

REGISTERED NUMBER: 06959053 (England and Wales)

Directors' Report and
Financial Statements for the Year Ended 31 December 2019
for
Instem Clinical Limited



Instem Clinical Limited

Contents of the Financial Statements
for the Year Ended 31 December 2019

	Page
Company Information	1
Directors' Report	2
Statement of Directors' Responsibilities	4
Independent Auditor's Report to the members of Instem Clinical Limited	5
Income Statement	8
Other Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12

Instem Clinical Limited

Company Information
for the Year Ended 31 December 2019

DIRECTORS:

N J Goldsmith
P J Reason
D M Sherwin

SECRETARY:

Oakwood Corporate Secretary Limited

REGISTERED OFFICE:

Diamond Way
Stone Business Park
Stone
Staffordshire
ST15 0SD

REGISTERED NUMBER:

06959053 (England and Wales)

AUDITORS:

Grant Thornton UK LLP
Chartered Accountants & Statutory Auditors
4 Hardman Square
Spinningfields
Manchester
M3 3EB

BANKER:

National Westminster Bank plc
41 Greengate Street
Stafford
ST16 2JA

Instem Clinical Limited

Directors' Report
for the Year Ended 31 December 2019

The directors present their report with the financial statements of the company for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

The Company is part of the Instem plc Group which is a leading supplier of IT applications to the life sciences healthcare market, delivering compelling solutions for data collection, management and analysis across the R&D continuum. As of 31 December 2019, the Group's EBITDA (Earnings before interest, tax, depreciation, amortisation, impairment of goodwill and capitalised development and non-recurring items) was £4.9m.

The principal activity of the Clinical Limited is the provision of electronic data capture and clinical management solutions to the pharmaceutical industry.

REVIEW OF THE BUSINESS

During the year ended 31 December 2019, the Company's turnover increased by 87% to £355,000 compared to £190,000 in 2018, as a result of the Groups intention to move long-standing clients from Licence arrangements to SaaS deployment. The Company's loss for the year was increased by 1,100% to £480,000 relative to £40,000 in 2018. The increased of Company's loss resulted from the impairment charge on intangible assets.

During the year ended 31 December 2019, an impairment of £693,000 was charged on the Company's intangible assets as the recoverable amount of Alphadas software, assessed during the consolidation review, was lower than the carrying value.

PRIOR YEAR ADJUSTMENTS

Comparative figures have been adjusted to conform with changes in the presentation for the current year. Details of the adjustment are disclosed in note 10.

DIVIDENDS

The directors do not recommend the payment of a dividend (2018: £nil).

FUTURE DEVELOPMENTS

Over recent years the Company has invested significantly in a global infrastructure that has created a solid platform for future growth and have established long-term relationships with its blue-chip client base. Importantly, the Company is well positioned to add new clients and generate increasing revenues from existing clients.

Increased revenue predictability and high retention rates provide a strong foundation from which the business can grow as it builds on the momentum achieved during 2019. The Company has remained very busy and the directors continue to have confidence in the longer-term outlook for the business.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2019 to the date of this report.

N J Goldsmith
P J Reason
D M Sherwin

Instem Clinical Limited

Directors' Report
for the Year Ended 31 December 2019

INDEMNITY OF 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 and 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.

CORONAVIRUS (COVID-19)

Like most businesses worldwide the Company is having to deal with the impact of COVID-19, with its primary concern being the safety and wellbeing of its staff and their families. The Company continues to follow and adhere to the advice of government authorities in each territory in which its staff are based.

The Company has the benefit of operating in a sector where significant worldwide focus is on identifying vaccines and therapies for COVID-19, with a number of its customers directly involved in this work. While the Company expects some disruption to demand for its products and services there is also expected to be some increases in customer demand.

GOING CONCERN

The Directors have assessed the Group financial position and liquidity at the end of the reporting period and for the forecast period up to 31 December 2022. The going concern period covers the 12 months from the date of signing the financial statements. For the going concern assessment please refer to page 13.

SUBSEQUENT EVENTS

Events occurring after the balance sheet date have been disclosed in accordance with IAS 10, 'Events after the reporting period'. Details are provided in note 20 to the Financial Statements.

AUDITORS

During the year Grant Thornton UK LLP were appointed as auditor. Grant Thornton UK LLP has indicated its willingness to continue in office.

