



TISSUE THERAPIES

ANNUAL REPORT 06/07

TISSUE THERAPIES LIMITED
ABN 45 101 955 088

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CORPORATE DIRECTORY

Tissue Therapies Limited
ABN 45 101 955 088

Registered and Head Office

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Directors

Roger Brian Clarke (Chairman)
Professor David George Gardiner
Gregory Alexander John Baynton
Donald Jeffrey Home
Neil Joseph Reinhardt
Dr Steven John Mercer

Independent Scientific Advisors to the Board

Professor Robert Baxter
Professor Keith Harding

Company Secretary

Drummond McKenzie

Share Registry

Link Market Services
Level 22, 300 Queen Street
Brisbane Qld 4000

Auditors

Hacketts Chartered Accountants
Level 3, 549 Queen Street
Brisbane Qld 4000

Lawyers for the Company

McCullough Robertson
Level 12, Central Plaza Two
66 Eagle Street
Brisbane Qld 4000

ABOUT TISSUE THERAPIES

Tissue Therapies is an Australian biomedical company listed on the Australian Stock Exchange (ASX: TIS) with exclusive international commercialisation rights to the VitroGro® technology, with applications in wound healing and other skin treatments, including cosmetics, tissue regeneration, cell culture, stem cell therapies, protein production (eg. vaccines) and a range of potential anticancer treatments.

Tissue Therapies is focused on developing more effective medical treatments for wounds, including diabetic and venous ulcers and burns, and other applications such as cell-based therapies and growth of a range of live cell types, including stem cells, through its technology commercialisation rights and ongoing R&D.

During January 2007, the Company concluded a world-wide exclusive agreement with leading international biologic sciences company, Invitrogen Corporation, for the promotion and sale of VitroGro® for live cell research required, for example, for the production of proteins and development of new live cell technologies. This agreement will result in the world-wide distribution of the synthetic VitroGro® protein platform for use by biomedical scientists in research institutions, and pharmaceutical and biotechnology companies starting in October 2007.

Tissue Therapies is also pursuing a range of strategic licensing and product sales and distribution partnerships to accelerate commercial returns from Tissue Therapies' VitroGro® technology in wound healing, burns and skin treatments. These include a joint development agreement signed with Novozymes A/S during March 2007 and negotiations with a number of international wound care and health companies that will continue during 2008, once the results of the human trial of VitroGro® for the treatment of diabetic, venous and pressure ulcers are announced.

The Company holds the exclusive world-wide license to commercialise the patents "Skin Regeneration System", "Growth Factor Complex" and "Modulation of Cell Migration and Growth". Patent applications have been filed in the USA, Canada, Europe, Australia, New Zealand, South Korea, China, Hong Kong, India, South Africa and Japan, with patents already granted in Australia and New Zealand.

What is VitroGro®?

VitroGro®, Tissue Therapies' core technology platform, is a novel protein formulation for enhancing cell growth, cell migration and protein production.

The action of VitroGro® is based on a new understanding of how living cells grow, make proteins and repair injured tissues. The VitroGro® complex accelerates natural cell growth and wound healing by restoring normal cell responses to injury. Because of this, VitroGro® is a highly efficient technology which works in tiny doses.

Unlike more traditional treatment technologies, VitroGro® has the potential to accelerate wound healing without harvesting cells from other parts of the patient's body to 'seed' the wound site with new cells.

VitroGro® has demonstrated accelerated cell growth and tissue regeneration alone and in combination with other wound care technologies, medical devices and implants. It therefore has considerable potential for use with existing and new medical products in those markets.

What are VitroGro®'s key benefits?

Traditionally, animal or human serum is required for the successful growth of cells in culture, as serum contains a mixture of proteins that normally support the growth of these cells in the body.

Importantly, research at Queensland University of Technology (QUT) has indicated that a range of different cell types can be cultivated using VitroGro® without the usual requirement for animal or human serum. This includes the ground breaking discovery that VitroGro® can replace human and animal serum in the culture of human stem cells.

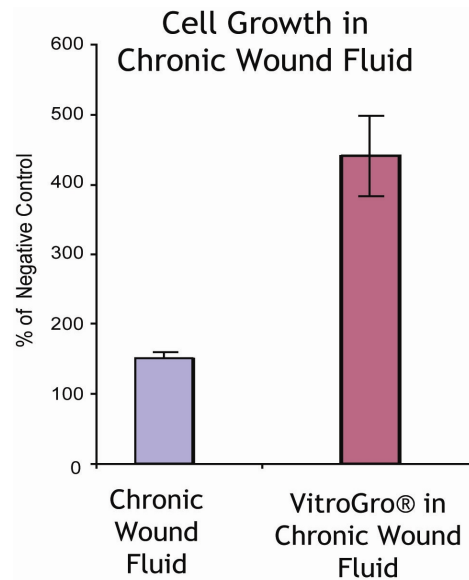
Tests using VitroGro® have yielded significantly higher cell growth levels than the leading commercially available serum-free culture media and cell culture media alone.

Preclinical trials to evaluate the potential of VitroGro® as a treatment for human burns successfully demonstrated that the VitroGro® protein complex significantly accelerates skin healing, reduces scar tissue formation and reduces wound contraction, the most common reason for revision surgery. These unique abilities are excellent indicators of the future success of VitroGro® as a potential wound treatment and the results of the clinical trial of VitroGro® for the treatment of diabetic, venous and pressure ulcers which will be completed during December 2007.

Substantial acceleration of cell growth and wound healing can be achieved with tiny doses of VitroGro®, which means that very effective wound healing products can be produced at a cost that is affordable to both patients and health systems around the world.

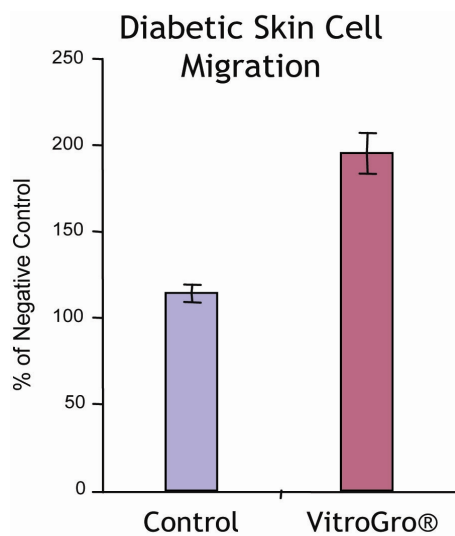
Diabetic and venous ulcers are a substantial cause of world-wide disease, disability, amputation and, in some cases, are linked to deaths. Diabetes is a world-wide pandemic that is worsening. Currently there are more than 200 million diabetics world-wide and this is expected to increase to more than 330 million people by 2025. Many diabetic patients have more than one diabetic ulcer in their lifetime and many have more than one diabetic ulcer at any one time. Diabetic and venous ulcers are the cause of more than 70% of all lower limb amputations. The personal, family, social, psychological, economic and health costs of diabetic and venous ulcers are massive and increasing.

A typical venous ulcer



VitroGro® Culture of Diabetic Ulcer Skin Cells

Human skin cells at the edge of chronic diabetic ulcers show abnormal healing behaviour and are incapable of healing the ulcer. When these cells are treated with VitroGro®, they regain normal wound healing characteristics including the ability to migrate, an essential feature of skin cells at the periphery of healing wounds.



VitroGro® use in treatment of Chronic Wounds

Chronic wounds such as diabetic and venous ulcers produce wound fluid that is very different from acute wounds that heal normally and quickly. Chronic wound fluid contains enzymes and inflammatory factors that quickly degrade many types of potential wound care products, particularly proteins. In contrast, VitroGro® is an extraordinarily stable protein complex that retains its healing activity in chronic wound fluid.

Why are these findings significant?

These findings are significant clinically and commercially because research with human cells and tissues, and results from preclinical trials have shown that VitroGro® accelerates the healing of burns, with reduced scar tissue formation and reduced wound contraction, and that VitroGro® is also capable of re-establishing normal wound healing behaviour in skin cells from the edges of advanced, chronic diabetic ulcers.

It has also been shown that VitroGro® is a remarkably stable protein complex. VitroGro® retains its wound healing activity in the presence of chronic wound fluid, such as that found in diabetic and venous ulcers, and can also be gamma irradiated (sterilised) and retain its wound healing activity. (Gamma irradiation is the usual method of sterilisation used for wound dressings.)

VitroGro® is therefore an exceptional candidate for a new generation of wound healing products, particularly because it can be produced to pharmaceutical standard (which is already done by Tissue Therapies) and works in such small doses that the cost of these future wound dressing products will be affordable for patients and health systems world-wide.

The world-wide market for wound dressings for diabetic and venous ulcers was valued at more than USD\$2 billion in 2007 and is increasing at 11% compound growth per annum.

Other uses for VitroGro®

Studies to date suggest that VitroGro® may also be useful as an improved agent for tissue regeneration in the body and as coating on orthopaedic and other medical implants where integration within the body is required.

Studies conducted during 2005 also demonstrated VitroGro®'s potential to significantly enhance the production of dendritic cells for immunotherapies, such as anti-cancer vaccines. More recently it has become apparent that the VitroGro® technology may offer other potential opportunities for the development of therapies to slow or even prevent the local spread of some types of cancers eg. prostate and breast malignancies.

CHAIRMAN'S AND CEO'S REPORT

On behalf of the Company, we have pleasure in presenting the Company's annual report for 2007, its third full year since Tissue Therapies listed on the ASX.

