



Instem Life Science Systems plc Placing and Admission to AIM



BREWIN DOLPHIN
CORPORATE ADVISORY & BROKING
Nominated Advisor and Broker

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This document, which comprises an AIM Admission Document drawn up in accordance with the AIM Rules for Companies, has been issued in connection with the application for Admission. This document does not comprise a prospectus under the Prospectus Rules and has not been approved by or filed with the United Kingdom Listing Authority.

Application has been made for all of the Ordinary Shares of Instem Life Science Systems plc, both issued and to be issued, to be admitted to trading on AIM, a market operated by London Stock Exchange plc.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

Each AIM company is required pursuant to the AIM Rules to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers.

The London Stock Exchange has not itself examined or approved the contents of this document.

The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. The Ordinary Shares are not dealt in on any other recognised investment exchange and, apart from the application for admission to AIM, no other such applications have been or will be made.

It is expected that Admission will be effective and dealings in the Ordinary Shares will commence on AIM on 13 October 2010.



*Instem Life Science Systems plc incorporated and registered in England and Wales under the Companies Act 2006
with Registered Number 7148099*

Placing of 5,228,376 Ordinary Shares at 175p per share

(ISIN Number: GB00B3TQCK30)

Admission to trading on AIM

Nominated Adviser and Broker



BREWIN DOLPHIN

CORPORATE ADVISORY & BROKING

The Directors of Instem Life Science Systems plc, whose names appear on page 5 of this document, accept responsibility both individually and collectively for the information contained in this document including responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. Under no circumstances should the information contained in this document be relied upon as being accurate at any time after Admission.

Brewin Dolphin, which is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority, is acting as nominated adviser and broker only for Instem Life Science Systems plc in connection with the Placing and the Admission and is not acting for any other person and will not be responsible to any person other than Instem Life Science Systems plc for providing the protections afforded to customers of Brewin Dolphin. In particular, the information contained in this document has been prepared solely for the purposes of the Placing and Admission and it is not intended to be relied on by any subsequent purchasers of Ordinary Shares (whether on or off exchange) and accordingly no duty of care is owed to them. Brewin Dolphin's responsibilities as Instem Life Science Systems plc's nominated adviser and broker under the AIM Rules are owed solely to the London Stock Exchange and are not owed to Instem Life Science Systems plc or to any Director or to any other person in respect of their decision to acquire Ordinary Shares in reliance on any other part of this document.

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Copies of this document, which is dated 8 October 2010, will be available free of charge during normal business hours on any day (except Saturdays, Sundays and public holidays) at the offices of Brewin Dolphin at 12 Smithfield Street, London EC1A 9BD for one month following the date of Admission.

CONTENTS

Key information	3
Directors, secretary and advisers	5
Placing statistics	6
Expected timetable of principal events	6
Part I Information relating to the Group	7
Part II Information on the Placing and Admission	20
Part III Directors, senior managers and corporate governance	22
Part IV Risk factors	26
Part V Financial information on Instem LSS Group Limited and its subsidiaries for the three years ended 31 December 2009	31
Part VI Financial information on Instem LSS Group Limited and its subsidiaries for the six months ended 30 June 2010	68
Part VII Pro-forma financial information on the Group	74
Part VIII Additional information	76
Part IX Definitions & Glossary	103

KEY INFORMATION

INTRODUCTION

Instem is a leading provider of IT applications to the global early development healthcare market. The Group is focused on the early development sector of the drug and chemical research and development industry, from late discovery and lead optimisation through to the Phase I clinical evaluation stage.

Instem's solutions, part of the Early Development Application market, are supplied to an international blue chip customer base including, *inter alia*, AstraZeneca, GlaxoSmithKline and Charles River Laboratories. Instem's EDAs are used in evaluation studies to:

- collect, analyse and report complex scientific data;
- comply with regulatory reporting requirements;
- improve quality, consistency and efficiency of information reporting; and
- reduce the time of critical path R&D activities.

The Group currently employs 102 people with 72 based in the UK, 27 in the US and three in China. There are also two full time contractors in India.

KEY STRENGTHS

- Dominant market position
- Global brand
- Diverse and recurring revenue base
- Experienced Board
- Platform for accelerated growth via continuing M&A strategy

MEDIUM AND LONG-TERM STRATEGY

Following Admission, the Directors intend to drive the organic growth of the Group's Provantis® and Centrus™ branded solutions and make selective acquisitions which will strengthen its product offering in the EDA areas.

Organic Development

The Directors intend to drive organic growth within the business through an increased presence in the EDSA market. The Directors estimate that Instem currently has a US\$15 million share of the approximately US\$60 million EDSA market. By expanding its Provantis® offering Instem will look to capture further share of the EDSA market and expand into other related areas such as safety pharmacology studies, drug metabolism and pharmacokinetics studies.

The Directors believe the development of Instem's Centrus™ solutions will enable the Group to generate further revenues from existing Provantis® clients and target collaboration agreements with other software solutions. The Directors are not aware of any products currently on the market that offer a similar suite of features to Centrus™.

Acquisitions

The Directors continue to seek complementary acquisitions for the Group and have short-listed a number of potential targets. The Directors believe that these represent key strategic acquisitions which will help consolidate the Group's market position, complement its existing products, provide access to adjacent markets and increase efficiencies in the vertical supply chain. The Directors have also identified a further pipeline of over 30 other potential targets to be investigated.

Global Expansion

The Directors believe that it is of strategic importance to have a presence in all major markets where early development facilities are located. Increasingly new facilities are being located in emerging economies such as China. Investments have already been made to secure a presence in both the Chinese and more established Japanese domestic laboratory markets by creating local sales support, service delivery and customer support operation. In addition, Instem's products are also being translated into Mandarin Chinese. Furthermore, the Directors believe the opportunity exists to leverage Instem's local technical resources in the Indian market.

Following Admission, the Directors intend to continue progressing these opportunities in order to enhance the Group's global offering, particularly in China and Japan.

SUMMARY FINANCIAL INFORMATION

	2007	2008	2009
	£000	£000	£000
Revenue	7,990	8,808	9,815
Profit from operations before amortisation	1,793	1,939	2,187
Profit from operations	1,769	1,913	2,140
Profit before taxation	1,340	148	2,468
Profit/(loss) for the financial year	703	(353)	1,706
Net assets/(liabilities)	(1,205)	(474)	852
Cash generated from operations	1,540	91	3,518
Cash/(overdraft)	(362)	(549)	2,716

SUMMARY OF THE PLACING

The Company intends to raise £9.15 million before expenses through the Placing and is seeking admission of its shares to trading on AIM. The Directors believe that Admission will help achieve the following objectives:

- raise and provide access to funds to facilitate growth through continuing M&A strategy;
- provide share based incentive structures that will attract, retain and incentivise the executive management team;
- increase the profile of the Group and enhance its reputation within its market; and
- provide the opportunity for founders to realise a proportion of the value held by the repayment of loan notes.

DIRECTORS, SECRETARY AND ADVISERS

Directors	David Gare (<i>Non-executive Chairman</i>) Philip John Reason (Phil) (<i>Chief Executive Officer</i>) James McLauchlan (Jim) (<i>Chief Financial Officer</i>) David Michael Sherwin (<i>Non-executive Director</i>) Michael Frederick McGoun (Mike) (<i>Non-executive Director</i>)
Company Secretary	James McLauchlan
Registered Office	Diamond Way Stone Business Park Stone Staffordshire ST15 0SD
Nominated Adviser and Broker	Brewin Dolphin Ltd 12 Smithfield Street London EC1A 9BD
Lawyers to the Group	DWF LLP Centurion House 129 Deansgate Manchester M3 3AA
Reporting Accountants	Baker Tilly Corporate Finance LLP 3 Hardman Street Manchester M3 3HF
Auditors	Baker Tilly UK Audit LLP 3 Hardman Street Manchester M3 3HF
Lawyers to the Placing	DLA Piper UK LLP Princes Exchange Princes Square Leeds LS1 4BY
Registrars	Computershare Investor Services PLC Bridgwater Road Bristol BS13 8AE
Financial PR	Threadneedle Communications Aldermary House 3rd Floor 10-15 Queen Street London EC4N 1TX
Website address	www.instem.com

PLACING STATISTICS

Issue Price	175p
Number of Ordinary Shares in issue prior to the Placing	6,485,910
Number of Placing Shares being placed on behalf of the Group	5,228,376
Percentage of enlarged share capital being placed	44.6%
Number of Ordinary Shares in issue following Admission	11,714,286
Estimated gross proceeds of the Placing receivable by the Group	£9.15 million
Estimated net proceeds of the Placing receivable by the Group	£8.33 million
Market capitalisation of the Group at the Issue Price	£20.5 million
EPIC Code	INS.L

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<i>2010</i>
Publication of Admission Document	8 October
Admission effective and dealings in the Ordinary Shares commence on AIM	13 October
CREST accounts (where relevant) expected to be credited	13 October
Share certificates (where relevant) expected to be despatched no later than	13 October

PART I

INFORMATION RELATING TO THE GROUP

1. INTRODUCTION

Instem is a leading provider of IT applications to the global early development healthcare market. The Group is focused on the early development sector of the drug and chemical research and development (“R&D”) industry, from late discovery and lead optimisation through to the Phase I clinical evaluation stage.

Instem’s solutions, part of the Early Development Application (“EDA”) market, are supplied to an international blue chip customer base including, *inter alia*, AstraZeneca, GlaxoSmithKline and Charles River Laboratories. Instem’s EDAs are used in evaluation studies to:

- collect, analyse and report complex scientific data;
- comply with regulatory reporting requirements (including, *inter alia*, the Food and Drug Administration (“FDA”) and the US Environmental Protection Agency (“EPA”);
- improve quality, consistency and efficiency of information reporting; and
- reduce the time of critical path R&D activities.

The Group’s main area of focus within EDAs is the Early Development Safety Assessment (“EDSA”) market. In addition to the safety assessment study management market, Instem has experience in the Drug Metabolism and Pharmacokinetics areas and offers administrative applications for:

- Business intelligence & data warehousing
- Government licensing for animal based research
- Electronic regulatory submissions

2. KEY STRENGTHS

Dominant market position

The acquisition of Fraser Williams (Data Systems) in 1999 reinforced Instem’s position as a leading provider of information solutions for the EDSA market. The Group currently has only two competitors of note in Xybio Medical Systems and Pathology Data Systems in the European and North American markets. Instem’s user base is approximately double the size of these two combined and its customer base includes seven of the world’s top ten pharmaceutical and biopharmaceutical companies.

Global brand

The Directors believe that Instem’s Provantis® solution is widely regarded as the leading EDSA application in the market. The Group has a leading position in the European and North American markets. The Group has increasing penetration in the established Japanese market and emerging Asian markets such as China.

Emerging markets have specific characteristics which must be embraced in order to optimise the chance of commercial success. Instem’s presence in China gives it a key advantage over competitors who operate in such locations on a remote basis only. In the more established Japanese market Instem has developed a partnership with a local organisation in order to better understand its market and position the Group to benefit from future growth.

Despite the growth in emerging markets, the US remains the most important and influential market for EDAs and consequently for Instem. The Directors believe the strength of Instem’s brand and its proximity to the large pharmaceutical and biotech organisations in the US should ensure that the Group retains a leading position in the dynamic EDSA market.

Diverse and recurring revenue base

Instem has over 9,500 users of its solutions and supplies over 80 customers including seven of the world's top ten pharmaceutical and biopharmaceutical companies. Instem has an average client relationship exceeding 10 years and a low customer attrition rate. Approximately 65 per cent. of Instem's revenues are recurring, providing the Group with a revenue stream which is visible on a medium to long term basis.

Experienced Board

David Gare founded Instem's former parent company over 30 years ago and, along with David Sherwin, led that business through divestments, buyouts and a previous public listing. The Non-executive Directors provide over 50 years' experience within the pharmaceutical IT industry and possess a detailed knowledge of the Group.

The Non-executive Directors support a current executive management team which has been with the business in its current capacity since 2003. Phil Reason joined the Group in 1982 and was appointed Chief Executive Officer of Instem in 1997 having developed a number of successful IT businesses in the Life Sciences and Nuclear Industries. James McLauchlan joined the Group in 2003 as Finance Director bringing considerable experience to the role from prior positions with successful IT businesses.

The Group has recently recruited Mike McGoun as a Non-executive Director to further strengthen the Board. Mike has a wealth of management experience within the IT and pharmaceutical industry.

The Group intends to appoint a second independent Non-executive Director in 2011.

Biographies of each member of the Board are set out in Part III of this document.

Platform for accelerated growth via continuing M&A strategy

The Directors estimate the EDA market to be worth approximately US\$500m a year. As a leading provider of EDAs, Instem has the necessary scale to consolidate the market by acquiring its smaller competitors and other complementary EDA vendors. Management has identified over 30 potential acquisition opportunities and has shortlisted a number of these as key strategic targets.

3. SUMMARY FINANCIAL INFORMATION

The summary financial record of Instem LSS Group Limited for the three years ended 31 December 2009 as set out in Part V of this document, is summarised below:

	<i>2007</i>	<i>2008</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Revenue	7,990	8,808	9,815
Profit from operations before amortisation	1,793	1,939	2,187
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Cash generated from operations	1,540	91	3,518
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4. HISTORY AND DEVELOPMENT

Instem Limited, the original Instem business, was founded in 1969 by David Gare, the current Non-executive Chairman, and five colleagues. From its inception, Instem Limited underwent a number of divestments, buyouts and reorganisations including spending over ten years as a public company listed on both the USM and the Official List.

In 1992, Instem plc (formerly Instem Limited) was formally divided into three operating divisions; Information Management & Control Systems, Life Science Systems (the predecessor to the current Instem LSS Group Limited) and Electronics Manufacturing Management.

A key milestone in the development of Instem was the acquisition of Apoloco Limited in 1996. Apoloco Limited was a software company focused on the pharmaceutical industry and was seen by the management team as a strategic add-on for the Life Science Systems division.

In 1997, David Gare and David Sherwin led a management buy-out of Instem plc backed by Alchemy Partners which resulted in the delisting of the original Instem business from the Official List.

Following the management buyout, in 1998, Instem was demerged into three independent companies, one of which was Instem LSS Limited, a provider of information systems for pharmaceutical research and development.

In 1999 Instem LSS Limited strengthened its position as a leading EDSA provider by acquiring a key competitor, Fraser Williams (Data Systems), for £3 million.

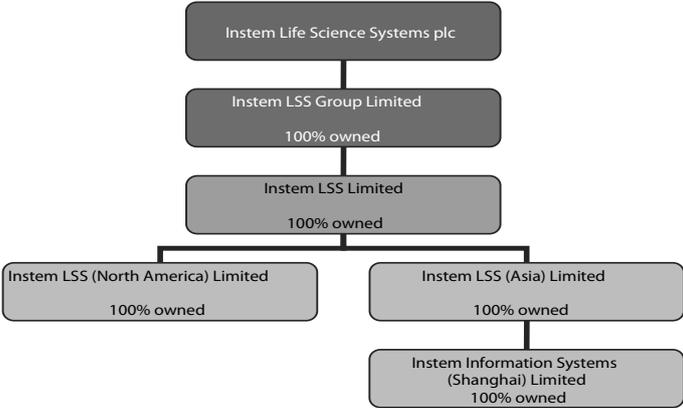
In 2001, Instem launched its Provantis® licensed software suite, a modern fully integrated software system for single users and global organisations involved in EDSA studies. The solutions were offered via its SaaS model for the first time in 2005.

In 2002, David Gare and David Sherwin undertook a leveraged buy-out of Alchemy Partners’ stake in Instem LSS Limited, resulting in them becoming the controlling shareholders.

During the period from 2002 to 2010, the Group has consistently grown revenues and profits. In 2010, Instem fully repaid the debt assumed following the purchase of Alchemy’s stake and in the same year, incorporated a wholly owned foreign enterprise in China for entry into the Asia-Pacific market. The Group’s solutions are now installed at over 100 sites for the first time in its history.

Instem currently has over 80 customers in North America, Europe, China, India and Japan, including seven of the top ten pharmaceutical and biotech companies such as GlaxoSmithKline and AstraZeneca. Management estimates that approximately half of the world’s regulatory early development drug safety data has been collected over the last 20 years via Instem software. The Group currently employs or engages over 100 people in the US, UK, China and India.

The current Group structure is as follows:

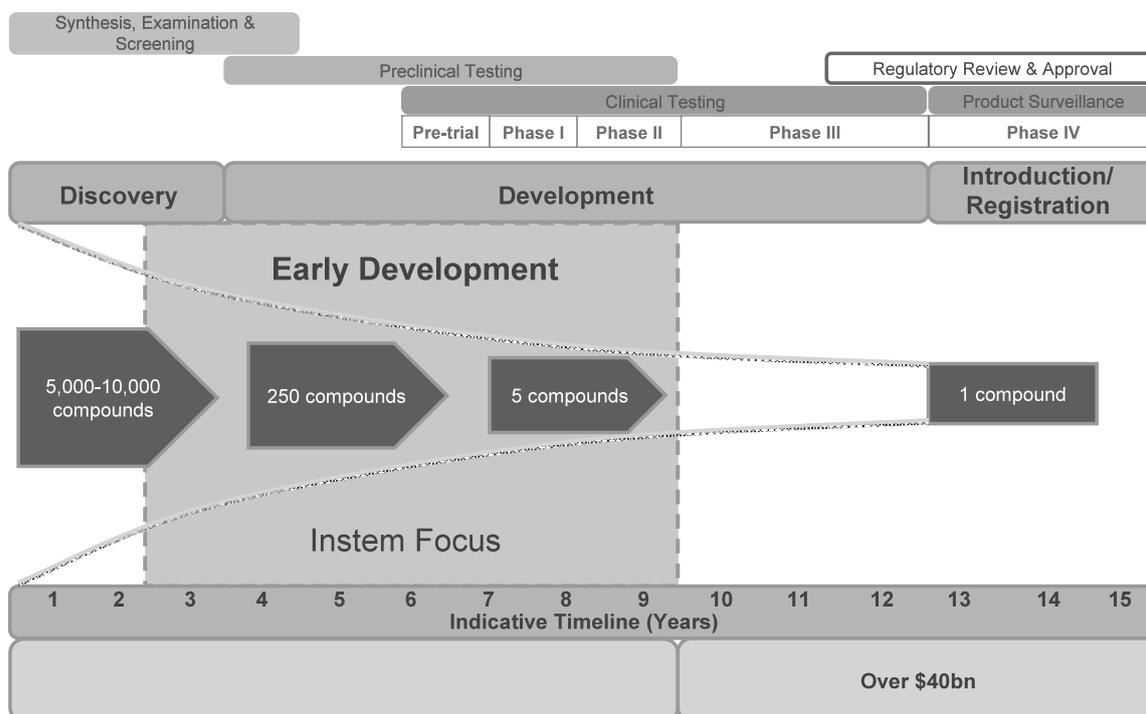


5. DRUG DEVELOPMENT CYCLE

The typical length of time it takes to develop a drug from discovery through to it being approved and marketed is up to 15 years. In 2005, the average cost to bring a successful drug to market was estimated to be US\$1.3 billion, up from US\$138 million in 1975 and only 20 per cent. of drugs which make it to market generate sufficient returns to justify the investment.

The drug development process is a highly regulated, complex and sophisticated process requiring adherence to strict protocols and maintenance of detailed records in a format suitable for regulatory submission. A patent is typically granted in the early stages of development and usually lasts for 20 years. With a development phase of up to 15 years, the remaining, post marketing, patent protection period of 5 years and strict compliance measures, mean it is very costly to produce new drugs within the timeframe to which monopoly profits can be made.

The diagram below shows how many compounds initially enter testing for their pharmacological effects and efficacy. A small proportion of the drug candidates progress through to EDSA testing with only very few candidates passing through to the clinical trials phase. It is estimated that on average that for every 5,000 to 10,000 compounds that are screened, only one is expected to receive approval for use.



(Source: Directors' estimates and Innovation.org)

Early Development, the area in which Instem's solutions are focused, represents the stages directed at the identification, screening and selection of lead compounds for future drug development through to the initial testing in humans.

The drug discovery process generates a portfolio of qualified lead candidates, which meet some basic safety and efficacy criteria related to a disease target. As can be seen from the diagram above, only very few compounds will demonstrate qualities that allow them to progress through from discovery to the drug development phase. The development process involves the thorough testing of these drug candidates for safety and efficacy in animals and humans. The development phase involves both EDSA and clinical studies.

The EDSA studies, which Instem solutions primarily support, are on the critical path for between two to six years, with some longer term studies progressing in parallel with Phase I and II clinical trials. To progress through to the clinical phase and to begin testing on humans, a drug candidate needs regulatory approval requiring a large amount of data to be recorded and submitted via an Investigational New Drug (IND) application.

The clinical trials are split into four; Phase I involves 20-100 volunteers for safety and dosage studies; Phase II involves 100-500 volunteers for efficacy and side effect studies; Phase III involves 1000-5000 volunteers being monitored for effects of long-term use; and Phase IV involves monitoring the drug's effect once it is has been commercialised.

6. PRODUCTS AND SERVICES

Provantis®

Provantis® is the Group's lead product suite and was introduced at version 6 in 2001 with version 9 currently under development. New versions are typically introduced every two to three years. Provantis® is a modern,

fully integrated software system for both single users and global organisations engaged in EDSA evaluation studies such as universities, commercial organisations and government research institutes.

Provantis® modules manage every facet of EDSA from receipt of the compound through to the automated assembly of statistical analyses and final reports. The software allows scientific staff to collect, analyse and share data across the organisation and externally. The Directors believe the key benefits to users of Provantis® are:

- increased efficiency – staff are able to conduct more studies with the same resource levels;
- real-time access – information is recorded, organised and stored so it can be accessed immediately both internally and externally;
- improved quality – orchestrated workflow, paperless collection and automation through to highly configurable final reporting of data significantly reduces errors; and
- improved decision making – decisions can be taken earlier reducing wasted time and money.

Provantis® streamlines traditional paper or spreadsheet based workflow with intuitive functionality enforcing best practice, reducing the potential for errors and providing documented validation at every step. Customers range from single-user pathologists to full-function, global EDSA laboratories within a regulated Good Laboratory Practice (GLP) or non-GLP environment.

The Provantis® solution incorporates a comprehensive suite of modules required for managing and recording evaluation studies, including:

- General toxicology
- Pathology
- Clinical pathology
- Reproductive Toxicology and Foetal Toxicology
- Protocol and report assembly
- Tables and statistics
- Dispense
- Toxicology resource planning (“TRP”)

The integrated Provantis® suite of modules operate in the Microsoft Windows environment, deployed on desktops, application servers and an Oracle™ database server. Provantis® can be installed locally or deployed remotely using an Instem ‘Software-as-a-Service’ (“SaaS”) hosting centre which is appropriate for all sizes of laboratory but is particularly attractive to smaller laboratories.

Using SaaS, the Provantis® software is delivered securely from centralised data centres located in Shanghai and the US over dedicated networks or via the internet. Instem has partners that provide the ongoing systems administration and infrastructure required to maintain the system on a 24 hours a day, 365 days a year basis.

Provantis® Small Lab Solutions

In response to demand from smaller laboratories and academic institutions for more cost effective and flexible EDA solutions, Instem has developed the Provantis® Small Lab Solutions, which address the needs of smaller laboratories in both GLP and non-GLP environments. The solution can be scaled up from just a single user and can be installed with minimal training requirements.

The Provantis® Small Lab Solution is delivered in a hosted environment via an on-demand SaaS model. The Directors believe that this development has helped Instem become a market leader for solutions for smaller organisations that cannot justify the investment required for an on-site solution.

The Group's Small Lab Solutions provide a complete turnkey package that includes all third party licences, training, validation, maintenance, and live global help desk support, all delivered based on a subscription based pricing model.

Centrus™

Centrus™ is a new suite of solutions which access and transform a range of data sources into the appropriate format for the user's scientific or business needs and to share or deliver information through chosen distribution channels. The suite will provide powerful pre-built applications as well as the ability to utilise a range of sophisticated business intelligence and analysis tools.

Centrus™ is built using an easy to integrate, Service Orientated Architecture ("SOA"), and can be delivered at a client's site or via Instem's SaaS hosting service. By having the ability to access various sources and formats of data, Centrus™ will add value to existing systems; collating and standardising information and distributing the results to sponsors, regulators and partners.

Each data source that is connected via the Centrus™ platform will be available to multiple solutions, for example:

- Tables and Statistics
- Submit™, Instem's solution for the emerging, FDA sponsored SEND format (Standard for the Exchange of Non-clinical Data)
- Exchange between pharmaceutical sponsors, their collaboration partners and Contract Research Organisations (CROs)
- Mining & Query
- Historical Control Data
- Connection to corporate warehouses

The Directors believe that, owing to its focus on data use, Centrus™ is best suited to early drug development. It provides "out of the box" solutions to what have previously been expensive or unsolvable systems integration projects for the majority of the pharma market. Therefore it is a flexible tool that presents a licensing opportunity for large and mid-sized pharmaceutical and CROs or a SaaS opportunity to small labs through an affordable deployment model.

A strength of the Centrus™ suite is that the solutions can be used alongside both Provantis® and competitors' products. The Directors believe there is currently little competition for the Centrus™ suite and that there are significant cross selling opportunities to deliver organic growth for the Group. The SEND Submit™ solution is compatible with competitor software and can be used to deliver electronic submissions in the format soon expected to be preferred by the FDA.

Professional services

In addition to its EDAs, Instem provides professional services to help clients maximise the value of its solutions. These services provide an additional complementary revenue stream to its core product offering, while helping to ensure client satisfaction. Its wide ranging professional services include:

- Business needs, requirements and systems analysis
- Data migration
- Systems definition
- Validation
- Project management
- Training

- Remote system development
- Solution development
- Installation services
- Database administration

Instem's team of highly skilled industry and product specialists have a strong understanding of the drug and chemical development process, allowing Instem to provide a range of services to its clients from practical, hands-on assistance to thought leadership in both GLP and non-GLP environments.

New product development

In order to continue to drive growth and maintain the Group's market position, Instem undertakes "Business Growth Initiatives" which are specific development programmes focused on areas for future growth.

In 2010, the Group expects to invest approximately £1.7 million in R&D projects. Instem's current business growth initiatives relate not only to expanding existing product line offerings, but also developing new solutions that can stand alone from Provantis®, such as the recently introduced Centrus™ suite.

7. REVENUE & PRICING STRUCTURE

Instem's business model consists of licence fees, annual support fees, SaaS subscription fees and professional services.

Licence fees

Provantis® can be sold on a perpetual licence basis, the majority of which is typically billed upon delivery of the software. The price of a Provantis® licence is based on the mix of solutions and number of users determined by the customer at the outset.

The licensing model is entirely flexible and users can upgrade existing licenses for new updates which the Group releases over time or add existing solutions as required.

