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Intercytex Group plc Results for year ended 31 December 2008

--Intercytex reports results and data from VAVELTA[®] and ICX-TRC studies--

Intercytex Group plc (LSE: ICX), a developer of regenerative medicine products, today announces its results for the year ended 31 December 2008. The Company also reports new clinical data on its regenerative medicine products; VAVELTA[®] and ICX-TRC.

On 20 February 2009, Intercytex announced that following the decision to discontinue the development of Cyzact[®], the Board has determined to evaluate all strategic options for the Company. Options being considered include the possible merger or sale of the business.

PRODUCT SUMMARY

VAVELTA[®] - natural repair for damaged skin

- VAVELTA[®] made commercially available to small group of UK specialists from June 2008
- Over 120 patients treated by Clinical Practice Group (CPG) since launch and CPG now expanded to 16 clinics
- Positive final data from two Phase II trials of VAVELTA[®] presented at the FACE congress in June 2008
- Announced today eight Epidermolysis Bullosa patients treated with VAVELTA[®]. Remarkable and rapid healing responses seen in all of the five patients evaluable to date
- Phase II trial for burns scars (including contractures) on hold to refocus resources

SHEF-1 - age-related macular degeneration

- Preclinical development programme obtained via the acquisition of Axordia in December 2008
- SHEF-1 licensed to The London Project to Cure Blindness for treatment of age-related macular degeneration, the leading cause of blindness in the elderly
- Development fully funded by The London Project to Cure Blindness

ICX-TRC - hair regeneration

- Positive data from Phase II trial announced today - increase in hair count in the majority of evaluable subjects observed at 48 weeks

ICX-SKN - skin grafts for acute wounds

- Phase I study in excisions showed integration of graft in all 12 patients persisting for up to 6 months
- Product being reformulated for burns application as part of the AFIRM grant award

Cyzact[®] - chronic wounds

- Cyzact[®] discontinued after failure of Phase III venous leg ulcer trial in February 2009

CORPORATE AND FINANCIAL SUMMARY

- Loss before tax for the year slightly reduced at £11.53m (2007: £11.63m)
- Cash and cash equivalents and liquid investments at 31 December 2008 of £4.86m (2007: £12.50m)
- Placing of new shares in September 2008 raised £2.75m gross
- Awarded US\$1.5m over 5 years from US Armed Forces Institute of Regenerative Medicine (AFIRM) to support development of ICX-SKN for burns
- Awarded grant from the Technology Strategy Board of £285k over 3 years to assist with development of strategies for preservation and storage of cell therapy products
- Acquisition of embryonic stem cell company Axordia Limited (Axordia) for £1.68m in shares in December 2008
- Restructuring announced in January 2009 to significantly reduce cash burn
- Strategic review announced on 20 February 2009. The Board continues to explore options to maximise shareholder value, and the Company is now in discussions with a number of parties which may or may not lead to an offer being made for the Company

BOARD

- Appointment of Max Herrmann ACA as Chief Financial Officer replacing Richard Moulson
- Appointment of Lee Woodward ACA as Company Secretary and Financial Controller (previously Financial Controller)

Nick Higgins, CEO of Intercytex, commented: *“Following the discontinuation of development of Cyzact, all our efforts are focused on maximising the value of the rest of our broad portfolio of highly innovative regenerative medicine products. Vavelta[®] continues to gain patient and clinician acceptance with more than 120 people having now been treated in a commercial setting. Today we have announced promising results from use of Vavelta in the devastating skin condition epidermolysis bullosa, and final Phase II results of ICX-TRC which have demonstrated good hair regeneration. The recent acquisition of Axordia has provided Intercytex with world class stem cell technology and a leading collaboration with the London Project to Cure Blindness. With ICX-SKN, our skin graft replacement for burns and acute wounds, fully funded by the US Armed Forces Institute of Regenerative Medicine (AFIRM), we have a significant portfolio of regenerative medicine products.”*

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Notes for Editors

Intercytex is a regenerative medicine company developing innovative products to restore skin and hair. Intercytex is using its fully integrated cell technology platform to develop products that harness the innate ability of human cells to regenerate and repair the body.

Intercytex has four products in development:

- VAVELTA[®], a skin repair and rejuvenation product intended to improve the feel, function and appearance of skin damaged by scarring and the aging process, and available from a number of accredited centres in the UK
- SHEF-1, development of a stem cell line suitable for differentiation into RPE cells, being carried out in collaboration with the London Project to Cure Blindness
- ICX-TRC, a hair regeneration product. Phase II trial completed
- ICX-SKN, being developed as a skin graft replacement for burns and acute wounds, Phase I trials completed

Intercytex commenced operations in 2000 and currently employs around 50 staff. In addition to its head office in Cambridge, UK, it has GMP compliant clinical production facility plus research and development laboratories in Manchester, UK. Additional laboratories are located in Boston, US and Sheffield, UK.

Intercytex' shares trade on the Alternative Investment Market of the London Stock Exchange under the ticker symbol ICX.L.

