mesoblast
the adult stem cell company

asx announcement

MESOBLAST RELEASES HALF-YEAR FINANCIAL REPORT

Melbourne, Australia; 13 March 2006: Australian adult stem cell company, Mesoblast Limited (ASX:MSB), today reported its results for the half year ended 31 December 2005.

Executive Chairman, Mr Michael Spooner, said today that Mesoblast was on budget but well ahead of its tight timelines set for the commercialisation of its unique adult stem cell technology.

"At 31 December 2005, the company's cash position was $12,062,291 compared to $17,311,701 at 31 December 2004.

"Our US sister company, Angioblast Systems Inc, had $1,269,889 at the same date, bringing the total amount of cash available for the project to $13,332,180.

"The Board of Directors is confident that with its strong cash balance, Mesoblast will be able to deliver on its clinical and commercial milestones in a disciplined and strategic manner," Mr Spooner said.

Major achievements for the half-year included:

- Human trials for both orthopaedic and cardiovascular indications underway
- Acceleration of clinical program to Phase II clinical trials without the need for Phase I studies
- Forged strong international medical partnerships with J& J Cordis Corporation and a global orthopaedics leader
- $2.7m Australian Government award for arthritis and other cartilage diseases
- Entered into commercial manufacturing agreement with Cambrex Inc, a leading biologics manufacturer.

Highlights of the current quarter included:

- 'Universal' donor business model confirmed by pre-clinical trials in the US
- A key patent granted.

"Revenue and other income during the period was $883,586, increasing from $65,113 in the corresponding period last year. The company's policy is to hold its cash reserves in A-rated or better deposits.

"Mesoblast's net loss for the period to 31 December 2005 was $2,883,547, compared with a net loss of $410,391 for the corresponding period last year. The increased loss principally reflected the company's Initial Public Offering (IPO), which was undertaken on 16 December 2004.

Mesoblast's total operating expenses for the period were $2,959,890: -

Research & Development	$1,736,719
General, Administration & Interest Expenses	$1,223,171

"Significant cash movements during the period included milestone-linked payments of a total of $1 million to Angioblast, compared to $2 million at 31 December 2004.

"An amount of $807,243 was taken up by way of Mesoblast's equity accounted loss in the operations of Angioblast plus amortisation of goodwill.

"All payments made to Angioblast have been used strictly in adherence with pre-determined milestones in a Joint Expenditure Program enabling both companies to simultaneously develop the same adult stem cell technology platform for orthopaedic and cardiovascular applications.

"The financial results are in line with our forecasts and reflect the ongoing significant activity associated with the rapid commercialisation of Mesoblast's specialist adult stem cell technology.

"We remain confident that Mesoblast has sufficient funds in place to complete an Investigational New Drug (IND) submission to the United States Food and Drug Administration (FDA) during the second half of 2006, significantly ahead of our original schedule.

"We are proud of our solid achievements and the rapid progress we are making to commercialise our platform stem cell technology," Mr Spooner said.

About Mesoblast Limited:

Mesoblast Limited (ACN 109 431 870) is an Australian biotechnology company committed to the development of novel treatments for orthopaedic conditions, including the rapid commercialisation of a unique adult stem cell technology aimed at the regeneration and repair of bone and cartilage. Our focus is to progress through clinical trials and international regulatory processes necessary to commercialise the technology in as short a timeframe as possible. Mesoblast Limited, which listed on the Australian Stock Exchange in December 2004, has the worldwide exclusive rights for a series of patents and technologies that have been developed over more than 10 years and which relate to the identification, extraction and culture of adult Mesenchymal Precursor Cells (MPCs). The technology has achieved outstanding results in pre-clinical in vivo studies in the regeneration and repair of large bone fractures. The company has also acquired a 33.3% interest in Angioblast Systems Inc, an American company developing the platform MPC technology for the treatment of cardiovascular diseases, including repair and regeneration of blood vessels and heart muscle. Mesoblast and Angioblast will jointly fund and progress the core technology. Mesoblast's strategy is to maximise shareholder value through both corporate partnerships and the rapid and successful completion of pre-clinical and clinical milestones.