Annual support fees

Annual support fees are charged when a licence is purchased and annually thereafter based typically on a 12 month support subscription. The level of support ranges from basic 'level one' telephone support to extensive 'level two' direct software support for problems that cannot be resolved over the telephone. Annual support fees also entitle users to receive upgrades when available.

Annual support fees are a mandatory requirement upon purchase of a licence for the first year. Almost all clients subscribe to a support package for subsequent years and many see it as a necessary part of their own GLP compliance. Annual support fee price increases are typically linked/capped to a suitable professional labour index and/or on a fixed percentage.

SaaS subscriptions

Provantis® can be delivered by Instem's hosting service. For solutions delivered via SaaS, users pay an annual fee upon signing a contract which covers the server and network infrastructure, all implementation, third party licences, training, validation, maintenance and helpdesk support. There are an increasing number of new customers choosing a SaaS subscription model rather than the perpetual licensing model. This trend means that the Group generates less upfront license fees but by the fourth year of the subscription onwards, will generate greater revenues than the perpetual licensing model. It also allows Instem to access the earlier development stages that are traditionally occupied by smaller organisations who cannot afford upfront, perpetual licences for its solutions.

Instem's sales mix has gradually changed in recent years. Approximately 65 per cent. of income in 2009 was recurring revenue from annual renewal fees, hosting fees via SaaS and a small proportion of professional fees.

8. MARKET OVERVIEW

The global drug development industry accounts for over US\$65 billion of annual expenditure as pharmaceutical companies (a) race to combat a surge in patent expiries on a range of key drugs over the next two to three years; and (b) seek to cope with an increasingly complex web of regulatory requirements to bring new drugs to market. Consequently, there is mounting pressure to achieve higher levels of productivity and efficiency along all stages of the development process. Instem currently has a niche focus on EDSA studies in the EDA market but is seeking to leverage its existing strong customer relationships and expand into adjacent areas.

Pharmaceuticals Market

The global market for pharmaceuticals is expected to grow by nearly US\$300 billion from US\$837 billion in 2009 to US\$1.1 trillion in 2014. This equates to a compounded annual growth rate of between five and eight per cent. and is a result of leading products losing patent protection in developed markets and the growth in demand from emerging markets.

Global spend by the pharmaceutical industry on R&D has been growing at 9.1 per cent. a year over the last decade to reach approximately US\$65 billion in 2009, of which approximately 25 per cent. is spent on EDA stages. The trend to outsource has been growing even faster at 13.4 per cent. per annum to over US\$10 billion in 2009.

Clinical safety and toxicology are two causes of clinical trial failure. The Directors believe identifying potential issues early in the drug development process can help avoid wasting time and money in progressing projects that will not make it through the expensive clinical trials process.

Early development market

The early development market is dependent on research and drug development being conducted by pharmaceutical companies. In September 2010, there were approximately 96,000 clinical trials globally. Of these there were approximately 50,000 in the US and 4,900 in the UK; both key markets for Instem.

Instem's solutions are used in the early development stage of drug development. The life sciences industry expenditure on IT solutions is estimated to reach US\$17 billion by the end of 2010 and the EDA market is currently worth approximately US\$500 million per annum. The Directors estimate the study management systems market to be worth approximately US\$200 million.

The EDA market is extremely fragmented and there are a large number of small companies operating within it. The Directors estimate that Instem's core EDSA subsector is worth approximately US\$60 million, giving Instem an approximate 25 per cent. share of the market in which it operates.

The EDA market involves carrying out a variety of different studies in order to progress a compound towards the requirements for an investigational new drug application ("IND") ahead of human clinical trials. In addition to EDSA, other potentially attractive study management applications for Instem include:

- drug metabolism & pharmacokinetics; and
- safety pharmacology.

Importantly, unlike a CRO or many clinical application providers, Instem is not dependent on securing business for individual studies or clinical trials for its revenues nor is it dependent on the successful outcome of a clinical trial.

The Directors have identified 371 laboratories around the world currently carrying out toxicology pathology studies employing approximately 21,500 users.

EDSA sites – regional and industry segmentation

	<i>Bio/</i>	<i>Research</i>			<i>Current</i>	
	<i>pharma</i>	<i>chemical &</i>	<i>CRO</i>	<i>Total</i>	<i>Instem</i>	<i>%</i>
		<i>other</i>			<i>sites</i>	
Europe	44	9	44	97	33	34%
North America	56	28	86	170	57	33.5%
Japan	34	4	12	50	5	10.0%
China	–	3	20	23	5	21.7%
India	9	1	7	17	1	5.9%
Rest of world	–	1	12	14	0	0.0%
Total	144	46	181	371	101	27.2%

(Source: Directors' estimates)

The Directors believe that expansion from EDSA studies into the other areas of early development outlined above could potentially expand the addressable market for Instem to over 1,000 sites with multiple users per site.

Trends amongst market segments

Large pharmaceutical companies have been reducing the number of EDSA sites and users, either by rationalisation or by outsourcing. Mid-sized pharmaceutical companies and large biotech companies have typically maintained the number of laboratories and many have been adding Provantis® users. CROs accounted for much of the growth in the broader pharmaceutical market from 2005 until late 2008, by rapidly adding users. Despite CROs having reduced headcounts during the downturn, the number of Provantis® licences has not typically been reduced because, the Directors believe that, CROs are reluctant to re-incur the costs of paying for upfront licence fees.

US government funded research establishments have been expanding. For example Instem has recently been awarded a contract with the National Institute of Environmental Health Sciences.

Pharmaceutical market drivers

Falling R&D productivity

Falling R&D productivity is forcing pharmaceutical companies to reinvent themselves, concentrating on core strengths and outsourcing functions like R&D to specialist CROs and other organisations. In 1975, the average cost of developing a new drug was US\$138 million. By 2005 this figure had reached US\$1.3 billion and now only 20 per cent. of marketed drugs generate sufficient returns to justify the investment made. As such, there are a number of financial pressures driving the need to increase the productivity of R&D spend.

Public spending constraints reduce growth in medicine budgets

Publicly funded health systems are under increasing pressure to reduce expenditure on drugs. Plans have been introduced to apply wholesale price cuts or restrictions on access in countries such as Turkey, Spain, Germany and France to reduce drug spending growth. With a requirement to balance public sector budgets, the Directors believe it is likely these cuts will be applied in other countries and in turn, drive the need for greater efficiency and productivity across all areas of drug development, including in R&D. Investment in new IT applications is seen as one of the investments that drive efficiency.

Shift to emerging markets

Whilst mature pharmaceutical markets are expected to show relatively modest growth of approximately three to six per cent. per annum between 2009 and 2014, emerging economies are expected to grow significantly faster at 14 to 17 per cent. over the same period. The Directors believe that Instem's presence in the Asian market will enable it to capitalise on this growth opportunity.

Patent expiries and rise of low cost generic penetration

Many companies are struggling to replenish their pipeline as the patents on the blockbuster drugs launched in the 1990's expire and they focus on more complex scientific challenges. The next five years are expected to see the peak of patent expiries and products with sales, in aggregate, of over US\$142 billion are expected to face generic competition in mature markets. The Directors believe that, in turn, an increased number of compounds being tested will drive activity in the market for Instem's solutions.

Change of R&D focus

The focus of R&D is expected to shift to areas where there is significant unmet clinical need, high-cost burden of disease, and innovative science that can bring new treatment options to patients. The emergence of targeted treatments combining drug therapies, companion diagnostics and medical services represents a shift in the way treatment is delivered and R&D activities are targeted away from the traditional blockbuster model. Instem's flexible and highly configurable solutions should enable clients to design the sophisticated studies that are necessary to progress these new treatments.

Increased scrutiny & regulation of new products

Whilst the absolute number of new drugs launched over the next five years is expected to be relatively flat at 30 to 35 per annum, more rigorous and complex assessment is expected before they are accepted into the market. This presents opportunities for Instem to sell increased functionality to those organisations engaged in safety assessment.

M&A Activity

The 2009 mergers of Pfizer & Wyeth, Merck & Co. and Schering Plough, and Roche & Genentech are prime examples of how pharmaceutical organisations are looking towards M&A activity to overcome the current challenges faced with generating new revenue streams. Where Instem is a solution provider to a merging entity, the Directors believe that it will benefit from standardisation of software solutions following integration post completion of the merger.

EDSA IT market drivers

Highly regulated market

The EDSA market is a highly regulated area of the drug development process. Safety and efficacy studies are mandated by governmental bodies, such as the FDA, prior to licensing of new products. Such tests have to be rigorously managed to ensure the validity of the data. Research not conducted under GLP could be inadmissible in support of an IND or new drug application ("NDA") in the US. This further drives the need for rigorous validation of systems and processes and is a strong disincentive to switch software suppliers.

Fragmented market for EDSA suppliers

An historic lack of in-house IT governance in pharmaceutical companies and the scientific focus of R&D have resulted in a fragmented supplier market. Traditionally, scientists have been given discretion over purchasing decisions and therefore solutions were frequently bespoke or developed in-house. With the new age of austerity and a focus on efficiency, pharmaceutical companies are looking to consolidate the number of suppliers used. The Directors believe that Instem has a prime opportunity to use its high market penetration and reputation of high customer satisfaction to broaden its EDA coverage organically and through acquisition of smaller technology providers.

EDSA testing bottleneck

Advanced discovery techniques such as high throughput screening, combinatorial chemistry and informatics have increased the number of new compounds coming through the pipeline. However, the number of new chemical entities entering the market has at best remained static. One of the principal reasons for this is the lack of EDSA capacity to test the compounds. The Directors believe that a resulting focus on efficient processes in order to cope with increased number of compounds will in turn drive demand for Instem's automated solutions.

Access to historic data limited & SEND programme

Vast amounts of data are generated during the discovery and early development phases. Given the fragmented nature of the solutions used to collect and report this data historically, retrieving and utilising information can be extremely difficult.

The FDA's SEND programme is currently in the late pilot stage and is expected to go live in mid-to-late 2011. The Directors expect SEND to provide an opportunity for Instem to add value to existing systems via its Centrus™ solutions and to facilitate the integration and sharing of current and historic data between sponsors and partners in a standardised form.

9. BARRIERS TO ENTRY

Regulations

The environment in which the Group's solutions are used is highly regulated and a new market entrant would need a deep understanding of these regulations in order to compete. Solution developers ideally need to be ISO 9000:2001 or similarly accredited and to develop solutions compliant with GLP, including the extensive FDA regulations.

Relationships

Instem has developed long term customer relationships (on average greater than 10 years) and a leading market position in the EDSA market. This reflects the fact that switching to a new EDSA supplier is costly and disruptive from the customer's perspective. It can also cause issues accessing legacy information, which may be submitted in a NDA years after study completion and may continue to be required for many years following the commercialisation of a drug.

Instem is a leading player in the EDSA applications market, with just two competitors of any note (Xybion and PathData based in the USA and Switzerland respectively), the Group enjoys a customer base including seven of the world's top ten pharmaceutical and biotech companies.

Development Costs

The Provantis® brand and suite of solutions has been evolved and developed over a period of more than ten years and is Instem's third generation of system. The substantial funds and development time that would need to be invested by a new market entrant is in the opinion of the Directors, a significant barrier to entry.

Scale

Larger users of EDAs are typically multinational organisations that require their EDA provider to be able to deploy, service and support products on a global scale. Significant investment of time and resources is required to obtain global partners and the knowledge required to operate across these markets, particularly in emerging markets.

10. KEY CUSTOMERS

Instem has relationships with over 80 customers who use the Group's products in approximately 100 research facilities globally. The average length of Instem's relationship with a customer is in excess of 10 years. Since 1994, Instem has built up its client base from approximately 10 customers to where it is today. Instem's primary focus is in the EDSA market providing services to:

- seven of the top ten pharmaceutical and biotech companies; and
- seven of the top ten CROs.

Larger customers include GlaxoSmithKline, AstraZeneca, Sanofi Aventis, Charles River Laboratories, DuPont, Bristol-Myers Squibb, Roche and Genzyme.

In addition, via its SaaS model, Instem supplies solutions to many smaller pharmaceutical, biochemical and CROs. The Directors see this area as a key growth driver for Instem.

More recently, Instem has moved into new and emerging markets, winning customers in Japan, China and to a lesser degree India. This move also means that Instem is able to act for complementary organisations looking to access these geographical markets, by entering into distribution agreements.

In addition to the Group's direct sales channel, Instem is exploring developing distribution partnerships with certain key vendors that will allow the Group to expand its reach into new markets. The Group currently has a partnership with CTC Laboratory Systems, a Japanese-based IT consultancy and systems integrator who is the distributor of Provantis® in Japan.

11. SUPPLIERS

As a supplier of software solutions, Instem's main supply costs relate to IT development and infrastructure, embedded software, rent, rates and employee benefits. Other than for third party technologies that are integrated into Instem products, the Group is not reliant on any one supplier.

12. MEDIUM AND LONG-TERM STRATEGY

Following Admission, the Directors intend to drive the organic growth of the Group's Provantis® and Centrus™ branded solutions and make selective acquisitions which will strengthen its product offering in the EDA areas.

Organic Development

The Directors intend to drive organic growth within the business through an increased presence in the EDSA market. The Directors estimate that Instem currently has a US\$15 million share of the approximate US\$60 million EDSA market. By expanding its Provantis® offering Instem will look to capture further share of the EDSA market and expand into other related areas such as safety pharmacology studies, drug metabolism and pharmacokinetics studies.

The Directors believe the development of Instem's Centrus™ solutions will enable the Group to generate further revenues from existing Provantis® clients and target collaboration agreements with other software solutions. The Directors are not aware of any products currently on the market that offer a similar suite of features to Centrus™.

Acquisitions

The Directors continue to seek complementary acquisitions for the Group and have short-listed a number of potential targets. The Directors believe that these represent key strategic acquisitions which will help consolidate the Group's market position, complement its existing products, provide access to adjacent markets and increase efficiencies in the vertical supply chain. The Directors have also identified a further pipeline of over 30 other potential targets to be investigated.

Global Expansion

The Directors believe that it is of strategic importance to have a presence in all major markets where early development facilities are located. Increasingly new facilities are being located in emerging economies such as China. Investments have already been made to secure a presence in both the Chinese and more established Japanese domestic laboratory markets by creating local sales support, service delivery and customer support operation. In addition, Instem's products are also being translated into Mandarin Chinese. Furthermore, the Directors believe the opportunity exists to leverage Instem's local technical resources in the Indian market.

Following Admission, the Directors intend to continue progressing these opportunities in order to enhance the Group's global offering, particularly in China and Japan.

13. REASONS FOR ADMISSION AND THE PLACING

The Company intends to raise £9.15 million before expenses through the Placing and is seeking admission of its shares to trading on AIM. The Directors believe that Admission will help achieve the following objectives:

- raise and provide access to funds to facilitate growth through continuing the M&A strategy;
- provide share based incentive structures that will attract, retain and incentivise the executive management team;
- increase the profile of the Group and enhance its reputation within its market; and
- provide an opportunity for founding shareholders to realise a proportion of their value held by the repayment of loan notes.

14. DIVIDEND POLICY AND FINANCIAL REPORTING

The Group's financial year will run from January to December each year. It is anticipated that the preliminary statement of results for each year will be announced during March and that an interim statement of the results for the first half-year will be announced during September each year. It is intended to hold the Company's annual general meeting during May of each year.

The Company does not intend to pay a dividend in respect of the year ending 31 December 2010. In respect of the year ending 31 December 2011 and beyond the Directors intend to adopt a progressive dividend policy linked to EPS growth and ongoing cash flow requirements.

15. FURTHER INFORMATION

Your attention is drawn to the further information set out in Parts II to VIII of this document, including the risk factors set out in Part IV. You are advised to read the whole of this document rather than relying on the summary information set out on pages 3 to 19 of this document.

PART II

INFORMATION ON THE PLACING AND ADMISSION

1. DETAILS OF THE PLACING

Brewin Dolphin, as agent for the Company, has agreed conditionally to use its reasonable endeavours to place firm a total of 5,228,376 Placing Shares at the Issue Price of 175p per share, representing 44.6 per cent. of the Company's issued share capital following Admission, which will raise approximately £9.15 million before expenses for the Group.

The Placing Shares will, when issued, rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and distributions declared, paid or made after the date of this document.

2. USE OF PROCEEDS

The net proceeds of the Placing will be utilised by the Group as follows:

Repayment of loan notes to existing shareholders	£5.15m
Funds for M&A activity and new product development	£3.18m
Total net funds raised	£8.33m

3. LOCK-IN AND ORDERLY MARKET ARRANGEMENTS

3.1 The lock-in and orderly market arrangements are contained in the Placing Agreement (further details of such agreement are set out in paragraph 13 of Part VIII of this document). In summary, these arrangements require that each Director undertakes that he:

3.1.1 will not, during the 12 months immediately following the date of Admission ("Locked-in Period") dispose of, or agree to dispose of, any Ordinary Shares held by him or his spouse/civil partner or infant children or step-children; and

3.1.2 will not, during the 12 month period following the Locked-in Period, dispose of any Ordinary Shares held by him or his spouse/civil partner or infant children or step-children other than after having given Brewin Dolphin at least 10 working days notice and Brewin Dolphin having provided its prior written consent to such disposal (such consent not to be unreasonably withheld or delayed) and provided that any such disposal shall be effected through Brewin Dolphin and on terms that Brewin Dolphin's standard rate of commission as at the date of such disposal is payable.

3.2 None of the restrictions referred to in 3.1.1 or 3.1.2 above will apply in certain circumstances including, but not limited to, any transfer to his personal representative in the event of his death; by a trustee for the purpose of effecting the appointment of a new trustee or for the purpose of retiring as trustee; or, at Brewin Dolphin's absolute discretion, in the event of financial hardship of a Director; provided that in certain of the circumstances, the relevant transferee executes an undertaking in a form reasonably satisfactory to the Company and Brewin Dolphin agreeing to be bound by the orderly market provisions set out in the Placing Agreement and provided that in certain circumstances as set out in the Placing Agreement (including, but not limited to, prior to any transfer by a trustee), the written consent of Brewin Dolphin is obtained, such consent not to be unreasonably withheld or delayed.

4. ADMISSION AND DEALINGS

Application will be made for the entire issued ordinary share capital of the Company to be admitted to trading on AIM. No application is being made for any of the Ordinary Shares to be admitted to the Official List of the UK Listing Authority or to the London Stock Exchange's market for listed securities.

It is expected that Admission will be effective and dealings in the Ordinary Shares will commence on AIM on 13 October 2010.

5. CREST

The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will so be admitted, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system, if the relevant shareholders so wish. CREST is a paperless settlement procedure which allows securities to be evidenced without a certificate and transferred otherwise than by written instrument. The Articles permit the holding of Ordinary Shares under the CREST system.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Persons acquiring Ordinary Shares under the Placing may, however, elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a “system member” (as defined in the Uncertificated Securities Regulations (2001)) in relation to CREST.

6. VCT ELIGIBILITY

The Company has received provisional approval from HM Revenue & Customs that the Placing Shares are capable of being a “qualifying holding” for the purpose of investment by Venture Capital Trusts (“VCT”). Tax reliefs for investments through Venture Capital Trusts should be available as long as the Placing Shares represent a “qualifying holding” for Venture Capital Trust purposes.

The Directors intend to continue to operate the Company as a VCT qualifying investment however they do not make any representations as to whether any such investment will be or will continue to be one in respect of which reliefs under the Venture Capital Trust legislation will be available.

Venture Capital Trust investors should seek individual professional advice in order that they may fully understand whether the relief is available to them.

PART III

DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

1. DIRECTORS

The Board currently comprises the Directors outlined below:

David Gare, *aged 67 – Non-executive Chairman*

David was a founder member of Instem Limited and has led the resulting businesses through most of their history. David successfully achieved a succession of strategic developments for Instem Limited, including its sale to Kratos Inc. in 1976, its MBO in 1983, its flotation on the USM in 1984, its flotation on the Official List in 1996, its public to private and demerger in 1998, its sale of Instem Computer Systems Limited (now Capula Limited) to Bridgepoint in 2000 and the buyout of Instem from Alchemy Partners in 2002. Throughout David has concentrated on value creation through achievement of a strong market position.

Phil Reason, *aged 48 – Chief Executive Officer*

Phil is an experienced chief executive who has developed a number of IT businesses in the life sciences and nuclear industries, both organically and through acquisition. Phil joined Instem in 1982 and was appointed Managing Director of the Life Sciences division in 1995 and Chief Executive Officer on the demerger. Given the importance of the North American market to Instem's organic and acquisitive growth, Phil relocated from the UK to the US in 2003 and established a new headquarters in the Philadelphia area. Phil previously ran Instem Limited's Nuclear and Laboratory Information Management Systems ("LIMS") integration businesses.

James McLauchlan, *aged 54 – Chief Financial Officer*

James is a qualified Chartered Accountant with wide experience in leading accounting, information technology and other businesses. He has an MBA from Bradford University. He joined Instem in 2003 and has executive responsibility for Finance & Administration, Human Resources and IT. James brings considerable experience to the role and has been instrumental in enhancing systems and practices across the business. His prior positions include four years with Touche Ross in Canada and six years with IT outsourcing business Digica, where he was part of a VC-backed management buyout team.

David Sherwin, *aged 54 – Non-executive Director*

David is a qualified Management Accountant and holds an MBA from Staffordshire University. He joined Instem as a trainee accountant in 1973 and was appointed Chief Financial Officer in 1979. He has worked closely with David Gare on all of the subsequent transactions involving Instem Limited and Instem LSS Limited including participating in the management buyout of Instem Limited in 1983, the flotation on the USM in 1984, the flotation on the Official List in 1996 and the demerger of the business in 1998.

Mike McGoun, *aged 63 – Non-executive Director*

Mike has a wealth of management experience within the IT industry. He spent 10 years at IBM prior to co-founding a successful ComputerLand franchise in 1984. In 1994 Mike moved to SkillsGroup plc as a main board director, with responsibility for corporate development and later as a non-executive director. Mike is the founder of and was appointed Non-executive Chairman of Tikit Group plc in 2001. Mike has been Chairman of Peakdale Molecular plc, a chemistry research organisation since 2002.

The Board intends to appoint a further independent Non-executive Director with specific sector experience in 2011.

2. SENIOR MANAGERS

Michael Harwood, *Senior Vice President of Toxicology/Pathology Products*

Michael is responsible for ensuring the commercial success of the Provantis® product line and for business development in new application areas. Michael is a member of the CDISC industry standards body developing new standards for data interchange and has spoken at DIA conferences on similar topics. Prior to joining Instem in 1999, Michael was an executive at Fraser-Williams (Data Systems) where he was involved in a wide range of IT solutions for the life sciences and other industries.

Gregor Grant, *Senior Vice President of Sales and Service Delivery*

Gregor joined Instem following its acquisition of Apoloco Systems Limited in 1996. He has recently expanded his responsibilities to now include global sales, service, support and client management functions. Prior to joining Apoloco in 1986, Gregor was a member of the British merchant navy.

Adrian Gare, *Corporate Development*

Starting in 2010, Adrian has advisory responsibility for identifying and evaluating strategic acquisition targets, helping to negotiate the terms of transactions and integrating acquired entities into the Group's operations. He is a Chartered Accountant with over 12 years of corporate finance experience. He has significant transactional experience and has advised a number of businesses on acquisition strategies, including several PLCs.

3. EMPLOYEES' SHARE PLANS AND PENSION SCHEMES

The Group operates four pension schemes: a defined benefit scheme and three defined contribution schemes.

Instem LSS Defined Benefit Scheme ("Defined Benefit Scheme")

Instem has a legacy defined benefit scheme that was closed to future accruals with effect from December 2008. The Defined Benefit Scheme was created in 2005 to receive a bulk transfer in to provide continuing benefits for members of a demerged scheme, certain members of which were employed by the Group.

An actuarial valuation carried out as at 5 April 2008 confirmed a deficit of £2,477,000 on an ongoing funding requirement basis. Following the valuation, Instem agreed a 9.5 year recovery plan to eliminate the deficit including a commitment on Instem to pay £311,000 per annum escalating at 3.5 per cent. each year to the scheme for 9 years commencing on 1 April 2009. The scheme requires an updated full actuarial valuation including review of the recovery plan every three years, the next full actuarial valuation will be of the scheme as at 5 April 2011. As at 31 December 2009, reported in accordance with UK Financial Reporting Standard 17, the scheme was underfunded by £1,081,000.

In the UK, pension payments have a 28 per cent. tax allowance. This means that the liability should be calculated as 72 per cent. of the present day value of the outstanding deficit, giving an estimated net pension liability, reported in accordance with UK Financial Reporting Standard 17, as at 30 June 2010 of £950,000.

The Group is liable for an annual levy from the Pension Protection Fund. Currently this is estimated as £60,000 and is included in the Group's annual budget.

Group Personal Pension Plan

This scheme provides defined contribution pension benefits for Group employees and the Group is contracted to match some of the contributions into these arrangements. The standard Group contributions are to match up to 5 per cent. of member contributions with employer contributions rising to 10 per cent.–17 per cent. for ex-members of the Defined Benefit Scheme.

Instem LSS (North America) Limited 401(k) Plan

This scheme is a defined contribution scheme set up for the benefit of certain Group employees based in the US. The Company matches the first 3 per cent. of employee contributions and 60 per cent. of contributions after 3 per cent. to a maximum of 4.8 per cent.

Instem LSS Contracted-in Money Purchase Scheme (“CIMP Scheme”)

The CIMP Scheme is a defined contribution scheme which provides defined contribution pension benefits for members of the Instem LSS (North America) Limited 401(k) Plan who were also members of the Defined Benefit Scheme when it closed to future accrual. There are no employee contributions and the employer contributions are set at a rate below 20 per cent.

4. CORPORATE GOVERNANCE

The Board fully supports the underlying principles of corporate governance contained in the Corporate Governance Code. Although compliance with the Corporate Governance Code is not compulsory for AIM companies, the Board intends to apply the principles, in so far as is practicable and appropriate for a public company of its size and nature. The Board recognises its overall responsibility for the Group’s systems of internal control and for monitoring their effectiveness. The Board is adopting the QCA Corporate Governance Guidelines for smaller Quoted Companies, save as highlighted in paragraph 10 of Part VIII.

The Board fully supports the underlying principles of corporate governance contained in the Corporate Governance Code notwithstanding that it is not required to comply with such recommendations. It has sought to comply with the provisions of the Corporate Governance Code, in so far as is practicable and appropriate for a public company of its size and nature, and recognises its overall responsibility for the Company’s systems of internal control and for monitoring their effectiveness.

The main features of the Company’s corporate governance procedures, which do not constitute full compliance with the Corporate Governance Code, are as follows:

- the Board has one independent non-executive director and intends to appoint a further independent non-executive director in 2011;
- the Company has an audit committee, a nomination committee and a remuneration committee, each of which consists of the independent non-executive director and the two other non-executive directors. The audit committee has unrestricted access to the Group’s auditors and will ensure that auditor independence has not been compromised;
- all business activity is organised within a defined structure with formal lines of responsibility and delegation of authority, including a schedule of “matters referred to the Board”; and
- regular monitoring of key performance indicators and financial results together with comparison of these against expectations.

