

**Tissue Therapies Limited**  
ABN 45 101 955 088  
**Appendix 4D**  
**ASX Half-Yearly Report**  
**31 December 2007**

Lodged with the ASX under Listing Rule 4.2A

## **Contents**

<b>RESULTS FOR ANNOUNCEMENT TO THE MARKET</b> .....	<b>2</b>
Summary of Financial Information.....	2
Dividends.....	2
Highlights of Results.....	2
<b>HALF YEARLY FINANCIAL STATEMENTS</b> .....	<b>4</b>
Condensed Income Statement.....	4
Condensed Balance Sheet.....	5
Condensed Statement of Changes in Equity.....	6
Condensed Statement of Cash Flows.....	7
Notes to the Financial Statements.....	8
<b>FURTHER INFORMATION</b> .....	<b>12</b>
Ratios.....	12
NTA backing.....	12
Review of Operations.....	12
<b>COMPLIANCE STATEMENT</b> .....	<b>14</b>
<b>DIRECTORS' DECLARATION</b> .....	<b>14</b>
<b>INDEPENDENT REVIEW REPORT</b> .....	<b>15</b>

## Results for Announcement to the Market

### Summary of Financial Information

Extracts from this report for announcement to the market:

	6 months ended 31 December 2007 \$	6 months ended 31 December 2006 \$	Movement	Movement %
Revenue from continuing operations	56,770	82,760	(25,990)	( 31.4)
Loss after income tax for the half-year attributable to members	(2,958,420)	(695,554)	(2,262,866)	(325.3)
Net loss for the half year attributable to members	(2,958,420)	(695,554)	(2,262,866)	(325.3)

### Dividends

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

### Highlights of Results

- The after-tax loss of \$2,958,420 was in line with budget expectations and includes an income tax rebate of \$188,432 related to research and development tax incentives.
- Revenue of \$56,770 arose from sales and interest earned on funds on deposit.
- Research and development expenditure of \$671,059 was incurred in pursuing the Company's key research and business priorities.
- During January 2008 Tissue Therapies was informed by Health Canada that the formal regulatory classification of VitroGro® is a Class IV Medical Device, not as a pharmaceutical or a lower Class Device. This Class IV Device classification has the commercial benefits of avoiding the costs and time of a pharmaceutical clinical trial and regulatory approval, while allowing Tissue Therapies to make specific claims about the ability of VitroGro® to accelerate wound healing. This will also allow sales and distribution by traditional devices/wound care companies instead of limiting sales of VitroGro® products only through pharmaceutical companies.
- Tissue Therapies' inventory of proteins is valued at the lower of cost and net realisable value. Two of these proteins cost more than current market value due to one-off manufacturing process development costs of \$2,046,404. The other proteins in inventory have a net realisable value that is considerably higher than Tissue Therapies' cost, but the higher net realisable values cannot be shown in the Balance Sheet. The move to scale up manufacture of the new formulation of VitroGro® will substantially reduce the cost of manufacture and allow Tissue Therapies to move to high volume sales of VitroGro®.
- Cash assets were \$948,503 at 31 December 2007.
- The Company conducted a successful placement of 4,040,000 ordinary shares with institutional and sophisticated investors at \$0.50 per share to raise \$2,020,000 in July 2007. The Company's contributed equity following the share issue and after transaction costs arising from the issue was \$13,187,979.
- A new formulation of VitroGro® has been shown to be biologically active, stable, and much cheaper to produce than the original VitroGro®. Studies of the new VitroGro® formulation with human stem cells and skin cells suggest that it may be more efficient at growing cells for new medical treatments. This development strengthens the VitroGro® intellectual property position and has substantial commercial potential, proven by further commercial product development collaborations as a direct result of this announcement during October 2007.

