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This document comprises a prospectus drawn up in accordance with the AIM Rules of the London Stock Exchange plc (the “AIM Rules”) and the requirements of The Public Offers of Securities Regulations 1995 (the “POS Regulations”). A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations.

The Directors of Immunodiagnostic Systems Holdings plc, whose names appear on page 11 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for the Ordinary Shares in issue and to be issued pursuant to the Placing to be admitted to trading on AIM. It is expected that admission will become effective and that dealings will commence on AIM on 24 December 2004.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to large or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with his or her own independent financial adviser. The AIM Rules are less demanding than those of the Official List of the UK Listing Authority. It is emphasised that no application is being made for admission of these securities to the Official List of the UK Listing Authority. Further, London Stock Exchange plc has not itself examined or approved the contents of this document. The Ordinary Shares are not dealt in on any other recognised investment exchange.

Immunodiagnostic Systems Holdings plc

(Incorporated and registered in England and Wales with registered number 05146193)

PLACING

of

**3,471,420 Ordinary Shares of 2p each at a price of 51p per share
and**

ADMISSION OF THE ORDINARY SHARES TO TRADING ON AIM

Nominated Adviser and Broker

TEATHER & GREENWOOD LIMITED

Share capital immediately following Admission (on the basis that the Placing is fully subscribed)

	<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£1,000,000	50,000,000		£264,754.06	13,237,703
	ordinary shares			ordinary shares
	of 2p each			of 2p each

The Ordinary Shares now being placed will, on Admission, rank *pari passu* in all respects with the existing Ordinary Shares in issue and will rank in full for all dividends and other distributions declared, paid or made on the Ordinary Shares after the date of this document.

In accordance with the AIM Rules, Teather & Greenwood Limited (“Teather & Greenwood”) has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received independent advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, to the best of its information and belief having made due and careful enquiry, all relevant requirements of the AIM Rules (save for compliance with the general duty of disclosure contained in Regulation 9 of the POS Regulations, in respect of which the Nominated Adviser is not required to satisfy itself) have been complied with. In giving its confirmation to the London Stock Exchange, Teather & Greenwood has not made its own enquiries, except as to matters which have come to its attention or which it considers necessary to satisfy itself about. Teather & Greenwood has not authorised the contents or any part of this document and, without limiting the statutory rights of any person to whom this document is issued, no liability whatsoever is accepted by Teather & Greenwood for the accuracy of any information or opinions contained in this document or for the omission of any material information.

Teather & Greenwood, which is regulated by The Financial Services Authority, is acting as Nominated Adviser and Broker for the Company and no one else in connection with the Placing and the Admission and will not be responsible to any person other than the Company for providing the protections afforded to customers of Teather & Greenwood nor for providing advice in relation to the contents of this document or any matter, transaction or arrangement referred to in it. Teather & Greenwood has not authorised the contents of any part of this document for the purpose of Regulation 13(1)(g) of the POS Regulations.

The Placing described in this document is only being made in the United Kingdom. In particular, this document does not constitute an offer to buy or to subscribe for, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. The Ordinary Shares offered by this document have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) (the “Securities Act”) or qualified for sale under the laws of any state of the United States or under the applicable laws of any of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan and, subject to certain exceptions, may not be offered or sold in the United States or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act) or to any national, resident or citizen of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. Neither this document nor any copy of it may be sent to or taken into the United States, Canada, Australia or Japan, nor may it be distributed to any US person (within the meaning of Regulation S under the Securities Act).

CONTENTS

	<i>Page</i>
KEY POINTS OF THE PLACING	3
DEFINITIONS	4
GLOSSARY	6
PLACING STATISTICS AND TIMETABLE	8
DIRECTORS, SECRETARY AND ADVISERS	9
PART I THE COMPANY AND ITS BUSINESS ACTIVITIES	10
PART II RISK FACTORS	21
PART III FINANCIAL INFORMATION ON THE GROUP	23
PART IV PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP	48
PART V ADDITIONAL INFORMATION	51

KEY POINTS OF THE PLACING

INTRODUCTION

IDS operates in the immunoassay segment of the in-vitro diagnostics market (“IVD”). IVD is the study of body fluids and tissues for the detection and monitoring of disease.

The core profitable business for IDS is the development, manufacture and marketing of immunoassays for research and clinical use. Products developed and manufactured by IDS are sold directly by the Group in the UK, Germany and US and by selected distributors in other territories. IDS also distributes immunoassay kits in the UK and the US for other manufacturers.

In addition to this core profitable business, the Group is developing both products to expand its portfolio and, internally or with joint venture partners, technologies which the Board will seek to incorporate into its own products and license to third parties.

The Group is headquartered in Boldon, Tyne & Wear, in the northeast of England, occupying a 20,000 square foot facility and employing 47 personnel. Since a management buy-out in 1996, IDS has achieved sustained organic growth in sales and consistently maintained operating profits as well as investing more than £1m in new product development.

FINANCIAL INFORMATION

The following information has been extracted from the accountant’s report on the Group contained in Part III of this document and should be read in conjunction with the full text of this document. Investors should not rely solely on the key summarised information.

	<i>14 month period ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Turnover	3,967	3,875	4,453
Operating profit	565	499	142
Exceptional item	–	–	(277)
Interest receivable/(payable)	8	4	(9)
Share of associates operating losses	–	–	(28)
Amounts written off investments	–	(138)	138
Profit before tax	573	365	(34)

As at 31 March 2004 the Group had consolidated net assets of £743,000 with cash balances of £87,000.

The Group has produced consistent growth in sales and generated an operating profit. Operating profit for the year ended 31 March 2004 was impacted by the investment in IDS Inc and additional infrastructure necessary to support the Group’s strategy of increased product development by; increased headcount for research and development activities, additional laboratory and office space, as well as, upgrading internal computer systems and additional technical support resources. Profit before tax in 2004 was adversely effected by the exceptional item of £277,000 for the diminution of value in the associate companies whose details are set out in the section titled Equity investments in “spin out” companies of Part I of this document.

The Directors believe that there is significant potential for the Company in its profitable core business and that this is being demonstrated as more products are released. The Directors also believe that this upside potential will be enhanced by the further investment in enabling technologies.

THESE KEY POINTS ARE DERIVED FROM AND MUST BE READ IN CONJUNCTION WITH THE WHOLE OF THIS DOCUMENT. SOLE RELIANCE SHOULD NOT BE PLACED ON THE INFORMATION SET OUT ABOVE. IN PARTICULAR YOUR ATTENTION IS DRAWN TO THE SECTION HEADED **RISK FACTORS** IN PART II OF THIS DOCUMENT.

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“3i”	3i Group plc
“Act”	the Companies Act 1985 (as amended)
“Admission”	admission of the Ordinary Shares, issued and to be issued pursuant to the Placing, to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	the market of that name operated by the London Stock Exchange
“AIM Rules”	the rules of the London Stock Exchange governing admission to and the operation of AIM
“Company”	Immunodiagnostic Systems Holdings plc
“CREST”	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited
“Directors” or “Board”	the directors of the Company at the time of this document
“EIS”	Enterprise Investment Scheme
“EMI”	enterprise management incentives, in terms of ITEPA
“enlarged issued share capital following Admission”	the issued share capital of the Company following Admission which, for the avoidance of doubt, includes the Placing Shares and an aggregate of 265,438 Ordinary Shares representing the maximum number of Ordinary Shares which would be issued on full exercise of the share options granted in terms of the Option Deed and the subscription for shares under the Subscription Agreement referred to in paragraphs 10.1(e) and (f) of Part V of this document
“FSA”	the Financial Services Authority
“Group” or “IDS”	the Company, the Subsidiary and its subsidiaries including Phabia Limited and Briefvision Limited (both non trading subsidiaries) IDS GmbH and IDS Inc.
“IDS Approved Share Option Scheme”	the IDS Approved Share Option Scheme described in paragraph 6.3 of Part V of this document
“IDS EMI Scheme”	the IDS EMI Scheme described in paragraph 6.5 of Part V of this document
“IDS GmbH”	IDS GmbH, a subsidiary of IDS which is incorporated in Germany
“IDS Inc”	Immunodiagnostic Systems Incorporated, a subsidiary of IDS which is incorporated in the US
“IDS Unapproved Share Option Scheme”	the IDS Unapproved Share Option Scheme described in paragraph 6.4 of Part V of this document
“IDS SAYE Share Option Scheme”	the IDS SAYE Share Option Scheme described in paragraph 6.2 of Part V of this document
“ITEPA”	the Income Tax (Earnings and Pensions) Act 2003

“London Stock Exchange”	London Stock Exchange plc
“Model Code”	the code governing dealings by directors in the securities of AIM companies as issued for the time being and as amended from time to time
“Mr Evans’ Options”	the option(s) granted to Mr David Evans entitling him to acquire a number of shares equal to 2.5 per cent. of the enlarged issued share capital following Admission subject to the performance condition and other terms and conditions summarised in paragraph 6.6 of Part V of this document
“Mr Wood’s Options”	the option granted to Mr Christopher Wood entitling him to acquire a number of shares equal to 0.1 per cent. of the enlarged issued share capital following Admission, subject to the performance condition and other terms and conditions summarised in paragraph 6.7 of Part V of this document
“Ordinary Shares”	ordinary shares of 2p each in the capital of the Company
“Placing”	the placing by Teather & Greenwood of the Placing Shares at the Placing Price pursuant to the Placing Agreement and Vendor Placing Agreement
“Placing Agreement”	the conditional placing agreement between the Directors (1), the Company (2) and Teather & Greenwood (3) dated 22 December 2004, particulars of which are summarised in paragraph 9.1 of Part V of this document
“Placing Price”	the placing price of 51p per Placing Share
“Placing Shares”	3,471,420 Ordinary Shares issued and to be issued which are the subject of the Placing
“POS Regulations”	The Public Offers of Securities Regulations 1995 (as amended)
“Remuneration Committee”	the remuneration committee of the Board
“Share Option Schemes”	the IDS Approved Share Option Scheme, the IDS Unapproved Share Option Scheme, the IDS EMI Scheme and the IDS SAYE Share Option Scheme
“Subsidiary”	the Company’s subsidiary, Immunodiagnostic Systems Limited
“Teather & Greenwood”	Teather & Greenwood Limited which is regulated and authorised in the United Kingdom by the FSA
“US” or “United States”	United States of America, each state thereof, its territories and possessions and the District of Columbia
“Vendor Placing Agreement”	the conditional placing agreement between 3i (1), the Company (2) and Teather & Greenwood (3), dated 22 December 2004
“Vendor Shares”	343,138 Ordinary Shares being placed on behalf of 3i

GLOSSARY

Analyte	The substance for which an assay is designed to measure. In the present context this will be in a sample taken from a patient or animal (such as blood) and its measurement will aid the diagnosis or monitoring of a disease or its treatment, or provide information for research studies.
Antibodies	Any of a large variety of immunoglobulins (or fragments thereof) which are part of the immune system, and are produced to help fight against infection. Antibodies are made by a type of blood cell called a lymphocyte, and are tailor-made in response to foreign material (antigen) entering the body. Antibodies are highly specific for their particular antigen, and will bind strongly to it. In immunoassays, antibodies are raised against the analyte and used as a receptor to bind the analyte.
Antigen	A protein or part of a protein which provokes an immune response and will bind to the antibodies generated.
Assay	A test to detect and/or quantitate a specific analyte in a sample.
Biomarker	An analyte present in a biological sample whose presence or concentration is indicative of a disease state.
Conjugate	An entity formed by coupling 2 substances together. In immunoassays the term generally refers to the labelled entity in the assay (e.g. enzyme-labelled antibody).
DNA	Deoxyribonucleic Acid. Comprised of a series of nucleotides that form genes.
Enzyme	A catalytic protein which is necessary for a particular chemical process to take place in a living cell. In immunoassays, enzymes are frequently conjugated to antibodies, as part of the signal generation system.
Gene	A sequence of nucleotide bases which will code for a specific protein.
Genome	The total set of genes in an organism or species.
Immunoassay	An assay which uses the specificity of the antibody-antigen binding to measure or detect an analyte.
In-vitro	Literally 'in glass'. It refers to a process or biological reaction taking place outside a living system.
In-Vitro Diagnostics (IVD)	Reagents, instruments and systems intended for use in the diagnosis of disease or other conditions, including a determination of the state of health, in order to cure, mitigate, treat or prevent disease. Tests are performed on samples removed from the body.
Liposome	A type of "artificial cell" composed of a lipid bilayer which has the ability to separate and isolate the contents from the surrounding liquid.
Marker	In the present context, a synonym for Biomarker.

Monoclonal antibodies	Made by producing a single antibody cell line so that it will secrete large amounts of a specific antibody indefinitely. The antibodies produced are therefore all the same. Monoclonal antibodies are used in diagnostics and in purifying useful proteins from mixtures.
MRSA	Methicillin-resistant Staphylococcus aureus.
Phage Display	Expression of proteins, including antibodies, on the surface of a bacteriophage. DNA sequences are inserted into the phage genome such that the encoded protein is expressed or “displayed” on the surface of the phage. By inserting a library of, for example, antibody DNA sequences into a population of bacteriophage one can rapidly select and isolate the phage secreting antibody to a particular analyte, and then produce large quantities of the appropriate antibody.
POMC	Pro-opiomelanocortin, a hormone precursor molecule found in the pituitary gland.
Proteins	Proteins are one of the products that genes code for. They are made of chains of amino acids folded into complex three dimensional structures. It is this structure that helps determine their function.
Proteome	The entire range of proteins present in a species.
Proteomics	The study of the entire range of proteins which are produced by a particular gene, genome or cell.
Research-use Only (RuO)	In the present context, an immunoassay that does not have regulatory approval for use as an IVD and can only be used for research purposes.
RNA	Ribonucleic Acid is a linear, usually single-stranded polymer of ribonucleotides, each containing the sugar ribose in association with a phosphate group and one of four nitrogenous bases: adenine, guanine, cytosine, or uracil. RNA is found in all living cells and it encodes the information needed to synthesize proteins (i.e. it copies “instructions” that it receives from DNA), in certain viruses, it serves as the genome.
Specificity	In this context the ability of a measurement procedure to determine solely the measurable quantity it purports to measure.