Audit Committee

The Company has established an Audit Committee composed of the non-executive directors and chaired by Mike McGoun. The Audit Committee will meet no less than twice each year and is responsible for making recommendations to the Board on the appointment of the auditors and the audit fee for reviewing the conduct and control of the annual audit and for reviewing the operation of the internal financial controls. It also has responsibility for the reposting of the financial performance of the Company and for reviewing financial statements prior to publication.

Remuneration Committee

The Company has established a Remuneration Committee currently composed of the non-executive directors and chaired by Mike McGoun. The Remuneration Committee will meet at least once a year and at such other times as the Chairman of the Committee shall require and it will review the performance of the executive directors and sets the scale and structure of their remuneration and the basis of their service agreements with

due regards to the interests of shareholders. The Remuneration Committee also determines the allocation of share options to employees. It is a rule of the Remuneration Committee that a Director shall not participate in discussions or decisions concerning his/her own remuneration.

Nomination Committee

The Company has established a Nomination Committee currently composed of the non-executive directors and chaired by David Gare. The Nomination Committee will meet at least once a year and at such other times as the Chairman of the Committee shall require and has the responsibility for leading the process for Board appointments and making recommendations to the board accordingly via a formal, transparent and rigorous appointment procedure.

The Company has adopted an appropriate code for Directors' dealing and will take all reasonable steps to ensure compliance by Directors and relevant employees in due course.

PART IV

RISK FACTORS

Investing in the Group involves a degree of risk. You should carefully consider the risks and the other information contained in this document before you decide to invest in the Group. If any of the adverse events described below actually occur, the business, financial conditions, prospects and share prices of the Group could be materially or adversely affected and you may lose all or part of your investment. You should note that the risks described below are not the only risks faced by the Group, there may be additional risks that the Directors currently consider not to be material or of which they are not presently aware.

1. GENERAL RISKS

An investment in the Group is only suitable for investors capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which may result. A prospective investor should consider with care whether an investment in the Group is suitable for him in the light of his personal circumstances and the financial resources available to him.

Investment in the Group should not be regarded as short-term in nature. There can be no guarantee that any appreciation in the value of the Group's investments will occur or that the investment objectives of the Group will be achieved. Investors may not get back the full amount initially invested.

The prices of shares and the income derived from them can go down as well as up. Past performance is not necessarily a guide to the future.

Changes in economic conditions including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends, tax laws and other factors can substantially and adversely affect equity investments and the Group's prospects.

2. RISKS RELATING TO THE GROUP AND ITS BUSINESS

Exchange rate fluctuations

A significant proportion of the Group's revenue is derived from overseas, especially from the US. Therefore the Group is exposed to foreign currency risk due to fluctuations in exchange rates. This may result in gains or losses with respect to movements in exchange rates which may be material and may also cause fluctuations in reported financial information that are not necessarily related to the Group's underlying operating performance.

Customer relationships

A proportion of the Group's business is derived from supplying ongoing services to customers based on formal contracts. Despite historically low levels of customer attrition and the longevity of many of the Group's relationships with its core clients, it is possible that customer attrition rates may increase in the future due to unforeseeable circumstances. Whilst the Group has procedures in place to minimise the risk of events of this nature occurring, such as diversifying its client base, such events could materially adversely affect the Group's performance, financial condition or business prospects.

Reliance on US EDSA market

A significant proportion of the Group's revenue is derived from the US EDSA industry. A major development in this market could therefore have a significant impact on the Group's financial performance. Future regulatory changes could potentially reduce the relevance of Instem's software products and their use to the Group's customers, which may have an adverse impact on Instem's operating results. Structural changes in the US EDSA market may impact the Group's addressable market and have an adverse impact on the Group's revenues and earnings.

Dependence on key personnel

The Group's future success is substantially dependent on the continued services and performance of its senior management including the Group's Directors, each of whom has significant relevant experience, however, there can be no assurance as to their continued service. The departure of key personnel from the Group without adequate replacement may have a material adverse effect on the Group's performance, financial condition or business prospects.

Intellectual property

The Group has registered certain trademarks or has applications pending over product and service names and also owns certain domain names used in its operations but has not otherwise registered any other intellectual property rights in its favour. It relies on the law of copyright and confidentiality, neither of which permit registration. Accordingly, the Group may not have the benefit of adequate intellectual property protection of its assets. Any unprotected intellectual property rights used by the Group in the course of its business may be open to challenge by third parties, which could require the Group to become involved in litigation to protect its intellectual property rights and could have a material adverse effect on the Group's performance, financial condition or business prospects.

Risk of negative publicity

The risks of holding sensitive client data include negative publicity associated with, for instance, a breach of client confidentiality. Whilst the Directors believe that the Group has established appropriate procedures to minimise the occurrence of such events, any associated negative publicity or threat of litigation against the Group could have a material adverse effect on the Group's performance, financial condition or business prospects.

Ability to win or maintain market share

Whilst the Directors believe that the Group has developed a strong position in its chosen markets and has a proven track record of software innovation, there are no assurances that the strength of the Group's competitors will not improve or that the Group will win any additional market share from its competitors or maintain its existing market share.

The Group's competitors may be able to respond more quickly to new or emerging technologies, changes in client requirements and/or demands or devote greater resources to the development, promotion and sales of their products and services than the Group can. The Group's current and potential competitors may develop and introduce new products and services that could be priced lower, provide superior performance or achieve greater market acceptance than the Group's products and services.

The Group's current and potential competitors have established, or may establish, financial and strategic relationships amongst themselves or with existing or potential clients or other third parties to increase the ability of their products to address client needs. Accordingly, it is possible that new competitors or alliances amongst competitors could emerge and acquire significant market share. Existing and/or increased competition could, therefore, adversely affect the Group's market share and/or force the Group to reduce the price of its products, which could have a material adverse effect on the Group's performance, financial condition or business prospects.

Ability of the Group to expand into new markets

A key aspect of the Group's growth strategy envisages the Group selling new and existing products and services into new markets, in particular emerging economies. Whilst the Directors believe that these are viable areas for growth over the medium to longer term, there can be no guarantee that the Group will successfully execute this strategy for growth which may have a material adverse effect on the Group's future performance, financial condition or business prospects.

Continued market acceptance of the Group's product and services

If the Group's products and services do not maintain their competitive advantage, the Group's performance, financial condition or business prospects may be materially adversely affected. The market for healthcare software products is characterised by rapidly changing technology. The Group will need to continue to improve its products and services and to develop and market new products and services that keep pace with technological developments.

The need to raise additional capital in the future

If the Group were to make any material acquisitions in the future, it may require further financing. Any additional equity financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on financing and operating activities.

Regulatory compliance

The Group is subject to extensive and changing environmental protection and health and safety laws and regulations. Ongoing compliance with environmental, health and safety laws and regulations could require the Group to incur significant expense, limit its ability to modify or expand its premises, software and distribution links or require expenditure on capital improvements. Furthermore, the Group has operations in China which are subject to local laws and regulations. These laws and regulations can be varied without consultation, particularly in respect of foreign companies.

Management of growth

The Directors are anticipating that sales will increase following the admission to AIM. To enable the Group to respond to market opportunities and to implement its strategy will require effective planning and management control systems. The Group's growth plans may place a significant strain on its management, operational and financial resources. Accordingly, Instem's future growth and prospects will depend on its ability to manage this growth.

Future capital requirements

The Group may be required to conduct further fundraising exercises in the future in order to develop its business, fund potential acquisitions and sustain cash resources. It is difficult for the Directors to predict the timing and amount of the Group's capital requirements with accuracy. Any additional equity finance may be dilutive to Shareholders. If the Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

Ability to source investment opportunities

There can be no guarantee that the Group will be able to source suitable acquisitions. Changes in the sector and general economic market conditions may influence the number of motivated buyers for acquisition targets identified by the Group. This may impact upon the Group's ability to make acquisitions at prices that are considered to be attractive.

Brand reputation

The Group owns an established software brand in Provantis® and a new brand in Centrus™. Should any of the Group's brands suffer a decline in its reputation through any negative commercial, economic, environmental or social occurrence it may result in long-term damage to the brand, the Group's reputation, ability to retain key employees and customers and the perception of the Group's quality with a resultant decrease in expected future revenues and profits.

Customer contracts

Some of the contracts entered into by the Group with key customers require the relevant Group company to give wide indemnities to the customer, which can expose the Group to potentially uncapped liabilities. Furthermore, some of these contracts also provide that the customer may terminate the agreement, without cause, on short notice periods, which can be 90 days. If such key customer contracts were to be terminated, or notice to terminate is served, or if the Group were to receive material claims under the uncapped

indemnities or were to otherwise suffer a financial loss arising therefrom, the Group's financial performance and proposals may be affected.

VCT relief

The Company has received provisional assurance from HM Revenue and Customs that it is a qualifying holding for VCTs which raised funds prior to April 2006. Although the Company presently expects to satisfy the relevant conditions contained in the VCT legislation, neither the Company nor the Directors make any warranty or give any undertaking that relief will be available in respect of any investment in the Ordinary Shares pursuant to this document, nor do they warrant or undertake that the Company will keep its qualifying status throughout the relevant period or that, once given, such relief will not be withdrawn.

Timing of licence agreements

The timing of customers signing material software licence agreements with the Company is to some extent outside the control of the Directors. This can result in profits and revenue being recognised later than initially anticipated. The Directors constantly seek to manage the timing of these agreements and the movement towards a higher number of lower value contracts will further reduce this risk, as will the increased number of SaaS agreements that the Company is entering into.

Instem LSS Defined Benefit Scheme

The Group operates four active pension schemes, one of which is a defined benefit scheme (the Instem LSS Defined Benefit Scheme), which is closed to new members and which was closed to future accruals by virtue of a deed dated 23 December 2008 (the "**Deed**"). The Group formerly operated the Apoloco Pension Scheme (1987) which was wound up on 5 July 2010.

The last actuarial valuation of the Instem LSS Defined Benefit Scheme, as at 5 April 2008, confirmed a deficit of £2,477,000 on an ongoing funding basis and £6,603,000 on an insolvency basis and £3,212,000 on a section 179 PPF Risk Based Levy valuation.

Changes to the pension liability associated with the Instem LSS Defined Benefit Scheme may result in the trustees of the scheme requiring that the Company increases its level of annual contributions which in turn may have an impact on the Company's profitability. The Company has taken steps to minimise any such impact but changes to investments returns and mortality rates can have a significant impact on the level of liabilities and are outside the control of the Directors.

Further, if there is a successful challenge to the validity of the Deed and it is found to not be binding, then the Company could have a further potential funding liability to the Instem LSS Defined Benefit Scheme, which in turn may have an impact on the Company's profitability.

The Group has also confirmed that the equalisation of benefits for all of the members of the Instem LSS Defined Benefit Scheme may have occurred a year after it was originally planned on 1 December 1993. As a consequence the Company may have a further potential funding liability to the Instem LSS Defined Benefit Scheme, which in turn may have an impact on the Company's profitability.

3. RISKS RELATING TO THE ORDINARY SHARES

Investment risk in AIM

The Ordinary Shares will be traded on AIM and no application is being made for the admission of the Ordinary Shares to the Official List. AIM has been in existence since June 1995 but admission to AIM should not be taken as to imply that there is or will be a liquid market in the Ordinary Shares. AIM is a market designed for small and growing companies. Both types of company carry higher than normal financial risk and tend to experience lower levels of liquidity than larger companies.

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may not therefore recover their original investment. The Ordinary Shares may, therefore, not be suitable as a short term investment.

There has been no prior market for the Ordinary Shares

Prior to Admission there has been no public market for the Ordinary Shares. The Group cannot predict the extent to which an active market for the Ordinary Shares will develop or be sustained after Admission, or how the development of such a market might affect the market price of the Ordinary Shares. An illiquid market for the Ordinary Shares may result in lower trading prices and increased volatility, which may adversely affect the value of an investment in the Ordinary Shares.

The market price of the ordinary shares may fluctuate significantly in response to a number of factors, many of which may be out of the Group's control

The share price of publicly traded companies can be highly volatile. The price at which the Ordinary Shares may be quoted and the price which Shareholders may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect the industry as a whole or quoted companies generally. These factors include those referred to in this Part IV, as well as the Group's financial performance, the impact of Shareholders being released from lock-in restrictions, stock market fluctuations and general economic conditions. Share price volatility arising from such factors may adversely affect the value of an investment in the Ordinary Shares.

PART V

FINANCIAL INFORMATION ON INSTEM LSS GROUP LIMITED AND ITS SUBSIDIARIES FOR THE THREE YEARS ENDED 31 DECEMBER 2009

The historical financial information for Instem LSS Group Limited is set out in Section A of this Part V. This financial information comprises information for Instem LSS Group Limited and subsidiaries for the three years ended 31 December 2009.

The Directors are required to prepare the financial information in a form consistent with that which will be adopted in the Company's next published annual financial statements having regard to the accounting standards and policies and legislation applicable to such annual financial statements. In accordance with the legislation applicable within the United Kingdom, the financial information is required to give a true and fair view of the state of affairs of Instem LSS Group Limited and subsidiaries for that period.

In preparing that financial information, the Directors are required to:

- (a) select suitable accounting policies and apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent; and
- (c) prepare the financial information on the going concern basis unless it is inappropriate to presume that Instem LSS Group Limited and subsidiaries will continue in business.

Section B of this Part V sets out a report from Baker Tilly Corporate Finance LLP, the Reporting Accountants, required by Paragraph 20.1 of Annex I of the AIM Rules and given for the purpose of complying with that paragraph and for no other purpose.

Historical financial information for Instem Life Science Systems plc ("the Company") has not been presented in this AIM Admission Document. The Company was incorporated on 5 February 2010 and, save for the issue of one subscriber share of £1, has no assets or liabilities and has not traded or produced any financial information for any period since incorporation, and its first transaction will be the acquisition of Instem LSS Group Limited and subsidiaries, as set out in Part VIII of this document.

SECTION A: FINANCIAL INFORMATION RELATING TO INSTEM LSS GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three years ended 31 December 2009

	<i>Note</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>
REVENUE	2	7,990	8,808	9,815
Operating expenses		<u>(6,197)</u>	<u>(6,869)</u>	<u>(7,628)</u>
PROFIT FROM OPERATIONS BEFORE AMORTISATION		1,793	1,939	2,187
Amortisation of intangibles	8	<u>(24)</u>	<u>(26)</u>	<u>(47)</u>
PROFIT FROM OPERATIONS		1,769	1,913	2,140
Finance income	4	563	522	735
Finance costs	5	<u>(992)</u>	<u>(2,287)</u>	<u>(407)</u>
PROFIT BEFORE TAXATION		1,340	148	2,468
Income tax expense	7	<u>(637)</u>	<u>(501)</u>	<u>(762)</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		<u>703</u>	<u>(353)</u>	<u>1,706</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE)				
Actuarial gain/(loss) on retirement benefit obligations	19	208	588	(158)
Deferred tax on actuarial gain/(loss)		(103)	(165)	44
Currency translation differences on foreign currency net investment		<u>(36)</u>	<u>661</u>	<u>(266)</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE)		<u>69</u>	<u>1,084</u>	<u>(380)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>772</u>	<u>731</u>	<u>1,326</u>
PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		<u>703</u>	<u>(353)</u>	<u>1,706</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		<u>772</u>	<u>731</u>	<u>1,326</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the three years ended 31 December 2009

	<i>Note</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	8	5,913	6,072	6,090
Property, plant and equipment	9	119	154	127
Deferred taxation	18	711	345	297
TOTAL NON-CURRENT ASSETS		<u>6,743</u>	<u>6,571</u>	<u>6,514</u>
CURRENT ASSETS				
Inventories	10	136	61	28
Trade and other receivables	11	2,093	2,900	1,866
Cash and cash equivalents	12	–	–	2,716
Current taxation	14	–	30	–
TOTAL CURRENT ASSETS		<u>2,229</u>	<u>2,991</u>	<u>4,610</u>
TOTAL ASSETS		<u>8,972</u>	<u>9,562</u>	<u>11,124</u>
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	13	5,370	5,659	6,310
Current taxation	14	81	–	300
Financial liabilities	15	372	558	2,552
TOTAL CURRENT LIABILITIES		<u>5,823</u>	<u>6,217</u>	<u>9,162</u>
NON-CURRENT LIABILITIES				
Trade and other payables	13	173	93	29
Financial liabilities	15	2,213	2,577	–
Retirement benefit obligations	19	1,968	1,149	1,081
TOTAL NON-CURRENT LIABILITIES		<u>4,354</u>	<u>3,819</u>	<u>1,110</u>
TOTAL LIABILITIES		<u>10,177</u>	<u>10,036</u>	<u>10,272</u>
EQUITY				
Share capital	20	1	1	1
Share premium	22	4,866	4,866	4,866
Translation reserve	22	(36)	625	359
Retained earnings	22	(6,036)	(5,966)	(4,374)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		<u>(1,205)</u>	<u>(474)</u>	<u>852</u>
TOTAL EQUITY AND LIABILITIES		<u>8,972</u>	<u>9,562</u>	<u>11,124</u>

CONSOLIDATED STATEMENT OF CASH FLOWS
For the three years ended 31 December 2009

	<i>Note</i>	2007 £000	2008 £000	2009 £000
CASH FLOWS FROM OPERATING ACTIVITIES				
Result before taxation		1,340	148	2,468
<i>Adjustments for:</i>				
Depreciation		47	64	66
Amortisation of intangibles		24	26	47
Finance income		(563)	(522)	(735)
Finance costs		992	2,287	407
		<u>1,840</u>	<u>2,003</u>	<u>2,253</u>
CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL				
<i>Changes in working capital:</i>				
Decrease in inventories		138	96	31
(Increase)/decrease in trade and other receivables		(893)	355	645
Increase/(decrease) in trade and other payables		700	(2,127)	815
Decrease in provisions		(245)	(236)	(226)
		<u>1,540</u>	<u>91</u>	<u>3,518</u>
CASH GENERATED FROM OPERATIONS				
Finance costs		(742)	(308)	(432)
Income tax paid		(659)	(265)	(103)
		<u>139</u>	<u>(482)</u>	<u>2,983</u>
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES				
CASH FLOWS FROM INVESTING ACTIVITIES				
Finance income received		563	522	735
Income tax paid		(169)	(146)	(237)
Purchase of intangible assets		(36)	(185)	(65)
Purchase of property, plant and equipment		(51)	(109)	(47)
		<u>307</u>	<u>82</u>	<u>386</u>
NET CASH GENERATED FROM INVESTING ACTIVITIES				
CASH FLOWS FROM FINANCING ACTIVITIES				
New finance leases		22	–	–
Payment of finance lease liabilities		(1)	(10)	(9)
		<u>21</u>	<u>(10)</u>	<u>(9)</u>
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES				
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		467	(410)	3,360
Cash and cash equivalents at start of year		(785)	(362)	(549)
Effect of exchange rates on cash and cash equivalents		(44)	223	(95)
CASH AND CASH EQUIVALENTS AT END OF YEAR	12	<u>(362)</u>	<u>(549)</u>	<u>2,716</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three years ended 31 December 2009

	<i>Called up share capital £000</i>	<i>Share Premium £000</i>	<i>Translation reserve £000</i>	<i>Retained earnings £000</i>	<i>Total Equity £000</i>
Balance as at 1 January 2007	1	4,866	–	(6,844)	(1,977)
Total comprehensive income	–	–	(36)	808	772
Balance as at 31 December 2007	1	4,866	(36)	(6,036)	(1,205)
Total comprehensive income	–	–	661	70	731
Balance as at 31 December 2008	1	4,866	625	(5,966)	(474)
Total comprehensive income	–	–	(266)	1,592	1,326
Balance as at 31 December 2009	1	4,866	359	(4,374)	852

NOTES TO THE FINANCIAL INFORMATION

For the three years ended 31 December 2009

1. ACCOUNTING POLICIES

General information

The principal activity of Instem LSS Group Limited and subsidiaries is the provision of world class information solutions for life sciences research and development. Instem LSS Group Limited is a company incorporated in England and Wales under the Companies Act 2006 and domiciled in the UK. The registered office is Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD.

Basis of accounting

The financial information have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as endorsed by the EU (“IFRS”) and the requirements of the Companies Act applicable to companies reporting under IFRS.

Instem LSS Group Limited’s accounting reference date is 31 December. The financial information is drawn up for the 52 weeks ended 31 December 2007, 52 weeks ended 26 December 2008 and 53 weeks ended 1 January 2010.

The financial information has been prepared on the historical cost basis except for the revaluation of certain financial instruments.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these consolidated financial information.

Basis of consolidation

The consolidated financial information incorporate those of the parent company, Instem LSS Group Limited, and its subsidiary undertakings.

In preparing the consolidated financial information, any intra-group balances, unrealised gains and losses or income and expenses arising from intra-group trading are eliminated. Where accounting policies used in individual financial information of a subsidiary company differ from Instem Group policies, adjustments are made to bring these policies in line with Instem Group policies.

Subsidiaries

Subsidiaries are entities over which Instem LSS Group Limited has the power to govern the financial and operating policies so as to obtain economic benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to Instem LSS Group Limited up until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Instem LSS Group Limited. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

Going concern

Having made appropriate enquiries, the directors consider that Instem LSS Group Limited and subsidiaries have adequate resources to enable it to continue in operation for the foreseeable future. Instem LSS Group Limited and subsidiaries have a significant proportion of recurring revenue from a well established global customer base, supported by a largely fixed cost base. A working capital facility has been put in place to support the working capital needs.

The financial position of Instem LSS Group Limited and subsidiaries, their cash flows and liquidity position are set out in the primary statements of this financial information. Detailed projections have been prepared for the 12 months following the date of this AIM Admission Document and sensitivity analysis undertaken. This work gives the directors confidence as to the future trading performance and the ability of Instem LSS Group Limited and subsidiaries to continue to meet their debts as they fall due.

Accordingly the directors continue to adopt the going concern basis for the preparation of the financial information.

Revenue recognition

Instem LSS Group Limited and subsidiaries follow the principles of IAS 18 'Revenue Recognition', in determining appropriate revenue recognition principles. In principle revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to Instem LSS Group Limited and subsidiaries.

Revenue comprises the value of software licence sales, installation, training, maintenance and support services. Revenue is recognised when (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sales price is fixed and determinable and (iv) collectability is reasonably assured.

For software arrangements with multiple elements revenue is recognised dependent on whether vendor-specific objective evidence ('VSOE') of fair value exists for each of the elements. VSOE is determined by reference to sales made to customers on a stand-alone basis. Where there is no VSOE revenue is recognised over the full term of each contract.

Revenue from licence based products is recognised when the risks and rewards of ownership of the product are transferred to the customer.

Revenue from software maintenance and other time based contracts are recognised over the invoiced contract period.

Revenue from installation and training is recognised on a percentage completion basis on fixed price contracts or as services are provided in respect of time and materials contracts.

The excess of amounts invoiced and future invoicing over revenue is included in deferred income. If the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within accounts receivable.

Profit from operations before amortisation

Profit from operations before amortisation is profit stated before amortisation of intangible assets and exceptional items interest and taxation. There have been no exceptional items in any of the three periods reported.

Segmental reporting

IFRS 8 'Operating Segments' provides segmental information for Instem LSS Group Limited and subsidiaries on the basis of information reported internally to the chief operating decision-maker for decision-making purposes. Instem LSS Group Limited considers that the role of chief operating decision-maker is performed by Instem LSS Group Limited's board of directors.

Since Instem LSS Group Limited and subsidiaries are primarily providing goods and services to the global life sciences market there is only one operating segment which is monitored by the business.

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are

translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of foreign operations are taken directly to the translation reserve. They are released into the statement of comprehensive income upon disposal.

The presentational currency adopted by Instem LSS Group Limited and subsidiaries is Sterling (£). The functional currencies of the principal companies are as follows:

Instem LSS Group Limited	–	Sterling (£)
Instem LSS Limited	–	Sterling (£)
Instem LSS (North America) Limited	–	US Dollars (\$)
Instem LSS Asia Limited	–	Sterling (£)

The exchange rates used to translate the financial information into Sterling (£) are as follows:

	<i>US Dollar (\$)</i>
Average rate for period ended 31 December 2007	2.0019
Closing rate at 31 December 2007	1.9851
Average rate for period ended 31 December 2008	1.8032
Closing rate at 31 December 2008	1.4709
Average rate for period ended 31 December 2009	1.5674
Closing rate at 31 December 2009	1.6147

Finance income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount. Finance income includes exchange gains on the translation of intra group funding balances.

Finance costs

Net finance costs comprise interest payable, exchange losses on the translation of intra group funding balances, finance charges on finance leases and interest on pension scheme liabilities. Interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

Leasing

Where assets are financed by leasing agreements that give rights approximating to ownership (“finance leases”), the assets are treated as if they had been purchased outright. The amount capitalised is the fair value or, if lower, the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as finance lease obligations to the lessor.

Lease payments are apportioned between finance charges and reduction of lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to finance costs in the income statement.

All other leases are “operating leases” and the annual rentals are charged to the statement of comprehensive income on a straight line basis over the lease term.

Taxation

Taxation expense includes the amount of current income tax payable and the charge for the year in respect of deferred taxation.

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the statement of comprehensive income because it excludes items of income or expenditure which are not taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another year. Instem LSS Group Limited and subsidiaries' liability for current tax is calculated by using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is accounted for on the basis of temporary differences arising from the differences between the tax base and accounting base of assets and liabilities.

Deferred tax is recognised for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case it is dealt with within equity. It is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Intangible assets

Intangible assets purchased separately from a business are capitalised at their cost.

Instem LSS Group Limited and subsidiaries make an assessment of the fair value of intangible assets arising on acquisitions. An intangible asset will be recognised as long as the asset is identifiable and its fair value can be measured reliably. An intangible asset is identifiable if it is separable or if it was obtained through contractual or legal rights. Amortisation is provided on the fair value of the asset and is calculated on a straight line basis over its useful life.

Goodwill

Goodwill on acquisitions, being the excess of the fair value of the cost of acquisition over Instem LSS Group Limited and subsidiaries' interest in the fair value of the identifiable assets and liabilities acquired, is capitalised and tested for impairment on an annual basis.

Any impairment is recognised immediately in profit or loss and is not subsequently reversed. For the purpose of impairment testing goodwill is allocated to cost generating units of Instem LSS Group Limited, which represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets of groups of assets.

Computer software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licenses are capitalised and amortised on a straight line basis over their useful economic lives of 3 years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its use, these costs are amortised over the estimated useful life of the software.

Property, plant & equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and provision for impairments.

Depreciation is provided on all assets so as to write off the cost less estimated residual value on the following basis:

Short leasehold property	–	Over term of lease
Plant and equipment	–	12½%–25% per annum
Motor vehicles	–	25% per annum

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of assets excluding goodwill

At each balance sheet date Instem LSS Group Limited and subsidiaries review the carrying value of their property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets Instem LSS Group Limited and subsidiaries estimate the recoverable amount of the cash generating unit to which the asset belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Inventory

Inventory is stated at the lower of cost and net realisable value.

