



Instem Life Science Systems plc Annual Report 2010



Information Solutions For Life

Instem (AIM:INS.L) is a leading supplier of IT solutions to the early development healthcare market. Instem's solutions accelerate drug and chemical development by increasing productivity, automating processes and enhancing practices that lead to safer and more effective drugs.

Instem has over 130 customers in North America, Europe, China, India and Japan, including sixteen of the top twenty pharmaceutical and biotech companies such as GlaxoSmithKline and AstraZeneca.

It is estimated that approximately half of the world's pre-clinical drug safety data has been collected over the last 20 years via Instem software.



The Provantis solution incorporates a comprehensive suite of modules required for managing and recording Early Development Safety Assessment (EDSA) studies, 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.

Installed on-site or using SaaS, 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.



Launched in September of 2010, the Centrus suite provides a single, secure environment to access, harmonise and use early drug development information from a variety of sources, including current data acquisition systems, legacy systems, warehouses, partner and contract research applications, to meet the rapidly-expanding needs of life science organisations for data-driven decision making.

By having the ability to access various sources and formats of data, Centrus adds value to existing systems; collating and standardising information and distributing the results to sponsors, regulators and partners. The suite provides powerful pre-built applications as well as the ability to utilise a range of sophisticated business intelligence and analysis tools.

The acquisition of BioWisdom greatly enhances the Centrus product suite capabilities and adds another compelling dimension to the Instem offering.

Our clients include these fine organisations...



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highlights

Highlights

Financial Highlights

- Revenues steady at £10.00m (2009: £9.99m)
- Recurring revenues accounted for 67% of total revenues (2009: 64%)
- Operating profit before amortisation and non-recurring costs increased by 2.0% to £2.23m (2009: £2.19m)
- Closing cash balance as at 31 December 2010 of £3.26m

We have established a profitable, cash-generative leading business in the niche market of early drug safety assessment. With fiscal and regulatory pressures driving the need for our solutions, we believe we now have a strong platform from which to achieve accelerated growth through the entry into complementary markets and geographies. Since our Admission to AIM in October 2010 we have made progress with both our organic and acquisitive growth strategies, acquiring BioWisdom in March 2011. We look forward to the future with confidence and will build on the successful execution of our strategy so far by continuing to drive growth through both internal investment and complementary acquisitions.

Phil Reason,
Chief Executive

Operational Highlights

- Successfully admitted to AIM in October 2010 to facilitate the growth strategy
- Won the majority of new business placed in the Early Development Safety Assessment (EDSA) market. Notable new customers included:
 - US National Institute of Environmental Health Sciences (NIEHS)
 - Shin Nippon Biomedical Laboratories USA
 - Shanghai Institute of Materia Medica
- Customer retention rate remained at over 95%
- Launched new product suite, Centrus™, extending addressable market
- Completed investment in a new Chinese operation
- Acquisition of BioWisdom Ltd, completed post year end on 3 March 2011, augmenting the Centrus suite

GROWTH

“We now have a strong platform from which to achieve growth through entry into complementary markets and regions, as fiscal and regulatory pressures continue to drive the need for Instem’s solutions, and customers pursue consolidation of the fragmented EDA supplier base.”

statement

Chairman's Statement

2010 proved to be a successful year for Instem in what has clearly been a challenging economic climate for many of our customers, prospects and competitors.

The progress we have achieved over recent years enabled us to consider taking the Company public, and in October we successfully raised £9.15m, before issue costs, from new investors and were admitted to trading on AIM, the London Stock Exchange's international market for smaller, growing companies. The transformation into a public Company has served to strengthen our position within the Early Development Safety Assessment (EDSA) market, and will enable us to execute our strategy of advancing into the broader Early Development Applications (EDA) market.

Revenues held steady at £10.00m, while operating profit before amortisation and non-recurring costs increased 2% to £2.23m.

This financial performance was achieved through a focus on the delivery of operational targets, whilst investing in a number of initiatives aimed at the continued long term development of Instem. In particular these included the launch of our new product suite, Centrus, and the completion of our investment in a new operation in China.

We were delighted to welcome many new customers during the year, including a division of the US Government and SNBL, one of the largest Contract Research Organisations in the US. We believe that we were successful in winning the majority of new business placed in the EDSA market in the period,

pointing to the strength of our product offering and customer support.

Our successful admission to AIM has enabled us to embark upon our M&A programme, which is planned to augment our organic growth. We were delighted to be able to announce, post period end, the acquisition of BioWisdom Limited, which will supplement and strengthen our Centrus product range.

We now have a strong platform from which to achieve growth through entry into complementary markets and regions, as fiscal and regulatory pressures continue to drive the need for Instem's solutions, and customers pursue consolidation of the fragmented EDA supplier base.

I would like to thank Instem's dedicated staff for their tremendous contribution in 2010 and look forward to sharing with them the anticipation and excitement we feel for 2011 and beyond.

David Gare
Chairman

DEVELOPMENT

“We have made significant headway in the development of the business. As planned, we have expanded our customer base, grown our market share, entered new geographies and launched new products to support future growth.”

review

Operational Review

In these results, our first since our successful IPO last year, we are pleased to report that we have made significant headway in the development of the business. As planned, we have expanded our customer base, grown our market share, entered new geographies and launched new products to support future growth.

Instem continues to win the majority of new business in the EDSA market; winning, we believe, at least two-thirds of that placed.

Customer Wins

We have achieved some significant new customer wins during the year. These included an order for 500 users of Provantis from SNBL USA, one of the leading Contract Research Organisations (CROs) in the United States, replacing a competitor's system. SNBL USA is a wholly-owned subsidiary of Shin Nippon Biomedical Laboratories Ltd, one of the largest CROs in Japan, which has approximately 2,000 team members worldwide.

Provantis was also selected by the US Government to assist in its National Toxicology Program in August 2010. This Software-as-a-Service (SaaS) order from the US National Institute of Environmental Health Sciences (NIEHS) will see Instem's software used in studies to be carried out at contract laboratories at various sites throughout the United States. It is a prestigious contract win for Instem, to be completely funded by the US federal government at a value of

over £420,000 for an initial two year period.

We were also pleased to record several successes in our new markets of China and Japan:

- The Shanghai Institute of Materia Medica (SIMM) purchased a subscription to Provantis in October 2010, becoming the first SaaS client in our newly established Shanghai data centre. SIMM, part of the Chinese Academy of Sciences, is highly ranked in China for its drug discovery and development activities with more than 70 drugs having been developed since its establishment.
- In conjunction with our Japanese distributor we carried out a comprehensive implementation project during 2010 for Mitsubishi Chemical Medience Corporation (MCM), one of Japan's largest CROs, who purchased Provantis in December 2009 following an extensive competitive evaluation. The implementation was for a wide range of Provantis modules for over 200 users across two sites, one in Kashima and one in Kumamoto, ultimately replacing two separate competitor systems. Such a contract with a large and established CRO acts as a great

endorsement for Provantis in both Japan and the wider Asia-Pacific region.

- In June 2010, we secured business from the pharmaceutical organisation Shionogi & Co Limited as a new client.

Recurring Revenues

It is a feature of the regulated market in which we operate that our customers require continuous support of their systems. Consequently the Group has maintained support contracts with all of its ongoing customers, and the customer retention rate remains high at over 95%. The level of renewals strongly underpins revenue expectations in 2011.

The Group has an average client relationship term exceeding 10 years and with customer numbers increasing each year, the level of these recurring revenues is expected to continue to provide an important contribution to our year-on-year performance.

The introduction of the SaaS delivery alternative in 2006 has also increased recurring revenues, adding to the visibility of future business.

Market Developments

The worldwide drug development industry accounts for over US\$65 billion of annual expenditure and had been growing at 9.1% a year as pharmaceutical companies (a) raced to combat a surge in patent expiration on a number of key drugs over the next two to three years, and (b) sought to cope with increasingly complex regulatory requirements. There is mounting pressure to achieve higher levels of productivity and efficiency along all stages of the drug and chemical development process. 2010 has seen a varied response by pharmaceutical companies, with some reducing and others increasing R&D expenditure in the face of these looming revenue challenges. Most, though, continue to see increased out-sourcing of EDSA studies as the preferred strategic option.

According to studies and management estimates, the life science industry's expenditure on IT solutions is estimated to have reached US\$17 billion by the end of 2010 and the EDA market is currently worth

approximately US\$500 million per annum. Instem's core EDSA subsector is worth approximately US\$60 million, giving Instem a market share of approximately 25 per cent.

Expanding Addressable Market

Through the launch of Centrus in October 2010 we have expanded our presence into the adjacent Data Document Management & Reporting market. The Centrus suite of products is an extension of the development work previously carried out for Provantis and whilst the two product suites can be seamlessly integrated, Centrus can also stand alone, integrating with competitor and complementary EDA systems. The successful launch has therefore considerably expanded our potential market.

We believe a key driver for the update of Centrus is the emergence of SEND (Standard for the Exchange of Non-clinical Data). SEND is a US FDA-sponsored initiative seeking to harmonise the presentation of vast amounts of data generated during early development, facilitating the retrieval and utilisation of that data both before and after regulatory submission. Centrus has the ability to add value to existing systems, and aids in the integration and sharing of current and historic data between sponsors and partners in a standardised form.

SEND completed its formal public review in February 2011. We expect the standard to progress to formal conclusion in the second half of 2011, followed by an indication by regulators that it is their preferred vehicle for electronic regulatory submissions. In anticipation, several pharmaceutical companies are now requesting that SEND data sets are created for current studies, resulting in new orders for Instem's submit™ SEND solution.

Expanding Geographical Reach

We believe that it is strategically important to have a presence in all major markets where early development facilities are located. Traditionally this has been in North America, Europe and Japan. However, increasingly these facilities are being located in emerging economies such as the People's Republic of China (PRC).

China

The preclinical development market is growing most rapidly in emerging markets and in particular, in China. Instem is expanding into such markets and during 2010 a localised version of Provantis was developed and a Wholly Foreign Owned Enterprise (WFOE) established in Shanghai. Instem now has a complete full-service local Chinese offering. Instem has recruited local staff; four people in client facing roles providing local sales, sales support, service implementations and customer support. In a relatively short amount of time, this office has had initial success with the securing of the first fully domestic Chinese client, the Shanghai Institute of Materia Medica (SIMM), adding to a number of existing Instem clients in China secured as a consequence of their strong US relationships.

In 2011 the Group will look to leverage the investment made throughout 2010, cement our presence in the region and add to the local client roster.

Japan

Increasingly, Japanese preclinical organisations are performing FDA regulated studies and they are now demanding solutions that meet the required international regulatory standards.

In 2006 Instem established a distributor relationship with CTCLS to capitalise on this market. CTCLS is one of Japan's leading providers of integrated R&D support systems for the life sciences sector and they support Instem solutions through their full service offices in Tokyo and Osaka. During 2010 this relationship proved very successful with the implementation of the major MCM order from late 2009 and the winning of Shionogi & Co Limited.

Software as a Service (SaaS)

All our solutions and services are available via a traditional on-site licensing/support route or via the hosted SaaS model. We believe the SaaS model to be particularly pertinent to the smaller laboratories market, where we have historically had limited presence. In the year we saw the number of users choosing the SaaS subscription model rather than the perpetual licensing model increase considerably. This included 100 users from the NIEHS contract alone.

In the year we strengthened our internal infrastructure so as to bolster our SaaS delivery systems by

improving our hosting capabilities and switching providers to DataPipe, whose data centre in Summit, New Jersey is much closer to Instem's US headquarters in Pennsylvania.

DataPipe also offers us a single global provider through its operations in Shanghai. This is increasingly important to Instem due to our growth in the Asia-Pacific region. The Shanghai-based data centre meets the highest standards for reliability, security and redundancy and is managed by experienced staff 365 days a year. This purpose built data centre features state-of-the-art network, power and environmental infrastructure and is ISO 9001 and SunTone™ certified.

Technology Partners

We continue to partner with leading technology providers to offer augmented capabilities within our product families.