Continuing the corporate strategy since the Company's 2004 stock exchange listing, Tissue Therapies has built on the strong foundations of market intelligence and applied research results established in the first two years of operations. In the 2006/07 financial year it focused on identifying key strategic commercial opportunities and initiating negotiations with selected potential industry partners and collaborators. In parallel, further applied research continued to identify new commercial opportunities. All activities were undertaken in line with our low cost approach to operations and by working effectively with our major research partner, QUT.

Financial results

Our financial performance during the year in review reflected these activities:

- In line with budget expectations, the Company made an after-tax loss of \$1,710,280.
- The Company conducted a successful rights issue of 6.7 million shares at \$0.50 to raise \$3,367,000 in February 2007. The Company's contributed equity following the share issues and after transaction costs arising from the issue of shares, was \$11,275,677.
- During the year the Company's net assets increased by \$1,431,116 to \$6,658,310 and at 30 June 2007 the Company had cash resources of \$1,911,919.

R&D program

The year in review saw a number of exciting developments in Tissue Therapies' R&D program.

Tissue Therapies announced another world-first for its VitroGro® technology during August 2006: the creation of a fundamentally new VitroGro® molecule, referred to as VitroGro®-1. The new VitroGro®-1 molecule has major commercial benefits for Tissue Therapies in the areas of manufacturing costs, intellectual property value, regulatory approvals and product simplification. In terms of manufacturing costs alone, the future use of VitroGro®-1 is expected to more than halve the Company's production costs.

The new VitroGro®-1 molecule represents a major breakthrough in protein science using molecular engineering to combine the active regions of the multiple protein components of the original VitroGro® to create a single new protein molecule. This announcement followed closely on Tissue Therapies' announcement that VitroGro® could be used to replace animal or human serum in the culture of human embryonic stem cells, which is a world-first achievement.

During November 2006, Tissue Therapies achieved a major milestone in the development of advanced, accelerated burn and wound healing treatments based on its proprietary VitroGro® technology, with the results of the dose study of synthetic VitroGro® conducted by research scientists at the Royal Childrens Hospital in Brisbane. This trial:

1. proved that synthetic VitroGro® works as efficiently as the VitroGro® made from conventional purified proteins, and
2. determined the optimal dosage for VitroGro® in preparation for the human diabetic, venous and pressure ulcer trials planned for completion in December 2007.

In addition, an unexpected finding of the dosage study was the statistically significant reduction in wound contraction when treated with VitroGro®. Wound contraction is a major problem in the treatment and healing of wounds, particularly paediatric burns, and is the most common reason for corrective surgery required after burn injuries. This was in addition to the significant acceleration in wound healing and decreased formation of scar tissue proven in earlier pre-clinical studies.

Clinical trials program

Tissue Therapies reached agreement during May 2007 with an international group of clinicians and scientists to undertake a human trial of VitroGro® to be conducted in Toronto, Canada, to evaluate the clinical performance of VitroGro® in the treatment of chronic skin wounds, including diabetic, venous and pressure ulcers.

These three markets represent more than US\$2 billion in potential annual wound healing product demand, with an annual compound growth rate of 11%.

This study will be conducted by Dr Gary Sibbald, a wound care expert of international standing, and the Study Monitor will be Dr Douglas Queen, a scientist and world expert in the investigation of new wound care technologies. The human trials will be conducted at Toronto Wound Healing Centres and Women's College Hospital, both in Toronto, Canada. Drs Sibbald and Queen have previously conducted multiple human wound care product trials for major international American and European health care companies.

This human study will be complete in December 2007 and will provide the clinical data necessary to proceed to the next round of commercial negotiations with the multiple international wound and health care companies with which Tissue Therapies has been in discussion for more than twelve months.

This clinical study represents a significant opportunity to simultaneously perform three human trials of far broader range than was originally planned for 2007 and will contribute to the data required for regulatory approval in multiple jurisdictions.

As part of the preparation for this human trial of VitroGro®, Tissue Therapies was able to confirm during June 2007 that the classification of VitroGro® by Health Canada (the Canadian Health Regulatory Body) will accelerate the approval and release of its first wound care products. Health Canada has classified VitroGro® as a 'topical biologic', so the clinical regulatory requirements for product assessment will be similar to those required for approval of a medical device, rather than a pharmaceutical. This also means that the regulatory testing required to bring the Company's products to

market will be considerably faster and cheaper than those required for a pharmaceutical.

Also during June 2007, Tissue Therapies management was delighted to announce that internationally renowned wound care expert, Professor Keith Harding of Cardiff University, has agreed to act as an expert advisor for the Company, including the provision of advice for the upcoming VitroGro® human trials.

Professor Harding will provide expert wound care product development advice to Tissue Therapies under a formal consulting agreement, with a particular focus on the development of VitroGro® products to manage diabetic, venous and pressure ulcers.

The strategic appointment of Professor Harding adds to the growing team of clinical wound care experts now assisting with clinical trials and product development aimed at introducing VitroGro® wound care products into the global wound care market. Professor Harding has worked on a number of clinical trial projects with Drs Gary Sibbald and Douglas Queen, the researchers who will conduct the clinical trial of VitroGro® for completion by December 2007 (see TT ASX Announcement "Canadian Clinical Trial", 22 May 2007). Together with Drs Sibbald and Queen, Professor Harding is a member of the organising committee for the World Union of Wound Healing Societies Meeting in Toronto during 2008.

Commercial negotiations and marketing

A major business milestone was achieved with the conclusion, during January 2007, of a world-wide exclusive agreement with leading international biologic sciences company, Invitrogen Corporation, for the promotion and sale of VitroGro® for live cell research, required for example, for the production of proteins and development of new live cell technologies. Headquartered in California, Invitrogen provides products and services that support academic and government research institutions, as well as pharmaceutical and biotechnology companies. It markets its products directly and through distributors and agents world-wide.

This agreement will result in the world-wide distribution of the synthetic VitroGro® protein platform for use by biomedical scientists in research institutions and pharmaceutical and biotechnology companies, who need, or prefer to use, a completely synthetic, defined media for the growth of cells and production of proteins. Tissue Therapies will supply VitroGro®, manufactured under contract, at an agreed supply price to Invitrogen. Additional Tissue Therapies revenue will be generated by royalty payments as well as additional one time payments on the achievement of agreed milestones. Sales are expected to start during October 2007.

In March 2007 Tissue Therapies signed a joint development agreement with Novozymes A/S for the development of advanced wound dressing products combining proprietary Novozymes technologies with Tissue Therapies' VitroGro®. Headquartered in Denmark, Novozymes is a respected world market leader in enzymes and other biological protein production and innovation with sales in 2006 in excess of A\$1.5 billion and a market capitalisation of approximately A\$7 billion. Novozymes provides a large range of biological proteins, products and services that support biological research and industrial bio production for public and private sector customers world-wide.

The collaboration will involve scientific work in both Brisbane and Denmark, with one Novozymes scientist relocating to work with the Tissue Therapies research group headed by Prof. Zee Upton. The Company anticipates that there will be significant long-term R&D and commercial benefits arising from closer working relations with Novozymes' research and commercial personnel. The Joint Development Agreement with Novozymes represents another important milestone in the development of VitroGro® products for the global wound care market and provides a potential path to market via a global supplier with a strong international distribution network.

Outlook

The Board of Tissue Therapies has considerable and growing confidence in the commercial value of the VitroGro® platform technology, based on the significant and expanding revenue opportunities from the sale of new cell culture products as a result of the world-wide, exclusive sales and distribution agreement with Invitrogen and the interest from potential health industry partners in VitroGro® as a new generation wound healing platform technology.

Based on the results of the clinical trial in Canada, we expect to continue negotiations for the use of VitroGro® products in wound care products and also in other applications, with a view to entering commercial agreements in wound care and other health markets. We look forward to realising these and other revenue streams from the VitroGro® technology platform and to rewarding the faith placed in us by our investors.



Roger Clarke
Chairman



Dr Steven Mercer
Chief Executive

TISSUES THERAPIES' TEAM

The Tissue Therapies team consists of a number of commercial and scientific experts, employed either directly by the Company or via contracting arrangements.

The Company's ongoing R&D is outsourced to a group of more than 30 tissue engineering, cell biology and protein scientists at QUT's Institute of Health and Biomedical Innovation (IHBI). Under this arrangement, Tissue Therapies has the benefit of QUT's expertise, resources and facilities without the capital and personnel costs associated with setting up its own laboratory.



CHIEF EXECUTIVE: DR STEVEN MERCER

Dr Steven Mercer, a registered medical practitioner and long-term healthcare commercialisation professional, leads the Company's commercial and strategic activities as Tissue Therapies' Chief Executive Officer. Dr Mercer has previously held the roles of General Manager for Smith &

Nephew Surgical (Australia & New Zealand) and Managing Director of Mercy Tissue Engineering, a successful tissue engineering company operating in Singapore and Melbourne.



CHIEF SCIENTIFIC OFFICER AND LEAD INVENTOR: PROFESSOR ZEE UPTON

Professor Zee Upton, lead inventor of VitroGro®, oversees the Company's R&D activities as its Consulting Chief Scientific Officer. Prof. Upton is an expert in cellular technologies based at QUT and is a substantial shareholder in Tissue Therapies.



INDEPENDENT SCIENTIFIC ADVISOR: PROFESSOR ROBERT BAXTER

Professor Robert Baxter, a director of the Kolling Institute of Medical Research at the Royal North Shore Hospital in Sydney, advises the Board as its Independent Scientific Advisor. Professor Baxter is also Head of Molecular Medicine at the

University of Sydney and a leading expert in proteins that regulate cell growth and metabolism, the insulin-like growth factors and their binding proteins. He was the first to identify several of these proteins and to devise methods of measuring them.