Provision is made where necessary for obsolete and slow moving inventory.

Financial instruments

Classification of financial instruments

Financial instruments are classified as financial assets, financial liabilities or equity instruments.

Recognition and valuation of financial assets

Financial assets are initially recorded at their fair value net of transaction costs. At each balance sheet date, Instem LSS Group Limited and subsidiaries review the carrying value of their financial assets to determine whether there is objective evidence of an indication of impairment. If any such indication exists the recoverable amount is estimated and any identified impairment loss is recognised in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash deposits which are readily convertible to a known amount of cash. Cash and cash equivalents include bank overdrafts which are repayable on demand as these form an integral part of group cash management.

Trade receivables

Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an impairment provision account and any impairment loss is recognised in the statement of comprehensive income.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of Instem LSS Group Limited and subsidiaries after deducting all of their liabilities.

Bank borrowings and loan notes

Interest-bearing loan notes and bank overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest. Finance charges are accounted for on an accruals basis to the statement of comprehensive income.

Trade payables

Trade payables are not interest bearing and are stated at their cost.

Ordinary share capital

For ordinary share capital, the par value is recognised in share capital and the premium in the share premium reserve.

Derivative financial instruments

Instem LSS Group Limited and subsidiaries' activities expose them primarily to foreign currency risk. Instem LSS Group Limited and subsidiaries use foreign exchange forward contracts to hedge this exposure. Instem LSS Group Limited and subsidiaries do not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Retirement benefits

Defined contribution schemes

A defined contribution scheme is a pension plan under which Instem LSS Group Limited and subsidiaries pay a fixed contribution to a scheme with an external provider. The amount charged to the statement of comprehensive income in respect of pension costs and other post retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either other payables or other receivables in the statement of financial position. Instem LSS Group Limited and subsidiaries have no further payment obligations once the contributions have been paid.

Defined benefit schemes

A defined benefit scheme is a pension plan under which Instem LSS Group Limited and subsidiaries pay contributions in order to fund a defined amount of pension that the employees under the scheme will receive on retirement. The cost of providing the benefits is determined using the projected unit credit method with actuarial valuations being carried out regularly.

Actuarial gains and losses are recognised in the statement of comprehensive income in the year in which they occur. Service costs are spread over the lives of the employees within the scheme within profit before taxation. Financing costs are recognised in the years they arise as an element of financing.

An asset or liability is recognised equal to the present value of the defined benefit obligation, adjusted for unrecognised past service costs and reduced by the fair value of plan assets.

The rate used to discount the benefit obligations is based on market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

Provisions

Provisions are recognised when Instem LSS Group Limited and subsidiaries have a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

The time value of money is not expected to be material and therefore future outflows have not been discounted.

Relevant IFRS issued but not yet effective

The following IFRSs, IASs and IFRICs have been issued and endorsed by the EU and are relevant to Instem LSS Group Limited and subsidiaries but have not been adopted by Instem LSS Group Limited and subsidiaries in this financial information as they are not yet effective. The directors do not believe the adoption of the following will have a material impact on the business:

- IAS 24 'Revised IAS 24 Related Party Disclosures' was issued on 4 November 2009 and is effective for periods commencing on or after 1 January 2011.
- IAS 27 'Consolidated and Separate Financial Statements – Amendments arising from IFRS 3' was issued on 10 January 2008 and is effective for periods commencing on or after 1 July 2009.
- IAS 39 'Financial Instruments: Recognition and Measurement – Amendment; Eligible hedged items' was issued on 31 July 2008 and is effective for periods commencing on or after 1 July 2009.
- Improvements to IFRSs were issued on 16 April 2009 but are not yet endorsed by the EU, effective from various dates, mainly periods commencing 1 July 2009 or 1 January 2010 and later.

2. SEGMENTAL REPORTING

For management purposes, Instem LSS Group Limited and subsidiaries are currently organised into one operating segment – Global Life Sciences.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

	<i>Third Party Revenue</i>		
	<i>2007</i>	<i>2008</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Information by product type</i>			
Licence fees	1,773	1,584	2,085
Annual support fees	4,790	5,266	5,803
SaaS subscription fees	65	254	502
Professional services	1,180	1,082	818
Funded development initiatives	182	622	607
	<u>7,990</u>	<u>8,808</u>	<u>9,815</u>
<i>Information by geographical location</i>			
UK	1,513	1,323	1,130
Rest of Europe	2,293	2,173	2,391
USA and Canada	4,092	5,211	6,009
Rest of World	92	101	285
	<u>7,990</u>	<u>8,808</u>	<u>9,815</u>
	<i>Non-current Assets</i>		
	<i>Excluding Deferred Taxation</i>		
	<i>2007</i>	<i>2008</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Information by geographical location</i>			
UK	6,002	4,886	3,629
Rest of Europe	–	–	–
USA and Canada	30	81	70
Rest of World	–	–	–
	<u>6,032</u>	<u>4,967</u>	<u>3,699</u>

Significant customers

Instem LSS Group Limited and subsidiaries generate external revenue from one customer which individually amounts to more than 10 per cent. of Instem LSS Group Limited and subsidiaries' revenue. Revenue in respect of this customer for the period ended 31 December 2007 amounted to £819,231 (2008: £1,155,115 and 2009: £2,063,688) and is reflected across all of the reportable locations.

3. PROFIT FROM OPERATIONS

	2007 £000	2008 £000	2009 £000
Profit from operations includes the following significant items:			
Depreciation and amounts written off property, plant and equipment:			
<i>Charge for the year:</i>			
Owned assets	42	56	58
Leased assets	5	8	8
Amortisation of intangible assets	24	26	47
Foreign exchange (gains)/losses recognised in operating expenses	–	379	(110)
<i>Operating lease rentals:</i>			
Plant and machinery	111	170	187
Land and buildings	248	256	271
	<hr/>	<hr/>	<hr/>
Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of both audit and non-audit services:			
Audit services:			
Statutory audit of parent and consolidated financial information	7	7	7
<i>Other services:</i>			
Audit of subsidiaries where such services are provided by Baker Tilly UK Audit LLP or its associates	26	26	29
Taxation services provided by Baker Tilly Tax and Accounting Limited	5	6	5
	<hr/>	<hr/>	<hr/>
	38	39	41
	<hr/>	<hr/>	<hr/>

4. FINANCE INCOME

	2007 £000	2008 £000	2009 £000
Bank interest	563	522	322
Foreign exchange gains	–	–	413
	<hr/>	<hr/>	<hr/>
	563	522	735
	<hr/>	<hr/>	<hr/>

5. FINANCE COSTS

	2007 £000	2008 £000	2009 £000
Bank loans and overdrafts	955	1,004	309
Foreign exchange losses	–	1,227	–
Expected returns on pension scheme assets	(276)	(322)	(237)
Interest on pension scheme liabilities	313	360	327
Other	–	18	8
	<hr/>	<hr/>	<hr/>
	992	2,287	407
	<hr/>	<hr/>	<hr/>

6. EMPLOYEES

	<i>2007</i> <i>Number</i>	<i>2008</i> <i>Number</i>	<i>2009</i> <i>Number</i>
Average monthly number (including executive directors)			
<i>By role:</i>			
Directors, administration, sales and supervision	18	18	21
Software design and customer service	65	69	69
	<u>83</u>	<u>87</u>	<u>90</u>

	<i>2007</i> <i>£000</i>	<i>2008</i> <i>£000</i>	<i>2009</i> <i>£000</i>
<i>Employment costs:</i>			
Wages and salaries	3,350	3,666	4,285
Social security costs	325	352	403
Retirement benefits	190	194	531
	<u>3,865</u>	<u>4,212</u>	<u>5,219</u>

The aggregate compensation of key management is shown below.

	<i>2007</i> <i>£000</i>	<i>2008</i> <i>£000</i>	<i>2009</i> <i>£000</i>
<i>Amounts payable by Instem LSS Group Limited:</i>			
Salaries and short term employee benefits	–	–	114
<i>Amounts payable by subsidiary companies:</i>			
Salaries and short term employee benefits	239	256	306
Post employment benefits	13	14	41
Total emoluments	<u>252</u>	<u>270</u>	<u>461</u>

DIRECTORS' EMOLUMENTS

<i>Amounts payable by Instem LSS Group Limited:</i>			
Emoluments	–	–	105
Money purchase pension contributions	–	–	–
<i>Amounts payable by subsidiary companies:</i>			
Emoluments	–	–	–
Defined benefit contribution pension scheme	–	–	–
Money purchase pension contributions	–	–	–
Total emoluments	<u>–</u>	<u>–</u>	<u>105</u>

	<i>2007</i> <i>Number</i>	<i>2008</i> <i>Number</i>	<i>2009</i> <i>Number</i>
<i>Number of directors to whom retirement benefits are accruing under:</i>			
Defined benefit schemes	–	–	–
Defined contribution schemes	–	–	–

7. TAXATION

	2007 £000	2008 £000	2009 £000
<i>Current tax:</i>			
UK corporation tax on profits of the year	337	189	604
Double tax relief	(206)	(244)	(189)
Foreign tax	275	392	330
Adjustments in respect of previous years	122	(34)	(75)
Total current tax	<u>528</u>	<u>303</u>	<u>670</u>
<i>Deferred tax:</i>			
Origination and reversal of timing differences	33	133	31
Adjustments in respect of previous years	–	–	(2)
Pension scheme	76	65	63
Total deferred tax	<u>109</u>	<u>198</u>	<u>92</u>
Income tax charge	<u>637</u>	<u>501</u>	<u>762</u>
Factors affecting tax charge for the year:			
The tax assessed for the year is higher (2008 and 2007: higher) than the standard rate of corporation tax in the UK (28%).			
The differences are explained below:			
Profit before tax	<u>1,340</u>	<u>148</u>	<u>2,468</u>
Profit before tax multiplied by standard rate of corporation tax in the UK 28% (2008: 28%; 2007: 30%)	402	41	691
<i>Effects of:</i>			
Expenses not deductible for tax purposes	43	407	6
Differences in UK tax rates	–	23	–
Differences in overseas tax rates	70	64	140
Prior year adjustments	122	(34)	(75)
Total income tax charge for the year	<u>637</u>	<u>501</u>	<u>762</u>

8. INTANGIBLE ASSETS

	<i>Goodwill</i> £000	<i>Software</i> £000	<i>Total</i> £000
31 December 2007			
<i>Cost</i>			
At beginning of year	5,858	141	5,999
Additions	–	36	36
At end of year	<u>5,858</u>	<u>177</u>	<u>6,035</u>
<i>Amounts written off</i>			
At beginning of year	–	98	98
Charged in the year	–	24	24
At end of year	<u>–</u>	<u>122</u>	<u>122</u>
<i>Net book value</i>			
At end of year	<u>5,858</u>	<u>55</u>	<u>5,913</u>

	<i>Goodwill</i> £000	<i>Software</i> £000	<i>Total</i> £000
31 December 2008			
<i>Cost</i>			
At beginning of year	5,858	177	6,035
Additions	–	185	185
At end of year	<u>5,858</u>	<u>362</u>	<u>6,220</u>
<i>Amounts written off</i>			
At beginning of year	–	122	122
Charged in the year	–	26	26
At end of year	<u>–</u>	<u>148</u>	<u>148</u>
<i>Net book value</i>			
At end of year	<u>5,858</u>	<u>214</u>	<u>6,072</u>
31 December 2009			
<i>Cost</i>			
At beginning of year	5,858	362	6,220
Additions	–	65	65
At end of year	<u>5,858</u>	<u>427</u>	<u>6,285</u>
<i>Amounts written off</i>			
At beginning of year	–	148	148
Charged in the year	–	47	47
At end of year	<u>–</u>	<u>195</u>	<u>195</u>
<i>Net book value</i>			
At end of year	<u>5,858</u>	<u>232</u>	<u>6,090</u>

The goodwill balance above relates to the management buyout of Instem LSS Limited on 27 March 2002.

Impairment of goodwill and intangible assets with indefinite lives

Goodwill has been allocated to cash generating units and is not amortised but tested annually for impairment. To the extent that the carrying value of the units exceeds the value in use, determined from estimated discounted future net cash flows or recoverable amount, goodwill is written down to the value in use and an impairment charge is recognised.

During the period, goodwill was tested for impairment in accordance with IAS 36 “Impairment of Assets”. The recoverable amounts for each cash generating unit exceeded the carrying amount of goodwill. The recoverable amount for the cash generating unit has been measured on a value in use calculation.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and direct costs during the period. The value in use calculations are based on the future cashflows from forecasts for one year which has then been extrapolated to five years. At 31 December 2007 a pre tax discount rate of 11 per cent. (31 December 2008: 10 per cent. and 31 December 2009: 11 per cent.) was used in the value in use calculation based on Instem LSS Group Limited’s cost of capital. In determining the value in use, cashflows have not been increased to reflect potential growth.

9. PROPERTY, PLANT AND EQUIPMENT

	<i>Short leasehold property £000</i>	<i>Plant and equipment £000</i>	<i>Motor vehicles £000</i>	<i>Total £000</i>
31 December 2007				
<i>Cost</i>				
At beginning of year	29	2,794	13	2,836
Additions	1	50	–	51
At end of year	<u>30</u>	<u>2,844</u>	<u>13</u>	<u>2,887</u>
<i>Depreciation</i>				
At beginning of year	14	2,696	11	2,721
Charged in the year	2	43	2	47
At end of year	<u>16</u>	<u>2,739</u>	<u>13</u>	<u>2,768</u>
<i>Net book value</i>				
At end of year	<u>14</u>	<u>105</u>	<u>–</u>	<u>119</u>

The net book value of plant and equipment includes £28,000 in respect of assets held under finance leases. Depreciation for the year on these assets was £5,000.

Depreciation expenses have been charged to operating expenses.

	<i>Short leasehold property £000</i>	<i>Plant and equipment £000</i>	<i>Motor vehicles £000</i>	<i>Total £000</i>
31 December 2008				
<i>Cost</i>				
At beginning of year	30	2,844	13	2,887
Additions	–	109	–	109
Exchange adjustment	–	27	–	27
At end of year	<u>30</u>	<u>2,980</u>	<u>13</u>	<u>3,023</u>
<i>Depreciation</i>				
At beginning of year	16	2,739	13	2,768
Charged in the year	1	61	2	64
Exchange adjustment	–	40	(3)	37
At end of year	<u>17</u>	<u>2,840</u>	<u>12</u>	<u>2,869</u>
<i>Net book value</i>				
At end of year	<u>13</u>	<u>140</u>	<u>1</u>	<u>154</u>

The net book value of plant and equipment includes £20,000 in respect of assets held under finance leases. Depreciation for the year on these assets was £8,000.

Depreciation expenses have been charged to operating expenses.

	<i>Short leasehold property £000</i>	<i>Plant and equipment £000</i>	<i>Motor vehicles £000</i>	<i>Total £000</i>
31 December 2009				
<i>Cost</i>				
At beginning of year	30	2,980	13	3,023
Additions	–	47	–	47
Exchange adjustment	–	(38)	(1)	(39)
At end of year	<u>30</u>	<u>2,989</u>	<u>12</u>	<u>3,031</u>
<i>Depreciation</i>				
At beginning of year	17	2,840	12	2,869
Charged in the year	1	64	1	66
Exchange adjustment	–	(30)	(1)	(31)
At end of year	<u>18</u>	<u>2,874</u>	<u>12</u>	<u>2,904</u>
<i>Net book value</i>				
At end of year	<u>12</u>	<u>115</u>	<u>–</u>	<u>127</u>

The net book value of plant and equipment includes £11,000 in respect of assets held under finance leases. Depreciation for the year on these assets was £8,000.

Depreciation expenses have been charged to operating expenses.

10. INVENTORIES

	<i>2007 £000</i>	<i>2008 £000</i>	<i>2009 £000</i>
Work in progress	<u>136</u>	<u>61</u>	<u>28</u>
	<i>31 December 2007 £000</i>	<i>31 December 2008 £000</i>	<i>31 December 2009 £000</i>
Total gross inventories	149	74	41
Inventory impairment	(13)	(13)	(13)
	<u>136</u>	<u>61</u>	<u>28</u>
<i>Inventory impairment</i>			
At beginning and end of year	<u>13</u>	<u>13</u>	<u>13</u>

The amount of inventories recognised as an expense and charged to operating expenses for the 52 weeks to 31 December 2007 was £831,000 (2008: £937,000 and 2009: £691,000).

11. TRADE AND OTHER RECEIVABLES

	<i>2007 £000</i>	<i>2008 £000</i>	<i>2009 £000</i>
<i>Due within one year</i>			
Trade receivables	1,360	2,355	1,104
Other receivables	29	6	4
Prepayments and accrued income	704	539	758
	<u>2,093</u>	<u>2,900</u>	<u>1,866</u>

An allowance has been made for estimated irrecoverable amounts from the sale of goods and services as shown below. This allowance has been based on the knowledge of the financial circumstances of individual customers at the year end.

A provision for impairment is made where there is objective evidence of impairment which is usually indicated by a delay in the expected cash flows or non payment from customers.

An analysis of the provision for impairment of receivables is as follows:

	2007 £000	2008 £000	2009 £000
At beginning of year	14	4	–
(Credit)/charge for the year	(10)	(4)	2
At end of year	<u>4</u>	<u>–</u>	<u>2</u>

The average credit period taken on sale of goods is 47 days (2008: 49 days and 2009: 37 days).

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The age profile of the net trade receivables for Instem LSS Group Limited and subsidiaries at the year end was as follows:

	<i>Debt age – “days overdue”</i>				<i>Total</i>
	<i>Current</i>	<i>0–30 days</i>	<i>31–60 days</i>	<i>Over 60 days</i>	
31 December 2007					
Trade receivables Value (£000)	778	463	81	38	1,360
%	<u>57</u>	<u>34</u>	<u>6</u>	<u>3</u>	<u>100</u>
31 December 2008					
Trade receivables Value (£000)	1,619	386	345	5	2,355
%	<u>69</u>	<u>16</u>	<u>15</u>	<u>–</u>	<u>100</u>
31 December 2009					
Trade receivables Value (£000)	923	152	27	2	1,104
%	<u>84</u>	<u>14</u>	<u>2</u>	<u>–</u>	<u>100</u>

An analysis of trade and other receivables by currency is as follows:

	2007 £000	2008 £000	2009 £000
Sterling	1,023	1,208	885
Euro	–	240	5
US Dollar	1,070	1,452	976
	<u>2,093</u>	<u>2,900</u>	<u>1,866</u>

12. CASH AND CASH EQUIVALENTS

	2007 £000	2008 £000	2009 £000
Cash at bank	8,242	8,163	11,479
Bank overdraft	(8,604)	(8,712)	(8,763)
(Bank overdraft)/net cash position (reported in Statement of Cash Flows)	<u>(362)</u>	<u>(549)</u>	<u>2,716</u>

An analysis of cash and cash equivalents by currency is as follows:

	2007 £000	2008 £000	2009 £000
Sterling	(999)	(1,378)	1,208
Euro	(11)	(25)	142
US Dollar	647	852	1,362
Other	1	2	4
	<u>(362)</u>	<u>(549)</u>	<u>2,716</u>

The carrying amount of these assets approximate to their fair value.

13. TRADE AND OTHER PAYABLES

	2007 £000	2008 £000	2009 £000
<i>Current</i>			
Trade payables	374	409	291
Other taxation and social security costs	128	124	171
Other payables	72	72	72
Accruals and deferred income	4,796	5,054	5,776
	<u>5,370</u>	<u>5,659</u>	<u>6,310</u>
<i>Non Current</i>			
Other payables	173	93	29

An analysis of trade and other payables by currency is as follows:

	2007 £000	2008 £000	2009 £000
Sterling	3,372	3,122	3,042
US Dollar	2,171	2,630	3,297
	<u>5,543</u>	<u>5,752</u>	<u>6,339</u>

The directors consider that the carrying amount of trade and other payables approximate to fair value due to their short maturities. Trade payables are mainly due to be paid within one month.

14. CURRENT TAXATION

The current tax payable of £81,000 (2008 receivable: £30,000 and 2009 payable: £300,000) represents the amount of income taxes (payable)/receivable in respect of current and prior years.

15. FINANCIAL LIABILITIES

	<i>Total</i> £000	<i>Less than</i> <i>one year</i> £000	<i>One to</i> <i>two years</i> £000	<i>Two to</i> <i>three years</i> £000	<i>Three to</i> <i>four years</i> £000	<i>Four to</i> <i>five years</i> £000	<i>More than</i> <i>five years</i> £000
31 December 2007							
Bank overdraft*	362	362	–	–	–	–	–
Loan notes	2,201	–	–	2,201	–	–	–
Finance leases	22	10	9	3	–	–	–
	<u>2,585</u>	<u>372</u>	<u>9</u>	<u>2,204</u>	<u>–</u>	<u>–</u>	<u>–</u>

	<i>Total £000</i>	<i>Less than one year £000</i>	<i>One to two years £000</i>	<i>Two to three years £000</i>	<i>Three to four years £000</i>	<i>Four to five years £000</i>	<i>More than five years £000</i>
31 December 2008							
Bank overdraft*	549	549	–	–	–	–	–
Loan notes	2,574	–	2,574	–	–	–	–
Finance leases	12	9	3	–	–	–	–
	<u>3,135</u>	<u>558</u>	<u>2,577</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
31 December 2009							
Bank overdraft*	–	–	–	–	–	–	–
Loan notes	2,549	2,549	–	–	–	–	–
Finance leases	3	3	–	–	–	–	–
	<u>2,552</u>	<u>2,552</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

* Bank overdraft is repayable on demand.

Overdrafts

Instem LSS Group Limited and subsidiaries overdraft facility had a net limit of £1,000,000 and gross of £9,000,000. Interest is charged on the bank overdraft at 3 per cent. above base rate up to the above limit and 6 per cent. above base rate on any remainder. The bank overdraft is secured by fixed and floating charges over certain of Instem LSS Group Limited and subsidiaries' assets. All balances are denominated in Sterling.

The facility was renewed for 12 months on 1 April 2010 with an increased net limit of £1,200,000.

Loan notes

The loan note obligations can be analysed as below:

12.5% Fixed Rate Loan Notes

	<i>2007 £000</i>	<i>2008 £000</i>	<i>2009 £000</i>
Discounted value	1,300	1,300	1,300
Accrued interest	901	1,274	1,249
	<u>2,201</u>	<u>2,574</u>	<u>2,549</u>

The loan notes were redeemed in full on 31 March 2010. Due to the short maturity the directors believe the carrying value approximates to fair value.

The loan notes are redeemable in the event of either a sale of the whole or substantially the whole of the business or undertaking, or share listing.

Obligations under finance leases

	<i>Minimum lease payments 2007 £000</i>	<i>Minimum lease payments 2008 £000</i>	<i>Minimum lease payments 2009 £000</i>	<i>Present value of minimum lease payments 2007 £000</i>	<i>Present value of minimum lease payments 2008 £000</i>	<i>Present value of minimum lease payments 2009 £000</i>
<i>Amounts payable under finance leases</i>						
Within 1 year	10	9	3	10	9	3
Within 2–5 years inclusive	12	3	–	12	3	–
After 5 years	–	–	–	–	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
				22	12	3
Less: future finance charges	–	–	–			
Present value of lease obligations	<u>22</u>	<u>12</u>	<u>3</u>			
<i>Disclosed as</i>						
Current	10	9	3			
Non-current	12	3	–			
	<u>22</u>	<u>12</u>	<u>3</u>			

Finance leases have effective interest rates of 0 per cent. (2008: 0 per cent. and 2009: 0 per cent.). The average remaining lease term is 3 years (2008: 2 years and 2009: 1 year).

The fair value of Instem LSS Group Limited and subsidiaries' lease obligations approximate to their carrying values.

Instem LSS Group Limited and subsidiaries' obligations under finance leases are secured by the lessor's charge over the leased assets.

16. FINANCIAL INSTRUMENTS

All financial instruments held by Instem LSS Group Limited and subsidiaries, as detailed in this note, are classified as "Loans and Receivables" (trade and other receivables and cash and cash equivalents), "Financial Liabilities Measured at Amortised Cost" (trade and other payables and financial liabilities) and "Fair value through profit and loss" (other financial liabilities which reflect derivative contracts) under IAS 39 'Financial Instruments: Recognition and Measurement'.

Financial risk management

Instem LSS Group Limited and subsidiaries' activities expose them to a variety of financial risks including market risk, credit risk and liquidity risk. Market risk includes interest rate risk, foreign exchange rate risk and price risk. The main financial risks managed by Instem LSS Group Limited and subsidiaries, under policies approved by the board, are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Instem LSS Group Limited and subsidiaries have in place risk management policies that seek to limit the adverse effects on the financial performance of Instem LSS Group Limited and subsidiaries by using various instruments and techniques. Derivative financial statements are only used to hedge exposures arising in respect of underlying business requirements and not for any speculative purpose.

Foreign exchange risk

Instem LSS Group Limited and subsidiaries operate internationally and are exposed to foreign currency risk on transactions denominated in a currency other than the functional currency and on the translation of the statement of financial position and statement of comprehensive income of foreign operations into sterling. The currencies giving rise to this risk are primarily US dollars. Instem LSS Group Limited and subsidiaries have both cash inflows and outflows in this currency that create a natural hedge.

In managing currency risks Instem LSS Group Limited and subsidiaries aim to reduce the impact of short-term fluctuations on Instem LSS Group Limited and subsidiaries' cash inflows and outflows in a foreign currency. Instem LSS Group Limited and subsidiaries also hedge any material foreign currency transaction exposure.

Over the longer term, permanent changes in foreign exchange could have an impact on consolidation of foreign subsidiaries' earnings. The assumption in 2007 was for the exchange rate to remain similar throughout that year thus not having a significant effect on the consolidation of Instem LSS Group Limited and subsidiaries. In 2008 and 2009 it was forecasted that the US Dollar to sterling rate would be 1.6 resulting in the value of sterling against the US dollar increasing Instem LSS Group Limited and subsidiaries' profit before tax by approximately £109,000 in 2008 (2010 decreasing: £15,000).

Interest rate risk

Instem LSS Group Limited and subsidiaries operate an interest rate policy designed to minimise interest costs and reduce volatility in reported earnings.

Most of Instem LSS Group Limited and subsidiaries' debt is raised from their borrowing programme which includes a mixture of debt at both a floating and fixed rate through bank overdrafts and loan notes respectively.

Instem LSS Group Limited and subsidiaries bank facility does not allow the US Dollar cash balances to generate interest therefore Instem LSS Group Limited and subsidiaries transfer funds from the US dollar account into the sterling account. This is achieved using currency swaps which maximise the interest gains whilst minimising foreign exchange risks.