We have worked closely with SAS® in the year, the leader in business and clinical data analytics software, to more cost effectively license our clients for the SAS® technology embedded within Provantis. This streamlines the deployment of Provantis and reduces the total cost of ownership for Instem clients. Instem continues to build on this relationship, which has had a highly successful first year, exceeding revenue targets under the SAS® alliance agreement. The partnership also provides access to SAS®'s marketing and technical capabilities worldwide, supporting the Company's international growth plans.

Asta Development Limited's Teamplan enterprise project portfolio and resource management solution is also integrated within the Provantis suite as part of our Toxicology Resource Planning module, TRP™. TRP had a strong 2010 with record sales and closed the year with a strong prospect pipeline.

Product Development

Provantis®

Instem continues to invest in Provantis, our market-leading EDSA product suite, to further consolidate our position as the vendor of choice for solutions that support the identification and development of safer drugs.

ACQUISITIONS

“An important aspect of the AIM flotation was our desire to supplement our organic growth with acquisitions of complementary businesses. Such acquisitions would consolidate the Group’s market position, complement our existing products, provide access to adjacent markets and increase efficiencies in the vertical supply chain. An early realisation of this objective was the acquisition, post period-end, of Cambridge-based BioWisdom.”

review

This year saw advances across the product suite to improve the effectiveness and efficiency of our customers' operations. Of particular note was the delivery of our Chinese product that enables indigenous Chinese product safety organisations to leverage the advantages that have been available in other geographies for a considerable period. As the only international EDSA vendor with a local Chinese office, we have been able to leverage the experience and knowledge of our local personnel to ensure that our translations are accurate and appropriate to support the Chinese user community. We were gratified to see this investment vindicated by the early adoption of the product by local customers.

In other areas of the suite we have advanced our sophisticated reporting capabilities by further extending the range and complexity of analyses that the system can handle. This means that customers have more power to shape the required analyses as they adopt new technologies in the search for new drugs.

Centrus™

The Centrus submit™ product has been further developed to address the requirements of the developing CDISC SEND standard for regulatory submissions to the US FDA. With the approaching publication of the final version of this standard, we believe the product is well-positioned for an anticipated increase in interest from the non-clinical development community.

Since the acquisition of BioWisdom, we have started to incorporate the relevant elements of its product set into the Centrus product suite. Early indications are that Omniviz®, for example, provides an excellent platform for the visualisation of SEND data sets and that other elements of the product set will play a significant role in adding value to our customers as they move into an increasingly electronic submissions and data interchange environment.

Acquisition Strategy

Pharmaceutical companies are acutely focused on productivity and are now looking to consolidate the number of suppliers they use. An important aspect of the AIM flotation was our desire to supplement our organic growth with acquisitions of complementary businesses. Such acquisitions would consolidate the Group's market position, complement our existing products, provide access to adjacent markets and increase efficiencies in the vertical supply chain.

Potential acquisition targets include direct competitors, related EDA providers in the areas of workflow/study management, data acquisition and analysis, modeling/predictive technologies and administrative solutions.

In order to ensure that we are best placed to execute this strategy we have allocated dedicated resources to this activity.

An early realisation of this objective was the acquisition, post period-end, of Cambridge-based BioWisdom Limited for an initial enterprise value of £0.90 million and a maximum total enterprise value of £1.50 million. BioWisdom is a leading provider of software solutions for extracting intelligence from R&D related healthcare data. The acquisition broadens and strengthens the Centrus product suite as well as providing opportunities for both organisations to cross sell solutions into complementary client bases. News of the acquisition has been very well received in the market and early integration of the businesses is progressing well.

EXPANSION

“The business continued to expand in our developing markets with revenue from outside North America and Europe increasing to 6% of revenues (2009: 3%) with significant wins in Japan and China.”

review

Financial Review

Revenue

The financial results demonstrate a year of solid performance. Total revenues were steady at £10.00m (2009: £9.99m) The business continued to expand in our developing markets with revenue from outside North America and Europe increasing to 6% of revenues (2009: 3%) with significant wins in Japan and China. In Instem's more traditional markets 58% of revenues were derived in North America (2009: 61%), 36% in Europe (2009: 36%).

Instem's business model consists of licence fees, annual support fees, SaaS subscription fees and professional services fees. Our sales mix has gradually changed in recent years. In 2009 approximately 64% of revenue was of a recurring nature, principally from annual renewal fees and hosting fees via SaaS and a small proportion of professional fees. This has increased yet further in 2010, to 67%, enhancing our level of visibility over future revenue and allowing us to invest confidently in future business initiatives.

The renewal of the annual support contracts was strong in 2010 with customer renewal rates in excess of 95%; this includes a significant multi-year deal with one of our major customers, reflecting their commitment to Instem and its existing and future products.

Operating Costs

As a software solutions business, the majority of our costs are employee related and typically represent approximately two thirds of total operating costs. In 2010 employee related costs were £5.19m of total costs of £7.77m. In 2009 these were £5.22m and £7.80m respectively.

There was an increase in our average employee number to 103 in 2010 (2009: 90), reflecting our investment in Centrus and the opening of our Shanghai office. We ended 2010 with 110 employees. Consequently we would expect an increase in our overall costs in 2011 as we continue to invest in these areas.

Profit from Operations

In 2010, profit from operations before amortisation and non-recurring costs was £2.23m (2009: £2.19m) an increase of 2%.

During 2010 our profit from operations was impacted by start up costs, including management time, of £0.24m associated with the establishment of our operation in China. Excluding these costs would result in an adjusted EBITA, before float costs, of £2.43m, an 11.5% increase over 2009. £0.04m of the costs associated with the establishment of our operation in China are included in the non-recurring costs of £0.39m.

review

After taking these non-recurring costs into account, Group profit from operations was £1.81m (2009: £2.14m).

The business continues to generate more than 58% of its revenue in US dollars and therefore we continue to closely monitor the exchange rate. In 2010 we have not seen a significant impact through exchange rate movements with the average exchange rate in the year of \$1.5474 (2009: \$1.5647).

Pension Scheme

There was an increase in the defined benefits pension scheme liability as calculated under IAS 19 to £1.48m (2009: £1.08m).

Cash Flow

During the year the Group generated £0.72m (2009: £3.8m) from its operations. In addition, the Company raised £3.44m of new money, net of expenses and repayment of loan notes through the issue of new shares at the IPO. In January 2010 the Group repaid the outstanding loan note of £2.55m to Alchemy Partners.

As a result, the Group had net cash reserves of £3.26m as at 31 December 2010, compared with £2.72m at 31 December 2009.

The board has not recommended the payment of a dividend.

Admission to AIM

Instem was admitted to AIM on 13 October 2010, following the raising of £9.15m (prior to expenses) through a placing by Brewin Dolphin of 5,228,376 new Ordinary Shares at the placing price of 175p per share. The funds raised have been utilised to repay loan notes of £4.89m to existing shareholders and the balance will be used to facilitate future strategic acquisitions.

Share Capital and Reserves

The total issued share capital amounted to £1.17m (2009: Nil) representing 11,714,286 shares of 10p nominal value and the share premium account has increased to £7.81m (2009: Nil) as a result of the issue of the shares during the year.

Outlook

2010 has been a year of substantial strategic development for Instem. The achievement of the successful AIM IPO in October provides the platform to implement our ambitions for the future growth of the business. We have successfully executed on the strategy outlined at the time of our IPO last year and will continue to drive growth through internal investment and complementary acquisitions.

Importantly, we have maintained our leading position in our niche EDSA market, expanded our addressable market through the launch of a new product suite, Centrus, and grown our impressive blue-chip customer base.

With plans to launch additional products, enhance customer relationships and increase product penetration with existing clients, we look forward to the future with confidence.

Phil Reason

Chief Executive

board



David Gare

aged 67 – Non-executive Chairman

David was a founder member of the Company's former parent, Instem Limited and 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 and the buyout of Instem LSS Limited from Alchemy Partners in 2002. Throughout David has concentrated on value creation through achievement of a strong market position.



Phil Reason

aged 49 – 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 the former parent Company, Instem Limited, in 1982 and was appointed Managing Director of the Life Sciences division in 1995 and Chief Executive Officer of Instem LSS Limited on the demerger from Instem Limited. 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 integration businesses.



Jim McLauchlan

aged 54 – Chief Financial Officer

Jim 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 LSS Limited in 2003 and has executive responsibility for Finance & Administration, Human Resources and IT. Jim 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.



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.



David Sherwin

aged 54 – Non-executive Director

David is a qualified Management Accountant and holds an MBA from Staffordshire University. He joined Instem Limited 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.

reports

DIRECTORS' REPORT

The directors submit their report and the Group and Company financial statements on Instem Life Science Systems plc for the 52 week period ended 31 December 2010.

Principal Activities

The principal activity of the Group is the provision of world-class information solutions for Life Sciences research and development. The principal activity of the Company is that of a holding Company.

Review of the Business

A full review of the business is given on pages 5 to 17.

The Company was incorporated on 5 February 2010.

On 1 October 2010 the Company acquired the entire issued share capital of Instem LSS Group Limited. The acquisition of Instem LSS Group Limited does not qualify as a business combination under IFRS 3 'Business Combinations' as Instem Life Science Systems plc does not meet the definition of a business within that standard. As a consequence the transaction is being treated as a pooling of interests to reflect the substance of the transaction as described more fully in the accounting policies.

On 13 October 2010 the Company was admitted to the Alternative Investment Market ("AIM") raising funds before expenses of £9.15m. The funds raised have been utilised to repay loan notes of £4.89m to existing shareholders and the balance will be used to facilitate future strategic acquisitions.

In measuring the successful development of the business, the directors focus on three important performance indicators which strongly underwrite the future performance of the Group:

1. Total number of customers

In 2010 the Group had a total of 77 customers (2009: 66 customers) for continuing products.

2. Recurring revenue

The Group generates a substantial proportion of revenue from fees in respect of annual support and routine upgrade services. The value of these recurring fees in 2010 was £6.7m (2009: £6.4m).

3. New product orders

In 2010 the value of orders from new products developed and new markets entered during the preceding three years amounted to £0.90m (2009: £0.96m).

Future Developments

The directors consider that the continued investment in product and market development will allow the business to grow organically in its core markets. Investment in business growth initiatives will also allow the business to move into new product and market areas. The combination of organic growth along with strategic acquisitions will support the expected growth as outlined in the Chairman's statement and the Operational Review.

Risks and Uncertainties

The directors consider that the global pharmaceutical market is likely to continue to provide growth opportunities for the business. The combination of the high level of annual support renewals and low levels of customer attrition provides revenue visibility to underpin the Company strategy on product and market development.

The Group seeks to mitigate exposure to all forms of risk through a combination of regular performance review and a comprehensive insurance programme.

The global nature of the market means that the Group is exposed to currency risk as a consequence of the significant proportion of its revenue being recognised in US Dollars. The Group continually assesses the most appropriate approach to managing its currency exposure in line with the overall goal of achieving predictable earnings growth.

Research and Development Activities

The Group continues its development programme of software for the global pharmaceutical market including the research and development of new products and enhancement to existing products. The directors consider the investment in research and development to be fundamental to the success of the business in the future.

In 2010 development expenditure was £1.65m (2009:£1.66m) before capitalised expenditure of £0.36m (2009:£0.07m).

Dividends

The directors do not recommend the payment of a dividend.

Directors

The following directors have held office since 5 February 2010:

D Gare (appointed 15 September 2010)
 M F McGoun (appointed 15 September 2010)
 D M Sherwin (appointed 15 September 2010)
 P J Reason (appointed 15 September 2010)
 J McLauchlan (appointed 15 September 2010)
 M S Thorne (appointed 5 February 2010, resigned 15 September 2010)
 M P Harris (appointed 5 February 2010, resigned 15 September 2010)

Details of the directors' service contracts and their respective notice terms are detailed in the Remuneration Committee report on page 26.

Directors and Their Interests

The interests of the directors, who held office at 31st December 2010 and up to the date of this report, were as follows:

No. of Shares	2010	2009
David Gare	2,278,427	-
David Sherwin	1,580,066	-
Phil Reason	665,287	-
Jim McLauchlan	144,936	-
Mike McGoun	14,286	-

Directors' interests in share options are detailed in the Remuneration Committee report on page 26.