Appendix 4D

Mesoblast Limited

ABN 68 109 431 870

Half year report

Current reporting period	Half year ended 31 December 2005
Previous corresponding period	*Half year ended 31 December 2004*

Results for announcement to the market

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EXPLANATION

It should be noted that operational comparatives to 31 December 2005 are inclusive of the 15 days post the company's IPO on 16 December 2005.

Total revenues	up	1,257 %	to	884
Loss from ordinary activities after tax attributable to members	up	603 %	to	2,884
Net loss for the period attributable to members	up	603 %	to	2,884

EXPLANATION

From 1 July 2005, Mesoblast Limited is required to comply with Australian equivalents to International Financial Reporting Standards (AIFRS). This is the first half-year report to be prepared under AIFRS, and comparative information for previous reporting periods has been restated for comparability as if it had been prepared under AIFRS. Detailed notes explaining these changes are included in the half year report.

Dividends (distributions)	Amount per security	Franked amount per security
Interim dividend	NIL	NIL
Previous corresponding period	NIL	NIL

Record date for determining entitlements to the dividend N/A

	2005	2004
Net tangible asset per security	16.9c	39.3c

Appendix 4D

Mesoblast Limited
ABN 68 109 431 870

Half year report
Half year ended 31 December 2005

Contents

MESOBLAST LIMITED
ABN 68 109 431 870

DIRECTORS' REPORT

Your Directors present their report on the company at the end of the half year to 31 December 2005. Mesoblast's 33.3% interest in its sister company, Angioblast Systems Inc (Angioblast), has been accounted for by way of equity accounting.

1 DIRECTORS

The following persons were Directors of Mesoblast Limited during the whole of the half-year and up to the date of this report.

Michael Spooner (Chairman and Non Executive Director) - appointed 29 September 2004. Appointed Executive Chairman 15 August 2005
Silviu Itescu (Director and Chief Scientific Advisor) – appointed 8 June 2004
Donal O'Dwyer (Non Executive Director) – appointed 29 September 2004
Byron McAllister (Non Executive Director) – appointed 29 September 2004

2 REVIEW OF OPERATIONS

31 December 2005 signalled a period of just over 12 months since the company undertook its Initial Public Offering. During this period the company has set about delivering on its promise of developing and commercialising our adult stem cell technology for orthopaedic applications.

Our ultimate goal is to bring to market a safe and economically viable stem cell product that can be used to regenerate tissue and function for many diseases and injuries that affect us all during our lives. Our immediate goal has been to deliver a successful Investigational New Drug (IND) Application with the United States Food and Drug Administration (FDA) in as short a timeframe as is possible.

Whilst our technology appears to have many broad orthopaedic applications, the process we have adopted in commercialising the technology is to rapidly progress with indications that are represented by significant market opportunities, are well supported by complementary technologies and importantly can be delivered in the least time possible.

In the six months to 31 December 2005 your Directors were delighted with the progress made.

Highlights include:

Accelerated Timetable for Regulatory Approvals

During the period, the company announced that it had reached an important milestone in commencing formal discussions with the FDA regarding bone regeneration. As a result of these discussions, the company will proceed directly to a Phase II Clinical Trial upon FDA clearance of the company's IND submission.

A shortened regulatory process will significantly decrease the time and cost associated with bringing the company's technology to market.

Based upon our current timetable, the company is progressing extremely quickly and as a consequence it is apparent that the company will look to submit at least one IND application well ahead of schedule.

Essential to the company's ambitions is the collection of data, the implementation of manufacturing to GMP standard and the conduct of Pre-Clinical and Clinical Trials for the submission of our INDs. We have made significant progress during the period on all fronts.