PLACING STATISTICS

Placing Price	51p
Number of Ordinary Shares being sold by 3i pursuant to the Placing	343,138
Number of new Ordinary Shares being issued pursuant to the Placing	3,128,282
Number of Ordinary Shares in issue immediately following the Placing	13,237,703
Market capitalisation following the Placing at the Placing Price	£6,751,305
Percentage of issued ordinary share capital being placed	26.22%
Estimated gross proceeds of the Placing	£1.77 million
Estimated net proceeds of the Placing receivable by 3i	£0.17 million
Estimated net proceeds of the Placing receivable by the Company	£1.12 million

EXPECTED TIMETABLE

CREST accounts credited by	24 December 2004
Dealings in the Ordinary Shares on AIM commence on	24 December 2004
Despatch of definitive share certificates in respect of the Placing Shares by	7 January 2005

DIRECTORS, SECRETARY AND ADVISERS

Directors	David Eric Evans	<i>Non-Executive Chairman</i>
	Dr Roger Thomas Duggan	<i>Managing Director</i>
	Paul Hailes	<i>Finance Director</i>
	William Michael Dracup	<i>Non-Executive Director</i>
	Dr Edward Duncan Blair	<i>Non-Executive Director</i>

all of:

Registered Office	10 Didcot Way Boldon Business Park Boldon Tyne & Wear NE35 9PD
Company Secretary	Paul Hailes
Nominated Adviser and Broker	Teather & Greenwood Limited Beaufort House 15 St Botolph Street London EC3A 7QR
Auditors and Reporting Accountants	Baker Tilly 1 St James' Gate Newcastle upon Tyne NE1 4AD
Solicitors to the Company	Shepherd+ Wedderburn 155 St Vincent Street Glasgow G2 5NR
Solicitors to the Placing	Memery Crystal 44 Southampton Buildings London WC2A 1AP
Registrars	Computershare Investor Services plc Corporate Actions PO Box 859 The Pavilions Bridgwater Road Bristol BS99 1XZ
Bankers	HSBC Bank plc 110 Grey Street Newcastle upon Tyne NE1 6JG
Public Relations Advisers	Binns & Co PR Ltd Corporate and Financial Public Relations 9th Floor, City Point 1 Ropemaker Street London EC2Y 9HT

PART I

THE COMPANY AND ITS BUSINESS ACTIVITIES

Introduction

IDS operates in the immunoassay segment of the in-vitro diagnostics market (“IVD”). IVD is the study of body fluids and tissues for the detection and monitoring of disease.

The core profitable business for IDS is the development, manufacture and marketing of immunoassays for research and clinical use. Products developed and manufactured by IDS are sold directly by the Group in the UK, Germany and the US and by selected distributors in other territories. IDS also distributes immunoassay kits in the UK and the US for other manufacturers.

In addition to this core profitable business, the Group is developing both products to expand its portfolio and, internally or with joint venture partners, technologies which the Board will seek to incorporate into its own products and license to third parties. The Directors believe that, as medicine becomes more personalised, IDS can provide more effective tools for the diagnosis and monitoring of disease and therefore the more efficient selection of increasingly costly therapies. The Directors also believe IDS will have the ability to deliver products to diagnose and monitor disease in a more cost effective and timely manner than at present.

The Group is headquartered in Boldon, Tyne & Wear, in the northeast of England, occupying a 20,000 square foot facility and employing 47 personnel. Since a management buy-out in 1996, IDS has achieved sustained organic growth in sales and consistently maintained operating profits as well as investing more than £1m in new product development.

History

The business commenced trading in 1977 as a sales and marketing group for in-vitro diagnostic products. In 1981 the decision was taken to become a developer of immunoassay kits, and a manufacturing facility was established. The business began research and development work in 1982 enabling it to develop, manufacture and sell products directly to end customers. The business then focused on developing innovative niche products and technologies, and has made extensive use of collaborations with British universities and teaching hospitals to successfully develop new products.

The business underwent a management buy-out in 1996, funded by an equity investment from 3i for 29 per cent of the issued share capital and debt provided by HSBC Bank plc. The Group’s innovative work in the development of a vitamin D immunoassay enabled it to win a Queen’s Award for Technological Achievement in 1999. In June 2003, the US subsidiary, IDS Inc, and in December 2004, the German subsidiary, IDS GmbH, commenced the distribution of some IDS and other manufacturers’ products.

Developed and Manufactured Products

The Group sells immunoassays targeting a variety of clinical and research markets, with a particular focus on bone and mineral metabolism. Examples of markers developed and sold by IDS include the two most clinically relevant forms of vitamin D (25 hydroxy vitamin D and 1,25 dihydroxy vitamin D), Parathyroid Hormone, Insulin-like Growth Factor 1 and Corticosterone.

Vitamin D

Vitamin D is key to the maintenance of normal blood levels of calcium and phosphorous and, therefore, the development and maintenance of bones and teeth. With insufficient vitamin D, bones become thin, brittle, soft or mis-shapen. Vitamin D helps to prevent skeletal defects that weaken bones such as rickets in children and osteoporosis in adults. There are numerous research and clinical uses for tests for the two major forms of vitamin D:

- 25 hydroxy vitamin D is the most commonly measured form, and is used primarily as a marker of vitamin D dietary sufficiency. Vitamin D deficiency gives rise to rickets and related diseases, but

chronic insufficiency has been linked to an increased predisposition to numerous cancers such as colorectal cancer, and is the subject of increased research interest.

- 1,25 dihydroxy vitamin D is present in much lower concentrations, but is the most potent form in the regulation of serum calcium. It controls calcium uptake from the intestine, retention at the kidneys and, with parathyroid hormone, the control of serum calcium.

Vitamin D assay products are currently key to the Group, accounting for approximately 55 per cent of turnover.

Parathyroid Hormone (PTH)

The primary purpose of the parathyroid gland is to regulate serum calcium level within a very narrow physiological range so that the nervous and muscular systems can function properly. The most common disease of the parathyroid gland is over-activity which results in too much PTH causing a potentially serious increase in serum calcium (hypercalcaemia). Examples of areas of research and clinical use where IDS' tests are used are similar to those for detecting vitamin D. PTH and synthetic analogues of PTH have recently been employed in the treatment of osteoporosis.

Insulin-like Growth Factor 1 (IGF-1)

IGF-1 is produced by the liver and some peripheral tissues. Production is stimulated by growth hormone and retarded by undernutrition. Almost every cell in the human body is affected by IGF-1, particularly in respect of the regulation of cell growth and development. IGF-1 levels are readily measured in the blood as levels do not fluctuate greatly throughout the day. IDS' test for human IGF-1 is used by clinical biochemists for the investigation of growth disorders such as dwarfism and gigantism. More recently, IGF-1 levels have been implicated in screening for potential predisposition to prostate cancer in men. The Directors believe IDS' kits are well placed to be used in these research applications. IDS' rat/mouse IGF-1 kit is used primarily in pharmaceutical research laboratories undertaking drug development and pre-clinical studies.

Corticosterone

The cortex of the adrenal gland in rats and mice (and numerous other species) secretes corticosterone, which is the equivalent of cortisol in humans. The level of corticosterone is a major indicator of stress and also a controller of carbohydrate metabolism. The Directors believe that IDS' Research-use Only ("RuO") immunoassays for corticosterone are being used in studies such as for determining levels of stress, and also monitoring fluctuations due to diet, with implications for satiety and obesity.

Sales and Marketing

IDS currently has direct sales operations in the UK, Germany and the US. In addition, IDS has an export sales team dealing with non-US overseas sales, servicing distributors in more than 25 territories.

In the UK, the Group's direct sales force sells into the clinical and research markets, and is particularly focused on servicing hospital, research and pharmaceutical laboratories. A marketing and customer services team supports the direct sales force. In June 2003, IDS Inc became operational and is located in Fountain Hills, near Phoenix, Arizona. The operation is run by Kenneth Gibbs, who has over 30 years of experience in marketing and sales in US and other overseas markets. In addition to distributing IDS's products, IDS Inc has acquired the US-marketing rights for a number of other manufacturers bone related products. By December 2004 all of the Group's flagship vitamin D products had been cleared to market in the USA.

One of IDS' current major corporate marketing partners is Nichols Institute Diagnostics GmbH ("Nichols") who distribute IDS' vitamin D products, badged as Nichols products, globally (excluding the UK and Japan), and exclusively in Germany, France and Switzerland. Sales via Nichols accounted for approximately 25 per cent of total turnover for the year ended 31 March 2004. Following the success of the UK based sales team and setting up IDS Inc in the US, the Group is currently setting up its own operation selling and marketing into the German and French territories, currently serviced by Nichols.

IDS GmbH has been incorporated in Germany for this purpose, and although already operating will become fully functional on 1 February 2005, when the existing distribution agreement with Nichols comes to an end. It is located in Frankfurt. This operation is being run by Anthony Wilks, who until recently was Managing Director of European Operations of Nichols Institute Diagnostics GmbH. Further details of Mr. Wilks past experience are set out on page 17.

The Directors believe that direct selling will lead to improved margins being achieved by the Group, increased interaction with the end customer resulting in quicker response times to meet customers needs and possibly shorter lead times in getting new products into these major European markets.

Near Term Products

IDS' product pipeline is focused on building on the existing bone assay portfolio and extending the product portfolio further into the fields of growth factors, oncology and hospital acquired infection.

The Directors aim to bring a minimum of 4 new products to market per annum, using conventional technologies in assay development. Products to be released in the near future will be complementary to currently marketed products, for example, the Group is currently developing an enzyme-based test to be sold alongside its existing isotopic 1,25 dihydroxy vitamin D test.

Future Strategy

The Group is planning to develop and/or acquire and/or access a number of enabling technologies which the Directors believe may lead to significant advances in assay delivery, including:

- increasing the speed and number of disease-associated marker discoveries (by phage display and proteomics);
- rapid screening methods for hospital acquired infection, (e.g. MRSA), by nucleic acid technology;
- increasing stability of immunoassays and reagents (chaperone technology); and
- in the development of simplified, possibly homogeneous, assay procedures with reduced manufacturing costs (liposome technology).

The Directors believe that each of these technologies, if successful, has the potential to generate significant value for IDS from both increasing the number of assays in IDS's product portfolio, and generating royalty based revenues from the licensing to major diagnostics players.

Phage display and proteomics

The Directors believe that the exploitation of two proven technologies in concert, will deliver a new marker hunting, antibody selection platform for the accelerated identification and development of large numbers of new disease-related biomarkers.

The Directors believe that there is a need in the IVD industry to increase the rate at which biomarkers employed to improve diagnostic performance are identified, and to accelerate the rate of generation of corresponding antibodies. Two major technologies that have the potential to be combined to achieve these two key goals are proteomics, and phage display. The Directors believe that IDS is one of the first companies to adopt this approach in the IVD industry.

Historically, the identification of new disease markers has been almost serendipitous, often being the result of a researcher observing a relationship between a marker and a disease state (for example in the discovery of most cancer markers). Proteomics is the study of the protein spectrum in a tissue sample, and it is possible to perform 'differential display' to separate out component proteins and compare patterns between healthy and diseased tissues. In this manner, proteins expressed only by diseased tissue can be readily identified as 'disease associated' proteins, and are therefore potential markers of that disease.

Existing proteomics technologies will be accessed by IDS to separate and identify new disease-related markers, which will then be used to screen libraries of antibody templates with phage display technology.

Antibodies are the key component in every immunoassay, and their qualities determine the sensitivity and specificity of an assay. They are currently produced by immunisation of an animal such as a mouse or sheep, with a quantity of highly purified antigen from tissue or synthetic target marker. The resulting antibodies may be suitable for assay development, but individual animal responses are unpredictable. Other techniques such as monoclonal antibody techniques allow more efficient production of antibodies, but the underlying uncertainties, timescales and costs remain.

The Directors believe that the employment of phage display and proteomics technologies in concert will markedly speed up the identification of numbers of new disease markers and the selection of complementary antibodies, reducing the time to market of assays.

Nucleic Acid Technology (NAT)

The development of the Polymerase Chain Reaction (“PCR”) delivered a major technology for the replication and study of nucleic acid sequences (DNA, RNA).

PCR has been adopted by the IVD industry for the sequence-specific identification of nucleic acids of infectious organisms, and the multiple replication (amplification) of such ‘target’ sequences. This has facilitated the development of more sensitive and specific diagnoses of a number of infectious diseases. The sensitivity and degree of amplification attainable by typical PCR analyses demand very careful containment measures to avoid cross-contamination of determinations that can lead to erroneous results, limiting their use to specialist laboratories.

IDS has licensed-in a patent-protected nucleic acid technology from British Biocell International Limited that identifies specific sequences of ‘target’ nucleic acid, and then creates a ‘signal-sequence’ of nucleic acid bases subsequently amplified by a process known as Signal-Mediated Amplification of RNA Technology (“SMART”). The technology confers specificity and sensitivity with speed and simplicity, and will be suitable for routine performance by non-specialist technicians in standard clinical microbiology laboratories. Independent studies of a prototype assay have been conducted by a Public Health Laboratory Service and published in a peer-reviewed scientific journal.

SMART technology will be employed by IDS to produce laboratory tests that will facilitate and speed the identification of, and screening for, MRSA. Hospital acquired infections are increasing in importance throughout the world, and in the United Kingdom is reported to cause 5,000 deaths and cost the NHS £1 billion per annum. SMART technology can be used in the future development of further tests for hospital acquired infection and other infectious disease organisms such as VRSA and *E coli* O157.

Chaperone Technology

Immunoassays are used to measure many proteins and indeed, they themselves utilise protein reagents. Proteins vary greatly in their stability in liquid solution, even in very carefully selected conditions. Stability limitations can restrict the shelf-life of current immunoassays, and various methods have been employed to prolong their stability. One of the main techniques currently employed is freeze-drying, although this is inconvenient and expensive. Freeze-dried materials are also incompatible with automated systems since the necessary reconstitution often involves a prolonged mixing step.

IDS has obtained an exclusive licence from the University of Durham for the use of chaperone stabilisation technology in immunoassays. The agreement allows IDS to sublicense the technology in this field and, therefore, the Directors believe that, if it is successful, IDS will be able to apply the technology not only to its own products, but also license the technology to major players for use in their products. The technology is based around the use of heat shock proteins, which are naturally-occurring molecules whose function is to protect other proteins from thermal and other damage. Early proof of concept studies have demonstrated that this technology has the potential to enhance the stability of POMC and thereby may prolong its shelf-life. IDS plans to complete further proof of concept studies to demonstrate the stabilisation effect on a range of proteins and other molecules and, if successful, will seek licencees within the IVD industry.

Liposome Technology

IDS is internally developing early stage technology which conceptually may provide for 'one-step' non-isotopic and fully automatable assay formats, rather than the multi-step manual formats currently in use, thereby simplifying performing immunoassays for the customer and reducing costs to the manufacturer.

Corporate Ventures

IDS participates in ventures with both academic and corporate partners in the development and exploitation of new technologies and analytes.

- In 2002, IDS entered into a joint venture agreement with GroPep (Adelaide, Australia) to co-develop growth factor kits. GroPep is a major player in the science and biology of growth factors, and is a substantial supplier of growth factors to cell culture media companies. Under the terms of the agreement, IDS will develop kits from growth factor proteins and antibodies sourced from GroPep. Such kits will be manufactured and marketed by IDS on a shared cost, shared profit basis. Kits developed under the agreement are expected to expand IDS's growth factor product portfolio. The first product developed through this agreement was rat/mouse IGF-1, launched in 2003.
- IDS has obtained a licence from Beckman Coulter Inc (San Diego, CA) for the manufacture and global marketing of a kit for bone-specific alkaline phosphatase (BAP), a marker of bone formation, which was launched in September 2004.
- In August 2004, IDS signed an agreement with a third party to develop a fully-automated assay for vitamin D to be installed on an analyser, and to be marketed globally by a top 5 IVD company with an anticipated ongoing royalty stream to IDS.