Employee Involvement

The general policy of the Company is to welcome employee involvement as far as it is reasonably practicable. Employees are kept informed of progress by regular Company meetings and monthly management reports.

Political and Charitable Contributions

The Group made charitable contributions in the year of £819 (2009: £900), matching contributions made by employees to a Give As You Earn scheme. No political donations were made in 2010 or 2009.

Policy on Payment of Suppliers

It is the Company's policy to make payments to suppliers in accordance with the agreed terms and conditions of supply, provided that the supplier has performed in accordance with the terms of supply. Trade payables at 31 December 2010 represented 36 days purchases (2009: 39 days).

Financial Instruments

The Group's objectives and policies on financial instruments are set out in note 18 to the financial statements.

Indemnity of Officers and Directors

Under the Company's Articles of Association and subject to the provisions of the Companies Act, the Company may and has indemnified all directors or other officers against liability incurred in the execution or discharge of their duties or the exercise of their powers, including but not limited to any liability for the costs of any legal proceedings. The Company has purchased and maintains appropriate insurance cover against legal action brought against directors or officers.

Annual General Meeting

The Annual General Meeting of the Company will be held on 31st May 2011 at the offices of Brewin Dolphin, Manchester. The resolutions to be proposed at the Annual General Meeting, together with explanatory notes appear in a separate notice of Annual General Meeting which is sent to all shareholders. The proxy card for registered shareholders is distributed along with the notice.

Statement as to Disclosure of Information to Auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Auditors

Baker Tilly UK Audit LLP, Chartered Accountants, were appointed auditors by the Company. Pursuant to section 487 of the Companies Act 2006, a resolution to appoint Baker Tilly UK Audit LLP as auditors will be put to the members at the forthcoming AGM.

On behalf of the board

Jim McLauchlan

Director

Diamond Way
Stone Business Park
Stone
Staffordshire
ST15 0SD

27 April 2011

CORPORATE GOVERNANCE REPORT

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, taking account of the QCA guidelines for smaller quoted companies. The board 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:

- 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 Group'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.

Attendance at Board and Committee Meetings

Attendances of directors at board and committee meetings convened in the period since flotation, along with the number of meetings they were invited to attend are set out below:

No of meetings in the period	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive directors				
Phil Reason	3/3	1/1	-	-
Jim McLauchlan	3/3	1/1	-	-
Non Executive directors				
David Gare	3/3	1/1	1/1	-
David Sherwin	3/3	1/1	1/1	-
Mike McGoun	3/3	1/1	1/1	-

Audit Committee

The Audit Committee comprises Mike McGoun (Chairman), David Gare and David Sherwin, all of whom are non-executive directors of the Company. The board is satisfied that the Audit Committee has all the recent and relevant financial experience required to fulfil the role.

Appointments to the Audit Committee are made by the board in consultation with the Nomination Committee and the chairman of the Audit Committee. The Audit Committee meets at least three times a year and any other time as required by either the chairman of the Audit Committee or 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.

The Audit Committee:

- a. monitors the financial reporting and internal financial control principles of the Company;
- b. maintains appropriate relationships with external auditors including considering the appointment and remuneration of external auditors and reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process;

- c. reviews 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. reviews and discusses (where necessary) any issues and recommendations of the external auditors including reviewing the external auditors' management letter and management's response;
- e. considers all major findings of internal operational audit reviews and management's response to ensure co-ordination between internal and external auditors;
- f. reviews the board's statement on internal reporting systems and keep the effectiveness of such systems under review; and
- g. considers all other relevant findings and audit programmes of the Company.

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.

Remuneration Committee

The Remuneration Committee comprises Mike McGoun (Chairman), David Gare and David Sherwin, all of whom are non-executive directors of the Company.

The members of the Remuneration Committee are appointed by the board on recommendation from the Nomination Committee. The Chief Executive Officer of the Company is normally invited to meetings of the Remuneration Committee to discuss the performance of other executive directors but is not involved in any of the decisions. The Remuneration Committee invites any person it thinks appropriate to join the members of the Remuneration Committee at its meetings. The

Remuneration Committee meets at least once a year and any other time as required by either the chairman of the Remuneration Committee or the Chief Financial Officer of the Company.

The Remuneration Committee:

- a. ensures that the executive directors are fairly rewarded for their individual contributions to the overall performance of the Company but also to ensure that the Company avoids paying more than is necessary for this purpose;
- b. considers the remuneration packages of the executive directors and any recommendations made by the Chief Executive Officer 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. oversees and reviews 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. demonstrates to the Company's shareholders that the remuneration of the executive directors is set by an independent committee of the board; and
- e. considers and makes 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 reports formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities. The Remuneration Committee produces an annual report which is included 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.

Nomination Committee

The Nomination Committee comprises David Gare (Chairman), Mike McGoun and David Sherwin, all of whom are non-executive directors of the Company.

Appointments to the Nomination Committee are made by the board, in consultation with the chairman of the Nomination Committee.

The Nomination Committee may invite any person it thinks appropriate to join the members of the Nomination Committee at its meetings. The Nomination Committee meets at least once per year.

The Nomination Committee:

- a. regularly reviews the structure, size and composition (including skills knowledge and experience) required of the board compared to its current position and makes recommendations to the board with regard to any changes;
- b. gives 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 needed on the board in the future;

- c. is responsible for identifying and nominating for the approval of the board, candidates to fill board vacancies as and when they arise;
- d. evaluates the balance of skills, knowledge and experience on the board before an appointment is made and, in light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

The chairman of the Nomination Committee reports formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Nomination Committee also makes recommendations to the board concerning:

- a. formulating plans for succession for both executive and non-executive directors and in particular 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. 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 reasonably necessary or appropriate.

Internal Controls

The directors are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The board and senior executives meet to review both the risks facing the business and the controls established to minimise those risks and their effectiveness in operation on an ongoing basis. The aim of these reviews is to provide reasonable assurance that material risks and problems are identified and appropriate action taken at an early stage.

Going Concern

The directors have prepared and reviewed financial forecasts. After due consideration of these forecasts and current cash resources, the directors consider that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future (being a period of at least twelve months from the date of this report), and for this reason the financial statements have been prepared on a going concern basis.

On behalf of the board

Jim McLauchlan
Company Secretary

DIRECTORS' REMUNERATION REPORT

Instem Life Science Systems plc is not required to comply with Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to directors' remuneration reports or the Listing Rules, as a company on AIM. The disclosures contained within this report are, therefore, made on a voluntary basis and in keeping with the board's commitment to best practice.

Remuneration Committee

The Remuneration Committee ('the Committee') is composed entirely of non-executive directors. The committee was formed upon the public listing of the Company 13th October 2010. The Chairman of the Committee is Mike McGoun. The terms of reference for the committee are to determine the Company's policy on Executive remuneration and to consider and approve the remuneration packages for directors and key executives of the Company, subject to ratification by the board. During the period 13th October to 31st December 2010, the Committee met once. Full details of the elements of each director's remuneration are set out on page 27. Details of share-based payments to directors are shown in note 6 to the financial statements.

Policy on Executive Director Remuneration

The Company's current and ongoing policy aims to ensure that executive directors are rewarded fairly for their individual contributions to the Company's overall performance and is designed to attract, retain and motivate executives of the right calibre. The Committee is responsible for recommendations on all elements of Executive remuneration including, in particular, basic salary, annual bonus, share options and any other incentive awards. In implementing the remuneration policy, the Committee has regard to factors specific to the Company, such as salary and other benefit arrangements within the Company and the achievement of the Company's strategic objectives. The Committee determines the Company's Policy on Executive remuneration with reference to comparable companies of similar market capitalisation, location and business sector.

Basic Salary

The basic salaries of Executive directors are reviewed annually having regard to individual performance and position within the Company and are intended to be competitive but fair using information provided from both internal and external sources.

Performance Related Annual Bonus

Executive directors are eligible for a performance related bonus based on Company performance, in particular, the achievement of profit and cash targets. The performance related annual bonus forms a significant part of the level of remuneration considered appropriate by the Committee. In addition to the formal bonus scheme, the Committee has the discretion to recommend the payment of ad hoc awards to reflect exceptional performance.

Pensions

Contributions are made to the Executive directors' personal pension schemes up to a maximum of 16.5% of basic salary.

Benefits

Benefits comprise private healthcare and critical illness cover. No director receives additional remuneration or benefits in relation to being a director of the board of the Company or any subsidiary of the Company.

Service Contracts

The executive directors have service contracts with a maximum notice period of 12 months.

The board determines the Company's policy on non-executive directors' remuneration.

David Gare, David Sherwin and Mike McGoun each have a 3 year contract starting October 2010 with a notice period of 3 months during or after expiry of the fixed term.

DIRECTORS' REMUNERATION REPORT

The actual emoluments paid to directors in the year ended December 31st 2010 are as follows:

	Salary (inc bonus)	Benefits	Pension	2010 Total	2009 Total
Executives					
P. Reason	158	4	24	186	212
J. McLauchlan	72	11	16	99	119
Non-executives					
D. Gare	240	5	-	245	53
D.M. Sherwin	128	2	-	130	52
M. McGoun	5	-	-	5	-
Total	603	22	40	665	436

Directors' and Employees' Share Options

No of meetings in year	Exercise price (£)	Issue date	Held at 31/12/09	Granted During Year	Exercised during Year	Lapsed during Year	Held at 31/12/2010
Phil Reason Ordinary shares	1.75	13/10/2010	-	187,428	-	-	187,428
Jim McLauchlan Ordinary shares	1.75	13/10/2010	-	93,714	-	-	93,714
Employees Ordinary shares	1.75	13/10/2010	-	304,569	-	-	304,569
Total				585,711	-	-	585,711

Further detail of the terms of the option agreements is given in note 6.

Approved by the board and signed on its behalf by:

Mike McGoun

Independent non-executive director

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under Company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Instem Life Science Systems plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INSTEM LIFE SCIENCE SYSTEMS PLC

We have audited the Group and parent Company financial statements ("the financial statements") on pages 30 to 77. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent's affairs as at 31 December 2010 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Geoff Wightwick FCA (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP,
Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF
27 April 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEK PERIOD ENDED 31 DECEMBER 2010

	Note	52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000	
REVENUE	1	10,001	9,989	
Operating expenses	2	(7,768)	(7,802)	
PROFIT FROM OPERATIONS BEFORE AMORTISATION AND EXCEPTIONAL COSTS		2,233	2,187	
Amortisation of intangibles		(34)	(47)	
PROFIT BEFORE EXCEPTIONAL COSTS		2,199	2,140	
Non-recurring costs	2	(388)	-	
PROFIT FROM OPERATIONS		1,811	2,140	
Non-recurring flotation costs	2	(295)	-	
Finance income	3	263	735	
Finance costs	4	(364)	(407)	
PROFIT BEFORE TAXATION		1,415	2,468	
Income tax expense	8	(514)	(762)	
PROFIT FOR THE FINANCIAL PERIOD		901	1,706	
OTHER COMPREHENSIVE INCOME/(EXPENSE)				
Actuarial gain/(loss) on retirement benefit obligations	21	(576)	(158)	
Deferred tax on actuarial gain		147	44	
Currency translation differences on foreign currency net investment		18	(266)	
OTHER COMPREHENSIVE INCOME/(EXPENSE)		(411)	(380)	
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		490	1,326	
Profit attributable to Equity Holders of the Parent Company		901	1,706	
Total comprehensive income attributable to Equity Holders of the Parent Company		490	1,326	
Earnings per share	Basic	23	11.7p	26.3p
	Diluted	23	11.7p	26.3p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2010