In particular:

- We have rapidly progressed our Pre-Clinical Trials in the United States and are now in receipt of data that confirms our primary business model of an "off the shelf" product.
- Through our partner organisations we are able to produce adult stem cells in a GMP compliant manner. The Standard Operating Procedures we have adopted are essential to our clinical and pre-clinical work.

Commencement of Clinical Trials

We have also commenced two Human Clinical Trials in Australia where the first patients have now received adult stem cells. These are important Trials that will add significantly to our ability to safely deliver cells. Importantly however, these Trials are designed to provide safety data and a chance for patients with no, or few chances of recovery from long bone fractures and with patients suffering from Class III Congestive Heart Failure with multi-vessel coronary artery disease.

International Relationships

Essential to our ongoing business model is our ability to work with globally dominant medical companies. Our strategy is to adopt the strongest possible approach to commercialising our technology by working closely with companies in our areas of interest. During the period we announced two such relationships with Cordis Corporation, a Johnson & Johnson company, as well as a global corporation in the orthopaedics arena.

Government Grant

In the six months to December 2005, your company was awarded a $2.7million grant from the Australian Government to commence activities associated with the treatment of arthritic and other cartilage diseases. We expect that our platform technology will be utilised to rapidly tackle massive markets associated with osteoarthritis of large joints such as the knee and degenerative intervertebral disc disease.

Angioblast Systems Inc

Our sister company Angioblast Systems Inc continues to keep pace in the joint development of our underlying adult stem cell platform technology. Angioblast is focused on cardiovascular applications. During the reporting period, Mesoblast continued to make periodic payments to Angioblast in line with our agreed schedule of payments. At 31 December 2005 Mesoblast had paid $5 million in comparison to payments of $2 million at 31 December 2004.

Your Directors continue to closely monitor the progress of Angioblast and are confident of an ongoing, very productive and strong relationship between the two companies.

Financial Results

The results of the company are for the six months to 31 December 2005. It should be noted that the comparative figures for the period to 31 December 2004 included a 15-day period from the date of the company's Initial Public Offering of 16 December 2004.

Mesoblast's net loss before and after tax for the six months to 31 December 2005 was $2,883,547 compared with a net loss of $410,391 for the corresponding period last year.

Revenue and other income for the six months to 31 December 2005 was $883,586, increasing from $65,113 in the corresponding period last year.

Research and Development expenses were fully written off in the period in which they were incurred and amounted to $1,736,719 in the six months to 31 December 2005 from $Nil in the corresponding period of the previous year.

General and Administrative and Interest expenses were $1,223,171 in the six-month period to 31 December 2005 from $475,504 in the corresponding period.

Mesoblast's cash balance and term deposits amounted to $12,062,291 at 31 December 2005 compared to $17,311,701 at 31 December 2004.

3 EVENTS SUBSEQUENT TO 31 DECEMBER 2005

In the period between 31 December 2005 and the date of this report the company made three significant announcements.

Firstly, on 17 January 2006 the company announced that IP Australia had granted a key patent that covers the composition of matter relating to a unique population of adult stem cells known as Mesenchymal Precursor Cells or MPCs as well as methods associated with purifying and enriching these cells. Mesoblast is committed to a continuous process of updating and expanding our intellectual property position.

On 6 February 2006 the company announced that the first two patients from its cardiovascular trial for patients suffering from congestive heart failure, and specifically multi-vessel coronary artery disease, had been implanted with adult stem cells. The company is currently conducting two Clinical Trials for patients with heart disease and for non-union bone fractures. These Trials are designed specifically to test the safety of the cells and to prove our Standard Operating Procedures including manufacturing. Over the ensuing months, further rapid progress will be made.

Finally, preliminary results from two United States-based Pre-Clinical Trials were reported on 13 February 2006. These Trials clearly indicated that Mesoblast's adult stem cells obtained from a universal donor and produced using our proprietary technology were highly successful in generating new bone growth in multiple unrelated donors.