Academic ventures and research partnerships

The Directors believe that IDS has developed strong links with academic institutions and research institutes. In forging these relationships IDS has funded and sponsored a number of projects. These have included projects at the universities and/or teaching hospitals of Glasgow, Liverpool, Manchester, Leeds, Newcastle and Reading, and the Roslin Institute. Such projects have the potential to generate new assays to add to the existing bone and mineral product range, and in new areas such as perinatal disease. The Directors believe the funding of academic projects is a low cost route for IDS to gain access to technologies and products, which IDS can then commercialise. If successfully commercialised, the university or research institution has the potential to benefit from a royalty stream based on product sales. For example, the collaborating university in the development of 1,25 dihydroxy vitamin D currently receives in excess of £70,000 per annum in royalties.

In addition IDS is the commercial participant in a Euro 2 million European Framework VI Research Programme entitled 'Molecular mechanisms in bone homeostasis', working with research groups in Norway, Sweden, Switzerland, Italy and the UK.

Equity investments in 'spin out' companies

IDS has provided seed funding to three spin out companies originating from UK universities and research institutes. Through the initial funding, IDS has gained an equity stake in these companies which are developing potential new products or technologies in areas of interest to IDS. The spin out companies are:

- PeriNatal Diagnostics Limited is a spin out company from the University of Reading. PeriNatal Diagnostics Limited has a licence to use intellectual property for which a patent has been applied for (covering both diagnostic and therapeutic fields) related to the cause of pre-eclampsia in pregnancy (first published in Nature, vol 405, June 2000). IDS and its employee benefit trust currently holds an aggregate 41 per cent equity stake, and IDS has exclusive manufacturing rights to ensuing products.

- PalindromX Limited is a spin out company from the University of Liverpool, which in conjunction with the University of Liverpool is developing intellectual property in two areas: firstly, the generic application of polymerase chain reaction to most immunoassays, providing for an increase in analytical sensitivity of over 400 fold according to early stage test results; and, secondly, in the potential generation of antibodies by DNA vaccination. IDS currently holds a 25 per cent equity stake in PalindromX Limited.
- Pyrronostics Limited is a spin out company from The Rowett Research Institute. The Rowett has developed technology for the selective capture and identification of damaged (pyrrolised) proteins as potential markers of arthritis, cardiac and autoimmune disease, and has exclusively licensed the technology to Pyrronostics Limited. IDS currently holds a 33.3 per cent equity stake in Pyrronostics Limited, which has been successful in gaining a SMART Award of up to £45,000. In addition to the equity stake, IDS has manufacturing and marketing rights to any successfully commercialised products arising from Pyrronostics Limited.

Market and Competition

In 2002, the global IVD market was valued at approximately US\$21.3bn, with the immunoassay sector of this market worth approximately US\$3.9bn. Immunoassays have become a widely used tool with many applications in the clinical diagnosis of disease and in biomedical research.

The clinical IVD market is dominated by a small number of large, multi-national companies, with over 80 per cent of the market revenues being accounted for by the top ten IVD companies such as Roche, Abbott and Johnson & Johnson. The clinical IVD market is high volume with the large players selling fully-automated, push-button immunoassay systems delivering results very similar to their competitors. The current market addresses only a limited number of clinically proven analytes. IDS has been able to address this clinical market in a number of niche areas such as vitamin D.

The Directors believe that the highly competitive nature of the market and the need for innovative immunoassays has resulted in an increased willingness on the part of larger companies to in-license new technologies and products in an effort to gain market advantage. The Directors believe this provides an opportunity for smaller, innovative companies such as IDS to generate substantial value from the development and out-licensing of new immunoassays or technologies. IDS has signed an agreement relating to the development and manufacture of a version of its 25 hydroxy vitamin D assay technology on an automated platform to one of the top five global IVD companies.

In addition to the mainstream clinical IVD market, there is a RuO market, comprising those laboratories working in drug discovery, clinical trials and academic research. The Directors believe the research market is relatively unregulated in comparison to the clinical IVD market making research assay development considerably quicker and less onerous, with the key criteria for the launch of a successful assay being the customers' view of the quality (sensitivity, specificity and reproducibility) of the assay. The Directors believe this also results in the RuO market being less price sensitive, making it low volume/high margin. The Directors believe the research market is also considerably more fragmented, made up of a large number of players with different areas of strength.

The Directors believe that in this highly fragmented market it is possible for small companies to achieve a strong market position in individual sections of the market by developing immunoassays that may be unique and/or superior to their competitors. For example, the Directors believe that IDS' POMC product is the first commercially available product for this analyte.

Companies developing and selling immunoassays into the research market have the potential to expand the market for such tests where clinical utility can be demonstrated and regulatory approval gained. In this situation, and where appropriate, IDS would seek to license these assays to the major clinical IVD players to optimise market penetration.

Financial Information

The following information has been extracted from the accountant's report on the Group contained in Part III of this document and should be read in conjunction with the full text of this document. Investors should not rely solely on the key summarised information.

	<i>14 month period ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Turnover	3,967	3,875	4,453
Operating profit	565	499	142
Exceptional item	–	–	(277)
Interest receivable/(payable)	8	4	(9)
Share of associates operating losses	–	–	(28)
Amounts written off investments	–	(138)	138
Profit before tax	573	365	(34)

As at 31 March 2004 the Group had consolidated net assets of £743,000 with net cash balances of £87,000.

The Group has produced consistent growth in sales and generated an operating profit. Operating profit for the year ended 31 March 2004 was impacted by the investment in IDS Inc and additional infrastructure necessary to support the Group's strategy of increased product development by, increased headcount for research and development activities, additional laboratory and office space, as well as, upgrading internal computer systems and additional technical support resources. Profit before tax in 2004 was adversely effected by the exceptional item of £277,000 for the diminution of value in the associate companies whose details are set out in the section titled Equity investments in "spin out" companies of this Part I.

The Directors believe that there is significant potential for the Company in its profitable core business and that this is being demonstrated as more products are released. The Directors also believe that this upside potential will be enhanced by the further investment in enabling technologies.

Directors

The Board consists of 5 Directors, brief biographies of whom are set out below. Details of service contracts and pension arrangements relating to the Directors are set out in paragraphs 5.1 to 5.3 of Part V of this document.

David Evans BCom., CA, MBA (aged 44), Non-Executive Chairman

David has considerable expertise within the diagnostic industry. As financial director he was a key member of the team that floated Shield Diagnostics Group plc in 1993 and was chief executive officer responsible for the merger of Shield Diagnostics Group plc with Axis Biochemicals ASA of Norway in 1999 to create Axis-Shield plc. He is currently involved in a non-executive capacity with several other companies.

Roger Duggan PhD (aged 55), Managing Director

Roger joined RIA (UK), the forerunner of IDS in 1981. Within IDS, he has held the positions of development scientist, laboratory manager, and scientific director, becoming managing director following the management buy-out in 1996. Roger also sits on the boards of PeriNatal Diagnostics Limited, PalindromX Limited, Pyrronostics Limited, Briefvision Limited, Phabia Limited and IDS Inc.

Paul Hailes FCCA (aged 41), Finance Director

Paul gained experience with Bowater plc and Courtaulds plc before joining IDS in February 1993. Paul is also a Director and/or Company Secretary in PeriNatal Diagnostics Limited, PalindromX Limited, Pyrronostics Limited, Briefvision Limited, Phabia Limited and the Subsidiary.

William "Will" Dracup (aged 40), Non-Executive Director

Will founded Nonlinear Dynamics Limited in 1989. An Economics graduate and software engineer, Will became interested in the analysis of protein separations after working for a life science imaging

company, Joyce-Loebl Limited. Deciding that the available technology was inadequate, Will went on to develop software that has since become the industry standard in its field. Nonlinear Dynamics Limited grew throughout the 1990's, and Will has overseen the successful diversification of the company into the US and Asia Pacific markets, with the company's product line growing into a wide range of application areas within life sciences.

Edward "Eddie" Blair PhD (aged 45), Non-Executive Director

Following a research career in virology at the MRC National Institute for Medical Research (Mill Hill, London) and University of California (Irvine CA, US), Eddie spent 15 years in the pharmaceutical industry and held the positions of programme leader in virology then later clinical therapeutic adviser to the Predictive Medicine Group, at GlaxoWellcome, before becoming a director of clinical diagnostics at GlaxoSmithKline plc. He is currently a director of Integrated Medicines Limited.

Senior Management

Anthony "Tony" Wilks (aged 44), Managing Director IDS, GmbH and Sales and Marketing Director, IDS Ltd

Living for more than 20 years in Germany and with 18 years experience in European sales and marketing of diagnostic products, Tony brings a wealth of experience in international sales to IDS. Tony recently joined IDS from Nichols Institute Diagnostics GmbH, a wholly-owned subsidiary of Quest Diagnostics, the US Parent where he acted as Managing Director of European Operations. Tony had been with Nichols Institute since 1997. In 1990 Tony started Tosoh Medics GmbH in Germany and successfully established Tosoh as a major diagnostic company in immunoassay automation. Prior to this Tony was Product Manager for Oxford Medical Systems GmbH, responsible for cardiovascular system, marketing and distribution sales.

Kenneth Gibbs (aged 59), CEO and Managing Director, IDS Inc

Kenneth is a senior executive with more than 30 years professional experience in pharmaceutical, *in vitro* diagnostic and medical device marketing, sales, reimbursement, business development, and management. He has US and international experience with large multi-national corporations as well as emerging technology and start-up entrepreneurial companies. From 1994 until joining IDS in January 2003, he was employed by Metra Biosystems Inc and later retained as marketing consultant, by Quidel Corporation, a major competitor to IDS in bone and skeletal diagnostics, following Quidel's acquisition of Metra Biosystems Inc.

Employees

IDS employs 47 staff in total all except 3 of whom are based at the Group's premises at Boldon, near Newcastle.

The Group contributes to defined contribution pension schemes for employees and directors. The Group's contributions are up to date.

Employee Incentives and Directors Interests

The Directors believe that the success of the Group will depend to a high degree on the future performance of the management team. The Directors also recognise the importance of ensuring that all employees are well motivated and identify closely with the success of the Group. Accordingly, the Company has established the Share Option Schemes, Mr Evans' Options and Mr Wood's Options, further details of which are set out in paragraphs 6.1 to 6.7 of Part V of this document. Mr Wood is a former director of the Subsidiary.

The approximate percentage of the enlarged issued share capital following Admission which has been committed, or will actually be under option, in respect of the Share Option Schemes and Mr Evans' Options and Mr Wood's Options is 12.1 per cent. Further details are set out in paragraph 2.4 of Part V. Taking account of this, approximately 5.5 per cent of the enlarged issued capital following Admission remains available for award as options under the Share Option Schemes.

The Directors' interests following Admission and the grants of share options referred to below are set out in paragraph 4.1 of Part V of this document. In aggregate, the Directors will be interested in 4,155,197 Ordinary Shares following Admission, representing approximately 31.39 per cent of the Company's issued share capital following Admission.

Intellectual Property

IDS's intellectual property comprises two patents, a body of know-how, a substantial amount of intellectual property licences, and a trade mark.

The Group has an exclusive licence of the cell line 1G7 from Manchester University that is critical to one of the Group's key existing immunoassays (1,25 dihydroxy Vitamin D). Other products of the Group also rely on cell lines for monoclonal antibodies or pools of polyclonals.

The Group holds licences of various intellectual property rights including the Chaperone technology.

The Group has significant ongoing research and development which gives rise to technological developments for which the Group may seek patent protection for developments with future potential value. IDS also has one registered trade mark.

Reference is made to Part II of this document and paragraphs 10 and 11.9 of Part V of this document.

Terms of the Placing

Pursuant to the Placing Agreement, Teather & Greenwood has agreed with the Company and subject to the terms set out therein, to use its reasonable endeavours to procure investors to subscribe for 3,128,282 Placing Shares at the Placing Price. The Placing is not underwritten.

The Company is raising £1.60 million (before expenses) through the placing of 3,128,282 Placing Shares at the Placing Price with investors representing a total of approximately 23.63 per cent of the issued share capital of the Company on Admission. In addition pursuant to the Vendor Placing Agreement Teather & Greenwood has conditionally placed 343,138 Placing Shares at the Placing Price on behalf of 3i with investors representing a total of approximately 2.59 per cent of the issued share capital of the Company on Admission.

The Placing is conditional, amongst other things, on Admission. Application has been made for the Ordinary Shares to be admitted to trading on AIM and it is anticipated that Admission will become effective and that dealings will commence on 24 December 2004. It is expected that the relevant Ordinary Shares will be delivered into CREST on 24 December 2004 and that share certificates for the Ordinary Shares to be held in certificated form will be despatched by 7 January 2005.

Reasons for the Placing and Admission

The Placing will raise approximately £1.60 million for the Company before expenses.

The proceeds of the Placing will be used to; expand the sales and distribution network of the Group; further develop the intellectual property of the Group; for working capital and fixed capital expenditure; and, to make suitable acquisitions. The Directors believe that the profile of the Group will be significantly enhanced by Admission. The Directors also believe that Admission will also act as a further incentive to management and employees through the increased shareholding opportunity and the provision of a market for their shares.

Lock-in Arrangements

Under the terms of the undertakings (and the Placing Agreement in respect of the Directors), which are described more fully in paragraph 9.1 of Part V of this document, the Directors and certain members of the management team have undertaken that, subject to certain limited exceptions, each of them will not sell or otherwise dispose of, or agree to dispose of, any of their respective interests in Ordinary Shares held immediately following Admission at any time prior to the first anniversary of

Admission without the consent of Teather & Greenwood and, thereafter, for a further 12 months, only in accordance with Teather & Greenwood's reasonable requirements.

Corporate Governance

The Company intends to comply, as far as is practicable given the size and constitution of the board, with the Principles of Good Governance and Code of Best Practice applicable to companies who are listed on the Official List of the UKLA (the "Combined Code"). The Directors have adopted the AIM Model Code and have appointed audit, nomination and remuneration committees. Dr Eddie Blair has been appointed as the senior independent non-executive director.

The audit committee is headed by David Evans and also consists of William Dracup and Dr Eddie Blair. It will meet at least four times each year and is responsible for monitoring the quality of internal control, ensuring that the financial performance of the Company is properly measured and reported on, meeting with the auditors and reviewing reports from the auditors relating to accounting and internal controls. It will meet with the auditors at least once a year.

The Remuneration Committee is headed by William Dracup and also consists of David Evans and Dr Eddie Blair. It reviews the performance of executive directors and sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of the shareholders. The remuneration committee also makes recommendations to the directors concerning the allocation of share options to employees. No director is permitted to participate in discussions or decisions concerning his own remuneration.

The nominations committee is headed by David Evans and consists of William Dracup and Dr Eddie Blair.

The Company also has an administrative committee which deals with minor administrative matters, any two directors may form a quorum for this committee.

Dividend Policy

In the medium term the Directors' intention is to re-invest funds directly into the Company rather than to fund the payment of dividends. Thereafter, the payment of dividends will be subject to the availability of distributable reserves whilst maintaining an appropriate level of dividend cover and having regard to the need to retain sufficient funds to finance the development of the Company's activities.

