LCT
living cell technologies™

2011-2012 Annual Report


BECKMAN
COULTER
Cell Lab Quanta SC
Flow Cytometer

Contents

Building foundations

From the Chairman

On behalf of the board of directors of Living Cell Technologies (LCT), I am very pleased to report on what has been a transformative year for the company, one in which we not only achieved several significant milestones but also changed the underlying commercial dynamics of the organisation.

There has never been any doubt about the quality of LCT's research or its innovative capabilities. Your company has consistently demonstrated an ability to apply its technology platform of cell encapsulation and transplantation to provide novel treatment options for diseases with significant unmet clinical needs. The challenge has always been to continue to fund the ongoing development of those treatments and their commercialisation and to maximise their value.

This year we have put in place a secure financial foundation for the company, one that will enable us to achieve commercial success with DIABECELL®, our treatment for type 1 diabetes. We have mitigated a number of the risks that inevitably accompany a research and development (R&D) business and have greatly expanded the base of talented people on whose expertise we can draw.

Our joint venture with Otsuka Pharmaceutical Factory, Inc. (OPF), Diatranz Otsuka Limited (DOL), secures a funded path to commercialisation for DIABECELL. We bring intellectual property to the venture, including patents and know-how, as well as the herd of Auckland Island pigs. OPF has contributed AUD25 million in funding and will also bring invaluable experience and innovative ideas to both develop and market DIABECELL worldwide. The joint venture will contract R&D, manufacturing and administrative services from LCT to further refine the product, complete the clinical trials in New Zealand and Argentina, obtain product registration and bring DIABECELL to market. In addition, it will build further pig and manufacturing facilities when necessary to ensure commercial supply.

I am happy to report that we have also identified a second therapeutic candidate, NTCELL®, as having excellent potential for treating Parkinson's disease, as well as other neurodegenerative diseases such as Huntington's disease. We have subsequently initiated a clinical trial programme, under the direction of an internationally-recognised authority, and, despite a difficult climate, have raised sufficient new capital to undertake that project.

We have strengthened the board with the appointment of Dr Bernie Tuch. Dr Tuch is a senior scientist with CSIRO Australia, and is known globally as a leader in cell transplantation. He is also a director of Sydney Cell Therapy Foundation Pty Limited and a specialist practitioner in Endocrinology at the Prince of Wales Private Hospital.

We have also appointed a new Chief Executive Officer, Dr Andrea Grant. Dr Grant has more than 15 years of executive experience in the medical research and pharmaceutical fields in Europe, USA and New Zealand. She has a PhD in molecular neurobiology from University of Cambridge. We are excited to have her take a leadership role.

As part of a tightly-focused restructuring to position the company for commercialisation of the products in its pipeline, we have consolidated the roles of Medical Director and Head of Research and Development into a single position of Chief Science and Medical Officer (CSMO). This CSMO role is being filled, in an acting capacity, by Emeritus Professor Bob Elliott. Meanwhile, the company has commenced a global search to find a successor to Professor Elliott, so that he may focus his efforts on the governance of both LCT and DOL through his appointments on the board of these organisations.

LCT is fortunate to have many shareholders who chose to invest in and support us on the journey of bringing the breakthrough therapy DIABECELL to market because their lives, or the lives of someone close to them, have been touched by type 1 diabetes. Those same shareholders keep in contact with us regularly. Some express frustration at the time it is taking to bring this treatment to patients. At times we share this frustration. However, bringing a therapy as complex as this to market requires us to work carefully and diligently through well-established regulatory processes.

These regulations have been put in place to protect patients' safety and ensure that a product can deliver on its promise to improve their well-being. Whilst this does add to the development time frame, we are ethically and legally bound to follow this process. Recent analyses[1] of the development path for new drugs approved by the Food and Drug Administration (FDA) show that the average time required to take a product from the start of clinical testing to regulatory approval is 7.2 years. On average, endocrine products take 8.4 years. The first patient in the New Zealand Phase I/IIa trial was dosed on 6 October 2009. We are just under three years into our development journey and are planning to have completed all trials by the first quarter of 2015.

Our mission at LCT is to improve the well-being of people with long-term, serious diseases worldwide, by discovering, developing and commercialising breakthrough treatments that use the regenerative healing properties of naturally-occurring cells. We wake up every morning with the single focus of bringing DIABECELL to patients as our first such life-changing therapy, and then swiftly following this success with NTCELL as a treatment for Parkinson's disease.

On behalf of the board, I would like to thank our staff, our collaborators and our investors for their continuing support of LCT to achieve these goals.

Roy Austin
CHAIRMAN

1. Kaitin (2010). Deconstructing the drug development process: The new face of innovation, Clinical Pharmacology & Therapeutics, 87 (3): 356-361.

Expanding horizons
From the Chief Executive

LCT is a pioneer and recognised world leader in cell transplant therapeutics. We focus on debilitating, long-term diseases facing high unmet clinical needs. LCT treats them by transferring healthy functioning animal cells into humans, enabling damaged tissue to regenerate and assisting bodily functions that have been impaired by the disease.

Over the last 12 months, LCT has started its transformation into a market-oriented biotech company with multiple product pipelines, including a lead product that is partnered with a global pharmaceutical company and has a funded path to commercialisation.

This change is the result of a series of transformative events. Each, in its own right, represents an important advance. Taken together, they will have a significant effect on both the company's long-term strategy and its future prospects. This annual report reviews those events and reflects on their implications.

our mission

To improve the well-being of people with long-term, serious diseases worldwide, by discovering, developing and commercialising breakthrough treatments that use the regenerative healing properties of naturally-occurring cells.

Dr Andrea Grant

The first transformative change relates to funding for DIABECELL, a breakthrough treatment for people with unstable type 1 diabetes. This form of diabetes is usually treated with intensive insulin replacement therapy. However, a serious and potentially fatal complication associated with intensive insulin replacement therapy is unaware hypoglycaemia. Episodes of unaware hypoglycaemia occur when, without associated symptoms or warning, blood glucose levels drop suddenly.

These patients require significant time and resources from specialist healthcare professionals and have a poor prognosis: lower quality of life, more microvascular and pregnancy complications and a shortened life expectancy.

Treatment with DIABECELL involves transplanting pig pancreatic islet cells into a patient's abdomen to boost insulin production and help regulate blood glucose levels. The cells are encapsulated with IMMUPEL™ to prevent the immune system from

rejecting them as foreign. This proprietary system of encapsulation ensures the cells continue to survive and deliver their beneficial effect, without the patient requiring immunosuppressant medication.

A Phase I/IIa dose-finding study has been completed in New Zealand and another is under way in Argentina. By July 2012, all eight patients in this Argentinian Phase I/IIa trial had received two implants of DIABECELL three months apart. The principal focus of these trials has been to establish that DIABECELL is safe and to determine the optimal dose for achieving improvement in diabetes control. We have been successful in meeting both these goals.

After completion of these studies and the finalisation of appropriate clinical endpoints, a Phase III pivotal trial is planned, followed by registration and commercialisation in key markets.

We have secured funding for the final phases of clinical development of DIABECELL through a 50/50 partnership with OPF. Together, we have formed the joint-venture company Diatranz Otsuka Limited (DOL). OPF contributed AUD25 million to the venture; we transferred DIABECELL patents, trademarks, manufacturing and R&D facilities, as well as the special herd of pathogen-free pigs, altogether valued at AUD25 million. We also granted a royalty-free licence to DOL to use our encapsulation technology to treat diabetes.

In transferring those assets, we took care to retain an equitable share of the future value of DIABECELL, as LCT retains a 50% interest in the joint venture and consequently a 50% interest in any future profits.

Thanks to this agreement, the continuing development of DIABECELL will be self-sustaining for the foreseeable future. It ensures that we have sufficient funds to complete the clinical trials process and take DIABECELL to market. The partnership significantly reduces the uncertainties, risks and costs that we face in bringing our first therapeutic product to market.

In addition, LCT will receive ongoing service revenues at market rates for the supply, R&D, manufacture and administrative services to the joint venture in order to further develop and commercialise DIABECELL.

Finally, and most importantly, the agreement leaves us free to apply our expertise to develop new products. LCT retains 100% of the intellectual property relating to encapsulation. We also have a perpetual, exclusive licence to use any of the intellectual property in any disease area other than diabetes and we retain 100% of the downstream profits from all non-DIABECELL products. We are already well on our way to embarking on the clinical development of the first of these non-diabetes products, NTCELL for Parkinson's disease.

With a global pharmaceutical partner for DIABECELL that has substantial assets and expertise across the entire value chain, from R&D through to manufacturing and marketing, we can proceed with confidence in using cell transplant therapies to address serious diseases suffered by millions of people worldwide.

Dr Andrea Grant
CHIEF EXECUTIVE OFFICER

Highlights 2011–2012

20 July 2011

Leading Australian medical researcher Dr Bernie Tuch joins board.

22 August 2011

2 patients implanted with DIABECELL in Argentina.

Otsuka

19 October 2011

Otsuka commits $A25m to JV with LCT.

2 November 2011

Settlement of $A50m JV to commercialise DIABECELL.

- The DIABECELL partnership provides for a substantially funded route to market by 2017.

28 December 2011

Dr Andrea Grant appointed CEO.

1 February 2012

USA patent for Auckland Island pigs granted.

28 February 2012

Pre-clinical studies of NTCELL in Parkinson's completed.

- NTCELL provides new hope for Parkinson's disease with unprecedented results, Phase I development scheduled for early 2013
- Potential follow on indications include stroke and Huntington's

20 March 2012

Share purchase plan announced.

17 April 2012

Dr Barry Snow appointed to lead Parkinson's trial.

1 May 2012

Share Purchase Plan successful.

17 May 2012

Phase I/IIa DIABECELL trial extension approved in New Zealand.

28 June 2012

28th June, Final implant in Argentinian Phase I/IIa trial completed.

A life goal: to cure incurable disease

When I was 14, my father died of cancer. At that time I decided to become a medical doctor who could cure incurable diseases. I studied hard to enter a medical school and when there, I was impressed by dramatic change in quality of life that end-stage renal disease patients obtained from kidney transplantation. I became determined to become a transplant surgeon. After finishing my surgical training, I entered a graduate school for surgical research.

My main research project was on improving outcomes of pancreas transplantation for type 1 diabetic patients. I was able to trial my research with Professor David Sutherland at the University of Minnesota, and it was here that I also had the privilege of learning about islet cell transplantation.

I was mesmerised by the fact that cell transplantation alone could result in similar results to those of such a major surgical procedure as pancreas transplantation. I joined Dr Bernhard Hering at the University of Minnesota to research islet cell transplantation. This type of transplant procedure encountered significant issues, including the difficulty of islet isolation from the pancreas and there was no suitable method of immunosuppression. Dr Hering and I were able to optimise an islet isolation method by establishing what we called the Minnesota islet isolation method. This is still considered to be the best method and is currently used for the ongoing international Phase III clinical trials of allogeneic islet transplantation.

In 2002, I returned to Japan to establish islet transplantation in the clinic. We could not use brain-dead donors for such transplants in Japan; therefore, I decided to use non-heart-beating donors and living donors' pancreata. After meticulous research, we developed a Kyoto islet isolation method and successfully performed the first Japanese islet transplantation with a non-heart-beating donor. The patients achieved insulin-free and dramatically-improved quality of life. We went on to successfully perform the first living donor islet transplantation in the world.

Despite these positive outcomes, human islet transplantation still had many drawbacks; the low success rate of islet isolation and the side effects of immunosuppressive drugs were major issues. However, even with the best research in the world, the biggest issue of transplantation is the shortage of donor cells and this will never be resolved. I really wanted to initiate a pig islet transplantation project to overcome this issue of cell supply.

In 2005, I attended the international pancreas and islet transplantation congress and noted that Professor Elliott had undertaken substantial amounts of studies of pig islet transplantation, supported by clinical data. However, it was not until 2010 that I had an invaluable opportunity of discussing with Professor Elliott his pig islet transplantation programme. I asked many, many questions about his project and all his answers made sense to me. I decided to introduce the programme to OPF.

OPF President, Mr Ichiro Otsuka, instantly showed his interest and created a project team to scrutinise LCT's programme. I was so impressed that OPF decided to create a new venture company of Diatranz Otsuka Ltd (DOL), to promote the DIABECELL project within one year of my introduction. I then left Baylor University to work full-time at OPF. At that time I received an offer from the University of Maryland to be full-time Professor of Surgery there. However, the DIABECELL project held greater interest for me so I had no hesitation in selecting to work on the DIABECELL project.

After joining OPF, I have had the privilege of meeting many highly motivated people at both OPF and LCT. We have already made considerable progress in the development of the islet isolation method and its clinical outcomes. I have no doubt about the success of the DIABECELL project, which can overcome the issue of donor shortage and cure incurable disease.

Shinichi Matsumoto MD PhD
Senior Adviser, Research and Development Centre, Otsuka Pharmaceutical Factory Inc.
Chair of Scientific Advisory Board, Diatranz Otsuka Ltd

Forging new paths: DIABECELL in the clinic

DIABECELL, a breakthrough approach to treating type 1 diabetes, has now successfully completed a Phase I trial in Russia and a Phase I/IIa trial in New Zealand.