4 AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's independence declaration as required under Section 307C of the Corporations Act 2001 accompanies this report.

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

Michael Spooner

Michael Spooner
Executive Chairman
Melbourne, Victoria
Dated this 6th day of March 2006

MESO02/AUD

PKF

Chartered Accountants
& Business Advisers

Level 11, CGU Tower
485 La Trobe Street
Melbourne 3000
GPO Box 5099
Melbourne 3001

Tel: (03) 9603 1700
Fax: (03) 9602 3870

www.pkf.com.au

6 March 2006

The Directors
Mesoblast Ltd
Level 39
55 Collins Street
MELBOURNE VIC 3000

Dear Directors

INDEPENDENCE DECLARATION

As lead audit partner for the review of the financial report of Mesoblast Limited for the financial half year ended 31 December 2005 and in accordance with section 307C of the Corporations Act 2001, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(b) any applicable code of professional conduct in relation to the review.

Yours faithfully
PKF

R A Dean
Partner

Email: Richard_Dean@pkf.com.au

MESOBLAST LIMITED
ABN 68 109 431 870
INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half Year ended 31-Dec-05 $	Half Year ended 31-Dec-04 $
Revenues		
Government Grant	473,696	-
Interest	327,543	65,113
Foreign Exchange Gain on US Dollar Deposit	82,347	-
Total revenues	883,586	65,113
Expenses		
Research & Development	(1,736,719)	-
Administration	(1,113,079)	(475,504)
Interest expenses	(110,092)	-
Share of losses of Equity accounted associates	(807,243)	-
Total expenses	(3,767,133)	(475,504)
Loss before income tax expense	(2,883,547)	(410,391)
Income tax (expense)/benefit	-	-
Loss after related income tax expense	(2,883,547)	(410,391)
Earning per share:		
Basic earnings per share (cents per share)	(3.08c)	(0.08c)
Basic diluted earnings per share (cents per share)	(3.08c)	(0.08c)

The accompanying notes form part of these financial statements

MESOBLAST LIMITED
ABN 68 109 431 870
STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	NOTE	Issued Capital	Share Option Reserve	Accumulated Losses	Total
		$	$	$	$
Opening Balance		-	-	-	0
Issued capital	4	20,722,523	-	-	20,722,523
Loss for the period		-	-	(410,391)	(410,391)
Cost of share based payment		-	5,040		5,040
At 31 December 2004		20,722,523	5,040	(410,391)	20,317,172
As of 1 July 2005		20,667,608	65,517	(1,470,369)	19,262,756
Loss for the period		-	-	(2,883,547)	(2,883,547)
Cost of share based payment		-	150,647	-	150,647
At 31 December 2005		20,667,608	216,164	(4,353,916)	16,529,856

The above statement of changes in equity should be read in conjunction with the accompanying notes

MESOBLAST LIMITED
ABN 68 109 431 870
BALANCE SHEET
AS AT 31 DECEMBER 2005

	NOTE	31-Dec-05 $	30-Jun-05 $
CURRENT ASSETS			
Cash & Cash Equivalents		12,062,291	15,093,834
Trade & Other Receivables		745,540	186,239
Other assets		56,544	46,036
TOTAL CURRENT ASSETS		12,864,375	15,326,109
NON-CURRENT ASSETS			
Property, plant and equipment		23,800	28,238
Investment accounted for using equity method	2	4,598,839	5,406,082
Intangibles assets	3	750,452	705,395
TOTAL NON-CURRENT ASSETS		5,373,091	6,139,715
TOTAL ASSETS		18,237,466	21,465,824
CURRENT LIABILITIES			
Deferred purchase consideration		1,000,000	1,889,908
Trade & Other Payables		707,610	313,160
TOTAL CURRENT LIABILITIES		1,707,610	2,203,068
TOTAL LIABILITIES		1,707,610	2,203,068
NET ASSETS		16,529,856	19,262,756
EQUITY			
Issued Capital	4	20,667,608	20,667,608
Reserves		216,164	65,517
Accumulated losses		(4,353,916)	(1,470,369)
TOTAL EQUITY		16,529,856	19,262,756

The accompanying notes form part of these financial statements.