Enterprise Investment Scheme and Venture Capital Trusts

The Directors have applied for provisional assurance from the Inland Revenue that the Company will rank as a qualifying investment for the purposes of the Enterprise Investment Scheme ("EIS") and will be a "qualifying company" for the purposes of investment by Venture Capital Trusts ("VCTs").

The continuing availability of EIS relief and the status of the Placing Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, on the Company continuing to satisfy the requirements for a qualifying company throughout the period of three years from the date of the investor making his investment (under EIS) and, for VCT purposes, throughout the period the Ordinary Shares are held as a "qualifying holding".

The EIS allows the following tax reliefs for individual investors provided, *inter alia*, investments are held for three years:

- initial income tax relief of 20 per cent; and
- exemption from capital gains tax ("CGT").

The EIS also allows CGT payable on chargeable gains realised by individuals and certain trustees to be deferred. To qualify for CGT deferral, a sum up to the amount of the chargeable gain must be subscribed (usually not more than one year before nor more than three years after the date on which the chargeable gain arises) in new ordinary shares of a qualifying trading company or an unquoted

company which is the parent of a qualifying trading group. For this purpose, shares quoted on AIM are regarded as unquoted.

A claim for CGT deferral relief is made by the individual investors and/or trustees claiming the relief.

Investors considering taking advantage of any of the reliefs under the EIS or available to VCTs should seek their own professional advice in order that they may fully understand how the rules apply in their individual circumstances.

Additional information on EIS, VCTs and taxation is included in paragraph 8 of Part V of this document.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced other than by certificate and transferred other than by written instrument. The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission and CRESTCo Limited has agreed to such admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholder so wishes. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

Further Information

Your attention is drawn to the additional information set out in Parts II to V of this document.

PART II

RISK FACTORS

Prospective investors should be aware that an investment in the Company involves a high degree of risk and should be made by those with the necessary expertise to appraise the investment. The following are considered by the Board to be the main risk factors, which could have a material adverse effect on IDS's business, results of operations and financial condition. In addition to the other information in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Company:

- as the in-vitro diagnostics market develops, the Directors expect that IDS is likely to face increasing competition from larger companies with greater financial and other resources than those directly available to the Group.
- the success of the Group is dependent on, amongst other things, its continuing ability to attract and retain key management and operating personnel, to maintain suitable premises for development and manufacture, and the ability of the Group and third parties to sell its products. The Group has key-man insurance which covers the Managing Director and Head of Core Technology, David Laurie, to reduce the impact to the Group if these two members of staff were to leave the Group.
- the manufacturing, marketing and use of the Group's clinically relevant products are subject to regulation by government and regulatory agencies in many countries. Of particular importance is the requirement to obtain and maintain approval for a product from the applicable regulatory agencies to enable the Group's products to be marketed. Such approval requires clinical evaluation of data relating to safety, quality and efficacy of a product. Many territories, including the United States, the European Union and Japan, have high standards of technical appraisal and accordingly clinical trials have a risk of failure. There are no assurances that the Group's products will complete clinical trials or that regulatory approvals to manufacture and market its products will be obtained. Changes in legislation, regulatory policies or the discovery of problems with the products or their manufacture may result in the imposition of restrictions on the products or their manufacture and may have an adverse impact on the Group's business.
- the Group's business exposes it to potential product liability and indemnity risks. There can be no assurance that the necessary insurance cover will be available to the Group at a commercially acceptable cost or that, in the event of any claim, the level or extent of insurance carried by the Group now or in the future will be adequate, or that a product liability or other claim would not materially and adversely affect the business of the Group.
- there can be no assurance that patents will be issued with respect to applications now pending or which may be applied for in the future. The lack of any such patents may have a material adverse effect on the Group's ability to develop its business. No assurance can be given that patents granted or licensed to the Group will be sufficiently broad in their scope to provide protection for the Group against other third party technology. There can be no assurance as to the validity or scope of any patents which have been, or may in the future be, granted or licensed to the Group or that claims relating to the patents will not be asserted by other parties. The commercial success of the Group also depends upon the Group not infringing patents granted to third parties who may have filed applications or who have obtained or may obtain patents relating to business processes which might inhibit the Group's ability to develop and exploit its own business. If this is the case, the Group may have to obtain alternative technology or reach commercially acceptable terms on the exploitation of other parties' intellectual property rights. There can be no assurance that the Group will be able to obtain alternative technology or, if any licences are required, that the Group will be able to obtain any such licence on commercially acceptable terms, if at all. To the extent that the Group's processes are protected by intellectual property rights and the Group is alleged to infringe third party intellectual property rights, then litigation may be necessary and could result in substantial cost to, and diversion of efforts by, the Group's management with no guarantee of success. The Group does not carry any intellectual property insurance.
- the Directors rely upon their knowledge of the market place to identify any breach, or alleged breach, of patents held by the Group and they do not normally instruct patent agents for this purpose.

- the Subsidiary has an exclusive licence of the cell line 1G7 from Manchester University that is critical to one of the Group's key existing immunoassays (1,25 dihydroxy vitamin D). Although the cell line is held at two locations, the cell line is not available elsewhere and there is no guarantee that it would be possible to recreate the cell line if it died or was destroyed. Other products of the Group also rely on cell lines for monoclonal antibodies or pools of polyclonals which would be difficult to replace.
- the Group has established its own operation to sell and market into the German and French territories currently serviced by Nichols. There is no guarantee that the Group's operation will be successful and sales will be made at the same historic levels as achieved by Nichols, both in terms of price and volume. If sales are not commensurate with the Directors expectations this could have a materially adverse impact on the Group's financial results.
- there is no assurance that the Group will be successful in the commercial exploitation of proteomics and phage display.
- the success of the Group's immunoassays is dependent on adoption by the research and clinical communities and the Group's immunoassays being recognised as reliable, accurate and cost-effective. Although the Board is confident that the Group's immunoassays can be applied to a number of applicable clinical and research situations, there is no assurance that researchers or clinicians will use the products in these areas or that there will be sufficient demand. Furthermore there can be no assurance that competing technologies will not be developed with similar properties or potential benefits.
- there is no assurance that the Group will be successful in the commercialisation of the chaperone and liposome technologies and, if commercialised, that there will be a market for these products.
- part of the Group's revenue is denominated in Euros and US Dollars. Although the Directors seek to manage this exposure by buying materials in each of these currencies, fluctuations in the respective exchange rates between the Euro and US Dollar with Sterling can have a material impact on the Group's financial results.
- a large part of the Group's existing revenue is derived from the distribution of the Group's and other manufacturer's products. To date the Group has not entered into written agreements in all cases and as such certain of these relationships may be liable to termination without notice or cause.
- investment in shares quoted on AIM carries a higher risk than shares quoted on the Official List. The value of publicly traded biotechnology and emerging healthcare companies can be highly volatile. There may not always be adequate information available to determine the market value of an investment in smaller companies.
- prospective investors should be aware that the value of an investment in the Company may go down as well as up. In addition, there can be no guarantee that the market price of an investment in the Company will fully reflect it's underlying value.

PART III

FINANCIAL INFORMATION ON THE GROUP

The following is the full text of a report on Immunodiagnostic Systems Holdings plc and Immunodiagnostic Systems Limited, its subsidiaries and associated undertakings from Baker Tilly, the Reporting Accountants, to the Directors of Immunodiagnostic Systems Holdings plc and Teather & Greenwood Limited.



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NE35 9PD

and

The Directors
Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
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22 December 2004

Dear Sirs

IMMUNODIAGNOSTIC SYSTEMS HOLDINGS plc, (“the Company”)

Introduction

We report in connection with the proposed placing of the ordinary shares of Immunodiagnostic Systems Holdings plc, a recently incorporated company and the proposed admission of the ordinary share capital of the Company, to trading on the Alternative Investment Market. This report has been prepared for inclusion in the admission document dated 22 December 2004. (“the Prospectus”). We report separately on the Company (Section A) and Immunodiagnostic Systems Limited (“the Subsidiary”), its subsidiaries and associated undertakings (“the IDS Group”) (Section B).

Section A – The Company

Basis of preparation

The financial information set out below has been extracted from financial records of the Company for the period ended 30 November 2004, no adjustments being considered necessary. No audited financial statements have been prepared for submission to members in respect of any period since incorporation.

The Company was incorporated on 4 June 2004 with the name Immunodiagnostic Systems Holdings plc and with an authorised share capital of £120,000 divided into 120,000 ordinary shares of £1 each (“Ordinary £1 shares”), of which 2 shares were issued, unpaid, on incorporation.

The Company has not traded, incurred neither profit or loss and neither declared nor paid dividends or made any distributions since the date of incorporation. Accordingly, no profit and loss account information is presented in this report.

On 13 July 2004 the Company's authorised share capital was increased to £196,666 by the creation of an additional 57,000 A ordinary shares of £1 each ("A Ordinaries") and 19,666 non-voting ordinary shares of £1.00 each ("Non-Voting Ordinaries").

On 13 July 2004 119,998 Ordinary £1 Shares were allotted and issued, the 57,000 A Ordinaries were allotted and issued and the 19,666 Non-Voting Ordinaries were allotted and issued all in consideration for the transfer to the Company of the entire issued share capital of the Subsidiary pursuant to an agreement between the Company and the shareholders of the Subsidiary dated 13 July 2004.

A certificate to do business and borrow pursuant to section 117 of the Act was issued to the Company on 16 July 2004.

Responsibility

The financial records are the responsibility of the directors of the Company ("the Directors"). The Directors are also responsible for the contents of the Prospectus dated 22 December 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the Company's financial records, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion, the financial information set out below gives, for the purpose of the Prospectus, a true and fair view of the state of affairs of the Company as at 30 November 2004.

BALANCE SHEET

	<i>Note</i>	<i>As at 30 November 2004 £</i>
Fixed assets		
Investments	2	196,664
Current Assets – cash in hand		<u>2</u>
		<u>196,666</u>
Capital and reserves		
Called up share capital	3	<u>196,666</u>

NOTES TO THE FINANCIAL INFORMATION

1. Accounting policies

The principal accounting policies, which have been applied in the Company's financial information throughout the period under review, are as follows:

Basis of accounting

The financial information has been prepared under the historic cost convention and in accordance with applicable accounting standards in the United Kingdom.

Investments

Investments are stated at cost in the balance sheet. Where appropriate, provision is made for any impairment in the value of the fixed asset investment.

2. Investments

	<i>As at</i> <i>30 November</i> <i>2004</i> <i>£</i>
Investment in Subsidiary	<u>196,664</u>

Details of the Subsidiary undertaking is as follows:

<i>Name of Undertaking</i>	<i>Country of incorporation</i>	<i>Description of shares held</i>	<i>Percentage holding</i>	<i>Nature of business</i>
Immunodiagnostic Systems Limited	England	Ordinary £1 'A' Ordinary £1 Non voting ordinary £1	100%	manufacturing and distributing medical diagnostic products

3. Share capital

	<i>As at</i> <i>30 November</i> <i>2004</i> <i>£</i>
Authorised:	
120,000 ordinary shares of £1 each	120,000
57,000 'A' ordinary shares shares of £1 each	57,000
19,666 non voting ordinary shares of £1 each	<u>19,666</u>
	<u>196,666</u>
Allotted, called up and fully paid:	
120,000 ordinary shares of £1 each	120,000
57,000 'A' ordinary shares shares of £1 each	57,000
19,666 non voting ordinary shares of £1 each	<u>19,666</u>
	<u>196,666</u>

'A' ordinary shares

These shares bear a right to a participating dividend based upon 7% of net consolidated profit in the relevant year. They also have a right to a net cash compensatory dividend payable on each share the sum of which equals the total emoluments paid to shareholding directors and connected persons in excess of one hundred and fifty thousand pounds divided by the number of ordinary shares they hold.

The shares carry no rights to redemption. The shares rank second to the preference shares in the event of winding up, shareholders receiving one pound per share. The shares carry the right to one vote per share ranking *pari passu* with the ordinary shares.

Non-voting ordinary shares

The shares carry no right to dividends. In the event of a winding up the shares rank last with the ordinary shares, the balance of assets being distributed in proportion to the amounts paid up on both classes of share. The shares carry no right to redemption.

4. Post balance sheet events

At an extraordinary general meeting of the Company on 22 December 2004 special resolutions were passed as follows:

The Company's authorised share capital was increased to £1,000,000 by the creation of an additional 803,334 Ordinary £1 Shares;

Each A Ordinary was converted into one Ordinary £1 Share;

Each Non-Voting Ordinary was converted into one Ordinary £1 Share;

Each Ordinary £1 Share was subdivided into 50 Ordinary shares of 2p each.

At the date of this document, commitments have been given by the Company to award options under share option schemes to certain directors and employees, subject to and conditional upon admission of the ordinary share capital of the Company to trading on the Alternative Investment Market. The aggregate such percentage, which has been committed at the date of this document is 12.1%.

Section B – The IDS Group

Basis of preparation

The IDS Group has not prepared audited consolidated financial statements as it was exempt from the requirement to prepare consolidated financial statements as it is a medium-sized group. The consolidated financial information set out below has been prepared specifically for inclusion in this report and is based on the audited accounts, no adjustments considered necessary, of the Subsidiary, and its subsidiary undertakings, Briefvision Limited, Immunodiagnostic Systems Inc, associated companies, Perinatal Diagnostics Limited, Pyrronostics Limited and Palindromx Limited, for the three periods ended 31 March 2004.

The Subsidiary formed Immunodiagnostic Systems Inc on 3 February 2003; a company incorporated in the United States of America, and acquired 100% of the shares. On 28 May 2003, The Subsidiary acquired a 22% holding in Palindromx Limited. On 27 January 2004, the company acquired a 33% holding in Pyrronostics Limited.

The accounts of Immunodiagnostic Systems Limited for the 14 month period ended 31 March 2002 and the two years ended 31 March 2004 were audited by Baker Tilly, Chartered Accountants of 1 St James' Gate, Newcastle upon Tyne, NE1 4AD, who gave unqualified reports thereon.

No audited financial statements have been prepared for the Subsidiary or any of its subsidiaries or associates in respect of any subsequent period.

No cash flow statements have previously been prepared for the Subsidiary or any of its subsidiaries or associates as they were exempt from the requirement to prepare such statements as small companies defined by the Companies Act 1985. The consolidated cash flow statements for the IDS Group set out below have been prepared specifically for inclusion in this report.

