

To all shareholders

28th October, 2016

Dear Shareholder,

Audited Financial Statements for the Year Ended 31st March, 2016

The full version of TissueMed's audited financial statements for the year ended 31st March, 2016 has been posted on our website at www.tissuemed.com/investors I urge you all to take time to look around the website for general news and updates. The website is also optimised for viewing on a mobile.

Set out below is a summary of the results compared with the previous year:-

Profit & loss Account	2016 £'000's	2015 £'000's
Turnover	<u>773</u>	<u>728</u>
Gross Profit	685	639
(% of turnover)	<u>(88.6)</u>	<u>(87.8)</u>
Overheads, net of other income	<u>551</u>	<u>599</u>
Profit before R & D costs	134	40
Research & Development	306	314
Less R & D tax credit	(66) <u>240</u>	(88) <u>226</u>
Loss for the Financial Year	<u>106</u>	<u>186</u>
Year End Cash Balances	<u>1,450</u>	<u>1,578</u>

Business Overview

In my last letter to shareholders I mentioned that I believed we would ultimately be successful in our application to register TissuePatch for sale in China and how significant I felt this would be for TissueMed. The good news is that in May of this year (after a registration process of almost three years), TissuePatch was successful in its application for registration and can now be sold in China.

www.tissuemed.com

Just to remind shareholders why I believe this to be a value enhancing event for Tissuemed - China is forecast to become the largest medical device market in the world and at the moment there are no other competitive sealants on the market in China. This is in complete contrast to all other major markets where we compete against a number of sealants most of which are backed by multi-billion dollar corporations. Furthermore, since Tissuemed applied for its Chinese registration, the Chinese authorities have 'raised the bar' and made it much harder for other competing sealants to be registered in China. I estimate it would cost any other company now seeking a registration somewhere between US\$5M and US\$10M to fund clinical and other trials in a process that will take around five years to complete. In other words, it is possible that there will be no international products competing against us in China for at least five years. Furthermore, our Chinese registration covers all applications of our product; this is highly beneficial and contrasts sharply with the situation in, say, the USA when each approved registration is for just one application (e.g. just Neuro or just Thoracic). We are now working with our Chinese partner to help them distribute our products throughout China and TissuePatch was formally launched in China last month. Whilst we cannot expect great sales in the remaining six months of our current financial year (the Chinese system is based around long lead-time tenders), I believe that our sales into China for our next financial year will be in excess of £300,000 and thereafter we can expect strong sales growth.

Outside of China, the USA remains the largest market for medical devices. However, the hurdles for Tissuemed with its existing product technology are such that it is not commercial for Tissuemed to pursue registration of its existing product in the USA. We have been aware of this for some time and to counter it, over the last three years (in parallel with Chinese registration), and in part supported by grant funding, Tissuemed's research scientists have recharacterised our bioadhesive polymer with the aim of enhancing future access to the USA market. I'm pleased to report that this work has been successful, with key non-human implant studies demonstrating its effectiveness. Patent protection is currently being sought after which we can consider the best options moving forward. It is probable that this will involve partnering with a major USA corporation.

Current Trading

Sales for the first six months of the current year are 30% up on the comparable period last year. I expect this trend to continue for the rest of this year. Based on sales growth in China plus continuing sales growth in the UK, I am confident that Tissuemed will be profitable in the financial year ending 31st March, 2018.

I would like to thank all our hardworking employees for their past and continuing efforts and, as always, thank you for your continuing support.

Paul Banner



Chairman