Additional information on the Company can be found at www.intercytexas.com

Statements contained within this press release may contain forward-looking information or statements with respect to the financial condition, results of operations and business achievements/performance of Intercytex and certain of the plans and objectives of management of Intercytex with respect thereto. By their nature, forward-looking statements involve risks and uncertainties that may cause actual results to vary from those contained in the forward-looking statements. In some cases, you can identify such forward-looking statements by terminology such as 'may', 'will', 'could', 'forecasts', 'expects', 'plans', 'anticipates', 'believes', 'estimates', 'predicts', 'potential', 'continue' or similar expressions. A number of factors, including the satisfactory progress of research and development, could cause Intercytex' actual financial condition, results of operations and business achievements/performance to differ materially from the estimates made or implied in such forward-looking statements and, accordingly, reliance should not be placed on such statements. Forward projections reflect management's best estimates based on information available at the time of issue and are not a guarantee of future performance. Other than as required by applicable law, Intercytex does not undertake any obligation to update or revise any forward-looking information or statements to reflect events or circumstances after the date of this release.

The term "Intercytex" refers to Intercytex Group plc and its subsidiary undertakings.

CHAIRMAN'S STATEMENT

Intercytex has had a year of mixed fortunes, providing a good illustration of both the risks and the potential rewards in the drug development business. Most recently, we announced the disappointing news that our chronic wound treatment Cyzact[®] failed to meet its primary endpoint in a Phase III trial in patients with venous leg ulcers. We have subsequently discontinued all development work on the product.

The year also saw the UK commercial launch of our first product VAVELTA[®] for aesthetic uses. In addition, in December 2008 we acquired the UK stem cell company Axordia for £1.68m in shares. Axordia not only provides us with an excellent entry into the stem cell area of regenerative medicine but also brings with it a share in one of the most exciting therapeutic programmes using embryonic stem cells through our involvement with the London Project to Cure Blindness, a consortium including three leading research institutions. We have also made progress in the year on our other two development programmes. We recently completed a Phase II trial of ICX-TRC, our hair regeneration product with very exciting results, and during the year we were awarded a US\$1.5m grant from the US Armed Forces Institute of Regenerative Medicine (AFIRM) to fund development of our skin graft replacement, ICX-SKN, as a treatment for burns.

The funding environment over the last year has been very challenging due to the ongoing credit crisis. Despite this, we successfully raised £2.75m in September 2008. However, with the prospect for future funding remaining challenging, in January 2009 we took steps to significantly reduce our cash burn. This has involved a significant and ongoing reduction in our company's headcount from 76 to 50 employees at present. Given the funding environment and the discontinuation of Cyzact[®], the Board has decided to explore all strategic options for the Group, including the possible sale or merger of the business.

As a company we have achieved much in a short period of time and with relatively modest cash resources. Despite the disappointing outcome from the Phase III trial of Cyzact[®], for a company of our size to successfully complete such an undertaking is testament to the dedication and conscientiousness of all our employees to whom the Board is especially grateful.

We have also been fortunate to hire a number of highly experienced people, including Max Herrmann who replaced Richard Moulson as Chief Financial Officer in September 2008. Max's experience in the financial markets has helped us significantly increase the awareness of the Company in the financial community. We also promoted Lee Woodward, our Financial Controller, to the position of Company Secretary.

Clearly this year has been a disappointing experience for both investors and staff alike. It is our clear intention to do everything in our power to enhance the value of Intercytex and realise value for shareholders as soon as possible.

BUSINESS REVIEW

We remain focused on the development of our four key programmes including VAVELTA[®], SHEF-1, ICX-TRC and ICX-SKN. Of these, VAVELTA[®] and ICX-TRC have now completed Phase II trials. ICX-SKN has successfully completed a Phase I trial in excisions and is now being developed for the treatment of burns, work that is now fully funded by the US Armed Forces Institute of Regenerative Medicine (AFIRM).

VAVELTA[®]

Product description

VAVELTA[®] comprises a suspension of human dermal fibroblasts (HDFs) in cell storage medium for injection into the skin. It is intended to repopulate the skin with active young fibroblasts, replacing those lost by ageing and supplementing the function of older, less productive cells.

Due to the consistency of our cell development process and the absence of immune responses to allogeneic fibroblasts, the treatment requires neither patient pre-testing nor biopsy and it has an acceptable shelf life so that its application can be scheduled in a convenient way.

We expect that by enhancing the skin's own collagen support matrix and remodelling existing collagen the injected fibroblasts may have the potential to:

- Improve the skin's texture and appearance;
- Fill in the pits created by acne scarring and improve the appearance of such scars; and
- Soften and reduce skin contractures caused by burns, thereby improving mobility and flexibility.

VAVELTA[®] is injected directly into the target area using a fine gauge needle. It is a straightforward and minimally invasive procedure. The number of injections given will be determined by the area of the skin being treated. A local anaesthetic such as lidocaine gel may be administered before the procedure to prevent any discomfort being experienced.