- VitroGro® has been shown to allow the growth of stem cells without a feeder cell layer, when used in combination with a collaboration partner's synthetic technology. This is a revolution in stem cell culture, since it avoids the use of any animal or human proteins and removes any possibility of protein transfer to, or infection of, the stem cells. For the first time, this makes it possible to satisfy the basic regulatory safety requirements for the development of live cell medical treatments by allowing completely synthetic, sterile, defined cell growth. This is the subject of a new patent application lodged during late 2007.
- A new international patent application was lodged late in 2007 to cover a set of discoveries regarding the use of a hydrogel dressing (in combination with an already approved pharmaceutical) for the removal and inactivation of inflammatory factors that prevent healing in chronic wounds. This wound healing technology is highly complementary to VitroGro®, has the potential to enhance VitroGro®'s action in accelerating the healing of chronic wounds, and will be included in ongoing negotiations with international wound care companies. This now brings Tissue Therapies total international patent applications to five.
- During January 2008, toxicology testing required for clinical trial approval performed by Canada's ToxTest company showed that a VitroGro® dose 200 times larger than that intended for human treatment is safe. ToxTest's work was an essential part of the preparation for the trial of VitroGro® to accelerate the healing of diabetic, venous and pressure ulcers. While these results are entirely as expected from the more than five years of Tissue Therapies' experience with the use of VitroGro® with human cells and tissues, it is gratifying to have this requirement for clinical human trial successfully completed with the best possible results

## Half Yearly Financial Statements

### Condensed Income Statement

	Note	Current period \$	Previous corresponding period \$
<b>Revenue from continuing operations</b>	<b>2</b>	<b>56,770</b>	<b>82,760</b>
Research & development		(671,059)	(516,570)
Administration		(231,094)	(213,700)
Employment		(95,328)	(93,626)
Occupancy		(10,489)	(25,348)
Marketing, business development and patent protection		(33,595)	(22,604)
Raw materials and consumables		(2,046,404)	(20,159)
Consultancy – other		(95,180)	(62,494)
Other expenses		(20,473)	(17,527)
<b>Loss before income tax</b>		<b>(3,146,852)</b>	<b>(889,268)</b>
Income tax benefit		188,432	193,714
<b>Net loss after tax</b>		<b>(2,958,420)</b>	<b>(695,554)</b>
<b>Loss attributable to members of the entity</b>		<b>(2,958,420)</b>	<b>(695,554)</b>
<b>Earnings per share</b>	<b>8</b>	<b>Cents</b>	<b>Cents</b>
Basic earnings per share		( 9.69)	( 3.44)
Diluted earnings per share		(9.69)	( 3.44)

The above condensed income statement is to be read in conjunction with the accompanying notes to the financial statements.

## Condensed Balance Sheet

	Note	At end of current period \$	At end of period for last annual report \$
<b>Current assets</b>			
Cash and cash equivalents		948,503	1,911,919
Receivables		83,906	109,161
Tax assets		172,100	366,619
Inventories	4	3,076,066	716,820
Prepayments		1,761,686	3,739,641
<b>Total current assets</b>		<b>6,042,261</b>	<b>6,844,160</b>
<b>Non-current assets</b>			
Property, Plant and Equipment		112,485	111,988
Intangible assets		342,250	342,250
<b>Total non-current assets</b>		<b>454,735</b>	<b>454,238</b>
<b>Total assets</b>		<b>6,496,996</b>	<b>7,298,398</b>
<b>Current liabilities</b>			
Payables		(878,688)	(640,088)
Provisions		(706)	-
<b>Total current liabilities</b>		<b>(879,394)</b>	<b>(640,088)</b>
<b>Total liabilities</b>		<b>(879,394)</b>	<b>(640,088)</b>
<b>Net assets</b>		<b>5,617,602</b>	<b>6,658,310</b>
<b>Equity</b>			
Issued capital	5	13,187,979	11,275,677
Options reserve		70,849	65,439
Accumulated losses		(7,641,226)	(4,682,806)
<b>Total equity</b>		<b>5,617,602</b>	<b>6,658,310</b>

The above condensed balance sheet is to be read in conjunction with the accompanying notes to the financial statements.

