Living Cell Technologies Ltd

Half-Year Financial Report

31 December 2005

Living Cell Technologies Ltd

CONTENTS

Living Cell Technologies Limited

Directors' Report

31 December 2005

Your directors present their report on the company and its controlled entities for the half-year ended 31 December 2005.

1. General information

a Directors

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

Names

Michael Yates

Simon O'Loughlin

Robert Elliott

David Collinson

Roger Coats

Alfred Vasconcellos

b Principal Activities

The principal activities of the Group during the financial period were the development of cell based medical treatments through a vertically integrated cell therapy business operating globally, with offices in Australia (country of incorporation), New Zealand and the United States. The company is listed on the Australian Stock Exchange.

Corporate affairs are managed between Sydney, Melbourne and Auckland, with the research and production division also located in Auckland. Product development is based in Rhode Island, USA.

There have been no significant changes in the nature of the Group's principal activities during the financial period.

2. Business review

a Operating Results

The consolidated loss of the Group for the half-year ending 31 December 2005 amounted to $3,222,945, compared to a loss of $2,746,257 in the corresponding period to 31 December 2004. This represents an increase of 17.4%, reflecting the increased activity in the research and development operations.

b Review of operations

During the half-year period ending 31 December 2005, capital raising activities resulted in share capital increasing to $24,448,161 from $19,536,574, an increase of $4,911,587, or 25.1%. This additional funding has enabled the continued extension of the research and development activities of the Group.

As at 31 December 2005 net assets were $5,031,623 compared to $3,135,554 as at 30 June 2005,

2. Business review continued

b Review of operations continued

an increase of $1,896,069. At the end of the half-year there was $4,552,001 cash at the bank, an increase of $1,903,510 compared to the $2,648,491 at the bank at the end of the previous financial year.

Fund Raising

The Company had a successful outcome to capital raisings during the period with the $4,911,587 raised, from both institutional and high net worth investors in Australia, New Zealand the United States and Europe. Living Cell Technologies Limited ended 2005 with a market capitalisation of $22 million dollars.

The period included significant investment and roadshow activity to institutional investors in the US and Europe, and will lead to further capital raisings in the subsequent financial period. Expanding the base of shareholders in the United States is an important step as LCT moves closer towards the US market and product commercialisation.

The funds raised will be used as working capital to further progress the company's products (initially NeurotrophinCell "NtCell") towards phase I/II clinical trials.

Grants

New Zealand Trade & Enterprise ("NZTE") approved a NZ$480,000 grant to LCT to help future progress the development of cell based therapeutic products. The funding will help the transition of LCT's research efforts into manufacturing outcomes in the new and innovative field of cell based therapeutic products using cells from a specialised reliable and safe cell source.

Cure Kids New Zealand approved a NZ$100,000 grant to LCT to pursue its program of liver cell transplantation treatment of the inherited bleeding disorder, haemophilia. The grant will assist the company to carry out the necessary pre-clinical studies to bring the Fac8Cell product to consideration for a human trial.

Funds Used For:

DiabeCell

LCT representatives have met with the New Zealand regulator, MedSafe, to discuss the resumption of a phase 1 clinical trial for LCT's diabetes product, DiabeCell.

Longevity studies to optimise and document the therapeutic duration of the product are continuing. In discussion with MedSafe, LCT has filed a letter of intent to apply for resumption of the phase I clinical trial, potentially beginning before the end of 2006.

The company continues to hold a dominant position amongst competitors in this field.

NeurotrophinCell

Representatives from LCT attended a pre-IND meeting with members of the National Institutes of Health (NIH) and reviewers from the Centre for Biologics Evaluation and Research (CBER), the group within the FDA responsible for the evaluation of biologics, including cell and gene therapies. This moved the Company one step closer in its pursuit of an IND (Investigational New Drug) application for

2. Business review continued

b Review of operations continued

its cell therapy treatment for Huntington's disease.

LCT's first targeted application of NtCell is Huntington's disease and the company is currently completing toxicity studies and characterising shipping and QA/QC procedures.

