with Brown University on advanced methods of encapsulation and assessment of the quality of capsules.

3. Virology Studies

- Robert Koch Institute, Germany

LCT's virology group continues to investigate pig retroviruses. This has included working with Dr Joachim Denner at the Robert Koch Institute for testing patients for pig endogenous retrovirus infection. Dr Denner's group has developed serology tests for this purpose.

4. Neurological Programs

- Bionic Ear Institute, Australia
- Genesis Research and Development, New Zealand
- University of New South Wales, Australia

LCT has a collaborative agreement to improve the hearing outcomes for cochlear implant patients through rehabilitation of the auditory nerve with the Bionic Ear Institute. LCT has the option to acquire an exclusive licence to commercialise the results.

The research is investigating a new method to protect the auditory nerve from dying following deafness. Normally the nerve which supplies auditory information to the brain stays strong and healthy due in part to support from molecules known as neurotrophins, literally "nerve food". However, following some types of deafness, the nerve progressively dies. The research is investigating LCT's NtCell product which is placed near the nerve to prevent its degeneration by supplying neurotrophins.

LCT's neurobiological group has continued to progress work in animal models of neurological diseases. It is working with Genesis R&D on proteins produced by NtCell.

Work with the University of NSW has explored molecular biology aspects of Alzheimer's disease.

5. Other Programs

KODE Biotech Ltd, New Zealand – Testing of anti-Gal antibodies in serum samples from non-human primate subjects transplanted with encapsulated islets. KODE have developed a successful method to determine IgG and IgM antibodies against the Galili antigen.

Department of Conservation, New Zealand – The Department of Conservation maintains the Auckland Islands, where LCT's biocertified pig herd originated. In 2007, LCT visited the Islands with the department to monitor the current numbers and status of the remaining pig herd on the Island. This information assists with both conservation of the Island's fauna and flora, as well as LCT's future pig breeding requirements.

LCT's GMP manufacturing facility

Perugia, Italy

CORPORATE

Corporate

Directors' Report

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2007.

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
Michael Yates	Resigned 25 August 2006
Simon O'Loughlin	
Charles Macek	Resigned 24 August 2007
David Collinson	
Robert Elliott	
Alfred Vasconcellos	Resigned 27 June 2007
Laurie Hunter	Appointed 25 August 2006
Paul Tan	Appointed 23 February 2007
David Brookes	Appointed 23 August 2007

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.

2. Director Information

a] Information on Directors

- Simon O'Loughlin — *Independent Director, (Chairman since 25 August 2006) BA Acc. Age : 50*

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, and Chesser Resources 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 the 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.

- Robert Elliott — *Medical Director MBBS, MD, FRACP Age: 73*

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 — *Executive Director Age : 58*

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 (Appointed: 25 August 2006) MA (Hons) Age : 59*

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 (Appointed 23 February 2007), LCT Group CEO MB.BS, FRACP Age 59*

Dr Paul Tan was appointed as Chief Executive Officer of Living Cell Technologies on 24 January, 2007, having previously been Managing Director of LCT's New Zealand operations since joining the company in 2004. Previously Paul was Chief Executive Officer of CenTec Ltd and founding Deputy Director and Head of Health Division at Genesis Research & Development Corporation Limited.

He has had wide experience on all aspects of assessment and selection of products for commercialisation, expansion of intellectual property, product development and managing critical paths, timelines and establishing and managing international partnerships covering Australia, Brazil, Canada, New Zealand, the Philippines, Singapore, the United Kingdom & the United States. Paul has been 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, and sits on the Ministry of Health Interim Expert Committee for Xenotransplantation.

- David Brookes — *Independent Director (Appointed 23 August 2007) MB.BS, FACRRM Age: 47*

Dr Brookes has received a Bachelor of Medicine and Bachelor of Surgery at 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).

b] Meetings of Directors

During the financial year, 16 meetings of directors were held. Attendances by each director during the year were as follows:

	Eligible to attend	Number attended
Michael Yates	1	-
Simon O'Loughlin	16	16
Robert Elliott	16	13
David Collinson	16	15
Alfred Vasconcellos	16	15
Charles Macek	16	12
Laurie Hunter	15	14
Paul Tan	6	5

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") incorporated and domiciled in Australia, with Paul Tan as Group 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 CEO, Dr Paul Tan who has extensive international experience in operating facilities, conducting clinical studies and managing intellectual property portfolios.

3. Business Review (continued)

b] Corporate structure (continued)

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 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 General Manager Paris Brooke) focusing on investor and corporate relations.

A fully owned subsidiary located in the United States, LCT BioPharma Inc, closed its operational facilities, with research activities being returned to the Auckland unit. 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.

c] Employees

As at 30 June 2007 the consolidated group employed 39 staff. (2006: 45).

d] Review of operations

As a xeno cell therapy company, LCT focuses on developing treatments for implanting healthy living cells to replace or repair diseased 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 criteria for human clinical trials of a xenotransplant product.

During the financial year ended 30 June 2007 LCT completed and announced regulatory approval for two human clinical trials for its Type I diabetes product, DiabeCell. The Company has expended its funds primarily in finalising requirements to enter clinical trials for its lead product.

It is the view of the Board of Directors that the company is now poised to make significant progress towards commercialisation of its DiabeCell product, through the initiation of clinical trials and achieving the necessary regulatory capabilities for manufacturing of the product.

e] Operating Results

The loss for the year of the consolidated group amounted to $5,987,322. (2006: Loss of $6,819,611).

4. Financial Review

a] Financial Position

The net assets of the consolidated group have decreased by $394,730 from $1,796,058 to $1,401,328 in 2007.

The decrease has largely resulted from the following factors:

- Share Capital increasing by $5,187,233 from $24,685,152 to $29,872,385
- Whereas the result for the year was a loss of $5,987,322.

b] Cash from Operations

Net cash outflow from operating activities moved from $6,610,850 in the previous period to $5,536,559, a change of (16)% reflecting the close scrutiny and control over operational overheads within the consolidated group.

c] Liquidity and Funding

As at 30 June 2007 the consolidated group had $2,449,768 cash in the bank, compared to $2,956,379 as at the previous year end, which based on historical levels of operational cash flow requirements would allow the consolidated group to fund current operations for approximately 5 months, which is consistent with the position at the previous year end. There is on-going activity to secure additional investment funding which will be raised at appropriate times to support future growth and development of the business.