An aesthetic improvement should be visible once the HDFs have begun to lay down and/or remodel collagen within the dermis. In this way VAVELTA[®] should provide a gradual improvement starting within weeks of injection. Repeat procedures may be given as required.

Clinical development

VAVELTA[®] has also been studied in two Phase II clinical trials in aesthetic indications including one in nasolabial folds and another in acne scarring.

The nasolabial folds study was conducted at the Cranley Clinic for Dermatology in London with Professor Nicholas Lowe MD FRCP. In this trial, six subjects received a low dose of product. A second group of 10 subjects was then treated with a higher dose expected to be used in the final product. All subjects were followed out to six months post-treatment with the following results:

- The average satisfaction scores for both groups combined at six months for the treatment as assessed separately by both subjects and the investigator on a scale of 1-10 (where 1 is not satisfied and 10 is very satisfied), were both 8. In addition, the investigator measured an improvement in wrinkle severity in 12 (75%) subjects
- No serious adverse events were observed and the product has been well tolerated

The second Phase II study investigated the use of VAVELTA[®] in acne scarring and was conducted by Dr David Eccleston. All 10 subjects were followed out to six months post-treatment with the following results:

- The average satisfaction scores for the treatment at 6 months as assessed separately by both subjects and the investigator on a scale of 1 -10 were 7 and 6, respectively
- No serious adverse events have been observed and the product has been well tolerated

Commercial opportunity

VAVELTA® currently falls outside the scope of regulations governing the licensing of medicines in the UK and accordingly we are proceeding with the commercialisation of the product.

In June 2008, VAVELTA® was made available commercially in the UK via a Clinical Practice Group of specialist clinicians trained in the use of the product. We now have 16 accredited sites that form this group. Sales revenues in 2008 were, as expected, limited. In addition to the UK, we have also determined that we can sell the product in the Netherlands under current regulations.

Medical opportunity

We are also exploring the potential use of VAVELTA® for the treatment of Epidermolysis Bullosa (EB), a seriously debilitating skin disease characterised by blister formation after minor abrasion to the skin. EB affects some 10,000 individuals in the UK, of which around 500 have a severe form of the disease known as Recessive Dystrophic Epidermolysis Bullosa (RDEB). Approximately another 800 individuals in the UK suffer from a slightly milder form of disease known as Dominant Dystrophic Epidermolysis Bullosa.

Very encouraging results have been obtained by Professor John McGrath at Guy's and St. Thomas' Hospital, London using VAVELTA®. To date, eight patients with RDEB have been treated. Of five evaluable patients to date, all have demonstrated rapid wound healing.

Summarising the results to date John McGrath commented *"This is the most meaningful clinical intervention I have done in a long time - it is nothing short of remarkable. Some forms of EB can be very debilitating and there is a high unmet medical need for an effective treatment. I estimate that there are around 1,000 individuals in the UK with particular forms of EB who could benefit from VAVELTA® treatments."*

In June 2008, we initiated a third Phase II trial of VAVELTA® in patients with burns contractures. We recently decided to place this study on hold in order to focus our limited resources in other areas.

Intellectual Property

Transporting cells at a high density in a confined space for any length of time is challenging, since actively metabolising cells quickly consume available glucose and excrete lactic acid into the media, and if left unchecked can kill cells in a matter of hours. This has been an issue for earlier cell therapy products where the resulting short shelf life has limited their commercial utility. Intercytex utilises a special shipping medium based on that used to transport organs for transplantation. This keeps the cells in a quiescent state during transit to their final destination and extends shelf life to an acceptable period for commercial use such that VAVELTA® can be stored for at least eight days at the correct temperature of 2–8°C. We have a number of patent applications (already granted in the UK) covering the composition of the media with VAVELTA® for transportation and storage, which is fundamental to its commercial potential.

SHEF-1

SHEF-1 is our only externally developed cell therapy program and was obtained as part of the acquisition of the regenerative medicine company Axordia Limited. The acquisition of Axordia provided one of the highlights of 2008. A spin-out from the University of Sheffield, Axordia is a leading developer of cell therapies using human embryonic stem cells ('hESC') and adds four key assets to our pipeline:

- A collaboration with the London Project to Cure Blindness, a collaboration between the University College London's Institute of Ophthalmology, Moorfields Eye Hospital and the Centre for Stem Cell Biology, Sheffield
- Rights to commercialise discoveries in the area of stem cell research derived from the University of Sheffield's Centre for Stem Cell Biology (CSCB)
- Endovascular cell technology
- ESTOOLS - a European programme focused upon improving and standardising methods for human embryonic stem cell culture.

Contract research funding from The London Project to Cure Blindness and grant funding from the DTI and European Union means Axordia's current research and development efforts are fully funded.