As at 31 December 2007 indications were that the UK bank rate will increase by 0.5 per cent. over the next 12 months. On the basis of the floating rate net debt position at 31 December 2007 and assuming no other changes occur (such as changes in currency exchange rates) and that no further interest rate management action is taken, an increase in interest rates of 0.5 per cent. would increase/decrease pre-tax net interest income/(expense) by £5,000. The interest rate at 26 December 2008 was expected to decrease from 2 per cent. to 1 per cent. resulting in a decrease in interest income of approximately £10,000. At 1 January 2010 the UK bank rate is expected to increase by between 1 per cent. and 2 per cent. over the next 12 to 18 months which would increase interest income by approximately £18,000.

The above assumptions have changed over the years due to the economic downturn resulting in a significant decline in the UK bank rate in 2008; this is expected to rise in the next 12 to 18 months with the economy beginning to recover.

The table below shows Instem LSS Group Limited and subsidiaries' financial assets and liabilities split by those bearing fixed and floating rates and those that are non-interest bearing:

	<i>Fixed rate £000</i>	<i>Floating rate £000</i>	<i>Non-interest bearing £000</i>	<i>Total £000</i>
31 December 2007				
Trade receivables	–	–	1,360	1,360
Cash and cash equivalents	–	7,606	636	8,242
Trade payables	–	–	(374)	(374)
Bank overdraft	–	(8,604)	–	(8,604)
Loan notes	(2,201)	–	–	(2,201)
Obligations under finance leases	–	–	(22)	(22)
	<u>(2,201)</u>	<u>(998)</u>	<u>1,600</u>	<u>(1,599)</u>
31 December 2008				
Trade receivables	–	–	2,355	2,355
Cash and cash equivalents	–	7,351	812	8,163
Trade payables	–	–	(409)	(409)
Bank overdraft	–	(8,712)	–	(8,712)
Loan notes	(2,574)	–	–	(2,574)
Obligations under finance leases	–	–	(12)	(12)
	<u>(2,574)</u>	<u>(1,361)</u>	<u>2,746</u>	<u>(1,189)</u>
31 December 2009				
Trade receivables	–	–	1,104	1,104
Cash and cash equivalents	–	9,970	1,509	11,479
Trade payables	–	–	(291)	(291)
Bank overdraft	–	(8,763)	–	(8,763)
Loan notes	(2,549)	–	–	(2,549)
Obligations under finance leases	–	–	(3)	(3)
	<u>(2,549)</u>	<u>1,207</u>	<u>2,319</u>	<u>977</u>

Credit risk

Management aims to minimise the risk of credit losses.

Instem LSS Group Limited and subsidiaries' financial assets are bank balances and cash and trade and other receivables, which represent Instem LSS Group Limited and subsidiaries' maximum exposure to credit risk in relation to financial assets.

Instem LSS Group Limited and subsidiaries' credit risk is primarily attributable to their trade receivables and Instem LSS Group Limited and subsidiaries have policies in place to ensure that sales of products and services are made to customers with appropriate creditworthiness.

The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by Instem LSS Group Limited and subsidiaries' management based on prior experience and their assessment of the present value of estimated future cash flows. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Instem LSS Group Limited and subsidiaries have significant concentration of credit risk, with significant exposure relating to a number of counterparties:

31 December 2007

Customer A – £289,468 (21%)

Customer B – £180,669 (13%)

31 December 2008

Customer A – £469,397 (20%)

Customer B – £248,699 (11%)

Customer C – £237,950 (10%)

Customer D – £236,310 (10%)

31 December 2009

Customer A – £190,814 (17%)

Instem LSS Group Limited and subsidiaries' exposure to losses from defaults on trade receivables is reduced due to contractual terms which require installation, training, annual licensing and support fees to be invoiced and paid annually in advance.

Note 11 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There are no impairment losses recognised on other financial assets.

Liquidity risk

Liquidity risk is the risk that Instem LSS Group Limited and subsidiaries will not be able to meet their financial commitments as they fall due.

Instem LSS Group Limited and subsidiaries' objective is to ensure that adequate facilities are available through use of bank overdrafts and finance leases. Instem LSS Group Limited and subsidiaries manage liquidity risk through regular cash flow forecasting and monitoring of cash flows, management review and regular review of working capital and costs.

Instem LSS Group Limited and subsidiaries regularly monitor their available headroom under their borrowing facilities. At 31 December 2007 £396,000 (2008: £288,000 and 2009: £237,000) of undrawn facilities was available.

In respect of Instem LSS Group Limited and subsidiaries' interest-bearing financial liabilities, the table in note 15 includes details (at the balance sheet date) of the periods in which they mature.

Price risk

Instem LSS Group Limited and subsidiaries' products are tailored to realise benefits for customers and to meet individual requirements. Prices are negotiated with each customer on the basis of their specification of product.

Instem LSS Group Limited and subsidiaries' Annual Fee income received after initial sale equates to a significant proportion of Instem LSS Group Limited and subsidiaries' revenue and is valued with reference to movements in the "Average Earnings Index" in the UK and "CPI" in the USA. It is assumed in Instem LSS Group Limited and subsidiaries' forecasts that a 4 per cent. increase in these indexes will occur year on year thus increasing Instem Group profits before tax by approximately £67,000 (2008: £74,000 and 2009: £81,000).

Fair value disclosure

Fair values have been measured at the end of the reporting period as follows:

	<i>Level 1 quoted prices £000</i>	<i>Level 2 observable inputs £000</i>	<i>Level 3 unobservable inputs £000</i>	<i>Total £000</i>
31 December 2007				
FINANCIAL ASSETS				
Trade receivables	–	–	1,360	1,360
Cash and cash equivalents	–	–	8,242	8,242
FINANCIAL LIABILITIES				
Trade payables	–	–	(374)	(374)
Bank overdraft	–	–	(8,604)	(8,604)
Loan notes	–	–	(2,201)	(2,201)
Obligations under finance leases	–	–	(22)	(22)
	<u>–</u>	<u>–</u>	<u>(1,599)</u>	<u>(1,599)</u>
31 December 2008				
FINANCIAL ASSETS				
Trade receivables	–	–	2,355	2,355
Cash and cash equivalents	–	–	8,163	8,163
FINANCIAL LIABILITIES				
Trade payables	–	–	(409)	(409)
Bank overdraft	–	–	(8,712)	(8,712)
Loan notes	–	–	(2,574)	(2,574)
Obligations under finance leases	–	–	(12)	(12)
	<u>–</u>	<u>–</u>	<u>(1,189)</u>	<u>(1,189)</u>
31 December 2009				
FINANCIAL ASSETS				
Trade receivables	–	–	1,104	1,104
Cash and cash equivalents	–	–	11,479	11,479
FINANCIAL LIABILITIES				
Trade payable	–	–	(291)	(291)
Bank overdraft	–	–	(8,763)	(8,763)
Loan notes	–	–	(2,549)	(2,549)
Obligations under finance leases	–	–	(3)	(3)
	<u>–</u>	<u>–</u>	<u>977</u>	<u>977</u>

17. DERIVATIVE FINANCIAL INSTRUMENTS

Instem LSS Group Limited and subsidiaries utilise derivatives to hedge future transactions and cash flows. Instem LSS Group Limited and subsidiaries are party to a variety of foreign currency forward contracts in the management of its exchange rate exposure. The instruments purchased are primarily denominated in the currencies of Instem LSS Group Limited and subsidiaries' principle markets and are classified as current assets or liabilities.

At the balance sheet date, total notional amount outstanding on foreign exchange forward contracts that Instem LSS Group Limited and subsidiaries have committed to are as follows:

	2007 £000	2008 £000	2009 £000
US Dollars	–	1,863	–

18. DEFERRED TAX

	2007 £000	2008 £000	2009 £000
Deferred tax assets			
– amounts due to be recovered within 12 months	–	–	–
– amounts due to be recovered after 12 months	728	405	362
Deferred tax liabilities			
– amounts due to be settled within 12 months	–	–	–
– amounts due to be settled after 12 months	(17)	(60)	(65)
Net position	711	345	297

The movement in the year in Instem LSS Group Limited and subsidiaries' net deferred tax position was as follows:

	2007 £000	2008 £000	2009 £000
At beginning of the year	923	711	345
Credit to income for the year	(109)	(178)	(92)
(Charge)/credit to other comprehensive income for the year	(103)	(137)	44
Effect of change in tax rate – statement of comprehensive income	–	(23)	–
Effect of change in tax rate – equity	–	(28)	–
At end of the year	711	345	297

The following are the major deferred tax assets and liabilities recognised by Instem LSS Group Limited and subsidiaries and the movements thereon during the period:

Deferred tax assets

	<i>Tax losses</i> £000	<i>Retirement benefit obligations</i> £000	<i>Total</i> £000
At 1 January 2007	88	730	818
Charge to income for the year	1	(76)	(75)
Charge to equity for the year	–	(103)	(103)
At 31 December 2007	89	551	640

	<i>Tax losses</i> £000	<i>Retirement benefit obligations</i> £000	<i>Total</i> £000
Charge to income for the year	(29)	(65)	(100)
Charge to equity for the year	–	(165)	(165)
Effect of change in tax rate – statement of comprehensive income	(6)	–	–
At 31 December 2008	<u>54</u>	<u>321</u>	<u>375</u>
Charge to income for the year	(9)	(63)	(72)
Credit to equity for the year	–	44	44
At 31 December 2009	<u>45</u>	<u>302</u>	<u>347</u>

Deferred tax liabilities

	<i>Accelerated tax depreciation</i> £000
At 1 January 2007	105
Charge to income for the year	(34)
At 31 December 2007	<u>71</u>
Charge to income for the year	(96)
Effect of change in tax rate – statement of comprehensive income	(5)
At 31 December 2008	<u>(30)</u>
Charge to income for the year	(20)
At 31 December 2009	<u>(50)</u>

19. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution pension scheme

Instem LSS Group Limited has 3 active defined contribution schemes and a closed defined contribution scheme:

Group Personal Pension Plan – the scheme was created on 1 January 2009. The Scheme is a contributory money purchase scheme with the employer matching employee contributions to a maximum of 5 per cent. The employer also contributes to the Scheme for former members of the Instem LSS Pension Scheme at rates varying from 5 per cent. to 17 per cent. Employer contributions for the year ended 31 December 2009 were £366,000.

Contracted In Money Purchase Scheme (CIMP) – the Scheme was created on 31 December 2008. The Scheme is a non-contributory scheme created for former members of the Instem LSS Pension Scheme who are US residents. Employer contributions for the year ended 31 December 2009 were £40,000.

Instem LSS (North America) Limited 401k Plan – the scheme was created for the benefit of employees of Instem LSS (North America) Limited in the USA. The Scheme is a contributory money purchase scheme with the employer matching contributions to the scheme to a maximum of 4.8 per cent.

Instem LSS Stakeholder Scheme – the Scheme was a contributory money purchase scheme which closed on 31 December 2008. Employer contributions for the year ended 31 December 2007 were £37,000 (2008: £34,000 and 2009: £3,000).

Instem LSS Group Personal Pension – the Scheme is a contributory money purchase scheme which opened from 1 January 2009. Employer contributions for the year ended 31 December 2009 were £366,000.

Defined benefit pension scheme

Instem LSS Group Limited also operates a pension scheme providing benefits based on final pensionable pay. This scheme was closed to new members with effect from 8 October 2001 and the rate of future benefit accrual reduced from 1/60th of final pensionable pay per year of service to 1/80th with effect from 6 April 2003. The scheme closed to future accrual on 31 December 2008.

The latest full actuarial valuation was carried out at 5 April 2008 and was updated to 31 December 2009 by a qualified independent actuary.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment portfolio. Expected yields on bonds are based on gross redemption yields at the balance sheet date whilst the expected returns on the equity and property investments reflect the long-term real rates of return experienced in the respective markets.

	2007	2008	2009
	%	%	%
Discount rate	5.6	6.7	6.1
Expected return on plan assets	7.0	6.1	6.7
Inflation	3.3	2.7	3.4
Rate of increase in salaries	3.8	N/A	N/A
Rate of increase in pensions in payment	3.2	2.7	3.4
Rate of increase in pensions in deferment	3.2	2.7	3.4
	<hr/>	<hr/>	<hr/>
	2007	2008	2009
	£000	£000	£000
ANALYSIS OF AMOUNT CHARGED TO THE STATEMENT OF COMPREHENSIVE INCOME			
Current service cost	238	167	–
Past service cost	–	–	–
Total operating charge	<hr/> 238	<hr/> 167	<hr/> –
ANALYSIS OF AMOUNT CREDITED TO OTHER FINANCE COSTS			
Expected returns on pension scheme assets	276	322	237
Interest on pension scheme liabilities	(313)	(360)	(327)
Net finance charge	<hr/> (37)	<hr/> (38)	<hr/> (90)
ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME			
Actual return less expected return on pension scheme assets	(7)	(1,390)	557
Experience losses arising on scheme liabilities	(31)	(431)	(18)
Changes in assumptions underlying the present value of the scheme liabilities	<hr/> 246	<hr/> 2,409	<hr/> (697)
Actuarial gain/(loss) recognised in other comprehensive income	<hr/> 208	<hr/> 588	<hr/> (158)

	2007 £000	2008 £000	2009 £000
CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION			
Opening defined benefit obligation	6,078	6,303	4,901
Service cost	238	167	–
Interest cost	313	360	327
Contributions by scheme participants	74	74	–
Actuarial (gain)/loss	(375)	(1,978)	715
Benefits paid	(25)	(25)	(50)
Closing defined benefit obligation	<u>6,303</u>	<u>4,901</u>	<u>5,893</u>

CHANGES IN THE FAIR VALUE OF PLAN ASSETS			
Opening plan assets	3,646	4,335	3,752
Expected return	276	322	237
Actuarial (loss)/gain	(167)	(1,390)	557
Contributions by employer	531	436	316
Contributions by scheme participants	74	74	–
Benefits paid	(25)	(25)	(50)
Closing plan assets	<u>4,335</u>	<u>3,752</u>	<u>4,812</u>

The actual return on plan assets was £269,000 (2008: loss £1,068,000 and 2009: gain £794,000).

	2007 £000	2008 £000	2009 £000
Present value of funded obligations	(6,303)	(4,901)	(5,893)
Fair value of plan assets	<u>4,335</u>	<u>3,752</u>	<u>4,812</u>
Deficit	(1,968)	(1,149)	(1,081)
Related deferred tax asset	551	321	302
Net pension liability	<u>(1,417)</u>	<u>(828)</u>	<u>(779)</u>

	<i>Cumulative</i> 2007 £000	<i>Cumulative</i> 2008 £000	<i>Cumulative</i> 2009 £000
ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME			
Actual return less expected return on pension scheme assets	547	(843)	(286)
Experience gains and losses arising on scheme liabilities	(384)	(815)	(833)
Changes in assumptions underlying the present value of the scheme liabilities	(388)	2,021	1,324
Cumulative actuarial (loss)/gain recognised in other comprehensive income	<u>(225)</u>	<u>363</u>	<u>205</u>

	2007		2008		2009	
	£000	%	£000	%	£000	%
MAJOR CATEGORIES						
OF PLAN ASSETS AS						
A PERCENTAGE OF						
FAIR VALUE OF TOTAL						
PLAN ASSETS						
Equities	3,462	80	2,766	74	3,512	73
Property	–	–	28	1	100	2
Bonds	–	–	384	10	473	10
Corporate Bonds	465	11	346	9	525	11
Other	408	9	228	6	202	4
	<u>4,335</u>	<u>100</u>	<u>3,752</u>	<u>100</u>	<u>4,812</u>	<u>100</u>

The five year history of experience adjustments is as follows:

	2005	2006	2007	2008	2009
	£000	£000	£000	£000	£000
Defined benefit obligation	(6,394)	(6,078)	(6,303)	(4,901)	(5,893)
Plan assets	<u>3,218</u>	<u>3,646</u>	<u>4,335</u>	<u>3,752</u>	<u>4,812</u>
Deficit	<u>(3,176)</u>	<u>(2,432)</u>	<u>(1,968)</u>	<u>(1,149)</u>	<u>(1,081)</u>
Experience adjustments on plan liabilities	<u>(282)</u>	<u>(71)</u>	<u>(31)</u>	<u>(431)</u>	<u>(18)</u>
Experience adjustments on plan assets	<u>378</u>	<u>176</u>	<u>(7)</u>	<u>(1,390)</u>	<u>557</u>

Instem LSS Group Limited expects to contribute £311,000 to its defined benefit plans in the next financial year.

20. SHARE CAPITAL

	2007	2008	2009
	£000	£000	£000
<i>Authorised</i>			
482,446 'A' ordinary shares of 0.1p each	0.5	0.5	0.5
517,554 'B' ordinary shares of 0.1p each	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
<i>Allotted, called up and fully paid</i>			
414,045 'A' ordinary shares of 0.1p each	0.4	0.4	0.4
517,554 'B' ordinary shares of 0.1p each	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>

Share capital consists of 'A' and 'B' ordinary shares which have the following rights and restrictions:

Capital

- (a) On a return of capital, whether on liquidation, reduction of capital or otherwise, the surplus assets of Instem LSS Group Limited remaining after payment of its liabilities shall be applied:
- first, in paying to the holders of the 'A' ordinary shares then in issue, in proportion to the number of 'A' ordinary shares held by them, an amount equal to £5,000,000 less an aggregate of all payments previously made to holders of 'A' ordinary shares in dividends or distribution; and
 - thereafter shall be distributed amongst the holders of the 'B' ordinary shares then in issue equally in proportion to the number of 'B' ordinary shares held by them.

Voting

- (a) The holders of the 'A' ordinary shares shall be entitled to receive notice of and to attend and speak at any general meeting of Instem LSS Group Limited. The holders of the 'A' ordinary shares have one vote each for each 'A' ordinary share of which they are the holder.
- (b) The holders of the 'B' ordinary shares are not entitled to receive notice of, attend, speak or vote at any general meetings of Instem LSS Group Limited.

21. CAPITAL MANAGEMENT

Instem LSS Group Limited and subsidiaries manage their capital structure to safeguard the going concern of Instem LSS Group Limited and subsidiaries and provide returns for shareholders. The capital of Instem LSS Group Limited consists of equity (including share capital, share premium and retained earnings).

Dividends

- (a) No dividend or distribution shall be declared, made or paid to the equity holders unless such dividend or distribution has been approved in writing by at least 75 per cent. of the holders of the 'A' ordinary shares.
- (b) Subject to a), profits of Instem LSS Group Limited which the directors may resolve to distribute, whether by dividend or otherwise, shall be applied:
 - (i) first, in paying to the holders of the 'A' ordinary shares then in issue, in proportion to the number of 'A' ordinary shares an amount which when aggregated with the amount of all previous dividends paid to holders of 'A' ordinary shares does not exceed £5,000,000 less an aggregate of all payments previously made to holders of 'A' ordinary shares on a return of capital or reduction of capital;
 - (ii) thereafter shall be paid to the holders of 'B' ordinary shares then in issue, in proportion to the number of 'B' ordinary shares held by them.

Instem LSS Group Limited and subsidiaries have not made any changes to their capital management during any of the years covered by the historical financial information.

22. RESERVES

Called up share capital

The share capital account includes the par value for all shares issued and outstanding.

Share premium account

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares.

Translation reserve

The translation reserve incorporates the cumulative net exchange gains and losses recognised on the translation of subsidiary company financial information to the presentational currency of Sterling (£). Under IFRS 1 the translation reserve was deemed to be £nil at the date of transition.

Retained earnings

The retained earnings reserve includes the accumulated profits and losses arising from the consolidated 'Statement of Comprehensive Income' and certain items from 'Other Comprehensive Income' attributable to equity shareholders net of distributions to shareholders.

23. CAPITAL COMMITMENTS

There were no capital commitments at the end of the financial year (2008: £nil and 2009: £nil).

24. OPERATING LEASES PAYABLE

	2007	2008	2009
	£000	£000	£000
Minimum lease payments under operating leases recognised as an expense in the year	360	425	458

At the balance sheet date, Instem LSS Group Limited and subsidiaries have outstanding commitments under operating leases, which fall due as follows:

	2007	2008	2009
	£000	£000	£000
<i>Land and buildings</i>			
Within one year	200	231	271
In the second to fifth year inclusive	584	836	952
After five years	1,687	1,546	1,396
<i>Plant and machinery</i>			
Within one year	107	148	142
In the second to fifth year inclusive	102	237	207
After five years	27	27	17
	<u>2,707</u>	<u>3,025</u>	<u>2,985</u>

Operating lease payments represent rentals payable by Instem LSS Group Limited and subsidiaries for certain equipment. Leases have varying terms and renewal rights. The above leasing arrangements do not contain any restrictive covenants, contingent rents or purchase options.

The operating leases in relation to the properties at Stone and Liverpool contain dilapidation clauses whereby Instem LSS Group Limited must make good any damage to the demised premises on expiration of the leases.

25. RELATED PARTY TRANSACTIONS

Transactions between Instem Group companies have not been disclosed as these have all been eliminated in the preparation of the financial information.

D Gare and DM Sherwin were directors and shareholders of Instem Associates Limited (“Associates”). This company was wound up in 2009.

A subsidiary was charged a management fee by Associates for shared management services. The amounts charged reflected a market value for the transactions. During the year ended 31 December 2007 the amount charged, inclusive of VAT, was £241,000 (2008: £248,000 and 2009: £nil). At the balance sheet date the amount due to Associates was £20,000 (2008: £13,000 and 2009: £nil).

A subsidiary charged rent to Associates for office accommodation, inclusive of certain office services. The amounts charged reflected a market value for the rental. During the year the amount charged inclusive of VAT was £23,000 (2008: £21,000 and 2009: £nil). At the balance sheet date the amount owed from Associates was £2,000 (2008: £1,000 and 2009: £nil).

Other related party transactions as defined by IAS 24 ‘Related Party Disclosures’, are shown in note 5 in relation to key management.

26. ACCOUNTING ESTIMATES AND JUDGEMENTS

Some asset and liability amounts reported in the financial information are based on management estimates and assumptions. There is therefore a risk of significant changes to the carrying amounts for these assets and

liabilities within the next financial year. The estimates and assumptions are made on the basis of information and conditions that exist at the time of the valuation.

Inventory impairment provisions

Instem LSS Group Limited and subsidiaries make provision for work in progress deemed to be irrecoverable. This provision is established on a specific contract by contract basis based on management's prior experience and their assessment of the present value of estimated future cash flows.

Receivables impairment provisions

The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by Instem LSS Group Limited and subsidiaries' management based on prior experience and their assessment of the present value of estimated future cash flows.

Pension valuation assumptions

Assumptions are used in the actuarial valuation of Instem LSS Group Limited and subsidiaries' defined benefit pension schemes. Details of these assumptions are disclosed in note 19.

Goodwill impairment

At each balance sheet date, Instem LSS Group Limited and subsidiaries review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, Instem LSS Group Limited and subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs.

26. POST BALANCE SHEET EVENTS

On 5 October 2010 Instem LSS Group Limited and subsidiaries were acquired by Instem Life Science Systems plc as part of a transaction resulting in the admission to trading on AIM of Instem Life Science Systems plc's shares.

SECTION B:

ACCOUNTANTS' REPORT ON INSTEM LSS GROUP LIMITED AND ITS SUBSIDIARIES

The following is the full text of a report on Instem LSS Group Limited and its subsidiaries from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors of Instem Life Science Systems plc.



BAKER TILLY

3 Hardman Street
Manchester M3 3HF
www.bakertilly.co.uk

The Directors
Instem Life Science Systems plc
2 Diamond Way
Stone
Staffordshire
ST15 0SD

8 October 2010

Dear Sirs

Instem LSS Group Limited and its subsidiaries

We report on the financial information set out in Part V, Section A. This financial information has been prepared for inclusion in the AIM Admission Document dated 8 October 2010 ("AIM Admission Document") of Instem Life Science Systems plc ("the Company") on the basis of the accounting policies set out in note 1.

This report is made solely for the purposes of paragraph 20.1 of Annex I of the Prospectus Rules as if they had been applied by part (a) of Schedule Two to the AIM Rules. Our audit work has been undertaken so that we might state those matters we are required to state in an accountants' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than a person as and to the extent provided by paragraph 20.1 of Annex I of the Prospectus Rules as if it had been applied by part (a) of Schedule Two to the AIM Rules, for our audit work, for this report, or for the opinions we have formed or consenting to its inclusion in the AIM Admission Document.

Responsibilities

As described in note 1 of section A of Part V the directors of the Company ("Directors") are responsible for preparing the financial information on the basis of preparation set out in that note 1 to the Historical Financial Information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the AIM Admission Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the AIM Admission Document, a true and fair view of the state of affairs of Instem LSS Group Limited and subsidiaries as at the dates stated and of its profits and losses, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in any jurisdictions other than the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those other standards and practices.