## Condensed Statement of Changes in Equity

	Note	At end of current period \$	Previous corresponding period \$
<b>Contributed equity</b>			
Ordinary shares at beginning of period		11,275,677	8,177,366
Shares issued during period		2,020,000	-
Transaction costs		(107,698)	-
<b>Balance of shares at end of period</b>		<b>13,187,979</b>	<b>8,177,366</b>
<b>Options reserve</b>			
Options reserve at beginning of period		65,439	22,354
Share options expensed during the period		5,410	31,402
<b>Balance of options reserve at end of period</b>		<b>70,849</b>	<b>53,756</b>
<b>Accumulated losses</b>			
Accumulated losses at beginning of period		(4,682,806)	(2,972,528)
Losses to members of the entity		(2,958,420)	(695,554)
<b>Accumulated losses at end of period</b>		<b>(7,641,226)</b>	<b>(3,668,082)</b>
<b>Total equity at the end of the period</b>		<b>5,617,602</b>	<b>4,563,040</b>

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

## Condensed Statement of Cash Flows

	Note	Current period \$	Previous corresponding period \$
<b>Cash flows related to operating activities</b>			
Receipts from customers		25,808	12,623
Payments to suppliers and employees		(2,642,512)	(2,320,032)
Payments for Research & Development		(692,476)	(556,955)
Interest received		55,962	76,749
Income tax rebate received		382,951	-
Interest and other costs of finance paid		(1,510)	(253)
<b>Net operating cash flows</b>		<b>(2,871,777)</b>	<b>(2,787,868)</b>
<b>Cash flows related to investing activities</b>			
Payment for property, plant and equipment		(3,941)	(4,795)
<b>Net investing cash flows</b>		<b>(3,941)</b>	<b>(4,795)</b>
<b>Cash flows related to financing activities</b>			
Proceeds from issues of shares and other equity securities		2,020,000	-
Cost of share issue		(107,698)	-
Other – research grants received		-	-
<b>Net financing cash flows</b>		<b>1,912,302</b>	<b>-</b>
<b>Net increase (decrease) in cash held</b>		<b>(963,416)</b>	<b>(2,792,663)</b>
Cash and cash equivalents at beginning of period		1,911,919	3,940,880
<b>Cash and cash equivalents at end of period</b>	<b>6</b>	<b>948,503</b>	<b>1,148,217</b>

The above condensed statement of cash flows is to be read in conjunction with the accompanying notes to the financial statements.

## Notes to the Financial Statements

### Note 1 Basis of preparation

This half yearly financial report is a general purpose financial report prepared in accordance with the listing rules, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

This interim financial report does not include notes of the type normally included in the annual financial report. It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2007 and any public announcements made by Tissue Therapies Limited during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The accounting policies applied by the Company are consistent with those in the June 2007 financial report.

### Reporting basis and conventions

The half-year 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.

#### (a) Going concern

Although the company has recorded an operating loss of \$2,958,400 and has remaining cash balances at 31 December 2007 of \$948,500 the half yearly financial report has been prepared on a going concern basis.

On 16<sup>th</sup> January 2007 the Company announced that key terms had been agreed for a \$500,000 convertible note loan facility from entities associated with the Chairman (see announcement **TIS ASX Convertible Loan 16 Jan. 2008**). The interest rate is 10% per annum and the loan is repayable by 31 March 2009, if not repaid earlier. The issue of convertible notes under the facility will be conditional upon receiving shareholder approval in general meeting, pursuant to ASX Listing Rule 10.11. It is intended to seek such approval at the Company's Annual General Meeting, or at any Extraordinary General Meeting convened prior to that time.

The cash position of the Company and further fund raising options are under constant review by the Board, as demonstrated by the prudent additional raisings undertaken by the Company since listing. It is anticipated that further fund raising will be conducted by Tissue Therapies around the time of the clinical human trial of VitroGro® for the treatment of diabetic and venous ulcers, planned to begin in late February 2008. The consideration of further fund raising will be in addition to the recently announced convertible loan facility just negotiated on favourable terms to Tissue Therapies.

Additional funding will be used for working capital and particularly for scaled up manufacturing of new formulation VitroGro® to allow volume sales at a substantially higher profit to Tissue Therapies. Large scale production of new formulation VitroGro® will be sold into the already targeted markets of cell media products and wound care as well as new market segments eg. industrial cell culture. As soon as definite decisions are made regarding fund raising, the market will be informed.