Through applying regenerative medicine technologies, the project aims to develop a cure for age-related macular degeneration (AMD), the leading cause of blindness in the elderly. In exchange for research funding, milestones and royalties, Axordia is providing the embryonic stem cell line (SHEF-1) essential for the collaboration for differentiation into Retinal Pigment Epithelial (RPE) cells. It is envisaged that, in the future, the manufacture of SHEF-1 will be transferred to Intercytex' Manchester facility for GMP clinical supplies. The London Project is currently evaluating a SHEF-1-derived cell line in preclinical models of age-related macular degeneration.

There is strong evidence to suggest that such an approach to treating AMD could be both efficacious and safe:

- Autologous transplantation of RPE cells has already been shown to improve vision in patients
- Vision improvement has been demonstrated in preclinical models
- The surgical procedure has been demonstrated in a preclinical study
- No adverse safety events have been seen in preclinical work to date

There are two main forms of AMD, wet and dry. Whilst current therapies exist to treat the less common wet form of the disease, there are currently no therapies to treat dry forms of the disease. Dry AMD occurs when the light-sensitive cells in the macula (part of the retina) slowly break down, gradually blurring central vision in the affected eye. As dry AMD gets worse, patients may see a blurred spot in the centre of their vision. Over time, as less of the macula functions, central vision is gradually lost in the affected eye. The disease is known to be associated with defects in the retinal pigment epithelial cells (RPE) found in the retina. The rods and cones (the photoreceptors) in the retina, which are the light sensitive cells, depend for their survival on the normal functioning of these RPE cells, and so failure of these cells leads to progressive loss of vision. To make matters worse, the disease often provokes a scarring process at the back of the eye leading to the formation of new blood vessels within the retina which subsequently leak fluid resulting in exudative AMD or so called "wet" AMD. The London Project aims to restore vision by replacing a patient's RPE cells in the macular of the eye with new RPE cells derived from the embryonic stem cell line SHEF-1.

Centre for Stem Cell Biology

Axordia has close ties with the University of Sheffield's Centre for Stem Cell Biology (CSCB) and its directors, Professors Peter Andrews and Harry Moore. The professors each assign 10 percent of their working time to the company and furthermore, a pipeline agreement provides the company with access to future intellectual property from these two world-leading scientists in their academic laboratories.

Professor Andrews is the chairman of the Steering Committee of the International Stem Cell Initiative programme, a global research effort to characterise and compare a large number of human embryonic stem cell lines derived in different laboratories around the world. He is also the co-ordinator of ESTOOLS, a European programme comprising 21 academic and commercial research groups focussed upon improving and standardising methods for human embryonic stem cell culture and developing more powerful investigative tools and techniques.

Professor Moore is the HFEA licence-holder at the CSCB and was responsible for producing each of the five human embryonic stem cell lines that Axordia owns (SHEF 1, 2, 4, 5 and 7). He is also the director of the University's Good Manufacturing Practice stem cell derivation laboratory and is working toward the production of new cell lines that will be suitable for generating differentiated cells for clinical use.

Endovascular cells in transplantation

Axordia has developed proprietary methods to generate endovascular (EV) cells from human embryonic stem cells.

EV cells are required from the earliest stage of pregnancy to establish a placental blood supply and to avoid rejection by the mother (from which the embryo is immunologically distinct). Among other factors, EV cells produce Human Leucocyte antigen G (HLA-G), which induces localised immune tolerance.

There is a growing body of evidence to suggest that this molecule can have a similar effect *ex-utero*, presenting the possibility that EV cells may have wide-ranging applications in the field of transplantation medicine and immune modulation therapeutics.

In order to undertake a preliminary evaluation of the effects of EV cells *in vivo*, Axordia has formed a consortium comprising Lombard Medical Technologies plc and two key academic groups at the University of Sheffield, to develop a cell-coated arterial stent. The project, which is currently funded by a DTI award, is undertaking large animal studies to investigate possible improvements in device integration and reduction in restenosis mediated by the EV cell coating. The consortium has won DTI funding worth £1.8m for the preclinical stage of the project.

ESTOOLS

ESTOOLS is a European Union Framework Programme VI-funded consortium that represents the largest collection of embryonic stem cell scientists in Europe (www.estools.eu). The consortium aims to improve methods for maintaining human embryonic stem cells in culture and for controlling their differentiation, along with developing tools and techniques that will enhance research efforts in the field. The work being undertaken by ESTOOLS members is diverse. However, within the programme, Axordia's role is to produce and characterise novel antibody research reagents for use in the human embryonic stem cell system.

The antibodies produced by Axordia within ESTOOLS are owned by the company and may be developed as commercial products in addition to serving as proprietary reagents for research and development within the company.

Axordia is entitled to receive further grant funding of €130,000 under ESTOOLS programme. The grant is expected to end in July 2010.

ICX-SKN

Product description

ICX-SKN comprises allogeneic HDFs set in a strong, stable matrix of natural human collagen that is produced and assembled by the cells themselves. An additional layer of human keratinocytes may be included to form an epidermal layer. ICX-SKN mimics the structure of skin and is intended as a skin graft replacement.