Fac8cell

Research and Development work continues in both New Zealand and USA. In the financial year 2004/05, LCT management undertook the strategic decision to focus on the NeurotrophinCell and DiabeCell products based upon market factors.

In October, LCT announced a joint venture with the US-based stem cell company MultiCell Technologies Inc. The collaboration will focus on creating novel liver-cell based technologies and products that lead to the development of new medicines and treatments for a variety of liver-related diseases.

Discovery Program

Living Cell Technologies possesses a technology platform and unique and safe cell supply applicable to the treatment of a number of disease areas. In addition to the two products nearing the clinic, LCT owns two drug delivery mechanisms and maintains a strong research and discovery focus.

A number of other research programs remain active and include the treatment of stroke, Amyotrophic Lateral Sclerosis (ALS), Central Nervous System (CNS) trauma, spinal injury and the rehabilitation of the auditory nerve. These programs are drawing upon the international expertise of Brown University, The Howard Florey Institute and The Bionic Ear Institute.

Intellectual Property

LCT holds patents and patent applications in 8 main patent families that cover the use and treatment of diabetes, use and treatment of CNS disorders and porcine cells in xenotransplantation. LCT has also filed a patent to protect the novelty of its alginate technology. This provides LCT with a significant delivery platform for its cell therapy products and enables future licensing opportunities.

Filing of patents receives close attention with the company taking independent professional advice for appropriate protection of the Company's Intellectual Property. The Intellectual Property portfolio is current and relevant to the purposes of the business.

Licensing

With the use of LCT's biocapsule technology, a variety of cell types are able to be transplanted and function in the human body for extended periods of time without the use of immunosuppressive drugs.

The encapsulation process has also been scaled for manufacture within LCT's accredited GMP (good manufacturing practice) facility and provides a future out-licensing opportunity for the company.

2. Business review continued

b Review of operations continued
Awareness Building

The period has seen an increased awareness by the investment community of the company's direction and market opportunity for live cell therapy.

LCT has increased its engagement with the local and international biotech communities reflecting the company's progress in advancing its product portfolio towards clinical trials. The company's participation in the major industry conferences around the globe has increased the international recognition of the company. Ongoing media coverage, investor road shows and presentations of scientific papers have created a better understanding of LCT's technology and business model.

3. Other items

a Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the financial period.

b Adoption of Australian Equivalents to IFRS - Reporting

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (IFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to IFRS is included on Note 1 to this report.

c After balance day events

At a general meeting of shareholders on 24 February 2006 the shareholders approved the issue of 33,333,333 fully paid ordinary shares in the capital of the Company to clients of Hunter Capital International, on terms set out in the Explanatory Memorandum that was issued to shareholders.

Shareholders also approved the issue of 2,380,131 unlisted warrants to Hunter Capital International. In addition the issue of 14,769,283 ordinary shares in the capital of the Company to persons named or identified in the Explanatory Memorandum and on terms and conditions set out in the same document was also approved.

On the same date it was announced that Charles Macek, a leading company director in Australia, was to be appointed to the Board of Directors of LCT as an additional independent director to replace Roger Coats who is resigning as a Non Executive Director.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or might significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

d Future developments

Directors expect the Group to maintain the present status and level of operations in the research, development and commercialisation of the 2 lead products. The Directors expect that the Group's research and development losses will continue for the year ended 30 June 2006.

Living Cell Technologies Limited

Directors' Report

31 December 2005

3. Other items continued

e Auditors Independence Declaration

The lead auditors independence declaration for the period ended 31 December 2006 has been received and can be found on page 6 of the financial report.

Signed in accordance with a resolution of the directors.