**Note 2 Revenue and expenses from ordinary activities**

	Note	Current period \$	Previous corresponding period \$
<b>Revenue from ordinary activities</b>			
Revenue from sales or services		808	6,011
Interest revenue		55,962	76,749
Research grants		-	-
<b>Total revenue from ordinary activities</b>		<b>56,770</b>	<b>82,760</b>

The following expense items are relevant in explaining the financial performance for the interim period:			
Depreciation expense		(3,444)	(2,471)

**Note 3 Segment Information**

Tissue Therapies operates predominantly in one business segment being biotechnology. The Company's customers and clients are located predominantly in Australia.

**Note 4 Inventories**

	At end of current period \$'000	At end of period for last annual report \$'000
VitroGro ® Protein Components – at cost	3,076,066	716,820

**Note 5 Issued and quoted securities at end of current period**

Category of securities	Number	Issue price per security Cents	Amount paid up per security Cents	\$'000
<b>Ordinary securities</b>	<b>30,978,122</b>			13,187,979
Opening Balance at beginning of period – 1 July 2007	26,938,122			11,275,677
Changes during current period	4,040,000	50	50	2,020,000
Transaction costs				(107,698)
<b>Total Ordinary Securities</b>	<b>30,978,122</b>			<b>13,187,979</b>

#### Note 6 Reconciliation of cash and cash equivalents

	Note	Current period \$	Previous corresponding period \$
Cash on hand and at bank		297	8,634
Deposits at call		948,206	1,139,583
<b>Total cash and cash equivalents at end of period</b>		<b>948,503</b>	<b>1,148,217</b>

#### Note 7 Contingent assets and liabilities

There has been no change in contingent liabilities since the last annual reporting date.

#### Note 8 Earnings per security (EPS)

Details of the basic and diluted EPS are as follows:

	Current period Cents	Previous corresponding period Cents
Basic EPS	(9.69)	(3.44)
Diluted earnings per security	(9.69)	(3.44)
Weighted average number of ordinary shares used in calculation of Basic earnings per security	30,538,992	20,203,592
Weighted average number of ordinary shares used in calculation of Diluted earnings per security	30,538,992	20,203,592

\* The diluted EPS calculation includes that portion of share options assumed to be issued at nil consideration, weighted with reference to the date of conversion. The weighted average number included for the current period and previous corresponding period is nil due to the options outstanding for the periods not being considered dilutive as the exercise price is greater than the volume adjusted weighted average market share price for the period.

#### Note 9 Events occurring after the balance sheet date

On 16th January 2007 the Company announced that key terms had been agreed for a \$500,000 convertible note loan facility from entities associated with the Chairman. The interest rate is 10% per annum and the loan is repayable by 31 March 2009, if not repaid earlier. The issue of convertible notes under the facility will be conditional upon receiving shareholder approval in general meeting, pursuant to ASX Listing Rule 10.11. It is intended to seek such approval at the Company's Annual General Meeting, or at any Extraordinary General Meeting convened prior to that time.

During January 2008 Tissue Therapies was informed by Health Canada that the formal regulatory classification of VitroGro® is a Class IV Medical Device, not as a pharmaceutical or a lower Class Device. This Class IV Device classification has the commercial benefits of avoiding the costs and time of a pharmaceutical clinical trial and regulatory approval, while allowing Tissue Therapies to make specific claims about the ability of VitroGro® to accelerate wound healing. This will also allow sales and distribution by traditional devices/wound care companies instead of limiting sales of VitroGro® products only through pharmaceutical companies. Also during January 2008, toxicology testing required for clinical trial approval performed by Canada's ToxTest company showed that a VitroGro® dose 200 times larger than that intended for human treatment is safe.

ToxTest's work was an essential part of the preparation for the trial of VitroGro® to accelerate the healing of diabetic, venous and pressure ulcers. While these results are entirely as expected from the more than five years of Tissue Therapies' experience with the use of VitroGro® with human cells and tissues, it is gratifying to have this requirement for clinical human trial successfully completed with the best possible results.