5. Remuneration Report

This report details the nature and amount of remuneration for each director 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 director 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 board members and senior executives 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.

Executives 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 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	
David Collinson	CEO (resigned 24 January 2007)
Bob Elliott	Medical Director
Al Vasconcellos	CEO LCT BioPharma (until 31 January 2007)
Paul Tan	CEO (appointed 24 January 2007)
Specificed Executives	
Richard Justice	Chief Financial Officer
Dwaine Emerich	VP of Research & Chief Scientific Officer
	(until 31 January 2007)
Paris Brooke	General Manager, LCT Australia
Chris Thanos	Director of Research LCT BioPharma (until 31 January 2007)

5. Remuneration Report (continued)

c] Remuneration of Directors & Specified Executives

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:

2007	Short-Term Benefits			Post Employment Benefits	Other Long-Term Benefits	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**
Total	**1,615,943**	**-**	**-**	**134,900**	**132,284**	**1,883,127**

2006	Short-Term Benefits			Post Employment Benefits	Equity	Total
	Cash, Salary & Commissions $	Cash Bonus $	Non-Cash Benefits $	Superannuation $	Options $	$
Directors						
Michael Yates	112,500	-	-	-	58,582	171,082
Simon O'Loughlin	42,368	-	-	3,561	19,527	65,456
Roger Coats	32,047	-	-	2,632	-	34,679
David Collinson	196,822	-	-	-	-	196,822
Al Vasconcellos	356,035	-	-	-	68,345	424,380
Robert Elliott	187,258	-	-	-	-	187,258
Charles Macek	12,500	-	-	-	-	12,500
Specified Executives						
Richard Justice	233,368	-	-	-	22,978	256,346
Paul Tan	206,018	-	-	-	39,054	245,072
Paris Brooke	110,000	-	-	9,900	-	119,900
Dwaine Emerich	233,366	-	-	-	750	234,116
Chris Thanos	142,424	-	-	-	1,250	143,674
Total	1,864,706	-	-	16,093	210,486	2,091,285

5. Remuneration Report (continued)

d] Options issued as part of remuneration for the year ended 30 June 2007

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							
Simon O'Loughlin	-	300,000	1 June 2007	0.0669	0.20	25 August 2007	1 June 2012
Simon O'Loughlin	-	500,000	1 June 2007	0.0546	0.30	25 August 2007	1 June 2012
Paul Tan	-	500,000	1 June 2007	0.0669	0.20	23 February 2008	1 June 2012
David Collinson	350,000	350,000	24 November 2006	0.0660	0.30	9 March 2007	9 March 2009
Robert Elliott	350,000	350,000	24 November 2006	0.0660	0.30	9 March 2007	9 March 2009
Laurie Hunter	-	150,000	1 June 2007	0.0669	0.20	25 August 2007	1 June 2012
Laurie Hunter	-	250,000	1 June 2007	0.0546	0.30	25 August 2007	1 June 2012
Charles Macek	150,000	150,000	1 June 2007	0.0669	0.20	16 March 2007	1 June 2012
Charles Macek	250,000	250,000	1 June 2007	0.0546	0.30	16 March 2007	1 June 2012
Specified Executives							
Richard Justice	-	300,000	25 May 2007	0.0820	0.20	25 May 2008	25 May 2012
Richard Justice	-	500,000	25 May 2007	0.0679	0.30	25 May 2008	25 May 2012
Paris Brooke	100,000	100,000	25 May 2007	0.0585	0.20	25 May 2007	20 March 2010
Paris Brooke	-	150,000	25 May 2007	0.0820	0.20	25 May 2008	25 May 2012
Total	**1,200,000**	**3,850,000**					

All options usually vest within one year to two years of grant date and expire within three to four 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 grant.

5. Remuneration Report (continued)

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

Options exercised during the year that were granted as compensation in prior periods:

	No of Ordinary Shares Issued $	Amount Paid per Share $	Amount Unpaid per Share $
Directors			
Robert Elliott	100,000	0.21	-
Total Shares Issued	**100,000**		

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	16,162	17	-	-
Robert Elliott	23,100	11	21,000	-
David Collinson	23,100	12	-	-
Charles Macek	23,685	32	-	-
Laurie Hunter	8,081	21	-	-
Paul Tan	3,633	2	-	-
Sub-total	97,761	-	21,000	-
Specified Executives				
Richard Justice	18,577	8	-	-
Paris Brooke	7,060	6	-	-
Dwaine Emerich	5,554	3	-	-
Chris Thanos	3,332	3	-	-
Sub-total	34,523	-	-	-
Total	**132,284**	**-**	**21,000**	-

e] Employment contracts of directors and senior executives

The employment conditions of the chief executive officer, Paul Tan, the executive directors and specified executives are formalised in contracts of employment as permanent employees of Living Cell Technologies Limited.

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
1 September 2003	30 June 2008	0.22	873,250
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	11,471,150
28 October 2004	15 November 2008	0.30	1,625,000
3 November 2004	30 June 2008	0.22	1,000,000
6 July 2005	14 November 2011	0.24	175,000
16 March 2006	9 March 2009	0.30	150,000
16 March 2006	16 March 2011	0.23	210,000
24 November 2006	12 December 2011	0.22	2,000,264
23 April 2007	1 February 2010	0.25	3,000,000
1 June 2007	1 June 2012	0.30	3,150,000
Total			**24,549,664**

b] Options exercised during the year

During the year ended 30 June 2007, 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
30 August 2004	0.21	100,000
Total		**100,000**

7. Indemnifying Officers or Auditors

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 wilful breach of duty in relation to the company. The amount of the premium was $ 28,083.

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

a] 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 8 August 2006 the company issued 4.7 million shares, which raised $732,300, through a placement of ordinary shares to existing shareholders.

(ii) On 18 January 2007 the company issued 4.8 million shares, which raised $852,250, through a placement of ordinary shares to existing shareholders.