ICX-SKN is designed to be sufficiently durable to integrate and persist in an acute wound, thus providing immediate and long-term closure of acute wounds. ICX-SKN has the potential to be used by dermatologists, plastic surgeons and other specialists in hospitals and clinics as a skin graft for acute wounds, initially in surgical excisions.

Clinical development

During 2008 we completed our Phase I trial in a total of 12 volunteers in two groups; the trial was designed to evaluate the safety, tolerability and graft integration and persistence of ICX-SKN in healthy adult female subjects. An ellipsoidal piece of normal skin was surgically removed from the upper arm of each subject and replaced with a tailored graft of ICX-SKN, using one of two different formulations. Six subjects were followed for one month, four for three months and two for six months. In two subjects we also included a control site which was allowed to heal without the addition of ICX-SKN. All grafts were totally excised at the end of the follow-up period and examined histologically. In all subjects ICX-SKN was very well tolerated with no serious adverse events reported. There was no evidence of graft rejection; both visual and histological analysis showed that in all volunteers the ICX-SKN grafts were rapidly vascularised and overgrown with the hosts' own cells, resulting in a fully integrated skin graft that had closed and healed the wound site. This remarkable result contrasts with all other living skin graft alternatives which biodegrade *in situ* after a matter of weeks. There was evidence that wounds treated with ICX-SKN showed superior healing to the control sites.

Following our success in being selected as part of AFIRM, we are receiving funding to develop ICX-SKN for use in trauma and burns applications in the US market. Accordingly we have decided to focus on these applications and, subject to appropriate funding under AFIRM, plan to carry out the next trial in the

US. A successful burns programme would also allow an accelerated development programme for use of ICX-SKN in the surgical excision market.

Commercial opportunity

Market research we have conducted has emphasised the scale of the opportunity for ICX-SKN, especially in burns. Each year in the US alone there are estimated to be around 80,000 civilian burns which require hospitalisation.

The potential advantages offered by ICX-SKN include:

- Immediate closure of the wound without the need for skin grafting, which substantially reduces the cost of treatment and the risk of infection;
- Treatment of patients with severe burns for whom skin grafting is not an option.

Other opportunities exist in excisions such as skin cancer and mole removals.

Intellectual Property

We filed a patent application in 2006 which protects the manufacturing process for ICX-SKN. This patent is currently undergoing international examination.

ICX-TRC

Product description

ICX-TRC consists of a suspension of autologous dermal papilla (DP) cells. These cells are able to stimulate the generation of new hairs when injected into the scalp in close proximity to the epidermal cells which generate the hair. It is intended that ICX-TRC will be used by specialists in hair transplant centres, dermatologists and plastic surgeons to treat patients with hair thinning or hair loss.

Clinical development

We have now completed our Phase II study, which was conducted by Dr Bessam Farjo in Manchester, to examine different ways to deliver the DP cells. DP cells naturally reside at the base of all hair follicles and are known to control the growth and cycling of hair. It has been known by scientists for many years that these cells can also interact with epidermal cells in the skin and induce them to form new hairs. For this to occur however, the DP cells need to be placed close to the epidermal cells which in turn need to be in a correct inducible state to respond to the DP signals.

This trial was designed to examine the effect of different DP delivery techniques and methods to ensure that the epidermal cells were in the correct state to respond to the signals and produce new hairs.

In this study, subjects were injected 900 times with 1µl aliquots of DP cells in a large area which was photographed at the end of the study. Subjects were also injected in a smaller area, divided into two sections - counts were obtained by shaving and photographing the two small sections of scalp, injecting them multiple times (either 1 injection of 50 µl or 50 injections of 1 µl) with living DP cell suspension and then applying a specialised image analysis system to provide a total hair count. In these small sections, all 19 subjects in the trial were treated using a range of injection and scalp pre-stimulation techniques; the first 6 subjects were injected without stimulation of the scalp. In the remaining 13 subjects the resident hair producing (epithelial) cells were stimulated at the time of delivery of the DP cells in one of the two treatment sites.

13 subjects completed the 48-week trial with 6 subjects lost to follow-up. Of the 13 subjects completing the trial the data showed that:

- 65% (11/17) of the treated sites in the non-stimulated group responded to the treatment by increasing numbers of hairs of all sizes

- 71% (12/17) of the treated sites in the non-stimulated group responded to the treatment by increasing numbers of hairs over 30 micron in diameter
- 78% (7/9) of the treated sites in the stimulated group responded to the treatment by increasing numbers of hairs of all sizes
- 100% (9/9) of the treated sites in the stimulated group responded to the treatment by increasing numbers of hairs over 30 micron in diameter
- The overall take rate (number of hairs produced per 100 injections) in the stimulated areas was
 - 40% (n=6) for hairs of all sizes
 - 18% (n=6) for hairs over 30 micron in diameter

The larger (900 injection) area photographs have not yet been analysed.

These data are consistent with the interim data reported last September and further confirm the hypothesis that new hair production is improved by pre-stimulation of the scalp, leading to an interaction between the injected cells and the resident hair producing cells.

