# LIVING CELL TECHNOLOGIES LTD

**Preliminary Final Report (Listing Rule 4.3A)**

**For the period 17 March, 2003 to 30 June, 2004**

**ABN 14 104 028 042**

## 1. Details of the reporting period and the previous corresponding reporting period.

The reporting period is the period from 17 March, 2003 to 30 June, 2004. The extended reporting period is due to the incorporation of the parent entity on the 17 March, 2003, as determined by the directors, pursuant to Section 323 D (1) of the Corporations Act 2001.

## 2. Results for Announcement to the Market

| | Up/ Down | Percentage % | | $A |
|---|---|---|---|---|
| Revenue from Ordinary Activities | Up | *N/A | to | 101,472 |
| Profit/(Loss) from Ordinary Activities Attributable to Members | Down | *N/A | to | (10,301,582) |
| Profit/(Loss) Attributable to Members | Down | *N/A | to | (10,301,582) |
| | | | | |

* N/A – As this is the first financial year of operations a percentage increase or decrease can not be calculated.

| Dividends | Amount per Security | Franked Amount per Security |
|---|---|---|
| Interim Dividend | $Nil | $Nil |
| Final Dividend | $Nil | $Nil |

No dividends were paid or declared in respect to the 15 months ended 30th June, 2004.

## 3. Statement of Financial Performance

As this is the first reporting period for Living Cell Technologies Ltd the company is unable to provide comparative figures for the previous corresponding period.

| PERIOD BEGINNING 17 MARCH 2003 AND ENDED 30 JUNE 2004 | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| REVENUE FROM ORDINARY ACTIVITIES | 2 | **101,472** | **23,209** |
| Depreciation and amortisation expenses | 3 | **(53,870)** | **-** |
| Borrowing costs expense | 3 | **(23,015)** | **(23,015)** |
| Salaries and employee benefits expense | | **(916,498)** | **(59,784)** |
| Other expenses from ordinary activities | | **(9,409,671)** | **(9,720,182)** |
| PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE | | **(10,301,582)** | **(9,779,772)** |
| PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE | | **(10,301,582)** | **(9,779,772)** |
| NET PROFIT (LOSS) | | **(10,301,582)** | **(9,779,772)** |
| NET PROFIT (LOSS) ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY | 18 | **(10,301,582)** | **(9,779,772)** |
| TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY | | **(10,301,582)** | **(9,779,772)** |
| Basic earnings per share (cents per share) | | **(51.0)** | |
| Diluted earnings per share (cents per share) | | **(30.5)** | |

The Statement of Financial Performance is to be read in conjunction with the Notes to the Financial Statements.

## 4. Statement of Financial Position

| AS AT 30 JUNE 2004 | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| CURRENT ASSETS | | | |
| Cash assets | | **485,730** | **-** |
| Receivables | 5 | **121,049** | **10,125** |
| Inventories | 6 | **30,073** | **-** |
| Other | 7 | **298** | **15** |
| TOTAL CURRENT ASSETS | | **637,150** | **10,140** |
| NON-CURRENT ASSETS | | | |
| Receivables | 8 | **-** | **975,005** |
| Property, plant and equipment | 11 | **678,483** | **-** |
| TOTAL NON-CURRENT ASSETS | | **678,483** | **975,005** |
| TOTAL ASSETS | | **1,315,633** | **985,145** |
| CURRENT LIABILITIES | | | |
| Payables | 13 | **1,556,464** | **736,301** |
| Interest-bearing liabilities | 14 | **832,873** | **830,129** |
| Provisions | 15 | **23,284** | **-** |
| TOTAL CURRENT LIABILITIES | | **2,412,621** | **1,566,430** |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing liabilities | 16 | **222,243** | **216,136** |
| TOTAL NON-CURRENT LIABILITIES | | **222,243** | **216,136** |
| TOTAL LIABILITIES | | **2,634,864** | **1,782,566** |
| NET ASSETS (DEFICIENCY) | | **(1,319,231)** | **(797,421)** |
| EQUITY | | | |
| Parent entity interest | | | |
| – Contributed equity | 17 | **8,982,351** | **8,982,351** |
| – Retained profits/(Accumulated losses) | 18 | **(10,301,582)** | **(9,779,772)** |
| Total parent entity interest in equity | | **(1,319,231)** | **(797,421)** |
| TOTAL EQUITY (DEFICIENCY) | | **(1,319,231)** | **(797,421)** |

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements.