INDEPENDENT SCIENTIFIC ADVISOR: PROFESSOR KEITH HARDING

Professor Keith Harding graduated in medicine from the University of Birmingham before undertaking training in surgery and family medicine. In 1991 he became Director of the Wound Healing Research Unit at the University of Wales, College of

Medicine in Cardiff. Professor Harding is widely published and a prolific presenter at scientific and clinical wound care conferences and has devised and managed many clinical wound care product trials for large international health care companies.



OPERATIONS MANAGER: NIGEL JOHNSON

The Company's manufacturing programs and regulatory systems are managed by **Nigel Johnson**, Tissue Therapies' Operations Manager. Mr Johnson has over 10 years experience in manufacturing bio-therapeutic goods. Previous roles in tissue banking and engineering were held with the

Australian Red Cross Blood Service and Queensland Health.



ADMINISTRATION OFFICER: ABRONA CHAPPELL

The Company's administration and co-ordination activities are conducted by **Abrona Chappell** who has previous experience both in administration roles and scientific cell culture research.

CORPORATE GOVERNANCE

Responsibility for the Company's proper corporate governance rests with the Board. The Board is committed to implementing the highest standards of corporate governance, and its guiding principle in meeting this responsibility is to act honestly, conscientiously and fairly, in accordance with the law, in the interests of Tissue Therapies' shareholders, with a view to building sustainable value for them, for employees and those with whom the Company has dealings – residents, suppliers and the general community.

The Company has complied with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, with minor exceptions which are considered appropriate to the Company's circumstances, given its size, activities and stage of maturity. The exceptions are the composition of the Company's Audit and Risk Management Committee and the absence of a Remuneration Committee. A more detailed assessment of Tissue Therapies' current corporate governance practice against the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations is provided later in this section.

Tissue Therapies' Corporate Governance Charter, which includes the Board Charter, Code of Ethics, Code of Conduct for Transactions in Securities, Standing Rules of Committees and the Audit and Risk Management Committee Charter, can be viewed on the Company's website at www.tissuetherapies.com.

Scope of Responsibility of Board

The Board's broad function is to:

- chart strategy and set financial targets for the Company
- monitor the implementation and execution of strategy and performance against financial targets
- appoint and oversee the performance of executive management, and
- generally to take and fulfil an effective leadership role in relation to the Company.

Power and authority in certain areas is specifically reserved to the Board – consistent with its function as outlined above. These areas include:

- composition of the Board itself, including the appointment and removal of Directors
- oversight of the Company, including its control and accountability systems
- development, implementation and review of remuneration policy and practices
- appointment and removal of senior management and the Company Secretary
- reviewing and overseeing systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and statutory compliance
- monitoring senior management's performance and implementation of strategy, and
- approving and monitoring financial and other reporting and the operation of committees.

Composition of Board

The Board performs its role and function, consistent with the above statement of its overall corporate governance responsibility, in accordance with the following principles:

- the Board comprises at least four Directors
- two of the five members of the Board are non-executive Directors independent from management – the Board considers that the two Directors (Roger Clarke and Donald Home) meet this criteria. Professor David Gardiner, although a non-executive Director, is Deputy Vice-Chancellor of QUT, a substantial shareholder, and accordingly is not considered independent. Gregory Baynton, as Managing Director of Orbit Capital, which provides management services to the Company, is likewise not independent. The CEO, Dr Steven Mercer was appointed a Director during the financial year ended 30 June 2007.
- the Chairman of the Board, Roger Clarke, is one of the independent non-executive Directors.

Board Charter and Policy

The Board's charter (which is kept under review and will be amended from time to time as the Board may consider appropriate) gives formal recognition to the matters outlined above. This charter sets out various other matters that are important for effective corporate governance including the following:

- a detailed definition of 'independence'
- a framework for the identification of candidates for appointment to the Board and their selection

- a framework for individual performance review and evaluation
- proper training to be made available to Directors both at the time of their appointment and on an ongoing basis
- basic procedures for meetings of the Board and its committees – frequency, agenda, minutes and private discussion of management issues among non-executive Directors
- ethical standards and values – formalised in a detailed code of ethics and values.
- dealings in securities – formalised in a detailed code for securities transactions designed to ensure fair and transparent trading by Directors and senior management and their associates, and
- communications with shareholders and the market.

These initiatives, together with the other matters provided for in the Board's charter, are designed to 'institutionalise' good corporate governance and, generally, to build a culture of best practice both in Tissue Therapies' own internal practices and in its dealings with others, including shareholders, suppliers and the general community.

Audit and Risk Management Committee

The purpose of this committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. Its current members are the following Directors:

- Donald Home (Chairman)
- Gregory Baynton
- Roger Clarke

The committee performs a variety of functions relevant to risk management, and internal and external reporting and reports to the Board following each meeting. Among the matters for which the committee is responsible are the following:

- Board and committee structure to facilitate a proper review function by the Board
- internal control framework including management information systems
- corporate risk assessment and compliance with internal controls
- internal audit function and management processes supporting external reporting
- review of financial statements and other financial information distributed externally
- review of the effectiveness of the audit function
- review of the performance and independence of the external auditors
- review of the external audit function to ensure prompt remedial action by management, where appropriate, in relation to any deficiency in or breakdown of controls
- assessing the adequacy of external reporting for the needs of shareholders, and
- monitoring compliance with the Company's code of ethics.

Meetings are held at least twice a year. The committee invites the external auditors to attend each of its meetings.

Best Practice Commitment

The following are a tangible demonstration of the Company's corporate governance commitment:

- **Independent professional advice:** With the prior approval of the Chairman, which may not be unreasonably withheld or delayed, each Director has the right to seek independent legal and other professional advice concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. Any costs incurred are borne by the Company.
- **Code of ethics and values:** The Company has developed and adopted a detailed code of ethics and values to guide Directors in the performance of their duties.
- **Code of conduct for transactions in securities:** The Company has developed and adopted a formal code to regulate dealings in securities by Directors and senior management and their associates. This is designed to ensure fair and transparent trading in accordance with both the law and best practice.
- **Charter:** The code of ethics and values and the code of conduct for transactions in securities (referred to above) both form part of the Company's corporate governance charter which has been formally adopted and can be inspected on its website at www.tissuetherapies.com.

Compliance with ASX Corporate Governance Guidelines and Best Practice Recommendations

The Board has assessed Tissue Therapies' current practice against the ASX Corporate Governance Guidelines and Best Practice Recommendations and outlines its assessment below:

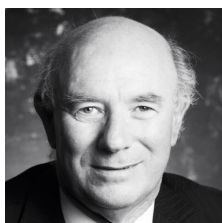
- **Lay solid foundations for management and oversight:** The role of the Board and delegation to management have been formalised as described above. This will continue to be refined, in accordance with the Guidelines, in light of practical experience gained in operating as a listed company. Tissue Therapies complies with the Guidelines in this area.
- **Structure the Board to add value:** The Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business of the Company and the Group. Two of the five Directors (Donald Home and Roger Clarke) are considered by the Board to be independent. The three non-executive Directors (Donald Home, Roger Clarke, and Professor David Gardiner) together comprise a majority of the Board. Tissue Therapies complies with the Guidelines in this area.
- **Promote ethical and responsible decision-making:** The Board has adopted a detailed code of ethics and values and a detailed code of conduct for transactions in securities. The purpose of these codes is to guide Directors in the performance of their duties and to define the circumstances in which both they and management, and their respective associates, are permitted to deal in securities. The Board ensures that restrictions on dealings in securities are strictly enforced. Both codes have been designed with a view to ensuring the highest ethical and professional standards, as well as compliance with legal obligations, and therefore comply with the Guidelines.
- **Safeguard integrity in financial reporting:** The Audit and Risk Management Committee (with its own charter) does not comply with the Guidelines in that it includes an executive Director (Gregory Baynton). It complies with the Guidelines, however, in that both Donald Home (its Chairman) and Roger Clarke are considered independent and that all three of its members are financially literate; Roger Clarke also has 'financial expertise' (defined in the Guidelines as being a financial professional with experience).
- **Make timely and balanced disclosure:** Current Tissue Therapies' practice on disclosure is consistent with the Guidelines. Policies and procedures for compliance with ASX Listing Rule disclosure requirements are included in the Company's Corporate Governance Charter.
- **Respect the rights of shareholders:** The Board recognises the importance of this principle and strives to communicate with shareholders both regularly and clearly – both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at general meetings. The Company's auditors will attend the annual general meeting and are available to answer shareholders' questions. The Company's policies comply with the Guidelines in relation to the rights of shareholders.
- **Recognise and manage risk:** The Board, together with management, has constantly sought to identify, monitor and mitigate risk. Internal controls are monitored on a continuous basis and, wherever possible, improved. The whole issue of risk management is formalised in the Company's corporate governance charter (which complies with the Guidelines in relation to risk management) and is kept under regular review. Review takes place at both committee level (audit & risk management committee), with meetings at least two times each year, and at Board level.
- **Encourage enhanced performance:** The Corporate Governance Charter adopted by the Board requires individual performance review and evaluation to be conducted formally on an annual basis. External reviews and assessments of the Board's policies and procedures, and its effectiveness generally, may periodically be conducted by independent consultants. This possibility (which would involve professional scrutiny and benchmarking against developing best market practice) will be kept under review by the Board for possible future implementation. The Board acknowledges that performance can always be enhanced and will continue to seek and consider ways of further enhancing performance both individually and collectively. Tissue Therapies' practice complies with the Guidelines in this area.
- **Remunerate fairly and responsibly:** Tissues Therapies' current practices in this area are reviewed regularly. Remuneration of Directors and executives are fully disclosed in this annual report. A clear distinction is made between non-executive Directors and executives in terms of the structure of their remuneration. The Board has not at this stage established a separate committee with delegated responsibility for remuneration policy and practices (although this decision will be kept under regular, at least annual, review) and, to that extent, does not therefore comply with the Guidelines.
- **Recognise the legitimate interests of stakeholders:** The Board recognises the importance of this principle (which it believes represents not only sound ethics but also good business sense and commercial practice) and continues to develop and implement procedures to ensure compliance with legal and other obligations to legitimate stakeholders. The Company and its policies and practices comply with the Guidelines in this area.