Declaration

For the purposes of part (a) of Schedule Two to the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Yours faithfully

Baker Tilly Corporate Finance LLP

Regulated by the Institute of Chartered Accountants in England and Wales

Baker Tilly Corporate Finance LLP is a limited liability partnership registered in England and Wales, registered no. OC325347. A list of the names of members is open to inspection at the registered office 2 Bloomsbury Street London WC1B 3ST

PART VI

FINANCIAL INFORMATION ON INSTEM LSS GROUP LIMITED AND SUBSIDIARIES FOR THE SIX MONTHS ENDED 30 JUNE 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		<i>Unaudited Six months ended 30 June 2010 £000</i>	<i>Unaudited Six months ended 30 June 2009 £000</i>	<i>Audited Year ended 31 December 2009 £000</i>
REVENUE	2	5,003	4,320	9,815
Operating expenses		(4,279)	(4,161)	(7,628)
PROFIT FROM OPERATIONS BEFORE NON RECURRING ITEMS AND AMORTISATION		724	159	2,187
Non recurring item – directors’ bonuses		(347)	–	–
Amortisation of intangibles		(30)	(24)	(47)
PROFIT FROM OPERATIONS		347	135	2,140
Finance income		183	315	735
Finance costs		(371)	(348)	(407)
PROFIT BEFORE TAXATION		159	102	2,468
Taxation	3	(77)	(41)	(762)
PROFIT FOR THE FINANCIAL PERIOD/YEAR		82	61	1,706
OTHER COMPREHENSIVE INCOME/(EXPENSE)				
Actuarial gain/(loss) on retirement benefit obligations		(17)	–	(158)
Deferred tax on actuarial gain/(loss)		5	–	44
Currency translation differences on foreign currency net investment		110	(356)	(266)
OTHER COMPREHENSIVE INCOME/(EXPENSE)		98	(356)	(380)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD/YEAR		225	(295)	1,326
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		127	61	1,706
TOTAL COMPREHENSIVE INCOME/(EXPENSE) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		225	(295)	1,326

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	<i>Unaudited</i> 30 June 2010 £000	<i>Unaudited</i> 30 June 2009 £000	<i>Audited</i> 31 December 2009 £000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	6,223	6,050	6,090
Property, plant and equipment	125	121	127
Deferred tax	266	370	297
TOTAL NON-CURRENT ASSETS	<u>6,614</u>	<u>6,541</u>	<u>6,519</u>
CURRENT ASSETS			
Inventories	44	31	28
Trade and other receivables	1,256	1,297	1,866
Cash and cash equivalents	6	–	2,716
Other financial assets	13	71	–
TOTAL CURRENT ASSETS	<u>1,319</u>	<u>1,399</u>	<u>4,610</u>
TOTAL ASSETS	<u>7,933</u>	<u>7,940</u>	<u>11,124</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	5,588	4,503	6,310
Current taxation	309	59	300
Financial liabilities	1	3,020	2,552
TOTAL CURRENT LIABILITIES	<u>5,898</u>	<u>7,582</u>	<u>9,162</u>
NON-CURRENT LIABILITIES			
Trade and other payables	–	–	29
Retirement benefit obligations	950	1,127	1,081
Deferred tax	8	–	–
TOTAL NON-CURRENT LIABILITIES	<u>958</u>	<u>1,127</u>	<u>1,110</u>
TOTAL LIABILITIES	<u>6,856</u>	<u>8,709</u>	<u>10,272</u>
EQUITY			
Share capital	1	1	1
Share premium	4,866	4,866	4,866
Translation reserve	469	269	359
Retained earnings	(4,259)	(5,905)	(4,374)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	<u>1,077</u>	<u>(769)</u>	<u>852</u>
TOTAL EQUITY AND LIABILITIES	<u>7,933</u>	<u>7,940</u>	<u>11,124</u>

CONSOLIDATED STATEMENT OF CASH FLOW
For the six months ended 30 June 2010

	<i>Unaudited</i> <i>Six months</i> <i>ended</i> <i>30 June</i> <i>2010</i> <i>£000</i>	<i>Unaudited</i> <i>Six months</i> <i>ended</i> <i>30 June</i> <i>2009</i> <i>£000</i>	<i>Audited</i> <i>Year ended</i> <i>31 December</i> <i>2009</i> <i>£000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Result before taxation	204	102	2,468
<i>Adjustments for:</i>			
Depreciation	35	35	66
Amortisation of intangibles	30	24	47
Finance income	(183)	(315)	(735)
Finance costs	326	348	407
CASH FLOWS FROM OPERATIONS BEFORE			
CHANGES IN WORKING CAPITAL	412	194	2,253
<i>Changes in working capital:</i>			
(Increase)/decrease in inventories	(14)	27	31
Decrease in trade and other receivables	822	1,008	645
(Decrease)/increase in trade and other payables	(935)	(931)	815
Decrease in provisions	(62)	(22)	(226)
CASH GENERATED FROM OPERATIONS	223	276	3,518
Finance costs	(371)	(197)	(432)
Income tax (paid)/received	(20)	23	(103)
NET CASH (USED IN)/GENERATED FROM			
OPERATING ACTIVITIES	(168)	102	2,983
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income received	161	239	735
Income tax paid	(45)	–	(237)
Purchase of intangible assets	(163)	(2)	(65)
Purchase of property, plant and equipment			
NET CASH (USED IN)/GENERATED			
FROM INVESTING ACTIVITIES	(76)	229	386
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loan notes	(2,549)	–	–
Payment of finance lease liabilities	(2)	(5)	(9)
NET CASH USED IN FINANCING ACTIVITIES	(2,551)	(5)	(9)
NET (DECREASE)/INCREASE IN CASH			
AND CASH EQUIVALENTS	(2,795)	326	3,360
Cash and cash equivalents at start of year	2,716	(549)	(549)
Effect of exchange rates on cash and cash equivalents	85	(65)	(95)
CASH AND CASH EQUIVALENTS AT END OF			
PERIOD/YEAR	6	(288)	2,716

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2010

	<i>Called up share capital £000</i>	<i>Share Premium £000</i>	<i>Translation reserves £000</i>	<i>Retained earnings £000</i>	<i>Total Equity £000</i>
Balance as at 31 December 2008	1	4,866	625	(5,966)	(474)
Total comprehensive income	–	–	(356)	61	(295)
Balance as at 30 June 2009	1	4,866	269	(5,905)	(769)
Total comprehensive income	–	–	90	1,531	1,621
Balance as at 31 December 2009	1	4,866	359	(4,374)	852
Total comprehensive income	–	–	110	115	225
Balance as at 30 June 2010	1	4,866	469	(4,259)	1,077

NOTES TO THE FINANCIAL INFORMATION

For the six months ended 30 June 2010

GENERAL INFORMATION

The principal activity of Instem LSS Group Limited and subsidiaries is the provision of world class information solutions for life sciences research and development.

Notes to the accounts

1. Basis of preparation and accounting policies

Basis of preparation

The half-yearly financial information, which is unaudited, consolidates the results of Instem LSS Group Limited and its subsidiary undertakings made up to 30 June 2010. The Group's accounting reference date is 31 December and the financial information is drawn up to the Friday nearest to the accounting reference date. The financial information for the six months ended 30 June 2010 covers the 26 weeks to 2 July 2010 (six months to 30 June 2009: 26 weeks ended 3 July 2009; year ended 31 December 2009: 53 weeks ended 1 January 2010).

Instem LSS Group Limited is a limited liability company incorporated and domiciled in England & Wales. The consolidated financial information is presented in Pounds Sterling (£) which is also the functional currency of the parent.

The financial information contained in this half-yearly financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. It does not therefore include all of the information and disclosures required in the annual financial statements.

The financial information for the six months ended 30 June 2009 is also unaudited.

Instem LSS Group Limited's consolidated statutory accounts for the year ended 31 December 2009, prepared under UK GAAP, have been delivered to the Registrar of Companies. The report of the auditors on these accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies

The accounting policies used in the preparation of the financial information for the six months ended 2 July 2010 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRS') as adopted by the European Union and are consistent with those which will be adopted in the annual statutory financial statements for the year ending 31 December 2010.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), these financial statements do not contain sufficient information to comply with IFRS's.

Instem LSS Group Limited and subsidiaries have not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK AIM listed Groups, in the preparation of this half-yearly financial report.

Cash and cash equivalents

Cash and cash equivalents for the purposes of the Statement of Cash Flows comprise the net of cash and overdraft balances that are shown on the Statement of Financial Position in Cash and Cash Equivalents and Current Financial Liabilities.

2. Segmental information

The Directors are of the opinion that there is only one business segment within the activities of Instem LSS Group Limited and subsidiaries of Global Life Sciences. This is the business segment used for internal reporting purposes and reviewed by the Directors to assess performance and allocate resources. As overheads

and the assets and liabilities of Instem LSS Group Limited and subsidiaries are not separately allocated to sub-segments for internal reporting purposes, it is not practical to report on this separately.

	<i>Third Party Revenue</i>		
	<i>Six months ended</i>	<i>Six months ended</i>	<i>Year ended</i>
	<i>30 June 2010</i>	<i>30 June 2009</i>	<i>31 December 2009</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Information by geographical location</i>			
UK	812	548	1,130
Rest of Europe	966	1,196	2,391
USA and Canada	2,928	2,464	6,009
Rest of World	297	112	285
	<u>5,003</u>	<u>4,320</u>	<u>9,815</u>

3. Taxation on ordinary activities

	<i>Six months ended</i>	<i>Six months ended</i>	<i>Year ended</i>
	<i>30 June 2010</i>	<i>30 June 2009</i>	<i>31 December 2009</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Current tax:</i>			
Corporation tax	42	35	340
Foreign tax	34	28	330
Total current tax	<u>76</u>	<u>63</u>	<u>670</u>
<i>Deferred tax:</i>			
Total deferred tax	<u>1</u>	<u>(22)</u>	<u>92</u>
Income tax expense	<u>77</u>	<u>41</u>	<u>762</u>

4. Incorporation of foreign subsidiary

In January 2010 Instem LSS Asia Limited, a wholly owned subsidiary of Instem LSS Limited incorporated Instem Information Systems (Shanghai) Limited as a Wholly Foreign Owned Enterprise in The People's Republic of China. The third party costs associated with the incorporation of the entity were £49,000 and are included in administration expenses in the six months ended 30 June 2010.

5. Retirement benefit obligations

The latest full actuarial valuation of the defined benefit scheme, the Instem LSS Pension Scheme, was carried out at 5 April 2008 and was updated to 31 December 2009 by a qualified independent actuary. The valuation was also assessed by the actuary as at 30 June 2009 and 30 June 2010. The value of assets held by the Scheme was calculated by reference to monthly statements from the Scheme asset management company. The liabilities were calculated by the actuary on a basis consistent with the valuation carried out at 31 December 2009.

PART VII

PRO-FORMA FINANCIAL INFORMATION ON THE GROUP

UNAUDITED PRO-FORMA CONSOLIDATED STATEMENT OF NET ASSETS OF INSTEM LIFE SCIENCE SYSTEMS PLC

Set out below is an unaudited pro-forma consolidated statement of net assets of Instem Life Science Systems plc, which has been prepared by the Directors on the basis of the notes set out below, to show the effects of the acquisition of Instem LSS Group Limited and its subsidiaries by Instem Life Science Systems plc (“the Company” or “Instem”), the Placing and the repayment of the loan notes on the net assets of the Company as at 31 December 2009 as if these transactions had occurred on that date.

It is the sole responsibility of the Directors to prepare the pro-forma statement. The pro-forma statement has been prepared by the Directors for illustrative purposes only and, because it addresses a hypothetical situation, does not represent the Company’s actual financial position either prior to or following the Placing.

	<i>Net assets of Instem LSS Group Limited and subsidiaries as at 31 Dec 2009 (note 1) £'000</i>	<i>Adjustments (note 2) £'000</i>	<i>Adjustments (note 3) £'000</i>	<i>Pro-forma net assets of Instem Life Science Systems plc £'000</i>
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	6,090	15,648	–	21,738
Property, plant and equipment	127	–	–	127
Deferred taxation	297	–	–	297
TOTAL NON-CURRENT ASSETS	6,514	15,648	–	22,162
CURRENT ASSETS				
Inventories	28	–	–	28
Trade and other receivables	1,866	–	–	1,866
Cash and cash equivalents	2,716	8,251	(5,150)	5,817
TOTAL CURRENT ASSETS	4,610	8,251	(5,150)	7,711
TOTAL ASSETS	11,124	23,899	(5,150)	29,873
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	6,310	–	–	6,310
Current taxation	300	–	–	300
Financial liabilities	2,552	–	–	2,552
TOTAL CURRENT LIABILITIES	9,162	–	–	9,162
NON-CURRENT LIABILITIES				
Trade and other payables	29	–	–	29
Retirement benefit obligations	1,081	–	–	1,081
TOTAL NON-CURRENT LIABILITIES	1,110	–	–	1,110
TOTAL LIABILITIES	10,272	–	–	10,272
NET ASSETS	852	23,899	(5,150)	19,601

Notes

- 1 The net assets of Instem LSS Group Limited have been extracted without material adjustment from the financial information set out in Part V of this document.
- 2 The adjustment reflects:
 - The acquisition, by way of share for share exchange, of Instem LSS Group Limited by the Company for a consideration of £16.5 million.
 - Stamp duty of £0.08 million payable on the acquisition of Instem LSS Group Limited and subsidiaries by the Company;
 - estimated gross proceeds of the Placing receivable by the Company of £9.15 million; and
 - estimated Placing expenses of £0.82 million to be settled in cash.
- 3 The adjustment reflects the £5.15 million of loan notes to be issued to shareholders of Instem LSS Group Limited and the redemption of those loan notes immediately after completion of the acquisition of Instem LSS Group Limited and subsidiaries by the Company.
- 4 No account has been taken of any movement in net assets of Instem LSS Group Limited and subsidiaries since 31 December 2009.

PART VIII

ADDITIONAL INFORMATION

1. Responsibility

- 1.1 The Directors, whose names appear on page 5 of this document accept responsibility, both individually and collectively, for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 Baker Tilly Corporate Finance LLP accepts responsibility for its report contained in Part V of this document. To the best of the knowledge and belief of Baker Tilly Corporate Finance LLP, which has taken all reasonable care to ensure that such is the case, the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company

- 2.1 The Company was incorporated and registered in England and Wales on 5 February 2010 under the Act as a private company limited by shares with the name Helium Miracle 99 Limited and with registration number 7148099. On 24 September 2010, the Company changed its name to Instem Life Science Systems Limited. On 7 October 2010, the Company re-registered as a public limited company under the name Instem Life Science Systems plc.
- 2.2 The principal legislation under which the Company operates is the Act and the regulations made thereunder.
- 2.3 The Company's registered office and principal place of business is at Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD. The telephone number at the Company's principal place of business is +44 (0)1785 825600.
- 2.4 The principal activity of the Company is that of a holding company and the business of the Group is the provision of IT applications to the early development healthcare market.
- 2.5 The Company has one wholly-owned subsidiary and four wholly-owned sub-subsidiaries, details of each of which are as follows:

<i>Company</i>	<i>Activity</i>	<i>Ownership</i>
Instem LSS Group Limited (company number 04339129) England and Wales	Holding company	100% by Instem Life Science Systems plc
Instem LSS Limited (company number 03548215) England and Wales	Software development, sales, sales support and administrative support	100% by Instem LSS Group Limited
Instem LSS (North America) Limited (company number 02126697) England and Wales	Sales, sales support and administrative support	100% by Instem LSS Limited
Instem LSS (Asia) Limited (company number 1371107) Hong Kong	Holding company	100% by Instem LSS Limited
Instem Information Systems (Shanghai) Limited (company number 310115400257075) Shanghai, PRC	Sales, sales support and service	100% by Instem LSS (Asia) Limited

3. Share Capital

3.1 On incorporation, the share capital of the Company was £1 divided into one ordinary share of £1, which was issued credited as fully paid to the subscriber to the Company's memorandum of association.

3.2 On 5 October 2010, the ordinary share of £1 was sub-divided into 10 ordinary shares of 10p each.

3.3 On 7 October 2010, by or pursuant to resolutions of the Company passed on that date it was resolved that:

3.3.1 in substitution for all existing and unexercised authorities and powers, the directors of the Company be generally and unconditionally authorised for the purpose of section 551 of the Act to exercise all or any of the powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into, shares of the Company up to an aggregate nominal value of £967,980 to such persons at such times and generally on such terms and conditions as the directors may determine (subject always to the articles of association of the Company) **PROVIDED THAT** this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the directors of the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted after the expiry of such period and the directors of the Company may allot relevant securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired; and

3.3.2 in substitution for all existing and unexercised authorities and powers, the directors of the Company be empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) pursuant to the authority referred to in paragraph 3.3.1 above as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to:

- (a) the allotment of equity securities in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any, territory;
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £522,838 in respect of the Placing; and
- (c) the allotment (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £117,143, representing approximately 10 per cent. of the Enlarged Share Capital,

and shall expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

3.4 On 5 October 2010, 6,485,900 Ordinary Shares were issued pursuant to the terms of a share exchange agreement made on that date, further details of which are set out in paragraph 9.1.11 of this Part VIII.

3.5 The Directors intend to exercise the authorities described in paragraphs 3.3.1 and 3.3.2 of this Part VIII to issue up to 5,228,376 new Ordinary Shares pursuant to the Placing, (representing 44.6 per cent. of the Enlarged Share Capital).

- 3.6 The Placing will result in the issue of 5,228,376 new Ordinary Shares on Admission. The Company's share capital, at the date of this document is and it is expected to be immediately following Admission:

	<i>At the date of this document</i>		<i>Following Admission</i>	
	<i>Amount (£)</i>	<i>Number of Ordinary Shares</i>	<i>Amount (£)</i>	<i>Number of Ordinary Shares</i>
Issued and fully paid	648,591	6,485,910	1,171,428.6	11,714,286

3.7 *Share Capital Reconciliation*

*At 5 February
2010
(Incorporation)*

Issued Ordinary Shares	1
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- 3.8 Save for the Share Options, the Company has not granted any options over its securities.
- 3.9 On Admission, Shareholders who do not participate in the Placing will suffer an immediate dilution of 44.6 per cent. of their interests in the Company.
- 3.10 The provisions of section 561 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 1166 of the Act) will apply to unissued shares in the capital of the Company to the extent not disapplied as described in paragraph 3.3.2 above.
- 3.11 Save as otherwise set out in this document, the Company does not have in issue any securities not representing share capital and there are no outstanding convertible securities, exchangeable securities or securities with warrants issued or proposed to be issued by the Company.

4. Articles of Association

- 4.1 The Articles which were adopted pursuant to a special resolution of the Company passed on 7 October 2010 contain provisions, *inter alia*, in respect of the Ordinary Shares, general meetings of the Company and the Directors to the following effect:

4.1.1 *Voting Rights*

Subject to any rights or restrictions attached to the shares (including as a result of unpaid calls) and/or as mentioned below, on a show of hands every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative and is entitled to have a vote shall upon a show of hands have one vote and on a poll every member who is present in person or by proxy and entitled to vote shall have one vote for every share of which he is the holder. Where, in respect of any shares, any registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under section 793 of the Act, then not earlier than 14 days after service of such notice the shares in question may be disenfranchised.

4.1.2 *Major Shareholders*

Nothing in the Articles confers on major shareholders in the Company any voting rights which are different to those conferred on the holders of Ordinary Shares as described in paragraph 4.1.1 above.

Pursuant to Rule 5.1 of the DTR, holders of three per cent. or more of the voting rights attaching to the Company's share capital are required to notify their holdings in writing to the Company. To the extent that persons who already hold at least three per cent. or more of the

nominal value of the Company's share capital increase or decrease their holding, Rule 5.1 of the DTR requires that this is also notified to the Company by the shareholder.

Pursuant to section 793 of the Act, the Company may by notice in writing require a person whom the Company knows or has reasonable cause to believe to be or, at any time during the three years immediately preceding the date on which the notice is issued, to have been interested in shares comprised in the Company's issued share capital, to confirm that fact or (as the case may be) to indicate whether or not it is the case, and where that person holds, or has during that time held an interest in shares so comprised, to give such further information as may be required in accordance with section 793 of the Act.

4.1.3 *General Meetings*

An annual general meeting shall be held once a year, within a period of not more than 6 months of the Company's accounting reference date.

Subject to a member's right to requisition a general meeting pursuant to section 303 of the Act, general meetings of the Company are convened at the discretion of the board, and with the exception of the annual general meeting, all such general meetings of the Company shall be called general meetings.

An annual general meeting shall be called by at least 21 clear days' notice in writing. All general meetings shall be called by at least 14 clear days' notice to the Company regardless of the type of resolution being passed (under section 307(1) of the Act). A notice must be served on a member in accordance with the provisions of the Act, that is, in hard copy form, or where the member has consented or is deemed to have consented under the Act, in electronic form or via a website. If the notice contains an electronic address for the Company, a member may send any document or information relating to the relevant general meeting to that electronic address. Notice shall be given to all members and the directors and the auditors.

The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given and shall specify the place, day and hour of the meeting. A notice calling an annual general meeting shall specify the meeting as such and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as such. Every notice must include a reasonably prominent statement that a member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of the Company.

A general meeting may be called by shorter notice being less than 14 days with the consent of members who (i) are a majority in number and (ii) hold 95 per cent. in nominal value of the voting shares of the Company.

4.1.4 *Changes in capital*

The Company may by ordinary resolution consolidate and divide its shares, or any of them, into shares of a larger amount. The Company may by ordinary resolution divide all or any of its share capital into shares of a larger amount or sub-divide all or any of its shares into shares of a smaller amount.

The Company may, from time to time, by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any manner authorised, and with and subject to any incident prescribed or allowed by the Act and the rights attached to existing shares. Subject to and in accordance with the provisions of the Act, the Company may purchase its own shares (including redeemable shares).

4.1.5 *Variation of Rights*

Subject to the Act and every other statute for the time being in force concerning companies and affecting the Company (the "**Statutes**"), if at any time the capital of the Company is divided

into different classes of shares, all or any of the rights and privileges attached to any class of share may be varied or abrogated either:

- (a) in such a manner (if any) as may be provided by the rights attaching to such class; or
- (b) in the absence of any such provision, with the consent in writing of the holders of at least 75 per cent. of the nominal amount of the issued shares of the relevant class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the relevant class. At any such separate meeting the holders present in person or by proxy of one third of the issued shares of the class in question shall be a quorum.

The creation or issue of shares ranking *pari passu* with or subsequent to the shares of any class shall not (unless otherwise expressly provided by these Articles or the rights attached to such last-mentioned shares as a class) be deemed to be a variation of the rights of such shares. A reduction of the capital paid up on any shares of any class will not be deemed to constitute a variation or abrogation of the rights attached to those shares. A purchase or redemption by the Company of any of its own shares in accordance with the provisions of the Statutes and of these Articles shall not be deemed to be a variation of the rights attaching to any shares.

4.1.6 *Redemption*

The Company may, subject to the Statutes, create shares which are liable to be redeemed. As at the date of this document, there are no shares in issue which are capable of being redeemed by the Company.

4.1.7 *Conversion*

The Company may from time to time, by ordinary resolution and subject to the Statutes, convert all or any of its fully-paid shares into stock of the same class and denomination and may from time to time in like manner reconvert such stock into fully paid up shares of the same class and denomination.

4.1.8 *Distribution of assets on a winding up*

In the event of liquidation of the Company the holders of shares are entitled *pari passu* to any surplus dividends. A liquidator may, with the sanction of an ordinary resolution, divide the assets among the members *in specie*.

4.1.9 *Transfer of Shares*

The Ordinary Shares are in registered form and may be in certificated or uncertificated form. Shares in uncertificated form may be transferred otherwise than by written instrument in accordance with the Statutes and relevant subordinate legislation.

Transfers of shares in certificated form may be effected by instrument in writing in any usual or common form or in any other form acceptable to the directors. Any instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the Company's register of members.

The directors may, in their absolute discretion (but subject to any rules of regulations of the London Stock Exchange or any rules published by the FSA applicable to the Company from time to time) and without assigning any reason therefore, refuse to register the transfer of a share which is in respect of a share which is not fully paid, or which is in favour of more than four transferees or which is in respect of more than one class of shares or which has not been presented for registration duly stamped accompanied by the share certificates for the shares to which the transfer relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

Where in respect of any shares any registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under section 793 of the Act, then following a sale shown to the satisfaction of the Directors to be of the full legal and beneficial ownership of such shares at arm's length to a *bona fide* third party purchaser or of shares where the registered holder's holding of shares immediately prior to the proposed transfer represents less than 0.25 per cent. in nominal value of the issued shares of the relevant class. The registration of transfers may be suspended by the Directors for any period not exceeding 30 days in a year.

4.1.10 *Dividends and other distributions*

Subject to the provisions of the Statutes, the Company may by ordinary resolution declare dividends to be paid to the members in accordance with their respective rights and interests in the profits, but not exceeding the amount recommended by the directors.

No dividends or moneys payable by the Company in respect of a share shall bear interest as against the Company unless otherwise provided by the rights attached to the share.

The directors may pay interim dividends if it appears to them that they are justified by the profits of the Company available for distribution.

Except as otherwise provided by the Articles or the rights attached to any shares issued by the Company, the holders of shares are entitled *pari passu* amongst themselves to share in the whole of the profits of the Company paid out as dividends and the whole of any surplus in the event of liquidation of the Company.

A liquidator may, with the sanction of an ordinary resolution, divide the assets among the members *in specie*. The directors shall give effect to any such resolution provided that no such distribution shall be made unless recommended by the directors.

The directors may, with the sanction of an ordinary resolution, offer the shareholders or any class of them (other than those not entitled to the relevant dividend or dividends) the right to elect to receive new Ordinary Shares, credited as fully paid, instead of cash in respect of the whole or part of any dividend or dividends which are the subject of the ordinary resolution.

Where, in respect of any shares, any registered holder or any other person appearing to be interested in shares of the Company fails to comply with any notice given by the Company under section 793 of the Act, then, provided that the shares concerned represent at least 0.25 per cent. in nominal amount of the issued shares of the relevant class, the Company may withhold dividends on such shares.

All unclaimed dividends or other sums payable on or in respect of a share may, after one year of being declared, be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. Any dividend which is unclaimed for a period of 12 years from the date on which the dividend became due for payment shall be forfeited and cease to remain owing by the Company and shall revert to the Company absolutely. The payment of any unclaimed dividend or other sum payable by the Company or in respect of any share into a separate account shall not constitute the Company a trustee thereof.

4.1.11 *Borrowing Powers*

Subject to the provisions of the Act and as provided in the Articles, the directors may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and assets (both present and future) and uncalled capital or any part thereof and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or its parent undertaking (if any) or any subsidiary undertaking of the Company or of any third party.

The directors shall restrict the borrowings of the Company and the borrowings of any other companies within the Group and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) that the aggregate amount for the time being outstanding (after adjustments provided for in the Articles) at any one time owing by the Company (being the Company and all its subsidiary undertakings from time to time) in respect of monies borrowed, exclusive of monies borrowed by the Company or any of its subsidiary undertakings from any other of such companies, as determined in accordance with the Articles, shall not at any time without the previous sanction of an ordinary resolution of the Company exceed the greater of £18 million or an amount equal to three times the aggregate of:

- (a) the nominal amount paid up on the Company's issued share capital; and
- (b) the total amount standing to the credit of the consolidated reserves of the Company whether distributable or undistributable and including (without limitation) share premium account, capital redemption reserve and profit and loss account,

as shown in a consolidation of the latest audited balance sheets of the Company but adjusted as may be necessary to take account of such deductions as are specified in the Articles.

4.1.12 *Constitution of board of directors*

The minimum number of directors shall not be less than two and unless and until otherwise determined by the Company in general meeting shall not be more than seven. No shareholder qualification is required of any director.

4.1.13 *Retirement of directors by rotation*

At the first annual general meeting of the Company, all of the directors in office shall retire from office and may offer themselves for reappointment by shareholders. At every subsequent annual general meeting any directors who (a) have been appointed by the directors since the last annual general meeting; or (b) who were not appointed or reappointed at one of the preceding two general meetings, must retire from office and may offer themselves for reappointment by shareholders. A director retiring at a meeting shall retain office until the dissolution of such meeting.

The directors to retire will be those who have been longest in office or, in the case of those who were appointed or re-appointed on the same day, will (unless they otherwise agree) be determined by lot. The length of time a director has been in office shall be computed from his last election, re-election or appointment when he has previously vacated office. A retiring director shall be eligible for re-election.

4.1.14 *Remuneration of directors*

The fees to be paid to the directors shall be determined by the Remuneration Committee of the Company from time to time. Such fees shall be divided among such Directors in such proportion or manner as may be determined by the directors and, in default of determination, equally. A fee payable to a director pursuant to this Article is distinct from any salary, remuneration or other amount payable to him pursuant to other provisions of these Articles and accrues from day to day.

Each director may also be paid all reasonable travelling, hotel and other expenses properly incurred by him in respect of or about the performance of his duties as director including any expenses incurred in connection with his attendance at meetings of the directors of the Company or otherwise in the discharge of his duties as a director.