## 5. Statement of Cash Flows

| PERIOD BEGINNING 17 MARCH 2003 AND ENDED 30 JUNE 2004 | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | **9,814** | **1,181** |
| Payments to suppliers and employees | | **(1,281,376)** | **(51,864)** |
| Interest received | | **28,758** | **21,186** |
| Borrowing costs | | **(23,015)** | **(23,015)** |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | 19(a) | **(1,265,819)** | **(52,512)** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | **(735,502)** | **-** |
| Purchase of shares/acquisition of subsidiary | | **(1,273,435)** | **(1,133,001)** |
| Advances to employees | | **(631)** | **-** |
| Advances to related parties and subsidiaries | | **-** | **(2,485,401)** |
| Repayment of advances to related parties | | **(70,672)** | **-** |
| Purchase of controlled entity | 19(c) | **152,024** | **-** |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | **(1,928,216)** | **(3,618,402)** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issues of ordinary shares | | **2,598,417** | **2,598,417** |
| Payment of share issue costs | | **(644,746)** | **(644,746)** |
| Proceeds from borrowings - other | | **1,726,094** | **1,717,243** |
| NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | | **3,679,765** | **3,670,914** |
| NET INCREASE/(DECREASE) IN CASH HELD | | **485,730** | **-** |
| CLOSING CASH CARRIED FORWARD | 19(b) | **485,730** | **-** |

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements.

# 6. Notes to Financial Statements

30 JUNE 2004

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of accounting**

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention.

**(b) Changes in accounting policies**

The accounting policies adopted have been adopted for the first time as these are the first financial statements prepared since incorporation of the company.

**(c) Principles of consolidation**

The consolidated financial statements are those of the consolidated entity, comprising Living Cell Technologies Ltd (the parent entity) and all entities which Living Cell Technologies Ltd controlled during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. 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 the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

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.

**(d) Foreign currencies**

*Translation of foreign currency transactions*

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

*Translation of financial reports of overseas operations*

All overseas operations are deemed integrated as each is financially and operationally dependent on Living Cell Technologies Ltd. The financial reports of overseas operations are translated using the temporal rate method and any exchange differences are recognised as revenues or expenses in net profit or loss.

**(e) Cash and cash equivalents**

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

**(f) Receivables**

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**(g) Investments**

Non-current investments are carried at the lower of cost and recoverable amount. The carrying amount of non-current investments is reviewed annually by directors to ensure that it is not in excess of the recoverable amount of these investments.

**(h) Inventories**

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

**(i) Recoverable Amount**

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down.

**(j) Property, plant and equipment**

*Cost and valuation*

All classes of property, plant and equipment are measured at cost.

*Depreciation*

Depreciation is provided on a diminishing value basis on all property, plant and equipment.

| | **2004** |
|---|---|
| Leasehold improvements: | 9.5% |
| Plant and equipment | 15% -31% |
| Motor vehicles | 26% |
| Furniture and fittings | 9%-26% |
| Office equipment | 11%-48% |

**(k) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

*Finance leases*

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

**(l) Intangibles**

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**(m) Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

**(n) Interest-bearing liabilities**

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

Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

**(o) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

**(p) Contributed equity**

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

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

**(q) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

**(r) Taxes**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where assets are revalued no provision for potential capital gains tax has been made.

*Goods and Services Tax (GST)*

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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**(s) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, and other leave benefits; and

are charged against profits on a net basis in their respective categories.

**(t) Earnings per share**

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

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

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(u) Research and development costs**

Currently, research and development costs are charged to profit from ordinary activities before income tax as incurred as reasonable doubt exists that sufficient future benefits will be derived so as to recover the costs.