Other than the matters discussed above, there has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of material an unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

#### **Note 10 Dividends**

No dividend has been paid for the half-year ended 31 December 2007. As at 31 December 2007 and up until the date of this report, the directors have made no recommendation concerning dividends for the half-year, or any period thereafter.

## Further Information

### Ratios

	Current period \$	Previous corresponding period \$
<b>Loss before tax / revenue</b>		
Loss from ordinary activities before tax as a percentage of revenue	(5,543%)	(1,075%)
<b>Loss after tax / equity interests</b>		
Loss from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	(52.66%)	(15.24%)

### NTA backing

	Current period Cents	Previous corresponding period Cents
Net tangible asset backing per ordinary security	17.03	20.89

## Review of Operations

A review of the operations of the Company during the financial year and significant changes in the state of affairs of the Company is as follows:

- The after-tax loss of \$2,958,420 was in line with budget expectations and includes an income tax rebate of \$188,432 related to research and development tax incentives.
- Revenue of \$56,770 arose from sales and interest earned on funds on deposit.
- Research and development expenditure of \$671,059 was incurred in pursuing the Company's key research and business priorities.
- Tissue Therapies' inventory of proteins is valued at the lower of cost and net realisable value. Two of these proteins cost more than current market value due to one-off manufacturing process development costs of \$2,046,404. The other proteins in inventory have a net realisable value that is considerably higher than Tissue Therapies' cost, but the higher net realisable values cannot be shown in the Balance Sheet. The move to scale up manufacture of the new formulation of VitroGro® will substantially reduce the cost of manufacture and allow Tissue Therapies to move to high volume sales of VitroGro®.
- Cash assets were \$948,503 at 31 December 2007
- The Company conducted a successful placement of 4,040,000 ordinary shares with institutional and sophisticated investors at \$0.50 per share to raise \$2,020,000 in July 2007. The Company's contributed equity following the share issue and after transaction costs arising from the issue was \$13,187,979.

### Compliance Statement

- 1 This Appendix 4D has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting", the Corporations Act 2001 and Corporations Regulations 2001; and other standards acceptable to the ASX.
- 2 This Appendix 4D, and the accounts upon which the Appendix 4D is based (if separate) until 31 December 2007 have been prepared in accordance with Australian equivalents of International Financial Reporting Standards (A-IFRS).
- 3 This Appendix 4D does give a true and fair view of the matters disclosed.
- 4 This Appendix 4D is based on financial statements which have been reviewed and the review report contains no qualifications.
- 5 The entity has a formally constituted audit and risk management committee.

### TISSUE THERAPIES LIMITED



Drummond Mckenzie  
**COMPANY SECRETARY**

Dated at Brisbane  
7 February 2007

## Directors' Declaration

In the opinion of the directors of Tissue Therapies Limited:

- (a) the half-year financial statements and notes of the Company, set out on pages 2 to 11 are in accordance with the Corporations Act 2001 including:
  - (i) giving a true and fair view of the financial position of the Company as at 31 December 2007 and of its performance, as represented by the results of its operations and cash flows, for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) 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 signed in accordance with a resolution of the directors.

**TISSUE THERAPIES LIMITED**



Greg Baynton  
**DIRECTOR**

Dated at Brisbane, 7 February 2007

## Independent Review Report

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Tissue Therapies Limited (the Company) which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Tissue Therapies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and 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.

#### *Conclusion*


Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Tissue Therapies Limited is not in accordance with the Corporations Act 2001 including:

- A. giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- B. complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.



**HACKETTS DFK**

Dated: Brisbane, 7 February 2008



**Shaun Lindemann**  
Partner

## DIRECTORS' REPORT

Your directors present their report on Tissue Therapies Limited (the Company) for the Half Year Ended 31 December 2007.