	Note	31 December 2010		31 December 2009		31 December 2008	
		£000	£000	£000	£000	£000	£000
ASSETS							
NON-CURRENT ASSETS							
Intangible assets	9	6,417		6,090		6,072	
Property, plant and equipment	11	166		127		154	
Deferred taxation	20	321		297		345	
TOTAL NON-CURRENT ASSETS			6,904		6,514		6,571
CURRENT ASSETS							
Inventories	12	137		62		61	
Trade and other receivables	13	1,595		1,832		2,900	
Cash and cash equivalents	14	3,263		2,716		-	
Current taxation		-		-		30	
TOTAL CURRENT ASSETS			4,995		4,610		2,991
TOTAL ASSETS			11,899		11,124		9,562
LIABILITIES							
CURRENT LIABILITIES							
Trade and other payables	15	5,536		6,310		5,659	
Current taxation	16	85		300		-	
Financial liabilities	17	253		2,552		558	
TOTAL CURRENT LIABILITIES			5,874		9,162		6,217
NON-CURRENT LIABILITIES							
Trade and other payables	15	-		29		93	
Financial liabilities		-		-		2,577	
Retirement benefit obligations	21	1,477		1,081		1,149	
TOTAL NON-CURRENT LIABILITIES			1,477		1,110		3,819
TOTAL LIABILITIES			7,351		10,272		10,036
EQUITY							
Share capital	22	1,171		649		649	
Share premium	24	7,813		-		-	
Merger reserve	24	(932)		4,218		4,218	
Translation reserve	24	377		359		625	
Retained earnings	24	(3,881)		(4,374)		(5,966)	
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			4,548		852		474
TOTAL EQUITY AND LIABILITIES			11,899		11,124		9,562

The financial statements on pages 30 to 77 were approved by the board of directors and authorised for issue on 27 April 2011 and are signed on its behalf by:

Phil Reason
Director

Jim McLauchlan
Director and Company Secretary

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2010

	Note	31 December 2010	
ASSETS		£000	£000
NON-CURRENT ASSETS			
Investments	10	16,500	
TOTAL NON-CURRENT ASSETS			16,500
CURRENT ASSETS			
Trade and other receivables	13	64	
Cash and cash equivalents	14	3,100	
TOTAL CURRENT ASSETS			3,164
TOTAL ASSETS			19,664
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	66	
Financial liabilities	17	253	
TOTAL CURRENT LIABILITIES			319
EQUITY			
Share capital	22	1,171	
Share premium	24	7,813	
Merger reserve	24	10,702	
Retained earnings	24	(341)	
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			19,345
TOTAL EQUITY AND LIABILITIES			19,664

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 52 WEEK PERIOD ENDED 31 DECEMBER 2010

	Note	52 week period ended		53 week period ended	
		31 December 2010		31 December 2009	
		£000	£000	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES					
Result before taxation		1,415		2,468	
Adjustments for:					
Depreciation		75		66	
Amortisation of intangibles		34		47	
Share based payments		21		-	
Retirement benefit obligations		(206)		(316)	
Finance income		(263)		(735)	
Finance costs		364		407	
CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL			1,440		1,937
Changes in working capital:					
(Increase)/decrease in inventories			(75)		(1)
(Increase)/decrease in trade and other receivables			266		1,090
Increase/(decrease) in trade and other payables			(915)		790
CASH GENERATED FROM OPERATIONS			716		3,816
Finance costs			(296)		(317)
Income tax paid			(510)		(103)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES			(90)		3,396
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income received		263		322	
Income tax paid		(95)		(237)	
Purchase of intangible assets		(361)		(65)	
Purchase of property, plant and equipment		(111)		(47)	
NET CASH USED IN INVESTING ACTIVITIES			(304)		(27)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		9,150		-	
Share issue costs		(731)		-	
Stamp duty		(83)		-	
Series A Loan notes repaid		(4,897)		-	
Payment of finance lease liabilities		(3)		(9)	
Alchemy loan note repayment		(2,550)		-	
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES			886		(9)
NET INCREASE IN CASH AND CASH EQUIVALENTS			492		3,360
Cash and cash equivalents at start of period			2,716		(549)
Effect of exchange rates on cash and cash equivalents			55		(95)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14		3,263		2,716

COMPANY STATEMENT OF CASH FLOWS FOR THE 52 WEEK PERIOD ENDED 31 DECEMBER 2010

	Note	52 week period ended	
		31 December 2010	
		£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES			
Result before taxation			(341)
Finance income		(6)	
Finance cost		3	
CASH FLOWS FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL			(344)
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(64)	
Increase/(decrease) in trade and other payables		66	
CASH USED IN OPERATIONS			(342)
Finance costs		-	(3)
NET CASH USED IN OPERATING ACTIVITIES			(345)
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		6	
Purchase of property, plant and equipment		-	
NET CASH GENERATED FROM INVESTING ACTIVITIES			6
CASH FLOWS FROM FINANCING ACTIVITIES			
Share issue proceeds		9,150	
Share issue costs		(731)	
Stamp duty		(83)	
Loan note repayment		(4,897)	
NET CASH GENERATED FROM FINANCING ACTIVITIES			3,439
NET INCREASE IN CASH AND CASH EQUIVALENTS			3,100
Cash and cash equivalents at start of period			-
CASH AND CASH EQUIVALENTS AT END OF PERIOD			3,100
	14		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Called up share capital	Share Premium	Merger Reserve	Translation Reserve	Retained Earnings	Total Equity
	£000	£000	£000	£000	£000	£000
Balance as at 31 December 2008	649	-	4,218	625	(5,966)	(474)
Profit for the year	-	-	-	-	1,706	1,706
Other comprehensive income/(expense)	-	-	-	(266)	(114)	(380)
Total comprehensive income for the year	-	-	-	(266)	1,592	1,326
Share based payments	-	-	-	-	-	-
Balance as at 31 December 2009	649	-	4,218	359	(4,374)	852
New share capital	522	8,628	-	-	-	9,150
Costs of issue	-	(815)	-	-	-	(815)
Loan notes issued on acquisition	-	-	(5,150)	-	-	(5,150)
Profit for the year	-	-	-	-	901	901
Other comprehensive income/(expense)	-	-	-	18	(429)	(411)
Total comprehensive income for the year	-	-	-	18	472	490
Share based payments	-	-	-	-	21	21
Balance as at 31 December 2010	1,171	7,813	(932)	377	(3,881)	4,548

COMPANY STATEMENT OF CHANGES IN EQUITY

	Called up share capital	Share Premium	Merger Reserve	Translation Reserve	Retained Earnings	Total Equity
	£000	£000	£000	£000	£000	£000
Balance as at 31 December 2008	-	-	-	-	-	-
New share capital	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-
Balance as at 31 December 2009	-	-	-	-	-	-
New share capital	1,171	8,628	-	-	-	9,799
Cost of issue	-	(815)	-	-	-	(815)
Merger relief	-	-	10,702	-	-	10,702
Loss and total comprehensive income for the year	-	-	-	-	(341)	(341)
Balance as at 31 December 2010	1,171	7,813	10,702	-	(341)	19,345

ACCOUNTING POLICIES

General Information

The principal activity of the Group is the provision of world class information solutions for life sciences research and development. Instem Life Science Systems Plc 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 statements 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.

The Group's accounting reference date is 31 December.

The acquisition of the Instem LSS Group does not qualify as a business combination under IFRS 3 'Business Combinations' as Instem Life Science Systems Plc does not meet the definition of a business within that standard. As a consequence the transaction is being treated as a pooling of interests to reflect the substance of the transaction which is that of the continuation of the existing Instem LSS Group.

Under the pooling of interests basis the legal shares and share premium of Instem Life Science Systems plc are shown in the current year and comparative year as if they had existed throughout the periods shown. The comparative trading results and retained earnings, together with the full year trade to 31 December 2010, are those of the Instem LSS Group as if that trade had continued throughout. The difference between the consideration given on the acquisition and the share capital and share premium of the Instem LSS Group at that date has been recognised in the merger reserve, together with the merger relief taken by the Company. The loan notes issued in exchange for the shares in Instem LSS Group Limited have been treated as a distribution. The liability for those loan notes has been recognised in the current period when the company was contractually obligated to pay it and the cost of the distribution has been recognised directly in equity.

The financial statements have 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 statements.

Basis of Consolidation

The consolidated financial statements incorporate those of the parent Company, Instem Life Science Systems Plc, and its subsidiary undertakings made up to 31 December 2010 and 31 December 2009.

In preparing the consolidated financial statements, 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 statements of a subsidiary Company differ from Group policies, adjustments are made to bring these policies in line with Group policies.

Subsidiaries

Subsidiaries are entities over which the Group 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 the Group up until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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. Costs directly attributable to the acquisition are recognised in profit or loss as they are incurred. 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 non-controlling interest.

In accordance with Section 408 of the Companies Act 2006 the company has elected not to present its own profit and loss account. The loss for the period of the parent company is £341,000.

Going Concern

Having made appropriate enquiries, the directors consider that the Group has adequate resources to enable it to continue in operation for the foreseeable future. The Group has a significant proportion of recurring revenue from a well established global customer base, supported by a largely fixed cost base. A Group working capital facility has been put in place to support the working capital needs in 2011.

The financial position of the Group, its cash flows and liquidity position are set out in the primary statements of these financial statements. Detailed projections have been made for the 12 months following the approval of the financial statements and sensitivity analysis undertaken. This work gives the directors confidence as to the future trading performance of the Group. Accordingly the directors continue to adopt the going concern basis for the preparation of the financial statements.

Revenue Recognition

The Group follows 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 the Group.

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.

ACCOUNTING POLICIES

Revenue Recognition (continued)

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 over revenue is included in accruals and deferred income. If the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within prepayments and accrued income.

Profit from Operations Before Amortisation

Profit from operations before amortisation is profit arising from the Group's normal trading activities stated before amortisation of intangible assets and non-recurring items, interest and taxation.

Profit from Operations

Profit from operations is profit from the Group's ordinary activities stated before costs of admission to AIM, finance costs and income, and income taxes.

Segmental Reporting

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

Since the Group is 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 reporting 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 reporting 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 profit or loss upon disposal of the foreign operation.

The presentational currency adopted by the Group is Sterling (£). The functional currencies of the principal companies in the Group are as follows:

Instem LSS Group limited - Sterling (£)
Instem LSS Limited - Sterling (£)
Instem LSS (North America) Limited - US Dollars (\$)
Instem LSS Asia Limited - Sterling (£)
Instem Information Systems (Shanghai) Limited - Renminbi

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

	US Dollar (\$)
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:	1.5647
Closing rate at 31 December 2009:	1.6147
Average rate for period ended 31 December 2010:	1.5474
Closing rate at 31 December 2010:	1.5657

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 Statement of Consolidated Income.

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.

ACCOUNTING POLICIES

Share-Based Payment Transactions

The Group has applied the requirements of IFRS 2 Share-Based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 31 December 2006.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair values are measured by use of the Black-Scholes and the Monte-Carlo simulation models depending on the existence of market based vesting conditions. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

Options over the Company's shares granted to employees of subsidiaries are recognised as a capital contribution by the Company to the subsidiaries.

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. The Group's 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.

The Group makes 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 the Group's 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, 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 licences 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.

Other intangible assets

Internally generated intangible assets

Expenditure on research activities is recognised in profit or loss as incurred.

Expenditure arising from the Group's development of software for sale to third parties is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Group has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

ACCOUNTING POLICIES

Intangible Assets (continued)

Where these criteria have not been achieved, development expenditure is recognised in profit or loss in the period in which it is incurred.

Internally-generated intangible assets are amortised, once the product is available for use, on a straight-line basis over their useful lives (five to eight years)

Property, Plant and 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 reporting date the Group reviews the carrying value of its 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 the Group estimates 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 reporting date, the Group reviews the carrying value of its 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. For the purposes of the cash flow statement, 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.

ACCOUNTING POLICIES

Financial Instruments (continued)

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 the Group after deducting all of its 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. Overdrafts are offset against cash and cash equivalents when the Company has a legal right of off-set.

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

The Group's activities expose it primarily to foreign currency risk. The Group uses forward contracts to hedge this exposure. The Group does not use derivative financial instruments for speculative purposes.

The Group does not adopt the hedge accounting provisions and as such, these derivatives are classified as financial instruments held for trading in accordance with IAS 39. They are initially and subsequently measured at fair value with gains and losses recognised in the statement of comprehensive income.

Retirement Benefits

Defined contribution schemes

A defined contribution scheme is a pension plan under which the Group pays 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. The Group has no further payment obligations once the contributions have been paid.

Defined benefit schemes

A defined benefit scheme is a pension plan under which the Group pays 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.

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.

Actuarial gains and losses are recognised in the statement of other comprehensive income in the year in which they occur, whilst expected returns on plan assets, servicing costs and financing costs are recognised in profit and loss.