DIRECTORS' REPORT

Your Directors present their report on Tissue Therapies Limited (the Company) for the year ended 30 June 2007.

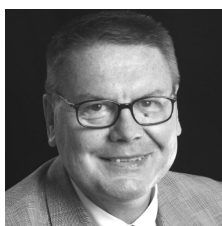
DIRECTORS

The names of Directors at any time during or since the end of the year, and their qualifications are detailed below:



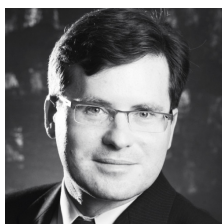
Roger Clarke – Chairman (appointed 6 November 2003)

- Qualifications — Bachelor of Commerce
Chartered Accountant
- Experience — Chairman of Board of Advice, ABN AMRO Morgans Limited
Chairman of White Sands Petroleum Ltd and PIPE Networks Limited
Director of MTQ Insurance Ltd and Trojan Equities Limited
- Special Responsibilities — Member of the Audit Committee
- Interest in Shares and Options — 370,000 Ordinary Shares and options to acquire a further 150,000 ordinary shares
-



Professor David Gardiner - Director (appointed 12 November, 2003)

- Qualifications — Barrister at Law
- Experience — Deputy-Vice Chancellor of QUT
Professor of Law, QUT
Director of several 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 (appointed 6 September 2002)

- Qualifications — Master of Business Administration
Master of Economic Studies
Post Graduate Diploma in Applied Finance and Investment
Bachelor of Business
Fellow of the Australian Institute of Company Directors
Associate of the Financial Services Institute of Australia
- Experience — Director of Lodestone Exploration Limited and PIPE Networks Limited
Director of three Australian biotechnology companies
- Special Responsibilities — Member of the Audit Committee
- Interest in Shares and Options — 520,000 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 (appointed 8 May 2003 and retired 14 November 2006)

- Qualifications — Registered Pharmacist
- Experience — Director of a number of private companies in the areas of manufacturing, health care, and investments
- Special Responsibilities — Former Chairman of the Audit & Risk Management Committee
- Interest in Shares and Options — 260,000 Ordinary Shares and options to acquire a further 100,000 ordinary shares.



Donald Home – Director (appointed 14 November 2006)

- Qualifications — Bachelor of Science (Honours)
- Experience — More than 20 years high technology health industry experience including sales, marketing, licensing, acquisitions and international marketing and strategic planning in private and public companies.
- Special Responsibilities — Chairman of the Audit & Risk Management Committee
- Interest in Shares and Options — No shares currently held but 100,000 options offered on 9 July 2007 subject to shareholder approval at the next Annual General Meeting.



Steven Mercer – Chief Executive Officer and Executive Director (appointed 10 May 2006)

- Qualifications — Bachelor of Medical Science
Bachelor of Medicine
Bachelor of Surgery
Fellow of the Australian Institute of Management
Fellow of the Australian Institute of Company Directors
Registered Medical Practitioner (Australia and USA).
- Experience — Significant medical and commercial experience, most recently as Managing Director of Mercy Tissue Engineering, a successful tissue engineering company. Significant international expertise to Tissue Therapies following a successful career with multinational companies, including six years as General Manager, Smith & Nephew Surgical and seven years with IBM Health Industry Centre in Australia and New York.
- Special Responsibilities — Chief Executive Officer, and appointed Executive Director on 10 May 2006.
- Interest in Shares and Options — 69,379 Ordinary Shares and options to acquire a further 240,000 ordinary shares. A further 400,000 options offered on 9 July 2007 subject to shareholder approval at the next Annual General Meeting.

Information on Company Secretary:

The following person held the position of Company Secretary at the end of the financial year:

Drummond McKenzie — Company Secretary

- Qualifications — Bachelor of Science (Economics) (Honours)
Chartered Accountant
Fellow of the Institute of Chartered Secretaries
- Experience — Over 11 years experience in the financial management and administration of public companies

Principal activities

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

Operating results

The loss of the Company after tax amounted to \$1,710,280 (2006: loss \$1,861,242).

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

During the 2006-2007 financial year:

Tissue Therapies recorded an after-tax loss of \$1,710,280 in line with budget expectations.

Net assets increased by \$1,431,116 to \$6,658,310 and at 30 June 2007 the Company had cash resources of \$1,911,919.

The Company conducted a successful rights issue of 6.7 million shares at \$0.50 to raise \$3,367,000 in February 2007. The Company's contributed equity following the share issues and after transaction costs arising from the issue of shares was \$11,275,677.

Tissue Therapies announced another world-first for its VitroGro® technology during August 2006: the creation of a fundamentally new, VitroGro® molecule, referred to as VitroGro®-1. The new VitroGro®-1 molecule has major commercial benefits for Tissue Therapies in the areas of manufacturing costs, intellectual property value, regulatory approvals and product simplification. In terms of manufacturing costs alone, the future use of VitroGro®-1 is expected to more than halve the Company's production costs.

The new VitroGro®-1 molecule represents a major breakthrough in protein science using molecular engineering to combine the active regions of the multiple protein components of the original VitroGro® to create a single new protein molecule. This announcement followed closely on Tissue Therapies' announcement that VitroGro® could be used to replace animal or human serum in the culture of human embryonic stem cells, which is a world-first achievement.

During November 2006, Tissue Therapies achieved a major milestone in the development of advanced, accelerated burn and wound healing treatments based on its proprietary VitroGro® technology, with the results of the dose study of synthetic VitroGro® conducted by research scientists at the Royal Childrens Hospital in Brisbane. This trial:

1. proved that synthetic VitroGro® works as efficiently as the VitroGro® made from conventional purified proteins, and
2. determined the optimal dosage for VitroGro® in preparation for the human diabetic, venous and pressure ulcer trials planned for completion in December 2007.

In addition, an unexpected finding of the dosage study was the statistically significant reduction in wound contraction when treated with VitroGro®. Wound contraction is a major problem in the treatment and healing of wounds, particularly paediatric burns and is the most common reason for corrective surgery required after burn injuries. This was in addition to the significant acceleration in wound healing and decrease formation of scar tissue proven in earlier pre-clinical studies.

A major business milestone was achieved during January 2007 with the conclusion of a world-wide exclusive agreement with leading international biologic sciences company, Invitrogen Corporation, for the promotion and sale of VitroGro® for live cell research, required for example, for the production of proteins and development of new health treatments. Headquartered in California, Invitrogen provides products and services that support academic and government research institutions, as well as pharmaceutical and biotechnology companies. It markets its products directly and through distributors and agents world-wide.

This agreement will result in the world-wide distribution of the synthetic VitroGro® protein platform for use by biomedical scientists in research institutions and pharmaceutical and biotechnology companies, who need, or prefer to use, a completely synthetic, defined media for the growth of cells and production of proteins. Tissue Therapies will supply VitroGro®, manufactured under contract, at an agreed supply price to Invitrogen. Additional Tissue Therapies revenue will be generated by quarterly royalty payments as well as additional one time payments on the achievement of agreed milestones. Sales are expected to start in the second half of calendar 2007.

During March 2007, Tissue Therapies signed a joint development agreement with Novozymes A/S for the development of advanced wound dressing products combining proprietary Novozymes technologies with Tissue Therapies' VitroGro®. Headquartered in Denmark, Novozymes is a respected world market leader in enzymes and other biological protein production and innovation with sales in 2006 in excess of A\$1.5 billion and a market capitalisation of approximately A\$7 billion. Novozymes provides a large range of biological proteins, products and services that support biological research and industrial bio production for public and private sector customers' world-wide.

The collaboration will involve scientific work in both Brisbane and Denmark, with one Novozymes scientist relocating to work with the Tissue Therapies research group headed by Prof. Zee Upton. The Company anticipates that there will be significant long-term R&D and commercial benefits arising from closer working relations with Novozymes' research and commercial personnel. The Joint Development Agreement with Novozymes represents another important milestone in the development of VitroGro® products for the global wound care market and provides a potential path to market via a global supplier with a strong international distribution network.

Tissue Therapies reached agreement during May 2007 with an international group of clinicians and scientists to undertake a human trial of VitroGro® to be conducted in Toronto, Canada, to evaluate the clinical performance of VitroGro® in the treatment of chronic skin wounds, including:

- Diabetic ulcers
- Venous ulcers
- Pressure ulcers

These three markets represent more than US\$2 billion in potential annual wound healing product demand, with an annual compound growth rate of 11%.

This study will be conducted by Dr Gary Sibbald, a wound care expert of international standing, and the Study Monitor will be Dr Douglas Queen, a scientist and world expert in the investigation of new wound care technologies. The human trials will be conducted at Toronto Wound Healing Centres and Women's College Hospital, both in Toronto, Canada. Drs Sibbald and Queen have previously conducted multiple human wound care product trials for major international American and European health care companies.

This human study will be complete in December 2007 and will provide the clinical data necessary to proceed to the next phase of commercial negotiations with the multiple international wound and health care companies with which Tissue Therapies has been in discussion for more than twelve months.

This clinical study represents a significant opportunity to simultaneously perform human trials of far broader range than was originally planned for 2007 and will contribute to the data required for regulatory approval in multiple jurisdictions.