### Directors

The names of directors who held office during or since the end of the half-year:

Mr Roger Clarke - Chairman

Professor David Gardiner - Director

Mr Gregory Baynton – Executive Director

Mr Donald Home – Director

Dr Steven Mercer– Executive Director

### Review of Operations

- The after-tax loss of \$2,958,420 was in line with budget expectations and includes an income tax rebate of \$188,432 related to research and development tax incentives.
- Revenue of \$56,770 arose from sales and interest earned on funds on deposit.
- Research and development expenditure of \$671,059 was incurred in pursuing the Company's key research and business priorities.
- During January 2008 Tissue Therapies was informed by Health Canada that the formal regulatory classification of VitroGro® is a Class IV Medical Device, not as a pharmaceutical or a lower Class Device. This Class IV Device classification has the commercial benefits of avoiding the costs and time of a pharmaceutical clinical trial and regulatory approval, while allowing Tissue Therapies to make specific claims about the ability of VitroGro® to accelerate wound healing. This will also allow sales and distribution by traditional devices/wound care companies instead of limiting sales of VitroGro® products only through pharmaceutical companies.
- Tissue Therapies' inventory of proteins is valued at the lower of cost and net realisable value. Two of these proteins cost more than current market value due to one-off manufacturing process development costs of \$2,046,404. The other proteins in inventory have a net realisable value that is considerably higher than Tissue Therapies' cost, but the higher net realisable values cannot be shown in the Balance Sheet. The move to scale up manufacture of the new formulation of VitroGro® will substantially reduce the cost of manufacture and allow Tissue Therapies to move to high volume sales of VitroGro®.
- Cash assets were \$948,503 at 31 December 2007.
- The Company conducted a successful placement of 4,040,000 ordinary shares with institutional and sophisticated investors at \$0.50 per share to raise \$2,020,000 in July 2007. The Company's contributed equity following the share issue and after transaction costs arising from the issue was \$13,187,979.
- A new formulation of VitroGro® has been shown to be biologically active, stable, and much cheaper to produce than the original VitroGro®. Studies of the new VitroGro® formulation with human stem cells and skin cells suggest that it may be more efficient at growing cells for new medical treatments. This development strengthens the VitroGro® intellectual property position and has substantial commercial potential, proven by further commercial product development collaborations as a direct result of this announcement during October 2007.
- VitroGro® has been shown to allow the growth of stem cells without a feeder cell layer, when used in combination with a collaboration partner's synthetic technology. This is a revolution in stem cell culture, since it avoids the use of any animal or human proteins and removes any possibility of protein transfer to, or infection of, the stem cells. For the first time, this makes it possible to satisfy the basic regulatory safety requirements for the development of live cell medical treatments by allowing completely synthetic, sterile, defined cell growth. This is the subject of a new patent application lodged during late 2007.
- A new international patent application was lodged late in 2007 to cover a set of discoveries regarding the use of a hydrogel dressing (in combination with an already approved pharmaceutical) for the removal and inactivation of inflammatory factors that prevent healing in chronic wounds. This wound healing technology is highly complementary to VitroGro®, has the potential to enhance VitroGro®'s action in accelerating the healing of chronic wounds, and will be included in ongoing negotiations with international wound care companies. This now brings Tissue Therapies total international patent applications to five.

## **DIRECTORS REPORT (Continued)**


### **Review of Operations (Continued)**

- Also during January 2008, toxicology testing required for clinical trial approval performed by Canada's ToxTest company showed that a VitroGro® dose 200 times larger than that intended for human treatment is safe. ToxTest's work was an essential part of the preparation for the trial of VitroGro® to accelerate the healing of diabetic, venous and pressure ulcers. While these results are entirely as expected from the more than five years of Tissue Therapies' experience with the use of VitroGro® with human cells and tissues, it is gratifying to have this requirement for clinical human trial successfully completed with the best possible results

### **Auditor's Declaration**

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is attached to this Directors' Report for the half-year ended 31 December 2007.

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



**Greg Baynton**  
**Director**

Dated 7th February 2008.

7 February 2008

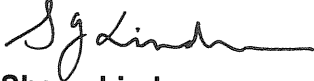
The Chairman  
The Board of Directors  
Tissue Therapies Limited  
GPO Box 1596  
Brisbane QLD 4001

### **Auditor's Independence Declaration**

As lead auditor for the review of Tissue Therapies Limited for the half-year ended 31 December 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

*Hacketts*  
**Hacketts DFK**  
**Brisbane**

  
**Shaun Lindemann**  
**Partner**