ON BEHALF OF THE BOARD:

Nigel Goldsmith

N J Goldsmith - Director
Date: 27 May 2021

Instem Clinical Limited

Statement of Directors' Responsibilities
for the Year Ended 31 December 2019

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 financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors 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 the company's auditor is aware of that information.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. The directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the company's performance, business model and strategy and is fair, balanced and understandable.

**Report of the Independent Auditor to the Members of
Instem Clinical Limited**

Opinion

We have audited the financial statements of Instem Clinical Limited (the 'company') for the year ended 31 December 2019 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business, including effects arising from Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

**Report of the Independent Auditor to the Members of
Instem Clinical Limited**

Other information

The directors are responsible for the other information. The other information comprises the information in the Directors' Report and the Statement of Directors' Responsibilities, but does not include the financial statements and our Report of the Auditor's thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page four, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Report of the Independent Auditor to the Members of
Instem Clinical Limited**

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the Auditor that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditor.

Use of our report

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 a Report of the Auditor 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.

Grant Thornton UK LLP

Michael Frankish
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester

Date: 27 May 2021

Instem Clinical LimitedIncome Statement
for the Year Ended 31 December 2019

		2019		2018 as restated	
	Notes	£'000	£'000	£'000	£'000
REVENUE	3		355		190
Staff costs	4	617		586	
Depreciation and amortisation		157		101	
Other operating income		<u>(162)</u>		<u>(295)</u>	
			<u>(612)</u>		<u>(392)</u>
OPERATING LOSS			(257)		(202)
Exceptional items	5		<u>(702)</u>		<u>-</u>
			(959)		(202)
Interest receivable and similar income	6		<u>151</u>		<u>28</u>
			(808)		(174)
Interest payable and similar expenses	7		<u>(1)</u>		<u>(1)</u>
LOSS BEFORE TAXATION	8		(809)		(175)
Taxation	9		<u>329</u>		<u>135</u>
LOSS FOR THE FINANCIAL YEAR			<u>(480)</u>		<u>(40)</u>

The notes on pages 12 to 33 form part of these financial statements

Instem Clinical Limited

Other Comprehensive Income
for the Year Ended 31 December 2019

	2019	2018 as restated
	£'000	£'000
LOSS FOR THE YEAR	(480)	(40)
OTHER COMPREHENSIVE INCOME	—	—
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(480)</u>	<u>(40)</u>

The notes on pages 12 to 33 form part of these financial statements

Instem Clinical Limited (Registered number: 06959053)Balance Sheet31 December 2019

		2019		2018 as restated	
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	11		507		954
Tangible assets	12		<u>3</u>		<u>3</u>
			510		957
CURRENT ASSETS					
Debtors	13	2,023		2,027	
Cash at bank		<u>24</u>		<u>151</u>	
		2,047		2,178	
CREDITORS					
Amounts falling due within one year	14	<u>2,588</u>		<u>2,608</u>	
NET CURRENT LIABILITIES			<u>(541)</u>		<u>(430)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			(31)		527
PROVISIONS FOR LIABILITIES	15		(331)		(404)
DEFERRED INCOME	16		<u>(21)</u>		<u>(34)</u>
NET (LIABILITIES)/ASSETS			<u>(383)</u>		<u>89</u>
CAPITAL AND RESERVES					
Called up share capital	17		-		-
Capital contribution reserve			24		16
Retained earnings			<u>(407)</u>		<u>73</u>
SHAREHOLDERS' FUNDS			<u>(383)</u>		<u>89</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the Board of Directors and authorised for issue on 27 May 2021 and were signed on its behalf by:

Nigel Goldsmith

N J Goldsmith - Director

Instem Clinical LimitedStatement of Changes in Equity
for the Year Ended 31 December 2019

	Note	Called up share capital £'000	Capital contribution reserve £'000	Retained Earnings £'000	Total equity £'000
Balance as at 1 January 2018 as originally reported		-	5	(601)	(596)
Prior Year Adjustment	9	-	-	714	714
Loss for the year - as restated	9	-	-	(40)	(40)
Share based payments		-	11	-	11
Balance as at 31 December 2018 restated		-	16	73	89
Loss for the year		-	-	(480)	(480)
Share based payments		-	8	-	8
Balance as at 31 December 2019		-	24	(407)	(383)

The notes on pages 12 to 33 form part of these financial statements

Instem Clinical Limited

Notes to the Financial Statements
for the Year Ended 31 December 2019

1. STATUTORY INFORMATION

Instem Clinical Limited ("the Company") is a private company limited by shares and is registered, domiciled and incorporated in the England and Wales. The principal activity is the provision of electronic data capture and clinical management solutions to the pharmaceutical industry.

The address of the Company's registered office is Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD.

2. ACCOUNTING POLICIES

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council (FRC).

In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards as adopted by the EU ("IFRS"), amended where necessary in order to comply with Companies Act 2006.

These financial statements of Instem Clinical Limited have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). This framework is issued by the FRC incorporating The Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES - continued

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of paragraph 33(c) of IFRS 5 Non Current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- the requirements of paragraph 58 of IFRS 16;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.

IFRSs, IASs and IFRICs adopted for the first time in the year

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB which are all effective from 1 January 2019.

However, those standards, amendments to standards, and interpretations did not have impact on the accounting policies of the Instem Clinical Limited.

Going concern

The Company's assessment for going concern relies on the financial position of the Group, its cash flows and liquidity position are set out in the primary statements within these financial statements. A letter of support was provided by Instem plc (Group) and if the Company is in a difficult cash position, then the Group would become responsible for the going concern of the subsidiary.

Background

The Directors have assessed the Group financial position and liquidity at the end of the reporting period and for the forecast period up to 31 December 2022, including sensitivity analysis. The going concern period covers the 12 months from the date of signing the financial statements. The process and key judgements in coming to this conclusion are set out below.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES – continued

Current trading and liquidity

The Instem Group's trading performance for the year ended 31 December 2020 has been strong with Revenues of £28.2m and Adjusted EBITDA of £5.9m. Instem Group is fully operational, with all staff in all territories working from home in accordance with governmental guidelines, no staff have been furloughed and there is no intention of curtailing any business activities. The company has continued to recruit staff across its geographic footprint.

The Group's financing arrangements consist of a net overdraft facility of £0.5m and a gross limit of £9.0m with NatWest Bank plc to support the Group's working capital needs. As of 31 December 2020, the net facility was undrawn (2019: undrawn). There are no material covenants associated with the facility.

Following the announcement of the 2019 preliminary results Instem plc undertook an oversubscribed equity fund raise in July 2020, raising gross funds of £15.75m, £15.0m net of expenses. A further six prestigious institutions were added to the list of shareholders. The Group spent £4.0m initially funding the acquisition of The Edge Software Consultancy Ltd ('The Edge') on 1st March 2021 and \$13m on the initial funding of d-Wise Technologies, Inc ('d-wise') on 1st April 2021. The Group remains in a strong financial position as both of these acquisitions are expected to be accretive and cash generative.

During 2020, the Group received US government support loans of \$1.1m (£0.8m). The Group have applied for these sums to be forgiven and one out of the two is already forgiven. It is also expected to receive a favourable outcome for the remaining balance as all the qualifying criteria have been met.

The Group acquired the earnings enhancing, cash generative business of Leadscope Inc. in November 2019, which has been steadily integrated within the Group during 2020. The only financial obligation associated with this acquisition during 2021 is a deferred consideration payment of \$0.3m due in November 2021.

Other than the initial consideration paid for The Edge and d-wise there are no further financial obligations payable associated with the acquisitions until 2022, when deferred and contingent consideration will be due.

Sensitivity Analysis

The Group has considered three scenarios the (a) Base Case Scenario, (b) Sensitised Scenario and (c) Extreme downside Scenario which are also linked to the company's risks when modelling the forecast results and cash flow. The sensitivity assessment includes the trading performance and cash flows of the Edge and d-wise from the date of the acquisitions.

Despite the negative impact of these sensitivities the model demonstrated that the Group remained viable, even though profitability and cash over the next twelve months was reduced. Finally, the Group is expected to remain a going concern even applying the extreme downside scenario sensitivity analysis throughout the forecast period to 31 December 2022, by taking sufficient remedial action.

Conclusion and Going Concern Statement

After considering the uncertainties described above, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing Instem Clinical Limited annual report and accounts as a letter of support was provided by Instem Plc, the Company's parent company.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES - continued

Revenue recognition

The Company generates revenue from the provision of software licences, annual support, SaaS subscriptions, professional services and technology enabled outsourced services.

At contract inception, an assessment is completed to identify the performance obligations in each contract. Performance obligations in a contract are either goods or services that are distinct or part of a series of goods or services that are substantially the same and have the same pattern of transfer to the customer. Promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied.

At contract inception, the transaction price is determined, being the amount that the Company expects to receive for transferring the promised goods or services. The transaction price is allocated to the performance obligations in the contract based on their relative standalone selling prices. The Company has determined that the contractually stated price represents the standalone selling price for each performance obligation.

Revenue is recognised when a performance obligation has been satisfied by transferring the promised product or service to the customer.

Revenue is recognised when a performance obligation has been satisfied by transferring the promised product or service to the customer.

Software licences

Revenue from the sale of the software licences is recognised when the customer takes possession of the software which is usually when the license key is provided to the customer. This is because the software is functional at the time the licence transfers to the customer and the Company is not required or expected to undertake activities that significantly affect the utility of the intellectual property by the customer.

Annual support

Customers typically enter into a support contract for a period of twelve months. This contract provides the customer with access to technical support and software upgrades. The promises in these contracts are a single performance obligation, which is satisfied over time as the customer consumes the benefits of the service. Revenue in respect of the single performance obligation is recognised evenly over the contract term.

Professional services

Customers typically enter into a service contract to provide distinct service work based on clear statements of work. Service work includes, but is not limited to, implementation services, training and outsourced services work relating to SEND and KnowledgeScan. The promises in this contract are considered to be a single performance obligation given the services are interdependent and the revenue is recognised on a percentage completion basis for fixed price contracts or as services are provided in respect of time and materials contracts. The Company has elected to take the practical expedient to apply this policy to its portfolio distinct service contracts given the similar characteristics in these types of contracts.

Bundled contracts

Software licences, professional services - and annual support are often bundled together in a contract.

Where the contract assessment identifies that the sale does not meet the criteria to be a distinct performance obligation, due to a lack of interdependence between performance obligations, promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied. Revenue in respect of this bundled performance obligation is recognised over the period of the contracted obligation on a straight-line basis.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES - continued

Amounts recoverable on contracts and deferred income

In most cases, customers are invoiced and payment is received in advance of revenue being recognised in the income statement. Amounts recoverable on contracts and deferred income is the difference between amounts invoiced to customers and revenue recognised under the policy described above. If the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within amounts recoverable on contracts.

Contract costs

The incremental costs associated with obtaining a contract are recognised as an asset if the Group expects to recover the costs. Costs that are not incremental to a contract are expensed as incurred. Management determine which costs are incremental and meet the criteria for capitalisation.

Costs to fulfil a contract, which are not in the scope of another standard, are recognised separately as a contract fulfilment asset to the extent that they relate directly to a contract which can be specifically identified; the costs generate or enhance resources that will be used to satisfy the performance obligation and the costs are expected to be recovered. Management applies judgement to determine which contract fulfilment costs meet the recognition criteria, and in particular if the costs generate or enhance resources used to satisfy the performance obligation.

Costs to fulfil a contract which do not meet the criteria above are expensed as incurred.

Contract fulfilment asset

Contract fulfilment assets are amortised over the expected contract period on a systematic basis representing the pattern in which control of the associated service is transferred to the customer.

Practical exemptions

The Group has taken advantage of the following practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less;
- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less; and
- to not disclose information relating to performance obligations for contracts that had an original expected duration of one year or less or where the right to consideration from a customer is an amount that corresponds directly with the value of the completed performance obligations.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES – continued

Interest receivable and similar 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 (including exchange gains on the translation of intra-group funding balances).

Interest payable and similar charges

Net finance costs include interest payable, arrangement and service fees, exchange losses (including exchange losses on the translation of inter-company funding balances), unwinding discount from future deferred consideration payments, finance charges on leases and net interest on pension scheme liabilities. Interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Financial Instruments

The Company has adopted IFRS 9 Financial Instruments. IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument and requires entities to recognise expected credit losses for all financial assets held at amortised cost, including most intercompany loans from the perspective of the lender.

Operating profit and loss before interest receivable and payable

Operating profit and loss before interest receivable and payable is profit and losses arising from the Company's normal trading activities, after charges for depreciation of tangible and right of use assets and amortisation of intangibles.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES - continued

Intangible assets

Internally generated intangible assets

Expenditure on research activities is recognised in the statement of comprehensive income as incurred.

Expenditure arising from the Company'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 Company 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.

Capitalised development costs are those which are directly attributable to the development activity and include employee costs, overheads and direct third party costs.

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).

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Tangible fixed assets

Tangible fixed assets 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 a straight line basis as follows:

Computer equipment - 25% straight line

Fixtures & fittings - 25% straight line

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

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 the statement of comprehensive income.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES - continued

Provision for liabilities

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation and where the amount can be reliably estimated.

Financial instruments

Financial assets

The Company classifies its financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost, less provision for impairment.

The Company's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Trade debtors

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets, if not, they are presented as non-current assets.

Trade and other receivables are measured at the transaction price in accordance with IFRS 15.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 5 years before 31 December 2019 (2018: 31 December 2018) and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The contract assets relate to unbilled revenue, which have performance obligations to be completed. The contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

At each reporting date management assesses whether any events have occurred which have had a detrimental effect on the estimated future cash flows of the asset causing a financial asset to become credit-impaired. If the credit risk is significant a provision is posted based on the recoverable amount the Company is expected to receive per management's assessment. Specific provisions of this nature are excluded from the simplified credit loss calculation using the provision matrix.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES – continued

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash deposits which are readily convertible to a known amount of cash. Cash and cash equivalents in the statement of financial position include bank overdrafts. An offset position is reported as the Company has a legal right to set off and any settlement would be on a net basis. For the purposes of the cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and are an integral part of Company cash management.

Intercompany receivables

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

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 Company after deducting all of its liabilities.

Trade and other payables

Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently at amortised cost.

Ordinary share capital

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

2. ACCOUNTING POLICIES - continued

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 Company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Income tax credits for research and development activities are recognised on a cash basis or when their receipt is reasonably certain.

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.

Retirement benefits

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the income statement in the period to which they relate.

Defined contribution schemes

A defined contribution scheme is a pension plan under which the Company 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 total of 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 Company has no further payment obligations once the contributions have been paid.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. **ACCOUNTING POLICIES - continued**

Share-based payment transactions

Instem plc 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 estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair values are measured by use of the Binomial, Monte Carlo or Black Scholes models. 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. Market vesting conditions are linked to the Group's share price performance. Non-market vesting conditions are linked to trading performance and service over defined time periods.

Cancelled or settled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the year that the options are cancelled or settled. Where the terms of the options are modified and the modification increases the fair value or number of equity instruments granted, measured immediately before and after the modification, the incremental fair value is spread over the remaining vesting period.

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

Comparatives

A material prior year error was discovered in respect of provisions made against certain intercompany balances when adopting IFRS 9, Financial instruments for the first time during the year ended 31 December 2018.

The process followed in the year ended 31 December 2018 required all intercompany balances to be repaid using the available liquid assets as of 31 December 2018. A new internal process for the assessment of intercompany balances was developed during the year ended 31 December 2019. For those intercompany balances where credit risk increased significantly, a recognised lifetime credit loss along with the gross interest income was calculated. In the amended process, group companies are provided with the opportunity to continue trading or sell assets to fund repayment of any inter-company loans over the forecasted period.

Applying the new internal processes on the intercompany receivable balances has resulted in a material reduction in the intercompany provision for doubtful debts made in the year ended 31 December 2018.

To ensure that FY2018 Intercompany balances comply with IFRS9, an adjustment is deemed necessary. The adjustment in the 2018 financial statements will retrospectively affect prior periods as the first year of IFRS9 adoption was applied retrospectively. Adjustments have been made to the 1 January 2018 Retaining Earnings figure and the 2018 Income Statement as set out below.

Comparative figures have been adjusted to conform with changes in the presentation for the current year. Details of the prior year adjustment is disclosed in note 10.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES - continued

Significant judgements and estimates

In the process of applying the Company's accounting policies, which are described above, management have made judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant judgements

The following judgement has the most significant effect on the financial statements.

Revenue Recognition

The Company generates revenue from the provision of software licences, annual support, SaaS subscriptions, professional services and technology enabled outsourced services. Judgement is applied in determining how many performance obligations there are within each contract and the period in which these obligations will be fulfilled and recognised as revenue, based on the Company's accounting policies.

Estimation uncertainty

Information about estimations and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Provision for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the probable outflow of resources, and a reliable estimate can be made of the amount of the obligation. As at 31 December 2019, the Company has a provision of £250,000 (2018: £250,000) in respect of historical contract disputes as the directors have considered that the above provision conditions have been met. The provision represents the best estimate of the risks and considers all information and legal input received by the Company.

Impairment of intangible assets

Intangibles assets consist of software, being mainly capitalised development costs. Impairment testing requires a value in use estimate which is dependent on an estimation of future cashflows and the use of an appropriate discount rate to discount those cash flows to their present value. The carrying amount of software at the reporting date was £507,000 (2018: £954,000). There was an impairment charge of £693,000 during the year.

Instem Clinical LimitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2019**3. REVENUE**

The revenue and profit before taxation of the company is attributable and reported in one operating segment, Study Management.