As part of the preparation for this human trial of VitroGro®, Tissue Therapies was able to confirm during June 2007 that the classification of VitroGro® by Health Canada (the Canadian Health Regulatory Body) will accelerate the approval and release of its first wound care products. Health Canada has classified VitroGro® as a 'topical biologic', so the clinical regulatory requirements for product assessment will be similar to those required for approval of a medical device, rather than a pharmaceutical. This also means that the regulatory testing required to bring the Company's products to market will be considerably faster and cheaper than those required for a pharmaceutical.

Also during June 2007, Tissue Therapies management was delighted to announce that internationally renowned wound care expert, Professor Keith Harding of Cardiff University, agreed to act as an expert advisor for the Company, including the provision of expert advice for the upcoming VitroGro® human trials.

Professor Harding will provide expert wound care product development advice to Tissue Therapies under a formal consulting agreement, with a particular focus on the development of VitroGro® products to manage diabetic, venous and pressure ulcers.

The strategic appointment of Professor Harding adds to the growing team of clinical wound care experts now assisting with clinical trials and product development aimed at introducing VitroGro® wound care products into the global wound care market. Professor Harding has worked on a number of clinical trial projects with Drs Sibbald and Douglas Queen, the researchers who will conduct the human trial of VitroGro® for completion by December 2007 (see TT ASX Announcement "Canadian Clinical Trial", 22 May 2007). Together with Dr Gary Sibbald, Professor Harding is a member of the organising committee for the World Union of Wound Healing Societies Meeting to be held in Toronto during 2008.

Significant Changes in State of Affairs

The Company conducted a successful rights issue of 6.7 million shares at \$0.50 to raise \$3,367,000 in February 2007. The Company's contributed equity following the share issues and after transaction costs arising from the issue of shares was \$11,275,677. This increased cash balances during the year.

Matters Subsequent to the End of the Financial Year

During July 2007, Tissue Therapies closed a placement of 4,040,000 new ordinary shares with institutional and sophisticated investors at \$0.50 per share to raise \$2,020,000 before costs of the issue. The placement of new shares was conducted in accordance with ASX Listing Rule 7.1 and represented an additional 15.00% of the Company's existing issued capital. The net proceeds of the issue will provide additional funding to accelerate pre-clinical and regulatory approval work, prior to a more sophisticated human trial of VitroGro® for the treatment of diabetic, venous and pressure ulcers.

As recently announced, exciting new developments since May 2007 have made it clear that the additional preclinical and human trial work will substantially enhance the commercial position of Tissue Therapies in the ongoing negotiations with international health and wound care companies.

On 9 July 2007 the Board approved the issue of 400,000 performance based options to Dr Mercer in lieu of a cash bonus, subject to shareholder approval at the Annual General Meeting of the Company. If approved by shareholders, these options will vest on the achievement of a series of specific performance milestones and will be exercisable within two years of each tranche of options vesting. The Board also approved the issue, subject to shareholder approval at the Annual General Meeting of the Company, of 100,000 options to Mr Donald Home and the issue of a further 205,000 options to key QUT research staff.

Likely Developments and Expected Results of Operations

The likely developments in the operations of the Company and expected results of those operations in future financial years are as follows:

Key Achievement / Indicative Milestone	Target	Status
Start clinical trial of VitroGro® to treat diabetic, venous and pressure ulcers.	Sep. 2007	Protocol design complete. Final preclinical testing underway prior to Ethics Committee approval.
First sale of VitroGro® to Invitrogen.	Oct. 2007	Agreement signed and manufacturing quality audit completed.
Complete human clinical trial of VitroGro® for treatment of diabetic, venous & pressure ulcers.	Dec. 2007	On schedule.
Continue commercial negotiations with international wound and health care companies for the use of VitroGro® in new wound care products with clinical trial data.	Feb. 2008	Detailed planning underway.
Proceed with regulatory application for approval of VitroGro® for treatment of human diabetic, venous and pressure ulcers with Health Canada (and other territories covered by mutual recognition agreements with Canada).	Feb. 2008	Detailed planning underway.
Continued granting of three core VitroGro® patents in world-wide territories.	Ongoing	Granted Aust & NZ; pending USA, Canada, EU, Asia.

Options

At the date of this report, options over the un-issued share of the Company are as follows:

Grant date	Date of Expiry	Exercise price	Number under option
29/01/2004	30/11/2008	\$0.50	1,075,000
10/03/2006	27/09/2008	\$0.95	100,000
10/03/2006	27/09/2009	\$0.95	100,000
10/03/2006	2 years from first milestone achieved *	\$0.80 (at least)	40,000 *
21/04/2006	21/04/2008	\$0.80	150,000
			1,465,000

* Options issued to the CEO under the Company's Equity Option Plan in lieu of cash bonus. Options issued will vest on the achievement of certain Key Events, which are outlined in Tissue Therapies Limited's ASX announcement on 10 March 2006.

No ordinary shares were issued on the exercise of options during the year ended 30 June 2007, or up until the date of this report.

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for the Directors and executives of Tissue Therapies Limited.

The Company's Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer (CEO) and others involved in the operation of the Company.

The Board assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Non-executive Director Remuneration

Objective: The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain Directors of the highest calibre at a cost that is acceptable to shareholders.

Structure: The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a General Meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at a General Meeting of members held on 29 January 2004 when shareholders approved an aggregate remuneration of \$250,000 per year, with remuneration for the first year after listing being \$55,000.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned among Directors is reviewed annually. Each director receives an annual fee for being a director of the company. No incentive payments are included.

Executive Director Remuneration

Objective: The Company aims to reward the Executive Directors with remuneration commensurate with their position and responsibilities. The CEO, Dr Steven Mercer does not receive additional remuneration above his CEO salary to act as an Executive Director.

Structure: The Executive Directors receive a fixed annual amount in remuneration. No incentive payments are included.

Executive Remuneration

Chief Executive Officer

Objective: The Company aims to reward the CEO with remuneration commensurate with his position and responsibilities.

Structure: The CEO, Dr Steven Mercer is employed under contract. The current contract commenced on 27 September 2004. Dr Mercer's employment contract with Tissue Therapies encompasses a total remuneration package of \$175,625 per annum plus a share option package of 200,000 options to acquire shares in the Company at a 20 per cent premium to the Company's share price on 27 September 2004.

The initial tranche of 100,000 options vested one year from the commencement of his employment, and the second 100,000 options vested two years from the commencement date. Each tranche of options will expire three years from their vesting date and no further options will vest if the Executive resigns or is terminated for any reason. Any vested options must be exercised within 30 days from the date of termination of the employment agreement. Under the employment agreement, the employment arrangements may be terminated by either party at any time by with not less than two months' written notice. Dr Mercer was awarded 300,000 performance based options in 2006 in lieu of a cash bonus. The 40,000 of these options which remain exercisable will vest on the achievement of a series of specific performance milestones and are exercisable within two years of each tranche of options vesting.

Company Secretary

Objective: The Company aims to reward the Company Secretary with remuneration commensurate with his position and responsibilities.

Structure: The Company Secretary receives remuneration based on an hourly rate for his services. No incentive payments are included.

Key Management Personnel Remuneration

Details of the nature and amount of each element of the emoluments to key management personnel of Tissue Therapies Limited for the year ended 30 June 2007 are set out as follows:

Key Management Personnel	Primary		Post Employment	Share-based payment		Total
	Cash Salary and fees	Bonus / Non-monetary benefits	Super-annuation	Equity	Options (a)	
	\$	\$	\$	\$	\$	\$
Non-Executive Directors						
R. Clarke (Chairman) 2007	35,000	-	3,150	-	-	38,150
2006	30,000	-	2,700	-	-	32,700
G. Baynton 2007	10,000	-	-	-	-	10,000
2006	10,000	-	-	-	-	10,000
Prof. D. Gardiner [1] 2007	20,000	-	-	-	-	20,000
2006	15,000	-	-	-	-	15,000
D. Home [2] 2007	12,611	-	1,135	-	-	13,746
2006	-	-	-	-	-	-
N. Reinhardt [3] 2007	7,222	-	650	-	-	7,872
2006	15,000	-	1,350	-	-	16,350
Executive Directors						
G. Baynton 2007	66,000	-	-	-	-	66,000
2006	66,000	-	-	-	-	66,000
Dr S. Mercer (CEO) 2007	167,000	-	17,658	-	29,550	214,208
2006	166,000	-	16,284	-	13,750	196,034
Other Key Management Personnel						
D. McKenzie 2007	48,000	-	-	-	-	48,000
2006	40,268	-	-	-	-	40,268
Total 2007	365,833	-	22,593	-	29,550	417,976
Total 2006	342,268	-	20,334	-	13,750	376,352

[1] Professor D Gardiner has instructed that all fees payable to him are to be paid into The QUT Endowment Equity Fund.

[2] Appointed 14 November 2006

[3] Resigned 14 November 2006

(a) Options issued to Directors & Specified Executives as part of remuneration for the year ended 30 June 2007

No options were issued as part of remuneration during the year ended 30 June 2007 and no options were exercised during the year that were granted as compensation in prior periods and 240,000 such options lapsed. The value of options issued in prior years to Steven Mercer (Director / CEO) as part of his remuneration package were fully amortised during the year with \$29,550 (2006 \$13,750) included under administration expense.

Directors' and Officers' Indemnification

The Company has indemnified directors and officers to the maximum extent permitted by law, against any liability incurred by them as, or by virtue of their holding office as and acting in the capacity of, an officer of the Company.

Insurance premiums have been paid during the year in respect of a contract insuring directors and officers against legal costs incurred in defending proceedings against them. Details of the nature of liabilities covered or the amount of premiums paid are not disclosed as such disclosure is prohibited in terms of the contract.

