TISSUE THERAPIES

DIRECTORS' REPORT (Amended for the Inclusion of the Auditor's Independence Declaration)

Your directors present their report on Tissue Therapies Limited (the Company) for the half year ended 31 December 2004.

DIRECTORS

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

Roger Clarke – Chairman (appointed 6/11/03)

Qualifications	-	Bachelor of Commerce
	-	Chartered Accountant
Experience	-	Chairman of ABN AMRO Morgans Limited
	-	Director of MTQ Insurance Ltd and Northstate Capital Limited
Special Responsibilities	-	Chairman of the Audit Committee
Interest in Shares and Options	-	200,000 Ordinary Shares and options to acquire a further 150,000 ordinary shares.

Professor David Gardiner – Director (appointed 12/09/03)

Qualifications	-	Professor of Law
	-	Barrister at Law
	-	Deputy-Vice Chancellor of QUT
Experience	-	Director of seven R & D and commercialisation companies, including biotechnology company, Farmacule Bioindustries Pty Ltd
Interest in Shares and Options	-	2,255,000 Ordinary Shares and options to acquire a further 100,000. Ordinary shares are held by QUT, which is a related entity of Professor David Gardiner

Gregory Baynton - Executive Director

Qualifications	-	Master of Economic Studies, Master of Business Administration
	-	Post Graduate Diploma in Applied Finance and Investment
	-	Bachelor of Business
	-	Fellow of the Australian Institute of Company Directors
	-	Associate of the Securities Institute of Australia
Experience	-	Managing Director of Orbit Capital Pty Ltd
	-	Director of Lodestone Exploration Limited
	-	Director of three Australian biotechnology companies
Special Responsibilities	-	Member of the Audit Committee
Interest in Shares and Options	-	510,000 Ordinary Shares and options to acquire a further 600,000. Ordinary shares are held by Orbit Capital, which is a related entity of Gregory Baynton.

Neil Reinhardt - Director

Qualifications	-	Registered Pharmacist
Experience	-	Director of City Investor Group Pty Limited
	-	Director of a number of private companies in the areas of manufacturing, health care, and investments
Special Responsibilities	-	Member of the Audit Committee
Interest in Shares and Options	-	260,000 Ordinary Shares and options to acquire a further 100,000 ordinary shares.

Principal Activities

During the year the principal activities of the entity consisted of the research, development and commercialisation of the entity's exclusive international intellectual property in wound healing and tissue regeneration.

Operating Results

The loss of the Company after tax for the half year amounted to $445,370.

Dividends

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Review of Operations

A review of the operations of the Company during the half year is as follows:

- The loss of the Company after tax of $445,370 was in line with budget expectations.
- The grant funding programme proceeding with research grants received by the Company of $73,077.
- Research and development expenditure of $524,243 was incurred in pursuing the Company's key research and business priorities as outlined in the Company's prospectus.
- The Company's balance sheet was strengthened considerably following the receipt of $1,460,000 from the successful share placement in which took place in October 2004.
- Animal trials conducted at Royal Children's Hospital in Brisbane of VitroGro as a potential treatment for paediatric burns were completed ahead of schedule, with detailed analysis of the trial data currently underway. Results of these trials are expected to be released by the end of February 2005.
- Work on large-scale, commercial production of synthetic components of VitroGro continues on schedule and on budget.
- Discussions continued with leading distributors towards a global distribution arrangement for VitroGro® products in key research and industrial cell culture markets.
- Approval of a Collaboration Agreement with Queensland Institute for Medical Research (QIMR) to develop the VitroGro® technology as a platform to produce cancer immunotherapy vaccines with QIMR's human dendritic cell technology. Work with QIMR is proceeding according to expected milestones.
- The Company augmented its commercial and operational expertise with the appointment of new CEO, Dr Steven Mercer, and an Operations Manager, Mr Nigel Johnson. Dr Mercer has significant medical and commercial experience and was formerly employed in roles including General Manager, Smith & Nephew Surgical and Managing Director of Mercy Tissue Engineering. Mr Johnson comes from a background in operational and regulatory activities with cell culture facilities.

Significant Changes in State of Affairs

Significant changes in the state of affairs of the Company are as follows:

- In October 2004 the Company raised a further $1,460,000 by the issue of a further 2,000,000 ordinary shares at $0.73 per share.
- The Company's contributed equity following the share issue and after transaction costs arising from the issue of shares was $4,939,500.
- At 31 December 2004 the Company had cash resources of $3,981,400.

Matters Subsequent to the End of the Half Year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Likely Developments and Expected Results of Operations

Further information on likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to be prejudicial to the commercial interests of the Company.

Auditor's Independence Declaration

Our auditors have provided the Board of Directors with a signed Independence Declaration in accordance with section 307C of the Corporations Act 2001. This declaration is attached to the Directors' Report.

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

Greg Baynton
Director

Dated this 10th day February 2005.

Hacketts
CHARTERED ACCOUNTANTS

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10 February 2005

The Chairman
The Board of Directors
Tissue Therapies Limited
GPO Box 1596
Brisbane QLD 4001

Auditor's Independence Declaration

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Tissue Therapies Limited.

As lead audit partner for the audit of the financial report of Tissue Therapies Limited for the half-year ended 31 December 2004, I declare that to the best of my knowledge and belief, there have been:

a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
b) No contraventions of any applicable code of professional conduct in relation to the audit.

Yours faithfully

Hacketts

Hacketts

Liam J Murphy
Audit Partner