Dr Bessam Farjo, the Principal Investigator for this study, said *“We have learned a lot from this trial, including the different ways in which these cells can be delivered and that it is possible to do one thousand of these injections in a relatively short period of time and at little discomfort to the patient. I am very encouraged by this data both in the increase in the total number of hairs in the treated site but more importantly by the increase in thicker hairs, those over 30 micron.”*

Further results of the trial will be presented later in the year.

Commercial opportunity

ICX-TRC overcomes one of the principal drawbacks of conventional transplants which is that the outcome is limited by the amount of donor hair available. By using the Intercytex cell therapy technique almost limitless hair regeneration is possible in a less invasive procedure. Furthermore, treatment can commence early on in the hair loss process with retreatment available in subsequent years. The barrier to commercial success for ICX-TRC is relatively low, being the ability to increase hair count in transplanted or thinning areas.

We believe the continued development of ICX-TRC would best be carried out in partnership with a specialist in the aesthetics field. We do not intend to finance the continuation of clinical and commercial development of ICX-TRC beyond the current Phase II trial and shall seek to sign a partner when we have the complete data package from this trial. Intercytex has granted Bosley, the largest chain of hair transplant clinics in the US, an option to negotiate distribution rights to the product.

Intellectual Property

We have split our cell delivery patent application into three separate applications in the US reflecting additional techniques that are being developed. We have also filed a patent application relating to our observation that epidermal stimulation pre-treatment appears to enhance hair follicle formation. Two other previously filed patent applications relating to the method of culturing the dermal papilla cells have been published and are undergoing international examination.

Cyzact[®]

Development of Cyzact[®] has been discontinued following completion of a Phase III trial in patients with venous leg ulcers in February 2009. The trial failed to meet its primary endpoint of showing a statistically significant improvement in healing of wounds at 12 weeks between Cyzact when added to four layer compression bandaging compared to four layer compression bandaging alone.

The 396-patient Phase III trial was conducted in the US, the UK and Canada. The three arm study involved all patients receiving four layer compression bandaging (the current standard of care for venous leg ulcers) with either Cyzact[®] (n=196), vehicle (a fibrin disc with no cells, n=100) or standard of care alone (n=100). The primary endpoint of the study was the incidence of complete wound closure at up to 12 weeks for the Cyzact[®] arm of the study versus the standard of care arm.

OUTLOOK

The Board believes that Intercytex has assets of significant scientific and commercial value. Having taken steps to reduce our cash burn, our focus during the coming year will be on realising proper value for all of our regenerative medicine programmes. We are encouraged by the extraordinary clinical results achieved by Prof. John McGrath with Vavelta[®] in the rare and devastating skin disorder epidermolysis bullosa. We also believe that with the acquisition of Axordia, we have a strong position in stem cells, a field which has seen renewed interest and excitement about its potential in recent months. The Board continues to explore options to maximise shareholder value and Intercytex is now in discussions with a number of parties which may or may not lead to an offer being made for the Company.

FINANCIAL REVIEW

Basis of preparation

The financial results have been prepared under International Financial Reporting Standards (IFRS).

Cash flow

The net cash outflow from operating activities was £10.36m (2007: £9.99m). Capital expenditure and finance lease payments on capital equipment were £0.28m (2007: £0.54m). The net proceeds from the fundraising in September 2008 amounted to £2.64m and as a consequence cash, cash equivalents and liquid resources totalled £4.86m at the year-end (2007: £12.50m), a decrease of £7.64m.

Revenues

Commercial sales of VAVELTA[®] commenced in May 2008. Group revenues comprise VAVELTA[®] sales of £17k.

Other operating income of £553k (2007: £373k) reflects a significant increase in government grant awards during 2008. In July 2008, we were awarded a three year £0.3m grant by the Technology Strategy Board (TSB) to design a preservation and packaging platform for cell- and tissue-based therapies. During 2008, we were also awarded a grant of \$1.5m over five years from the US Department of Defense 'Armed Forces Institute of Regenerative Medicine' (AFIRM).

Operating expenses

Research & development (R&D) costs fell to £9.01m (2007: £9.62m) as we completed recruitment for the Phase III VLU trial of Cyzact[®].

R&D costs accounted for 76% of net operating expenses (2007: 81%) and include:

- Personnel associated with research and development activities
- Clinical trials
- Manufacturing, quality assurance, quality control and shipping activities
- Regulatory affairs
- An allocation of facility costs.

Selling, general and administrative (S,G&A) expenses for the year to 31 December 2008 increased to £3.42m (2007: £2.68m) including non-cash charges arising from IFRS 2 share-based payments of £0.31m (2007: £0.30m). These costs consist primarily of personnel costs for executive, administrative and commercial staff including finance, business development, sales & marketing and human resources. Other significant administrative expenses included an allocation of facilities costs, HR costs and

legal/accounting/professional fees. The increase is attributable to the creation of a commercial department to support the VAVELTA[®] launch and enhanced Programme Management activities.