MESOBLAST LIMITED
ABN 68 109 431 870
CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half Year ended 31-Dec-05 $	Half Year ended 31-Dec-04 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(2,309,342)	(490,930)
Interest received	327,543	65,113
Net cash used in operating activities	(1,981,799)	(425,817)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in patents & licenses	(60,809)	(688,113)
Investment in equity accounted associate	(1,000,000)	(2,000,000)
Loan to other associate company	(75,682)	(296,892)
Others	4,400	-
Net cash used in investing activities	(1,132,091)	(2,985,005)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issue of shares	-	20,722,523
Net cash provided by financing activities	-	20,722,523
Net increase in cash held	(3,113,890)	17,311,701
Foreign exchange gain on US Dollar Deposit	82,347	
Cash & Cash Equivalents at beginning of period	15,093,834	-
Cash & Cash Equivalents at end of period	12,062,291	17,311,701

The accompanying notes form part of these financial statements

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year financial report does not include notes of type normally included in annual financial report and shall be read in conjunction with the most recent annual report.

The accounting policies set out below have been applied in preparing the financial statements for the half year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of A-IFRS adjustments since incorporation (as disclosed in note 10).

(a) Comparative amounts

The company was incorporated on 8 June 2004 and accordingly 31 December 2004 comparative figures cover the period from 8 June 2004 to 31 December 2004.

(b) Revenue Recognition

(i) Sale of goods

Revenue from the sale of goods is recognised when control of the goods has passed to the buyer, the amount of revenue can be measured reliably and it is probable that it will be received by the company.

(ii) Dividend revenue

Dividend revenue is recognised when the right to receive payment is established

(iii) Interest revenue

Interest revenue is recognised on an effective yield basis.

(c) Government Grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to expense items, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that the grant is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income over the expected useful life of the relevant asset by equal annual instalments.

(d) Income tax

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont :)

deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/ consolidated entity intends to settle its current tax assets and liabilities on a net basis.

(iii) Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(e) Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(f) Investment in Associate

The entity's investment in associate is accounted for under the equity method of accounting in the entity's financial statements. This is an entity in which the company has significant influence and which is neither a subsidiary nor a joint venture. The financial statements of the associate are used by the entity to apply equity method.

The investment in associate is carried in the entity's balance sheet at cost plus post-acquisition changes in the entity's share of net assets of the associate, less any impairment in value. The income statement reflects the entity's share of the results of operations of the associate.

Where there has been a change recognized directly in the associate's equity, the company recognizes its share any changes and discloses this, when applicable in the statement of changes in equity.

(g) Property, Plant and Equipment

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Property, plant and equipment, other than freehold land, are depreciated over their estimated useful lives using the straight line method. The expected useful life for plant and equipment is 5 years. Profits and losses on disposal of plant and equipment are taken into account in determining the profit for the year.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money markets, net of outstanding bank overdrafts. For the purpose of cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above net of outstanding bank overdrafts.

(i) Trade and Other Receivables

Trade receivables and other receivables represent the principal amounts due at balance date less, where applicable, any provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Debts which are known to be uncollectible are written off. All trade receivables and other receivables are recognised at the amounts receivable as they are due for settlement within 60 days.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont :)

(j) Research and Development Costs

Research Costs are recognised as an expense in the period in which they are incurred. Similarly, Development Costs are currently recognised as an expense in the period in which they are incurred.