(iii) On 20 February 2007 consequent to the company's Share Purchase Plan with existing shareholders, 11.2 million shares were issued, raising $1,962,450.

(iv) On 8 March 2007 the company issued 13.3 million shares, which raised $2,325,799 through a placement of ordinary shares to existing shareholders.

b] After Balance Date Events

On 5 July 2007 it was announced that the company had been awarded an Enterprise Develoment Grant of NZD$100,000 from New Zealand Trade & Enterprise to assist with international market development opportunities.

The company announced on 18 July 2007 that a Level 1 American Depositary Receipts program ("ADR") with the Bank of New York had gone effective, enabling the company to capitalize on a growing US investor interest. This program will enable US based investors to purchase LCT shares in the ADR program under the ticker symbol "LVCLY".

A study, published in the peer-reviewed scientific Journal of Biomedical Materials, was announced on 1 August. This compared the stability and longevity of the company's micro-encapsulation technology to other baseline technologies. The study revealed that the company's biocapsules, when implanted in rats, were able to survive for a longer period in the abdomen than other technologies, addressing the question as to why the company's technology is regarded as superior to others in the industry.

On 23 August 2007 Dr David Brookes was appointed to the Board of the company as an independent director, to replace Charles Macek on the Board, whose resignation was formalised on 24 August 2007.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations or the state of affairs of the consolidated group in future financial years.

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

Director: 

Dated this 28th day of September 2007

c] Auditor's Independence Declaration

The lead auditor's independence declaration for year ended 30 June 2007 has been received and can be found opposite.

Auditor's Independence Declaration

PKF

Chartered Accountants
& Business Advisers

**LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

To the directors of Living Cell Technologies Limited:

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) 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

PKF

Arthur Milner
Partner

Sydney, 28 September 2007

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Corporate Governance Statement

The company was admitted to the Australian Stock Exchange (ASX) on 1 September 2004 and it was proposed that all of the best practice recommendations of the ASX Corporate Governance Council would be implemented during the financial year ended 30 June 2005. Implementation of the Corporate Governance Policy is in progress and the current status is summarised below:

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 unchanged in comparison to the year before last, when the Statement had been modified due to the introduction of the Australian Stock Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). In accordance with the Council's recommendations, the Corporate Governance Statement must now 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, 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 six directors on the board are independent. ie. 50%.

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.

The board established an audit committee, but due to the size of the board it is not possible to meet the recommendation of having at least three members, the majority of which are independent.

Restrictions imposed on individual directors as a result of the Sarbanes-Oxley regime limit the number of audit committees they can be members of, which has resulted in the LCT Board's being unable to involve all the independent directors, due to audit committee responsibilities with other companies.

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 relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report section on "Directors' Information, commencing on page 28. 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
Charles Macek (resigned 24 August 2007)
Laurie Hunter
David Brookes (appointed 23 August 2007)

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

An Audit Committee has been formed and is responsible for:

- overseeing and appraising the quality of the external audit and the internal control procedures, especially in the following areas:
  - financial reporting and practices;
  - business ethics, policies and practices;
  - accounting policies; and
  - management and internal controls;
- providing, through regular meetings, a forum for communication between the board, senior financial management staff involved in internal control procedures and the external auditors; and
- enhancing the credibility and objectivity of financial reports with other interested parties, including creditors, key stakeholders and the general public.

The Audit Committee comprises a minimum of one independent director who will chair the meetings (Simon O'Loughlin). The Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Company Secretary may be invited to attend the meetings but are not members of the committee.

The Audit Committee will meet independently of all employees of the company and with the external auditors at least once a year.

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 Directors' 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.

Compliance Committee

A Compliance Committee will be formed to be responsible for:

- setting, reviewing and ratifying corporate compliance policies;
- overseeing the implementation of a corporate compliance system including, but not limited to:
  - liquidity;
  - financial and secretarial;
  - tax returns;
  - licences and permits;
  - safety;
  - environment;
  - industrial relations, including employment contracts;
  - quality assurance, including good manufacturing practice;
  - trade practices;
  - privacy;
  - insurance;
  - risk management; and
  - equal opportunity and anti-discrimination;
- referring to the board, if necessary, any substantial matters arising from compliance reviews.

Compliance Committee (continued)

The Compliance Committee will comprise of at least one independent director. The CEO will also be a member of the committee and act as chairman. Additionally, the Company Secretary will be a member of the committee.

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 Simon O'Loughlin and David Brookes, both independent directors. The CEO is not a member of the Nomination Committee.

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.

Central Park, New York City

CONSOLIDATED FINANCIAL STATEMENTS

Finances

Income Statement

For the Year Ended 30 June 2007

	Note	Consolidated		Parent	
		2007 $	2006 $	2007 $	2006 $
Revenue – trading	2(a)	**18,211**	1,307	**-**	458
Other revenue	2(b)	**926,573**	290,740	**87,008**	87,992
Employee costs		**(3,354,737)**	(3,288,153)	**(188,215)**	(144,557)
Employee costs – Share/Option based remuneration		**(147,175)**	(220,130)	**(147,175)**	(220,130)
Depreciation, amortisation and impairments		**(197,556)**	(188,344)	**-**	-
Finance costs		**(294,001)**	(1,862)	**(293,971)**	(1,103)
Freight and cartage		**(24,836)**	(21,871)	**-**	-
Advertising		**(55,175)**	(34,438)	**(7,448)**	(2,707)
Contingent rental on finance leases		**-**	(4,016)	**-**	-
Research and development costs		**(1,148,518)**	(1,071,512)	**-**	(608)
Writedown loans to recoverable amounts		**-**	-	**(4,862,431)**	(5,352,275)
Lease expenses		**(312,685)**	(328,616)	**-**	-
Travel expenses		**(264,790)**	(302,107)	**160,359**	(167,208)
Consulting and professional fees		**(536,392)**	(752,957)	**(625,114)**	(634,756)
Printing and stationery		**(52,936)**	(58,718)	**(25,327)**	(35,177)
Telephone and fax		**(82,112)**	(82,833)	**(1,100)**	(5,885)
Foreign currency gains (losses)		**309,013**	(278,406)	**185,765**	73,271
Auditors remuneration	21	**(93,732)**	(75,663)	**(81,042)**	(64,973)
Computer expenses		**(48,131)**	(43,644)	**(10,400)**	(2,944)
Repairs and maintenance		**(50,932)**	(52,856)	**-**	-
Other expenses		**(577,411)**	(305,532)	**(458,989)**	(169,789)
Loss before income tax		**(5,987,322)**	(6,819,611)	**(6,268,080)**	(6,640,391)
Income tax expense	3	**-**	-	**-**	-
Loss attributable to members of the parent entity		**(5,987,322)**	(6,819,611)	**(6,268,080)**	w(6,640,391)
Earnings Per Share:					
Continuing operations:					
Basic & diluted earnings per share (cents per share)	4	**(4.50)**	(6.30)	**-**	-