David Collinson

Director

Auckland, 16 March 2006

Auditor's Independence Declaration

To the Directors of Living Cell Technologies Limited:

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2005, there have been:

i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

PKF

PKF
Chartered Accountants

Arthur Milner
Partner

Sydney, 16 March 2006

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | www.pkf.com.au
New South Wales Partnership | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

Living Cell Technologies Limited

Condensed Income Statement

For the half-year ended 31 December 2005

		CONSOLIDATED	
		December 31	**December 31**
		2005	**2004**
	Note	**$**	**$**
Revenue - trading	2	**1,404**	559
Other revenue	2	**93,305**	37,219
Total Revenue		**94,709**	37,778
Employee costs		**(1,809,240)**	(1,526,291)
Depreciation, amortisation and impairments		**(79,321)**	(64,764)
Other expenses		**(1,428,867)**	(1,192,980)
Finance costs		**(226)**	-
Profit (loss) before income tax		**(3,222,945)**	(2,746,257)
Profit (loss) attributable to members of the parent entity		**(3,222,945)**	(2,746,257)
Earnings Per Share:			
Basic earnings per share (cents per share)		**(3.20)**	(3.70)

Living Cell Technologies Limited

Condensed Balance Sheet

As At 31 December 2005

		CONSOLIDATED	
		December 31	**June 30**
		2005	**2005**
	Note	**$**	**$**
ASSETS			
Current assets			
Cash and cash equivalents		**4,552,001**	2,648,491
Trade and other receivables		**47,385**	42,864
Inventories		**26,983**	16,308
Other assets		**6,730**	10,166
Total current assets		**4,633,099**	2,717,829
Non-current assets			
Property, plant and equipment		**981,503**	882,387
Biological assets		**350,008**	344,498
Total non-current assets		**1,331,511**	1,226,885
TOTAL ASSETS		**5,964,610**	3,944,714
LIABILITIES			
Current liabilities			
Trade and other payables		**862,673**	740,360
Short-term borrowings		**8,510**	23,904
Provisions		**61,804**	42,110
Total current liabilities		**932,987**	806,374
Non-current liabilities			
Long-term borrowings		**-**	2,786
Total non-current liabilities		**-**	2,786
TOTAL LIABILITIES		**932,987**	809,160
NET ASSETS		**5,031,623**	3,135,554
EQUITY			
Share capital	3	**24,448,161**	19,536,574
Reserves		**536,771**	329,344
Retained Earnings		**(19,953,309)**	(16,730,364)
Parent interest		**5,031,623**	3,135,554
TOTAL EQUITY		**5,031,623**	3,135,554

Living Cell Technologies Limited

Condensed Statement of Cash Flows

For the Period Ended 31 December 2005

		CONSOLIDATED	
		December 31	**December 31**
		2005	**2004**
	Note	**$**	**$**
Cash from operating activities:			
Receipts from customers		**38,143**	42,805
Payments to suppliers and employees		**(2,905,726)**	(3,152,499)
Dividends received		**76**	-
Interest received		**56,274**	64,016
Interest paid		**(226)**	(7,643)
Total cash from operating activities		**(2,811,459)**	(3,053,321)
Cash flows from investing activities:			
Payments to acquire property, plant and equipment		**(178,437)**	(123,939)
Net cash used by investing activities		**(178,437)**	(123,939)
Cash flows from financing activities:			
Proceeds from the issue of share capital		**4,999,002**	9,949,172
Repayment of borrowings		**(18,180)**	(822,478)
Payment of transaction costs		**(87,415)**	(635,547)
Net cash used by financing activities		**4,893,407**	8,491,147
Other activities:			
Net cash increase (decreases) in cash and cash equivalents		**1,903,511**	5,313,887
Cash and cash equivalents at beginning of year		**2,552,582**	485,730
Cash and cash equivalents at end of year		**4,456,093**	5,799,617

Living Cell Technologies Limited

Condensed Statement of Changes In Equity

For the Period Ended 31 December 2005

31 December 2005	**CONSOLIDATED**	**Ordinary Shares**	**Retained Earnings**	**Option Reserve**	**Foreign Currency Translation Reserve**	**Total**
		$	**$**	**$**	**$**	**$**
Equity as at 1 July 2005		**19,536,574**	**(16,730,364)**	**329,344**	**-**	**3,135,554**
Profit (Loss) attributable to members of the parent entity		**-**	**(3,222,944)**	**-**	**-**	**(3,222,944)**
Shares issued during the period		**4,999,002**	**-**	**-**	**-**	**4,999,002**
Transaction costs		**(87,415)**	**-**	**-**	**-**	**(87,415)**
Adjustments from translation of foreign controlled entities		**-**	**-**	**-**	**(1,060)**	**(1,060)**
Option reserve on value of options granted		**-**	**-**	**208,486**	**-**	**208,486**
Equity as at 31 December 2005		**24,448,161**	**(19,953,308)**	**537,830**	**(1,060)**	**5,031,623**