In line with international accounting standards Development Costs may be capitalised at a date in the future only when future economic benefit is probable When capitalized the carrying value of Development Costs will be reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

(k) Trade and Other Payables

Trade and Other Payables represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest. Liabilities for payables and other amounts are carried at cost which approximates fair value of the consideration to be paid in the future for goods and services received, whether or not billed. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(m) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of any goods and services tax ("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.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position.

(n) Translation of Foreign Currency Items

Except for foreign currency contracts where the exchange rate is fixed, each asset, liability, item of equity, revenue or expense is recognised and translated using the spot rate at the date of the transaction.

Foreign currency monetary items outstanding at the reporting date are translated at the spot rate on the reporting date.

Exchange differences are recognised as revenues or expenses in the net profit or loss in the period in which exchange rates change except for qualifying assets and hedge transactions.

(o) Intangible Assets

Bone and Cartilage Licence

The Bone and Cartilage Licence is recorded at cost. The carrying value of this licence is amortised, using straight-line method, over a useful life of 25 years, estimated period of time during which benefits will be derived from their use in operations.

MESOBLAST LIMITED
ABN 68 109 431 870
NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Note 2: EQUITY ACCOUNTED INVESTMENT

Name of Entity	Balance Date	Principal Activity	Ownership Interest		Carrying Amount	
			31 December 2005	30 June 2005	31 December 2005	30 June 2005
Angioblast Systems Inc	30 June	Stem cell research	33%	33.3%	4,598,839	5,406,082

Investment in associate account using equity method	5,782,791	5,782,791
Share of equity accounted loss	(1,183,952)	(376,709)
Carrying amount of equity accounted investment at 31 December 2005	4,598,839	5,406,082

Note 3: INTANGIBLE ASSETS

	31 December 2005 $	30 June 2005 $
Intellectual property establishment and licenses at cost	781,689	720,879
Less: Amortisation	(31,237)	(15,484)
	750,452	705,395

Note 4: CONTRIBUTED EQUITY

4 a) Movements in contributed equity during the half year were as follows: -

	31 December 2005 No.	31 December 2005 $	30 June 2005 No.	30 June 2005 $
At the beginning of the reporting period	93,510,000	20,667,608	93,510,000	20,722,523
Share issue expenses				(54,915)
At the end of the reporting period	93,510,000	20,667,608	93,510,000	20,667,608

4 b) Share options

	31 December 2005 No.	30 June 2005 No.
Balance at beginning of the half year	5,660,000	-
Granted during the half year	700,000	5,660,000
Exercised during the half year	-	-
Lapsed during the half year	-	-
Balance at end of the half year	6,360,000	5,660,000

Option - Series	Number	Vesting date	Expiry date	Exercise price $
Granted 16 December 2004	80,000	16/12/2005	16/12/2006	0.60
Granted 16 December 2004	80,000	16/12/2006	16/12/2007	0.60
Granted 26 October 2004	400,000	16/12/2007	30/12/2007	0.55
Granted 26 October 2004	780,000	16/12/2006	16/12/2008	0.60
Granted 29 September 2004	4,320,000	29/09/2005	29/06/2009	0.55
Granted 25 August 2005	350,000	31/12/2005	31/12/2008	0.65
Granted 25 August 2005	350,000	30/06/2006	30/06/2009	0.65

Note 5: SEGMENT INFORMATION

The company operates in two business segments, being commercialisation and investment in research and development companies.

The company predominantly operates in one geographical area, being Australia.

	Research & Development		Investment		Corporate		Total	
BUSINESS SEGMENTS	**2005 $'000**	**2004 $'000**	**2005 $'000**	**2004 $'000**	**2005 $'000**	**2004 $'000**	**2005 $'000**	**2004 $'000**
Revenue from Operations	474	-	-	-	410	65	884	65
Results from ordinary activities	(1,263)	-	(807)	-	(814)	(410)	(2,884)	(410)

Note 6: SUBSEQUENT EVENTS

a. Angioblast Systems Inc

The 30 June 2005 financial report included a contingent liability in respect of potential commitments to provide further funding to Angioblast Systems Inc. upon the completion of a specific milestone.