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 the Group has 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.

First Time Adoption of IFRS

The Group and Company financial statements have been prepared in accordance with IFRS, IASs and International Financial Reporting Interpretations Committee (IFRICs) effective as at the 31 December 2010. The Group and Company have not chosen to adopt any amendments or revised standards early.

The Group has not applied IFRS 1 First-time Adoption of IFRS in the current year as it is in substance a continuation of the Group headed by Instem LSS Group Limited. Instem LSS Group Limited's financial statements for the period ended 31 December 2009 were converted from UK GAAP to EU-adopted IFRS for the purposes of the Company's admission to AIM in October 2010 along with its comparatives for 2008 and 2007. The Group considers its first financial statements prepared under IFRS to be those for the period ended 31 December 2009. The date of transition is considered to be the beginning of the earliest period presented ie 1 January 2007. For information purposes, the reconciliations of equity and profit for 2009, 2008 and 2007 in respect of Instem LSS Group Limited have been provided in note 30 along with the equity position as at the date of transition.

ACCOUNTING POLICIES

IFRSs Issued but Not Yet Effective

The following IFRSs, IASs and IFRICs have been issued, are not yet effective, and have not been adopted by the Group or the Company in these financial statements. The directors do not believe the adoption will have a material impact on the business.

- IFRS 1 'First-time Adoption of IFRS - Amendment; Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters' effective for periods commencing on or after 1 July 2010.
- IFRS 1 'First-time Adoption of IFRS - Amendment; Severe Hyper Inflation and Removal of Fixed Dates for first time adopters' effective for periods commencing on or after 1 July 2011 (not yet EU endorsed).
- IFRS 7 'Financial Instruments: Disclosures - Amendment; Transfer of Financial Assets' effective for periods commencing on or after 1 July 2011 (not yet EU endorsed).
- IAS 12 'Income Taxes - Amendment; Deferred Tax Recovery of Underlying Assets' effective for periods commencing on or after 1 January 2012 (not yet EU endorsed).
- 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 32 'Financial Instruments: Presentation – Amendment; Classification of Rights Issues' was issued on 8 October 2009 and is effective for periods commencing on or after 1 February 2010.
- IFRIC 14 'Amendment – Prepayments of a Minimum Funding Requirement' was issued on 26 November 2009 and is effective for periods commencing on or after 1 January 2011.
- IFRIC 19 'Extinguishing Financial Liabilities With Equity Instruments' effective for periods commencing on or after 1 July 2010.
- IFRS 9 'Financial Instruments' was issued on 12 November 2009 and is effective for periods commencing on or after 1 January 2013 (not yet EU endorsed).
- Improvements to IFRS (May 2010) – Amendments to standards effective for periods commencing on or after 1 January 2011.

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental Reporting

For management purposes, the Group is 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.

THIRD PARTY REVENUE			
		52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
INFORMATION BY PRODUCT TYPE			
	Licence fees	1,953	2,085
	Annual support fees	5,933	5,803
	SaaS subscription fees	789	502
	Professional services	1,203	992
	Funded development initiatives	123	607
		10,001	9,989

THIRD PARTY REVENUE			
		52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
INFORMATION BY GEOGRAPHICAL LOCATION			
	UK	1,339	1,131
	Rest of Europe	2,231	2,438
	USA and Canada	5,822	6,125
	Rest of World	609	295
		10,001	9,989

NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION			
		52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
INFORMATION BY GEOGRAPHICAL LOCATION			
	UK	6,353	6,004
	Rest of Europe	-	-
	USA and Canada	205	213
	Rest of World	25	-
		6,583	6,217

NOTES TO THE FINANCIAL STATEMENTS

Significant Customers

The Group generates external revenue from one customer which individually amounts to more than 10% of the Group revenue. Revenue in respect of this customer for the period ending 31 December 2010 amounted to £1.46m (2009: £2.06m) and is reflected across all of the reportable locations.

2. Profit from Operations

	52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
Profit from operations includes the following significant items:		
Depreciation and amounts written off property, plant and equipment:		
Charge for the year:		
Owned assets	67	58
Leased assets	8	8
Amortisation of intangible assets	34	47
Research and development costs	1,287	1,595
Foreign exchange (gains)/losses recognised in operating expenses	37	110
Operating lease rentals:		
Plant and machinery	136	187
Land and buildings	310	271
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	4	7
Other services:		
Audit of subsidiaries where such services are provided by Baker Tilly UK Audit LLP or its associates	29	22
Taxation services	36	5
Services pursuant to companies legislation	4	-
Corporate finance services	67	-
Other services	17	-
	157	34

NOTES TO THE FINANCIAL STATEMENTS

2. Profit from Operations (continued)

The following table analyses the nature of expenses:-

	2010 £'000	2009 £'000
Staff costs (see note 5)	5,190	5,219
Depreciation, amortisation and impairments (see notes 9 and 10)	75	66
Premises costs	417	378
Marketing expenses	141	51
Professional fees	82	77
Other expenses	1,863	2,011
Total operating expenses	7,768	7,802

Non-Recurring Costs

During the year the Group paid a non-recurring bonus of £0.35m (2009: Nil) to the directors of Instem LSS Group Limited in respect of past service.

The Group incurred costs of £0.30m in respect of professional advice received in connection with the flotation of the business.

In addition the Group paid £0.04m in respect of non-recurring third party legal and professional expenses for the incorporation of Instem Information Systems (Shanghai) Limited in China.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCE INCOME		
	52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
Bank interest	263	322
Foreign exchange gains	-	413
	263	735

4. FINANCE COSTS		
	52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
Bank loans and overdrafts	297	309
Foreign exchange losses	37	-
Expected returns on pension scheme assets	(326)	(237)
Interest on pension scheme liabilities	356	327
Other	-	8
	364	407

5. EMPLOYEES		
	52 week period ended 31 December 2010 Number	53 week period ended 31 December 2009 Number
Average monthly number (including executive directors)		
By role:		
Directors, administration, and supervision	28	21
Software design, sales and customer service	75	69
	103	90
	52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
Employment costs:		
Wages and salaries	4,297	4,285
Social security costs	414	403
Retirement benefits	479	531
	5,190	5,219

In 2010 an additional non-recurring payment to shareholder/directors of £0.35m was made, which is not included in the above table.

A charge of £0.02m (2009: £nil) arises in respect of share based payments.

NOTES TO THE FINANCIAL STATEMENTS

6. Share-Based Payments

Equity-Settled Share Option Plan

Under the approved and unapproved option schemes, the Remuneration Committee can grant options to employees of the Group. Options are granted with a fixed exercise price which is equal to the market price at the date of grant. The contractual life is generally ten years from the date of grant. Options become exercisable after three years. Certain options issued to directors and senior employees carry market based performance conditions.

	2010	
	Options	Weighted average exercise price (£)
Outstanding at the beginning of the period	-	-
Granted	585,711	1.75
Outstanding at end of the period	585,711	-
Exercisable at 31 December	-	1.75

The options outstanding at December 2010 had an exercise price of £1.75 and a weighted average remaining contractual life of 9.75 years.

Options are valued using the Black-Scholes and Monte-Carlo option-pricing models and the fair market value has been estimated using the following key assumptions:

Average exercise price	£1.75
Average market price	£1.75
Total number of options under grant	585,711
Average vesting period (years)	3
Expected volatility	22%-26%
Option life (years)	10
Expected life	6
Risk free rate	1.9%
Expected dividend yield	0%
Expected lapse rate	0%
Fair value of options	£0.38-£0.51

Expected volatility was determined by calculating the historical volatility of a comparable business, prior to the period when the Company's shares were listed on the AIM market. Volatility since listing has been calculated using the daily mid market share price. The expected life used in the model has been adjusted, based upon the management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Options over 351,426 shares incorporate a market performance condition based on the Company's share price.

NOTES TO THE FINANCIAL STATEMENTS

7. DIRECTORS' EMOLUMENTS	52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
Amounts payable by Instem Life Science Systems plc:		
Emoluments	23	-
Amounts payable by subsidiary companies:		
Emoluments	602	395
Money purchase pension contributions	40	41
Total emoluments	665	436

	52 week period ended 31 December 2010 Number	53 week period ended 31 December 2009 Number
Number of directors to whom retirement benefits are accruing under:		
Defined contribution schemes	2	2

The highest paid director is shown in the Directors' Remuneration Report on page 27.

NOTES TO THE FINANCIAL STATEMENTS

8. Taxation

	52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
Current tax:		
UK corporation tax on profits of the period	379	604
Double tax relief	(212)	(189)
Foreign tax	274	330
Adjustments in respect of previous periods	(50)	(75)
Total current tax	391	670
Deferred tax:		
Origination and reversal of timing differences	73	31
Adjustments in respect of previous periods	-	(2)
Pension scheme	50	63
Total deferred tax	123	92
Income tax charge	514	762

Factors affecting tax charge for the period:	52 week period ended 31 December 2010 £000	53 week period ended 31 December 2009 £000
The tax assessed for the period is higher than the standard rate of corporation tax in the UK 28%. The differences are explained below:		
Profit before tax	1,415	2,468
Profit before tax multiplied by standard rate of corporation tax in the UK 28%	396	691
Effects of:		
Expenses not deductible for tax purposes	84	6
Differences in overseas tax rates	84	140
Prior period adjustments	(50)	(75)
Total income tax charge for the period	514	762

NOTES TO THE FINANCIAL STATEMENTS

9. Intangible Assets

Group 31 December 2009	Goodwill £000	Software £000	Total £000
Cost at beginning of year	5,858	362	6,220
Additions	-	65	65
Cost at end of period	5,858	427	6,285
Amounts written off			
At beginning of year	-	148	148
Charged in the year	-	47	47
Amortisation at end of period	-	195	195
Net book value at end of period	5,858	232	6,090

Group 31 December 2010	Goodwill £000	Software £000	Total £000
Cost at beginning of year	5,858	427	6,285
Additions	-	361	361
Cost at end of period	5,858	788	6,646
Amounts written off			
At beginning of year	-	195	195
Charged in the period	-	34	34
Amortisation at end of period	-	229	229
Net book value at end of period	5,858	559	6,417

Impairment of goodwill

All the goodwill, amounting to £5.86m, relates to a single cash generating unit, being the Instem business acquired on the management buyout of Instem LSS Limited on 27 March 2002. During the period, goodwill was tested for impairment in accordance with IAS 36 "Impairment of Assets". The recoverable amounts for the 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 used, which are based on management's past experience, 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 approved forecasts for one year which has then been extrapolated to cover a period of five years, being the maximum period which management considers can reliably be forecast. At 31 December 2010 a pre tax discount rate of 8.33% was used in the value in use calculation based on the Company's cost of capital. In determining the value in use, cashflows have not been increased to reflect potential growth.

Projected cashflows were based on detailed Company profit and cashflow projections through to 2012 with no assumption of growth beyond 2012. The projections were based on reasonable assumptions in respect of business growth rates, payroll and other cost increases and related cashflow impacts. Based on the expected value in use compared to the carrying value of goodwill the directors did not consider that a sensitivity analysis was necessary at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

10. Investments

Company-cost and net book value	£000's
At 31 December 2009	-
Investment in Instem LSS Group Limited	16,500
At 31 December 2010	16,500

On 1 October 2010 the Company acquired the entire issued share capital of Instem LSS Group Limited.