31 December 2004	**CONSOLIDATED**					
Equity as at 1 July 2004		8,982,351	(10,307,766)	-	-	(1,325,415)
Profit (Loss) attributable to members of the parent entity		-	(2,746,258)	-	-	(2,746,258)
Shares issued during the period		10,852,719	-	-	-	10,852,719
Transaction costs		(635,547)	-	-	-	(635,547)
Option reserve on value of options granted		-	-	86,033	-	86,033
Equity as at 31 December 2004		19,199,523	(13,054,024)	86,033	-	6,231,532

Living Cell Technologies Limited

Notes to the Half-Year Financial Statements

For the half-year ended 31 December 2005

1 Basis of Preparation

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Living Cell Technologies Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Living Cell Technologies Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:
-AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
-AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,
to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Living Cell Technologies Limited and its subsidiaries ('the Group'). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

1 Basis of Preparation continued

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Living Cell Technologies Limited has control.

(ii) Foreign currency translation

Both the functional and presentation currency of Living Cell Technologies Limited and its Australian subsidiaries is Australian dollars (AUD).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiaries Living Cell Technologies New Zealand Limited and Pancell New Zealand Limited is New Zealand Dollars (NZD) and for LCT BioPharma Inc is United States dollars (USD).

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Living Cell Technologies Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.
On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(iii) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a diminishing value basis over the estimated useful life of the asset as follows:

Leasehold improvements	9.5%
Plant and equipment	15% - 31%
Motor vehicles	26%
Furniture and fittings	9% - 26%
Office equipment	11% - 48%

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount,

1 Basis of Preparation continued

the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iv) Intangible assets

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Research and development costs

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is 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.

(v) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(vi) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

1 Basis of Preparation continued

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

(vii) Inventories
Inventories consist of materials used in laboratory testing and are valued at the lower of cost or net realisable value.

(viii) Trade and other receivables
Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(ix) Cash and cash equivalents
Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(x) Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

1 Basis of Preparation continued

(xi) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xii) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Option Plan (ESOP) in place, which provides benefits to directors and senior executives

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Living Cell Technologies Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

1 Basis of Preparation continued

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xiii) Leases
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(xiv) Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends
Revenue is recognised when the shareholders' right to receive the payment is established.

(xv) 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 an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it 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 statement over the expected useful life of the relevant asset by equal annual instalments.

(xvi) Income tax
Deferred income tax is provided on all temporary differences at the balance sheet date between the

1 Basis of Preparation continued

tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xvii) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xviii) Biological Assets

The company purchased a herd of Auckland Island pigs which are critical to plans to produce pig cells for xeno-transplantation because they are free of infectious diseases common with other pig

Living Cell Technologies Limited

Notes to the Half-Year Financial Statements

For the half-year ended 31 December 2005

1 Basis of Preparation continued

strains and they meet FDA requirements for donors of pig cells for human xeno-transplantation.

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

The Directors valuation at cost is consistent with an independent accountant's opinion on the purchase transaction.

(e) Impact of adoption of AIFRS

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	CONSOLIDATED		
	30-Jun-05	**30-Dec-04**	**01-Jul-04**
	$	**$**	**$**
Total equity under AGAAP	3,135,554	6,231,532	1,799,055
Adjustment to retained earnings (net of tax):			
Recognition of share-based payment expense (A)	(329,344)	(86,033)	-
Adjustment to other reserves (net of tax):			
Recognition of share-based payment expense (A)	329,344	86,033	-
Total equity under AIFRS	**3,135,554**	**6,231,532**	**1,799,055**

(A) Under AASB 2 Share Based Payments, the company is required to determine the fair value of options issued to directors, specified executives and employees as remuneration and recognise as an expense in the Income Statement under AIFRS, but was not recognised under AGAAP.