| 30 JUNE 2004 | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| 2. REVENUE FROM ORDINARY ACTIVITIES | | | |
| **Revenues from operating activities** | | | |
| Revenue from sale of goods | | **791** | **-** |
| **Revenues from non-operating activities** | | | |
| Interest | | | |
| – Other persons/corporations | | **28,758** | **21,186** |
| Total interest | | **28,758** | **21,186** |
| Other income | | **71,923** | **2,023** |
| Total revenues from non-operating activities | | **100,681** | **23,209** |
| **Total revenues from ordinary activities** | | **101,472** | **23,209** |
| | | | |
| 3. EXPENSES AND LOSSES/(GAINS) | | | |
| **(A) Expenses** | | | |
| Depreciation of non-current assets | | | |
| – Plant and equipment | | **20,972** | **-** |
| – Leasehold improvements | | **18,391** | **-** |
| – Motor vehicles | | **835** | **-** |
| – Office furniture and equipment | | **10,843** | **-** |
| – Furniture, fixtures and fittings | | **2,829** | **-** |
| Total depreciation of non-current assets | | **53,870** | **-** |
| Borrowing costs expensed | | | |
| – Interest expense | | | |
| – Other borrowing costs | | **23,015** | **23,015** |
| Total borrowing costs | | **23,015** | **23,015** |
| Decrement in value of non-current assets consists of the following: | | **8,196,225** | **9,672,076** |
| (i) Goodwill on Consolidation Written Off **(refer 3 (a))** | | **8,150,091** | **-** |
| (ii) Provision for Dimunition in Value of Loans **(refer 3 (b))** | | | |
| - Subsidiary companies | | **-** | **1,510,395** |
| - Director-related entities | | **46,134** | **-** |
| (iii) Provision for Dimunition in Value of Investment - Subsidiary Company **(refer 3 (c))** | | **-** | **8,161,6801** |
| Total decrement in value of non-current assets | | **8,196,225** | **9,672,076** |

**(a)** Goodwill on Consolidation Written Off represents the net cost of intangible assets comprised in acquisition of LCT Products Pty Ltd (formerly Living Cell Technologies Pty Ltd) on 15 January, 2004. The intangible assets represented accumulated research, development and product development costs incurred by Diatranz Ltd prior to its acquisition of the business by LCT Products Pty Ltd on 17 October, 2003 and subsequent costs incurred to 15 January, 2004.

**(b)** Provision for Diminution in Value of Loans represents funds advanced to subsidiary/associated companies for research, development and product development for the period 16 January, 2004 to 30 June, 2004 and at period end not represented by tangible assets.

| 30 JUNE 2004 | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| **3. EXPENSES AND LOSSES/(GAINS) (cont'd)** | | | |
| **(c)** Provision for Diminution in Value of Investments - Subsidiary Company represents the intangible assets included in LCT Products Pty Ltd on acquisition on 15 January, 2004 as referred to in (a) above. | | | |
| **(B) Losses/(gains)** | | | |
| Net loss/(gain) on disposal of property, plant and equipment | | **3,149** | **-** |
| Net foreign currency (gains)/losses | | **10,353** | **-** |

## 4. INCOME TAX

| | | | |
|---|---|---|---|
| The prima facie tax/(benefit), using tax rates applicable in the country of operation, on profit/(loss) and extraordinary items differs from the income tax/(benefit) provided in the financial statements as follows: | | | |
| Prima facie tax/(benefit) on profit/(loss) from ordinary activities | | **(3,090,475)** | **(2,933,932)** |
| Tax effect of permanent differences | | | |
| – Deductible capital expenditure | | **(38,879)** | **(38,879)** |
| – Write-downs to recoverable amounts | | **2,458,868** | **2,901,623** |
| – Other items (net) | | **1,088** | **-** |
| Income tax expense/(benefit) attributable to ordinary activities | | **(669,398)** | **(71,188)** |
| **Income tax losses** | | | |
| Future income tax benefit arising from tax losses of a controlled entity not recognised at reporting date as realisation of the benefit is not regarded as virtually certain | | **669,398** | **71,188** |

This future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|

## 5. RECEIVABLES (CURRENT)

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Trade debtors | 5(b) | **2,482** | **-** |
| Sundry debtors | 5(b) | **4,242** | **-** |
| Goods and Services Tax receivable | | **89,156** | **10,125** |
| Loans to director related entity | | **24,538** | **-** |
| Other receivables | 5(b) | **631** | **-** |
| | | **121,049** | **10,125** |

**(a) Total related party receivables**

| | | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Director-related entities | | | |
| – Pancell Ltd | | **24,538** | **-** |
| | | **24,538** | **-** |

**(b) Terms and conditions**

(i) Trade debtors are non-interest bearing and generally on 30 day terms.

(ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

## 6. INVENTORIES (CURRENT)

| | | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| **Raw materials and stores** | | | |
| – Stores | | **30,073** | **-** |
| | | **30,073** | **-** |
| Total inventories at lower of cost and net realisable value | | **30,073** | **-** |

## 7. OTHER CURRENT ASSETS

| | | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Prepayments | | **283** | **-** |
| Other current assets | | **15** | **15** |
| | | **298** | **15** |

## 8. RECEIVABLES (NON-CURRENT)

| | | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Loans to director related entity - Pancell Ltd | | **46,134** | **-** |
| Provision for diminution | | **(46,134)** | **-** |
| **Related party receivables** | | | |
| Wholly-owned group | | | |
| – controlled entities | | **-** | **2,485,401** |
| – provision for diminution | | **-** | **(1,510,396)** |
| | | **-** | **975,005** |

## 9. OTHER FINANCIAL ASSETS (NON-CURRENT)

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| *Investments at cost comprise:* | | | |
| Shares | | | |
| – Controlled entities - unlisted | 10 | **-** | **8,161,681** |
| – Provision for diminution in value of investment | 3 (c) | **-** | **(8,161,681)** |

## 10. INTERESTS IN SUBSIDIARIES

30 JUNE 2004

| Name | Country of incorporation | Percentage of equity interest held by the consolidated entity | Investment |
|---|---|---|---|
| | | 2004 | 2004 |
| | | % | $ |
| LCT Products Pty Ltd | Australia | **100** | **8,161,681** |
| LCT Australia Pty Ltd | Australia | **100** | **-** |
| Diatranz New Zealand Ltd | New Zealand | **100** | **-** |
| LCT BioPharma Inc. | USA | **100** | **-** |
| Fac8Cell Pty Ltd | Australia | **100** | **-** |
| DiaBCell Pty Ltd | Australia | **100** | **-** |
| Neurotrophin Cell Pty Ltd | Australia | **100** | **-** |
| | | | **8,161,681** |

| 30 JUNE 2004 | Notes | ECONOMIC ENTITY | PARENT COMPANY |
|---|---|---|---|
| | | 2004 | 2004 |
| | | $ | $ |
| **11. PROPERTY, PLANT AND EQUIPMENT** | | | |
| PROPERTY | | | |
| *Leasehold improvements* | | | |
| At cost | | **418,393** | - |
| Accumulated amortisation | | **(29,843)** | - |
| | 11(a) | **388,550** | - |
| Total leasehold improvements | | **388,550** | - |
| PLANT AND EQUIPMENT | | | |
| Plant & machinery | | | |
| At cost | | **238,104** | - |
| Accumulated depreciation | | **(32,856)** | - |
| | 11(a) | **205,248** | - |
| Motor vehicles | | | |
| At cost | | **6,140** | - |
| Accumulated depreciation | | **(1,065)** | - |
| | 11(a) | **5,075** | - |
| Office equipment | | | |
| At cost | | **63,371** | - |
| Accumulated depreciation | | **(9,277)** | - |
| | 11(a) | **54,094** | - |
| Furniture, fixtures and fittings | | | |
| At cost | | **28,569** | - |
| Accumulated depreciation | | **(3,053)** | - |
| | 11(a) | **25,516** | - |
| Total plant and equipment | | **289,933** | - |
| Total property, plant and equipment | | | |
| Cost | | **754,577** | - |
| Accumulated depreciation and amortisation | | **(76,094)** | - |
| Total written down amount | | **678,483** | - |

| | Notes | ECONOMIC ENTITY | PARENT COMPANY |
|---|---|---|---|
| | | 2004 | 2004 |
| | | $ | $ |

## 11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

**(a) Reconciliations**

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Property | | | |
| *Leasehold Improvements* | | | |
| Additions | | **174** | - |
| Additions through acquisition of entities / operations | | **406,767** | - |
| Depreciation expense | | **(18,391)** | - |
| | | **388,550** | - |
| Plant and Equipment | | | |
| *Plant and machinery* | | | |
| Additions | | **5,699** | - |
| Disposals | | **(1,014)** | - |
| Additions through acquisition of entities / operations | | **221,535** | - |
| Depreciation expense | | **(20,972)** | - |
| | | **205,248** | - |
| *Motor vehicles* | | | |
| Additions through acquisition of entities / operations | | **5,910** | - |
| Depreciation expense | | **(835)** | - |
| | | **5,075** | - |
| *Office equipment* | | | |
| Additions | | **35,461** | - |
| Disposals | | **(2,610)** | - |
| Additions through acquisition of entities / operations | | **32,086** | - |
| Depreciation expense | | **(10,843)** | - |
| | | **54,094** | - |
| *Furniture, fixtures and fittings* | | | |
| Additions | | **2,404** | - |
| Additions through acquisition of entities / operations | | **25,941** | - |
| Depreciation expense | | **(2,829)** | - |
| | | **25,516** | - |

## 12 DEFERRED TAX ASSETS

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Future income tax benefit | | - | - |
| Future income tax benefits not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 (r) occur | | | |
| - timing differences | | **6,984** | - |
| - tax losses | | **1,067,057** | **71,188** |
| | | **1,074,041** | **71,188** |

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|

## 13. PAYABLES (CURRENT)

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Trade creditors | | **644,319** | **65,323** |
| Other creditors | | **198,116** | **-** |
| Convertible notes | 13(a) | **670,978** | **670,978** |
| Goods and services tax | | **43,051** | **-** |
| | | **1,556,464** | **736,301** |

(a) Terms and conditions relating to the above financial instruments:

(i) A convertible note of $529,535 which is interest free and held by the David Collinson Family Trust of which David Collinson is a trustee. David Collinson is a director of Living Cell Technologies Ltd. The convertible note is repayable within 45 days after a notice of demand is made. The holder can convert the outstanding amount at any time to ordinary shares at a rate of $0.20.

(ii) A convertible note of $141,443 which is interest free and held by Michael Yates and Ingrid Yates. Michael Yates is a director of the company. The convertible note is repayable within 45 days after a notice of demand is made. The holder can convert the outstanding amount at any time to ordinary shares at a rate of $0.20.

## 14. INTEREST-BEARING LIABILITIES (CURRENT)

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Lease liability | | **2,744** | **-** |
| Unsecured | | | |
| – convertible notes | 14(a) | **830,129** | **830,129** |
| | | **830,129** | **830,129** |
| | | **832,873** | **830,129** |

(a) Terms and conditions relating to the above financial instruments

(i) Convertible notes consist of the following:

(ii) 6 B Class convertible notes of $113,355 with an interest rate of 5% per annum convertible to ordinary shares at a rate of $0.21 and held by the Avery Foundation. Where the company raises capital of $1 million or more from 15 January, 2004, the holder of the convertible notes, has 21 days from the time the company advises of the capital raising to convert the notes to ordinary shares. If the Avery Foundation chooses not to convert the B Class convertible notes to ordinary shares, the company will automatically redeem 1 B Class convertible note for every $1million raised.

(iii) 1 D Class convertible note of $150,000 with an interest rate of 11% per annum held by Taycol Nominees Pty Ltd with an automatic conversion date when the company raises $2.5 million capital. If the notes are converted automatically to ordinary shares, the rate of conversion will be the same as that paid by investors in raising the $2.5 million capital. The notes can be converted by Taycol Nominees Pty Ltd prior to the automatic conversion date at a rate being the lower of $0.20 and the last capital raising undertaken by the company.

## 15. PROVISIONS (CURRENT)

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Employee benefits | | **23,284** | **-** |
| | | **23,284** | **-** |

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|

## 16. INTEREST-BEARING LIABILITIES (NON-CURRENT)

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Lease liability | | **6,107** | **-** |
| Unsecured | | | |
| – convertible notes | 16 (a) | **216,136** | **216,136** |
| | | **222,243** | **216,136** |

(a) Terms and conditions relating to the above financial instruments

(i) 1 C Class convertible note of $216,136 with an interest rate of 5% per annum convertible to ordinary shares at a rate of $0.21 held by the Avery Foundation. The holder of the notes can convert the notes to ordinary shares before the earlier of 5 business days after the company raises $8 million or 15 July, 2008. If the holder has not converted the convertible notes to ordinary shares within the above time frames, the convertible notes will be redeemed.

