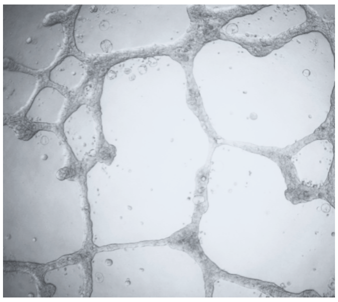
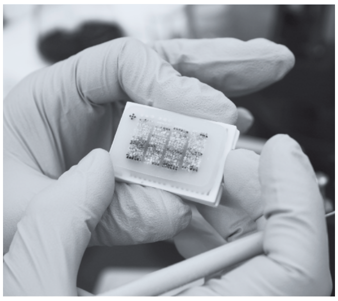
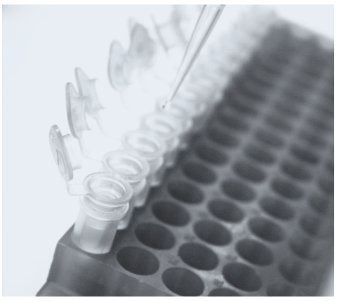
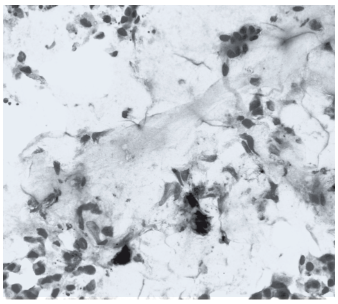
Asterand
Partners in Human Tissue Research





Asterand plc Annual Report and Accounts 2011

CHAIRMAN'S STATEMENT

Results for the year ended 31 December 2011

During 2011 the Group achieved revenue of $24.09 million (2010: $21.31 million), an increase of 13%. These results were due to strong annual performance by the BioSeek business and benefited as well from the inclusion of a full twelve months of BioSeek in 2011 (2010: ten months) and an improved 4th quarter performance by the non-BioSeek related Tissue Based Solutions business.

The Group's cost of sales was $11.23 million (2010: $9.33 million), leading to a gross profit for the year of $12.86 million (2010: $11.98 million profit). As a result, gross margins were 53% (2010: 56%).

This revenue growth was achieved while prudently managing costs and keeping expenditures on normal operations in check. Research and Development (R&D) expenses were $1.43 million (2010: $1.33 million). All 2011 R&D expenses were related to improvements to new product offerings to support the Group's focus on the business of human tissue supply and human tissue based solutions.

Selling and distribution costs were $3.41 million (2010: $3.82 million). These costs relate to sales staff salaries, commissions and marketing expenses. The modest decrease is attributable to a reduction in sales staff salaries expense due to attrition and a renegotiation of our consultant agreement with our Japanese sales and marketing representative.

Total general and administrative expenses were $12.55 million (2010: $8.92 million). General and administrative expenses are analysed between those relating to exceptional costs and those to normal operations. Costs relating to normal operations were reduced to $7.82 million (2010: $8.00 million).

On 24 October 2011 the commencement of a formal sales process for the Group was announced. During this process the Group has held discussions with several interested parties. The Company has not been able to secure an offer for the whole Group, instead it has signed letters of intent for each of the two businesses in the Tissue Based Solutions segment: BioSeek and the non-BioSeek Tissue Based Solutions. As a consequence, the formal sale process has now ended and the Company is no longer in an Offer Period.

This decision, after the year end, to sell certain elements of the business separately has resulted in reductions in the carrying value of certain assets, primarily intangible assets and inventory, as explained further below. These impairment charges reflect that these financial statements are not prepared on a going concern basis since all parts of the business are being actively marketed and thus the asset values have been adjusted to reflect their estimated realisable value.

Exceptional general and administrative costs rose to $4.73 million (2010: $0.92 million) due to these impairment charges, totalling $3.40 million. Remaining exceptional costs related to severance, acquisition, litigation and sale costs.

The Group realised a $8.23 million loss for the year (2010: $2.07 million loss), including a $1.59 million (2010: $nil) exceptional interest expense relating to the financing arrangements in place to acquire BioSeek. Loan notes were the agreed form of payment for the contingent consideration of BioSeek; the interest expense arising on these are deemed to be exceptional interest.

Although it is a non-IFRS measure, Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) and excluding exceptional items and share option related charges is monitored closely by the Directors and management as a metric to measure progress of business operations towards profitability and positive cash flow. The adjusted EBITDA for 2011 was $1.51 million profit, a $1.53 million improvement over 2010 (2010: $0.02 million loss). An explanation of this calculation can be found on page 19.