Net operating expenses fell by less than 0.1% to £11.88m (2007: £11.93m), resulting in an operating loss of £11.88m (2007: £11.82m).

Finance revenue and costs

Finance revenue, which represents income received from and crystallised gains on the Group's cash and liquid resources, was £0.40m (2007: £0.23m). Gains amounting to £0.12m crystallised in the Group's money fund investments and were taken from reserves (2007: £0.38m increase in uncrystallised gains taken to reserves). Finance costs, which relate to interest payable on leased assets, amounted to £54k (2007: £40k).

Taxation

Taxation comprises tax credits booked against research and development expenditure of £1.27m (2007: £1.07m), Federal and State taxes payable on our US activities of £110k (2007: £20k) together with the deferred tax credit on unrealised investment gains of £26k (2007: £83k credit). The tax credit for the year ended 31 December 2008 has yet to be submitted to HMRC. The claim submitted for 2007 of £1.06m was received in July 2008.

Loss for the period

Mainly as a consequence of the increase in bank interest and receivable grant income the resulting net loss for the period decreased to £10.39m (2007: £10.50m).

Going concern basis

As explained in note 1 to the financial information, Intercytex' existing cash resources are unlikely to enable the Group to continue trading for a period of 12 months from the date of approval of the accounts. In the past the Group has funded a shortfall in cash resources through the issuance of equity to institutional as well as venture capital investors. However, given the current financial environment such funding cannot be relied upon. Based on this, and recent disappointing clinical trial results of Cyzact[®], the Board announced on 20 February 2009 that it was reviewing the Group's strategic options. The directors believe the current options being considered by the Board could deliver an outcome that provides the Group with sufficient resources for the foreseeable future. However, there can be no certainty that any one of these options will be concluded. Based on this assessment, the Board continues to adopt the going concern basis in the preparation of these financial statements. However, this represents a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.

Intercytex Group plc
Consolidated income statement
For the year ended 31 December 2008

	<i>Note</i>	2008	2007
		£'000	£'000
Revenues		17	-
Cost of sales		(16)	-
Gross profit		1	-
Licensing and option income		-	111
Research and development costs		(9,013)	(9,619)
General and administrative costs		(3,421)	(2,684)
Other operating income: grants receivable		553	373
		(11,881)	(11,930)
Operating loss		(11,880)	(11,819)
Finance revenue		402	233
Finance costs		(54)	(40)
Loss before taxation		(11,532)	(11,626)
Taxation		1,138	1,128
Loss for the year attributable to equity holders		(10,394)	(10,498)
Loss per share:			
Basic and diluted	<i>3</i>	(12.7p)	(15.1p)

All results are from continuing activities.

Intercytex Group plc
Consolidated balance sheet
As at 31 December 2008

		<i>Group</i>	
	<i>Note</i>	2008	2007
		£'000	£'000
ASSETS			
Non-current assets			
Property, plant and equipment		657	881
Goodwill	6	1,733	-
		2,390	881
Current assets			
Inventories		225	114
Trade and other receivables		742	622
Current tax asset		1,283	1,042
Available-for-sale liquid investments	4	3,577	11,959
Cash and cash equivalents	4	1,288	538
		7,115	14,275
TOTAL ASSETS		9,505	15,156
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		178	205
		178	205
Current liabilities			
Trade and other payables		2,114	1,852
Obligations under finance leases		114	155
		2,228	2,007
TOTAL LIABILITIES		2,406	2,212
NET ASSETS		7,099	12,944
Share capital	5	942	794
Share premium		36,684	32,500
Capital redemption reserve		229	229
Merger reserve		18,902	18,902
Profit and loss account		(49,859)	(39,775)
Unrealised gains and losses reserve		201	294
TOTAL EQUITY		7,099	12,944

Intercytex Group plc
Consolidated cash flow statement
For the year ended 31 December 2008

	<i>Group</i>	
	2008	2007
	£'000	£'000
Operating activities		
Total operating loss	(11,880)	(11,819)
Non cash:		
Depreciation of property, plant and equipment	412	348
Share-based payments expense	310	302
Working capital adjustments:		
Decrease in trade and other receivables	120	26
(Increase)/decrease in inventories	(111)	(87)
(Decrease)/(increase) in trade and other payables	(167)	264
Net cash flows from operations	(11,316)	(10,966)
Net income tax received	956	977
Net cash flows from operating activities	(10,360)	(9,989)
Investing activities		
Purchase of property, plant and equipment	(188)	(321)
Purchase of new subsidiary	101	-
Grants received in relation to capital items	-	100
Decrease/(increase) in available-for-sale liquid investments	8,556	(2,841)
Interest received	109	96
Net cash flows used in investing activities	8,578	(2,966)
Financing activities		
Proceeds from issue of shares	2,762	12,000
Transaction costs of issue of shares	(110)	(558)
Payment of finance lease liabilities	(95)	(215)
Interest paid on finance leases	(25)	(40)
Net cash flows used in financing activities	2,532	11,187
Net decrease in cash and cash equivalents	750	(1,768)
Cash and cash equivalents at 1 January	538	2,306
Cash and cash equivalents at 31 December	1,288	538

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. Basis of preparation and accounting policies

These financial statements for the year ended 31 December 2008 comply with IFRS as adopted by the European Union.