Directors' Meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Directors Meetings		Audit Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended
R. Clarke	9	9	3	3
G. Baynton	9	9	3	3
Prof. D. Gardiner	9	7	-	-
D. Home (appointed 14 November 2006)	5	5	2	2
N. Reinhardt (retired 14 November 2006)	4	4	1	1
Dr. S. Mercer	9	9	-	-

Environmental Regulation

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Non-Audit Services

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

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

The following fees for non-audit services were paid / payable to the external auditors during the year ended 30 June 2007:

Non-Audit Services

	30 June 2007
	\$
Audit or review of regulatory returns & due diligence services	6,250
• Taxation services	5,619
	<hr/>
	11,869
	<hr/>

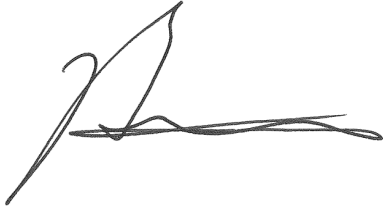
Auditor's Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached to this Directors' Report.

Proceedings on Behalf of the Company

No proceedings have been brought, or intervened in, on behalf of the company with leave of the Court under s.237 of the *Corporations Act 2001*.

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

A handwritten signature in black ink, appearing to be 'G. Baynton', written in a cursive style.

Greg Baynton

Director

Dated at Brisbane, this 9th Day of August 2007

AUDITOR'S INDEPENDENCE DECLARATION



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PARTNERS «
THOMAS G. HACKETT
MICHAEL W. HACKETT
LIAM J. MURPHY

CONSULTANT «
JOHN L. HACKETT

9 August 2007

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

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Tissue Therapies Limited

As lead audit partner for the audit of the financial report of Tissue Therapies Limited for the year ended 30 June 2007, 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

A handwritten signature in black ink, appearing to read "Liam J Murphy".

Hacketts

A second handwritten signature in black ink, appearing to read "Liam J Murphy".

Liam J Murphy
Audit Partner

FINANCIAL STATEMENTS

TISSUE THERAPIES LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	30 June 2007 \$	30 June 2006 \$
Revenues	2	160,024	239,315
Research and development expenses		(902,652)	(859,529)
Occupancy expenses		(42,410)	(39,437)
Administration expenses		(921,363)	(759,964)
Marketing, business development and patent protection		(81,961)	(239,849)
Laboratory expenses		(119,736)	(324,221)
Other expenses		(184,991)	(193,287)
Loss before income tax benefit	3	(2,093,089)	(2,176,972)
Income tax benefit	4(b)	382,809	315,730
Loss from continuing operations after income tax benefit		(1,710,280)	(1,861,242)
Loss attributable to members of the entity		(1,710,280)	(1,861,242)
		Cents	Cents
Overall Operations			
Basic earnings per share	23	(7.93)	(10.12)
Diluted earnings per share	23	(7.92)	(9.99)

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED
BALANCE SHEET AS AT 30 JUNE 2007

	Note	30 June 2007 \$	30 June 2006 \$
CURRENT ASSETS			
Cash and cash equivalents	5	1,911,919	3,940,880
Trade and other receivables	6(a)	109,161	48,779
Inventories	7	716,820	197,593
Current tax assets	4(d)	366,619	320,165
Other current assets	6(b)	3,739,641	483,571
TOTAL CURRENT ASSETS		6,844,160	4,990,988
NON-CURRENT ASSETS			
Property, plant and equipment	8	111,988	105,776
Intangible assets	9	342,250	342,250
TOTAL NON-CURRENT ASSETS		454,238	448,026
TOTAL ASSETS		7,298,398	5,439,014
CURRENT LIABILITIES			
Trade and other payables	10	640,088	211,820
TOTAL LIABILITIES		640,088	211,820
NET ASSETS		6,658,310	5,227,194
EQUITY			
Issued Capital	11(a)	11,275,677	8,177,366
Reserves		65,439	22,354
Accumulated losses		(4,682,806)	(2,972,526)
TOTAL EQUITY		6,658,310	5,227,194

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED**STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2007**

	30 June 2007	30 June 2006
	\$	\$
Contributed equity		
Ordinary shares at beginning of period	8,177,366	4,939,519
Shares issued during period	3,367,265	3,324,014
Transaction costs	(268,954)	(86,167)
Balance of ordinary shares at end of period	11,275,677	8,177,366
Options reserve		
Options reserve at beginning of period	22,354	1,427
Share options expensed during the period	43,085	20,927
Balance of options reserve at end of period	65,439	22,354
Accumulated losses		
Accumulated losses at beginning of period	(2,972,526)	(1,111,284)
Loss attributable to members of the entity	(1,710,280)	(1,861,242)
Accumulated losses at end of period	(4,682,806)	(2,972,526)
Total equity at the end of the period	6,658,310	5,227,194

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007**

	Note	30 June 2007 \$	30 June 2006 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		18,756	9,611
Payments to research facilities (inclusive of goods and services tax)		(1,126,345)	(1,094,932)
Payments to suppliers (inclusive of goods and services tax)		(4,465,400)	(1,830,790)
Interest received		122,880	215,299
Finance costs		(607)	(687)
Income Tax rebate received		336,347	306,725
Net cash provided by (used in) operating activities	22(b)	(5,114,369)	(2,394,774)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(12,903)	(88,217)
Net cash provided by (used in) investing activities		(12,903)	(88,217)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issues		3,367,265	3,323,950
Costs of share issue		(268,954)	(75,505)
Grant income received		-	14,405
Net cash provided by (used in) financing activities		3,098,311	3,262,850
Net increase (decrease) in cash held		(2,028,961)	779,859
Cash at beginning of year		3,940,880	3,161,021
Cash at end of year	22(a)	1,911,919	3,940,880

The accompanying notes form part of these statements.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Tissue Therapies Limited, which is a listed public company, incorporated and domiciled in Australia.

The financial report of Tissue Therapies Limited complies with all International Financial Reporting Standards (IFRS) in their entirety.

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

Basis of preparation

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

a. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account, or which may be realised in the future, is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

b. Research and Development Expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

c. Intangibles

Licenses and Patents

Licenses and patents are recognised at cost of acquisition. Licenses, patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Licenses and patents are amortised over their useful life, which has been assessed as ten years from the date the intangible asset is in its intended use.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled Compensation

The Company operates an option based compensation plan. The bonus element over the exercise price of the employee services rendered in exchange for the grant of options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

e. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

f. Revenue recognition

Revenues are recognised at fair value of the consideration received net of any applicable taxes.

Interest revenue is recognised as it accrues taking into account the interest rates applicable to the financial assets.

Government research and development grant income is recognised as and when the relevant research expenditure is incurred. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

All revenue is stated net of the amount of goods and services tax (GST).

g. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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

h. Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Property, plant and equipment (Continued)

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Company commencing from the time the asset is held ready for use. The expected useful life for plant and equipment is three to ten years.

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

i. Inventory

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads.

j. Trade and other creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

k. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

l. Impairment of assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

m. Comparative figures

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

Critical Accounting Estimates and Judgments

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

Key Estimates — Impairment

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

No impairment has been recognised in respect of licenses and trademarks for the year ended 30 June 2007.

The financial report was authorised for issue on 9 August 2007 by the Board of Directors.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	30 June 2007	30 June 2006
	\$	\$
NOTE 2: REVENUE		
Operating activities:		
Product sales	37,144	9,611
Interest received	122,880	215,299
Research grants	-	14,405
Total revenue from ordinary activities	160,024	239,315

NOTE 3: LOSS FOR THE YEAR

Expenses

Cost of sales	-	9,038
Finance costs – external	607	687
Rental expense on operating leases – minimum lease payments	31,314	34,646
Research & development costs	902,652	859,529
Depreciation expense	7,258	2,276

NOTE 4: INCOME TAX

a. The components of income tax benefit comprises

Current tax	366,619	320,163
Overprovision in respect of prior years	16,190	(4,433)
Total tax benefit	382,809	315,730

b. The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows:

Tax benefit on loss from ordinary activities at 30% (2006 – 30%)	627,927	653,092
Tax effect of:		
Business related capital expenditure	25,078	(35,352)
(Increase)/ decrease in accruals	833	(4,412)
Non-deductible entertainment	(454)	(587)
Share options expensed during the year	-	(6,278)
Tax Losses available	653,384	606,463

Tax losses utilised by:

• Income tax benefit attributable to R&D tax offset receivable	366,619	320,163
• Income tax benefit attributable to R&D tax offset overstated in prior year	16,190	(4,433)

Income tax benefit relating to entity	382,809	315,730
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The applicable weighted average effective tax rates are as follows for 2007 is a result of a decreased in business

(18%)	(15%)
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The decrease in the weighted average effective tax rates for 2007 is a result of a decreased in business related capital expenditure.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	30 June 2007	30 June 2006
	\$	\$
NOTE 4: INCOME TAX (continued)		
c. Deferred Tax Asset - not brought to account		
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1a occur:		
Temporary differences	206,074	151,083
Tax losses – operating losses	904,303	526,103
	1,110,377	677,186
d. Current Tax Asset		
Opening balance of R&D tax offset concession claimed	320,165	311,160
Less - R&D tax offset understated/ (overstated) in prior year	16,182	(4,434)
Less- Income tax benefit attributable to R&D tax offset received	(336,347)	(306,726)
Add - Income tax benefit attributable to R&D tax offset receivable	366,619	320,165
Closing balance of Research and Development tax offset concession claimed	366,619	320,165

NOTE 5: CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank	88,768	138,774
Short term bank deposits - at call *	1,823,151	3,802,106
	1,911,919	3,940,880

* The deposits are in interest bearing floating rate accounts. Interest rates vary between 4.1% and 6.2%.