Balance Sheet

As At 30 June 2007

	Note	Consolidated		Parent	
		2007 $	2006 $	2007 $	2006 $
ASSETS					
Current assets					
Cash and cash equivalents		**2,449,768**	2,956,379	**2,004,303**	2,525,651
Trade and other receivables	5	**32,793**	1,277	**19,345**	4,885
Inventories	6	**43,308**	32,488	**-**	-
Other current assets	7	**41,888**	12,430	**19,261**	-
Total current assets		**2,567,757**	3,002,574	**2,042,909**	2,530,536
Non-current assets					
Property, plant and equipment	9	**909,089**	949,361	**-**	-
Biological assets	10	**340,600**	306,229	**-**	-
Total non-current assets		**1,249,689**	1,255,590	**-**	-
TOTAL ASSETS		**3,817,446**	4,258,164	**2,042,909**	2,530,536
LIABILITIES					
Current liabilities					
Trade and other payables	12	**408,725**	512,753	**182,969**	114,647
Financial liabilities	13	**1,877,982**	-	**1,877,982**	-
Provisions	15	**129,411**	61,935	**-**	-
Total current liabilities		**2,416,118**	574,688	**2,060,951**	114,647
Non-current liabilities					
Financial liabilities	13	**-**	1,887,418	**-**	1,887,418
Total non-current liabilities		**-**	1,887,418	**-**	1,887,418
TOTAL LIABILITIES		**2,416,118**	2,462,106	**2,060,951**	2,002,065
NET ASSETS		**1,401,328**	1,796,058	**(18,042)**	528,471
EQUITY					
Issued capital	17	**29,872,385**	24,685,152	**29,872,385**	24,685,152
Reserves	18	**1,070,404**	654,247	**1,087,016**	626,858
Accumulated losses	18	**(29,541,461)**	(23,543,341)	**(30,977,443)**	(24,783,539)
TOTAL EQUITY		**1,401,328**	1,796,058	**(18,042)**	528,471

Statement of Changes in Equity

For the Year Ended 30 June 2007

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**
Shares issued during the year	**5,872,799**	**-**	**-**	**460,157**	**-**	**6,332,956**
Loss attributable to members of parent entity	**-**	**(5,987,322)**	**-**	**-**	**-**	**(5,987,322)**
Transaction costs	**(685,566)**	**-**	**-**	**-**	**-**	**(685,566)**
Adjustments from translation of foreign controlled entities	**-**	**(10,797)**	**(44,000)**	**-**	**-**	**(54,797)**
Sub-total	**5,187,233**	**(5,998,119)**	**(44,000)**	**460,157**	**-**	**(394,729)**
Balance at 30 June 2007	**29,872,385**	**(29,541,460)**	**(16,611)**	**1,009,631**	**77,384**	**1,401,329**

2006 Consolidated

	Ordinary Shares $	Accumulated Losses $	Foreign Currency Translation Reserve $	Option Reserve $	Convertible Instruments Reserve $	Total $
Balance at 1 July 2005	19,536,574	(16,730,364)	-	329,344	-	3,135,554
Loss attributable to members of the parent entity	-	(6,819,611)	-	-	-	(6,819,611)
Shares issued during the year	5,427,486	-	-	-	-	5,427,486
Transaction costs	(278,908)	-	-	-	-	(278,908)
Equity portion of Convertible Notes	-	-	-	-	77,384	77,384
– foreign currency translation reserve	-	-	27,389	-	-	27,389
Adjustments from translation of foreign controlled entities	-	6,634	-	-	-	6,634
Option reserve on recognition of options expense	-	-	-	220,130	-	220,130
Sub-total	5,148,578	(6,812,977)	27,389	220,130	77,384	(1,339,496)
Balance at 30 June 2006	24,685,152	(23,543,341)	27,389	549,474	77,384	1,796,058

For the Year Ended 30 June 2007

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**
Shares issued during the year	**5,872,799**	**-**	**460,157**	**-**	**6,332,956**
Profit attributable to members of the parent entity	**-**	**(6,268,080)**	**-**	**-**	**(6,268,080)**
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)**

2006 Parent

	Ordinary Shares $	Accumulated Losses $	Option Reserve $	Convertible Instruments Reserve $	Total $
Balance at 1 July 2005	19,536,575	(18,066,864)	329,344	-	1,799,055
Profit attributable to members of the parent entity	-	(6,640,391)	-	-	(6,640,391)
Shares issued during the year	5,427,485	-	220,130	-	5,647,615
Transaction costs	(278,908)	-	-	-	(278,908)
Equity portion of convertible note	-	-	-	77,384	77,384
– foreign currency translation reserve	-	(2,107)	-	-	(2,107)
Sub-total	5,148,577	(6,642,498)	220,130	77,384	(1,196,407)
Balance at 30 June 2006	24,685,152	(24,709,362)	549,474	77,384	602,648

Cash Flow Statement

For the Year Ended 30 June 2007

	Note	Consolidated		Parent	
		2007 $	2006 $	2007 $	2006 $
Cash from operating activities:					
Receipts from customers and government grants		**829,711**	1,470	**-**	-
Payments to suppliers and employees		**(6,463,835)**	(6,625,221)	**(5,795,580)**	(6,451,814)
Dividends received		**397**	239	**-**	-
Interest received		**97,207**	103,522	**87,008**	87,992
Finance costs		**(39)**	(90,860)	**(9)**	(90,101)
Net cash used in operating activities	22	**(5,536,559)**	(6,610,850)	**(5,708,581)**	(6,453,923)
Cash flows from investing activities:					
Net movement of property, plant and equipment		**(157,283)**	(256,951)	**-**	-
Net cash used in investing activities		**(157,283)**	(256,951)	**-**	-
Cash flows from financing activities:					
Proceeds from issue of shares		**5,705,308**	5,427,485	**5,705,308**	5,427,485
Proceeds from borrowings		**-**	2,053,800	**-**	2,053,800
Repayment of borrowings		**-**	(26,690)	**-**	-
Payment of transaction costs		**(518,075)**	(278,907)	**(518,075)**	(278,907)
Net cash provided by financing activities		**5,187,233**	7,175,688	**5,187,233**	7,202,378
Net decrease in cash held		**(506,609)**	307,887	**(521,348)**	748,455
Cash and cash equivalents at beginning of financial year		**2,956,377**	2,648,490	**2,525,651**	1,777,196
Cash and cash equivalents at end of financial year		**2,449,768**	2,956,377	**2,004,303**	2,525,651

Notes to the Financial Statements

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 controlled entities, and Living Cell Technologies Limited as an individual parent entity. Living Cell Technologies Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Living Cell Technologies Limited and controlled entities, and Living Cell Technologies Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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.

(ii) Going Concern

The consolidated group has incurred a loss of $5,987,322 (2006: $6,819,611) for the year ended 30 June 2007. While the consolidated group has net assets of $1,401,328 (2006: $1,796,058) at 30 June 2007, there is a requirement for funds to be injected into the consolidated group within approximately 5 months from 30 June 2007 in order for the company to continue operating. Therefore, there is a significant uncertainty whether the company will continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

However, the Directors consider the going concern basis of preparation is appropriate because they are confident that the consolidated group will be able to secure sufficient investment funding to enable the consolidated group to continue to meet business objectives. In this regard, initiatives being taken include capital raising initiatives focused on raising additional share capital from accredited investors, predominantly existing shareholders, high net worth individuals and qualified professional investors. The consolidated group is working with interested parties in the United States, Australia and New Zealand (on a non-exclusive basis) to secure the required investment funding.

c] Principles of Consolidation

A list of controlled entities is contained in Note 23 to the financial statements. All controlled entities have a June financial year-end.

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.

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:

1 Statement of Significant Accounting Policies (continued)

d] Foreign Currency Transactions and Balances (continued)

- 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.

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 the 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:

Class of Fixed Asset	
Plant and Equipment	7.5% – 48%
Furniture, Fixtures and Fittings	9.5% – 50%
Motor Vehicles	26%
Office Equipment	18% – 80.4%
Leasehold Improvements	7.5 – 9.5%

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 carrying 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.

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.

r] Contributed equity

Issued and paid up 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.

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.

1 Statement of Significant Accounting Policies (continued)

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.

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

Since the end of the financial year certain new Accounting Standards have been published and certain Australian Accounting Standards have been amended. These new standards and amendments will be applicable for periods commencing 1 July 2007. The economic entity's assessment is that there will be no material impact of these new standards and amendments on the accounting policies currently applied.

The financial report was authorised for issue on 28th September 2007 by the Board of Directors.

2 Income

a] Revenue - Trading

	Consolidated		Parent	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Sale of goods	**755**	1,307	**-**	458
Services revenue	**17,456**	-	**-**	-
Total Revenue - Trading	**18,211**	1,307	**-**	458

b] Other revenue

	Consolidated		Parent	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Interest income	**97,207**	103,522	**87,008**	87,992
Dividend income	**397**	238	**-**	-
Donations	**26**	18	**-**	-
Other income	**81**	-	**-**	-
Government grants	**828,862**	186,962	**-**	-
Total Other Revenue	**926,573**	290,740	**87,008**	87,992

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	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2006: 30%)				
– economic entity	**(1,588,638)**	(2,025,811)	**-**	-
– parent entity	**-**	-	**(421,695)**	(383,812)
Tax effect of non-allowable & non-assessable items:				
– Deductible capital expenditure	**(38,939)**	(38,939)	**(38,939)**	(38,939)
– Unrealised foreign exchange gains	**(97,227)**	60,500	**(55,729)**	22,117
– Other items (net)	**9,588**	6,484	**1,035**	547
– Tax effect of temporary differences	**13,841**	6,247	**-**	-
– Deferred tax asset not brought to account	**1,701,375**	1,991,519	**515,328**	400,087
Income benefit attributable to entity	**-**	-	**-**	-

4 Earnings per share

	Consolidated	
	2007 $	**2006 $**
Earnings used in calculation of basic and diluted EPS	**(5,987,322)**	(6,819,611)
Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS	**133,326,103**	108,783,974

5 Trade and Other Receivables

	Consolidated		Parent	
	2007 $	**2006 $**	**2007 $**	**2006 $**
CURRENT				
Trade receivables	**1,375**	1,247	**-**	-
Other receivables	**31,419**	30	**19,345**	4,885
Total Current Trade & Other Receivables	**32,794**	1,277	**19,345**	4,885
NON-CURRENT				
Amounts receivable from:				
– wholly-owned entities	**-**	-	**19,019,896**	14,157,465
– provision for impairment of receivables from wholly-owned entities	**-**	-	**(19,019,896)**	(14,157,465)
Total Non Current Trade & Other Receivables	**-**	-	**-**	-

6 Inventories

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Stores at cost	**43,308**	32,488	**-**	-
Total Inventories	**43,308**	32,488	**-**	-

7 Other Assets

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Prepayments	**41,888**	12,430	**19,261**	-
Total Other Assets	**41,888**	12,430	**19,261**	-

8 Financial Assets

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
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	**-**	-	**-**	-