## 17. CONTRIBUTED EQUITY

**(a) Issued and paid up capital**

| | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|
| Ordinary shares fully paid | **8,982,351** | **8,982,351** |
| | **8,982,351** | **8,982,351** |

**(b) Movements in shares on issue**

| | 2004 Number of shares | $ |
|---|---|---|
| Issued during the year | | |
| – private share issues and issues to contractors | **1,429,566** | **178,417** |
| – public equity raising | **12,100,000** | **2,420,000** |
| – purchase of LCT Products Pty Ltd | **35,143,402** | **7,028,680** |
| Transaction costs in capital raising | **-** | **(644,746)** |
| End of the financial year | **48,672,968** | **8,982,351** |

## 18. RESERVES AND RETAINED PROFITS

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| Retained profits/(accumulated losses) | 18(a) | **(10,301,582)** | **(9,779,772)** |
| **(a) Retained profits/(accumulated losses)** | | | |
| Net profit/(loss) attributable to members of the economic entity | | **(10,301,582)** | **(9,779,772)** |
| Balance at end of year | | **(10,301,582)** | **(9,779,772)** |

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|

## 19. STATEMENT OF CASH FLOWS

| | Notes | ECONOMIC ENTITY 2004 $ | PARENT COMPANY 2004 $ |
|---|---|---|---|
| **(a) Reconciliation of the net profit/(loss) after tax to the net cash flows from operations** | | | |
| Net profit/(loss) | | **(10,301,582)** | **(9,779,772)** |
| **Non-Cash Items** | | | |
| Depreciation of non-current assets | | **53,870** | **-** |
| Decrement in value of non-current assets | 3 A | **8,196,225** | **9,672,076** |
| Net (profit)/loss on disposal of property, plant and equipment | | **3,149** | **-** |
| Net foreign currency (gains)/losses | | **10,353** | **-** |
| **Changes in assets and liabilities** | | | |
| (Increase)/decrease in trade and other receivables | | **(95,895)** | **(10,140)** |
| (Increase)/decrease in inventory | | **(30,073)** | **-** |
| (Increase)/decrease in prepayments | | **(283)** | **-** |
| (Decrease)/increase in trade and other creditors | | **832,081** | **65,324** |
| (Decrease)/increase in goods and services tax payable | | **43,051** | **-** |
| (Decrease)/increase in employee entitlements | | **23,285** | **-** |
| Net cash flow from operating activities | | **(1,265,819)** | **(52,512)** |
| **(b) Reconciliation of cash** | | | |
| Cash balance comprises: | | | |
| – cash at bank | | **485,730** | **-** |
| Closing cash balance | | **485,730** | **-** |

**(c) Acquisition of Controlled Entity**

| | $ |
|---|---|
| Consideration | |
| – shares issued | **7,028,680** |
| – cash paid | **1,133,001** |
| | **8,161,681** |
| Net Assets of Living Cell Products Pty Ltd (formerly Diatranz Australia Pty Ltd) at 15 January, 2004: | |
| – cash | **1,285,025** |
| – trade debtors | **373,895** |
| – inventories | **11,835** |
| – property, plant and equipment | **691,270** |
| | **2,362,025** |
| – employee provision, creditors and loans | **(2,350,435)** |
| – fair value of net tangible assets | **11,590** |
| – goodwill arising on acquisition | **8,150,091** |
| | **8,161,681** |
| Net cash effect | |
| Cash consideration paid | **(1,133,001)** |
| Cash included in net assets acquired | **1,285,025** |
| Cash paid for purchase of controlled entity as reflected in the consolidated statement of cash flows | **152,024** |

**(d) Disposal of Controlled Entity**

There were no disposals in the 2004 financial year.

## 20. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Living Cell Technologies Ltd will commence transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company will allocate internal resources and engage expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As a result of these procedures, Living Cell Technologies Ltd will grade impact areas as either high, medium or low. An IFRS steering committee will be established to oversee the progress of each of the project teams and make necessary decisions. As Living Cell Technologies Ltd has a 30 June year end, priority will be given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Living Cell Technologies Ltd prepare its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Living Cell Technologies Ltd. At this stage the company has not been able to reliably quantify the impacts on the financial report.

*Classification of Financial Instruments*

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables- measured at amortised cost, held to maturity - measured at amortised cost, held for trading - measured at fair value with fair value changes charged to net profit or loss, available for sale - measured at fair value with fair value changes taken to equity and non-trading liabilities - measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on balance sheet. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

*Share based payments*

Under AASB 2 Share based Payments, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

*Income taxes*

Under the Australian equivalent to IAS12 Income Taxes, the company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. The most significant impact will be the recognition of a deferred tax liability in relation to the asset revaluation reserve. Previously, the capital gains tax effects of asset revaluations were not recognised. It is not expected that there will be any further material impact as a result of adoption of this standard.