The principal focus of these trials has been to establish that DIABECELL is safe and to determine the optimal dose for attaining improvement in diabetes control. We have been successful in achieving both these goals.

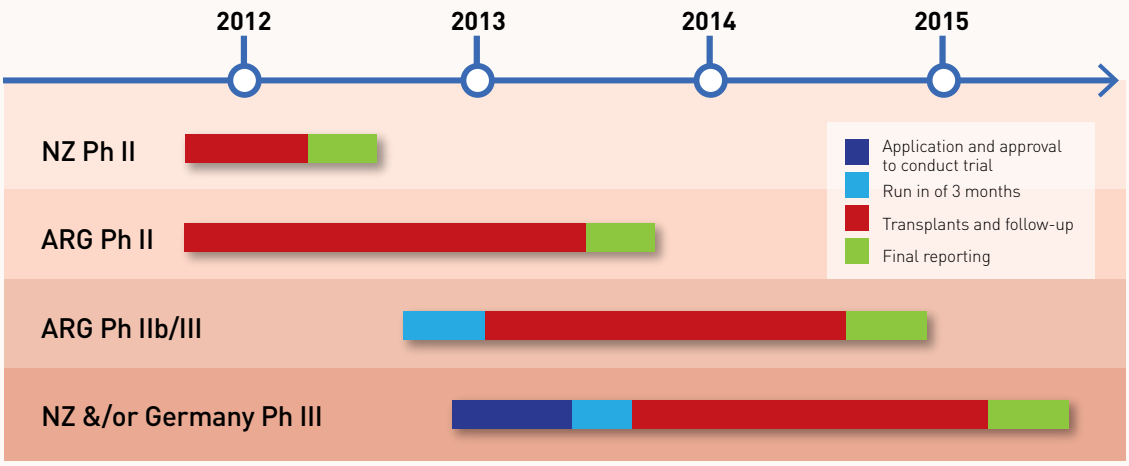
A subsequent Phase I/IIa trial is well under way in Argentina, and the data emerging from this trial gives us the confidence to proceed with planning for final, pivotal Phase III studies.

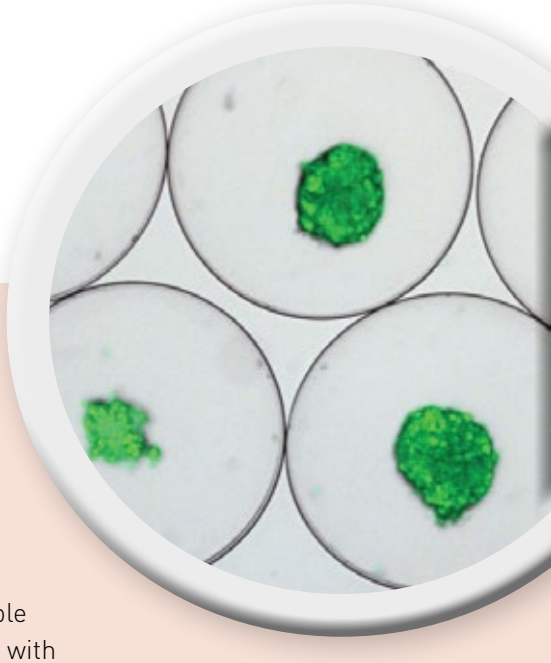
The priority in these Phase III studies is to firmly establish the clinical benefit that DIABECELL will provide to patients with type 1 diabetes. This benefit is defined in the 'primary endpoint' of the trial, which is comprised of the key measures that must be achieved to convince regulators, clinicians and, most importantly, patients that DIABECELL is a treatment worth taking.

Human islet transplantation provides a useful benchmark of what is clinically meaningful and in particular FDA guidelines[2] and a recent review[3] propose that both a significant reduction in HbA1c and a decrease in hypoglycaemic events at one-year post implantation are the key clinical goals of any treatment. Hence, we are designing our Phase III trials to demonstrate that DIABECELL is capable of achieving these outcomes as a minimum.

Figure 1 shows our expected time frames for completing the clinical development of DIABECELL.

Figure 1: Overview of current and future trials for DIABECELL





Our point of differentiation: no immunosuppression

Whilst comparisons to human islet transplantation are useful to guide our decision-making in designing our final, pivotal trials, it is clear that DIABECELL will offer substantially greater benefit to patients with type 1 diabetes as it will not require ongoing treatment with debilitating immunosuppressant medication. Because of this need for concurrent treatment with immunosuppressants, human islet transplants are reserved for only a select few patients, who have very serious disease. By not requiring the long-term administration of immunosuppressants, DIABECELL will be available to all type 1 diabetes patients who are experiencing unstable diabetes associated with poorly controlled HbA1c levels, as well as severe recurrent hypoglycaemia, sudden unaware hypoglycaemia or recurrent hypoglycaemia.

The table below summarises our principal goals for DIABECELL in terms of what we hope it will achieve clinically and, importantly, what this will mean for patients' quality of life.

DIABECELL: Expected clinical outcomes	
Indicated for	Patients with unstable T1 DM who experience poorly controlled HbA1c together with either serious recurrent hypoglycaemia or sudden unaware hypoglycaemia
Point of differentiation	DIABECELL is the first islet replacement therapy that does not require immunosuppression
Life benefit	DIABECELL has a significant impact on patients' quality of life, providing stability of glucose control and absence of hypoglycaemic episodes, which results in a feeling of independence and reliability, not experienced before the transplantation
Rationale	DIABECELL eliminates serious hypoglycaemic episodes, and results in improved HbA1c, through the provision of functioning pancreatic cells to patients with unaware, uncontrolled hypoglycaemia in type 1 diabetes and may reduce their requirement for insulin

2. Tiwari et al. (2012) Islet cell transplantation in type 1 diabetes: an analysis of efficacy outcomes and considerations for trial designs, American Journal of Transplantation; 12: 1898–1907.
3. Guidance for industry: considerations for allogeneic pancreatic islet cell products. (2009) US Department of Health and Human Services, Food and Drug Administration, Center for Biologics Evaluation and Research, www.fda.gov/BiologicsBloodVaccines/GuidanceComplianceRegulatoryInformation/default.htm.

New frontiers:
NTCELL in neurodegenerative disease

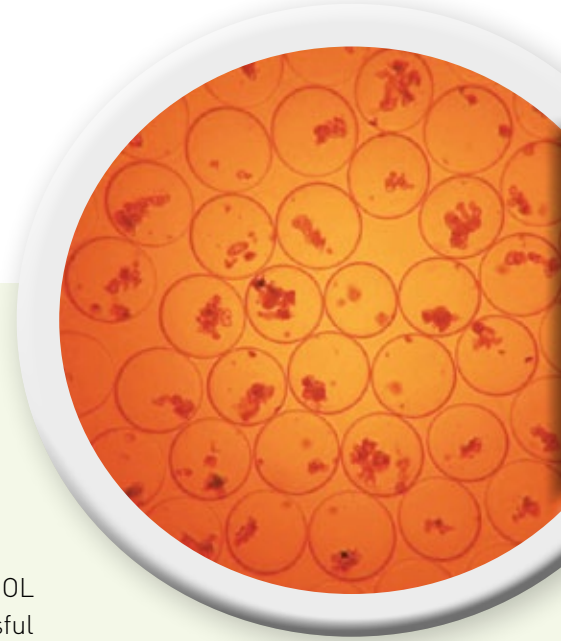
A second transformative event for LCT occurred this year when we received the results of pre-clinical studies of NTCELL as a treatment for Parkinson's disease.

NTCELL uses the same underlying technology and intellectual property platform that LCT has already successfully used to develop DIABECELL, but this time we are directing those capabilities to neurodegenerative diseases.

In the definitive pre-clinical trial, we induced a Parkinson's-like disorder in non-human primates and then implanted a single dose of NTCELL into the damaged dopaminergic region of their brain. The subjects implanted with NTCELL showed improvements in both motor and cognitive function compared to the controls. The improvements were sustained for at least six months (the end of the trial) (Figure 2). Microscopic analysis clearly showed an increase in the number of dopamine-producing neurons in the NTCELL subjects compared to the controls. There was no evidence of inflammation or any other adverse event (Figure 3).

In April 2012, internationally-recognised clinician and researcher in Parkinson's disease Dr Barry Snow agreed to act as the Principal Investigator for the Phase I clinical trial of NTCELL for Parkinson's. An application to commence the Phase I trial in New Zealand was made to the New Zealand medicines regulator Medsafe in March 2012, and subject to achieving this approval, we are aiming to commence the trials in the first quarter of 2013.

To fund the trials of NTCELL in Parkinson's disease we launched a Share Purchase Plan, which raised over AUD1 million.



NTCELL represents a new frontier for LCT, one where we have applied our expertise in cell encapsulation and transplantation to treat an entirely different class of diseases. It is based on the same technology and intellectual property platform that LCT has already applied in developing DIABECELL. Currently, NTCELL as a treatment for Parkinson's and other neurodegenerative diseases like Huntington's sit outside the scope of the DOL agreement and as such the downstream benefits of a commercially successful product sits entirely in LCT.

Figure 2: NTCELL in non-human primates (MPTP induced model)

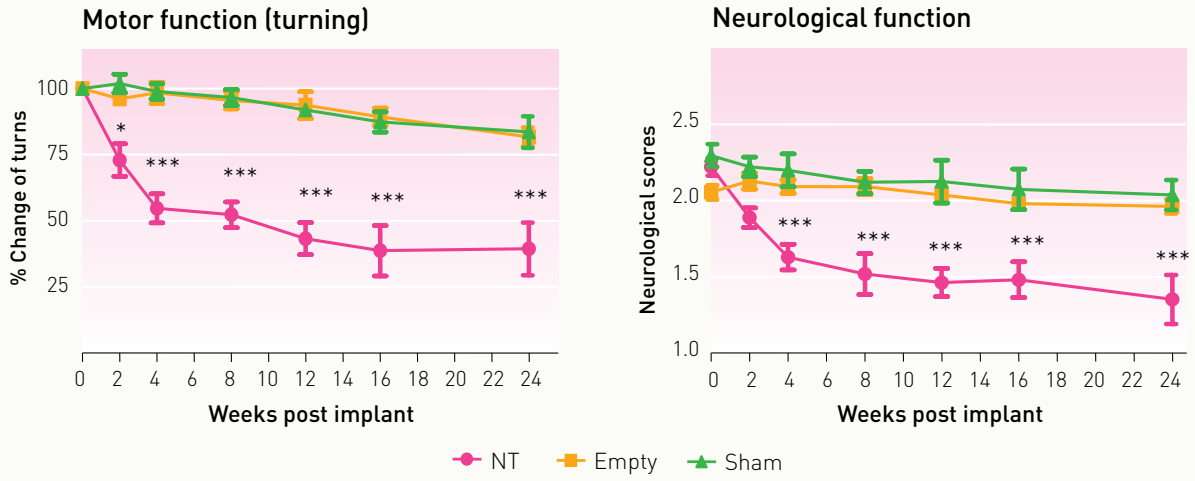
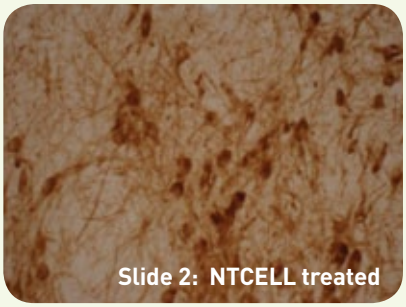


Figure 3: NTCELL in non-human primate histology (MPTP induced model) Increased number of dopamine producing neurons in the NTCELL-treated brains



Patient stories: changing lives

Living with uncontrolled hypoglycaemia

There are over 7 million people living with type 1 diabetes in the world today and it is estimated that up to 1.6 million of these experience unstable glucose control and frequent episodes of unaware hypoglycaemia. A great number of these patients do not respond to intensive insulin treatment and their episodes dramatically limit their independence and reduce their quality of life.

Peter is a candidate for treatment with DIABECELL as part of the clinical trials in New Zealand and has kindly provided us with a patient's perspective on what it is like to live with unaware hypoglycaemia.

Peter describes himself as a brittle diabetic and has developed unaware hypoglycaemia over time.

It's a complication of diabetes in which he is unaware that his blood sugar has dropped steeply, because the decrease fails to trigger epinephrine secretion. This secretion generates symptoms, such as palpitations, sweating and anxiety, which ordinarily warn patients that their glucose levels are low. When patients are aware of these symptoms they can take action to reverse the hypoglycaemia. But, in Peter's case, if he's not aware, his blood sugar levels can fall to the point where he's not able to respond quickly enough.

"I still have some awareness," Peter says, "but it's limited. Sometimes, by the time I become aware that I'm getting low, I eat something. But sometimes it's too little too late, so I go into insulin shock and can end up unconscious.

"I find myself waking up somewhere and realise that I've been unconscious. Often there's someone around to help me, but not always, so I have to be careful.

"I've lived with it for 40 years and have had many unconscious episodes. It often happens when I'm physically exerting myself or under stress at work. I find myself eating to counter the effects of the hypoglycaemia while under pressure to keep working.

"When I'm home alone I try to keep stress down so my insulin doesn't have to work too hard. If I am going to undertake a high-risk activity I generally take less insulin and consume more food, which is often at the cost of sending my blood sugars high.

"When I go out I go prepared for the activity I'm planning. I can't just walk out the door. I have to ask: how long will I be away? Will I get food? Do I need to take my meds with me? I have to be organised.

"Having my condition isn't ideal, so I just have to be seriously careful."

Living with Parkinson's disease

Parkinson's disease affects more than 5 million people worldwide. The most obvious symptoms are movement disorders such as tremor. Other less well known symptoms include depression, anxiety, and sleep disorder. Current treatments are only useful in managing symptoms in the early stages of the disease. There is a high, unmet need for treatments such as NTCELL which hold the promise of arresting the progression of the disease and improving both the quality and longevity of life for patients and their families.

Joan's husband Dan was diagnosed with Parkinson's when he was 35. It was their son's second birthday and Joan was pregnant with their second child, now three.

"Dan knew that something was wrong, but it was a big shock to me," she says.

At diagnosis the couple were told that changes were likely to be gradual. But within 18 months their lives had radically changed. The disease affects Dan's balance, mobility, motor skills and reaction times. Everyday activities now take effort and concentration, leaving him exhausted.

Dan couldn't manage the stairs while caring for their very young children so they moved to a single-storey home with good schools within walking distance and high-quality medical services close by.

"Our priority is family life," says Joan, "but it's difficult for Dan to care for the kids on his own and do things like change their clothes. It limits what we can do as a family."

Dan can still drive safely and will drive himself, but Joan drives when they go out as a family. That's because Dan has to concentrate single-mindedly on the task and having two young kids in the car can be distracting.

Dan gave up work two years after diagnosis. He uses a walking stick and they have installed shower seats – all things you think you won't have to do until old age. He also wears a medic alert bracelet and carries cards that say "I'm not drunk, I have Parkinson's."

The disease changes life in the most fundamental ways. "It impacts on what we cook and eat, because now Dan can't manage meat, spaghetti or soup."

All the kids' shoes have Velcro because Dan can't tie laces. He has also had to change his own wardrobe: no laces, belts or buttons.

The couple have to plan their activities to allow Dan time to sleep during the day. "People with Parkinson's suffer from fatigue and their sleeping patterns are disturbed," says Joan. "If he misses that sleep he'll suffer for a couple of days afterwards.

"People outside the family say how well Dan's looking and enjoy a good conversation with him. But they don't realise that he's concentrating hard and that, at the end of it, he's exhausted," says Joan.

"The healthcare system has been excellent. Barry Snow is just amazing. We have great support. But sometimes it's hard not to worry about the future."

Directors' report

For the year ended 30 June 2012

The board of directors of Living Cell Technologies Limited has pleasure in presenting its report on the consolidated entity (referred to hereafter as 'LCT' or 'the company') for the year ended 30 June 2012.

1. General information

A. Directors

The names and details of the company's directors in office during the financial year and until the date of this report are as follows (directors were in office for the entire period unless otherwise stated):

Names	Position	Appointed/ Resigned
Roy Austin	Chairman	
Susanne Clay	Alternate Director for Professor Elliott	Resigned 12 July 2011
Robert Elliott	Chief Science and Medical Officer	
Laurie Hunter	Independent Director	
Bernard Tuch	Independent Director	Appointed 19 July 2011
Robert Willcocks	Independent Director	

B. Principal activities and significant changes in nature of activities

The principal activities of the consolidated entity during the financial year were:

- Creating live cell-based products to treat life-threatening human diseases. LCT's encapsulation technology enables healthy living cells of animals to be implanted into humans who have deficient cells or organs. LCT's products do not require the use of immunosuppression to prevent rejection due to the proprietary encapsulation technology used with the cells.
- Developing NTCELL®, a suite of products for neurological disorders, which are at various stages of pre-clinical development and discovery. A primate study with NTCELL for Parkinson's disease has been carried out with very promising behavioural and histology results. The company is planning to start a clinical trial of this exciting product range in 2013.
- On 1 November 2011 LCT sold DIABECELL®, a treatment for type 1 diabetes to regulate blood glucose levels and avoid long-term complications created by the disease, to a 50%-owned company, Diatranz Otsuka Limited (DOL). This sale included the specialised pig-breeding facilities that enable the use of pig cells and tissues for human medicinal purposes. The company provides R&D and administrative services to DOL and has an agreement for DOL to provide pig cells and facilities to LCT for use in fields other than diabetes.
- There have been no other significant changes in the nature of the consolidated entity's principal activities during the year.

2. Director information

A. Director profiles

Roy Austin

Independent Director and Chairman (Age: 64)
Qualifications: BCom, CA

Experience and expertise

Mr Austin is a consultant to investment banking firm Northington Partners in New Zealand. He brings considerable commercial depth to the LCT board with over 25 years' investment transaction experience across multiple sectors including healthcare and biotechnology. His experience includes capital raising, mergers and acquisitions, intellectual property (IP) commercialisation, venture capital and international business development.

Mr Austin is Chairman of New Zealand-based Cure Kids, a child health research charitable trust, and its commercial biotech venture capital fund Cure Kids Ventures Limited. He holds a number of other directorships in private companies and is a member of the New Zealand Institute of Directors and the New Zealand Institute of Chartered Accountants.

Special responsibilities

Mr Austin was elected Chairman on 20 July 2011. He is the Chair of the Remuneration and Nomination committee and a member of the Audit Risk and Compliance committee. Mr Austin is a member of the Diatranz Otsuka Limited board of directors. He was appointed to the LCT board on 25 February 2011.

Emeritus Professor Robert Elliott

Chief Science and Medical Officer, (Age: 78)
Qualifications: MBBS, MD, FRACP

Experience and expertise

Professor Elliott trained as a paediatrician at The University of Adelaide. He moved to New Zealand in 1970 to become the Foundation Professor, Director of Paediatrics at The University of Auckland. Professor Elliott co-founded LCT. He is an Emeritus Professor of Child Health Research and a world leader in diabetes and autoimmune-related research. In 1999 he was awarded a Companion of the New Zealand Order of Merit (CNZM) for

services to the community. In 2011 he was awarded the prestigious World Class New Zealander (Life Sciences) award.

Professor Elliott is on the board of Cure Kids, Wings Trust (a New Zealand trust for the treatment of alcohol and substance abuse) and patron of The Cystic Fibrosis (CF) Association of New Zealand. He is a director of Breathe Easy Limited, a New Zealand company that is developing a new treatment for cystic fibrosis.

Special responsibilities

Professor Elliott was Acting CEO until Dr Grant commenced on 16 January 2012. Since LCT's restructure he has been the company's Chief Science and Medical Officer. He is Chairman of the Diatranz Otsuka Limited board of Directors. He was appointed to the LCT board on 15 January 2004.

Laurie Hunter

Independent director (Age: 65)
Qualifications: MA (Hons)

Experience and expertise

Mr Hunter has over 40 years' experience as a stockbroker, investment banker and corporate investor in London, Paris and San Francisco. He was a member of The Stock Exchange, London, a partner at L. Messel and Co., London, a director of Shearson Lehman Hutton and founder of Hunter Capital. His recent focus has been on investing and providing strategic advice to developing companies.

Mr Hunter currently serves on a number of boards including Madagascar Oil Limited where he is Chairman and CEO.

Special responsibilities

Mr Hunter is a member of the Audit Risk and Compliance Committee and the Remuneration and Nomination Committee. He was appointed to the board on 25 August 2006.

Dr Bernard Tuch

Independent director (Age: 61)
Qualifications: BSc, MBBS (Hons), FRACP, PhD, GAICD

Experience and expertise

Dr Tuch is currently employed as a senior scientist with CSIRO Australia in a cell transplantation project, and is Adjunct Professor at Monash University. He was previously a professor at the University of New South Wales, where he carried out extensive research in islet xenotransplantation over many decades. He is a director of Sydney Cell Therapy Foundation Pty Limited and is a specialist practitioner, Endocrinology, Prince of Wales Private Hospital, Sydney.

His experience includes capital raising to support his considerable research team and a large international scientific publication list. He has had previous scientific collaborations with LCT and knows the company's direction intimately.

Special responsibilities

Dr Tuch is a member of the Remuneration and Nomination Committee. He was appointed to the board on 20 July 2011.

Robert Willcocks

Independent director (Age: 63)
Qualifications: BA, LLM

Experience and expertise

Robert Willcocks is a senior executive with an extensive legal and business background working in particular with Australian listed public companies. He has Bachelor of Arts and Bachelor of Laws degrees from the Australian National University and a Master of Laws degree from the University of Sydney. Mr Willcocks was a partner with the law firm Stephen Jaques & Stephen (now King & Wood Mallesons) from 1980 until 1994, where he was a member of the Corporate Advisory Group with an emphasis on the mining and oil and gas sectors. As corporate adviser he has undertaken assignments in a range of industry sectors. Mr Willcocks has been a director and chairman of a number of Australian Securities Exchange (ASX) listed public companies. He is a director of ASX-listed ARC Exploration Limited, and Hong Kong Stock Exchange-listed APAC Resources Ltd. He is also chairman and director of Trilogy Funds Management Ltd, a Responsible Entity under Australian law.

Special responsibilities

Mr Willcocks is chairman of the Audit Risk and Compliance Committee and a member of the Remuneration and Nomination Committee. He was appointed to the board on 29 March 2011.

B. Company Secretary

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

Nick Geddes, FCA, FCIS

Mr Geddes is the principal of Australian Company Secretaries, a company secretarial practice that he formed in 1993. Nick is past president and past board chairman of Chartered Secretaries Australia and a former chairman of the NSW Council of that Institute. His previous experience, as a chartered accountant and company secretary, includes investment banking and development and venture capital in Europe, Africa, the Middle East and Asia. Qualifications: Chartered Accountant (Fellow of Institute of Chartered Accountants in England and Wales) and Fellow of the Institute of Chartered Secretaries (Chartered Secretaries Australia).

C. Meetings of directors

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

Directors' report

For the year ended 30 June 2012

	Directors' meetings		Audit, risk & Compliance Committee		Remuneration & Nomination Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
R Austin	10	10	3	3	3	3
S Clay	-	-	-	-	-	-
R Elliott	10	10	-	-	-	-
L Hunter	10	10	3	2	3	2
B Tuch	8	7	-	-	3	3
R Willcocks	10	8	3	2	3	3

3. Business review

A. Corporate structure

The companies within the consolidated entity make up a vertically integrated cell therapy business with its registered office in Australia, and wholly-owned subsidiaries in New Zealand, Russia and the United States. The parent entity is a public listed company (ASX: "LCT"; OTCQX: "LVCLY") incorporated and domiciled in Australia.

The consolidated entity has one main operating division:

The research, development, manufacturing and clinical division is located in Auckland, New Zealand. The facility includes good manufacturing practice (GMP) manufacturing and International Accreditation New Zealand (IANZ) accredited diagnostic laboratories, as well as access to separate designated pathogen-free pig-breeding facilities.

B. Review of operations

As a live 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.

LCT provides R&D, clinical trial and administration services to a 50%-owned joint venture company Diatranz Otsuka Limited (DOL) which is developing a treatment for type 1 diabetes to regulate blood glucose levels and avoid long-term complications created by the disease. These services are charged to DOL with a commercial mark-up. The company is also developing a suite of products for neurological disorders, which are at various stages of development and discovery.

The company has access to a GMP manufacturing unit for the production of cell-based therapeutics, as well as to an IANZ-accredited diagnostic laboratory for monitoring 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:

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

This financial year has been one of significant progress for LCT with the formation of the 50%-owned Diatranz Otsuka Limited with $25m of cash, promising results from clinical trials of DIABECELL in New Zealand and Argentina, and excellent results from the non-human primate studies with NTCELL.

C. Operating results

The profit of the consolidated entity for the financial year after providing for income tax and eliminating minority equity interests amounted to $5,676,000. This represented a turnaround on the loss reported for the year ended 30 June 2011 and is primarily due to the gain on sale of IP to Diatranz Otsuka Limited.

4. Financial review

A. Financial position

The net assets of the consolidated entity have increased by $7,593,000 from 30 June 2011 to $14,353,000 in 2012. The increase has largely resulted from the following factors:

- On 1 November 2011 LCT sold DIABECELL, a treatment for type 1 diabetes to regulate blood glucose levels and avoid long-term complications created by the disease, to a 50%-owned company Diatranz Otsuka Limited (DOL) for $25m. Pigs, pig-breeding facilities and manufacturing facilities were sold at tax book values. A gain of $11,182,527 was made on the sale of IP to DOL. The company has a services agreement to provide R&D, clinical trial and administrative services to DOL which provides a revenue stream. DOL has agreed to provide pig cells and facilities to LCT for use in fields other than diabetes. LCT has an exclusive, perpetual,

royalty-free licence to use IP associated with the pigs outside the diabetes field.

- The share purchase plan, which closed in May 2012, raised over $1m.

B. Liquidity and funding

As at 30 June 2012 the consolidated entity had $3,170,000 cash in the bank (2011: $4,505,000) which, based on anticipated levels of operational cash flow requirements, would allow the consolidated entity to fund current operations for more than one year.

During the new financial year, LCT plans to continue the development of NTCELL for Parkinson's disease and has applied to the New Zealand Ministry of Science and Innovation for a grant of over NZD1m. The company is also considering other funding opportunities.