9 Property, Plant and Equipment

a] Detailed table

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
PLANT AND EQUIPMENT				
Plant and equipment				
At cost	**756,559**	660,976	**-**	-
Less accumulated depreciation	**(303,939)**	(178,583)	**-**	-
Total plant and equipment	**452,620**	482,393	**-**	-
Furniture, fixture and fittings				
At cost	**95,556**	76,328	**-**	-
Less accumulated depreciation	**(34,182)**	(19,041)	**-**	-
Total furniture, fixture and fittings	**61,374**	57,287	**-**	-
Motor vehicles				
At cost	**6,461**	5,810	**-**	-
Less accumulated depreciation	**(4,297)**	(3,180)	**-**	-
Total motor vehicles	**2,164**	2,630	**-**	-

9 Property, Plant and Equipment (continued)

a] Detailed table (continued)

	Consolidated		Parent	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Office equipment				
At cost	**168,533**	138,512	**-**	-
Less accumulated depreciation	**(117,600)**	(72,981)		
Total office equipment	**50,933**	65,531	**-**	-
Leasehold improvements				
At cost	**488,781**	439,456	**-**	-
Less accumulated amortisation	**(146,783)**	(97,936)	**-**	-
Total leasehold improvements	**341,998**	341,520	**-**	-
Total plant and equipment	**909,089**	949,361	**-**	-
Total property, plant and equipment	**909,089**	949,361	**-**	-

b] Movements in Carrying Amounts

Consolidated	**Plant and Equipment**	**Furniture, Fixtures and Fittings**	**Motor Vehicles**	**Office Equipment**	**Leasehold Improvements**	**Total**
Current Year						
Balance at the beginning of year	**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	**452,620**	**61,374**	**2,164**	**50,933**	**341,998**	**909,089**
Prior Year						
Balance at the beginning of year	361,031	62,469	3,998	68,883	386,006	882,387
Additions	237,776	11,980	-	42,793	32,799	325,348
Disposals	-	-	-	(3,559)	-	(3,559)
Depreciation expense	(98,359)	(11,264)	(1,013)	(39,987)	(37,720)	(188,343)
Foreign exchange movements	(18,055)	(5,898)	(355)	(2,599)	(39,565)	(66,472)
Balance at 30 June 2006	482,393	57,287	2,630	65,531	341,520	949,361

10 Biological Assets

a] Value of asset

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Animals – Pig herd at cost	**340,600**	306,229	**-**	-
Total Biological Assets	**340,600**	306,229	**-**	-

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	
	2007 $	2006 $	2007 $	2006 $
Deferred tax asset				
Tax losses	**6,139,435**	4,235,023	**1,261,841**	746,512
Total deferred tax asset	**6,139,435**	4,235,023	**1,261,841**	746,512

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

12 Trade and Other Payables

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Unsecured				
Trade payables	**365,288**	438,367	**182,969**	113,718
Accrued employee entitlements	**42,996**	73,161	**-**	-
Other payables	**441**	1,225	**-**	929
Total Trade and Other Payables	**408,725**	512,753	**182,969**	114,647

13 Financial Liabilities

	Note	Consolidated		Parent	
		2007 $	2006 $	2007 $	2006 $
Unsecured					
Convertible Note – current	14	**1,877,982**	1,887,418	**1,877,982**	1,887,418
Total Financial Liabilities		**1,877,982**	1,887,418	**1,877,982**	1,887,418

14 Convertible Notes

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Balance at the beginning of the year	**1,887,418**	-	**1,887,418**	-
Proceeds from issue of convertible notes	**-**	2,053,800	**-**	2,053,800
Transactions costs	**-**	(88,998)	**-**	(88,998)
Net proceeds	**1,887,418**	1,964,802	**1,887,418**	1,964,802
Amount classified as equity	**-**	(77,384)	**-**	(77,384)
Accrued interest	**294,637**	-	**294,637**	-
Foreign exchange gain – unrealised	**(304,073)**	-	**(304,073)**	-
Carrying amount at year end	**1,877,982**	1,887,418	**1,877,982**	1,887,418

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 have an interest rate of 12% per annum, and are due to mature on or after 30 November 2007, with the note holders having the option to convert to ordinary shares at $0.175 per share.

The company can convert the Convertible Note if on or before the maturity date the company issues ordinary shares in a single offering of not less than $12,000,000 USD at a share price of at least the conversion price of the convertible notes ($0.175 per share).

The amount of the convertible notes recognised in equity is net of attributable transaction costs of $3,505.

15 Provisions

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
CURRENT				
Employee benefits	**129,411**	61,935	-	-
Total Provisions	**129,411**	61,935	-	-

15 Provisions (continued)

Consolidated Movement in Provisions

	Employee entitlements $	Total $
Opening balance at 1 July 2006	**61,935**	**61,935**
Additional provisions	**67,476**	**67,476**
Balance at 30 June 2007	**129,411**	**129,411**

16 Capital and Leasing Commitments

Operating Lease Commitments

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

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Payable – minimum lease payments				
– not later than 12 months	**210,985**	182,681	**-**	-
– between 12 months and 5 years	**556,715**	569,640	**-**	-
– greater than 5 years	**276,972**	332,029	**-**	-
Total Operating Lease Commitments	**1,044,672**	1,084,350	**-**	-

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

The lease of 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 monthly in advance. Contingent rental provisions require the minimum lease payments shall be reviewed every 2 years.

The animal laboratory lease is a non-cancellable lease with a 6 year lease term with 2½ 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 shall be reviewed every 2 years.

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

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 shall be reviewed every 2 years.

17 Issued Capital

a] Issued and paid up capital

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Ordinary shares fully paid	**29,872,385**	24,685,152	**29,872,385**	24,685,152
Total Issued Capital	**29,872,385**	24,685,152	**29,872,385**	24,685,152

17 Issued Capital (continued)

b] Authorised Capital

The authorised share capital of the company is 152,846,910 shares (2006: 118,639,933) 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.

c] Movements in shares on issue

	2007 Number of Shares	2006 $	2007 Number of Shares	2006 $
Ordinary Shares				
Beginning of the financial year	118,639,933	24,685,152	92,840,681	19,536,574
Issued during the year				
– private share issues	22,756,053	3,868,811	25,162,455	5,281,225
– contractors fees	136,920	20,538	636,797	146,261
– share purchase plan	11,214,004	1,962,450	-	-
– options exercised	100,000	21,000	-	-
Transaction costs in capital raising	-	(685,566)	-	(278,908)
Total	**152,846,910**	**29,872,385**	**118,639,933**	**24,685,152**

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 $0.065 (2006: $0.136).