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	CONSOLIDATED	
	Year ended 30-Jun-05	**Half-Year ended 31-Dec-04**
	$	**$**
Profit (loss) after tax as previously reported	(6,097,309)	(2,660,224)
Recognition of share-based payment expense Note (e) (i) (A)	(329,344)	(86,033)
Profit after tax under AIFRS	**(9,172,910)**	**(2,746,257)**

Living Cell Technologies Limited

Notes to the Half-Year Financial Statements

For the half-year ended 31 December 2005

2 Revenue

		CONSOLIDATED	
		December 31	**December 31**
		2005	**2004**
	Note	**$**	**$**
Sale of goods		**1,404**	559
Revenue - trading		**1,404**	559
Interest income		**56,122**	1,156
Dividend income		**76**	382
Donations		**13**	8
Government grants		**37,094**	35,673
Other Revenue		**93,305**	37,219
Total Revenue		**94,709**	37,778

3 Issued Capital

a Ordinary Shares

	CONSOLIDATED	
	December 31	**June 30**
	2005	**2005**
	No.	**No.**
At the beginning of reporting period	**92,840,681**	48,672,968
Movements in ordinary shares on issue		
Private share issues & issues to contractors	-	12,453,682
Public equity raising	**23,683,455**	20,022,370
Rights issue	-	5,694,211
Convertible notes converted	-	5,175,700
Options exercised	-	196,750
Purchase of assets of Pancell New Zealand Ltd	-	625,000
At reporting date	**116,524,136**	92,840,681

3 Issued Capital continued

Summary Table

	CONSOLIDATED	
	December 31	**June 30**
	2005	**2005**
	$	**$**
116,524,136 (June 05: 82,840,681) Ordinary shares issued and fully paid	**24,448,161**	19,536,574

4 Segment Reporting

The company and its subsidiary companies operate in a single segment, that being the research and development and product development into living cell technologies. Geographically the majority of the research and development was performed in New Zealand and the balance was performed in the USA. The corporate office is located in Australia.

The following table presents the revenue and profit information regarding business segments for the half year periods ended 31 December 2005 and 31 December 2004.

CONSOLIDATED	New Zealand $	USA $	Australia $	Eliminations $	Total $
31 December 2005					
Segment revenue	1,332,719	898,028	166,231	(2,302,269)	94,709
Segment result	14,075	89,822	(3,327,250)	408	(3,222,945)
31 December 2004					
Segment revenue	1,118,000	868,000	-	(1,948,000)	38,000
Segment result	(31,000)	127,000	(2,756,000)	-	(2,660,000)

5 Events After the Balance Sheet Date

At a general meeting of shareholders on 24 February 2006 the issue of 33,333,333 fully paid ordinary shares in the capital of the Company to clients of Hunter Capital International, on terms set out in the Explanatory Memorandum that was issued to shareholders, was approved. Shareholders also approved the issue of 2,380,131 unlisted warrants to Hunter Capital International and the issue of 14,769,283 ordinary shares in the capital of the Company.

Living Cell Technologies Ltd

Directors' Declaration

In accordance with a resolution of the directors of Living Cell Technologies Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

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

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

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

On behalf of the Board

David Collinson

Director

Auckland, 16 March 2006

Chartered Accountants
& Business Advisers

INDEPENDENT REVIEW REPORT
To the members of Living Cell Technologies Limited

Scope

We have reviewed the financial report of Living Cell Technologies Limited for the half-year ended 31 December 2005 as set out on pages 7 to 21. The financial report includes the consolidated financial statements of the consolidated entity comprising Living Cell Technologies Limited (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report. 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 consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company 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 company'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 Living Cell Technologies Limited is not in accordance with:

(a) the Corporations Act 2001, including:

i) giving a true and fair view of the consolidated 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

Arthur Milner
Partner

Sydney, 16 March 2006

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | www.pkf.com.au
New South Wales Partnership | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales