

**ASX RELEASE - WEDNESDAY, 29 OCTOBER 2008**

**Chairman's Address to Shareholders at the Annual Meeting of Members  
held in Sydney on Wednesday 29 October 2008**

**THE YEAR IN REVIEW**

On behalf of the Directors, I have pleasure presenting this report on the Company's performance for the last year and to provide some comments on our plans for 2009.

The company has record sales of \$6,685,430, which was an increase of 36.4% over the 2007 figure. The net cash flow from operating activities was up 27.3% to \$880,268. Total cash and cash equivalents was \$1,975,278. All areas of the business performed well and made valuable contributions to the results, however, we did experience a one-off boost to revenue by our involvement in the management of equine influenza vaccine supplies for Animal Health Australia.

A highlight of the year was being awarded third place in the NSW Department of State and Regional Development BioFirst Commercialisation Awards. The awards are judged by an independent panel, and recognise NSW based biotechnology companies that have achieved substantiality increased local and export revenue.

**REVIEW OF OPERATIONS**

We have emphasised on many occasions that one of the key assets of the company is the integrated operations platform that has been established in order to support the various services. The involvement in the equine influenza vaccine project was a major undertaking for Cryosite and the successful outcome demonstrated our capacity to deploy its integrated business systems to rapidly scale up operations to meet the clients exacting technical and operational requirements within tight timeframes, and still maintain services levels to the existing clients.

We were able to set-up and commence the vaccine distribution within just three weeks and were able to distribute the temperature-sensitive vaccine to sites also all over Australia without any service failures. By the time the vaccination programme was terminated, we had processed approximately 400,000 doses of vaccine. We have a continuing commitment to the AHA and will maintain vaccine supplies in case the vaccination programme is recommenced.

The cord blood service has been operating for over six years now and although we now have three competitors, we estimate that we still have around 45% of the market. Cryosite is still the only private cord blood service to own and operate its own processing and long-term storage facilities. This remains a very important point of differentiation between Cryosite and its competitors and is a strong marketing advantage.

Although there is no definitive data available, we estimate that the market for private cord blood collection in Australia is between 1% and 1.5%, of total births of approximately 270,000 per year. Although this is low when compared to the USA and many Asian

countries, it still represents a potential market size of up to 4,000 sales annually, so Cryosite continue to see excellent long-term sustained growth for the cord blood service.

The continued high level of activity in world-wide drug development has resulted in the continuing high rate of growth for the clinical trials logistics service. We are especially pleased to confirm our predictions that much of the new potential therapeutic products under development are protein-based and therefore require much more sophisticated cold-chain management systems. Cryosite has developed considerable expertise in this area which offers much higher project management fees compared with chemically based products which can be stored and shipped under ambient temperature conditions.

Another important trend that is yielding good results for Cryosite is in acting as a local depot for an increasing number of US and European based logistics partners. We are able to sign master agreements with these companies and provide services for their individual clients.

The Biorepository management and ATCC distribution services continued to run smoothly and to make valuable contributions to the results although if the recent fall in the Australian dollar is sustained, the contribution to the overall results may be negatively affected.

### **Competitive Environment**

We expect that most areas of our business will continue to be subject to strong competition, especially cord blood. We firmly believe that the most effective way of coming out on top in this environment is to continue to develop our service quality and demonstrate a clearly defined advantage to our existing and prospective customers. The ability to offer customers highly customised and professional services to the highest level of quality is a element of our competitive strategy.

I would especially like to take some time to focus on the cord blood side of our business and in particular, a number of significant differences between Cryosite and the competitors and why I believe that Cryosite will continue to be the market leader.

From the publically available information, we know that at least two out of our three competitors are operating at a loss. The third is a private company, so we don't know about them. It is clear to me that the Australian market cannot support four private cords blood companies. I say this for the following reasons:

1. Despite the combined marketing efforts of four companies, the estimated market penetration of between 1.0% and 1.5% is low compared to the USA at an estimated 5% and some Asian countries such as Korea with a figure of close to 15%.
2. The lack of access to public hospitals.
3. The high cost of regulation. Australia has a first class regulatory framework designed to ensure that all therapeutic products, including cord blood are as safe as possible. This in turn imposes high compliance costs on all companies, irrespective of the size or scope of their operations. Therefore, the relative cost per cord blood sample for our competitors is, in my opinion, unsustainable. In contrast, because Cryosite has a diversified operation offering a number of regulated services, the cost of compliance is spread over the entire operations, not

just cord blood. Therefore, I believe that Cryosite will continue to be in a position to present a convincing marketing message to clients that Cryosite is the only cord blood company that offers the long-term security that is important to parents storing their child's cord blood. It is also important to remember that the majority of cord blood contracts are paid in advance for 18 years storage, so the financial security of the company storing the blood should be an important factor in deciding which company to use. We believe that this is an important message to convey to prospective clients and an important reason to choose Cryosite.

## **Going Forward**

2009 will be both challenging and exciting. The investment for the development of the new facility and the associated relocation costs will have a significant impact on profitability. As well as this, although much of our business, such as clinical trial logistics is relatively shielded from the severe disruptions of the current economic climate, the cord blood service is a discretionary expense that is targeted to individual consumers and therefore it is possible that we will experience benign growth or even some contraction in the cord blood service performance until consumer confidence is restored.

I should also say that if there is a slowdown in the cord blood market, that fact that as far as we know, Cryosite is the only profitable service may lead to market consolidation opportunities.

Our new facility is state-of-the art in every way and has been designed to provide for our anticipated needs for at least the next five years. We have made heavy investment in the new site and believe that once the site is commissioned and operational we will reap the benefits for many years to come. We will also be able to be more aggressive in the marketing of the clinical trials and biorepository services as we overcome our current capacity constraints

Finally, as you know, Catherine Brenner has decided not to stand for re-election to the Board. On behalf of the Board, I would like to thank Catherine for her contribution to the company during her time as a director and to wish her well for the future.

I would also like to welcome Graeme Moore to the Board. Graeme joined Cryosite as the Quality Manager in June 2005. Graeme has been instrumental in helping to guiding Cryosite through the highly regulated environment in which we operate and had been instrumental in helping Cryosite streamline the operations.

## **Shareholder support**

The Board and Management are grateful for the continuing support and interest in the company by the shareholders. We remain confident that the Company is well positioned to take advantage of both the growth in research and biotechnology activity in Australia, and the increased acceptance of outsourcing of non-core logistics by organisations involved in research clinical trials in Australia and New Zealand.

Theo Onisforou  
Chairman