The Company has one wholly-owned subsidiary and four wholly-owned sub-subsidiaries, details of which are as follows:

Company	Activity	Ownership
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

NOTES TO THE FINANCIAL STATEMENTS

11. Property, Plant and Equipment

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

Group 31 December 2010	Short leasehold property	Plant and equipment	Motor vehicles	Total
	£000	£000	£000	£000
Cost				
	30	2,989	12	3,031
Additions	15	96	-	111
Exchange adjustment	-	13	-	13
Disposals	-	(251)	-	(251)
Cost at end of period	45	2,847	12	2,904
Depreciation				
	18	2,874	12	2,904
Charged in the period	2	73	-	75
Exchange adjustment	-	10	-	10
Disposals	-	(251)	-	(251)
Depreciation at end of period	20	2,706	12	2,738
Net book value at end of period	25	141	-	166

The net book value of plant and equipment includes £Nil in respect of assets held under finance leases. Depreciation for the period on these assets was £8,000 (2009:£8,000)

NOTES TO THE FINANCIAL STATEMENTS

12. Inventories

Group	31 December 2010 £000	31 December 2009 £000
Work in progress	137	62
	31 December 2010 £000	31 December 2009 £000
Total gross inventories	137	75
Inventory impairment	-	(13)
	137	62
	31 December 2010 £000	31 December 2009 £000
Inventory impairment:		
At beginning and end of period	-	13

13. Trade and Other Receivables

Group	31 December 2010 £000	31 December 2009 £000
Trade receivables	959	1,104
Other receivables	32	4
Prepayments and accrued income	604	724
	1,595	1,832
Company		
Other receivables	64	-
	64	-

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 period 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:	31 December 2010 £000	31 December 2009 £000
At beginning of year	2	-
(Credit)/charge for the period	-	2
At end of period	2	2

The average credit period taken on sale of goods is 33 days (31 December 2009: 37 days).

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

NOTES TO THE FINANCIAL STATEMENTS

13. Trade and Other Receivables (continued)

The age profile of the net trade receivables for the Group at the year-end was as follows:

Debt age – 'days overdue'						
31 December 2009		Current	0-30 days	31-60 days	Over 60 days	Total
Trade receivables						
Value (£000)		923	152	27	2	1,104
%		84	14	2	-	100

Debt age – 'days overdue'						
31 December 2010		Current	0-30 days	31-60 days	Over 60 days	Total
Trade receivables						
Value (£000)		834	98	16	11	959
%		87	10	2	1	100

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

		31 December 2010 £000	31 December 2009 £000
Sterling		714	885
Euro		31	5
US Dollar		838	942
Renminbi		12	-
		1,595	1,832

NOTES TO THE FINANCIAL STATEMENTS

14. Cash and Cash Equivalents

	31 December 2010 £000	31 December 2009 £000
Group		
Cash at bank	12,085	11,479
Bank overdraft	(8,822)	(8,763)
	3,263	2,716
Company		
Cash at bank	3,100	-

The Group overdraft facility has a net limit of £1,200,000 and gross facility of £9,000,000. Interest is charged on the bank overdraft at 3% above base rate up to the above limit and 6% above base rate on any remainder. The bank overdraft is secured by fixed and floating charges over certain of the Group's assets. All balances are denominated in Sterling.

The overdraft facility is renewable annually in March.

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

	31 December 2010 £000	31 December 2009 £000
Sterling	2,654	1,208
Euro	136	142
US Dollar	394	1,362
Other	79	4
	3,263	2,716

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

15. Trade and Other Payables

	31 December 2010 £000	31 December 2009 £000
Group		
Current		
Trade payables	257	291
Other taxation and social security costs	123	171
Other payables	29	72
Accruals and deferred income	5,127	5,776
	5,536	6,310
Non Current		
Other payables	-	29
Company		
Trade payables	37	-
Group payables	29	-
	66	-

NOTES TO THE FINANCIAL STATEMENTS

15. Trade and Other Payables (continued)

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

	31 December 2010 £000	31 December 2009 £000
Sterling	2,444	3,042
US Dollar	3,022	3,297
Renminbi	70	-
	5,536	6,339

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.

16. Current Taxation

The current tax payable of £85,000 (31 December 2009: £300,000) represents the amount of income taxes payable in respect of current and prior periods.

17. Financial Liabilities

31 December 2009	Total	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	More than five years
Group	£000	£000	£000	£000	£000	£000	£000
Loan notes	2,549	2,549	-	-	-	-	-
Finance leases	3	3	-	-	-	-	-
	2,552	2,552	-	-	-	-	-

31 December 2010	Total	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	More than five years
Group and Company	£000	£000	£000	£000	£000	£000	£000
Series B Loan notes	253	253	-	-	-	-	-
	253	253	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

17. Financial Liabilities (continued)

Loan notes

The loan note obligations can be analysed as below:

12.5% Fixed Rate Loan Notes	31 December 2010 £000	31 December 2009 £000
Discounted value	-	1,300
Accrued interest	-	1,249
	-	2,549

The loan notes were redeemed in full on 26 January 2010.

Series B Loan Notes

The Series B Loan Notes were issued on October 5th 2010. The note is unsecured and bears interest at the rate of 1.75% above bank base rate. The loan note plus accrued interest is repayable in full on 13th October 2011.

Due to the short maturity the directors believe the carrying value approximates to fair value.

Obligations under finance leases	Minimum lease payments 31 December 2010 £000	Present value of minimum lease payments 31 December 2010 £000	Minimum lease payments 31 December 2009 £000	Present value of minimum lease payments 31 December 2009 £000
Amounts payable under finance leases				
Within 1 year	-	-	3	3
Within 2-5 years inclusive	-	-	-	-
After 5 years	-	-	-	-
	-	-		3
Less: future finance charges	-		-	
Present value of lease obligations	-		3	
Disclosed as:				
Current	-		3	
Non-current	-		-	
	-		3	

NOTES TO THE FINANCIAL STATEMENTS

18. Financial Instruments

All financial instruments held by the Group, as detailed in this note, are classified as “Loans and Receivables” (trade and other receivables, excluding prepayments, and cash and cash equivalents), “Financial Liabilities Measured at Amortised Cost” (trade and other payables, excluding statutory liabilities, 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

The Group’s activities expose it 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 the Group, under policies approved by the board, are interest rate risk, foreign currency risk, liquidity risk and credit risk.

The Group has in place risk management policies that seek to limit the adverse effects on the financial performance of the Group 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

The Group operates internationally and is 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. The Group has both cash inflows and outflows in this currency that create a natural hedge.

In managing currency risks the Group aims to reduce the impact of short-term fluctuations on the Group’s cash inflows and outflows in a foreign currency. The Group also hedges any material foreign currency transaction exposure. During the year the Group entered into US dollar hedging arrangements with fixed forward contracts which all expired prior to the reporting date and an American Ratio forward accrual contract.

Over the longer term, changes in foreign exchange could have an impact on consolidation of foreign subsidiaries earnings. The assumption in 2010 was based on a forecast that the US Dollar to sterling rate would be 1.60. A 10% decrease in the value of sterling against the US dollar would result in an increase in the Group’s profit before tax by approximately £0.30m.

Interest rate risk

The Group operates an interest rate policy designed to minimise interest costs and reduce volatility in reported earnings.

The Group bank facility does not allow the US Dollar cash balances to generate interest therefore the Group transfers 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 2010 indications are that the UK bank rate will increase by 0.5% over the next 12 months. On the basis of the floating net cash position at 31 December 2010 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% would increase pre-tax net interest income by £14,000.

NOTES TO THE FINANCIAL STATEMENTS

18. Financial Instruments (continued)

31 December 2009	Fixed rate	Floating rate	Non-interest bearing	Total
	£000	£000	£000	£000
Trade and other receivables	-	-	1,385	1,385
Cash and cash equivalents	-	1,207	1,509	2,716
Trade payables	-	-	(1,417)	(1,417)
Loan notes	(2,549)	-	-	(2,549)
Obligations under finance leases	-	-	(3)	(3)
	(2,549)	1,207	1,474	132

31 December 2010	Fixed rate	Floating rate	Non-interest bearing	Total
	£000	£000	£000	£000
Trade and other receivables	-	-	1,250	1,250
Cash and cash equivalents	-	3,067	196	3,263
Trade payables	-	-	(908)	(908)
Loan notes	-	(253)	-	(253)
Obligations under finance leases	-	-	-	-
	-	2,814	538	3,352

Credit risk

Management aim to minimise the risk of credit losses.

The Group's financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables and the Group has policies in place to ensure that sales of products and services are made to customers with appropriate creditworthiness.

The amounts presented in the Statement of Financial Position are net of impairment provisions, estimated by the Group's 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. The Group has significant concentration of credit risk, with significant exposure relating to a number of counterparties:

31 December 2009

Customer A - £190,814 (17%)

31 December 2010

Customer A - £ 223,220 (23%)

The Group's exposure to losses from defaults on trade receivables is reduced due to contractual terms which require support fees to be invoiced and paid annually in advance.

NOTES TO THE FINANCIAL STATEMENTS

18. Financial Instruments (continued)

Note 13 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 the Group will not be able to meet its financial commitments as they fall due.

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

The Group regularly monitors its available headroom under its borrowing facilities. At 31 December 2010 £1.2m of undrawn facilities was available (31 December 2009: £0.24m).

In respect of the Group's interest-bearing financial liabilities, the table in note 17 includes details at the reporting date of the periods in which they mature.

NOTES TO THE FINANCIAL STATEMENTS

19. Derivative Financial Instruments

The Group utilises derivatives to hedge its foreign currency exposure arising from future transactions and cash flows. During the year the Group entered in to an accrual forward contract to exchange \$25,000 per month at an agreed rate of \$1.456/£ for a 19 month period. If the exchange rate rises above \$1.635, the contract terminates and if the exchange rate falls below \$1.395/£1, the Company is committed to exchange a further \$25,000 at \$1.395/£.

The fair value of the derivative at 31 December 2010 is £488 which has been calculated using option pricing models that take into account historical USD/GBP volatility. It falls under level 2 of the fair value hierarchy as its valuation has been based on observable inputs. The derivative and the fair value gain have not been recognised in the financial statements on the grounds of immateriality.

At the reporting date, the total notional amount outstanding on foreign exchange forward contracts that the Group has committed to are as follows:

	31 December 2010 \$000	31 December 2009 \$000
US Dollars	275	-

20. Deferred Tax

	31 December 2010 £000	31 December 2009 £000
Deferred tax assets		
- amounts due to be recovered within 12 months	-	-
- amounts due to be recovered after 12 months	431	362
Deferred tax liabilities		
- amounts due to be settled within 12 months	-	-
- amounts due to be settled after 12 months	(110)	(65)
Net position	321	297

The movement in the period in the Group's net deferred tax position was as follows:

	31 December 2010 £000	31 December 2009 £000
At beginning of the period	297	345
Charge/(Credit) to income for the year	(123)	(92)
(Charge)/credit to other comprehensive income for the period	157	44
Effect of change in tax rate – equity	(10)	-
At end of the period	321	297

NOTES TO THE FINANCIAL STATEMENTS

20. Deferred Tax (continued)

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

Deferred tax asset/(liabilities)	Accelerated tax depreciation £000	Tax losses £000	Retirement benefit obligations £000	Total £000
At 31 December 2008	(30)	54	321	345
Charge to profit or loss for the period	(20)	(9)	(63)	(92)
Charge to equity for the period	-	-	44	44
At 31 December 2009	(50)	45	302	297
Charge to profit or loss for the period	(54)	(19)	(50)	(123)
Charge to equity for the period	-	-	147	147
At 31 December 2010	(104)	26	399	321

NOTES TO THE FINANCIAL STATEMENTS

21. Retirement Benefit Obligations

Defined contribution pension scheme

The Company has 3 active defined contribution schemes and a closed defined contribution scheme:

Group Personal Pension Plan- the scheme was created on 31 December 2008. The Scheme is a contributory money purchase scheme with the employer matching employee contributions to a maximum of 5%. The employer also contributes to the Scheme for former members of the Instem LSS Pension Scheme at rates varying from 5% to 18%. Employer contributions for the period ended 31 December 2010 were £0.37m (31 December 2009: £0.37m).

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 2010 were £0.03m (31 December 2009: £0.04m).

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%.

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 2010 were £ Nil (31 December 2009: £3,000).

Defined benefit pension scheme

The Group 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 2010 by a qualified independent actuary.

NOTES TO THE FINANCIAL STATEMENTS

21. Retirement Benefit Obligations (continued)

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.