The directors have prepared this report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

5. Remuneration report (audited)

This report details the nature and amount of remuneration for each key management person of the consolidated entity, and for the executives receiving the highest remuneration.

A. Remuneration policy

The remuneration policy of LCT has been designed to align key management personnel 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 entity's financial results. The board of LCT believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel and directors to run and manage the consolidated entity, and align the interests of directors, executives and shareholders.

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

- The remuneration policy is to be developed by the Remuneration and Nomination Committee and approved by the board after professional advice is sought from independent external consultants.
- Key management personnel receive a base salary (which is based on factors such as length of service, qualifications and experience), superannuation, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The Remuneration and Nomination Committee reviews key management personnel packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on achievement of goals established by the board. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria.
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. Shareholder wealth is linked to the performance of the company in meeting its objectives in developing live cell-based products to treat life-threatening human diseases and over the last 5 years the company has pursued this objective whilst maintaining its capital structure.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration and Nomination 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.

B. Employment details of members of key management personnel and other executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated entity, and, to the extent different, among the five group executives or company executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

Directors' report

For the year ended 30 June 2012

Key management personnel	Position held as at 30 June 2012 and any change during the year	Contract details termination	Proportions of elements of remuneration not related to performance				
			Options/ rights %	Performance based %	Termination payments %	Fixed salary/fees %	Total %
Susanne Clay	Chief Business Officer, Resigned 12 July 2011	30 working days' notice redundancy payment of 2 weeks for first year and 1 week for each 6 months thereafter	-	-	-	100	100
John Cowan	Head of Finance and Administration	30 working days' notice redundancy payment of 4 weeks for first year and 2 weeks for each year thereafter up to 12 weeks	-	13	-	87	100
Robert Elliott	Chief Science and Medical Officer	60 days' notice redundancy payment of 2 weeks per year of service	-	-	-	100	100
Andrea Grant	Chief Executive Officer, Appointed 28 Dec 2011	60 working days' notice redundancy payment of 2 weeks for first year and 1 week for each 6 months thereafter capped at 12 weeks	-	-	-	100	100

The employment terms and conditions of key management personnel and group executives are formalised in contracts of employment. There are no fixed-term contracts.

Terms of employment require that the relevant group entity provide an executive contracted person with a minimum of 1 month's notice prior to termination of contract. A contracted person deemed to be employed on a permanent basis may terminate their employment by providing at least 1 month's notice. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

Remuneration details for the year ended 30 June 2012

The following table provides employment details (benefits and payments) of persons who were, during the financial year, members of key management personnel of the consolidated entity, and, to the extent different, among the five group executives or company executives receiving the highest remuneration:

TABLE OF BENEFITS AND PAYMENTS

	Short term		Post employment	Termination	Share-based payments	Total
	Cash salary/ fees $	Bonus $	Pension and superannuation $	$	Options and rights $	$
YEAR ENDED 30 JUNE 2012						
Directors						
R Austin	92,500	-	-	-	46,606	139,106
S Clay	11,380	-	223	-	-	11,603
R Elliott	164,409	-	-	-	-	164,409
L Hunter	50,000	-	-	-	-	50,000
B Tuch	43,323	-	3,899	-	20,991	68,213
R Willcocks	50,000	-	-	-	13,732	63,732
KMP						
J Cowan	150,708	23,397	3,471	-	-	177,576
A Grant	86,389	-	-	-	5,732	92,121
	648,709	**23,397**	**7,593**	**-**	**87,061**	**766,760**
YEAR ENDED 30 JUNE 2011						
Directors						
R Austin	16,666	-	-	-	10,437	27,103
D Brookes	33,167	-	8,500	-	25,065	66,732
S Clay	163,688	34,547	3,834	-	64,455	266,524
R Elliott	139,966	-	-	-	-	139,966
R Finder	32,492	-	2,924	-	19,789	55,205
L Hunter	50,000	-	-	-	-	50,000
R Macdonald	266,666	-	36,184	155,000	-	457,850
D McAuliffe	20,833	-	-	-	19,789	40,622
S O'Loughlin	20,833	-	-	-	-	20,833
P Tan	177,975	-	-	38,385	-	216,360
R Willcocks	12,500	-	-	-	4,677	17,177
KMP						
J Cowan	120,339	-	2,397	-	-	122,736
	1,055,125	**34,547**	**53,839**	**193,385**	**144,212**	**1,481,108**

C. Options and rights granted

Options are issued to the directors and specified executives as part of their remuneration. Each share option converts to 1 ordinary share of LCT on exercise. The options are not issued based on performance criteria, but are issued to the directors and senior executives of LCT and its subsidiaries to align the interest of executives, directors and shareholders.

Directors' report

For the year ended 30 June 2012

DETAILS OF THE OPTIONS GRANTED AS REMUNERATION TO THOSE KEY MANAGEMENT PERSONNEL AND EXECUTIVES

	Vested number	Vesting date	Granted number	Grant date	Value per option at grant date $	Exercise price $	Expiry date	Number lapsed during the year
YEAR ENDED 30 JUNE 2012								
R Austin	-	19 Jul 2012	250,000	20 Jul 2011	0.0581	0.1000	20 Jul 2016	-
R Austin	-	19 Jul 2012	250,000	20 Jul 2011	0.0537	0.2000	20 Jul 2016	-
B Tuch	-	18 Jul 2012	150,000	19 Jul 2011	0.0581	0.1000	19 Jul 2016	-
B Tuch	-	18 Jul 2012	250,000	19 Jul 2011	0.0537	0.2000	19 Jul 2016	-
Specified executives								
A Grant	-	23 Dec 2012	250,000	23 Dec 2011	0.0442	0.1000	23 Dec 2017	-
Total	**-**		**1,150,000**		**-**	**-**		**-**
YEAR ENDED 30 JUNE 2011								
R Austin	-	25 Feb 2012	150,000	28 Nov 2011	0.0810	0.1500	28 Nov 2016	-
R Austin	-	25 Feb 2012	250,000	28 Nov 2011	0.0733	0.2500	28 Nov 2016	-
S Clay	150,000	15 Mar 2011	150,000	27 May 2010	0.2230	0.3000	15 Mar 2015	-
S Clay	150,000	15 Mar 2011	150,000	27 May 2010	0.2094	0.4000	15 Mar 2015	-
R Macdonald	-	2 Aug 2011	500,000	2 Aug 2010	0.1521	0.2795		500,000
R Willcocks	-	29 Mar 2012	150,000	28 Nov 2011	0.0524	0.1000	28 Nov 2016	-
R Willcocks	-	29 Mar 2012	250,000	28 Nov 2011	0.0422	0.2000	28 Nov 2016	-
Total	**300,000**		**1,600,000**		**-**	**-**		**500,000**

All options were issued by LCT and entitle the holder to ordinary shares in LCT for each option exercised.

All options in 2012 and 2011 usually vest within 1 to 2 years of grant date and expire within 4 to 6 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 1 year's full-time service.

Exercise prices in 2012 and 2011 have been structured at levels greater than the market price at the date of the original grant by the board, which will pre-date the ultimate shareholder approval, which is required for options to be issued to directors.

There have not been any alterations to the terms or conditions of any share-based payment arrangements since grant date.

Option values at grant date were determined using the Black-Scholes method.

D. Options

At the date of this report, the unissued ordinary shares of LCT under option are as follows:

Grant date	Date of expiry	Exercise price $	Number under option
27 November 2007	27 November 2012	0.30	890,000
27 November 2007	30 November 2012	0.20	150,000
27 November 2007	30 November 2012	0.30	250,000
7 March 2008	23 February 2013	0.30	500,000
5 November 2008	5 November 2013	0.40	150,000
5 November 2008	5 November 2013	0.30	250,000
23 September 2010	19 November 2014	0.25	550,000
23 September 2010	19 November 2014	0.35	750,000
27 May 2011	15 March 2016	0.30	150,000
27 May 2011	15 March 2016	0.40	150,000
4 January 2012	4 January 2014	0.20	3,500,000
25 February 2011	28 November 2016	0.15	150,000
25 February 2011	28 November 2016	0.25	250,000
29 March 2011	28 November 2016	0.10	150,000
29 March 2011	28 November 2016	0.20	250,000
19 July 2011	19 July 2016	0.10	150,000
19 July 2011	19 July 2016	0.20	250,000
20 July 2011	20 July 2016	0.10	250,000
20 July 2011	20 July 2016	0.20	250,000
23 December 2011	23 December 2016	0.10	250,000
			9,240,000

Option holders do not have any rights to participate in any issues of shares or other interests in the company or a controlled entity of the company.

There have been no unissued shares or interests under option in the company or a controlled entity of the company during or since reporting date.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

During the year ended 30 June 2012, no ordinary shares of LCT were issued on the exercise of options granted. No further shares have been issued since that date. No amounts are unpaid on any of these shares.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

6. Other items

A. Indemnity and insurance of officers and auditors

The company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from 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 $44,750 (2011: $44,750).

The company has not during or since the end of the financial year indemnified or agreed to indemnify the auditor of the company. Furthermore the company has not paid any premiums in respect of insurance for the auditor.

B. 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.

C. Events subsequent to reporting date

No matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

D. Likely developments and expected results of operations

To further improve the consolidated entity's profit and maximise shareholder wealth, the following developments are intended for implementation in the near future:

- ongoing development of NTCELL.
- continue to provide R&D, clinical trial and administrative services to DOL to progress commercialisation of DIABECELL.

E. Environmental issues

The consolidated entity's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory.

F. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Companies Act 2001 is set out on page 22.

G. Non-audit services

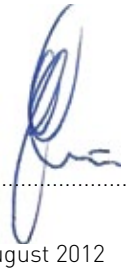
The board of directors, in accordance with advice from the Audit, Risk and Compliance Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 30 June 2012: $1,068 (2011: $2,380).

This report is made in accordance with a resolution of directors pursuant to section 298(2)(a) of the Corporations Act 2001.

Signed on behalf of the directors



Director: .....

Dated 29 August 2012

Auditor's independence declaration

Declaration of independence by Tim Sydenham

to the directors of Living Cell Technologies Limited

As lead auditor of Living Cell Technologies Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- 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.

Tim Sydenham
Partner

BDO East Coast Partnership

Sydney, 29 August 2012

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Level 10, 1 Margaret St, Sydney NSW 2000, Australia
www.bdo.com.au

Corporate governance statement

LCT and its board of directors are committed to maintaining and promoting good corporate governance practices within the group for the benefit of employees, stakeholders and the broader community.

Corporate governance is the framework of rules, relationships, systems and processes within which and by which authority is exercised and controlled in corporations. The board of directors of LCT is responsible for the corporate governance of the group and has taken into account its size and activities in the development of the framework.

LCT provides its Corporate Governance Statement with reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments. The company has adopted all the recommendations in the guidelines.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The board of directors operates in accordance with its charter and the group's constitution. The board takes responsibility for the performance of the group and for developing and implementing corporate governance practices.

The board has established a board charter, which describes the role of the board and the role of management. The charter sets out the composition, role and responsibilities of the board. The minimum number of directors is three and the maximum is nine. Appointments to the board are based on merit, skills, expertise and experience.

The board accepts that it is responsible for:

a) Reviewing and approving LCT's strategic plans and performance objectives and the underlying assumptions and rationale;

b) Reviewing and approving the risk management monitoring systems and systems of internal control;

c) Reviewing and approving the group's financial objectives and ensuring that the necessary financial and human resources are in place for the group to meet its objectives;

d) Ensuring that the performance of executive management is regularly assessed and monitored;

e) Setting the group's values and standards of conduct and ensuring that these are adhered to;

f) Appointing and approving the terms and conditions of the appointment of the CEO and reviewing and providing feedback on the performance of the CEO and other officers and senior management;

g) Reviewing the performance of the board, individual directors and board committees;

h) Endorsing the terms and conditions of senior executives through the Remuneration and Nomination Committee;

i) Monitoring compliance with legal and regulatory obligations and ethical standards including reviewing and ratifying codes of conduct and compliance systems;

j) Approving and monitoring the annual budget and business plan, major operating and capital expenditure, capital management and material variation;

k) Authorising expenditure approval limits for the executive officers of the group and authorising expenditure in excess of these discretionary limits;

l) Approving all mergers, acquisitions and disposals of projects and businesses;

m) Authorising the issue of securities and instruments of the group;

n) Ensuring that the group conducts all its activities in an environmentally responsible and sustainable way by planning and managing all activities to ensure minimum environmental impact;

o) Determining and implementing policies and procedures to ensure that the ASX is promptly and adequately informed of all matters considered to be material, in accordance with the group's continuous disclosure obligations; and

p) Reviewing and recommending to shareholders the appointment, or, if appropriate, the termination of the appointment of the external auditor.

Senior management is responsible for managing the group and operates under direction and delegation from the board. The day-to-day management of the group is delegated to the CEO.

The board has established two committees:

- Audit, Risk and Compliance Committee; and
- Remuneration and Nomination Committee.

Each committee has its own charter describing its composition, structure and membership requirements. The committee charters are reviewed regularly.

The timetables for board and committee meetings are agreed annually to ensure that the board and individual directors dedicate sufficient and appropriate time to reviewing and overseeing LCT's business.

All directors operate under a letter of appointment and are parties to a Deed of Access and Indemnity with the group.