Responsibility

The financial statements of the IDS Group are the responsibility of the directors who approved their issue. The Directors are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out below from the IDS Group's financial records and to make a report in accordance with paragraph 45 of schedule 1 to the Public Offers of Securities Regulations 1995. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial records and whether the accounting policies are appropriate to the IDS Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial information set out below gives, for the purpose of the Prospectus, a true and fair view of the profits and losses, cash flows and total recognised gains and losses of the IDS Group for the three years ended 31 March 2004 and of the state of affairs of the IDS Group at the end of each of the three years.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

		<i>14 month Period ended 31 March 2002</i>	<i>Year ended 31 March 2003</i>	<i>Year ended 31 March 2004</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>	<i>£</i>
Turnover	2	3,967,362	3,874,817	4,453,070
Costs of sales		<u>1,486,058</u>	<u>1,399,209</u>	<u>1,659,097</u>
Gross profit		2,481,304	2,475,608	2,793,973
Administrative expenses		1,451,769	1,541,150	2,095,427
Distribution costs		481,386	453,484	560,638
Other operating income		<u>(16,813)</u>	<u>(18,046)</u>	<u>(3,800)</u>
Operating profit	3	564,962	499,020	141,708
Exceptional item – Diminution of value of goodwill in associate	13	–	–	(277,206)
Share of operating loss in associates	13	–	(106)	(26,990)
Amounts written off investments	5	–	(137,495)	137,495
Interest receivable and similar income		15,988	4,226	2,604
Share of interest receivable in associates		–	7	65
Interest payable and similar charges	6	(7,975)	(359)	(11,795)
Share of interest payable in associates		<u>–</u>	<u>(2)</u>	<u>–</u>
Profit/(loss) on ordinary activities before taxation		572,975	365,291	(34,119)
Taxation	7	<u>(140,604)</u>	<u>(134,013)</u>	<u>(1,857)</u>
Profit/(loss) on ordinary activities after taxation		432,371	231,278	(35,976)
Dividends payable	8	<u>74,815</u>	<u>46,826</u>	<u>6,718</u>
Retained profit/(loss)	32	<u><u>357,556</u></u>	<u><u>184,452</u></u>	<u><u>(42,694)</u></u>

Turnover and operating profit/(loss) all derive from continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

CONSOLIDATED BALANCE SHEETS

	Notes	As at 31 March		
		2002 £	2003 £	2004 £
Fixed assets				
Intangible assets	9	411,923	320,049	226,055
Tangible assets	10	213,886	314,952	637,682
Investments	11	232,006	232,006	232,006
Investments in associates				
Share in net assets	13	3,000	2,899	28,148
		<u>860,815</u>	<u>869,906</u>	<u>1,123,891</u>
Current assets				
Stock	14	266,094	274,750	435,042
Debtors	15	668,880	715,178	895,214
Cash at bank	16	211,535	271,078	100,160
		<u>1,146,509</u>	<u>1,261,006</u>	<u>1,430,416</u>
Creditors: amounts falling due within one year	17	<u>(900,693)</u>	<u>(988,928)</u>	<u>(1,314,607)</u>
Net current assets		245,816	272,078	115,809
Total assets less current liabilities		1,106,631	1,141,984	1,239,700
Creditors				
Amounts falling due after more than one year	18	–	(23,400)	(171,258)
		<u>1,106,631</u>	<u>1,118,584</u>	<u>1,068,442</u>
Provisions for liabilities and charges				
Deferred taxation	22	(13,874)	(14,408)	–
Share of associate's net liabilities	13	–	–	(16,365)
Other provisions	23	(339,753)	(314,876)	(276,523)
Government grants	24	(5,653)	(3,247)	(32,195)
		<u>747,351</u>	<u>786,053</u>	<u>743,359</u>
Capital and reserves				
Called up share capital	29	198,124	196,666	196,666
Share premium	30	577,170	577,170	577,170
Capital redemption reserve	31	4,371	5,829	5,829
Profit and loss account	32	(32,314)	6,388	(36,306)
Shareholders' funds including non-equity interests	33	<u>747,351</u>	<u>786,053</u>	<u>743,359</u>

CONSOLIDATED CASH FLOW STATEMENTS

		<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
Net cash inflow from operating activities	34	388,476	733,925	327,736
Returns on investments and servicing of finance				
Interest received		15,988	4,226	2,604
Interest paid		(5,453)	(208)	(9,738)
Interest element of hire purchase		(2,522)	(151)	(2,057)
Non-equity dividends paid		(26,814)	(16,479)	–
Net cash flow for returns on investments and servicing of finance		(18,801)	(12,612)	(9,191)
Taxation		(52,860)	(150,040)	(83,954)
Capital expenditure and financial investment				
Purchase of patents and licences		(9,396)	(22,062)	(3,952)
Purchase of tangible fixed assets		(54,963)	(125,557)	(604,861)
Receipts from sale of assets		–	17,290	190,022
Purchase of investments		(204,100)	–	(198,178)
Net cash flow for capital expenditure		(268,459)	(130,329)	(616,969)
Equity dividends paid		(34,450)	(48,007)	(20,722)
Cash inflow/(outflow) before use of liquid resources and financing		13,906	392,937	(403,100)
Financing				
Premium on redemption of own non-equity shares		(287,131)	(144,292)	–
Redemption own non-equity shares		(4,371)	(1,458)	–
New bank loans		–	–	278,000
Repayment of bank loans		(26,041)	–	(29,353)
Capital element of hire purchase		(13,918)	(6,862)	(29,238)
Net cash outflow for financing		(331,461)	(152,612)	219,409
(Decrease)/increase in cash in period		(317,555)	240,325	(183,691)
Reconciliation of net cash flow to movement in net debt				
(Decrease)/Increase in cash in year		(317,555)	240,325	(183,691)
Net cash outflow/(inflow) from bank loans		26,041	–	(248,647)
Net cash outflow/(inflow) in respect of hire purchase		13,918	(45,969)	(10,061)
Movement in (debt)/funds in period		(277,596)	194,356	(442,399)
Opening net funds		307,518	29,922	224,278
Closing net funds/(debt)	34	29,922	224,278	(218,121)

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 Accounting policies

The principal accounting policies, which have been consistently applied in the IDS Group's financial information throughout the period under review, are as follows:

Basis of accounting

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

Basis of consolidation

The consolidated financial information incorporates the financial information relating to the Subsidiary, its subsidiary undertakings using the acquisition method of accounting and the Subsidiary's share of the results and net assets of its associates.

Associated undertakings

Associated undertakings are entities in which a member of the IDS Group holds a long-term minority equity interest, and over which it exerts a significant influence. The financial information includes the appropriate proportion of the results and reserves of associated undertakings based on the associates' last audited accounts.

Associated undertakings are accounted for at profit before tax. Interest incurred or received by associated undertakings is separately disclosed.

In the consolidated balance sheet the investments in associated undertakings are shown as the IDS Group's share of underlying net assets under the heading "Investment in associated undertakings".

Accounting for acquisitions and disposals

The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal. On the acquisition of subsidiary undertakings or businesses, the acquisition cost is allocated against the fair value of net assets acquired, after adjustments to bring accounting policies into line with those of the IDS Group.

Tangible fixed assets

Tangible fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Leasehold Property – over 24 years
Plant & Machinery – over 7 years
Fixtures & Fittings – over 5 years
Motor Vehicles – over 4 years

Intangible fixed assets

The costs of product technology are written off over 20 years.

Research and development

Expenditure on research and development incurred in the period other than on fixed assets is charged against profits.

Purchased Goodwill

Goodwill representing the excess of the purchase price compared with the fair value of the assets acquired is capitalised and written off over 10 years as in the opinion of the directors this represents the period over which the goodwill is effective.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Net realisable value is based on estimated selling price less estimated cost of disposal.

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of the work in progress.

Leasing and hire purchase commitments

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account at a constant rate of charge on the balance of capital repayments outstanding.

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the IDS Group's taxable profits and its results as stated in the financial information.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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 the transaction. Exchange differences are taken into the profit and loss account for the year.

Pensions contributions

The Subsidiary operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Subsidiary. The annual contributions payable are charged to the profit and loss account.

Employee benefit trust

Assets held in the employee benefit trust are recognised as assets of the IDS Group until they vest unconditionally in identified beneficiaries.

Government grants

Government grants in respect of capital expenditure are treated as deferred income and are credited to the profit and loss account over the estimated useful life of the assets to which they relate.

Turnover

Turnover represents the total invoice value, excluding Value Added Tax, of goods sold and services rendered during the period.

Financial instruments

The IDS Group's principal financial instruments comprise trade debtors, trade creditors, cash, borrowing and short-term deposits used to finance the IDS Group's operations.

The IDS Group has not traded in financial instruments during the period under review.

2 Turnover

The turnover and profit before tax are attributable to one principal activity of the IDS Group.

An analysis of turnover is given below:

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
United Kingdom	1,433,365	1,474,703	1,718,872
Overseas	2,533,997	2,400,114	2,734,198
	<u>3,967,362</u>	<u>3,874,817</u>	<u>4,453,070</u>

3 Operating profit

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
Operating profit is stated after charging/(crediting):			
Amortisation of government grants re fixed assets	(2,406)	(2,406)	(6,345)
Amortisation of intangible fixed assets	112,752	96,645	97,946
Depreciation on tangible fixed assets			
Owned assets	66,635	68,944	123,173
Leased assets	4,874	8,378	8,659
Loss/(profit) on disposal of fixed assets	10,223	–	(424)
Operating lease rentals			
Equipment	17,831	31,442	17,698
Vehicles	39,965	29,981	33,865
Land and buildings	81,800	81,800	81,800
Auditors' remuneration	6,478	5,635	10,615
Net loss/(profit) on foreign currency translation	4,063	(16,794)	25,982

4 Particulars of employees

The average number of staff employed by the IDS Group during the financial periods amounted to:

	<i>14 month Period ended 31 March 2002 No</i>	<i>Year ended 31 March 2003 No</i>	<i>Year ended 31 March 2004 No</i>
Number of production staff	17	15	20
Number of distribution staff	15	12	13
Number of administrative staff	7	12	18
	<u>39</u>	<u>39</u>	<u>51</u>

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
Staff costs for the above employees and directors			
Wages and salaries	906,842	948,601	1,356,885
Social security costs	90,511	99,677	136,528
Other pension costs	36,536	33,440	40,701
	<u>1,033,889</u>	<u>1,081,718</u>	<u>1,534,114</u>

Included in wages and salaries is £38,353 (2003: £26,376, 2002: nil) which relates to payments from the employee benefit trust.

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
Directors' emoluments			
The directors' aggregate emoluments in respect of qualifying services were:			
Emoluments receivable	137,201	167,274	293,367
Value of the IDS Group's pension contributions to money purchase schemes	6,151	5,619	8,176
	<u>143,352</u>	<u>172,893</u>	<u>301,543</u>
Emoluments of highest paid director:			
Total emoluments (excluding pension contributions):	65,612	74,739	104,603
Value of the IDS Group's pension contributions to money purchase schemes	3,281	2,997	4,506
	<u>68,893</u>	<u>77,736</u>	<u>109,109</u>

There were 2 directors (2002: 2; 2003: 2) to whom retirement benefits are accruing under a money purchase scheme.

5 Amounts written off investments

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
Amounts written off investments	–	137,495	(137,495)

In the year to 31 March 2003, a provision for irrecoverability of debt from Palindromix Limited was made. This loan was subsequently converted into share capital, and the investment written down to its net book value.

6 Interest payable and similar charges

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
Bank and other loan interest payable	5,325	108	8,371
Finance charges	2,522	151	2,057
Other similar charges payable	128	100	1,367
	<u>7,975</u>	<u>359</u>	<u>11,795</u>

7 Taxation

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
(a) <i>Analysis of charge in the period</i>			
UK corporation tax at current rate (2002: 20%, 2003: 30%, 2003: 19%) based on the profit for the period	144,190	127,629	16,265
Over/under provision in prior period	(3)	5,850	–
	<u>144,187</u>	<u>133,479</u>	<u>16,265</u>
(Decrease)/Increase in deferred tax provision			
Capital allowances	(3,583)	534	9,644
Other	–	–	(24,052)
	<u>(3,583)</u>	<u>534</u>	<u>(14,408)</u>
	<u>140,604</u>	<u>134,013</u>	<u>1,857</u>

(b) *Factors affecting tax charge for period*

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%, 30%, 19%).

The differences are explained below:

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
Profit on ordinary activities before taxation	<u>572,975</u>	<u>365,291</u>	<u>(34,119)</u>
Profit on ordinary activities by rate of tax	171,893	109,587	(6,483)
As adjusted for marginal rate relief	(29,293)	(11,399)	–
Expenses not deductible for tax purposes	44,178	57,245	73,471
Capital allowances in excess of depreciation	3,584	(9,149)	(14,787)
Income not taxable for tax purposes	–	–	(34,921)
Additional relief for R & D expenditure	(46,172)	(57,033)	(42,307)
Other short term timing differences	–	–	41,292
Under provision in prior year	(3)	44,228	–
Total current tax (note 7(a))	<u>144,187</u>	<u>133,479</u>	<u>16,265</u>

8 Dividends

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
Proposed dividend on ordinary shares	48,001	30,347	6,718
Dividend paid on preference shares	<u>26,814</u>	<u>16,479</u>	<u>–</u>
	<u>74,815</u>	<u>46,826</u>	<u>6,718</u>

9 Intangible fixed assets

	<i>Goodwill</i>	<i>Patents and licences</i>	<i>Total</i>
	£	£	£
Cost			
As at 1 February 2001	966,446	48,118	1,014,564
Additions	–	9,396	9,396
Disposals	–	(10,223)	(10,223)
	<hr/>	<hr/>	<hr/>
As at 31 March 2002	966,446	47,291	1,013,737
Additions	–	22,062	22,062
Disposals	–	(47,291)	(47,291)
	<hr/>	<hr/>	<hr/>
As at 31 March 2003	966,446	22,062	988,508
Additions	–	3,952	3,952
	<hr/>	<hr/>	<hr/>
As at 31 March 2004	966,446	26,014	992,460
Depreciation			
As at 1 February 2001	459,062	30,000	489,062
Charge in period	112,752	–	112,752
	<hr/>	<hr/>	<hr/>
As at 31 March 2002	571,814	30,000	601,814
Charge in year	96,645	–	96,645
Disposals	–	(30,000)	(30,000)
	<hr/>	<hr/>	<hr/>
As at 31 March 2003	668,459	–	668,459
Charge in year	96,645	1,301	97,946
	<hr/>	<hr/>	<hr/>
As at 31 March 2004	765,104	1,301	766,405
Net book value			
As at 31 March 2002	394,632	17,291	411,923
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 31 March 2003	297,987	22,062	320,049
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 31 March 2004	201,342	24,713	226,055
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 Tangible fixed assets

	<i>Short leasehold improvements</i> £	<i>Fixtures fittings and equipment</i> £	<i>Motor Vehicles</i> £	<i>Total</i> £
Cost				
As at 1 February 2001	139,684	945,967	28,811	1,114,462
Additions	10,466	44,497	–	54,963
As at 31 March 2002	150,150	990,464	28,811	1,169,425
Additions	–	178,388	–	178,388
As at 31 March 2003	150,150	1,168,852	28,811	1,347,813
Additions	356,761	272,400	15,000	644,161
Disposals	(184,716)	–	(9,761)	(194,477)
As at 31 March 2004	<u>322,195</u>	<u>1,441,252</u>	<u>34,050</u>	<u>1,797,497</u>
Depreciation				
As at 1 February 2001	65,176	810,327	8,527	884,030
Charge for the period	12,610	51,699	7,200	71,509
As at 31 March 2002	77,786	862,026	15,727	955,539
Charge in year	5,756	64,366	7,200	77,322
As at 31 March 2003	83,542	926,392	22,927	1,032,861
Charge in year	22,350	99,848	9,634	131,832
On disposals	–	–	(4,878)	(4,878)
As at 31 March 2004	<u>105,892</u>	<u>1,026,240</u>	<u>27,683</u>	<u>1,159,815</u>
Net book value				
As at 31 March 2002	<u>72,364</u>	<u>128,438</u>	<u>13,084</u>	<u>213,886</u>
As at 31 March 2003	<u>66,608</u>	<u>242,460</u>	<u>5,884</u>	<u>314,952</u>
As at 31 March 2004	<u>216,303</u>	<u>415,012</u>	<u>6,367</u>	<u>637,682</u>