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

	2007	2006
Expected share volatility (%)	65.57	65.57
Risk free interest rate (%)	6.45	5.70
Weighted average expected life of the option (years)	4.28	3.48
Weighted average option price ($)	0.26	0.26
Weighted average share price at grant date ($)	0.14	0.25

18 Share Capital and Reserves

a] Total equity

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Share capital				
Share capital – Ordinary	**29,872,385**	24,685,152	**29,872,385**	24,685,152
Total share capital	**29,872,385**	24,685,152	**29,872,385**	24,685,152
Reserves				
Foreign currency translation reserve	**(16,611)**	27,389	**-**	-
Convertible instruments reserve	**77,384**	77,384	**77,384**	77,384
Option reserve	**1,009,631**	549,474	**1,009,632**	549,474
Total reserves	**1,070,404**	654,247	**1,087,016**	626,858
Accumulated losses				
Opening balance	**(23,543,341)**	(16,730,365)	**(24,709,363)**	(18,066,864)
Foreign currency translation reserve	**(10,798)**	6,635	**-**	(2,107)
Net loss for the period	**(5,987,322)**	(6,819,611)	**(6,268,080)**	(6,640,391)
Total accumulated losses	**(29,541,461)**	(23,543,341)	**(30,977,443)**	(24,709,362)
Total Equity	**1,401,328**	1,796,058	**(18,042)**	602,648

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 Instruments Reserve

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

19 Currency Translation Rates

a] Detailed table

	Currency	2007 AUD	2006 AUD
Year end rates used for the consolidated balance sheets, to translate the following currencies into Australian dollars (AUD), are:			
	USD	**1.18**	1.37
	NZD	**0.91**	0.82
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	**1.27**	1.34
	NZD	**0.87**	0.90

20 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
David Collinson	Director (was CEO until 24 January 2007)
Paul Tan	Executive Director (appointed 23 February 2007) CEO (from 24 January 2007)
Robert Elliott	Medical Director
Alfred Vasconcellos	Executive Director (until 27 June 2007) CEO LCT BioPharma (until 31 January 2007)
Executives	
Richard Justice	Chief Financial Officer
Dwaine Emerich	VP of Research & Chief Scientific Officer (until 31 January 2007)
Paris Brooke	General Manager, LCT Australia
Chris Thanos	Director of Research LCT BioPharma Inc (until 31 January 2007)

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

b] Options and Rights Holdings

Number of Options Held by Directors & Key Management Personnel

	Balance 01/07/2006	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2007	Total Exercisable	Total Unexercisable
Directors							
Simon O'Loughlin	150,000	800,000	-	-	950,000	150,000	800,000
Paul Tan	300,000	500,000	-	-	800,000	300,000	500,000
David Collinson	2,123,300	350,000	-	-	2,473,300	2,473,300	-
Robert Elliott	2,123,300	350,000	(100,000)	-	2,373,300	2,373,300	-
Laurie Hunter	-	400,000	-	-	400,000	-	400,000
Charles Macek	-	400,000	-	-	400,000	400,000	-
Specified Executives							
Richard Justice	325,000	800,000	-	-	1,125,000	325,000	800,000
Paris Brooke	-	250,000	-	-	250,000	100,000	150,000
Dwaine Emerich	50,000	-	-	-	50,000	-	50,000
Chris Thanos	80,000	-	-	-	80,000	-	80,000
Total	**5,151,600**	**3,850,000**	**(100,000)**	**-**	**8,901,600**	**6,121,600**	**2,780,000**

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.

20 Key Management Personnel Compensation (continued)

c] Shareholdings

Number of Shares held by Directors & Key Management Personnel

	Balance 01/07/2006	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/2007
Directors					
Simon O'Loughlin	210,000	-	-	118,571	328,571
Paul Tan	120,000	-	-	28,571	148,571
David Collinson	9,863,142	-	-	214,341	10,077,483
Robert Elliott	1,965,638	-	100,000	136,571	2,202,209
Laurie Hunter	-	-	-	634,956	634,956
Charles Macek	300,000	-	-	28,571	328,571
Specified Executives					
Richard Justice	-	-	-	93,571	93,571
Dwaine Emerich	75,019	-	-	(75,019)	-
Total	12,533,799	-	100,000	1,180,133	13,813,932

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

21 Auditors' Remuneration

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Remuneration of PKF Sydney:				
– Auditing or reviewing the consolidated financial report & Australian based subsidiaries	**81,042**	64,973	**81,042**	64,973
Remuneration of Ross Melville PKF, Auckland:				
– Auditing New Zealand based subsidiaries	**12,690**	9,575	**-**	-
Total	**93,732**	74,548	**81,042**	64,973

22 Cash Flow Information

Reconciliation of Cash Flow from Operations with Loss after Income Tax

	Consolidated		Parent	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Net loss for the period	**(5,987,322)**	(6,819,611)	**(6,268,080)**	(6,640,391)
Non-cash flows in loss:				
Depreciation	**197,556**	188,344	**-**	-
Interest	**294,637**	-	**294,637**	-
Net gain on disposal of property, plant and equipment	**-**	1,633	**-**	-
Net foreign currency (gains) / losses	**(309,012)**	221,894	**(185,765)**	73,272
Share options expensed	**460,157**	220,130	**460,157**	220,130
Convertible note costs	**-**	(88,998)	**-**	(88,998)
Changes in assets and liabilities:				
(Increase)/decrease in trade and term receivables	**(31,517)**	41,587	**(14,460)**	42,213
(Increase)/decrease in prepayments	**(29,458)**	(2,264)	**(19,260)**	61
(Increase)/decrease in inventories	**(10,820)**	(16,180)	**-**	-
Increase/(decrease) in trade payables and accruals	**(188,256)**	(404,075)	**24,190**	(60,210)
Increase/(decrease) in provisions	**9,344**	19,825	**-**	-
Increase/(decrease) in employee entitlements	**58,132**	26,865	**-**	-
Cash flow from operations	**(5,536,559)**	(6,610,850)	**(5,708,581)**	(6,453,923)

23 Controlled Entities

Name	**Country of incorporation**	**Percentage Owned 2007**	**Percentage Owned 2006**
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

24 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.