Angioblast Systems Inc. completed the milestone, being the development by the company of a standard operating protocol ("SOP") for the cell culture process (including the production of stem cells by a GMP facility using that SOP) that meets standards which are sufficient and which are approved by an ethics committed of an Australian hospital for the commencement of a human clinical trial as envisaged in the expenditure and project plans of both the Investor and the Company.

Mesoblast has been advised that this milestone was reached on 1 February 2006. This triggers the second tranche of payment, 4 million AUD to be paid to Angioblast Systems Inc. in quarterly 1 million dollar instalments commencing 31 March 2006.

b. Employee Options

On 24 February 2006, Mesoblast announced that 1,440,000 options had been issued to employees and contractors exercisable on various terms.

c. Government Grant

In December 2005, Mesoblast was awarded a Commercial Ready Government Grant with AusIndustry for $2.7 million of which $473,696 has been recognised as income at 31 December 2005 being a reimbursement of expenditure made by the company prior to 31 December 2005.

Note 7: CONTINGENT LIABILITIES

Other than as described in Note 8 (a), there has been no material change of any contingent liabilities or contingent assets since 30 June 2005.

Note 8: IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

Mesoblast Ltd has changed its accounting policies on 1 July 2005 to comply with Australian Accounting Standards (AGAAP) to Australian equivalent of International Financial Reporting Standards (AIFRS). The transition to AIFRS accounted for in accordance with Accounting Standard AASB 1 'First time Adoption of Australian Equivalents to International Financial Reporting Standard' with the date of incorporation, 8 June 2004, as the date of transition.

An explanation of how the transition from superseded policies to AIFRS has affected the consolidated entity's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

MESOBLAST LIMITED
ABN 68 109 431 870
NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Effect of AIFRS on the Balance Sheet as at 1 July 2005

	Note	Superseded policies *	Effect of transition to AIFRS	AIFRS
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		15,093,834	-	15,093,834
Trade and other receivables		186,239	-	186,239
Other financial assets		46,036	-	46,036
Total current assets		15,326,109	-	15,326,109
NON-CURRENT ASSETS				
Equity accounted investments	3	5,293,793	112,289	5,406,082
Property, plant and equipment		28,238	-	28,238
Intangible assets	3	705,395	-	705,395
Total non-current assets		6,027,426	112,289	6,139,715
TOTAL ASSETS		21,353,535	112,289	21,465,824
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		313,160	-	313,160
Amount due to Angioblast	2	1,889,908	-	1,889,908
Total current liabilities		2,203,068	-	2,203,068
TOTAL LIABILITIES		2,203,068	-	2,203,068
NET ASSETS		19,150,467	112,289	19,262,756
EQUITY				
Equity attributable to equity holders of the parent				
Contributed Equity		22,662,400	-	22,662,400
Cost of IPO		(1,994,792)	-	(1,994,792)
Share option reserve	1	-	65,517	65,517
Accumulated Losses		(1,517,141)	46,772	(1,470,369)
TOTAL EQUITY		19,150,467	112,289	19,262,756

* Reported financial position for the financial year ended 30 June 2005

Notes to the reconciliation

(1) The fair value of the options granted to employees was based on an independent valuation of these options on 27 October 2004 using the Black-Scholes model. Under AIFRS for the year ended 30 June 2005 the expense to be recorded in the result is $65,517 and at 31 December 2004 was $5,040.

(2) This includes the present value of the $2 million payable in the first and second quarter of the following financial year. The third tranche of $4 million will only be paid to Angioblast when it meets certain research milestones as set out in the Stock Purchase Agreement. In the event Angioblast does not meet these research milestones, Mesoblast has no contractual obligation to pay further consideration of $4 million.