	31 December 2010	31 December 2009
	%	%
Discount rate	5.8	6.1
Expected return on plan assets	6.1	6.7
Inflation	3.6	3.4
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions in payment	3.6	3.4
Rate of increase in pensions in deferment	3.6	3.4

ANALYSIS OF AMOUNT CHARGED TO THE STATEMENT OF COMPREHENSIVE INCOME	31 December 2010	31 December 2009
	£000	£000
Current service cost	-	-
Past service cost	-	-
Total operating charge	-	-

ANALYSIS OF AMOUNT CREDITED TO OTHER FINANCE COSTS	31 December 2010	31 December 2009
	£000	£000
Expected returns on pension scheme assets	326	237
Interest on pension scheme liabilities	(356)	(327)
Net finance charge	(30)	(90)

ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME	31 December 2010	31 December 2009
	£000	£000
Actual return less expected return on pension scheme assets	235	557
Experience losses arising on scheme liabilities	(77)	(18)
Changes in assumptions underlying the present value of the scheme liabilities	(734)	(697)
Actuarial gain/(loss) recognised in other comprehensive income	(576)	(158)

NOTES TO THE FINANCIAL STATEMENTS

21. Retirement Benefit Obligations (continued)

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION		31 December 2010 £000	31 December 2009 £000
Opening defined benefit obligation		5,893	4,901
Service cost		-	-
Interest cost		356	327
Actuarial (gain)/loss		811	715
Benefits paid		(104)	(50)
Closing defined benefit obligation		6,956	5,893

CHANGES IN THE FAIR VALUE OF PLAN ASSETS		31 December 2010 £000	31 December 2009 £000
Opening plan assets		4,812	3,752
Expected return		326	237
Actuarial (loss)/gain		235	557
Contributions by employer		210	316
Benefits paid		(104)	(50)
Closing plan assets		5,479	4,812

		31 December 2010 £000	31 December 2009 £000
Present value of funded obligations		(6,956)	(5,893)
Fair value of plan assets		5,479	4,812
Deficit		(1,477)	(1,081)
Related deferred tax asset		399	302
Net pension liability		(1,078)	(779)

NOTES TO THE FINANCIAL STATEMENTS

21. Retirement Benefit Obligations (continued)

ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME		Cumulative 31 December 2010 £000	Cumulative 31 December 2009 £000
Actual return less expected return on pension scheme assets		(51)	(286)
Experience gains and losses arising on scheme liabilities		(910)	(833)
Changes in assumptions underlying the present value of the scheme liabilities		590	1,324
Cumulative actuarial (loss)/gain recognised in other comprehensive income		(371)	205

MAJOR CATEGORIES OF PLAN ASSETS AS A PERCENTAGE OF FAIR VALUE OF TOTAL PLAN ASSETS

	31 December 2010		31 December 2009	
	£000	%	£000	%
Equities	4,054	74	3,512	73
Property	110	2	100	2
Bonds	438	8	473	10
Corporate Bonds	219	4	525	11
Cash	603	11	202	4
Other	55	1	-	-
	5,479	100	4,812	100

The five year history of experience adjustments are as follows:

	31 December 2010 £000	31 December 2009 £000	31 December 2008 £000	31 December 2007 £000	31 December 2006 £000
Present value of defined benefit obligation	(6,956)	(5,893)	(4,901)	(6,303)	(6,078)
Fair value of plan assets	5,479	4,812	3,752	4,335	3,646
Deficit	(1,477)	(1,081)	(1,149)	(1,968)	(2,432)
Experience adjustments on plan liabilities	(77)	(18)	(431)	(31)	(71)
Experience adjustments on plan assets	235	557	(1,390)	(7)	176

The Company expects to contribute £310,500 to its defined benefit plans in the next financial year (31 December 2010: £210,000).

NOTES TO THE FINANCIAL STATEMENTS

22. Share Capital

	31 December 2010 £000	31 December 2009 £000
Allotted, called up and fully paid		
11,714,286 ordinary shares of 10p each	1,171	-

The following share capital movements occurred in the period:

- On incorporation one ordinary share of £1 was incurred at par.
- On 5 October 2010 the one ordinary share of £1 was sub-divided into 10 ordinary shares of 10p each.
- On 5 October 2010 6,485,900 ordinary shares of 10p each were issued at a premium of £10,701,735.
- On 13 October 2010 5,228,376 ordinary shares of 10p each were issued at a premium of £8,626,820.

Under the pooling of interests basis the share capital as at 5 October 2010 is deemed to have been in existence throughout the periods presented.

23. Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme. The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

	2010			2009		
	Profit after tax (£000's)	Weighted average number of shares (000's)	Earnings per share (pence)	Profit after tax (£000's)	Weighted average number of shares (000's)	Earnings per share (pence)
Earnings per share- basic	901	7,698	11.7	1,706	6,486	26.3
Potentially dilutive shares		23	-	-	-	-
Earnings per share- diluted	901	7,721	11.7	1,706	6,486	26.3

NOTES TO THE FINANCIAL STATEMENTS

23. Earnings Per Share (continued)

Adjusted earnings per share

	2010			2009		
	Profit after tax (£000's)	Weighted average number of shares (000's)	Earnings per share (pence)	Profit after tax (£000's)	Weighted average number of shares (000's)	Earnings per share (pence)
Earnings per share- basic	901	7,698	11.7	1,706	6,486	26.3
Effect of share-based payments	21	-	0.3	-	-	-
Effect of non-recurring items	683	-	8.9	-	-	-
Effect of tax on non- recurring items	(191)	-	(2.5)	-	-	-
Adjusted earnings per share	1,414	-	18.4	-	-	-
Potentially dilutive shares		23	-	-	-	-
Adjusted earnings per share-diluted	1,414	7,721	18.4	1,706	6,486	26.3

24. 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 less the costs of new share issues.

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.

Merger reserve

The merger reserve represents the difference between the consideration payable at the date of acquisition, net of merger relief, and the share capital and share premium of Instem LSS Group Limited.

Capital management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future. The Group also aims to maximise its capital structure of debt and equity so as to minimise its cost of capital.

NOTES TO THE FINANCIAL STATEMENTS

24. Reserves (continued)

The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing ratio on a regular basis.

The Group considers its capital to include share capital, share premium, translation reserve, retained earnings, and net debt as noted below.

Net debt includes short and long-term borrowings (including overdrafts, redeemable preference shares and lease obligations) net of cash and cash equivalents.

The Group has not made any changes to its capital management during the year.

25. Capital Commitments

There were no capital commitments at the end of the financial period.

26. Operating Leases Payable

	31 December 2010 £000	31 December 2009 £000
Minimum lease payments under operating leases recognised as an expense in the period	446	458
At the balance sheet date, the Group has outstanding commitments under operating leases, which fall due as follows:		
	31 December 2010 £000	31 December 2009 £000
Land and buildings		
Within one year	334	271
In the second to fifth year inclusive	1,220	952
After five years	1,411	1,396
Plant and machinery		
Within one year	119	142
In the second to fifth year inclusive	65	207
After five years	-	17
	3,149	2,985

Operating lease payments represent rentals payable by the Group 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. The directors estimate that the current liability is not material to warrant provision at the period end.

NOTES TO THE FINANCIAL STATEMENTS

27. Related Party Transactions

Transactions between Group companies have not been disclosed as these have all been eliminated in the preparation of the financial information. During the year the Company has traded in its normal course of business with shareholders and consultancy businesses in which directors have a material interest as follows;

Key management compensation:	2010 £000	2009 £000
Fees for services provided as non-executive directors		
Salaries and short term benefits	380	105
Executive directors		
Salaries and short term benefits	285	331
Other key management		
Salaries and short term employee benefits	227	321

In addition the Company paid £0.02m (2009: Nil) to Instem Ventures, a company owned by Adrian Gare, a shareholder. The balance outstanding at the end of the year was £Nil (2009: Nil)

Key management are considered to be the directors together with the Senior Vice-President of Client Services and the Senior Vice-President of Product Development

28. 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

The Group makes 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 balance sheet are net of allowances for doubtful receivables, estimated by the Group's 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 the Group's defined benefit pension schemes. Details of these assumptions are disclosed in note 21.

Goodwill impairment

At each reporting date, the Group reviews the carrying amounts of its 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, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS

29. Post Balance Sheet Events

On March 4th 2011 the Company acquired BioWisdom Ltd ("BioWisdom"), a leading provider of software solutions for extracting intelligence from R&D related healthcare data, for an initial enterprise value of £0.90 million and a maximum total enterprise value of £1.50 million, subject to certain performance criteria. Initial cash consideration paid was £0.2m plus £0.7m of unsecured creditors which were taken on. The additional performance related consideration will be paid equally in cash and by the issue of shares.

At the date of approval of the financial statements, the initial accounting for this acquisition is incomplete and therefore full information required by IFRS 3 (revised) relating to the acquisition cannot be disclosed.

30. Reconciliation to IFRS

The effects of the transition from UK GAAP to IFRS are shown in the reconciliation statements on the following pages.

The UK GAAP columns included in the reconciliations represent the numbers previously reported. However the presentation has been amended to comply with IAS 1 (Revised). There were no material adjustments to the statement of cash flows.

The adjustments relate to the following:

Intangible assets

Under IFRS 3, goodwill is not amortised on a straight line basis but instead is subject to annual impairment testing. Consequently the goodwill balances were reviewed for impairment at 31 December 2007, 26 December 2008 and 31 December 2009 and no impairment adjustments were identified.

The Company has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to date of transition. Amortisation expensed under UK GAAP since the date of transition has been added back to the carrying value of goodwill in the statement of financial position and amortisation of intangibles for the period reduced.

Purchase software and licences

Under UK GAAP, purchased software and licences were included within tangible fixed assets on the Balance Sheet. Under IAS 38 'Intangible Assets' such items are disclosed as intangible assets and are amortised over their remaining useful lives. A reclassification from property, plant and equipment to intangible assets has been accounted for.

Internal Development Costs

Development costs under UK GAAP have been expensed. Development costs meeting the criteria of IAS 38 for capitalisation have been capitalised and amortised over their useful lives with a corresponding adjustment to operating expenses.

Financial liabilities

A number of leases have been reclassified between operating and finance leases. Although the finance lease test under UK GAAP is broadly similar to IFRS, on review of the lease contracts, a number of leases met the criteria under IAS 17 for capitalisation as finance leases which were previously recognised as operating leases under UK GAAP. These have therefore been capitalised within the statement of financial position within property, plant and equipment with their relevant liability being included in financial liabilities. The assets are being depreciated over their remaining useful lives.

Deferred tax (IAS 12)

In accordance with IAS 12 the deferred taxation relating to the defined benefit pension scheme obligation has been reclassified to be shown separately from the retirement benefit obligation at the end of each period. In addition, deferred tax has been re-presented and shown as non-current on the face of the statement of financial position in accordance with IAS 1 (Revised) Presentation of financial statements.

The effects of changes in foreign exchange rates (IAS 21)

UK GAAP permitted exchange differences arising on retranslation of overseas operations to be recognised against retained earnings. IAS 23 requires a separate translation reserve to be created within equity. Under IFRS 1 the translation reserve was deemed to be £nil at the date of transition.