NOTE 6: TRADE AND OTHER RECEIVABLES & OTHER CURRENT ASSETS

(a)

Trade debtors	25,000	6,612
GST receivable	84,161	42,167
	109,161	48,779

(b) Other Current Assets

Prepayments – VitroGro® Protein Components	3,739,641	483,571
	3,739,641	483,571

Payments to the manufacturer for the production of VitroGro® Protein Components have been recognised as a prepayment as production of inventory had not yielded an inventory of protein components at 30 June 2007. Upon completion of the project and successful delivery of the quality and quantity of VitroGro® Protein Components ordered, the payments will be transferred to inventory and recognised as the cost of inventory acquired.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	30 June 2007	30 June 2006
	\$	\$
NOTE 7: INVENTORIES		
VitroGro® Protein Components – at cost	716,820	197,593
	<u>716,820</u>	<u>197,593</u>

NOTE 8: NON-CURRENT ASSETS - PROPERTY, PLANT & EQUIPMENT

Plant and equipment – at cost	31,200	15,192
Less: Accumulated depreciation	(11,267)	(4,009)
	<u>19,933</u>	<u>11,183</u>
Capital Works in progress	92,055	94,593
	<u>92,055</u>	<u>94,593</u>
Total property, plant and equipment	<u>111,988</u>	<u>105,776</u>

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Plant & Equipment	Capital Works in progress	Total
	\$	\$	
Carrying amount at 1 July 2006	11,183	94,593	105,776
Additions	13,470	-	13,470
Transfers	2,538	(2,538)	-
Depreciation expense	(7,258)	-	(7,258)
Carrying amount at 30 June 2007	<u>19,933</u>	<u>92,055</u>	<u>111,988</u>

Based on the methodology applied in Note 1 to the financial statements, there were no impairment gains or losses recorded during the current financial year.

	30 June 2007	30 June 2006
	\$	\$
NOTE 9: NON-CURRENT ASSETS - INTANGIBLE ASSETS		
Licenses and Patents - at cost	342,250	342,250
	<u>342,250</u>	<u>342,250</u>

Licences and patents are assessed to have finite useful lives. Amortisation shall begin when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. There are no amortisation charges for licenses and patents for the current or prior financial periods.

NOTE 10: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

Trade creditors	620,774	130,081
Other creditors and accruals	19,314	81,739
	<u>640,088</u>	<u>211,820</u>

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	30 June 2007	30 June 2006
	\$	\$

NOTE 11: ISSUED CAPITAL

a. Share capital

26,938,122 (30 June 2006: 20,203,592) fully paid ordinary shares

11,275,677	8,177,366
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b. Fully paid ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands

c. Movements in ordinary share capital:

Date	Details	No. Shares	Issue price	\$
01/07/05	Balance at beginning of year	15,455,000		4,939,519
23/11/05	2,315,500 ordinary shares issued by placement	2,315,500	\$0.70	1,620,850
22/12/05	2,433,092 ordinary shares under Share Purchase Plan	2,433,092	\$0.70	1,703,164
	Transaction costs arising from the issue of shares by placement and under Share Purchase Plan			(86,167)
30/06/06	Balance at end of year	20,203,592		8,177,366
23/04/07	6,734,530 ordinary shares issued by rights issue	6,734,530	\$0.50	3,367,265
	Transaction costs arising from the issue of shares by rights issue			(268,954)
30/06/07	Balance at end of year	26,938,122		11,275,677

d. Options

- i) For information relating to options issued, exercised and lapsed during the financial year and the options outstanding at year-end refer to Note 16: Share-based Payments.
- ii) For information relating to share options issued to key management personnel during the financial year, refer to Note 16: Share-based Payments.

NOTE 12: RESERVES

Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

TISSUE THERAPIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

	30 June 2007	30 June 2006
	\$	\$
NOTE 13: REMUNERATION OF AUDITORS		
Remuneration of Hacketts Chartered Accountants for:		
• <i>Audit services</i>		
• Audit and review of financial reports and other audit work under the Corporations Act 2001.	23,860	14,000
• <i>Non-audit services</i>		
• Audit or review of regulatory returns and due diligence services	6,250	1,500
• Taxation services	5,619	3,500
	35,729	19,000

NOTE 14: FINANCIAL INSTRUMENTS

The group's financial instruments consist mainly of deposits with banks, short-term investments, and accounts receivable and payable.

a. Credit risk exposures

The credit risk on financial assets of the company which have been recognised on the balance sheet is generally the carrying amount, net of any provisions for doubtful debts.

b. Interest rate risk exposures

The company's exposure to interest rate risk and the effective weighted average interest rate is set out in the relevant note.

c. Liquidity risk

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate facilities or financing options are maintained.

d. Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and the financial liabilities of the company approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

NOTE 15: KEY MANAGEMENT PERSONNEL COMPENSATION

- a. Names and positions held of the Company's key management personnel in office at any time during the financial year are:

Key Management Person	Position
Mr Roger Clarke	Chairman – Non-executive
Professor David Gardiner	Director – Non-executive
Mr Greg Baynton	Executive Director
Mr Don Home	Director – Non-executive (appointed 14 November 2006)
Mr Neil Reinhardt	Director – Non-executive (retired 14 November 2006)
Dr Steven Mercer	Chief Executive Officer and Executive Director
Mr D McKenzie	Company Secretary

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 15: KEY MANAGEMENT PERSONNEL COMPENSATION (Continued)

b. Option Holdings

Number of options held by Key Management Personnel:

Key Management Personnel	Balance 1.7.2006	Granted as Compensation	Options Expired	Balance 30.06.2007	Total Vested 30.06.07	Total Exercisable 30.06.07	Total Unexercisable 30.06.07
R. Clarke	150,000	-	-	150,000	-	150,000	-
G. Baynton [2]	600,000	-	-	600,000	-	600,000	-
Prof. D. Gardiner [1]	100,000	-	-	100,000	-	100,000	-
N. Reinhardt	100,000	-	-	100,000	-	100,000	-
Dr S. Mercer	500,000	-	260,000	240,000	-	240,000	-
D. McKenzie	25,000	-	-	25,000	-	25,000	-
Total	1,475,000	-	260,000	1,215,000	-	1,215,000	-

[1] A total of 2,255,000 shares and 100,000 options are held by QUT, which is a related entity of Professor David Gardiner.

[2] Orbit Capital, a related entity of Gregory Baynton holds 520,000 shares and 600,000 options.

c. Share Holdings

Number of Shares held by Key Management Personnel:

Key Management Personnel	Balance 1.7.2006	Received as Compensation	Acquired Under Rights Issue and Other Purchases	Balance 30.06.2007
R. Clarke	200,000	-	170,000	370,000
G. Baynton [2]	520,000	-	-	520,000
Prof. D. Gardiner [1]	2,255,000	-	-	2,255,000
N. Reinhardt	260,000	-	-	260,000
Dr S. Mercer	69,379	-	-	69,379
Total	3,304,379	-	170,000	3,474,379

[1] A total of 2,255,000 shares and 100,000 options are held by QUT, which is a related entity of Professor David Gardiner.

[2] Orbit Capital, a related entity of Gregory Baynton holds 520,000 shares and 600,000 options.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 16: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2007:

- On 10 March 2006 100,000 share options were granted to the CEO to take up ordinary shares at an exercise price of \$0.95 each. The options are exercisable on or before 27 September 2008.
- On 10 March 2006 100,000 share options were granted to the CEO to take up ordinary shares at an exercise price of \$0.95 each. The options are exercisable after 27 September 2006 and on or before 27 September 2009.
- On 10 March 2006 300,000 share options were granted to the CEO to take up ordinary shares at an exercise price of at least \$0.80 each. The 40,000 of these options which remain exercisable will vest on the achievement of a series of specific performance milestones and are exercisable within two years of each tranche of options vesting
- On 21 April 2006, 150,000 share options were granted to key research staff employed by the Queensland University of Technology to take up ordinary shares at an exercise price of \$0.80 each. The options are exercisable on or before 21 April 2008

The options hold no voting or dividend rights and are not transferable. At balance date no options had been exercised.

	2007		2006	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at the beginning of the year	1,765,000	0.63	1,115,000	0.51
Granted	-	-	650,000	0.85
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	(300,000)	(0.80)	-	-
Outstanding at year-end	1,465,000	0.60	1,765,000	0.63
Exercisable at year-end	1,465,000	0.60	1,365,000	0.55

There were no options exercised during the year ended 30 June 2007.

The options outstanding at 30 June 2007 had a weighted average exercise price of \$0.60 and a weighted average remaining contractual life of 1.43 years. Exercise prices range from \$0.50 to \$0.95 in respect of options outstanding at 30 June 2007.

There were no options granted during the year ended 30 June 2007.

Included under administration expense in the income statement is: \$43,085 (2005- \$20,927) which relates, in full, to equity-settled share-based payment transactions.

	30 June 2007	30 June 2006
	\$	\$
NOTE 17: COMMITMENTS FOR EXPENDITURES		
a. Commitments for consultancy services contracted for at the reporting date but not recognised as liabilities, payable		
Within one year	1,722,885	2,211,559
Later than one year but not later than five years	-	537,652
Later than five years	-	-
	1,722,885	2,749,211

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 18: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- The Company has entered into a Deed of Assignment of Intellectual Property Rights with QUT, under which QUT will assign the Intellectual Property to the Company on the payment of \$100,000 by the Company and the satisfaction of certain preconditions regarding, among other things, its level of cash reserves, the Company's share price and a minimum level of expenditure under the R&D Agreement.

Directors are not aware of any other contingent liabilities or assets that are likely to have a material effect on the results of the Company as disclosed in these financial statements.