Included within the above are assets held under hire purchase contracts as follows:

	<i>2002</i> £	<i>2003</i> £	<i>2004</i> £
Net book value	<u>9,760</u>	<u>44,571</u>	<u>75,211</u>
Depreciation charge	<u>4,874</u>	<u>8,378</u>	<u>8,659</u>

Capital commitments

	<i>2002</i> £	<i>2003</i> £	<i>2004</i> £
Contracted but not provided for in the financial information at the balance sheet date	<u>23,520</u>	<u>235,286</u>	<u>–</u>

11 Fixed asset investments

	<i>Interest in own shares</i> £	<i>Total</i> £
Cost		
As at 1 February 2001	30,906	30,906
Additions	201,100	201,100
As at 31 March 2002	<u>232,006</u>	<u>232,006</u>
As at 31 March 2003	<u>232,006</u>	<u>232,006</u>
As at 31 March 2004	<u><u>232,006</u></u>	<u><u>232,006</u></u>
Amounts written off		
As at 1 February 2001	–	–
Written off in year	–	–
As at 31 March 2002	–	–
Written off in year	–	–
As at 31 March 2003	–	–
Written off in year	–	–
As at 31 March 2004	<u><u>–</u></u>	<u><u>–</u></u>
Net book value		
As at 31 March 2002	<u>232,006</u>	<u>232,006</u>
As at 31 March 2003	<u>232,006</u>	<u>232,006</u>
As at 31 March 2004	<u><u>232,006</u></u>	<u><u>232,006</u></u>

Included in investments is £232,006 (2003: £232,006, 2002: £232,006) relating to shares held in Immunodiagnostic Systems Limited held by the employee benefit trust. These assets are for the benefit of qualifying employees only.

12 Subsidiary undertakings

The Subsidiary owns 100% of the issued share capital of Briefvision Limited (formerly Immunodiagnostic Systems Limited) a company incorporated in England. The company does not trade and is unlisted. On 3 February 2003 the Subsidiary acquired 100% of the ordinary share capital in Immunodiagnostic Systems Inc., a company incorporated and registered in the United States of America. The principal activity of Immunodiagnostic Systems Inc is that of a distribution channel.

13 Investments in associates

The Subsidiary owns 30% of the ordinary share capital of Perinatal Diagnostics Limited, a company incorporated in England. Perinatal Diagnostics Limited has not traded during the period. Perinatal Diagnostics Limited's year end was extended to 31 March 2004 with effect from 31 March 2004. The results and capital and reserves of Perinatal Diagnostics Limited are as follows:

	<i>Year ended</i> <i>31 January</i> 2002 £	<i>Year ended</i> <i>31 January</i> 2003 £	<i>14 months</i> <i>ended</i> <i>31 March</i> 2004 £
Loss for the period	Nil	336	357
Capital and reserves	<u>3,000</u>	<u>9,664</u>	<u>9,307</u>

On 27 January 2004, the Subsidiary acquired 332 shares 'A' shares for £396.31 per share and one 'A' ordinary share for £1 (33% holding) in Pyrronostics Limited, a company incorporated in Scotland. The Subsidiary has entered into a deferred payment agreement in respect of the acquisition; the balance owed to Pyrronostics Limited as at 31 March 2004 is £114,837. The principal activity of Pyrronostics Limited is that of a biomarker discovery company. Pyrronostics Limited's loss for the year ended 31 March 2004 was £55,409. Capital and reserves of Pyrronostics Limited as at 31 March 2004 was £76,836.

On 28 May 2003, The Subsidiary acquired 216 ordinary shares for £840 each (22% shareholding) in Palindromx Limited, a company incorporated in England. The principal activity of Palindromx Limited is that of research and development. Palindromx Limited's loss for the year ended 31 March 2004 was £147,152. The deficiency in capital and reserves of Palindromix Limited is £73,186 as at 31 March 2004.

Subsidiary's share of associated undertakings comprises:

	<i>14 month Period ended 31 March 2002 £</i>	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>
Share of turnover			
Perinatal Diagnostics Limited	–	–	–
Pyrronostics Limited	–	–	–
Palindromx Limited	–	–	6,176
	<u>–</u>	<u>–</u>	<u>6,176</u>
Share of operating loss			
Perinatal Diagnostics Limited	–	106	150
Pyrronostics Limited	–	–	6,448
Palindromx Limited	–	–	20,392
	<u>–</u>	<u>106</u>	<u>26,990</u>
Share of assets			
Share of fixed assets			
Perinatal Diagnostics Limited	–	–	–
Pyrronostics Limited	–	–	–
Palindromx Limited	–	–	4,449
Share of current assets			
Perinatal Diagnostics Limited	3,000	3,004	3,047
Pyrronostics Limited	–	–	43,645
Palindromx Limited	–	–	6,440
	<u>3,000</u>	<u>3,004</u>	<u>57,581</u>
Share of liabilities			
Liabilities due within one year or less			
Perinatal Diagnostics Limited	–	(105)	(255)
Pyrronostics Limited	–	–	(18,289)
Palindromx Limited	–	–	(13,837)
Liabilities due over one year			
Perinatal Diagnostics Limited	–	–	–
Pyrronostics Limited	–	–	–
Palindromx Limited	–	–	(13,417)
	<u>–</u>	<u>–</u>	<u>(13,417)</u>
Share of net assets	3,000	2,899	28,148
Share of net liabilities	–	–	(16,365)
	<u>3,000</u>	<u>2,899</u>	<u>11,783</u>
Cost of investment – goodwill			
Additions in year	–	–	277,206
Diminution of goodwill	–	–	(277,206)
	<u>–</u>	<u>–</u>	<u>–</u>

14 Stocks

	<i>As at 31 March</i>		
	2002	2003	2004
	£	£	£
Raw materials	156,218	171,209	250,995
Work in progress	51,560	44,758	29,792
Finished goods	58,316	58,783	154,255
	<u>266,094</u>	<u>274,750</u>	<u>435,042</u>

15 Debtors

	<i>As at 31 March</i>		
	2002	2003	2004
	£	£	£
Trade debtors	585,795	578,116	669,389
VAT recoverable	10,356	24,451	2,187
Other debtors	15,726	46,541	149,959
Prepayments	57,003	66,070	73,679
	<u>668,880</u>	<u>715,178</u>	<u>895,214</u>

Included within other debtors is £23,613 (2003: £9,720, 2002: £6,595) held by the employee benefit trust. These assets are for the benefit of qualifying employees only.

16 Cash at bank and in hand

	<i>As at 31 March</i>		
	2002	2003	2004
	£	£	£
Bank deposit account	101,152	73,150	20,904
Cash at bank	109,971	197,768	78,822
Petty cash	412	160	434
	<u>211,535</u>	<u>271,078</u>	<u>100,160</u>

Included in the bank deposit account is £20,904 (2003: £73,150, 2002: £101,152) held by the employee benefit trust. These assets are for the benefit of qualifying employees only.

17 Creditors: amounts falling due within one year

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
Bank loans and overdrafts	180,782	–	106,025
Trade creditors	214,779	372,475	380,679
Obligations under finance leases and hire purchase contracts	831	23,400	40,998
Dividends payable	48,007	30,347	16,343
Corporation tax	144,190	127,629	59,940
Taxation and social security	23,634	32,615	41,563
Other creditors	149,766	308,495	556,442
Accruals	138,704	93,967	112,617
	<u>900,693</u>	<u>988,928</u>	<u>1,314,607</u>

The following liabilities disclosed under creditors falling due within one year are secured by the IDS Group:

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
Bank loans and overdrafts	180,782	–	106,025
Other creditors including taxation and social security	101,540	244,527	318,939
Hire purchase agreements	831	23,400	40,998
	<u>283,153</u>	<u>267,927</u>	<u>465,962</u>

Amounts due under hire purchase agreements are secured over the assets financed.

Other creditors relate to invoice discounting, which is secured on the trade debtors to which they relate.

The bank loan is secured by a debenture including Fixed Equitable Charge over all present and future freehold and leasehold property, first fixed charge over book debts, chattels and goodwill and first floating charge over all assets.

Interest chargeable on the loan is fixed at 2% over the bank's base rate.

18 Creditors: amounts falling due after more than one year

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
Bank loan	–	–	155,395
Obligations under finance leases and hire purchase contracts	–	23,400	15,863
	<u>–</u>	<u>23,400</u>	<u>171,258</u>

19 Financial instruments

With the exception of the analysis of currency exposures, the disclosures below exclude short-term debtors and creditors.

(a) Interest rate risk profile of financial assets

	<i>Floating rate</i>	
	£	US\$
Financial assets at 31 March 2004	42,026	58,134
Financial assets at 31 March 2003	271,078	–
Financial assets at 31 March 2002	211,535	–

(b) Interest rate risk profile of financial liabilities – sterling

	<i>Floating rate</i>
	£
Financial liabilities at 31 March 2004	261,420
Financial liabilities at 31 March 2003	–
Financial liabilities at 31 March 2002	180,782

Floating rates for financial liabilities are based on 2% above bank base rates

(c) Maturity of financial liabilities

	<i>As at 31 March</i>		
	2002	2003	2004
	£	£	£
In one year or less or on demand	180,782	–	106,025
In more than one year but not more than two years	–	–	93,252
In more than two years but not more than five years	–	–	62,143
	<u>180,782</u>	<u>–</u>	<u>261,420</u>

(d) Borrowing facilities

The IDS Group had no undrawn committed borrowing facilities at 31 March 2002, 31 March 2003 or 31 March 2004.

(e) Fair values

Fair values of financial instruments equate to the book value as disclosed in the financial information.

There are no material differences between the fair value of financial instruments and the amount at which they are stated in the accounts.

(f) Currency risk

As at 31 March 2003, 31 March 2003 and 31 March 2004, the IDS Group had no currency exposures.

20 Commitments under hire purchase agreements

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
Amounts payable within 1 year	831	23,400	40,998
Amounts payable between 2 to 5 years	–	23,400	15,863
	<u>831</u>	<u>46,800</u>	<u>56,861</u>

21 Pensions

The Subsidiary operates a defined contribution scheme. The assets of the scheme are held separately from those of the Subsidiary in an independently administered fund. The pension cost charge represents contributions payable by the Subsidiary to the fund and amounted to £40,701 (2003: £33,440, 2002: £36,536).

22 Deferred taxation

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
The movement in the deferred taxation provision during the year was:			
Provision brought forward	17,457	13,874	14,408
Profit and loss account movement arising during the year	<u>(3,583)</u>	<u>534</u>	<u>(14,408)</u>
Provision carried forward	<u>13,874</u>	<u>14,408</u>	<u>–</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
Excess of taxation allowances over depreciation on fixed assets	13,874	14,408	24,052
Other timing differences	<u>–</u>	<u>–</u>	<u>(24,052)</u>
	<u>13,874</u>	<u>14,408</u>	<u>–</u>

23 Other provisions

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
Balance brought forward	388,704	339,753	314,876
Movement for the period/year	<u>(48,951)</u>	<u>(24,877)</u>	<u>(38,353)</u>
	<u>339,753</u>	<u>314,876</u>	<u>276,523</u>

Other provisions relate to the expenditure committed through the employee benefit trust, relating to past service.

24 Government grants

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
Received and receivable:			
At 1 April	16,332	16,332	16,332
Receivable during year	—	—	35,293
At 31 March	<u>16,332</u>	<u>16,332</u>	<u>51,625</u>
Amortisation:			
At 1 April	8,273	10,679	13,085
Credit to profit and loss account	2,406	2,406	6,345
At 31 March	<u>10,679</u>	<u>13,085</u>	<u>19,430</u>
Net balance at 31 March	<u>5,653</u>	<u>3,247</u>	<u>32,195</u>

25 Commitments under operating leases

At each balance sheet date the IDS Group was committed to making the following payments during the next year in respect of operating leases:

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
Operating leases which expire:			
<i>Within 1 year</i>			
Land and buildings	—	—	—
Other	13,243	—	6,911
<i>Within 2 to 5 years</i>			
Land and buildings	—	—	—
Other	15,704	34,071	34,914
<i>After more than 5 years</i>			
Land and buildings	81,800	81,800	81,800
Other	—	—	—
	<u>110,747</u>	<u>115,871</u>	<u>123,625</u>

26 Contingencies

The IDS Group has a guarantee dated 23 September 1996 in favour of H M Customs & Excise for £20,000.

27 Transactions with the directors

During the year the Subsidiary purchased a car from Dr G Allen, a director appointed during the year, for £15,000.

28 Related party transactions

During the year ended 31 March 2004, the Subsidiary entered into the following transactions:

	£
Expenditure on behalf of Pyrronostics Limited	36,766
Amount due to Immunodiagnosics Systems Limited	36,766

During the year Immunodiagnostic Systems Limited acquired 22% of the share capital in Palindromx Limited. Transactions during the year were as follows:

	£
Expenditure on behalf of Palindromx Limited	56,331
Purchases from Palindromx Limited	20,526
Provision for loan irrecoverability	32,000
Amount due to Immunodiagnosics Systems Limited	21,283

29 Share capital

	<i>As at 31 March</i>		
	2002	2003	2004
	£	£	£
Authorised:			
120,000 Ordinary shares of £1 each	120,000	120,000	120,000
57,000 'A' ordinary shares of £1 each	57,000	57,000	57,000
19,666 Non voting ordinary shares of £1 each	19,666	19,666	19,666
583,000 8.5% cumulative preference shares of £0.01 each	5,830	5,830	5,830
	<u>202,496</u>	<u>202,496</u>	<u>202,496</u>
Allotted, called up and fully paid:			
120,000 Ordinary shares of £1 each	120,000	120,000	120,000
57,000 'A' ordinary shares of £1 each	57,000	57,000	57,000
19,666 Non voting ordinary shares of £1 each	19,666	19,666	19,666
145850 8.5% cumulative preference shares of £0.01 each	1,458	–	–
	<u>198,124</u>	<u>196,666</u>	<u>196,666</u>

'A' ordinary shares

These shares bear a right to a participating dividend based upon 7% of net consolidated profit in the relevant year. They also have a right to a net cash compensatory dividend payable on each share the sum of which equals the total emoluments paid to shareholding directors and connected persons in excess of one hundred and fifty thousand pounds divided by the number of ordinary shares they hold. The shares carry no rights to redemption. The shares rank second to the preference shares in the event of winding up, shareholders receiving one pound per share. The shares carry the right to one vote per share ranking *pari passu* with the ordinary shares.