Balance Sheet

At 31 December 2011, the carrying value of the intangible assets was reduced to $3.31 million due to an impairment charge of $1.29 million to write down the carrying value of the assets of the non-BioSeek Tissue Based Solutions business to a level of the expected net proceeds from the business disposal.

On 31 December 2011, the carrying value of the biobank inventory was reduced to $6.55 million due to an impairment charge of $2.11 million to write down the carrying value of inventory to the amount implied by the expected recoverable amounts in the sale of the non-BioSeek Tissue Based Solutions business.

Cash flows

The Directors monitor the cash flow and cash resources closely. At 31 December 2011, there had been a $2.94 million reduction in the cash balance as compared to the previous year (2011: $2.98 million; 2010: $5.92 million). Primary uses of cash throughout the year included $3.24 million debt and finance lease repayments and $0.72 million of loan interest paid.

Financing and liquidity

At 31 December 2011 the Group had cash and cash equivalents of $2.98 million (2010: $5.92 million). The Group has a $2.30 million term loan with Silicon Valley Bank and a $6.59 million balance on the loan note with the former BioSeek shareholders. In October 2011, the Group received notification that these loans were in default. As announced in October 2011, the Company is currently undergoing a formal sale of all or part of the business. Our creditors have remained supportive throughout and we believe the default status will be resolved at the conclusion of the sales process.

Board changes and corporate governance

During 2011 we announced the departures of Martyn Coombs, the Group's Chief Executive Officer, John Stchur, the Group's Chief Financial Officer and Jonathan Fleming, a Non-Executive Director.

I'd like to take this opportunity to thank Martyn, John and Jonathan for their service over the past years and wish them well in their future endeavours.

The Board and management continue to have a policy of transparency with regards to our strategy and related activities. An important component of this involves communicating and listening to our shareholders to understand their ideas and points of view.

Aligning objectives between employees and shareholders

During 2011, we granted a total of 0.92 million share options to our employees through our Long Term Incentive Programme. We believe this programme enables us to retain key employees, while aligning the goals of our shareholders with those of our employees. Every Asterand employee receives shares under this programme.

Outlook

As previously mentioned, the Group commenced a formal sale process for the issued capital of the Group in October 2011. The Company has instead signed letters of intent to sell each of the two businesses: BioSeek and the non-BioSeek Tissue Based Solutions, separately, and the formal sales process has ended with the Company now no longer in an Offer Period. Assuming that definitive agreements are executed, the Board is expected to issue a circular to shareholders in the coming weeks with details of the proposed transactions. Then the likely process will be disposal of the assets of each of the two businesses and a solvent liquidation of the Group to return cash to shareholders. Whilst the level of a liquidation dividend, if any, cannot definitely be determined at this time, the Board's current estimation, based on the letters of interest from the buyers and the current share price, is that the maximum payout to shareholders is unlikely to show a significant premium to the share price as of the close of business on 26 April 2012.

Revenue for the non-BioSeek portions of the Tissue Based Solutions business, which had been volatile for most of the year, stabilised in the last quarter of 2011, providing an increased cash flow over the original estimates. Given these factors, the Directors have a reasonable expectation that the Company will maintain adequate resources to continue in operational existence until completion of disposals.

The completion of the disposals is not guaranteed and there is inherent risk that the sale cannot be completed within the necessary timeframe. In addition, the following are considered to be further uncertainties related to the disposals:

- Shareholder approval – raising funds through the disposals of all or part of the Company's assets is predicated on shareholder approval. The Board intends to convene an Extraordinary General Meeting at which the necessary resolutions will be put to shareholders. While there is uncertainty over the outcome of these votes, the Board has a reasonable expectation that approval to proceed with this strategy will be forthcoming.

- Loan covenants – we are currently in default of our Silicon Valley Bank and former shareholders of BioSeek loans. We have been in communication with our lenders and they are in support of resolving the default status at the conclusion of this process. However, their continued support cannot be guaranteed.

- Trading results – management have prepared budgets and projections which they believe are prudent and achievable. However, the achievement of these trading results is uncertain.

Given that the Directors have resolved to sell the two business units separately, a 'going concern' presumption in IAS 1 is not appropriate; therefore the accounts have been drawn up on a basis which reflects the Directors' intention to sell the two business units. The management team continues to tightly control operating expenses to maintain sufficient working capital. In addition, based on discussions with potential purchasers, the Board believes that it has a reasonable expectation that the disposals will be completed within an appropriate timeframe.

Jack Davis
Chairman, Asterand plc