## 7. Dividends

| Dividends | Amount per Security | Franked Amount per Security |
|---|---|---|
| Interim Dividend | $Nil | $Nil |
| Final Dividend | $Nil | $Nil |

No dividends were paid or declared in respect of the period 17 March, 2003 to 30 June, 2004.

## 8. Dividend Reinvestment Plan

Living Cell Technologies Ltd does not have a dividend reinvestment plan.

## 9. Statement of Retained Earnings

| | Current Period | Previous Corresponding Period |
|---|---|---|
| Retained Earnings at the Beginning of the Financial Period | $Nil | $Nil |
| | | |
| Net Profit/(Loss) attributable to the Members | $(10,301,582) | $Nil |
| | | |
| Retained Earnings at the End of the Financial Period | $(10,301,582) | $Nil |

## 10. Net Tangible Assets per Security

| | Current Period | Previous Corresponding Period |
|---|---|---|
| Net Tangible Assets per Security | $(0.027) | N/A |

## 11. Controlled Entities

| Name of the Entity over which Control was Gained | Date of Control | Contribution to Profit/ (Loss) from Ordinary Activities Current Period | Previous Corresponding Period |
|---|---|---|---|
| Living Cell Products Pty Ltd (Formerly Living Cell Technologies Pty Ltd and Diatranz Australia Pty Ltd) | 15 January, 2004 | $(1,029,662) | N/A |
| Diatranz New Zealand Ltd | 15 January, 2004 | $(156,252) | N/A |
| LCT Australia Pty Ltd | 15 January, 2004 | $(856,559) | N/A |
| Fac8Cell Pty Ltd | 15 January, 2004 | $NIL | N/A |
| DiaBCell Pty Ltd | 15 January, 2004 | $NIL | N/A |
| NeurotrophinCell Pty Ltd | 15 January, 2004 | $NIL | N/A |
| LCT Biopharma Inc. | 1 April, 2004 | $(1,321) | N/A |

## 12. Associates and Joint Venture Entities

There are currently no Associated companies or Joint Venture entities in which Living Cell Technologies Ltd has an interest.

## 13. Other Significant Information

Subsequent to the 30 June 2004, Living Cell Technologies Ltd has raised the following capital which will result in the following cash resources being available to the company:

- Share capital raised through rights issue - $5,143,316 (25,716,581 ord. shares)
- Private placement - $300,000 (1,500,000 ord. shares).

In addition to the above, the following convertible notes were redeemed and converted to ordinary shares:

- David Collinson (Director) convertible notes - $529,535 (2,647,675 ord. shares)
- Michael Yates (Director) convertible notes - $141,442 (707,210 ord. shares)
- D Class convertible notes - $150,000 (750,000 ord. shares)

The capital raising will result in the company's net assets becoming positive. Furthermore, the Directors believe that the capital raised will provide the company with sufficient cash resources to enable the company to operate effectively for the year ended 30 June, 2005.

## 14. Foreign Entities – Accounting Standards Utilised

All overseas operations are deemed integrated as each is financially and operationally dependent on Living Cell Technologies Ltd in accordance with the guidelines of AASB 1012. The financial reports of overseas operations are translated using the temporal rate method and any exchange differences are recognised as revenues or expenses in net profit or loss.

## 15. Commentary on the Results for the Period

| | **Current Period** | **Previous Corresponding Period** |
|---|---|---|
| | | |
| Earnings per Security | $(0.51) | N/A |
| | | |
| Returns to Shareholders | $Nil | $Nil |
| | | |
| Segment 1 - Results | $(10,301,582) | N/A |

### 15.1 Significant Features of Operating Performance

Living Cell Technologies Ltd is currently involved in research, development and product development of living cell therapies. This research is ongoing and until such time as the research is completed or nearing completion the company will not be in a position to actively market its products.

The directors anticipate that revenue losses associated with research and development activities will continue in the 2005 Financial Year.

## 16. Accounts are in the process of being Audited

The accounts of Living Cell Technologies Ltd are currently being audited by PKF Chartered Accountants.

## 17. Audit Qualifications

Following the completion of the testing processes the auditor has advised that the accounts of Living Cell Technologies Ltd are unlikely to be qualified in any way.