An analysis of revenue by geographical market is given below:

	2019 £'000	2018 £'000
United Kingdom	38	44
Europe	134	126
United States of America	122	-
Rest of the World	<u>61</u>	<u>20</u>
	<u>355</u>	<u>190</u>

4. EMPLOYEES AND DIRECTORS

	2019 £'000	2018 £'000
Wages and salaries	495	466
Social security costs	75	79
Other pension costs	<u>47</u>	<u>41</u>
	<u>617</u>	<u>586</u>

The average number of employees during the year was as follows:

	2019	2018
Directors and administration	4	4
Scientific and technical	10	10
Sales and business development	<u>1</u>	<u>1</u>
	<u>15</u>	<u>15</u>

	2019 £'000	2018 £'000
Directors' remuneration	<u>-</u>	<u>-</u>

The directors of the Company were remunerated in other companies within the Instem group during the year ended 31 December 2019. There are no directors accruing pension benefits as at 31 December 2019 (2018: nil).

Instem Clinical LimitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2019**5. EXCEPTIONAL ITEMS**

	2019 £'000	2018 £'000
Impairment charge on intangible assets	693	-
Legal expenses costs relating to historical contract disputes	<u>9</u>	<u>-</u>
	<u>702</u>	<u>-</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
Foreign exchange gains	149	27
Short term deposits	<u>2</u>	<u>1</u>
	<u>151</u>	<u>28</u>

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £'000	2018 £'000
Bank interest and fees	<u>1</u>	<u>1</u>

8. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

	2019 £'000	2018 as restated £'000
Depreciation - owned assets (note 12)	3	6
Internally generated software amortisation (note 11)	<u>155</u>	<u>95</u>

Amounts payable to Grant Thornton UK LLP for 2019 and to RSM UK Audit LLP for 2018, in respect of both audit and non-audit services are paid by the ultimate parent company, Instem PLC and they are not recharged to the individual subsidiaries and hence they are not disclosed as part of the operating profit note.

9. TAXATION**Analysis of tax income**

	2019 £'000	2018 £'000
Current tax:		
Tax	(256)	(205)
Deferred tax	<u>(73)</u>	<u>70</u>
Total tax income in income statement	<u>(329)</u>	<u>(135)</u>

Instem Clinical LimitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2019**9. TAXATION - continued****Factors affecting the tax expense**

The tax assessed for the year is lower (2018 - higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	2019 £'000	2018 £'000
Loss before income tax	<u>(809)</u>	<u>(175)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2018 - 19%)	(154)	(33)
Effects of:		
Expenses not deductible for tax purposes	(46)	(1)
Enhanced R&D tax relief	(185)	(161)
Losses surrendered for R&D credit	254	280
R&D credit accrual	(194)	(187)
Impairment of capitalised development	132	-
Adjustments in respect of prior years	(97)	(19)
Other differences	<u>(39)</u>	<u>(14)</u>
Tax income	<u>(329)</u>	<u>(135)</u>

The UK corporation tax is calculated at the prevailing rate of 19%. Foreign tax liabilities are calculated at the prevailing tax rates applying in the overseas tax jurisdictions.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would not have a material impact.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

10. PRIOR YEAR ADJUSTMENT

A material prior year error was discovered in respect of provisions made against certain intercompany balances when adopting IFRS 9, Financial instruments for the first time during the year ended 31 December 2018. A new internal process for the assessment of intercompany balances was developed during the year ended 31 December 2019. Applying the new internal processes on the intercompany receivable balances has resulted in a material reduction in the intercompany provision for doubtful debts made in the year ended 31 December 2018.

To ensure that FY2018 Intercompany balances comply with IFRS9, an adjustment is deemed necessary. The adjustment in the 2018 financial statements will retrospectively affect prior periods as the first year of IFRS9 adoption was applied retrospectively. Adjustments have been made to the 1 January 2018 Retaining Earnings figure and the 2018 Income Statement as set out below.

The table below reconciles the key line items in these financial statements to the information provided in the financial statements for the year ended 31 December 2018 for the IFRS 9, Financial Instrument adjustment.

