

ASX RELEASE  
2nd August 2018

### **Trading update and the effect of Adoption of Accounting Standard AASB 15**

#### **Trading update**

Based on non-audited management accounts for the year ended 30 June 2018, and before the normal year-end review of the carrying value of assets, the Company expects to report a full year loss after tax in the range of \$1.2m-\$1.3m. The loss was principally due to the write downs and one off expenses that occurred in the first half of the year relating to the closure of the processing and collection of cord blood and tissue component of the Company's business.

As in the first half, the Company expects to report that it has made a small before tax profit from continuing operations in the second half of the year.

The Company continued to trade with a positive Cashflow from Operations for the full year. This was offset by an investment in infrastructure resulting in a net cash outflow for the year of \$400k.

The above assessment is subject to audit and the normal year-end review of the carrying value of assets.

#### **Effect of adopting Accounting Standard AASB15**

Following the closure of the collection and banking of cord blood and tissue component of the Company's business earlier in the year, the Company now has two operating divisions.

- Cord and Tissue Storage under long term contracts; and
- Logistics management of pharmaceutical products used in clinical trials and biological materials.

The Australian Accounting Standards Board has issued a new standard for the recognition of revenue which replaces AASB 18. This new standard affects the way the Company accounts for its long term Cord and Tissue storage contracts.

This standard will be implemented effective 1 July 2018. **All adjustments are non-cash** and all adjustments are expected to reverse over the period of the contracts.

This new standard requires that the amount paid to the Company under a long term contract be treated as deferred revenue and taken to profit over the life of the contract.

Costs incurred by the Company in the processing and collection of the cord and tissue are also required to be treated as deferred costs and charged to the profit over the life of the contract.

This is a change from the previous accounting standard where the revenue and costs for the processing and collection of the cord and tissue was taken to account as profit when the processing and collection was carried out.

A requirement of this standard requires the balance sheet of the company to be restated as if this accounting standard was always in effect.

In relation to Cryosite, this restatement will result in substantial deferred revenue, deferred costs and deferred tax items being booked to the balance sheet.

The net effect, based of initial management assessment of the accounting effects on the adoption of this standard, will be a decrease in Net Assets of approximately \$2m. Based on the assumptions outlined above, including the financial numbers included in the trading update the Company's Net Assets are expected to be reduced to the range of negative \$0.1m to positive \$0.1m on the implementation of this accounting standard on 1 July 2018.

The above assessment is subject to audit.

### **Outlook**

Cord Blood and Tissue: As noted above, the entries booked under the new AASB 15 accounting standard are expected to reverse over the life of the contracts. In 2019, this will result in the Company booking an after tax accounting (non cash) profit from the storage of Cord Blood and Tissue under long term contract of approximately \$600k before any contribution to profit from the Company's Cord Blood and Tissue Storage annual plan business.

Clinical Trials: Logistics and storage: The Clinical Trial logistics and storage business while budgeted to make a contribution to profit over the full year is expected to see a significant decrease in revenue and profits in the first half of the year, as a result of a client consolidating their warehousing and logistics of a commercial scale product with an international distribution business. The Board and Management are confident that new customers, new clinical trials and new products being introduced by the Company will replace these lost sales by the end of the year.

ACCC civil proceedings: As announced to the market on 12 July 2018, the ACCC has commenced civil proceedings against Cryosite in the Federal Court of Australia. As a result, the Company expects it will incur substantial legal costs in the 2019 financial year.

Clearly 2019 will be a challenging year for the Company, however the Company expects to end the year with a clear focus and a profitable and growing clinical trial logistic business supported by the long-term storage of Cord Blood and Tissue.

Bryan Dulhunty  
Chairman