NOTES TO THE FINANCIAL STATEMENTS

30 a) Reconciliation of consolidated statement of financial position as at 1 January 2007

	As previously reported UK GAAP	Adjustments	As restated UK GAAP	Effect of transition to IFRS	Restated under IFRS
	£000	£000	£000	£000	£000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	5,858	-	5,858	43	5,901
Property, plant and equipment	132	-	132	(17)	115
Deferred tax	-	-	-	923	923
TOTAL NON-CURRENT ASSETS	5,990	-	5,990	949	6,939
CURRENT ASSETS					
Inventories	276	-	276	-	276
Trade and other receivables	1,212	-	1,212	-	1,212
Cash and cash equivalents	7,339	(7,339)	-	-	-
Deferred tax	202	-	202	(202)	-
TOTAL CURRENT ASSETS	9,029	(7,339)	1,690	(202)	1,488
TOTAL ASSETS	15,019	(7,339)	7,680	747	8,427
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	4,634	17	4,651	-	4,651
Current taxation	370	-	370	-	370
Financial liabilities	8,126	(7,339)	787	1	788
TOTAL CURRENT LIABILITIES	13,130	(7,322)	5,808	1	5,809
NON-CURRENT LIABILITIES					
Trade and other payables	211	-	211	-	211
Financial liabilities	1,951	-	1,951	1	1,952
Retirement benefit obligations	1,702	-	1,702	730	2,432
TOTAL NON-CURRENT LIABILITIES	3,864	-	3,864	731	4,595
TOTAL LIABILITIES	16,994	(7,322)	9,672	732	10,404
EQUITY					
Share capital	1	-	1	-	1
Share premium	4,866	-	4,866	-	4,866
Translation reserve	-	-	-	-	-
Retained earnings	(6,842)	(17)	(6,859)	15	(6,844)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(1,975)	(17)	(1,992)	15	(1,977)
TOTAL EQUITY AND LIABILITIES	15,019	(7,339)	7,680	747	8,427

NOTES TO THE FINANCIAL STATEMENTS

30 b) Reconciliation of consolidated statement of comprehensive income for the 52 weeks ended 31 December 2007

	As previously reported UK GAAP	IAS 19 Holiday pay provision	As restated UK GAAP	Effect of transition to IFRS	Restated under IFRS
	£000	£000	£000	£000	£000
REVENUE	7,990	-	7,990	-	7,990
Operating expenses	(6,219)	(2)	(6,221)	24	(6,197)
PROFIT FROM OPERATIONS BEFORE AMORTISATION	1,771	(2)	1,769	24	1,793
Amortisation of intangibles	(1,116)	-	(1,116)	1,092	(24)
PROFIT FROM OPERATIONS	655	(2)	653	1,116	1,769
Finance income	563	-	563	-	563
Finance costs	(992)	-	(992)	-	(992)
PROFIT BEFORE TAXATION	226	(2)	224	1,116	1,340
Income tax expense	(638)	-	(638)	1	(637)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	(412)	(2)	(414)	1,117	703
Other comprehensive income					
Actuarial gain on retirement benefit obligations	208	-	208	-	208
Deferred tax on actuarial gain	(103)	-	(103)	-	(103)
Currency translation differences on foreign currency net investment	(36)	-	(36)	-	(36)
OTHER COMPREHENSIVE INCOME	69	-	69	-	69
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR	(343)	(2)	(345)	1,117	772

NOTES TO THE FINANCIAL STATEMENTS

30 c) Reconciliation of consolidated statement of financial position as at 31 December 2007

	As previously reported UK GAAP	Adjustments	As restated UK GAAP	Effect of transition to IFRS	Restated under IFRS
	£000	£000	£000	£000	£000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	4,742	-	4,742	1,171	5,913
Property, plant and equipment	116	-	116	3	119
Deferred tax	-	-	-	711	711
TOTAL NON-CURRENT ASSETS	4,858	-	4,858	1,885	6,743
CURRENT ASSETS					
Inventories	148	-	148	(12)	136
Trade and other receivables	2,093	-	2,093	-	2,093
Cash and cash equivalents	8,242	(8,242)	-	-	-
Deferred tax	168	-	168	(168)	-
TOTAL CURRENT ASSETS	10,651	-	2,409	(180)	2,229
TOTAL ASSETS	15,509	(8,242)	7,267	1,705	8,972
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	5,351	19	5,370	-	5,370
Current taxation	81	-	81	-	81
Financial liabilities	8,604	(8,242)	362	10	372
TOTAL CURRENT LIABILITIES	14,036	(8,223)	5,813	10	5,823
NON-CURRENT LIABILITIES					
Trade and other payables	173	-	173	-	173
Financial liabilities	2,201	-	2,201	12	2,213
Retirement benefit obligations	1,417	-	1,417	551	1,968
TOTAL NON-CURRENT LIABILITIES	3,791	-	3,791	563	4,354
TOTAL LIABILITIES	17,827	(8,223)	9,604	573	10,177
EQUITY					
Share capital	1	-	1	-	1
Share premium	4,866	-	4,866	-	4,866
Translation reserve	-	-	-	(36)	(36)
Retained earnings	(7,185)	(19)	(7,204)	1,168	(6,036)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(2,318)	(19)	(2,337)	1,132	(1,205)
TOTAL EQUITY AND LIABILITIES	15,509	(8,242)	7,267	1,705	8,972

NOTES TO THE FINANCIAL STATEMENTS

30 d) Reconciliation of consolidated statement of comprehensive income for the 52 weeks ended 31 December 2008

	As previously reported UK GAAP	IAS 19 Holiday pay provision	As restated UK GAAP	Effect of transition to IFRS	Restated under IFRS
	£000	£000	£000	£000	£000
REVENUE	8,808	-	8,808	-	8,808
Operating expenses	(7,030)	(2)	(7,032)	163	(6,869)
PROFIT FROM OPERATIONS BEFORE AMORTISATION	1,778	(2)	1,776	163	1,939
Amortisation of intangibles	(1,116)	-	(1,116)	1,090	(26)
PROFIT FROM OPERATIONS	662	(2)	660	1,253	1,913
Finance income	522	-	522	-	522
Finance costs	(2,287)	-	(2,287)	-	(2,287)
(LOSS)/PROFIT BEFORE TAXATION	(1,103)	(2)	(1,105)	1,253	148
Income tax expense	(464)	-	(464)	(37)	(501)
(LOSS) FOR THE FINANCIAL YEAR	(1,567)	(2)	(1,569)	1,216	(353)
Other comprehensive income					
Actuarial gain on retirement benefit obligations	588	-	588	-	588
Deferred tax on actuarial gain	(165)	-	(165)	-	(165)
Currency translation differences on foreign currency net investment	661	-	661	-	661
OTHER COMPREHENSIVE INCOME	1,084	-	1,084	-	1,084
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(483)	(2)	(485)	1,216	731

NOTES TO THE FINANCIAL STATEMENTS

30 e) Reconciliation of consolidated statement of financial position as at 31 December 2008

	As previously reported UK GAAP	Adjustments	As restated UK GAAP	IFRS 3 business combinations	Restated under IFRS
	£000	£000	£000	£000	£000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	3,626	-	3,626	2,446	6,072
Property, plant and equipment	195	-	195	(41)	154
Deferred tax	-	-	-	345	345
TOTAL NON-CURRENT ASSETS	3,821	-	3,821	2,750	6,571
CURRENT ASSETS					
Inventories	61	-	61	-	61
Trade and other receivables	2,900	-	2,900	-	2,900
Cash and cash equivalents	8,163	(8,163)	-	-	-
Current taxation	30	-	30	-	30
Deferred tax	96	-	96	(96)	-
TOTAL CURRENT ASSETS	11,250	(8,163)	3,087	(96)	2,991
TOTAL ASSETS	15,071	(8,163)	6,908	2,654	9,562
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	5,638	21	5,659	-	5,659
Current taxation	-	-	-	-	-
Financial liabilities	8,712	(8,163)	549	9	558
Deferred tax	27	-	27	(27)	-
TOTAL CURRENT LIABILITIES	14,377	(8,142)	6,235	(18)	6,217
NON-CURRENT LIABILITIES					
Trade and other payables	93	-	93	-	93
Financial liabilities	2,574	-	2,574	3	2,577
Retirement benefit obligations	828	-	828	321	1,149
TOTAL NON-CURRENT LIABILITIES	3,495	-	3,495	324	3,819
TOTAL LIABILITIES	17,872	(8,142)	9,730	306	10,036
EQUITY					
Share capital	1	-	1	-	1
Share premium	4,866	-	4,866	-	4,866
Translation reserve	-	-	-	625	625
Retained earnings	(7,668)	(21)	(7,689)	1,723	(5,966)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(2,801)	(21)	(2,822)	2,348	(474)
TOTAL EQUITY AND LIABILITIES	15,071	(8,163)	6,908	2,654	9,562

NOTES TO THE FINANCIAL STATEMENTS

30 f) Reconciliation of consolidated statement of comprehensive income for the 53 weeks ended 31 December 2009

	As previously reported UK GAAP	IAS 19 Holiday pay provision	As restated UK GAAP	Transition to IFRS	Restated under IFRS
	£000	£000	£000	£000	£000
REVENUE	9,815	-	9,815	-	9,815
Operating expenses	(7,692)	(2)	(7,694)	66	(7,628)
PROFIT FROM OPERATIONS BEFORE AMORTISATION	2,123	(2)	2,121	66	2,187
Amortisation of intangibles	(1,116)	-	(1,116)	1,069	(47)
PROFIT FROM OPERATIONS	1,007	(2)	1,005	1,135	2,140
Finance income	735	-	735	-	735
Finance costs	(407)	-	(407)	-	(407)
PROFIT BEFORE TAXATION	1,335	(2)	1,333	1,135	2,468
Income tax expense	(757)	-	(757)	(5)	(762)
PROFIT FOR THE FINANCIAL YEAR	578	(2)	576	1,130	1,706
Other comprehensive income					
Actuarial loss on retirement benefit obligations	(158)	-	(158)	-	(158)
Deferred tax on actuarial loss	44	-	44	-	44
Currency translation differences on foreign currency net investment	(266)	-	(266)	-	(266)
OTHER COMPREHENSIVE EXPENSE	(380)	-	(380)	-	(380)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	198	(2)	196	1,130	1,326

NOTES TO THE FINANCIAL STATEMENTS

30 g) Reconciliation of consolidated statement of financial position for the 53 weeks ended 31 December 2009

	As previously reported UK GAAP	Adjustments	As restated UK GAAP	Effect of transition to IFRS	Restated under IFRS
	£000	£000	£000	£000	£000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	2,510	-	2,510	3,580	6,090
Property, plant and equipment	176	-	176	(49)	127
Deferred tax	-	-	-	297	297
TOTAL NON-CURRENT ASSETS	2,686	-	2,686	3,828	6,514
CURRENT ASSETS					
Inventories	28	34	62	-	62
Trade and other receivables	1,866	(34)	1,832	-	1,832
Cash and cash equivalents	11,479	(8,763)	2,716	-	2,716
Current taxation	-	-	-	-	-
Deferred tax	72	-	72	(72)	-
TOTAL CURRENT ASSETS	13,445	(8,763)	4,682	(72)	4,610
TOTAL ASSETS	16,131	(8,763)	7,368	3,756	11,124
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	6,287	23	6,310	-	6,310
Current taxation	300	-	300	-	300
Financial liabilities	11,312	(8,763)	2,549	3	2,552
Deferred tax	27	-	27	(27)	-
TOTAL CURRENT LIABILITIES	17,926	(8,740)	9,186	(24)	9,162
NON-CURRENT LIABILITIES					
Trade and other payables	29	-	29	-	29
Retirement benefit obligations	779	-	779	302	1,081
TOTAL NON-CURRENT LIABILITIES	808	-	808	302	1,110
TOTAL LIABILITIES	18,734	(8,740)	9,994	278	10,272
EQUITY					
Share capital	1	-	1	-	1
Share premium	4,866	-	4,866	-	4,866
Translation reserve	-	-	-	359	359
Retained earnings	(7,470)	(23)	(7,493)	3,119	(4,374)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(2,603)	(23)	(2,626)	3,478	852
TOTAL EQUITY AND LIABILITIES	16,131	(8,763)	7,368	3,756	11,124

The equity structure above represents that of the trading subsidiary Group prior to the reconstruction. Since the consolidated financial statements have been prepared using the pooling of interests basis, the share capital and related share premium at acquisition have deemed to have been in existence throughout the periods presented. This has created a difference in the equity capital structure of the Group shown in the comparative period to that presented above.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

	Note	52 week period ended 31 December 2010 £000
REVENUE	1	-
Operating expenses		(344)
LOSS FROM OPERATIONS BEFORE AMORTISATION		(344)
Amortisation of intangibles		-
LOSS FROM OPERATIONS		(344)
Finance income	3	6
Finance costs	4	(3)
LOSS BEFORE TAXATION		(341)
Income tax expense		-
LOSS FOR THE FINANCIAL YEAR		(341)
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Actuarial gain/(loss) on retirement benefit obligations		-
Deferred tax on actuarial gain/(loss)		-
Currency translation differences on foreign currency net investment		-
OTHER COMPREHENSIVE INCOME/(EXPENSE)		-
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		(341)
(LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		(341)
TOTAL COMPREHENSIVE (EXPENSE)/INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		(341)

This page does not form part of the statutory financial statements.

NOTES

NOTES

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MF McGoun (Independent Non-executive)
DM Sherwin (Non-executive)
PJ Reason
J McLauchlan

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J McLauchlan

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