25 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		Eliminations		Consolidated	
	2007 $	2006 $	2007	2006	2007	2006	2007	2006	2007	2006
Revenue	**3,402,779**	2,739,320	**1,680,669**	1,907,150	**89,720**	433,880	**(4,228,384)**	(4,788,303)	**944,784**	292,047
Assets	**1,522,482**	1,036,858	**114,482**	212,429	**2,180,483**	3,008,876	**-**	**-**	**3,817,447**	4,258,163

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.

26 Financial Instruments

a] Interest Rate Risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Maturing within 1 Year		Maturing 1 to 5 Years		Non-interest Bearing		Total	
	2007 %	2006 %	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
Financial Assets:												
Cash & cash equivalents	**5.50**	5.15	**2,449,768**	2,956,379	**-**	-	-	-	**-**	-	**2,449,768**	2,956,379
Receivables	**-**	-	**-**	-	**-**	-	-	-	**32,794**	1,277	**32,794**	1,277
Total Financial Assets			**2,449,768**	2,956,379	**-**	-	-	-	**32,794**	1,277	**2,482,562**	2,957,656
Financial Liabilities:												
Convertible Notes	**12.00**	12.00	**-**	-	**1,877,982**	-	-	1,887,418	**-**	-	**1,877,982**	1,887,418
Trade & sundry payables	**-**	-	**-**	-	-	-	-	-	**408,725**	512,753	**408,725**	512,753
Total Financial Liabilities			**-**	-	**1,877,982**	-	-	1,887,418	**408,725**	512,753	**2,286,707**	2,400,171

b] Net fair values

The net fair values of financial assets and liabilities approximate their carrying value.

c] Financial Risk Management

The consolidated group's activities expose it to a variety of financial risks; currency risk, credit risk and liquidity risk. The consolidated group manages these risks by having in place risk management programs aimed at ensuring the company conducts its operations in a manner that allows risks to be identified, assessed and appropriately managed. The consolidated group has no hedging arrangements in place to minimise the effects of currency fluctuations.

Foreign currency risk

The consolidated group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the consolidated group's measurement currency.

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.

26 Financial Instruments (continued)

c] Financial Risk Management (continued)

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 provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group.

27 Company Details

Registered office

The registered office of the company is:

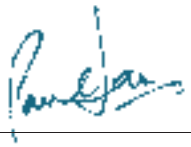
Living Cell Technologies Limited
Level 5, NAB House
255 George Street
Sydney NSW 2001

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 28–64, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and the economic entity;
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Director

Dated 28th September 2007

Independent Audit Report

PKF
Chartered Accountants
& Business Advisers

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LIVING CELL TECHNOLOGIES LIMITED

Report on the Financial Report and AASB 124 remuneration disclosures contained in the directors' report.

We have audited the accompanying financial report of Living Cell Technologies Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the company and 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.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about remuneration of directors and executives ('remuneration disclosures') required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 8 to 13 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the directors' 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 control 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.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

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. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

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 and the remuneration disclosures included in the directors' 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

and the remuneration disclosures included in the directors' 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 and the remuneration disclosures in the directors' report.

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

Independence

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

Auditor's opinion on the financial report

In our opinion, the financial report of Living Cell Technologies Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in pages 8 to 13 of the directors' report comply with Accounting Standard AASB 124.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 b (ii) in the financial report which indicates that the group incurred a net loss of $ 5,987,322 (2006 - $6,819,611) for the year ended 30 June 2007. This condition, along with other matters as set forth in Note 1 b (ii), indicate the existence of a material uncertainty which may cast significant doubt about the company's and group's ability to continue as a going concern and therefore, whether they will be able to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

No adjustments have been made relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary if the company and group do not continue as a going concern.

PKF

Arthur Milner
Partner
Dated 28 September 2007
Sydney

Additional ASX Information

The shareholder information set out below was applicable as at 31 August 2007.

1. Distribution of Shareholders

Analysis of number of shareholders by size of holding.

Category of holding	Number	Number of Shares
1–1,000	86	24,805
1,001–5,000	223	680,881
5,001–10,000	178	1,524,303
10,001–100,000	678	26,921,136
100,001–shares and over	181	123,695,785
Total	1,346	152,846,910

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	17,350,204	11.35
K One W One Limited	7,951,006	5.20
HSBC Custody Nominees (Australia) Limited	7,847,313	5.13
Mr Graham Collinson & Mr David Collinson	5,259,578	3.44
Foundation Services Ltd	4,977,626	3.26
Hugh Green Investments Limited	3,769,850	2.47
Mr Michael Bushell	3,247,087	2.12
Citicorp Nominees Pty Ltd	3,203,163	2.10
Merrill Lynch (Australia) Nominees Pty Ltd	2,921,479	1.91
David Allen Collinson & Graeme Louis Collinson	2,647,675	1.73
UBS Nominees Pty Ltd	2,000,000	1.31
Mr Robert Bartlett Elliott	1,750,538	1.15
Mr David Alan Collinson & Mr Graeme Louis Collinson	1,688,480	1.10
I E Properties Pty Limited	1,615,230	1.06
Suvale Nominees Pty Ltd	1,500,000	0.98
Nutsville Pty Ltd	1,467,471	0.96
Ashabia Pty Ltd	1,300,100	0.85
Midway Securities Pty Ltd	1,187,500	0.78
Mambat Pty Ltd	1,110,416	0.73
Symington Pty Ltd	1,050,000	0.69
Total	**73,844,716**	**48.32**

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
ANZ Nominees Limited	17,350,204
K One W One Limited	7,951,006
HSBC Custody Nominees	7,847,313

4. Voting Rights

All ordinary shares carry one vote per share without restriction.

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