The announcement represents non-statutory accounts within the meaning of section 240 of the Companies Act 1985. The statutory annual accounts for the year ended 31 December 2008, upon which an unqualified audit opinion has been given and which did not contain a statement under section 235, 237(2) or 237(3) of the Companies Act 1985, will be sent to the Registrar of Companies in due course and will also be sent to shareholders. This statement was approved by the Board on 25 March 2009.

The financial information for the year ended 31 December 2007 has been extracted from the statutory accounts of Intercytex Group plc for that year, which have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under sections 235, 237(2) or (3) of the Companies Act 1985.

Going concern basis

Intercytex is a research and development based business. At 31 December 2008, the Group had cash, cash equivalents and available-for-sale liquid assets of £4.86m. The Group incurred a loss after tax of £10.4m in 2008. It is likely that trading losses will continue in the foreseeable future. Existing cash resources are unlikely to enable the Group to continue trading for a period of 12 months from the date of approval of these accounts.

In the past the Group has funded a shortfall in cash resources through the issuance of equity to institutional as well as venture capital investors. However, given the current financial environment such funding cannot be relied upon. Based on this, and recent disappointing clinical trial results of Cyzact, the Board announced on 20 February 2009 that it was reviewing the Group's strategic options. These options include:

- A possible sale or merger of the business including funding of the operations, or
- A possible sale of certain assets of the business, or
- A possible substantial licensing deal.

The directors believe that any one of these options could deliver an outcome that provides the Group with sufficient resources for the foreseeable future. However, there can be no certainty that any one of these options will be concluded. Intercytex is currently in discussions with a number of parties which may or may not lead to an offer being made for the Group. Based on this assessment, the Board continues to adopt the going concern basis in the preparation of these financial statements. However, this represents a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.

These financial statements do not include any adjustment that might arise if the going concern basis for the preparation of the financial statements was not appropriate.

2. Revenue represents commercial net sales of VAVELTA[®].

3. Loss per share

The calculations of loss per ordinary share are based on the following losses and weighted average number of shares in issue during the period:

		Year to 31 December 2008	Year to 31 December 2007
Loss for the period	(£'000)	(10,394)	(10,498)
Weighted average number of ordinary shares (basic and diluted)	('000)	82,158	69,325
Loss per share		(12.7p)	(15.1p)

4. Available-for sale liquid investments and cash and cash equivalents

The Group's liquid investments comprise holdings in a money market fund and investment grade short term debt instruments. These investments may be liquidated on 24 hours notice and are traded in highly liquid markets.

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

The holdings in the money market fund are accumulation units which are re-priced daily to reflected income accrued by the fund. Realised gains amounting to £0.12m crystallised in the Group's money fund investments and were taken from reserves.

5. Share issues

In March 2008 the Company allotted and issued 398,949 fully paid new ordinary shares to the Intercytex Group plc Employee Benefit Trust in order to satisfy conditional share awards made to employees under the Intercytex Group plc Share Incentive Plan (an HMRC approved all employee share purchase plan adopted by the Company on 20th June 2006).

In September 2008 the Company placed 6,547,619 new ordinary shares. The shares were issued to existing shareholders fully paid at a price of 42p per share raising £2.75m gross. Net proceeds after all issue expenses were £2.64m.

In December 2008, the Company issued 7,000,000 new ordinary shares at a price of 24p as consideration for the acquisition of Axordia Limited, thereby valuing the company at £1.68m.

6. Acquisition of Axordia

On 19 December 2008, the Company acquired the entire issued share capital of Axordia Limited, a company engaged in stem cell research, by issuance of 7,000,000 ordinary shares representing consideration of £1,680,000. The fair value of each share was 24p, based on the published price at the date of acquisition on the London Stock Exchange.

The carrying amount and fair value of the assets and liabilities acquired are as follows:

	Carrying amount £'000	Fair value £'000
Property, plant and equipment	1	1
Trade and other receivable	105	105
Cash and short term deposits	101	101
Trade and other payables	(260)	(260)
Fair value of net liabilities acquired	(53)	(53)
Goodwill arising on acquisition	1,733	1,733
	1,680	1,680
Consideration:		
Ordinary new shares of 1 pence each	1,680	1,680

As the acquisition was completed so close to the year end, the directors do not deem it necessary to carry out an impairment review for this financial year.

The carrying value of goodwill arising on acquisition reflects the position the company occupies in key high profile projects including the London Project to Cure Blindness. Due to the nature of the projects, the timing of future cash flows is uncertain and so a value in use calculation is not possible. The goodwill is therefore based on fair value.

Had the business combinations taken place at the start of the financial year the Group loss after tax from continuing operations for the year would have been £10.5m and revenue from continuing operations would have been £0.1m.