Any director who holds any executive office or who serves on any committee or who devotes special attention to the business of the Company or who otherwise performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director, may be

paid such extra remuneration by way of salary, lump sum, participation in profits or otherwise as the directors determine.

4.1.15 *Permitted interests of directors*

Subject to the provisions of the Statutes, a director is not disqualified by his office by entering into any contract, arrangements, transaction or proposal with the Company in any manner, nor is any contract, arrangement, transaction or proposal in which he is interested or in which he has entered into by or on behalf of the Company in which any director or person connected with him is in any way interested, whether directly or indirectly, liable to be avoided, and any director who enters into any such contract, arrangement, transaction or proposal or is so interested is not liable to account to the Company for any profit realised by any such contract, arrangement, transaction or proposal by reason of the director holding that office or of the fiduciary relationship thereby established but the nature and extent of his interest shall be disclosed by him in accordance with the provisions of the Statutes.

A director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of director and may act by himself or through his firm in a professional capacity for the Company (other than as auditor) on such terms as to tenure of office, remuneration or otherwise as the directors may determine. A director may also hold office as a director or other officer or be otherwise interested in any other company of which the Company is a member or in which the Company is otherwise interested and shall not be liable to account to the Company for any remuneration or other benefits received by him from that company.

4.1.16 *Restrictions on voting by directors*

Save as provided below, a director shall not vote on or in respect of any contract, arrangement, transaction or any other proposal in which he (together with any person connected with him) has an interest which is to his knowledge a material interest otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

A director shall not vote or be counted in the quorum on any resolution concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested (including, without limitation, fixing or varying the terms of his appointment or the termination or extension thereof).

A director shall (in the absence of some other material interest than is indicated below) be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

- (a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (b) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he has assumed responsibility in whole or in part either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (c) any proposal, contract, arrangement or transaction concerning a placing of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which placing he is or is to be interested as a holder of securities or as a participant in the undertaking or sub-underwriting thereof;
- (d) any contract, arrangement, transaction or other proposal concerning any other company in which he is interested, directly or indirectly and where as an officer or member or

otherwise howsoever provided that he (together with any person connected (within the meaning of section 252 of the Act) with him) is not the holder of or interested in shares representing one per cent. or more of any class of the equity share capital or voting rights;

- (e) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a pension, superannuation or similar fund or scheme, a retirement, death of disability benefits fund or scheme or an employees' share scheme which has been approved by or is subject to and conditional upon approval by HM Revenue & Customs for taxation purposes or does not accord to any director as such any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and
- (f) any proposal for the grant, purchase and/or maintenance of insurance for the benefit of the directors.

4.2 ***Sell-out Rules, Squeeze-out Rules and Takeover Bids***

4.2.1 *Sell-out*

Under the Act, if an offeror makes an offer to acquire all the Ordinary Shares and successfully acquired 90 per cent. of the Ordinary Shares within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding Shareholders. The consideration offered to the Shareholders whose shares are compulsorily acquired under the Act must, in general, be the same as the consideration that was available under the takeover offer.

4.2.2 *Squeeze-out*

The Act also gives minority Shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Ordinary Shares, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares.

The offeror would be required to give any Shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a Shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

- 4.2.3 There have been no public takeover bids by third parties in respect of the Company's equity in the current financial year or the previous financial year.

5. **Directors' Interests**

- 5.1 The following persons are directors of the Company:

David Gare (*Non-executive Chairman*)
Phil Reason (*Chief Executive Officer*)
James McLauchlan (*Chief Financial Officer*)
David Sherwin (*Non-executive Director*)
Mike McGoun (*Non-executive Director*)

- 5.2 The business address of all of the Directors is the registered office of the Company.

- 5.3 As at the date of this document and immediately following Admission, the interest in shares of the Directors in the issued share capital of the Company (including related financial products as defined in the AIM Rules), including the interests of each Director's family, (which shall bear the meaning given to it as set out in the AIM Rules) (all of which are beneficial) required to be notified to the Company pursuant to Rule 17 of the AIM Rules the existence of which is known or which could, with reasonable diligence, be ascertained by a Director are, and following Admission, will be, as follows:

<i>Director</i>	<i>At the date of this document</i>		<i>Upon Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Existing Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
David Gare	2,278,427 ⁽¹⁾	35.1%	2,278,427 ⁽¹⁾	19.5%
Phil Reason	665,287	10.3%	665,287	5.7%
James McLauchlan	144,936	2.2%	144,936	1.2%
David Sherwin	1,580,066	24.4%	1,580,066	13.5%
Mike McGoun	Nil	Nil	14,286	0.1%

(1) Held by The D Gare 2008 Discretionary Settlement, of which David Gare is a beneficiary.

- 5.4 In addition, the following Directors have been granted options over the following number of Ordinary Shares:

<i>Director</i>	<i>Number of Ordinary Shares</i>
Phil Reason	187,427 ⁽¹⁾
James McLauchlan	93,713 ⁽²⁾

(1) 68,571 EMI Options and 25,142 Unapproved Options granted on 8 October 2010, conditional on Admission, exercisable from the third anniversary to the tenth anniversary of grant. 93,714 Unapproved Options, granted on 8 October exercisable from the third anniversary to the tenth anniversary of grant, subject to annual vesting from the first anniversary of grant based on the satisfaction of certain performance conditions.

(2) 46,857 EMI Options granted on 8 October 2010, conditional on Admission, exercisable from the third anniversary to the tenth anniversary of grant. 21,714 EMI Options and 25,142 Unapproved Options granted on 8 October exercisable from the third anniversary to the tenth anniversary of grant, subject to annual vesting from the first anniversary of grant based on the satisfaction of certain performance conditions.

Further details of the Share Options and a summary of the Share Schemes are set out in paragraph 12 of this Part VIII.

- 5.5 No Ordinary Shares have been issued to the Directors pursuant to the exercise of the Share Options.
- 5.6 There are no outstanding loans granted by any member of the Company to the Directors or any guarantees provided by any member of the Company for the benefit of the Directors.
- 5.7 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Company and which was effected by the Company during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

6. Directors' Terms of Appointment

- 6.1 The Company has entered into the agreements described at paragraphs 6.1.1 to 6.1.5 below:

6.1.1 a service agreement dated 8 October 2010 between (1) the Company and (2) Philip Reason whereby Phil was appointed as Chief Executive Officer of the Company. The service agreement may be terminated by either party serving at least 12 months' written notice on the other. The service agreement contains provisions for early termination in the event, *inter alia*, of a breach of a material term of the service agreement by the director. The basic annual salary payable to Phil is \$213,000. In addition, Phil is entitled to certain benefits including a bonus based on

achieving the annual business plan of the Group, as approved by the Remuneration Committee and the Board. On achievement of the 2010 business plan, the bonus would be \$94,149. His benefits for the last financial year amounted to \$49,550 and his bonus for the same period was \$105,214. The service agreement contains restrictive covenants for periods of 12 months following termination of his employment;

- 6.1.2 a service agreement dated 8 October 2010 between (1) the Company and (2) James McLauchlan whereby Jim was appointed as Chief Financial Officer of the Company. The service agreement may be terminated by either party serving at least 6 months' written notice on the other. The service agreement contains provisions for early termination in the event, *inter alia*, of a breach of a material term of the service agreement by the director. The basic annual salary payable to Jim is £80,100 per annum. In addition, Jim is entitled to certain benefits including a bonus based on achieving the annual business plan of the Group, as approved by the Remuneration Committee and the Board. On achievement of the 2010 business plan, the bonus would be £24,308. His benefits for the last financial year amounted to £24,602 and his bonus for the same period was £27,152. The service agreement contains restrictive covenants for periods of 12 months following termination of his employment;
- 6.1.3 a letter of appointment dated 8 October 2010 between (1) the Company and (2) David Gare whereby David was appointed as non-executive Chairman of the Company. The agreement may be terminated by either party serving at least 3 months' written notice on the other. The letter of appointment contains provisions for early termination, *inter alia*, in the event of serious or repeated breach by the director of his obligations to the Company. An annual fee of £44,000 is payable to David but no benefits are provided to David under the appointment;
- 6.1.4 a letter of appointment dated 8 October 2010 between (1) the Company and (2) David Sherwin whereby David was appointed as a non-executive director of the Company. The agreement may be terminated by either party serving at least 3 months' notice on the other. The letter of appointment contains provisions for early termination, *inter alia*, in the event of serious or repeated breach by the director of his obligations to the Company. An annual fee of £24,000 is payable to David but no benefits are provided to David under the appointment; and
- 6.1.5 a letter of appointment dated 8 October 2010 between (1) the Company and (2) Mike McGoun whereby Mike was appointed as a non-executive director of the Company. The agreement may be terminated by either party serving at least 3 months' notice on the other. The letter of appointment contains provisions for early termination, *inter alia*, in the event of serious or repeated breach by the director of his obligations to the Company. An annual fee of £24,000 is payable to Mike but no benefits are provided to Mike under the appointments;
- 6.2 Save as set out in paragraph 6.1 of this Part VIII there are no service contracts between any of the Directors and the Company or any of its subsidiaries and no such contract has been entered into or amended or replaced within the six months preceding the date of this document and no such contracts are proposed.
- 6.3 The Directors receive no Ordinary Shares or options over Ordinary Shares in lieu of remuneration or as any form of compensation. The share option grants disclosed in paragraph 12 of this Part VIII are made in addition to the remuneration packages disclosed above.
- 6.4 Other than as disclosed in this paragraph 6, no member of the Company is party to any service contract with any of Instem's directors which provides for benefits on the termination of any such contract.
- 6.5 There is no arrangement under which any Director has waived or agreed to waive future emoluments.
- 6.6 Save as disclosed in this paragraph 6 there are no existing or proposed service or consultancy agreements between any Director and any member of the Company.

6.7 In the year ended 31 December 2009 the total aggregate remuneration paid, and benefits-in-kind granted, to the Directors was £429,935. The amounts payable to the Directors by the Group under the arrangements in force at the date of this document in respect of the year ending 31 December 2010 are estimated to be £790,741 (excluding any discretionary payments which may be made under these arrangements).

7. Additional Information on the Directors

7.1 Other than directorships of companies within the Group, the Directors have held the following directorships or been partners in the following partnerships within the five years prior to the date of this document:

<i>Director</i>	<i>Current</i>	<i>Past</i>
David Gare	Beronmarch Limited Instem Associates Limited North Staffordshire Risk Capital Fund plc	Instem Technologies Limited
Philip Reason	None	None
James McLauchlan	None	None
David Sherwin	Instem Associates Limited	Instem Technologies Limited
Mike McGoun	Peakdale Molecular Limited Tikit Group plc Tikit Limited	ARI Limited PS Financials plc

7.2 Save as disclosed in this document, none of the Directors has:

- (a) any unspent convictions in relation to indictable offences;
- (b) been subject to any bankruptcies or individual voluntary arrangements;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, been subject to a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, whilst he was a director of that company or within the 12 months after he had ceased to be a director of that company;
- (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement, whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (e) been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months preceding such events;
- (f) been publicly criticised by any statutory or regulatory authorities (including designated professional bodies); or
- (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

7.3 Instem Technologies Limited, a company of which David Gare and David Sherwin were directors, was placed into administration on 21 September 2005 with an estimated deficiency as regards creditors of £10,568,435.45 and an estimated deficiency as regards members of £10,580,692.94. Following commencement of the administration process, the management team of Instem Technologies Limited (not being David Gare or David Sherwin), completed a management buyout of the business of that company from the administrators. The purchasing vehicle of the business was Instem Technology Services Limited, which was subsequently sold to a UK-based electronics

manufacturer in July 2007. Instem Technologies Limited was dissolved on 24 February 2009. The final report in the administration dated 20 September 2007 indicates that there were insufficient funds to enable a distribution to preferential or non-preferential creditors.

- 7.4 Instem Associates Limited, a company of which David Gare and David Sherwin were directors, was placed into creditors' voluntary liquidation on 19 January 2009 with an estimated deficiency as regards creditors of £488,999 (prior to a further potential pension shortfall of up to £3.6 million) and an estimated deficiency as regards members of £489,999. Instem Associates Limited remains in liquidation. At the date of liquidation, the estimated assets available for preferential creditors was £193,224, with preferential creditors of £1,600 and the estimated total assets available for distribution to unsecured creditors was £191,624. The liquidator's statement of receipts and payments at 25 January 2010 showed net realisations to date totalling £3,625.23.
- 7.5 Save as disclosed in this document, no Director has or has had any interest in any transaction which is or was significant in relation to the business of the Company and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.

8. Major Shareholders

- 8.1 Insofar as is known to the Company and in addition to the holdings of the Directors disclosed in paragraph 5 above, the following persons hold, as at the date of this document, and are expected (based on the information available as at the date of this document), following Admission, to hold directly or indirectly 3 per cent. or more of the Enlarged Share Capital:

<i>Shareholder</i>	<i>Current</i>		<i>Following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Existing Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
David Gare ⁽¹⁾	2,278,427	35.1%	2,278,427	19.4%
David Sherwin	1,580,066	24.4%	1,580,066	13.5%
Close Asset Management (UK) Ltd	Nil	Nil	914,286	7.8%
Adrian Gare	704,219	10.9%	704,219	6.0%
Deborah Walker	704,219	10.9%	704,219	6.0%
Phil Reason	665,287	10.3%	665,287	5.7%
Artemis Investment Management LLP	Nil	Nil	571,429	4.9%
Aviva Investors UK Fund Services Ltd	Nil	Nil	571,429	4.9%
Blackrock Investment Management (UK) Ltd	Nil	Nil	571,429	4.9%
Unicorn Asset Management Ltd	Nil	Nil	562,857	4.8%
Hargrave Hale Ltd	Nil	Nil	485,714	4.1%
Liontrust Asset Management Plc	Nil	Nil	382,857	3.3%

(1) Held by The D Gare 2008 Discretionary Settlement, of which David Gare is a beneficiary.

- 8.2 None of the Company's major holders of Ordinary Shares listed above has voting rights different from the other holders of Ordinary Shares.
- 8.3 Save as disclosed in paragraph 5 above and in this paragraph 8, and insofar as is known to the Company, the Directors are not aware of any person or persons who either alone or, if connected jointly following the Admission and Placing will (directly or indirectly) exercise or could exercise control over the Company.
- 8.4 Save as far as disclosed in respect of the Admission and Placing, and insofar as is known to the Company, no arrangements are in place, the operation of which may at a later date result in a change of control of the Company.

9. Material Contracts

9.1 The following contracts (a) have been entered into by the Company within the two years immediately preceding the date of this document, not being contracts entered into in the ordinary course of business; or (b) are, or may be, contracts entered into by the Company which are material or contain, or may contain, provisions under which any member of the Company has an obligation or entitlement which is material to the Company:

9.1.1 the Placing Agreement, further details of which are contained in paragraph 13 of this Part VIII;

9.1.2 an engagement letter ("**Engagement**") dated 17 August 2010 made between (1) the Company and (2) Brewin Dolphin, whereby Brewin Dolphin agreed to act as nominated adviser, broker, placing agent and joint financial adviser to the Company in consideration for which the Company agrees to pay to Brewin Dolphin the fees noted below and the key terms of which are as follows:

9.1.2.1 a documentation fee ("**Documentation Fee**") of £50,000 which accrues as follows: £10,000 on the signing of the Engagement, plus £5,000 per week payable in advance commencing on 12 July 2010 until Brewin Dolphin receives written notice by the Company to suspend work relating to the Admission, the Engagement terminates or the fee cap of £50,000 is reached;

9.1.2.2 a Corporate Finance Fee of £175,000 ("**Corporate Finance Fee**") payable on the date of Admission. The Corporate Finance Fee shall be reduced by an amount equal to the Documentation Fee paid above;

9.1.2.3 a commission of 3.5 per cent. of the aggregate of the gross funds raised from the Placing payable on the Admission;

9.1.2.4 a one-off fee up to 1 per cent. of the aggregate of the gross funds raised from the Placing payable at the Company's sole discretion on completion of the Admission; and

9.1.2.5 in respect of Brewin Dolphin's ongoing role as the Company's nominated adviser/broker the Company will pay Brewin Dolphin an annual retainer of £50,000 (exclusive of VAT), which will be payable in four equal instalments, quarterly in advance, commencing on the six month anniversary of the date of Admission and otherwise payable in accordance with Brewin Dolphin's standard terms of business. The annual retainer is subject to annual review thereafter, to take effect from the following 1 October each year;

9.1.2.6 the Company may terminate the Engagement where Brewin Dolphin are retained by the Company under a continuing Engagement or for a one off Engagement, by five business days' written notice; or by written notice with immediate effect where Brewin Dolphin are in material breach of its obligations under the Engagement and such breach is either not capable of remedy or, if remediable, is not remedied within seven days of written notice being served on Brewin Dolphin specifying the breach;

9.1.2.7 in the event that the Company serves written notice upon Brewin Dolphin to suspend work relating to the Admission the Documentation Fee shall cease to accrue on a weekly basis until the end of such suspension is confirmed in writing by the Company;

9.1.2.8 other than in the event of termination due to Brewin Dolphin's material breach of its obligations under the Engagement, if the Engagement terminated for any reason, the Company agrees to pay to Brewin Dolphin the Documentation Fee accrued but not paid up to the date of such termination but the Documentation Fee shall cease to accrue on a weekly basis thereafter;

9.1.2.9 Brewin Dolphin may terminate the Engagement without liability where it is retained by the Company under a continuing Engagement, by three months' written notice;

where it is retained by the Company for a one off Engagement, by five business days' written notice; or by written notice with immediate effect if:

- 9.1.2.9.1 the Company is suspended from trading on any relevant market;
 - 9.1.2.9.2 an administrator, receiver, liquidator or other insolvency practitioner (or any person of equivalent status in any other jurisdiction) is appointed to act for the Company or if Brewin Dolphin reasonably believes that one may be appointed;
 - 9.1.2.9.3 the Company fails to pay any amount due to Brewin Dolphin within 30 days of the amount falling due;
 - 9.1.2.9.4 Brewin Dolphin believes a continued association with the Company may damage its reputation or good standing; or
 - 9.1.2.9.5 in Brewin Dolphin's reasonable opinion, the Company is in material breach of its obligations under the Engagement and such breach is either not capable of remedy or, if remediable, is not remedied within seven days of written notice being served on it specifying the breach;
 - 9.1.2.9.6 on termination by either the Company or Brewin Dolphin, Brewin Dolphin shall be entitled to receive from the Company all fees, costs, charges, expenses and liabilities accrued or incurred under the Engagement up to the date of termination;
- 9.1.3 the lock-in arrangements described in paragraph 3 of Part II;
- 9.1.4 pursuant to an agreement dated 8 March 2005 made between (1) Instem LSS Limited and (2) Ceridian Centrefile Limited, the Group purchases payroll services. The Group passes on the benefit of these services to other companies which were previously part of the Group. The annual cost of the services to the Group are approximately £8,400. This agreement is considered to be outside of the ordinary course of the Group's trading;
- 9.1.5 agreements dated 8 October 2010 between the Company, Brewin Dolphin and each of Gregor Grant and Mike Harwood pursuant to which Gregor Grant (who holds 195,933 Ordinary Shares) and Mike Harwood (who holds 148,905 Ordinary Shares) agree to lock-in and orderly market arrangements the same as those to which the Directors are subject as detailed in paragraph 3 of Part II;
- 9.1.6 pursuant to an agreement dated 5 October 2010 made between (1) David Gare and others (the "**Original Shareholders**") and (2) the Company (the "**Share Exchange Agreement**"), the Company purchased the entire share capital of Instem LSS Group Limited, being 414,045 A ordinary shares of 01.p each and 517,554 B ordinary shares of 0.1p each, from the Original Shareholders. As a result, the Company became the parent company of Instem LSS Group Limited (and its subsidiaries). The consideration paid to the Original Shareholders was satisfied by the issue and allotment of 6,485,900 Ordinary Shares and the issue of £4,896,923 of A Loan Notes and £252,735 B Loan Notes, further details of which are set out in paragraphs 9.1.7 and 9.1.8 of this Part VIII;
- 9.1.7 pursuant to an instrument dated 5 October 2010, up to £4,896,923 1.75% floating rate unsecured loan notes 2010 were constituted by the Company (the "**A Loan Notes**"). The A Loan Notes were issued to certain of the Original Shareholders pursuant to the terms of the Share Exchange Agreement referred to in paragraph 9.1.6 of this Part VIII. The Loan Notes attract interest at 1.75 per cent. above the Bank of England base rate and shall be repaid by the Company by no later than 10 business days after receipt by the Company of the proceeds of the Placing;
- 9.1.8 pursuant to an instrument dated 5 October 2010, up to £252,735 1.75% floating rate unsecured loan notes 2011 were constituted by the Company (the "**B Loan Notes**"). The B Loan Notes were issued to certain of the Original Shareholders pursuant to the terms of the Share Exchange

Agreement referred to in paragraph 9.1.6 of this Part VIII. The B Loan Notes attract interest at 1.75 per cent. above the Bank of England base rate and shall be repaid by the Company by no later than the first anniversary of receipt by the Company of the proceeds of the Placing.

10. Corporate Governance

10.1 The Board fully supports the underlying principles of corporate governance contained in the Corporate Governance Code, notwithstanding that, as its securities are not listed on the Official List, it is not required to comply with such recommendations. It has sought to comply with the provisions of the Corporate Governance Code, insofar as is practicable and appropriate for a public company of its size and nature, and recognises its overall responsibility for the Company's systems of internal control and for monitoring their effectiveness.

10.2 The main features of the Company's corporate governance procedures, which do not constitute full compliance with the Corporate Governance Code, are as follows:

- (a) the Board has one independent non-executive director who takes an active role in board matters;
- (b) the Company has an Audit Committee, a Remuneration Committee, and a Nomination Committee, each of which consists of the non-executive directors, and meets regularly with executive directors in attendance by invitation. The audit committee has unrestricted access to the Company's auditors and ensures that auditor independence has not been compromised;
- (c) all business activity is organised within a defined structure with formal lines of responsibility and delegation of authority, including a schedule of "matters referred to the Board"; and
- (d) regular monitoring of key performance indicators and financial results together with comparison of these against expectations.

10.3 Audit Committee

The following is a summary of the terms of reference under which the Company's Audit Committee operates. The Audit Committee comprises Mike McGoun (Chairman), David Gare and David Sherwin, all of whom are non-executive directors of the Company.

The Audit Committee shall have at least two members and one of whom shall be an independent non-executive director. The Board must be satisfied that at least one member of the Audit Committee has recent and relevant financial experience. Appointments to the Audit Committee should be made by the Board in consultation with the Nomination Committee and the chairman of the Audit Committee. The Audit Committee shall meet at least two times in every year and any other time as required by either the chairman of the Audit Committee, the Chief Financial Officer of the Company or the external auditors of the Company. In addition, the Audit Committee shall meet with the external auditors of the Company (without any of the executives attending) at least once a year without the Chief Financial Officer or any other executive director present.

The Audit Committee shall, *inter alia*:

- (a) monitor the financial reporting and internal financial control principles of the Company;
- (b) maintain appropriate relationships with external auditors including considering the appointment and remuneration of external auditors and review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process;
- (c) review all financial results of the Company and financial statements, including all announcements in respect thereof before submission of the relevant documents to the Board;
- (d) review and discuss (where necessary) any issues and recommendations of the external auditors including reviewing the external auditors' management letter and management's response;

- (e) consider all major findings of internal operational audit reviews and management's response to ensure co-ordination between internal and external auditors;
- (f) review the Board's statement on internal reporting systems and keep the effectiveness of such systems under review; and
- (g) consider all other relevant findings and audit programmes of the Company.

The Audit Committee shall report annually on the Board's behalf to the Shareholders. The Audit Committee shall compile a report to Shareholders on its activities to be included in the Company's annual report or, where the Audit Committee has determined that there are good reasons for not so complying, an explanation of those reasons.

The Audit Committee is authorised to:

- (a) investigate any activity within its terms of reference;
- (b) seek any information it requires from any employee of the Company; and
- (c) obtain, at the Company's expense, outside legal or other independent professional advice and to secure the attendance of such persons to meetings as it considers necessary and appropriate.

10.4 **Remuneration Committee**

The following is a summary of the terms of reference under which the Company's Remuneration Committee operates. The Remuneration Committee comprises Mike McGoun (Chairman), David Gare and David Sherwin, all of whom are non-executive directors of the Company.

The Remuneration Committee shall have at least two members who shall be independent non-executive directors. The members of the Remuneration Committee shall be appointed by the Board on recommendation from the Nomination Committee. The Chief Executive Officer of the Company will normally be invited to meetings of the Remuneration Committee to discuss the performance of other executive directors but shall not be involved in any of the decisions. The Remuneration Committee may invite any person it thinks appropriate to join the members of the Remuneration Committee at its meetings. The Remuneration Committee shall meet at least once a year and any other time as required by either the chairman of the Remuneration Committee, the Chief Financial Officer or the external auditors of the Company.

The Remuneration Committee shall, *inter alia*:

- (a) ensure that the executive directors are fairly rewarded for their individual contributions to the overall performance of the Company but to ensure that the Company avoids paying more than is necessary for this purpose;
- (b) consider the remuneration packages of the executive directors and any recommendations made by the managing director for changes to their remuneration packages including in respect of bonuses (including associated performance criteria), other benefits, pension arrangements and other terms of their service contracts and any other matters relating to the remuneration of or terms of employment applicable to the executive directors that may be referred to the Remuneration Committee by the Board;
- (c) oversee and review all aspects of the Company's share option schemes including the selection of eligible directors and other employees and the terms of any options granted;
- (d) demonstrate to the Company's shareholders that the remuneration of the executive directors is set by an independent committee of the Board; and
- (e) consider and make recommendations to the Board about the public disclosure of information about the executive directors' remuneration packages and structures in addition to those required by law or by the London Stock Exchange.

The chairman of the Remuneration Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Remuneration Committee

shall produce an annual report. This should accompany the directors' report in the Company's annual report and accounts.

The Remuneration Committee is authorised to:

- (a) investigate any activity within its terms of reference;
- (b) seek any information it requires from any employee of the Company;
- (c) assess the remuneration paid by other UK listed companies of a similar size in any comparable industry sector and to assess whether changes to the executive directors remuneration is appropriate for the purpose of making their remuneration competitive or otherwise comparable with the remuneration paid by such companies; and
- (d) obtain, at the Company's expense, outside legal or other independent professional advice, including independent remuneration consultants, when the Remuneration Committee reasonably believes it is necessary to do so and to secure the attendance of such persons to meetings as it considers necessary and appropriate.

10.5 *The Nomination Committee*

The following is a summary of the terms of reference of the Nomination Committee.

The Nomination Committee comprises David Gare (Chairman) David Sherwin and Mike McGoun.

The Nomination Committee shall have at least two members, one of whom shall be an independent non-executive director. Appointments to the Nomination Committee shall be made by the Board, in consultation with the chairman of the Nominee Committee. The chairman of the Nomination Committee shall be appointed by the Board and should be the Non-executive Chairman or an independent non-executive director, but the Non-executive Chairman should not chair the Nomination Committee when it is dealing with the appointment of a successor to the chairmanship of the Board. The Nomination Committee may invite any person it thinks appropriate to join the members of the Nomination Committee at its meetings. The Nomination Committee shall meet at least once per year.