(3) AIFRS prohibits goodwill amortisation therefore the goodwill included in the equity accounted investment currently amortised in accordance with GAAP will no longer be amortised

Effect of AIFRS on the income statement for the year ended 30 June 2005

	Note	Superseded policies	Effect of transition to AIFRS	AIFRS
Revenue				
Interest Income		502,885		502,885
Research and Development		(755,590)	-	(755,590)
Administration	1	(668,321)	(65,517)	(733,838)
Interest expenses		(107,117)	-	(107,117)
Equity accounted losses – share of Angioblast losses	3	(488,998)	112,289	(376,709)
Loss before income tax		(1,517,141)	46,772	(1,470,369)
Income tax expenses		-	-	-
Loss for the period		(1,517,141)	46,772	(1,470,369)

MESOBLAST LIMITED
ABN 68 109 431 870
NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Effect of AIFRS on the Balance Sheet as of 31 December 2004

	Note	Superseded policies	Effect of transition to AIFRS	AIFRS
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		17,311,701	-	17,311,701
Trade and other receivables		296,892	-	296,892
Other financial assets		61,572	-	61,572
Total current assets		17,670,165	-	17,670,165
NON-CURRENT ASSETS				
Equity accounted investments	3	5,773,995	8,796	5,782,791
Intangible assets	3	688,113	-	688,113
Total non-current assets		6,462,108	8,796	6,470,904
TOTAL ASSETS		24,132,273	8,796	24,141,069
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		41,106	-	41,106
Amount due to Angioblast	2	3,782,791	-	3,782,791
Total current liabilities		3,823,897	-	3,823,897
TOTAL LIABILITIES		3,823,897	-	3,823,897
NET ASSETS		20,308,376	8,796	20,317,172
EQUITY				
Equity attributable to equity holders of the parent				
Contributed Equity		22,662,400	-	22,662,400
Cost of IPO		(1,939,877)	-	(1,939,877)
Share option reserve	1	-	5,040	5,040
Accumulated Losses		(414,147)	3,756	(410,391)
TOTAL EQUITY		20,308,376	8,796	20,317,172

Effect of AIFRS on the income statement for the year ended 31 December 2004

	Note	Superseded policies	Effect of transition to AIFRS	AIFRS
Revenue				
Interest Income		65,113		65,113
Research and Development		-	-	-
Administration	1	(470,464)	(5,040)	(475,504)
Interest expenses		-	-	-
Equity accounted losses – share of Angioblast losses	3	(8,796)	8,796	-
Loss before income tax		(414,147)	3,756	(410,391)
Income tax expenses		-	-	-
Loss for the period		(414,147)	3,756	(410,391)

MESOBLAST LIMITED
ABN 68 109 431 870

DIRECTORS' DECLARATION

In accordance with a resolution of directors of Mesoblast Limited,

In the opinion of the directors:

(a) the accompanying financial statements and notes are in accordance with Corporations Act 2001 and comply with the accounting standards and give a true and fair view of the company's financial position as at 31 December 2005 and of its performance for the half year ended on that date.

(b) At the date of this declaration there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors dated the 6th day of March 2006.

Michael Spooner

Mr Michael Spooner
Director

Melbourne

PKF

Chartered Accountants
& Business Advisers

Level 11, CGU Tower
485 La Trobe Street
Melbourne 3000
GPO Box 5099
Melbourne 3001

Tel: (03) 9603 1700
Fax: (03) 9602 3870

www.pkf.com.au

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MESOBLAST LTD

Scope

We have reviewed the accompanying half-year financial report of Mesoblast Ltd, which comprises the balance sheet as at 31 December 2005, and the income statement, statement of changes in equity and cash flow statement for the half-year then ended, summary of significant accounting policies and other selected explanatory notes and the directors' declaration.

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mesoblast Ltd is not in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

  (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

PKF

PKF
Chartered Accountants

R A Dean
Partner

6 March 2006
Melbourne