Directors are appointed by the board subject to election by shareholders at the next annual general meeting with one-third of the board being subject to re-election at each subsequent annual general meeting. The chairman

Corporate governance statement

is elected by the board. The performance of directors is reviewed on an ongoing basis.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

The Remuneration and Nomination Committee is responsible for ensuring that an appropriate annual performance review process for all staff including senior executives is in place. The performance of all staff, including senior executives, is evaluated through reference to their formal position descriptions as well as to key performance indicators which are established in line with the group's objectives.

All newly appointed senior executives and staff receive formal letters of appointment describing their terms of appointment, duties, rights and responsibilities.

Recommendation 1.3: Companies should provide the information indicated in the Guideline to reporting on Principle 1.

The board charter is available on the company's website at *www.lctglobal.com.*

Principle 2: Structure the board to add value

Recommendation 2.1: A majority of the board should be independent directors.

The board considers that an independent director is one who:

- is not a member of management;
- is not a substantial shareholder of the group or associated with a substantial shareholder of the group;
- within the last three years has not been employed in an executive capacity by the group or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the group;
- is not a material supplier or customer of the group or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the group;
- has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the directors' ability to act in the best interests of the group; and
- is free from any business interest that could, or could reasonably be perceived to, materially interfere with the directors' ability to act in the best interests of the group.

The independence of directors is assessed regularly. Currently the board comprises five directors, of which four are considered to be independent; Mr Roy Austin, Mr Laurie Hunter, Dr Bernard Tuch and Mr Robert Willcocks are considered to be independent directors. Professor Robert Elliott, who founded the company, is an executive and as such is not considered to be independent.

Recommendation 2.2: The Chair should be an independent director.

The board has appointed an independent Chairman, Mr Roy Austin.

Recommendation 2.3: The roles of Chair and Chief Executive Officer should not be exercised by the same individual.

The roles of the Chairman and Chief Executive Officer are exercised by different individuals.

Recommendation 2.4: The board should establish a Nomination Committee.

The board has established a Remuneration and Nomination Committee. The Remuneration and Nomination Committee operates under a charter which describes its role, responsibilities, composition, structure and membership requirements.

The board comprises directors with an appropriate range of skills, experience and qualifications. The names and skills, experience and expertise of the directors and the tenure and independence status of each director is described in the Directors' Report. Directors have the right, in connection with their duties and responsibility as directors, to seek independent professional advice at the group's expense. Prior approval of the Chairman is required which will not be unreasonably withheld.

The composition of the board is determined in accordance with the group's constitution which requires that the minimum number of directors is three and the maximum number of directors is nine. The names of the members of the Remuneration and Nomination Committee and the board Audit, Risk and Compliance Committee and their attendance record are provided in the Directors' Report.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The board undertakes ongoing self-assessment and review of its performance and of the performance of the Chairman, individual directors and board committees.

The performance review process conducted in 2012 included the completion of a structured questionnaire and discussions with directors and the Chairman. This review was wide ranging and included each director's contribution to board discussions.

Recommendation 2.6: Companies should provide the information indicated in the Guideline to reporting on Principle 2.

The charter for the Remuneration and Nomination Committee can be found on the group's website at *www.lctglobal.com.*

Detailed information on the skills, experience and expertise of each director is provided in the annual report, together with the composition of each of the board committees.

Additional information needed to address:

Recommendation 2.6: Companies should provide the information indicated in the Guideline to reporting on Principle 2.

Directors may take independent professional advice at the expense of the company after obtaining the Chairman's written agreement.

The board seeks to have a diverse mix of skills and experience which includes scientific, medical, business, financial and biotech industry backgrounds.

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code.

The board has adopted a code of conduct which requires that all LCT's directors, officers, employees, and contractors must perform their business in accordance with all relevant laws and regulations and in accordance with the group's policies and procedures.

The code of conduct requires that all directors, officers, employees and contractors are expected to avoid conflicts of interest with regard to the group's interests. Directors and officers are required to advise the Group Secretary of any perceived conflict of interest. Where related party or conflict of interest matters arise, the Chairman may require the removal of the relevant director or officer from any decision made in relation to the perceived conflict of interest or related party matter.

The board is committed to ensuring a safe workplace. All operations are planned and managed to ensure that employees are working under safe conditions. Directors and employees are required to comply with all legislative requirements relating to workplace safety and to establish effective safety management practices. Employees are encouraged to suggest improvements to workplace safety.

Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

The board has adopted a diversity policy which requires that the company embrace and promote diversity in the workplace. LCT aims to establish a corporate culture that is conducive to the appointment of well-qualified persons and embraces employee diversity which includes: age, gender, ethnicity, physical appearance, values, lifestyle, religion, education and family responsibilities. LCT recognises the benefits that diversity brings to maximise corporate goals.

Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

As part of its wider process of increasing gender diversity, LCT is focused on increasing the representation of women at all levels of its business. In order to realise this, the board has established measurable objectives and progress in achieving these goals, and will consider progress on diversity in assessing executive performance.

Recommendation 3.4: Companies should disclose in the annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

The proportion of women represented at these levels in LCT currently is as follows:

- Women represented in the whole organisation: 70%
- Women represented in senior executive positions: 40%
- Women represented on the board: 0%

The objectives are to appoint women to the board such that by 2016 15% of the board will be female and to maintain the percentage of women in senior executive positions at 40%.

Recommendation 3.5: Companies should provide the information indicated in the Guideline to reporting on Principle 3.

A copy of the company's Code of Conduct and Diversity Policy is available from the company's website at *www.lctglobal.com.*

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1: The board should establish an Audit Committee.

To assist it in carrying out its duties, the board has established an Audit, Risk and Compliance Committee. The primary function of the committee is to assist the board in fulfilling its responsibilities to provide shareholders with timely and reliable financial reports.

Corporate governance statement

Recommendation 4.2: The audit committee should be structured so that it: consists only of non-executive directors; consists of a majority of independent directors; is chaired by an independent director who is not chair of the board; has at least three members.

The Audit, Risk and Compliance Committee is chaired by Mr Robert Willcocks, an independent director. The Audit, Risk and Compliance Committee met three times during the year to deal with audit and audit review matters and to ensure that the accounting and financial policies and controls, risk management systems and compliance with regulatory and statutory requirements are in place, adequate and effective. The Audit, Risk and Compliance Committee comprises three independent non-executive directors.

Recommendation 4.3: The audit committee should have a formal charter.

The Audit, Risk and Compliance Committee operates under a formal charter. The board appoints independent external auditors under a letter of appointment which includes a scope and plan. Full access to the group's records, personnel and support is provided. Open communications with the auditors and management are maintained.

Recommendation 4.4: Provide the information indicated in Guideline to reporting on Principle 4.

The charter for the Audit, Risk and Compliance Committee is available on the company's website at *www.lctglobal.com.*

Principle 5: Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

LCT communicates with shareholders in accordance with the Corporations Act and the ASX Listing Rules. All ASX announcements, media releases and other relevant material are retained on the LCT website for a minimum of three years. The board has adopted a Continuous Disclosure and Market Communications Policy to ensure that all investors have equal and timely access to material information concerning the group, including its financial position, performance, ownership and governance. The policy outlines procedures to ensure that directors and senior executives of the group comply with its continuous disclosure obligations. The board has delegated the function of continuous disclosure to the Company Secretary and CEO.

Recommendation 5.2: Companies should provide the information indicated in Guideline to reporting on Principle 5.

The company's Continuous Disclosure and Market Communications Policy is available on the company's website at *www.lctglobal.com.*

Principle 6: Respect the rights of shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The board has endorsed a communications strategy which is designed to promote effective communication with shareholders and encourage effective participation at general meetings. The strategy includes the publication of:

- the annual report;
- the half-yearly report;
- quarterly cash flow and activities reports;
- the annual general meeting and other meetings called to obtain approval for board action as appropriate;
- the group's website at *www.lctglobal.com*; and
- continuous disclosure of material information.

The company invites shareholders to join its Subscriber List on its website and emails ASX releases to Subscriber recipients on the release of ASX announcements.

At the annual general meeting, the Chairman encourages questions and comments from shareholders and seeks to ensure the meeting is managed to provide current information about the company to shareholders and to give shareholders an opportunity to participate. Shareholders can ask questions about or comment on the operations of the group and the performance of the board and management. The external auditor is requested to attend the AGM and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Recommendation 6.2: Companies should provide the information indicated in the Guideline to reporting on Principle 6.

The company's Continuous Disclosure and Market Communications Policy is available on the company's website at *www.lctglobal.com.*

Principle 7: Recognise and manage risk

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The board takes a proactive approach to management of the wide range of risks that LCT faces. The board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the group's strategies and activities are aligned with the risks and opportunities identified by the board. The risk management approach is supported by the Risk Management Policy which has been endorsed by the board on the recommendation of the CEO and the Audit, Risk and Compliance Committee.

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The group operates within a risk management framework based upon Standards Australia's AS/NZS ISO 31000:2009 (Risk Management). This framework operates to identify, assess, mitigate and report against identified risks. During the period, management has provided several reports to the board on performance against the risk management framework. In addition to the risk management policy itself, the group has established a number of other policies and aimed to mitigate or manage risks including:

- code of conduct; and
- health, safety and environment policy.

The external auditor reports findings on relevant risk and control issues to the Audit, Risk and Compliance Committee and to the board after the half-year review and the annual audit.

Recommendation 7.3: The board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Chief Executive Officer and Chief Financial Officer have provided the board with written assurances that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4: Companies should provide the information indicated in the Guideline to reporting on Principle 7.

The company's risk management policy is available on the company's website at *www.lctglobal.com*.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1: The board should establish a remuneration committee.

The board has established a Remuneration and Nomination Committee, the majority of members being independent and which is chaired by an independent director. The board has adopted a formal charter for the Remuneration and Nomination Committee which describes its role, responsibilities, composition, structure and membership.

Recommendation 8.2: The remuneration committee should be structured so that it: consists of a majority of independent directors; is chaired by an independent chair; has at least three members.

The Remuneration and Nomination Committee is chaired by an independent director, Mr Roy Austin and comprises three independent directors. The Remuneration and Nomination Committee held three meetings during the reporting period.

Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors' and senior executives'.

The structure of non-executive directors' remuneration is described in the Remuneration Report of this annual report.

Recommendation 8.4: Provide the information indicated in the Guideline to reporting on Principle 8.

All equity-based executive remuneration is made in accordance with the group's Employee Share Equity Plan, which has been approved by shareholders. All equity-based executive remuneration to executive and non-executive directors is approved by shareholders. Remuneration policies and the names of members of the Remuneration and Nomination Committee are provided in the Remuneration Report in this annual report. There are no schemes for retirement benefits for directors, other than the superannuation guarantee contributions required by statute.

LCT has no departures from the ASX Corporate Governance Guidelines.

Statement of comprehensive income

For the year ended 30 June 2012

	Note	CONSOLIDATED 2012 $000	2011 $000
Revenue			
Services provided		3,708	165
Interest		129	142
Total revenue		**3,837**	**307**
Cost of services provided		(3,423)	-
Gross income		**414**	**307**
Grant income		888	1,744
Gain on sale of intellectual property	11	11,183	-
Research and development		(2,620)	(4,494)
Administrative costs		(1,517)	(3,593)
Occupancy costs		(291)	(638)
Finance costs		(13)	(12)
Foreign exchange loss		(126)	(109)
Share of loss from joint venture	11	(2,242)	-
Profit/(loss) before income tax expense		**5,676**	**(6,795)**
Income tax expense	3	-	-
Profit/(loss) attributable to members of the parent entity		**5,676**	**(6,795)**
Other comprehensive income			
Exchange difference on translation of foreign operations		672	(153)
Total other comprehensive income		672	(153)
Total comprehensive income attributable to members of the parent entity		**6,348**	**(6,948)**
Earnings per share			
Continuing operations:			
Basic earnings/(loss) per share (cents)		1.7	(2.3)
Diluted earnings/(loss) per share (cents)		1.7	(2.3)

The accompanying notes form an integral part of these financial statements.