Non-voting ordinary shares

The shares carry no right to dividends. In the event of a winding up the shares rank last with the ordinary shares, the balance of assets being distributed in proportion to the amounts paid up on both classes of share. The shares carry no right to redemption.

8.5% cumulative preference shares

Shareholders had the right to a cumulative net cash dividend of 8.5% per annum payable half-yearly on 31 January and 31 July. The shares were redeemable for one pound per share in the proportions and on the dates set out below:

<i>Redemption date</i>	<i>No of shares</i>
31 March 2001	145,750
31 March 2002	145,750
31 March 2003	145,750

In the event of a winding up the shares rank in preference to all other shares the sum of one pound being paid. The shares carry no voting rights.

The Subsidiary redeemed 291,500 shares during the period ended 31 March 2002 for £291,500. The Subsidiary redeemed 145,750 shares during the year ended 31 March 2003 for £145,750.

30 Share premium

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
At the beginning of the period	577,170	577,170	577,170
At the end of the period	<u>577,170</u>	<u>577,170</u>	<u>577,170</u>

31 Capital redemption reserve

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
At the beginning of the period	1,457	4,371	5,829
Redemption of own shares	2,914	1,458	–
At the end of the period	<u>4,371</u>	<u>5,829</u>	<u>5,829</u>

32 Profit and loss account

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Balance brought forward	(98,368)	(32,314)	6,388
Retained profit for the financial period	357,556	184,452	(42,694)
Redemption of own preference shares	(291,502)	(145,750)	–
At 31 March 2004	<u>(32,314)</u>	<u>6,388</u>	<u>(36,306)</u>

33 Reconciliation of movement in shareholders funds

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
Equity shareholders' funds			
Profit/(loss) for the financial year	432,371	231,278	(35,976)
Dividends	(74,815)	(46,826)	(6,718)
	<u>357,556</u>	<u>184,452</u>	<u>(42,694)</u>
Premium on redemption of own non-equity shares	(291,502)	(145,750)	–
Redemption of own non-equity shares	2,914	1,458	–
	<u>68,968</u>	<u>40,160</u>	<u>(42,694)</u>
Net addition to funds	68,968	40,160	(42,694)
Opening shareholders' equity funds	619,925	688,893	729,053
	<u>688,893</u>	<u>729,053</u>	<u>686,359</u>
Closing shareholders' equity funds	688,893	729,053	686,359
Non-equity shareholders' funds			
Opening shareholders' non-equity funds	61,372	58,458	57,000
Preference shares redeemed	(2,914)	(1,458)	–
	<u>58,458</u>	<u>57,000</u>	<u>57,000</u>
Closing shareholders' non-equity funds	58,458	57,000	57,000
Total shareholders' funds	<u>747,351</u>	<u>786,053</u>	<u>743,359</u>

34 Cash flows

	<i>As at 31 March</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	£	£	£
A Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	564,962	499,020	141,708
Amortisation of intangible fixed assets	112,752	96,645	97,946
Depreciation of tangible fixed assets	71,509	77,322	131,832
Profit on disposal of fixed assets	10,223	–	(424)
Amounts written off investments	–	(137,495)	137,495
Amortisation of government grants	(2,406)	(2,406)	(6,345)
Increase in stocks	(73,286)	(8,656)	(160,292)
Increase in debtors	(96,236)	(46,298)	(144,743)
Increase in creditors	(150,091)	280,670	168,912
(Decrease)/increase in provisions	(48,951)	(24,877)	(38,353)
	<u>388,476</u>	<u>733,925</u>	<u>327,736</u>

	<i>As at 31 March</i>		
	2002	2003	2004
	£	£	£
B Analysis of change of net debt in year			
Cash at bank and in hand	368,269	211,535	271,078
Bank overdrafts	(19,961)	(180,782)	–
Finance leases	(14,749)	(831)	(46,800)
Debt due within one year	(26,041)	–	–
	<u>307,518</u>	<u>29,922</u>	<u>224,278</u>
Opening net funds/(debt)	307,518	29,922	224,278
(Decrease)/increase in cash in period	(156,705)	59,543	(170,918)
(Increase)/decrease in bank overdraft in period	(160,850)	180,782	(12,773)
Cash (increase)/decrease in finance leases in period	13,918	6,862	29,238
Non cash changes – new finance leases	–	(52,831)	(39,299)
New loans	–	–	(278,000)
Decrease in debt due after more than one period	26,041	–	29,353
	<u>29,922</u>	<u>224,278</u>	<u>(218,121)</u>
Closing net funds/(debt)	<u>29,922</u>	<u>224,278</u>	<u>(218,121)</u>
Represented by:			
Cash at bank and in hand	211,535	271,078	100,160
Bank overdrafts	(180,782)	–	(12,773)
Finance leases	(831)	(46,800)	(56,861)
Debt due after one year	–	–	(248,647)
	<u>29,922</u>	<u>224,278</u>	<u>(218,121)</u>
Closing net funds/(debt)	<u>29,922</u>	<u>224,278</u>	<u>(218,121)</u>

35 Post Balance Sheet Events

On 13 July 2004, the Subsidiary entered into an agreement with all the shareholders of Immunodiagnostic Systems Holdings plc, whereby Immunodiagnostic Systems Holdings plc acquired the whole of the issued share capital of the Subsidiary, the consideration for which was satisfied by the allotment and issue of 119,998 ordinary £1 shares, 57,000 A ordinary £1 shares and 19,666 non-voting ordinary £1 shares all credited as fully paid and the crediting of the 2 subscriber ordinary £1 shares as fully paid, in Immunodiagnostic Systems Holdings plc.

On 4 June 2004, the Subsidiary formed a wholly owned subsidiary, Phabia Limited. with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each, of which 1 subscriber share was issued, on incorporation. Phabia Limited has not traded.

On 11 June 2004 the Subsidiary increased its shareholding in Palindromx Limited by the acquisition of a further 34 'A' Ordinary Shares at a price of £840 each, payment for which was satisfied by the conversion of part of an outstanding loan balance due from Palindromx Limited. This increased the Subsidiary's shareholding in Palindromx Limited to 25%.

On 20 December 2004, the subsidiary formed a wholly-owned subsidiary, IDS GmbH a company incorporated and registered in Germany. The principal activity of IDS GmbH is that of a distribution channel.

36 Nature of financial information

The financial information presented above in respect of the three periods ended 31 March 2004 does not constitute statutory accounts for each of the years. Statutory accounts for the three periods ended 31 March 2004 have been delivered to the Registrar of Companies. In respect of the statutory accounts for the three periods to 31 March 2004, Baker Tilly, Chartered Accountants have made an unqualified report under Section 235 of the Companies Act 1985 and such report did not contain any statement under section 237(2) or (3) of that Act.

Consent

We consent to the inclusion of this report in the Prospectus dated 22 December 2004 and accept responsibility for this report for the purposes of paragraphs 45 of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

Baker Tilly

Chartered Accountants

Registered Auditor

PART IV

PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP

The following pro forma statement of net assets of the IDS Group has been produced to illustrate the impact of the Placing which will have occurred since 31 March 2004 as if it had occurred on 31 March 2004. The pro forma financial information is based on:

- (i) the financial information relating to the Company as at 31 March 2004 extracted from the unaudited management accounts prepared by the Directors;
- (ii) the financial information relating to the IDS Group as at 31 March 2004 extracted from the Accountants' Report; and
- (iii) the estimated net proceeds of the share Placing adjusted for the matters set out below:

The pro forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of the Group.

	<i>Net assets of the Company at 31 March 2004 £'000</i>	<i>Consolidated net assets of the IDS Group at 31 March 2004 £'000</i>	<i>The Placing £'000</i>	<i>Pro forma net assets of the IDS Group following the Placing £'000</i>
Fixed assets				
Intangible assets	–	226	–	226
Tangible assets	–	638	–	638
Investments	–	232	–	232
Investments in associates				
Share in net assets	–	28	–	28
	–	1,124	–	1,124
Current assets				
Stock	–	435	–	435
Debtors	–	895	–	895
Cash at bank	–	100	1,120	1,220
		1,430	1,120	2,550
Creditors: amounts falling due within one year	–	(1,315)	–	(1,315)
Net current assets	–	115	1,120	1,235
Total assets less current liabilities	–	1,239	1,120	2,359
Creditors – amounts falling due after more than one year	–	(171)	–	(171)
Provisions for liabilities and charges	–	(325)	–	(325)
Net assets	–	743	1,120	1,863

Notes to the pro-forma financial information

1. The pro-forma statement of net assets of the IDS Group is shown as if the Company had acquired the entire issued share capital of Subsidiary as at 31 March 2004.
2. The pro-forma statement of net assets of the IDS Group is shown as if the Placing had taken place on 31 March 2004. The pro-forma assumes that the net proceeds of the Placing, receivable by the Company, will amount to £1.12 million net of costs.
3. No adjustment has been made for any movement in net assets of the Company and the IDS Group since 31 March 2004.

The following is the full text of a report on the Company from Baker Tilly, the Reporting Accountants, to the Directors of the Company and Teather & Greenwood Limited.



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The Directors
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10 Didcot Way
Boldon Business Park
Boldon
Tyne & Wear
NE35 9PD

and

The Directors
Teather & Greenwood Limited
Beaufort House
15 St Boltoph Street
London
EC3A 7QR

22 December 2004

Dear Sirs

IMMUNODIAGNOSTIC SYSTEMS HOLDINGS plc, (“the Company”)

Introduction

We report on the pro forma statement of net assets as at 31 March 2004 of the Company and Immunodiagnostic Systems Limited, its subsidiaries and associated undertakings (“the IDS Group”), (the “Pro Forma Statement of Net Assets”), which has been prepared for illustrative purposes only, to provide information about how the Placing might have affected the financial information presented at 31 March 2004.

Responsibility

It is the responsibility of the directors of the Company to prepare the Pro Forma Statement of Net Assets.

It is our responsibility to form an opinion on the Pro Forma Statement of Net Assets and to report our opinion to you. Our work has been undertaken so that we might state those matters we are required to state in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any other purpose for our work, for this report or for the opinions we have formed. We do not accept responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Statement of Net Assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted

primarily of comparing the unadjusted financial information with the source documents, considering evidence supporting the adjustments and discussing the Pro Forma Statement of Net Assets with the Directors of the Company.

Opinion

In our opinion:

- (i) the Pro Forma Statement of Net Assets has been properly compiled on the basis stated;
- (ii) such basis is consistent with the accounting policies of the Company; and
- (iii) the adjustments are appropriate for the purposes of the Pro Forma Statement of Net Assets as disclosed.

Yours faithfully

Baker Tilly
Chartered Accountants
Registered Auditor

PART V

ADDITIONAL INFORMATION

1. INCORPORATION AND HISTORY

- 1.1 The Company was incorporated in England and Wales on 4 June 2004 as a public company limited by shares under the Act, with registered number 05146193 and with the name Immunodiagnostic Systems Holdings public limited company.
- 1.2 The Company is a public limited company limited by shares and, accordingly, the liability of its members is limited.
- 1.3 The Company's registered office and principal place of business is at Boldon Business Park, Boldon, Tyne & Wear, NE35 9PD.
- 1.4 The Company and its activities and operations are principally regulated by the Act and the regulations made thereunder.
- 1.5 The Company is the holding company of the Subsidiary. The Subsidiary was incorporated in England and Wales on 27 December 1995 as a private limited company limited by shares under the Act, with registered number 03141527 and with the name Visionbrief Limited. The Subsidiary changed its name to Immunodiagnostic Systems Limited pursuant to a Certificate of Incorporation on Change of Name dated 3 April 2002. The Subsidiary's authorised share capital is £202,496 divided into 120,000 Ordinary Shares of £1 each, 57,000 "A" Ordinary Shares of £1 each, 19,666 non-voting Ordinary Shares of £1 each and 583,000 preference shares of £0.01 each and issued shared capital is £196,666 divided into 120,000 Ordinary Shares of £1 each, 57,000 A Ordinary Shares of £1 each and 19,666 Non-Voting Ordinary Shares of £1 each, all of which are fully paid and beneficially held in the name of the Company.

The Company has five subsidiaries. These subsidiaries are: (i) the Subsidiary; (ii) Briefvision Limited; (iii) Phabia Limited; (iv) IDS GmbH and (v) IDS Inc.

Briefvision Limited is a private limited company limited by shares under the Act, with registered number 01641008 ("Briefvision"). Briefvision is a wholly owned subsidiary of the Subsidiary and is a non-trading entity.

Phabia Limited ("Phabia") is a private limited company limited by shares under the Act. Phabia was incorporated on 4 June 2004 with registered number 05145270. Phabia is a wholly owned subsidiary of the Subsidiary and is a non-trading entity.

IDS GmbH is a company incorporated in Germany on 20 December 2004 and is a wholly-owned subsidiary of the Subsidiary.

IDS Inc is a corporation incorporated in Delaware on 3 February 2003 and is a wholly owned subsidiary of the Subsidiary.

The Company's only directly held subsidiary is the Subsidiary, which is the main trading company of the Group.

2. SHARE CAPITAL

- 2.1 On incorporation, the authorised share capital of the Company was £120,000 divided into 120,000 ordinary shares of £1 each ("Ordinary £1 Shares"). On incorporation, 2 Ordinary £1 Shares were allotted nil paid to the subscribers of the memorandum of association of the Company (the "Memorandum of Association").
 - 2.1.1 On 13 July 2004 the Company's authorised share capital was increased to £196,666 by the creation of an additional 57,000 A ordinary Shares of £1 each ("A Ordinaries") and 19,666 non-voting ordinary shares of £1.00 each ("Non-Voting Ordinaries");
 - 2.1.2 On 13 July 2004 119,998 Ordinary £1 Shares were allotted and issued (and the two Ordinary £1 Shares in issue as subscriber shares were credited as fully paid), the 57,000 A Ordinaries were allotted and issued and the 19,666 Non-Voting Ordinaries were allotted and issued all in consideration for the transfer to the Company of the entire issued share capital of the Subsidiary pursuant to an agreement between the Company and the shareholders of the Subsidiary dated 13 July 2004. A certificate to do business and borrow pursuant to section 117 of the Act was issued to the Company on 16 July 2004;
 - 2.1.3 At an extraordinary general meetings of the Company held on 22 December 2004 special resolutions were passed, with effect from immediately prior to Admission, in terms of which, *inter alia*:

- (i) the Company's authorised share capital was increased to £1,000,000 by the creation of an additional 803,334 Ordinary £1 Shares;
 - (ii) each A Ordinary was converted into one Ordinary £1 Share;
 - (iii) each Non-Voting Ordinary was converted into one Ordinary £1 Share;
 - (iv) each Ordinary £1 Share was subdivided into 50 ordinary shares of 2p each;
 - (v) in substitution for any existing authority under section 80 of the Act, but without prejudice to the exercise of any such authority prior to 22 December 2004, the directors of the Company were generally and unconditionally authorised, pursuant to section 80 of the Act, to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount equal to £160,000, such authority to expire (unless previously renewed, varied or revoked by the Company in general meeting) on the earlier of 18 months after the passing of the resolution or on the conclusion of the annual general meeting of the Company to be held in 2005;
 - (vi) in substitution for any existing power under section 95 of the Act, but without prejudice to the exercise of any such power prior to 22 December 2004, the directors of the Company were empowered, pursuant to section 95(1) of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) for cash, pursuant to the authority under Section 80 of the Act conferred on the directors of the Company referred to in sub-paragraph (v) above, as if section 89(1) of the Act did not apply to such allotment, up to an aggregate nominal value of £110,000, provided that the power was limited to:
 - (a) the allotment of up to 3,128,282 Ordinary Shares pursuant to the Placing;
 - (b) the grant of options over up to 1,615,000 Ordinary Shares pursuant to the Share Option Schemes, Mr Evans' Options and Mr Wood's Options; and
 - (c) the allotment of equity securities (within the meaning of section 94(2) of the Act) other than pursuant to sub-paragraphs (a) and (b) above, up to an aggregate nominal amount equal to 5 per cent of the issued ordinary share capital of the Company immediately following Admission;

such power to expire at the same time as the authority granted under Section 80 of the Act referred to in sub-paragraph (v) above;
 - (vii) new articles of association of the Company were adopted (a summary of the principal terms of which are set out in paragraph 3.2 below);
- 2.2 At Admission, the authorised share capital of the Company will be £1,000,000 divided into 50,000,000 Ordinary Shares. Taking into account the allotment of 3,128,282 Placing Shares, 13,237,703 Ordinary Shares will be in issue and fully paid at Admission. No Ordinary Shares will be in issue partly paid.
- 2.3 As at the date of this document commitments have been given by the Company to award options under the Share Option Schemes, Mr Evans' Options and Mr Wood's Options, to certain directors and current or former employees of the Group subject to and conditional upon Admission and, in the case of options under the IDS Approved Share Option Scheme, approval by the Inland Revenue. Such commitments are all in respect of specified percentages of the enlarged issued share capital of the Company following Admission. The aggregate such percentage which has been so committed at the date of this document is 12.1 per cent.