NOTE 19: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Key Management Personnel

- The Company entered into a R&D Agreement with QUT to undertake R&D Projects as requested by the Company during the term of the Intellectual Property Licence Agreement (refer Note 19) and on normal terms and conditions. During the year \$712,646 (2006: \$748,248) was paid to QUT in accordance with the R&D Agreement. QUT is a related entity of a Director, Professor David Gardiner.
- The Company has entered into a Corporate and Commercial Services Advisory Agreement with Orbit Capital. Orbit Capital is a related entity of a Director, Gregory Baynton. Under the terms of this Agreement, Orbit Capital receives remuneration of \$5,500 per month (plus GST).
- The Company paid a fee of \$179,800 to ABN AMRO Morgans Corporate Limited for its part in the rights issue of 6,734,530 ordinary shares. Roger Clarke is a director of ABN AMRO Morgans Corporate Limited.

NOTE 20: SEGMENT INFORMATION

Tissue Therapies Limited operates predominantly in one business segment being biotechnology. Tissue Therapies customers and clients are located predominantly in Australia.

NOTE 21: EVENTS SUBSEQUENT TO REPORTING DATE

During July 2007, Tissue Therapies closed a placement of 4,040,000 new ordinary shares with institutional and sophisticated investors at \$0.50 per share to raise \$2,020,000 before costs of the issue. The placement of new shares was conducted in accordance with ASX Listing Rule 7.1 and represented an additional 15.00% of the Company's existing issued capital. The net proceeds of the issue will provide additional funding to accelerate pre-clinical and regulatory approval work, prior to a more sophisticated human trial of VitroGro® for the treatment of diabetic, venous and pressure ulcers. As recently announced, exciting new developments since May 2007 have made it clear that the additional pre-clinical and human trial work will substantially enhance the commercial position of Tissue Therapies in the ongoing negotiations with international health and wound care companies.

On 9 July 2007 the Board approved the issue of 400,000 performance based options to Dr Mercer in lieu of a cash bonus, subject to shareholder approval at the Annual General Meeting of the Company. If approved by shareholders, these options will vest on the achievement of a series of specific performance milestones and will be exercisable within two years of each tranche of options vesting. The Board also approved the issue, subject to shareholder approval at the Annual General Meeting of the Company, of 100,000 options to Mr Donald Home and the issue of a further 205,000 options to key QUT research staff.

TISSUE THERAPIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	30 June 2007	30 June 2006
	\$	\$
NOTE 22: CASH FLOW INFORMATION		
a. Reconciliation of Cash		
Cash at end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents	1,911,919	3,940,880
	<hr/>	<hr/>
	1,911,919	3,940,880
b. Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	(1,710,280)	(1,861,242)
Non-cash flows in profit from ordinary activities		
Depreciation	7,258	2,276
Amortisation of share based payments	43,085	20,927
Changes in assets and liabilities		
(Increase)/ decrease in receivables and prepayments	(3,274,458)	(442,496)
Increase in payables	428,270	16,811
(Increase) in tax recoverable	(89,017)	(9,005)
(Increase) in inventory	(519,227)	(107,640)
Other- research grants included in cash flows from financing activities	-	(14,405)
	<hr/>	<hr/>
Cash outflows from operations	(5,114,369)	(2,394,774)

NOTE 23: EARNINGS PER SHARE

Weighted average number of shares used as the denominator

	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculation of Basic EPS	21,565,693	18,265,021
Weighted average number of options outstanding which are considered potentially dilutive	20,665	239,075
	<hr/>	<hr/>
Weighted average number of potential ordinary shares outstanding during the year used in calculation of Dilutive EPS	21,586,358	18,504,096

The diluted EPS calculation includes that portion of these options considered to be potentially dilutive, weighted with reference to the date of conversion. The weighted average number included is 20,665.

TISSUE THERAPIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007****NOTE 24: CHANGE IN ACCOUNTING POLICY**

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Company
AASB 2005–10 Amendments to Australian Accounting Standards	AASB 1 First time adoption of AIFRS AASB 4 Insurance Contracts AASB 101 Presentation of Financial Statements AASB 114 Segment Reporting AASB 117 Leases AASB 133 Earnings per Share AASB 1023 General Insurance Contracts AASB 1038 Life Insurance Contracts AASB 139 Financial Instruments: Recognition and Measurement	The disclosure requirements of AASB 132: Financial Instruments: Disclosure and Presentation have been replaced due to the issuing of AASB 7: Financial Instruments: Disclosures in August 2005. These amendments will involve changes to financial instrument disclosures within the financial report. However, there will be no direct impact on amounts included in the financial report as it is a disclosure standard.	1 Jan 2007	1 July 2007
AASB 7 Financial Instruments: Disclosures	AASB 132 Financial Instruments: Disclosure and Presentation	As above.	1 Jan 2007	1 July 2007

NOTE 25: COMPANY DETAILS

The registered office of the Company is:

Tissue Therapies Limited
c/o McCullough Robertson Lawyers
Level 11
Central Plaza Two
66 Eagle Street
Brisbane QLD 4000
Australia

The principal place of business of the Company is:

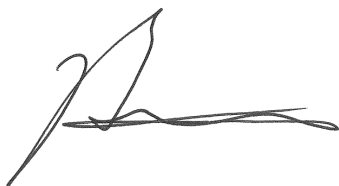
Tissue Therapies Limited
6th Floor
Institute of Health and Biomedical Innovation
60 Musk Avenue
Kelvin Grove
QLD 4059
Australia

DIRECTORS DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 19 to 35, are in accordance with the Corporations Act 2001; and
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the Company's financial position as at 30 June 2007 and of its performance for the year ended on that date.
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

A handwritten signature in black ink, appearing to read 'Greg Baynton', with a long horizontal flourish extending to the right.

Greg Baynton

Director

Dated at Brisbane, this 9th Day of August 2007

AUDITOR'S REPORT

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TISSUE THERAPIES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Tissue Therapies Limited (the Company) which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the company.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 14 to 15 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We have given the Directors of the Company a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

Auditor's Opinion

In our opinion:

- a) the financial report of Tissue Therapies Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b) the financial report also complies with International financial Reporting Standards as disclosed in Note 1 and other mandatory professional reporting requirements in Australia; and
- c) the remuneration disclosures that are contained in pages 6 to 8 of the directors' report comply with Accounting Standard AASB 124.



HACKETTS CHARTERED ACCOUNTANTS

Dated at Brisbane this 9th day of August 2007

Liam Murphy

Partner

SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 23rd August 2007

1a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of shares are:

	Number of investors	Number of shares	% Issued Capital
1 – 1,000	91	61,545	0.20%
1,001 – 5,000	278	859,461	2.77%
5,001 – 10,000	216	1,750,966	5.65%
10,001 – 100,000	471	13,576,544	43.83%
100,001 and Over	32	14,729,606	47.55%
Total	1,088	30,978,122	100.00%

1b) There were 54 holders of less than a marketable parcel of securities.

1c) A placement of 4,040,000 ordinary shares with institutional and sophisticated investors took place subsequent to year end.

2) The names of the twenty largest holders of quoted shares are:

		Listed Ordinary Shares	
		Number of shares	Percentage of ordinary shares
1	Queensland University of Technology	2,255,000	7.28%
2	Asia Union Investments Pty Ltd	2,240,058	7.23%
3	Seymour Group Pty Ltd	1,500,000	4.84%
4	National Nominees Limited	1,309,714	4.23%
5	Dr Zee Upton	1,258,250	4.06%
6	Mirrabooka Investments Limited	760,000	2.45%
7	Orbit Capital Pty Ltd	500,000	1.61%
8	Berne No. 132 Nominees Pty Ltd <323731 A/C>	474,858	1.53%
9	Berne No. 132 Nominees Pty Ltd <323723 A/C>	382,858	1.24%
10	Melda Investments Pty Ltd <Janet Caffin Super Find A/C>	350,000	1.13%
11	Mr Roger Brian Clarke and Mrs Barbara Joan Clarke <Roger B Clarke Family A/C>	270,000	0.87%
12	Berne No. 132 Nominees Pty Ltd <224266 A/C>	266,667	0.86%
13	Dr Damien Gerard Harkin and Mrs Blazenska Harkin	250,000	0.81%
14	PSA Super Pty Ltd <The Vesoul Super Fund A/C>	232,488	0.75%
15	Meta Capital Limited	200,191	0.65%
16	Foligno Pty Ltd	200,000	0.65%
17	Mr Richard Anthony O, Sullivan and Mrs Maureen Jennifer O'Sullivan <R O'Sullivan Super Fund A/C>	189,524	0.61%
18	Checkers (NT) Pty Ltd <Ashton Super Fund Account>	175,000	0.56%
19	G and R Kratzmann Pty Ltd	164,162	0.53%
20	Gaffsbury Pty Ltd <The Smallsman FamilyA/C>	163,334	0.53%
		13,142,104	42.42%

SHAREHOLDER INFORMATION (CONTINUED)

3) Substantial shareholders

Substantial shareholders in the Company are set out below:

Name	Number	Percentage
Queensland University of Technology	2,255,000	7.28%
Asia Union Investments Pty Limited	2,240,058	7.23%

4) Voting Rights

The voting rights attaching to ordinary shares are set out below:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

5a) Unquoted Equity Securities

Options	Number on Issue	Number of Holders
1 – 25,000	75,000	5
25,001 – 100,000	640,000	8
100,101 – 200,000	150,000	1
200,001 and over *	600,000	1
	1,465,000	15

5b) 1,075,000 of the options are exercisable at \$0.50 each, while 190,000 of the options are exercisable at \$0.80 each and are escrowed for 12 months from date of quotation. 200,000 of the options are exercisable at \$0.95 each.

5c) * Orbit Capital, a related entity of Gregory Baynton, holds 600,000 options.