Instem Clinical LimitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2019

10. PRIOR YEAR ADJUSTMENT - continued

Income statement for 2018	As previously reported £'000	FY18 - IFRS 9 restatement £'000	As restated £'000
REVENUE	190	-	190
Staff costs	(586)	-	(586)
Depreciation and amortisation	(101)	-	(101)
Other operating (expenses)/income	(486)	781	295
OPERATING LOSS	(983)	781	(202)
Interest receivable and similar income	28	-	28
Interest payable and similar expenses	(1)	-	(1)
LOSS BEFORE TAXATION	(956)	781	(175)
Taxation	135	-	135
LOSS FOR THE FINANCIAL YEAR	(821)	781	(40)

Statement of Financial Position as at 31 December 2018	As previously reported £'000	Opening retained earnings - IFRS £'000	FY18 - IFRS 9 restatement £'000	As restated £'000
Trade and other receivables, and current tax receivable	532	714	781	2,027
Retained earnings	(1,422)	714	781	73

Instem Clinical LimitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2019**11. INTANGIBLE FIXED ASSETS**

	Internally generated software £'000
COST	
At 1 January 2019	1,093
Additions	401
Impairment charge	<u>(693)</u>
At 31 December 2019	<u>801</u>
AMORTISATION	
At 1 January 2019	139
Amortisation for year	<u>155</u>
At 31 December 2019	<u>294</u>
NET BOOK VALUE	
At 31 December 2019	<u>507</u>
At 31 December 2018	<u>954</u>

An impairment loss of £693,000 was charged on the Company's intangible assets as the recoverable amount of Alphadas software, assessed during the consolidation review, was lower than the carrying value.

12. TANGIBLE FIXED ASSETS

	Computer equipment £'000
COST	
At 1 January 2019	31
Additions	3
Disposals	<u>(1)</u>
At 31 December 2019	<u>33</u>
DEPRECIATION	
At 1 January 2019	28
Charge for year	3
Eliminated on disposal	<u>(1)</u>
At 31 December 2019	<u>30</u>
NET BOOK VALUE	
At 31 December 2019	<u>3</u>
At 31 December 2018	<u>3</u>

Instem Clinical LimitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2019**13. DEBTORS: AMOUNTS DUE WITHIN ONE YEAR**

	2019	2018 as restated
	£'000	£'000
Trade debtors	33	60
Amounts owed by group undertakings	1,510	1,628
Amounts recoverable on contract	2	-
Tax	<u>478</u>	<u>339</u>
	<u>2,023</u>	<u>2,027</u>

Definition of default

A loss allowance on all financial assets is measured by considering the probability of default.

Receivables are considered to be in default based on an assessment of past payment practices and the likelihood of such overdue amounts being recovered.

Impairment of trade debtors

The probability of default is determined at the year-end based on the ageing of the receivables, historical data about default rates. That data is adjusted if the Group determines that historical data is not reflective of expected future conditions due to changes in the nature of its customers and how they are affected by external factors such as economic and market conditions.

Impairment of group receivables

The Company assesses the expected credit loss in respect of group receivables based on their ability to repay and recover the balance. In the absence of agreed terms this consideration is given over the expected period of repayment and any expected credit loss. The Company is required to calculate expected credit losses on all financial assets, including intercompany receivables within the scope of IFRS 9, 'Financial Instruments'. Intercompany positions eliminate in consolidated financial statements. At the period end an allowance has been made for credit impairment of group receivables of £nil (2018: restated £nil).

Trade receivables are stated after provisions for impairment of £51,000 (2018: £51,000).

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019	2018
	£'000	£'000
Trade creditors	9	15
Amounts owed to group undertakings	2,531	2,528
Social security and other taxes	24	24
VAT	1	-
Accrued expenses	<u>23</u>	<u>41</u>
	<u>2,588</u>	<u>2,608</u>

Instem Clinical LimitedNotes to the Financial Statements - continued
for the Year Ended 31 December 2019**15. PROVISIONS FOR LIABILITIES**

	2019 £'000	2018 £'000
Deferred tax	81	154
Other provisions	<u>250</u>	<u>250</u>
	<u>331</u>	<u>404</u>

Deferred tax liability:

	£'000
Balance at 1 January 2019	154
Utilised during year	<u>(73)</u>
Balance at 31 December 2019	<u>81</u>

Deferred tax liability	Accelerated tax depreciation £'000	Other timing differences £'000	Total £'000
At 1 January 2019	(2)	156	154
Credit/(charge) to the profit or loss for the year	<u>2</u>	<u>(75)</u>	<u>(73)</u>
At 31 December 2019	<u>-</u>	<u>81</u>	<u>81</u>

16. DEFERRED INCOME

	2019 £'000	2018 £'000
Deferred income	<u>21</u>	<u>34</u>

17. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			2019	2018
Number:	Class:	Nominal Value £:		
			£	£
1	Ordinary Shares	£1	<u>1</u>	<u>1</u>

18. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £47,000 (2018: £41,000). Contributions totalling £3,000 (2018: £4,000) were payable to the fund at the balance sheet date.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

19. ULTIMATE CONTROLLING PARTY

The ultimate and immediate parent company is Instem plc, a company incorporated and registered in England and Wales.