Statement of financial position

As at 30 June 2012

	Note	CONSOLIDATED 2012 $000	CONSOLIDATED 2011 $000
Assets			
Current assets			
Cash and cash equivalents	21	3,170	4,505
Trade and other receivables	7	184	167
Other current assets	8	31	39
Total current assets		**3,385**	**4,711**
Non-current assets			
Property, plant and equipment	9	38	2,471
Biological assets	10	-	289
Investment in joint venture	11	12,100	-
Total non-current assets		**12,138**	**2,760**
TOTAL ASSETS		**15,523**	**7,471**
Liabilities			
Current liabilities			
Trade and other payables	12	448	520
Provisions	13	206	191
Deferred income	14	516	-
Total current liabilities		**1,170**	**711**
Non-current liabilities			
Total liabilities		**1,170**	**711**
NET ASSETS		**14,353**	**6,760**
Equity			
Share capital		60,686	59,353
Reserves		1,331	1,064
Accumulated losses		(47,664)	(53,657)
Total equity		**14,353**	**6,760**

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2012

CONSOLIDATED

	Ordinary shares	Ordinary shares $000	Accumulated losses $000	Foreign currency translation reserve $000	Option reserve $000	Convertible securities $000	Total $000
Balance as at 1 July 2011	332,412,275	59,353	(53,657)	(245)	1,134	175	6,760
Profit/(loss) attributable to members of the parent entity	-	-	5,676	-	-	-	5,676
Total other comprehensive income	-	-	-	672	-	-	672
Total comprehensive income	**-**	**-**	**5,676**	**672**	**-**	**-**	**6,348**
Shares issued during the year	20,643,609	1,232	-	-	-	-	1,232
Conversion of securities	3,939,889	175	-	-	-	(175)	-
Share issue transaction costs	-	(74)	-	-	-	-	(74)
Share-based remuneration	-	-	-	-	87	-	87
Options expired during the year	-	-	428	-	(428)	-	-
Realised foreign exchange gains on repayment of inter-entity loans	-	-	(111)	111	-	-	-
Balance at 30 June 2012	**356,995,773**	**60,686**	**(47,664)**	**538**	**793**	**-**	**14,353**

CONSOLIDATED 2011

Balance as at 1 July 2010	274,266,196	52,431	(47,665)	(92)	1,565	-	6,239
Profit/(loss) attributable to members of the parent entity	-	-	(6,795)	-	-	-	(6,795)
Total other comprehensive income	-	-	-	(153)	-	-	(153)
Total comprehensive income	**-**	**-**	**(6,795)**	**(153)**	**-**	**-**	**(6,948)**
Shares issued during the year	48,201,204	6,551	-	-	-	-	6,551
Convertible notes issued during the year	-	-	-	-	-	1,220	1,220
Conversion of notes	9,944,875	1,045	-	-	-	(1,045)	-
Share issue transaction costs	-	(709)	-	-	262	-	(447)
Share-based remuneration	-	-	-	-	145	-	145
Options expired during the year	-	35	803	-	(838)	-	-
Balance at 30 June 2011	**332,412,275**	**59,353**	**(53,657)**	**(245)**	**1,134**	**175**	**6,760**

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

As at 30 June 2012

	Note	CONSOLIDATED 2012 $000	2011 $000
Cash from operating activities			
Receipts from customers and grants (GST inclusive)		5,266	2,595
Payments to suppliers and employees (GST inclusive)		(7,879)	(8,508)
Interest received		126	189
Net cash used in operating activities	**21(a)**	**(2,487)**	**(5,724)**
Cash flows from investing activities			
Payment for plant and equipment		(42)	(195)
Proceeds from disposal of property, plant and equipment		1	1
Net cash used in investing activities		**(41)**	**(194)**
Cash flows from financing activities			
Proceeds from issue of shares		1,232	6,350
Proceeds from the issue of convertible notes		-	1,220
Expenses from the issue of shares		(74)	(245)
Payment of finance lease liabilities		-	(7)
Net cash provided by financing activities		**1,158**	**7,318**
Net cash (decrease)/increase in cash and cash equivalents		(1,370)	1,400
Cash and cash equivalents at beginning of the year		4,505	3,121
Effect of exchange rates on cash holdings in foreign currencies		35	(16)
Cash and cash equivalents at end of the year	**21(b)**	**3,170**	**4,505**

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

For the year ended 30 June 2012

1. Statement of significant accounting policies

A. Basis of preparation

This general-purpose financial report for the year ended 30 June 2012 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. Compliance with Australian Accounting Standards ensures that the consolidated entity financial report conforms to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial report covers the consolidated entity of LCT and its controlled entities. LCT is a listed for-profit public company, incorporated and domiciled in Australia.

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

The financial report has been presented in Australian dollars, which is the group's presentation currency. The report has been prepared on an accruals basis and is based on historical cost 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.

The financial report of LCT for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the board of directors on 29 August 2012.

B. Going concern

The directors have prepared the report on a going-concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Based on anticipated levels of operational cash flow requirements, the consolidated entity has sufficient cash to fund current operations for more than 1 year. During the new financial year, LCT plans to continue the development of NTCELL for Parkinson's disease and has applied to the New Zealand Ministry of Science and Innovation for a grant of over NZD1m. The company continues to consider other funding opportunities.

C. Rounding of amounts

The company is an entity to which Australian Securities & Investments Commission (ASIC) Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' Report have been rounded to the nearest thousand dollars.

D. Principles of consolidation

A list of controlled entities is contained in Note 22 to the financial statements. All controlled entities have a June financial year end.

As at year end the assets, liabilities of all controlled entities have been included in the consolidated financial statements as well as their results for the year. The directors have deemed that control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

E. Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the consolidated entity'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 statement of comprehensive income, 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 statement of comprehensive income.

Group companies

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

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

Exchange differences arising on translation of foreign operations are transferred directly to the consolidated

entity's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

F. Comparative figures

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

G. Cash and cash equivalents

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

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.

Bills of exchange and promissory notes are measured at the lower of cost and net realisable value.

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.

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's-length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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 entity, 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	
Buildings	8.5%
Plant and equipment	7.5 - 80.4%
Furniture, fixtures and fittings	9.5 - 60.0%
Motor vehicles	26.0 - 30.0%
Office equipment	18.0 - 80.4%
Leasehold improvements	7.5 - 48.0%

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

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

J. Biological assets

Biological assets are recorded at cost. Any foreign exchange movements are taken to the statement of comprehensive income.

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.

K. Investment in joint venture

The consolidated entity has a 50% interest in a jointly controlled company which is recognised using the equity method. Under the equity method the share of the profits or losses of the joint venture is recognised in profit or loss.

L. Investments

Investments in controlled entities are carried at the lower of cost and recoverable amount. The carrying amount of investments is reviewed annually by directors to ensure that it is not in excess of the recoverable amount of these assets.

M. 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 categorised as held for trading also, 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 statement of comprehensive income in the period in which they arise.

Notes to the financial statements

For the year ended 30 June 2012

N. 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.

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

P. Impairment of assets

At each reporting date, the consolidated entity 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 statement of comprehensive income.

Q. 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.

R. 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.

Where substantially all the risks and benefits incidental to the ownership of a leased fixed asset, but not the legal ownership, are transferred to the company, these leases are classified as finance leases. Finance leases are capitalised as assets, and liabilities equal to the present value of the minimum lease payments, including any guaranteed residential value, are brought to account. Leased assets are amortised on a straight-line basis over their estimated useful lives where it is likely that the company will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the lease interest expense for the period and the reduction of the lease liability.

S. Interest-bearing liabilities

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

T. Provisions

Provisions are recognised when the consolidated entity 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.

U. Issued capital

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

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

Convertible notes are recognised as debt until it is certain that they will be converted to equity.

V. Revenue recognition

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).

W. 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 1 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 1 year have been measured at present value of the estimated future cash outflows to be made for those benefits.

Share-based payments

Share-based payments are provided to employees through issue of shares and options.

Issue of shares

Share-based compensation benefits are provided to employees.

The fair value of shares granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares.

Issue of options

The fair value of options is recognised as a benefit to directors/employees. The fair value is measured at the grant date and recognised over the period during which the options vest to the directors/employees.

The fair value at the grant date is independently determined using the Black-Scholes binomial convergence model for the employees' options. These models take into account the exercise price, the life of the option, the current price of the underlying share, the expected volatility of the share price and the risk-free rate for the life of the option.

X. 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.

Y. 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 reporting date.

Deferred tax is accounted for using the statement of financial position 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 statement of comprehensive income 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.

Z. Earnings per share (EPS)

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

Diluted EPS is calculated as net profit/(loss) attributable to members of the consolidated entity, adjusted for:

- costs of servicing equity (other than dividends)
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from dilution of potential ordinary shares divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

AA. 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 statement of financial position are shown inclusive of GST.

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

AB. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services which are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

AC. Adoption of new and revised accounting standards

The following standards, amendments to standards and interpretations have been adopted in the current period and have affected the disclosures in these financial statements:

AASB 11 Joint Arrangements

Effective: Annual periods beginning on or after 1 January 2013

Implemented: Year commencing 1 July 2011

This standard replaces AASB 131 which had 3 types of joint ventures. AASB 11 has only 2 types, being joint ventures and joint operations.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Joint ventures must now be accounted for using the equity method of accounting. The option to proportionately consolidate a joint venture entity has been removed.

LCT is accounting for its joint venture (DOL) as a joint venture arrangement and as such it has been accounted for using the equity method.

AD. Accounting standards and interpretations issued but not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued but are not yet effective, and have not been adopted by the company for the reporting period ended 30 June 2012.

The company has assessed the impact of these new standards, amendments and interpretations, and set out below is information that is expected to be relevant to the company's financial statements.

AASB 9 Financial Instruments, AASB 2009 11 Amendments to Australian Accounting Standards arising from AASB 9

Effective: Annual periods beginning on or after 1 January 2013

Expected implementation: Year commencing 1 July 2013

AASB 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances).
- Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss.
- All other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss.
- The concept of 'embedded derivatives' does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

These changes are not expected to have any impact on the current performance of the group.

IFRS 10 Consolidation (not yet issued by the AASB)

Effective: Annual periods beginning on or after 1 January 2013

Expected implementation: Year commencing 1 July 2013

IFRS 10 replaces AASB 127 and 3 key elements of control. According to IFRS 10 an investor controls an investee if and only if the investor has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Additional guidance is provided in how to evaluate each of the three limbs above.

These changes are not expected to have any impact on the current performance of the group.

IFRS 13 Fair Value Measurement (not yet issued by the AASB)

Effective: Annual periods beginning on or after 1 January 2013

Expected implementation: Year commencing 1 July 2013

IFRS 13:

- defines fair values
- sets out in a single IFRS a framework for measuring fair value; and
- requires disclosures about fair value measurement.

Fair value is defined as:

"the market price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price)"

The standard does not require fair value measurements in addition to those already required or permitted by other IFRSs.

These changes are not expected to have any impact on the current performance of the group.

AE. Critical accounting estimates and judgments

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

Key estimates – Impairment

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

2. Profit for the year

Expenses

Profit/(loss) before income tax includes the following expenses:

	CONSOLIDATED	
	2012 $000	**2011 $000**
Employee benefits		
Wages and salaries	3,433	3,756
Share-based payments	87	144
Contributions to employees' savings plans	44	87
Staff training	23	16
Accident compensation	17	15
Total employee benefits	**3,604**	**4,018**
Depreciation of property, plant and equipment		
Buildings	53	174
Plant and equipment	49	152
Furniture, fixtures and fittings	11	17
Total depreciation	**113**	**343**
Loss on disposal of plant, property and equipment	-	20
Operating lease rentals	111	224
Audit fees	99	89

3. Income tax expense

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

	CONSOLIDATED	
	2012 $000	**2011 $000**
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30% (2011: 30%)		
Consolidated entity	3,961	(2,039)
Tax effect of non-allowable and non-assessable items:		
Deductible capital expenditure	(28)	(66)
Unrealised foreign exchange gains	55	84
Other items (net)	4	45
Tax effect of temporary differences	-	(25)
Tax losses recouped	(3,992)	-
Deferred tax asset not brought to account	-	2,001
Income tax expense	**-**	**-**

Notes to the financial statements

For the year ended 30 June 2012

4. Tax losses

	CONSOLIDATED	
	2012 $000	**2011 $000**
Unused tax losses for which no deferred tax asset has been recognised	30,940	42,850
Potential tax benefit at 30%	9,282	12,855

The benefit will only be obtained if:

- the group derives future assessable income of a nature and an amount sufficient to enable the benefits from the deductions for the losses to be realised;
- the group continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the group in realising the benefit from the deductions for the losses.

5. Earnings/(Loss) per share

A. Detailed table

	CONSOLIDATED	
	2012 $000	**2011 $000**
Profit/(loss) used in calculation of basic and diluted EPS	5,817	(6,796)
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	341,253,050	295,321,784
Weighted average number of ordinary shares and convertible securities outstanding during the year used in calculating diluted EPS	341,253,050	295,321,784

B. Detailed table

	CONSOLIDATED	
	2012 $ cents	**2011 $ cents**
Basic earnings/(loss) per share	1.7	(2.3)
Diluted earnings/(loss) per share	1.7	(2.3)

6. Parent entity disclosures

	2012 $000	2011 $000
Current assets	2,607	4,331
Total assets	18,598	4,331
Current liabilities	(66)	(172)
Total liabilities	(66)	(172)
Profit/(loss)	**13,129**	**(6,203)**
Comprehensive income/(loss)	13,129	(6,203)
Accumulated losses	(56,075)	(50,300)
Issued capital	60,686	59,353
Options reserve	792	1,134
Convertible instruments reserve	-	175
Shareholders' equity	**18,532**	**4,159**

The parent company has no guarantees, contingent liabilities or capital commitments.

7. Trade and other receivables

A. Current receivables

	2012 $000	2011 $000
Accrued interest	7	10
Trade receivables	66	140
Other receivables	111	17
Total current trade and other receivables	**184**	**167**

B. Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30- to 60-day terms. A provision for impairment loss is recognised when there is objective evidence than an individual trade receivable is impaired. There is no impairment loss for the current year (2011: $Nil) by the group.

C. Aged analysis

At 30 June 2012, there were no aged trade receivables, bad debts or doubtful debts (2011: $Nil).