The Nomination Committee shall, *inter alia*:

- (a) regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- (b) give full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future;
- (c) be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise;
- (d) before an appointment is made by the Board, evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

The Nomination Committee shall also make recommendations to the Board concerning:

The chairman of the Nomination Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Nomination Committee shall produce an annual report. This should accompany the directors' report in the Company's annual report and accounts.

- (a) formulating plans for succession for both executive and non-executive directors and in particular for the key roles of Chairman of the Board and Chief Executive Officer;
- (b) membership of the Audit and Remuneration Committees, in consultation with the chairmen of those committees;

- (c) the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- (d) the re-election by shareholders of any director under the 'retirement by rotation' provisions in the Company's articles of association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- (e) any matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Company subject to the provisions of the law and his/her service contract; and
- (f) the appointment of any director to executive or other office other than to the positions of Chairman of the Board and Chief Executive Officer, the recommendation for which would be considered at a meeting of the full Board.

The Nomination Committee is authorised to:

- (a) investigate any activity within its terms of reference;
- (b) seek any information it requires from any employee;
- (c) obtain outside legal or other independent professional advice at the Company's expense when the Nomination Committee reasonably believes it is necessary to do so; and
- (d) instruct external professional advisers to attend any meeting at the Company's expense if the Nomination Committee considers this necessary or appropriate.

11. United Kingdom Taxation

The following paragraphs, which are based on current legislation, summarise the tax position of ordinary shareholders of the Company who are resident or ordinarily resident in the UK for taxation purposes. It is a general guide and may not apply to shareholders whose tax position is subject to special rules, such as dealers in securities.

This summary of the tax legislation should not be construed as constituting advice. If you are in any doubt as to your tax position you should consult your own independent investment or taxation adviser.

11.1 Taxation of dividends

No tax will be withheld by the Company when it pays a dividend.

A UK resident individual should be entitled to a non-refundable tax credit in respect of a dividend received from the Company, which would be available to offset against any income tax liability arising on the dividend. As a result, a basic rate taxpayer would have no further income tax liability in respect of the dividend; an individual liable to higher rate income tax (currently 40 per cent.) would be liable to income tax at an effective rate of 25 per cent. of the net dividend and an individual liable at the additional higher rate of 50 per cent. (broadly, an individual with taxable income in excess of £150,000) would be liable to income tax at an effective top rate of 36.1 per cent. of the net dividend.

UK resident shareholders who do not pay income tax or whose liability to income tax on the dividend and related tax credit is less than the tax credit, including pension funds, charities and certain individuals are not generally entitled to claim repayment of any part of the tax credit associated with the dividend from HM Revenue & Customs.

A UK resident corporate shareholder will not generally be liable to corporation tax on any dividend received from the Company and the dividend received and related tax credit will constitute franked investment income. Such shareholders should, however, consult their own tax advisers for confirmation of their tax position.

Whether a shareholder who is not resident in the UK for tax purposes is entitled to a tax credit in respect of dividends paid by the Company and to claim payment of any part of the tax credit will depend, in general, on the provisions of any double taxation convention which exists between the shareholder's country of residence and the UK. A non-UK resident shareholder may also be subject to foreign taxation on dividend income.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions or what relief or credit may be claimed in the jurisdiction in which they are resident.

11.2 *Taxation of chargeable gain*

For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares pursuant to the Placing will be regarded as an acquisition of a new holding in the share capital of the Company.

The Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the Ordinary Shares will usually constitute the base cost of a shareholder's holding.

If a shareholder disposes of all or some of his or her Ordinary Shares, a liability to tax on chargeable gains may, depending on their circumstances and subject to any available exemptions or reliefs, arise.

Companies may not be entitled to claim indexation allowance which may also reduce the chargeable gain. Such shareholders should, however, consult their own tax advisers for confirmation of their tax position.

11.3 *Stamp duty and stamp duty reserve tax*

No stamp duty or stamp duty reserve tax (SDRT) will generally be payable on the issue of the Ordinary Shares.

If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than in the UK, you should consult your professional adviser immediately.

12. **Share Option Scheme**

As part of its strategy for executive remuneration, the Company has established, conditional on Admission, the Share Option Scheme under which Share Options may be granted to officers and employees of members of the Group. The Remuneration Committee shall be responsible for administering the rules of the Share Option Scheme and may recommend to the Board that Share Options may be granted under the Share Option Scheme from time to time. In doing so, the Remuneration Committee will have regard to the guidelines published from time to time by investor organisations including the Association of British Insurers and the National Association of Pension Funds.

Under the rules of the Share Option Scheme, the Company may grant EMI Options and Unapproved Options. A Share Option takes the form of an individual agreement between the Company and the employee and is entered into subject to the rules of the Share Option Scheme. The Share Option Scheme also includes the ability for the grant of options by other persons approved for the purposes of the Share Option Scheme to employees to purchase Ordinary Shares subject to the rules of the Share Option Scheme.

The Company may grant Share Options which in total (when aggregated with other rights requiring the issue of Ordinary Shares or the transfer of Ordinary Shares from treasury which are granted at the discretion of the grantor and not to all employees who may wish to participate) would oblige it to issue Ordinary Shares comprising no more than five per cent. of the Company's issued share capital from time to time in any period of ten years from and after the date of adoption of the Share Option Scheme, taking account of any exercise and lapse of Share Options (and such other rights) in that period but ignoring for this purpose those Share Options which are to be granted conditional upon Admission and are described in this summary.

Share Options may be granted at any time during the period of 42 days from Admission or after the date of announcement of the Company's annual or half yearly results. The Remuneration Committee may resolve to grant Share Options at other times in exceptional circumstances which justify them doing so. Options may not be granted when prohibited by law or in breach of the AIM Rules. Share Options may not be granted after the tenth anniversary of the date of adoption of the Share Option Scheme.

Other than in the case of certain of the Share Options which are to be granted conditional upon Admission and are described in this summary, the exercise of Share Options will be subject to the satisfaction of appropriate and objective conditions.

It is intended that Share Options shall not be granted with an exercise price per Ordinary Share which is at a discount to the prevailing market value of an Ordinary Share at the time of grant.

Each Share Option will specify the date after which it may be exercised subject to the occurrence of an earlier event which causes the Share Option to lapse or to become exercisable earlier. Save in the case of a change in control of the Company or the cessation of employment of the option-holder with any member of the Company due to death, ill-health, disability, redundancy, retirement, the sale of the company or business by or in which the option-holder is employed and other exceptional circumstances, Share Options shall not be capable of being exercised less than three years from the date of grant.

The early exercise of Share Options is permitted in the case of a change in control of the Company or the termination of the option-holder's employment with the Company due to death, ill-health, disability, redundancy, retirement, the sale of the company or business by or in which the option-holder is employed. The Remuneration Committee may resolve to permit early exercise in the case of the cessation of the option-holder's employment within the Company for other reasons.

Other than in cases where:

- the Remuneration Committee resolves to permit the early exercise of a Share Option over a greater number of Ordinary Shares, and
- where the Share Options which are to be granted conditional upon Admission and are described in this summary become exercisable as a result of a change in control of the Company, which would be exercisable in full.

The early exercise of Share Options may be over no more than a proportion of the total number of Ordinary Shares subject to the Share Option. That proportion is equal to the ratio of the length of the period from the date of grant of the Share Option to the first date the Share Option becomes exercisable to the length of the period from the date of grant to the earliest exercise date of the Share Option assuming the option-holder's employment in the Company had continued or the change in control of the Company had not occurred.

Save in the case of the Share Options which are to be granted conditional upon Admission and are described in this summary and which become exercisable as a result of a change in control of the Company, the early exercise of Share Options remains subject to the satisfaction of the applicable conditions, which may be varied or waived by the Remuneration Committee in appropriate cases but not generally or automatically.

A Share Option will lapse if not exercised before the date specified in the agreement under which the Share Option is granted, which may not be earlier than three months after the latest date on which the Share Option is expressed to become exercisable. In any event the Share Option will lapse on the expiry of ten years from the date of grant. A Share Option will also lapse unless exercised following a change in control of the Company and on the option-holder's employment with the Company or one of its subsidiaries ceasing, save that exercise is permitted in the event of such cessation as a result of death, ill-health, disability, redundancy or retirement of the option-holder, the sale of the company or business by or in which the option-holder is employee and, where the Remuneration Committee resolves to permit it, other exceptional circumstances. Other than in the case of the death of the

option-holder, exercise must take place before the expiry of three months from the cessation and in the case of such a death within one year of the death, failing which the Share Option will lapse. Share Options will also lapse to the extent that any exercise condition becomes incapable of fulfilment.

Share Options are not pensionable. Exercise of a Share Option is conditional upon the option-holder paying to his or her employer an amount equal to the amount of income taxes and, to the extent permissible, national insurance and social security contributions for which the employer is obliged to account on the exercise.

The Company has agreed to grant 585,708 Share Options which may be exercised at the Issue Price, conditional upon Admission with an exercise date no earlier than three years from the date of grant (subject to the option holder remaining in the employment of the Group), three-fifths of which are subject to performance conditions relating to the Company's relative share price growth.

12.1 Eligibility

EMI Options may be granted to any employee of the Group selected by the Remuneration Committee who works either at least 25 hours per week or commits 75 per cent. of his working time to the business of the Company and who does not already beneficially own either directly or indirectly through his associates more than 30 per cent. of the Ordinary Shares of the Company. Employees selected for the grant of an Unapproved Option do not have to satisfy these eligibility requirements.

EMI Options may only be granted when the Company is a qualifying company for the purposes of paragraph 8 Schedule 5 ITEPA 2003.

12.2 Individual Limit on Participation

An individual employee's participation in EMI Options is limited so that the aggregate market value of the shares placed under the EMI Option and of any unexercised options granted under any share option scheme approved by HM Revenue & Customs under Chapter 8 of Part I and Schedule 4 of the ITEPA 2003 valued at the date of the grant of the EMI Options which are held by that employee in any three year period cannot exceed £120,000. This limit on individual participation does not apply for Unapproved Options.

12.3 Company Limit

The maximum value of unexercised qualifying EMI Options (valued as at the date of grant) that may exist under the Share Option Scheme is restricted to £3 million.

12.4 Non transferability of Share Options

Share Options are non-transferable, except on death to the personal representatives of the employee. A Share Option shall lapse immediately if it is purportedly transferred or assigned.

12.5 Voting, Dividend and Other Rights

An option-holder has no voting or dividend rights in the Company before the exercise of a Share Option.

12.6 Variation of share capital

For these purposes "variation" of share capital includes any capitalisation, rights issue, sub-division, consolidation or reduction or any other variation in the ordinary share capital of the Company occurring after the date of grant. Upon a variation of the ordinary share capital of the Company, the Directors may adjust either the number of Ordinary Shares an employee is entitled to acquire under the Share Option agreement or adjust the exercise price in a manner they consider fair and reasonable.

12.7 Change of Control

In the event of a change of control, an EMI Option granted to an employee may be exchanged for qualifying options pursuant to paragraph 42 of Schedule 5 of the ITEPA 2003.

13. Arrangements relating to the Placing

13.1 Pursuant to the Placing Agreement:

13.1.1 Brewin Dolphin has agreed as agent for the Company, to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price but is under no obligation to subscribe for any Placing Shares for which it is unable to procure subscribers;

13.1.2 the Company and the Directors have, subject to certain limitations in relation to time and quantum (summarised below), given certain warranties and indemnities to Brewin Dolphin, including, but not limited to, as to the accuracy of information contained in this document and other matters in relation to the Company and all members of the Group, its businesses and its tax matters;

13.1.3 the Directors have limited their liability under the warranties to a sum equivalent to an aggregate amount which is the value of any loan notes issued to them in connection with the acquisition by the Company of Instem LSS Group Limited, net of any tax payable on such sum, plus two years gross salary/fees plus the aggregate of any consideration received for any Ordinary Shares that are sold in the two year period following the date of Admission. The Directors' liability is also limited to a period of seven years from the date of Admission in respect of any matters relating to claims under the tax warranties or one calendar month after the publication of the audited accounts for the year ending 31 December 2011 in relation to claims under any of the other warranties. These limitations shall not apply to a Director if and to the extent of any fraud or dishonesty by that Director;

13.1.4 the Company has agreed to pay the following fees, commissions and expenses in connection with the Placing:

13.1.4.1 a commission of 3.5 per cent. on the aggregate value of the Placing Price of the Placing Shares;

13.1.4.2 a corporate finance fee of £175,000; and

13.1.4.3 a bonus fee of up to 1 per cent. of the aggregate value of the Placing Price of the Placing Shares payable at the sole discretion of the Company;

13.1.5 the Company and the Directors undertake to indemnify Brewin Dolphin against all losses arising, *inter alia*, as a result of any untrue statement or alleged untrue statement contained in the Placing Agreement.

13.2 The Placing Agreement is:

13.2.1 conditional *inter alia* upon the Company and the Directors having complied with all of their respective obligations under the Placing Agreement; certain documents specified in the Placing Agreement being delivered to Brewin Dolphin; and Admission taking place not later than 8.00 a.m. on the date of Admission; and

13.2.2 terminable by Brewin Dolphin before Admission in certain circumstances, including but not limited to, the Company or any of the Directors being in material breach of any of its/his obligations under the Placing Agreement and any warranty contained in the Placing Agreement being untrue, inaccurate or misleading in any material respect; or in the event that there shall have occurred, happened or come into effect any outbreak or escalation of hostilities, any attack or act of terrorism, any declaration of a national emergency or war and any other calamity or crisis; of national or international effect; or any material adverse change in national or

international financial, monetary, economic, political or market conditions; which, in each case, in the opinion of Brewin Dolphin acting in good faith makes it impractical or inadvisable to proceed with the Placing.

13.3 The Placing Agreement contains the following undertakings given by each Director to the Company and to Brewin Dolphin relating to an orderly market, namely that each Director:

13.3.1 will not, during the 12 months immediately following the date of Admission (“**Locked-in Period**”) dispose of, or agree to dispose of, any Ordinary Shares held by him or his spouse/civil partner or infant children or step-children;

13.3.2 will not, during the 12 month period following the Locked-in Period, dispose of any Ordinary Shares held by him or his spouse/civil partner or infant children or step-children other than after having given Brewin Dolphin at least 10 working days notice and Brewin Dolphin having provided its prior written consent to such disposal (such consent not to be unreasonably withheld or delayed) and provided that any such disposal shall be effected through Brewin Dolphin and on terms that Brewin Dolphin’s standard rate of commission as at the date of such disposal is payable.

13.3.3 None of the restrictions referred to in 13.3.1 or 13.3.2 above will apply in certain circumstances including, but not limited to, any transfer to his personal representative in the event of his death; by a trustee for the purpose of effecting the appointment of a new trustee or for the purpose of retiring as trustee; or, at Brewin Dolphin’s absolute discretion, in the event of financial hardship of a Director; provided that in certain of the circumstances, the relevant transferee executes an undertaking in a form reasonably satisfactory to the Company and Brewin Dolphin agreeing to be bound by the orderly market provisions set out in clause 17 of the Placing Agreement and provided that in certain circumstances as set out in the Placing Agreement (including, but not limited to, prior to any transfer by a trustee), the written consent of Brewin Dolphin is obtained, such consent not to be unreasonably withheld or delayed.

14. Employees

As at 8 October 2010 the Group employed 102 people with 72 based in the UK, 27 in the US and 3 in Shanghai. There are also two full time contractors in India.

15. Related Party Transactions

15.1 The following arrangements, which have been entered into since 1 January 2007, constitute related party transactions:

(a) as referred to in paragraph 3 of Part III of this document, the Defined Benefit Scheme was established in 2005 for the purposes of the transfer in of certain members of a demerged pension scheme, the Instem Pension and Life Assurance Scheme (“IPLAS”) who were employed by the Instem LSS Group Limited. Instem Associates Limited (“IAL”), a company of which David Gare and David Sherwin were shareholders and directors, also participated in the demerged scheme arrangements. IAL was the principal employer of a section of IPLAS. In 2003, IAL had agreed with Instem LSS Group Limited and Instem Technologies Limited, that both of those companies would contribute towards the August 2003 deficit of the IAL section of IPLAS (being a total deficit of £929,000). It was agreed that Instem LSS Group Limited would pay £448,293 towards the IPLAS deficit. As at September 2010, the Company has a further £24,000 in 2010 to pay towards the IPLAS pension deficit with a final sum of £29,000 to be paid by May 2011. IPLAS is currently undergoing assessment for entry into the Pension Protection Fund. Please refer to note 25 of Section A of Part V for details of arrangements between Instem Associates and the Group;

(b) pursuant to a consultancy agreement dated 5 October 2010, Instem Ventures Limited, a company of which Adrian Gare is a director and shareholder, agreed to provide to the Group corporate advisory and strategic services. The agreement may be terminated by either party

serving at least 6 months' notice on the other. The agreement contains provision for early termination, *inter alia*, in the event of material or persistent breach by either party which, if capable of remedy, is not remedied within 30 days. A monthly fee of £4,167 (excluding VAT) is payable to Instem Ventures Limited by the Group; and

- (c) on 5 October 2010, the Company entered into a loan agreement with David Gare whereby David agrees to provide to the Company a facility of up to £100,000 to assist the Company to pay stamp duty in respect of the Share Exchange Agreement. The loan is interest free and must be repaid within 14 days of Admission.

15.2 The above transactions are not considered material either in the context of the Admission and Placing or in the context of the turnover of the Group in the relevant period.

16. Working Capital

The Directors are of the opinion, having made due and careful enquiry, that, taking into account the net proceeds of the Placing and the existing facilities available to the Group, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of Admission.

17. Property, Plant and Equipment

The Directors are not aware of any environmental issues that may affect the Group's utilisation of its property, plant and equipment.

18. Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the Group's financial position or profitability.

19. Significant Change

There has been no significant change in the financial or trading position of Instem LSS Group Limited since 30 June 2010, being the date on which the its latest accounts were published.

20. General

- 20.1 It is estimated that the total expenses payable by the Company in connection with the Placing and Admission will amount to approximately £930,000 (including VAT).
- 20.2 Brewin Dolphin has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 20.3 Baker Tilly Corporate Finance LLP has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 20.4 Save as set out in this document, there are no patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's business or profitability.
- 20.5 Since the date of incorporation, Instem Life Science Systems plc has not commenced operations and no financial statements have been made up as at the date of this document.
- 20.6 There have been no interruptions in the business of the Group, which may have or have had in the 12 months preceding the publication of this document a significant effect on the financial position of the Company or which are likely to have a material effect on the prospects of the Company for the next 12 months.
- 20.7 Save as set out in this document, the Directors are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Group prospects in the period commencing on the date of this document until 8 October 2010.

- 20.8 The Placing Price represents a premium of 165p over the nominal value of 10p per Ordinary Share. The premium arising on the Placing amounts to £19,328,572 in aggregate.
- 20.9 The Ordinary Shares are in registered form and may be held in certificated or uncertificated form. No temporary documents of title will be issued. The ISIN number of the Ordinary Shares is GB00B3TQCK30.
- 20.10 Save as disclosed in this document, there have been no payments by the Group promoters in the two years prior to the date of this document and no fees have been paid in the 12 months preceding the date of this document (other than to trade suppliers) in the sum of £10,000 or more in cash or in kind.
- 20.11 Save as disclosed in this document, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- (a) received, directly or indirectly from the Group within the 12 months preceding the date of the application for Admission; or
 - (b) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company, on or after Admission, any of the following:
 - (i) fees totalling £10,000 or more;
 - (ii) securities in the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or
 - (iii) any other benefit with the value of £10,000 or more at the date of Admission.
- 20.12 Save as disclosed in this document, there are no investments in progress which are significant to the Company.
- 20.13 The financial information on Instem LSS Group Limited and its subsidiaries contained in Part V of this document does not constitute statutory accounts within the meaning of section 434 of the Act. Copies of the audited accounts of the Instem LSS Group Limited for the three years ended 31 December 2009 have been delivered to the Registrar of Companies in England and Wales. The auditor's report on those accounts was unqualified and did not contain any statement under section 498 of the Act. The current auditors of Instem LSS Group Limited, Baker Tilly UK Audit LLP, Chartered Accountants and Registered Auditors, audited that Instem LSS Group Limited's consolidated financial statements for each of the three years ended 31 December 2009 upon which unqualified audit opinions have been given.
- 20.14 This document does not constitute an offer to sell, or the solicitation of an offer to acquire, Ordinary Shares in any jurisdiction where such an offer or solicitation is unlawful and is not for distribution in any jurisdiction in which such distribution is unlawful. The Ordinary Shares have not been, and will not be, registered under the US Securities Act 1933 (as amended) or under the applicable securities laws of any state of the United States, any province or territory of Australia, Canada, Japan, the Republic of Ireland or the Republic of South Africa and may not be sold, directly or indirectly, within the United States Australia, Canada, Japan, the Republic of Ireland or the Republic of South Africa or to any citizen, national or resident of the United States or Australia, Canada, Japan, the Republic of Ireland or the Republic of South Africa.
- 20.15 This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including such terms as "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "may", "will", "would" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not matters of fact. They appear in a number of places throughout this document and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, the Company's results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which the Company operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. A

number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation: conditions in the markets, the market position of the Company, earnings, financial position, cash flows, return on capital and operating margins, anticipated investments and capital expenditures, changing business or other market conditions and general economic conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this document based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Subject to any requirement under the AIM Rules or other legal or regulatory requirements, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. No undue reliance should be placed on forward-looking statements, which speak only as of the date of this document.

20.16 This document has sourced information from innovation.org on page 10 of this document. This information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the information published by innovation.org, no facts have been omitted which would render the reproduced information in accurate or misleading.

21. Documents available for inspection

Copies of the following documents may be inspected at the registered offices of the Company and Brewin Dolphin during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this document until one month following Admission:

- 21.1 the Articles of the Company;
- 21.2 the audited consolidated accounts of Instem LSS Group Limited and its subsidiaries for the financial years ended 31 December 2007, 2008 and 2009;
- 21.3 the consent letters referred to in paragraphs 20.2 and 20.3 of Part VIII of this document;
- 21.4 the reports and letters from Baker Tilly Corporate Finance LLP set out in Part V of this document; and
- 21.5 this document.

Dated 8 October 2010.

PART IX

DEFINITIONS & GLOSSARY

“Act”	the Companies Act 2006
“Admission”	the admission of the entire ordinary share capital of the Company in issue and to be issued (including the Placing Shares) to trading on AIM and such admission becoming effective in accordance with the AIM Rules
“AIM”	AIM, a market operated by the London Stock Exchange
“AIM Admission Document”	this document dated 8 October 2010
“AIM Rules”	the AIM Rules for companies published by the London Stock Exchange governing admission to, and the operation of, AIM as amended from time to time
“Articles”	the Company’s articles of association from time to time
“AstraZeneca”	AstraZeneca plc
“Board” or “Directors”	the directors of the Group, or a duly authorised committee thereof, whose names are set out on page 5 of this document
“Brewin Dolphin”	Brewin Dolphin Ltd., a company registered in England and Wales with company number 02135876
“Charles River”	Charles River Laboratories International, Inc
“the Company” or “Instem”	Instem Life Science Systems plc, registered in England and Wales with company number 7148099
“Corporate Governance Code”	the UK Corporate Governance Code published by the Financial Reporting Council as in force from time to time
“CREST”	the electronic share settlement system operated by Euroclear
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755) as amended
“CROs”	Contract Research Organisations
“DTR”	the Disclosure and Transparency Rules as published by the FSA as in force as at the date of this document or, where the context so requires, as amended or modified after the date of this document
“EDA”	Early Development Application
“EDC”	Electronic Data Capture
“EDSA”	Early Development Safety Assessment
“EMI Scheme”	the Enterprise Management Incentive Scheme contained in Chapter 9 of Part 7 of and Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003
“EMI Options”	Share Options granted pursuant to the Share Option Scheme falling within the EMI Scheme

“Enlarged Share Capital”	the share capital of the Company, as enlarged by the Placing
“EPA”	the US Environmental Protection Agency
“Euroclear”	Euroclear UK and Ireland Limited, the operator (as defined in the CREST Regulations) of the system for trading shares in uncertificated form known as CREST
“Existing Ordinary Shares”	the 6,485,910 Ordinary Shares in issue at the date of this document
“FDA”	the Food and Drug Administration
“FSA”	the Financial Services Authority
“Fraser-Williams (Data Systems)”	FW (Data Systems) Limited, formerly Fraser Williams (Data Systems) Limited, a company registered in England and Wales with company number 02103213
“GlaxoSmithKline”	GlaxoSmithKline plc
“GLP”	Good Laboratory Practice
“the Group”	the Company and its subsidiaries at the date of this document
“IND”	Investigational New Drug
“Issue Price”	175p per share
“ITEPA”	the Income Tax (Earnings and Pensions) Act 2003
“Locked-in Period”	a period of 12 months immediately following Admission where the Directors cannot dispose of, or agree to dispose of, any Ordinary Shares held by him or his spouse/civil partner or infant children or step children
“London Stock Exchange”	London Stock Exchange plc
“Microsoft Windows”	Microsoft Windows operating systems
“NDA”	New Drug Application
“Official List”	the Official List of the UK Listing Authority
“Oracle™”	Oracle Corporation
“Ordinary Shares”	ordinary shares of 10p each in the capital of the Company
“Placing”	the conditional placing by Brewin Dolphin of the Placing Shares at the Placing Price, pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement relating to the Placing dated 8 October 2010 between the Company, Brewin Dolphin and the Directors providing, <i>inter alia</i> , for the placing of the Placing Shares, details of which are set out in paragraph 13 of Part VIII of this document
“Placing Price”	means 175 pence per Placing Share
“Placing Shares”	the 5,228,376 new Ordinary Shares to be issued pursuant to the Placing
“Provantis®”	Provantis® Instem’s SaaS standard hosting package
“R&D”	Research and development

“SaaS”	Software-as-a-Service
“SAS”	SAS Institute Inc.
“SOA”	Service Orientated Architecture
“SEND”	Standard for the Exchange of Non-clinical Data. A US FDA-sponsored standard for the submission and exchange of non-clinical data
“Share Options”	options to subscribe for Ordinary Shares under the Share Option Scheme
“Share Option Scheme”	the rules of the Instem Life Science Systems plc Share Option Plan as summarised in paragraph 12 of Part VIII
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“Unapproved Options”	Share Options granted pursuant to the Share Option Scheme falling outside the EMI Scheme
“USA” or “US” or “United States”	United States of America, each State there of (including the District of Columbia), its territories, possessions and all areas subject to its jurisdiction
“VCT”	Venture Capitalist Trust
“USM”	Unlisted Securities Market
“Xybion” or “Xybion Medical Systems”	Xybion Medical Systems Corporation