Instem plc is the smallest and largest group in which the results of the Company are consolidated. The consolidated financial statements of this company may be obtained from Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD, UK or at www.instem.com.

20. SUBSEQUENT EVENTS

No adjusting events have occurred between the 31 December 2019 reporting date and the date of approval of these financial statements.

In January 2020 the Group informed its staff of its intention to implement an all-staff share and option scheme. The scheme has subsequently been formally launched with staff receiving the right to 386,686 ordinary shares of 10p each in Instem plc that will vest in April 2023.

On 13th February 2020 it was announced that a member of the senior management team had exercised share options over 50,714 ordinary shares of 10p each in Instem plc.

In April and May 2020, the Group received US government support loan of \$1.1m (£0.8m). The Group have applied for these sums to be forgiven and based on meeting all the qualifying criteria, expect to receive a favourable outcome.

Following the announcement of the Group's 2019 preliminary results Instem plc undertook an equity fund raise in July 2020. This was a success as it was oversubscribed, raising gross funds of £15.75m, £15.0m net of expenses. A further six prestigious institutions were added to the list of shareholders.

Like most businesses worldwide the Group dealt with the impact of COVID-19 in 2020, with its primary concern being for the safety and wellbeing of its staff and their families. The risk to the Group, as for any business, is that the COVID-19 pandemic impacts new and existing business activities as clients and suppliers focus on short term priorities arising from pandemic or struggle to remain in business.

The Group remains well placed and has seen minimal impact from COVID-19, with working from home practices implemented and the majority of business relatively unaffected. There was a small shortfall in Professional Services revenue compared with budget due to travel restrictions preventing on-site service delivery plus Academia was closed for part of the year. It is expected that a small element of revenue slippage will move into 2021 as we fulfil our strong services backlog.

On 1 March 2021, Instem plc announced the acquisition of The Edge Software Consultancy Ltd ("The Edge"), a safety assessment software provider based in the UK. The Edge is focused on improving the efficiency of early stage drug R&D, improving productivity and ensuring high-quality data capture. In the year ended 31 July 2020, The Edge had unaudited, normalised profits before tax of £1.7m on sales of £2.7m, of which £0.8m was recurring revenue. Its 2020 sales benefitted from high levels of professional services revenue, expected to be replaced by significant future growth in recurring software revenue. The consideration payable is up to £8.5m, payable as £6.0m initially, satisfied by £4.0m in cash from existing reserves and £2.0m via the issuance of 391,920 new ordinary shares in Instem plc, £0.5m of deferred consideration and up to a further £2.0m payable contingent on The Edge's future trading performance, both amounts payable in cash.

Instem Clinical Limited

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

20. SUBSEQUENT EVENTS - continued

On 20 March 2021, Instem plc exchanged contracts to acquire US-based clinical trial technology & consulting leader d-Wise Technologies, Inc ("d-wise"). The acquisition was completed on 1 April 2021. d-wise adds a market leading position to the Group in an attractive adjacent area of clinical trial analysis and submission, with good future visibility through recurring revenue streams and already contracted, high value consultancy projects. In the year ended 31 December 2020 d-wise had unaudited adjusted profit before tax of \$3.1m and adjusted EBITDA of \$3.6m on sales of \$24.1m. Approximately 30% of revenue was recurring SaaS, hosting services and software support and maintenance. As at 31 December 2020, d-wise had net assets of \$4.8m. The combined strength of Instem & d-wise positions the enlarged Group as the foremost authority and driving force in generating, analysing and leveraging data from Discovery through late-stage Clinical Trials. The total consideration is up to \$31m comprising \$20m on completion, \$8m of deferred consideration and up to a further \$3m which is payable contingent upon the future financial performance of d-wise. The initial consideration on completion is being satisfied by \$13m in cash and \$7m via the issuance of 868,203 new ordinary shares of 10p each in Instem plc. The cash is being funded from the Group's existing financial resources.

On 15 April 2021, the Group has successfully been forgiven for one out of the two US government support loans. It is also expected to receive a favourable outcome for the remaining balance as all the qualifying criteria have been met.