8. Other assets

CONSOLIDATED

	2012 $000	2011 $000
Prepayments	31	39
Total other assets	**31**	**39**

9. Property, plant and equipment

A. Detailed table

CONSOLIDATED

	2012 $000	2011 $000
Buildings on leased land		
High Health Pig Facility		
At cost	-	1,785
Less accumulated depreciation	-	(266)
Total buildings	**-**	**1,519**
Plant and equipment		
At cost	95	1,443
Less accumulated depreciation	(57)	(815)
Total plant and equipment	**38**	**628**
Furniture, fixture and fittings		
At cost	-	95
Less accumulated depreciation	-	(61)
Total furniture, fixture and fittings	**-**	**34**
Motor vehicles		
At cost	-	15
Less accumulated depreciation	-	(7)
Total motor vehicles	**-**	**8**
Office equipment		
At cost	-	186
Less accumulated depreciation	-	(121)
Total office equipment	**-**	**65**
Leasehold improvements		
At cost	-	464
Less accumulated depreciation	-	(247)
Total leasehold improvements	**-**	**217**
TOTAL PROPERTY, PLANT AND EQUIPMENT	**38**	**2,471**

B. Movements in carrying amounts

	Buildings High Health Pig Facility $000	Plant and equipment $000	Fixtures and fittings $000	Motor vehicles $000	Office equipment $000	Leasehold improvements $000	Total $000
Current year							
Balance at 1 July 2011	1,519	628	34	9	64	217	2,471
Re-classification/transfer	-	19	(1)	-	2	(20)	-
Acquisitions	-	36	-	-	-	-	36
Disposals	(1,468)	(594)	(31)	(8)	(57)	(189)	(2,347)
Depreciation expense	(44)	(49)	(2)	(1)	(10)	(7)	(113)
Foreign exchange movements	(7)	(2)	-	-	1	(1)	(9)
Balance at 30 June 2012	**-**	**38**	**-**	**-**	**-**	**-**	**38**
Prior year							
Balance at 1 July 2010	1,744	717	38	11	27	256	2,793
Acquisitions	5	127	5	-	57	1	195
Disposals	-	(18)	-	-	(2)	-	(20)
Depreciation expense	(140)	(152)	(7)	(2)	(16)	(26)	(343)
Foreign exchange movements	(90)	(46)	(2)	-	(2)	(14)	(154)
Balance at 30 June 2011	**1,519**	**628**	**34**	**9**	**64**	**217**	**2,471**

10. Biological assets

A. Value of asset

CONSOLIDATED

	2012 $000	2011 $000
Pig herd: opening balance	289	305
Sale to joint venture	(288)	-
Effect of exchange rate movements	(1)	(16)
Total biological assets	**-**	**289**

B. Nature of asset

On 1 November 2011 the company sold the sub-Antarctic Auckland Island pig herd to 50%-owned joint venture Diatranz Otsuka Limited.

C. Significant assumptions

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

11. Joint venture

A. Interest in joint venture operations

On 1 November 2011 the parent entity, LCT, settled the formation of a 50%-owned joint venture, Diatranz Otsuka Limited, with Otsuka Pharmaceutical Factory, Inc. to accelerate the commercialisation of DIABECELL.

LCT and Otsuka Pharmaceutical Factory, Inc. have established joint control by each shareholder appointing two directors. These directors make decisions in relation to the relevant activities of Diatranz Otsuka Limited.

The group's DIABECELL assets were sold to Diatranz Otsuka Limited for $25m of shares. Otsuka Pharmaceutical Factory, Inc. deposited $25m of cash into Diatranz Otsuka Limited for a 50% shareholding. There are no commitments by either company to Diatranz Otsuka Limited and the joint venture has no contingent liabilities as at 30 June 2012.

Assets transferred from each subsidiary were valued at a total of $25m, $7,287,000 attributable to Living Cell Technologies New Zealand Limited, $1,888,000 attributable to Pancell New Zealand Limited and $15,825,000 attributable to Living Cell Products Limited. There was an agreement signed between LCT and its subsidiaries to 'set off' the debts owed by each of the subsidiaries to LCT with the amounts given to the subsidiaries via promissory notes. This set-off arrangement reduced the owing inter-company balances between LCT and its subsidiaries during the year by the value of assets sold.

Living Cell Technologies provides research and development and administrative services to Diatranz Otsuka Limited at commercial rates and has a services and supply agreement, on commercial terms, to access the facilities and designated pathogen-free pigs for products other than for diabetes.

Taxable gains made on the sale of DIABECELL intellectual property will be offset against losses carried forward. Plant, property and equipment and biological assets were sold to Diatranz Otsuka Limited at book value.

The voting power held by LCT is 50%.

The interest in joint venture entities is accounted for in the consolidated statements using the equity method of accounting.

There were no capital commitments of the joint venture at year end.

B. Investment in joint venture

	2012 $000
50% of net assets of joint venture at 1 Nov 2011	25,000
Foreign exchange movement between 1 Nov 2011 and 30 Jun 2012	524
50% of joint venture loss for the period	(2,242)
Elimination of 50% of gain on sale of assets	(11,182)
Total	**12,100**

C. Gain on sale of assets

	2012 $000
Proceeds of asset sale to joint venture	25,000
Less carrying value at 1 Nov 2011:	
Plant, property and equipment	(2,347)
Pig herd	(288)
Intellectual property	-
Gain on sale of assets	22,365
Elimination of 50%	(11,182)
Gain on sale of intellectual property	**11,183**

D. Share of joint venture entity's results and financial position

	2012 $000
Current assets	11,137
Non-current assets	1,006
Current liabilities	(43)
Non-current liabilities	-
Equity	12,100
Share of the joint ventures revenue and profit/(loss):	
Revenue	572
Profit/(loss)	(2,242)
Carrying amount of the investment	**12,100**

12. Trade and other payables

	CONSOLIDATED	
	2012 $000	**2011 $000**
Unsecured		
Trade payables	362	295
Accrued expenses	86	225
Total trade and other payables	**448**	**520**

13. Provisions

	CONSOLIDATED	
	2012 $000	**2011 $000**
Current		
Opening balance	191	285
Leave accrued	246	222
Leave taken	(231)	(316)
Balance at end of the year	**206**	**191**

A provision has been recognised for employee entitlements relating to annual leave. The measurement and recognition criteria relating to employee entitlements have been included in Note 1 of this report.

14. Deferred income

	2012 $000	**2011 $000**
Service fees received in advance from joint venture	516	-

Services fees from the joint venture are received quarterly in advance, based on the budget, and adjusted to actual in subsequent quarters.

15. Capital and leasing commitments

A. Operating lease commitments

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

	2012 $000	**2011 $000**
Payable - minimum lease payments		
- not later than 12 months	-	222
- between 12 months and 5 years	-	826
- greater than 5 years	-	118
	-	**1,166**

The sale of DIABECELL assets to joint venture DOL included the assignment of all of LCT's leases to the joint venture.

LCT still has an agreement to use the premises for other R&D in exchange for LCT's payment of a portion of the total occupancy costs.

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 Auckland, New Zealand, is a non-cancellable lease with 3 years until expiry and rent payable in advance. Contingent rental provisions require the minimum lease payments to be reviewed every 2 years.
- The animal laboratory lease is a non-cancellable lease with a 6-year lease term with 3 years until expiry and rent payable in advance. Contingent rental provisions require the minimum lease payments to be reviewed every 2 years.
- The land for the new designated pathogen-free pig breeding facility in the South Island is a 20-year lease with rent renewal every 3 years.
- The lease of the northern animal facility is a non-cancellable lease with a 10-year term, with 6 years until expiry and a right of renewal for a further 10-year term, with rent payable monthly in advance. Contingent rental provisions require the minimum lease payments to be reviewed every 2 years.
- The lease of three copiers is a non-cancellable lease expiring on 27 February 2014.

There are no commitments for capital expenditure.

B. Finance lease commitments

LCT has no finance leases.

16. Issued capital

A. Issued capital

	2012 $000	**2011 $000**
356,995,773 ordinary shares fully paid (2011: 332,412,275)	64,699	63,292
Share issue costs written off against share capital	(4,013)	(3,939)
Total issued capital	**60,686**	**59,353**

B. Authorised capital

The authorised share capital of the company is 356,995,773 shares (2011: 332,412,275) 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 the holder to 1 vote, either in person or by proxy, at a meeting of the company.

C. Movements in shares on issue

	2012 Number of shares	2012 $000	2011 Number of shares	2011 $000
Ordinary shares				
Beginning of the financial year	332,412,275	59,353	274,266,196	52,431
Issued during the year				
- private placements	2,767,528	150	48,201,204	6,551
- share purchase plan	17,876,081	1,082	-	-
- convertible notes	3,939,889	175	9,944,875	1,045
Transaction costs in capital raising	-	(74)	-	(674)
At reporting date	**356,995,773**	**60,686**	**332,412,275**	**59,353**

D. Options

For information relating to LCT's 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 of the Directors' Report and Key Management Personnel compensation in Note 20(c).

The weighted average fair value of options granted during the year was $0.05 (2011: $0.09).

The fair value of each option at grant data was calculated by using the Black-Scholes option pricing model that takes into account the expected volatility, risk-free interest rate, expected life of the option, exercise price and the share price at grant date. For each option granted, historical volatility has been calculated based on the length of the option's life (for a 5-year option, volatility has been calculated using 5 years' worth of share prices to the issue date).

The assessed fair value and model inputs for each option during the year were as follows:

Offers dated 19 and 20 July 2011

The assessed fair value at date of grant was:	
Expected share volatility (%)	126.49
Risk-free interest rate (%)	4.75
Weighted average expected life of the option (years)	5.00
Weighted average exercise price ($)	0.16
Share price at grant date ($)	0.06/0.07

Offer dated 23 December 2011

The assessed fair value at date of grant was:	
Expected share volatility (%)	136.67
Risk-free interest rate (%)	4.25
Weighted average expected life of the option (years)	6.00
Weighted average exercise price ($)	0.10
Weighted average share price at grant date ($)	0.05

Included in the consolidated loss for the year is share-based payments expense of $87,062 (2011: $144,212).

17. Capital management

The capital of the consolidated entity is equity held in the group. The consolidated entity's objective when managing capital is to safeguard the ability to continue as a going concern so that it can provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure.

Management effectively manages the group's capital structure by assessing the group's financial risks and adjusting the capital structure in response to changes in these risks and the market. These responses include the issue of additional shares and/or convertible securities.

During the year, LCT issued convertible securities to SpringTree as an alternative capital raising method and had a share placement plan.

There were no changes to the group's approach to capital management nor were there any externally imposed capital requirements during the year.

18. Share capital and reserves

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 the statement of comprehensive income translated at average and closing rates. It also includes adjustments in relation to investments in foreign operations.

Option reserve

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

Convertible securities reserve

The convertible securities reserve reflects the conversion of securities not yet converted as at year end.

19. Currency translation rates

	Currency	2012 AUD	2011 AUD
Year-end rates used for the consolidated statement of financial position, to translate the following currencies into Australian dollars (AUD), are:	NZD	0.78	0.77
	USD	0.98	0.94
	ARS	0.22	n/a
Average rates for the year used for the consolidated statements of comprehensive income and cash flows, to translate the following currencies into Australian dollars (AUD), are:	NZD	0.78	0.77
	USD	0.97	1.02
	ARS	0.23	n/a
Average rate for 8 months since establishment of joint venture used to convert LCT's share of loss:	NZD	0.77	n/a
Spot rate as at 1 November 2011 for joint venture	NZD	0.76	n/a

NZD = NZ dollar; USD = US dollar; ARS = Argentinian peso

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
R Austin	Independent director
S Clay	Alternate director; Chief Business Officer (resigned 12 July 2011)
R Elliott	Chief Science and Medical Officer
L Hunter	Independent director
B Tuch	Independent director (appointed 19 July 2011)
R Willcocks	Independent director
Executives	
J Cowan	Head of Finance and Administration
A Grant	Chief Executive Officer (appointed 28 December 2011)

B. Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	2012 $000	2011 $000
Short-term employee benefits salary, bonus, termination	672,106	1,283,057
Post-employment benefits/super	7,593	53,839
Share-based payments options	87,061	144,212
Total	**766,760**	**1,481,108**

20. Key management personnel compensation (continued)

C. Options and rights holdings

	Balance 1/07/2011	Granted as remuneration	Options exercised	Options expired	Balance 30/06/2012	Total exercisable	Total unexercisable
Directors							
R Austin	400,000	500,000	-	-	900,000	400,000	500,000
S Clay	300,000	-	-	-	300,000	300,000	-
R Elliott	-	-	-	-	-	-	-
L Hunter (1)	1,700,264	-	-	(1,700,264)	-	-	-
B Tuch (2)	-	400,000	-	-	400,000	-	400,000
R Willcocks (3)	400,000	-	-	-	400,000	400,000	-
Specified executives							
J Cowan	-	-	-	-	-	-	-
A Grant	-	250,000	-	-	250,000	-	250,000
Total	**2,800,264**	**1,150,000**	**-**	**(1,700,264)**	**2,250,000**	**1,100,000**	**1,150,000**

	Balance 1/07/2010	Granted as remuneration	Options exercised	Options expired	Balance 30/06/2011	Total exercisable	Total unexercisable
Directors							
R Austin	-	400,000	-	-	400,000	-	400,000
D Brookes	900,000	-	-	-	900,000	900,000	-
S Clay	-	300,000	-	-	300,000	300,000	-
R Elliott	-	-	-	-	-	-	-
R Finder	400,000	-	-	-	400,000	400,000	-
L Hunter (1)	1,700,264	-	-	-	1,700,264	1,700,264	-
R Macdonald (4)	-	500,000	-	(500,000)	-	-	-
D McAuliffe	400,000	-	-	-	400,000	400,000	-
S O'Loughlin	950,000	-	-	(150,000)	800,000	800,000	-
P Tan	1,300,000	-	-	(300,000)	1,000,000	1,000,000	-
R Willcocks	-	400,000	-	-	400,000	-	400,000
Specified executives							
J Cowan	-	-	-	-	-	-	-
Total	**5,650,264**	**1,600,000**	**-**	**(950,000)**	**6,300,264**	**5,500,264**	**800,000**

(1) 1.3m options were held by a related entity, Bell Potter Nominees.

(2) Bernard Tuch's options are held by a related entity, DTU Pty Ltd.

(3) Robert Willcocks' options are held by his superannuation fund, Tonda Pty Ltd AFT the Elaland Superannuation Pty Ltd Fund.

(4) Ross Macdonald's options were due to vest on 2 August 2011; however, these were forfeited on his resignation before the vesting date.

D. Shareholdings

	Balance 1/07/2011	Received as remuneration	Options exercised	Net change other	Balance 30/06/2012
Directors					
R Austin	-	-	-	-	-
S Clay (1)	50,000	-	-	(50,000)	-
R Elliott	2,758,126	-	-	631,934	3,390,060
L Hunter (2)	2,645,661	-	-	-	2,645,661
B Tuch (4)	-	-	-	36,800	36,800
R Willcocks	-	-	-	-	-
Specified executives					
J Cowan (3)	20,000	-	-	38,058	58,058
A Grant	-	-	-	-	-
Total	**5,473,787**	**-**	**-**	**656,792**	**6,130,579**

	Balance 1/07/2010	Received as remuneration	Options exercised	Net change other	Balance 30/06/2011
Directors					
R Austin	-	-	-	-	-
D Brookes	545,000	-	-	(545,000)	-
S Clay	-	-	-	50,000	50,000
R Elliott	2,633,126	-	-	125,000	2,758,126
R Finder	-	-	-	-	-
L Hunter	2,645,661	-	-	-	2,645,661
R Macdonald	-	-	-	-	-
D McAuliffe	-	-	-	-	-
S O'Loughlin	387,142	-	-	(300,000)	87,142
P Tan	208,571	-	-	-	208,571
R Willcocks	-	-	-	-	-
Specified executives					
J Cowan	-	-	-	20,000	20,000
Total	**6,419,500**	**-**	**-**	**(650,000)**	**5,769,500**

(1) The shares are held by Susanne Clay's spouse.

(2) The shares are held by a related entity, Bell Potter Nominees.

(3) The shares are held by a related entity, Craig Investment Nominees.

(4) The shares are held by a related entity, DTU Pty Limited.

Notes to the financial statements

For the year ended 30 June 2012

21. Cash flow information

A. Reconciliation of cash flow from operations with profit/(loss) after income tax

	2012 $000	2011 $000
Net profit/(loss) for the period after income tax expense	5,676	(6,796)
Non-cash flows in loss:		
Depreciation	113	343
Net loss on disposal of property, plant and equipment	-	20
Net gains on disposal of intellectual property	(11,183)	-
Foreign exchange gains on disposal of assets to joint venture	(483)	-
LCT's share of net loss of joint venture	2,242	-
Net foreign currency losses	126	109
Share options expensed	87	144
Changes in assets and liabilities:		
(Increase)/decrease in trade and term receivables	(99)	468
Increase in other assets	(3)	(27)
Increase in trade payables and accruals	1,022	109
Increase/(decrease) in employee entitlements	15	(94)
Cash flow used in operations	**(2,487)**	**(5,724)**

B. Reconciliation of cash

Cash at the end of the financial year, as shown in the statement of cash flows, is reconciled to items in the statement of financial position as follows:

	2012 $000	2011 $000
Cash and cash equivalents	3,170	4,505

The company also has two business MasterCard facilities with Westpac New Zealand totalling $206,000. These are both undrawn as at year end.

22. Controlled entities

	Country of incorporation	% owned 2012	% owned 2011
Parent entity and ultimate parent of group:			
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 Ltd	USA	100	100
LCT Biomedical Ltd	Russia	100	100
Living Cell Technologies S.A.	Argentina	100	0
Fac8Cell Pty Ltd	Australia	100	100
DIABECELL Pty Ltd	Australia	100	100
NeurotrophinCell Pty Ltd	Australia	100	100

23. Related party transactions

A. Wholly-owned group transactions

(i) Parent entity

The parent entity and ultimate parent entity of the group is LCT.

(ii) Subsidiaries

Subsidiaries are detailed in Note 22 to the financial statements.

(iii) Joint venture

Joint ventures are accounted for using the equity method and detailed in Note 11 of the financial statements.

(iv) Loans

All loan balances between the companies in the consolidated entity have been fully provided for and eliminated on consolidation. All inter-company loan transactions to and from subsidiaries and with the parent entity are fully provided for.

(v) Service fee

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

(vi) Key management personnel

Disclosures relating to key management personnel are set out in Note 20 and the Directors' Report.

24. Segment reporting

The consolidated entity only operates one business segment being the research and development and product development into living cell technologies, predominantly in New Zealand.

25. Financial instruments

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

The group manages the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate and foreign exchange risk and by being aware of market forecasts for interest rates and foreign exchange rates. The group's policy is to invest in a spread of maturities to manage interest rate risk and to invest in currencies in approximate proportions of forecast expenditure to manage foreign exchange risk.

The group holds the following financial instruments:

	CONSOLIDATED	
	2012 $000	**2011 $000**
Financial assets:		
Cash and cash equivalents	3,170	4,505
Trade and other receivables	184	167
Total financial assets	**3,354**	**4,672**
Financial liabilities:		
Trade and other payables	448	520
Total financial liabilities	**448**	**520**

A. Market risk

The consolidated entity's activities expose it to the risk of changes in foreign currency exchange rates and interest rates. These risks are managed at a company and consolidated level through sensitivity analysis. There has been no change to the consolidated entity's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

B. Interest rate risk

The group's exposure to market interest rates relates primarily to the group's short-term deposits held. The company manages this risk by investing in term deposits ranging between 2 weeks and 6 months. This investment policy is adopted to manage risks and enhance returns.

Interest-rate risk sensitivity analysis

At 30 June 2012, the effect on profit/(loss) and equity as a result of changes in the interest rate, based on interest income at the average rate for the year, with all other variables remaining constant would be as follows:

	CONSOLIDATED	
	2012 $000	**2011 $000**
+ 1.0% (100 basis points)	33	35
- 0.5% (50 basis points)	(16)	(18)

C. Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. At 30 June 2012, the group had exposure to fluctuations in foreign currency arising from the sale and purchase of goods and services in currencies other than the consolidated entity's measurement currency.

		2012 $000	2011 $000
Financial assets			
Cash and cash equivalents	NZD	1,013	2,845
	USD	12	18
	ARS	7	-
Trade receivables	NZD	137	133
	USD	6	5
Other receivables	NZD	14	29
	ARS	5	-
Property, plant and equipment	NZD	2	2,422
	USD	37	39
Biological assets	NZD	-	289
Financial liabilities			
Trade and other payables	NZD	(365)	(333)
	USD	(1)	(1)
Current provisions	NZD	(205)	(191)
Deferred income	NZD	(516)	-
Retained earnings	NZD	968	2,869
	USD	(56)	(73)
	ARS	-	-
Net exposure		**1,058**	**8,051**

NZD = NZ dollar; USD = US dollar; ARS = Argentinian peso

The consolidated entity is mainly exposed to US dollars and New Zealand dollars.

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

At 30 June 2012, if the Australian dollar moved, as illustrated in the table below, based on all year-end balances in foreign currency, with all other variables held constant, post tax profit/(loss) and equity would have been affected as follows:

CONSOLIDATED

	Net profit/loss higher/(lower)		Net assets higher/(lower)	
	2012 $000	2011 $000	2012 $000	2011 $000
AUD/NZD 10%	120	673	217	386
AUD/NZD -5%	(60)	(337)	(109)	5
AUD/USD 10%	7	(9)	(13)	(2)
AUD/USD -5%	10	5	19	1

D. Price risk

The consolidated entity is not subject to any price risk.

E. Credit risk

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

Receivable balances are monitored on an ongoing basis with the result that the consolidated entity's exposure to bad debts is not significant. There are no significant concentrations of credit risk.

F. Liquidity risk

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

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

CONSOLIDATED

	< Less than 1 year $000	1 - 5 years $000	> Greater than 5 years $000
Trade and other liabilities	448	-	-
Total	**448**	**-**	**-**

G. Net fair values of financial assets and liabilities

The carrying amount of the consolidated entity's identified financial assets and liabilities are a reasonable approximation of their fair value.

26. Auditors' remuneration

	2012 $000	2011 $000
Remuneration of BDO Sydney		
Auditing or reviewing the consolidated financial report and Australian-based subsidiaries	83,485	74,500
Remuneration of PKF Ross Melville Auckland		
Auditing the New Zealand-based subsidiaries	15,231	12,202
Other services	1,370	2,380
	100,086	**89,082**

27. Contingent liabilities and contingent assets

There were no contingent liabilities or contingent assets as at the reporting date.

28. Events subsequent to reporting date

No matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

29. Company details

The registered office of the company is:

Living Cell Technologies Limited
Level 3, 70 Pitt Street
Sydney NSW 2000
Australia
+61 2 9239 0277

The principal place of business is:
PO Box 23566
Hunters Corner
Manukau 2155
Auckland, New Zealand
+64 9 276 2690

Directors' declaration

The directors of Living Cell Technologies Limited declare that:

(a) in the directors' opinion the financial statements and notes on pages 14 to 56 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2012 and of their performance, for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

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

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

The directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2012, required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.

Dated at Auckland, 29 August 2012

Director

Independent auditor's report

To the members of Living Cell Technologies Limited.

Report on the financial report

We have audited the accompanying financial report of Living Cell Technologies Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Living Cell Technologies Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Independent auditor's report

Opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the Remuneration Report

We have audited the Remuneration Report included in section 5 of the Directors' Report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Living Cell Technologies Limited for the year ended 30 June 2012 complies with section 300A of the Corporations Act 2001.

BDO East Coast Partnership

Tim Sydenham
Partner

Sydney, 29 August 2012

Tel: +61 2 9251 4100, Fax: +61 2 9240 9821
Level 10, 1 Margaret St, Sydney NSW 2000, Australia
www.bdo.com.au

Additional ASX information

The shareholders' information set out below was applicable as at 10 September 2012.

1. Distribution of shareholders

Analysis of number of shareholders by size of holding.

	Number	Number of shares
1 – 1,000	125	33,744
1,001 – 5,000	416	1,284,453
5,001 – 10,000	331	2,738,428
10,001 – 100,000	959	37,305,524
100,001 shares and over	300	315,633,624
Total	**2,131**	**356,995,773**

2. Unmarketable parcels

	Minimum parcel size	Holders	Units
Minimum $500.00 parcel at $0.047 per unit	10,639	882	4,159,915

3. Twenty largest shareholders

	Number of shares	% of total shares
National Nominees Limited	45,030,189	12.61
HSBC Custody Nominees (Australia) Limited	28,383,756	7.95
Otsuka Pharmaceutical Factory Limited	25,000,000	7.00
Coalco International Limited	24,150,408	6.76
Navigroup Management Limited	20,213,249	5.66
Jiangsu Aosaikang Pharmaceutical Co Limited	14,334,080	4.02
K One W One Limited	11,061,006	3.10
JP Morgan Nominees Australia Limited	7,760,083	2.17
Citicorp Nominees Pty Limited	5,801,864	1.63
Natalie Parke Trustee Limited	5,149,537	1.44
SC Trustee Limited	5,149,537	1.44
Foundation Services Limited	4,977,626	1.39
ERIS Pty Limited	4,588,158	1.29
Hugh Green Foundation	3,829,850	1.07
Robert Elliott	3,761,870	1.05
4 Eyes Limited	3,690,060	1.03
Mr Michael Bushell	2,306,571	0.65
ABN Amro Clearing Society Nominees Pty Limited	2,269,410	0.64
Bell Potter Nominees Limited	2,176,911	0.61
Forsyth Barr Custodians Limited	2,082,900	0.58
Total: Top 20 holders of ordinary shares	**221,717,065**	**62.09**

Additional ASX information

4. Substantial shareholders

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

	Number of shares
Persistency Private Equity Limited	25,610,891
Coalco International Limited	24,150,408
Palmert Members Limited	24,150,408
K One W One Limited	12,329,061
Otsuka Pharmaceutical Factory, Inc.	25,000,000

5. Voting rights

All ordinary shares carry 1 vote per share without restriction.


LCT
living cell technologies

living cell technologies™

Living Cell Technologies Limited
ABN: 14 104 028 042

Level 3, 70 Pitt Street, Sydney NSW 2000, Australia
PO Box 23566, Hunters Corner, Manukau 2155, Auckland, New Zealand