In all cases, the proposed exercise price for such options (where appropriate subject to Inland Revenue approval) is the Placing Price and such options, subject to certain limited exceptions (generally arising on death or on ceasing to be an employee) are exercisable in the period between three and ten years after Admission.

The approximate percentages of the enlarged issued share capital following Admission which have been committed, or will actually be under option, in respect of each of the Share Option Schemes, Mr Evans' Options and Mr Wood's Options are detailed in paragraph 2.4 below.

- 2.4 Share Option Scheme/Mr Evans' Options/Mr Wood's Options
- approximate percentages of enlarged
issued share capital following
Admission committed to be
or actually under option
- | | |
|--|---------------|
| 2.4.1 IDS Approved Share Option Scheme | NIL |
| 2.4.2 IDS Unapproved Share Option Scheme | 4.06 per cent |
| 2.4.3 IDS EMI Scheme | 5.44 per cent |
| 2.4.4 SAYE Share Option Scheme | NIL |
| 2.4.5 Mr Evans' Options | 2.5 per cent |
| 2.4.6 Mr Wood's Options | 0.1 per cent |
- 2.5 The Company intends to make further awards of options to employees under the Share Option Schemes within the limits for such schemes from time to time as appropriate up to an additional amount of approximately 5.5 per cent of the enlarged issued share capital following Admission.
- 2.6 In addition to the options referred to in paragraph 2.4 above, in terms of the Option Deed referred to in paragraph 10.1(e) below an aggregate of 106,964 Ordinary Shares is under option.
- 2.7 Save as disclosed in the foregoing sub-paragraphs of this paragraph 2:
- 2.7.1 no share or loan capital of the Company, or of any other company within the Group, is under option or has been agreed, conditionally or unconditionally, to be put under option;
- 2.7.2 other than for the Placing or upon the exercise of options duly granted pursuant to the Share Option Schemes or upon a due exercise of the options referred to in paragraphs 2.4 and 2.6 above, there is no present intention to issue any of the authorised but unissued share capital of the Company.

General

- 2.7 Immediately following the Placing, approximately 36,762,297 Ordinary Shares will remain authorised but unissued and unreserved.

3. MEMORANDUM AND ARTICLES OF ASSOCIATION

- 3.1 The Memorandum of Association provides that the Company's principal object is, *inter alia*, to carry on the business of a holding and general commercial company. The objects of the Company are set out in full in Clause 3 of its Memorandum of Association.
- 3.2 The following summary of the new articles of association of the Company referred to in paragraph 2.1.3(vii) of this Part V (the "Articles") is not comprehensive. As stated in that paragraph, the Articles have been adopted conditional upon Admission. The Articles include, *inter alia*, provisions to the following effect:

3.2.1 Voting Rights

- (i) Subject to any special rights or restrictions as to voting attached to any class of shares, at general meetings on a show of hands every member who is present in person and entitled to vote shall have one vote and on a poll every member present in person or by proxy and entitled to vote shall have one vote for every share held by him.
- (ii) A corporate member may, by resolution of its directors or other governing body or by authority to be given under the hand of any officer duly authorised by it, authorise a person (or persons) to act as its representative (or, as the case may be, representatives) at general meetings and at any separate general meeting of holders of any class of shares in the Company's issued share capital. A person so authorised shall be entitled to exercise such powers as the corporate member could exercise if it were an individual member.
- (iii) No member shall, unless the directors otherwise determine, be entitled in respect of any share held by him to attend or vote (either personally or by proxy) at any general meeting of the Company or to exercise any other right conferred by membership in relation to general meetings of the Company if any call or other sum presently payable by him to the Company in respect of shares in the Company remains unpaid.

- (iv) The directors may, in their absolute discretion, by notice (a “direction notice”) to any member direct that, with effect from the service of the direction notice, that member shall not be entitled to attend or vote (either in person or by proxy) at any general meeting of the Company in respect of the shares subject to the direction notice if that member, or any other person appearing to be interested in shares held by that member, has been given a notice under section 212 of the Act and is in default for a period of 14 days after the date of such service in supplying the information thereby requested. Where the relevant shares held by such member represent 0.25 per cent or more in nominal value of the issued shares of their class then, in addition, if the relevant default notice so directs, any sums payable (whether in respect of capital or dividend or otherwise) in respect of such shares, or any part thereof, shall, except in the event of a winding up of the Company, be withheld by the Company until such time as the notice under section 212 of the Act ceases to have effect and the Company shall not have any obligation to pay interest on any such sums when they are finally paid to the member concerned and no transfer of the relevant shares shall be registered, save in certain circumstances.

3.2.2 Variation of rights

- (i) Whenever the share capital of the Company is divided into different classes of shares all or any of the special rights attached to any class may, subject to the provisions of the Act and of every other statute (including any orders, regulations or other subordinate legislation made under any such statute) for the time being in force concerning companies and affecting the Company (the “Statutes”), be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class (but not otherwise) and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up. All the provisions of the Statutes and the Articles relating to the general meetings of the Company and to the proceedings thereat shall, so far as applicable, apply to any such separate general meeting, except that (1) the necessary quorum at any such meeting (other than an adjourned meeting) shall be two persons together holding or representing by proxy at least one-third in nominal value of the issued shares of that class (and at an adjourned meeting shall be one person holding shares of that class or his proxy), (2) any holder of shares of that class present in person or by proxy may demand a poll and (3) every such holder shall on a poll have one vote for every share of that class held by him.
- (ii) Unless otherwise expressly provided, the special rights attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respect *pari passu* with or subsequent to them but in no respect in priority thereto or by the purchase by the Company of any of its own shares.

3.2.3 Alteration of share capital

The Company may, by ordinary resolution, increase its share capital, consolidate and divide its share capital into shares of a larger amount, sub-divide its share capital into shares of a smaller amount or cancel any unissued shares and diminish the amount of its authorised share capital by the amount of the shares so cancelled. Subject to the Statutes and any special rights previously conferred upon the holders of any class of shares, the Company may, by special resolution, reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner. The Company may also, subject to the Statutes and any special rights previously conferred upon the holders of any class of shares purchase its own shares of any class (including any redeemable shares) in any manner permitted by the Statutes.

3.2.4 Transfer of shares

- (i) Shares in uncertificated form may be transferred otherwise than by a written instrument in accordance with the Statutes and the AIM Rules and the directors shall have power to implement any arrangements they think fit for such transfers which accord with the Statutes and AIM Rules.
- (ii) Transfers of shares in certificated form may be effected by transfers in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer shall be executed by, or on behalf of, the transferor and (except in the case of fully paid shares) by, or on behalf of, the transferee.

- (iii) The directors may, in their absolute discretion and without assigning any reason therefor, refuse to register a transfer of any share held in certificated form unless the relevant instrument of transfer is:
 - (a) in respect of only one class of share;
 - (b) duly stamped or adjudged or certified as not chargeable to stamp duty;
 - (c) lodged at the transfer office, or at such other place as the directors may from time to time determine, accompanied by the relevant share certificate(s) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer; and
 - (d) in favour of not more than four transferees jointly.

The directors may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse (or is excepted from the requirement) under the CREST Regulations to register the transfer, and they may refuse any such transfer in favour of more than four transferees.

- (iv) Subject to the regulations applicable to CREST, registration of transfers may be suspended and the register of members closed by the directors provided that the register of members shall not be closed for more than 30 days in any year.

3.2.5 Directors

- (i) Unless and until otherwise determined by the Company by ordinary resolution, the number of directors (excluding alternate directors) shall not be less than three and shall be subject to a maximum of twelve.
- (ii) The provisions of section 293 of the Act (which regulate the appointment and continuation in office as directors of persons who have attained the age of 70) shall apply to the Company.
- (iii) At each annual general meeting of the Company one-third of the directors (or, if their number is not three or an integral multiple of three, the number nearest to, but not greater than, one-third) shall retire from office by rotation. A director who is not required to retire by rotation at any annual general meeting which is the third annual general meeting after the later of (a) his appointment by the Company in general meeting and (b) the last occasion on which he was re-elected as a director of the Company in general meeting shall nevertheless be required to retire at such annual general meeting.
- (iv) The fees paid to, and benefits in kind received by, the directors for their services in the office of director shall not exceed in aggregate £200,000 per annum or such higher amount as may be determined by ordinary resolution of the Company. Subject thereto, each such director shall be paid a fee (which shall be deemed to accrue from day to day) at such rate, and shall receive such benefits in kind, as may from time to time be determined by the directors. Any such fee shall be distinct from any salary, remuneration or other amounts payable to the director pursuant to any other provision of the Articles or any contract or arrangement between the Company and the relevant director. Any director may be paid or reimbursed all such reasonable travelling, hotel and other expenses incurred by him in connection with his attendance at meetings of the directors or of any committee thereof or otherwise in connection with the business of the Company. Any director who holds an executive office or is chairman or who serves on any committee of the directors or who otherwise performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director or who makes any special exertions in going or residing abroad or otherwise in connection with the business of the Company may be paid such extra remuneration by way of salary, commission, participation in profits or otherwise as the directors may determine either in addition to or in substitution for all or any part of any other remuneration to which such director may be entitled under the Articles.
- (v) Subject to the provisions of the Statutes and provided that he has disclosed to the directors the nature and extent of his interest in accordance with the Statutes, a director may be a party to, or in any way interested, whether directly or indirectly, in any contract, arrangement or transaction to which the Company is a party or in which the Company is in any way interested, whether directly or indirectly. Subject to any agreement to the contrary between the Company and the director, a director:
 - (a) may be or become a director or other officer of, or otherwise interested in, any undertaking promoted by the Company or in which the Company may be interested; and

- (b) unless otherwise agreed, may retain any remuneration, profit or other benefit received by him as a director or officer of, or from his interest in, such other undertaking.
- (vi) A director shall not vote at a meeting of the directors on any resolution concerning any contract or arrangement or any other proposal whatsoever in which he has an interest which (together with any interest of any person connected with him within the meaning of section 346 of the Act) is a material interest otherwise than by virtue of his interests in shares, debentures or other securities of, or otherwise in or through, the Company, provided that the foregoing prohibition shall not apply to a resolution concerning:
 - (a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
 - (b) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (c) an offer of securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer the director is, or may be, interested as a participant in the underwriting or sub-underwriting thereof;
 - (d) any contract, arrangement or proposal with another company in which he does not hold an interest in shares (as that term is used in Part VI of the Act) representing 1 per cent or more of either any class of the equity share capital or the voting rights in such company;
 - (e) any contract, arrangement or proposal relating to any superannuation or similar scheme or retirement, death or disability benefits scheme or employees' share scheme which has been approved by the Inland Revenue or is conditional upon such approval or does not award to him any privilege or benefit not awarded to the employees to whom such scheme relates; or
 - (f) insurance which the Company proposes to maintain or purchase for the benefit of any directors or for the benefit of persons including directors.
- (vii) A director shall not be counted in the quorum present at a meeting in relation to any resolution on which he is not entitled to vote.

3.2.6 Dividends

- (i) The Company may, by ordinary resolution, declare dividends in accordance with the respective rights of the members, but no dividend shall be payable except out of the profits of the Company available for distribution under the provisions of the Statutes and the Articles or in excess of the amount recommended by the directors. Subject to any priority, preference or special rights as to dividends attached by or in accordance with the Articles to any class of shares, all dividends shall (as regards any shares not fully paid up throughout the period in respect of which the dividend is paid) be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Any sum due to the Company in respect of a call or otherwise on shares may be deducted from any dividend payable.
- (ii) No dividend payable in respect of any share shall bear interest as against the Company.
- (iii) Any dividend unclaimed after a period of 12 years from the date of payment of such dividend shall be forfeited and shall revert to the Company.

3.2.7 Borrowing powers

- (i) Subject to the provisions of the Articles, the directors may exercise all the powers of the Company to borrow money and to mortgage, pledge, charge or grant any security over all or any part of its undertaking, property and assets (present and future) and uncalled capital and, subject to the Statutes, to issue debentures, debenture stock and other securities whether terminable, redeemable or perpetual and whether outright or as collateral security for any guarantee, debt, liability or obligation of the Company or of any third party.
- (ii) The directors shall restrict the moneys borrowed by the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary

undertakings (if any) so as to procure (so far, as regarding subsidiary undertakings, as by such exercise they can procure) that the aggregate principal amount at any one time outstanding in respect of monies borrowed by the Group (which expression means and includes the Company and all its subsidiary undertakings (if any)) (other than intra-Group borrowing) shall not, without the previous sanction of an ordinary resolution of the Company, exceed, at the time of borrowing, an amount equal to three times the adjusted capital and reserves. For this purpose, “adjusted capital and reserves” means at the relevant time the aggregate of (i) the amount paid up on the issued share capital of the Company and (ii) the total of the net reserves of the Group (including any share premium account, capital reserve, capital redemption reserve, property, revaluation reserve and statutory reserve) and after adding any credit balance or deducting any debit balance on the profit and loss account, all based on the latest published audited consolidated balance sheet of the Group (or, if the Company has no subsidiary undertakings, the latest published audited balance sheet of the Company) but subject to the deductions and adjustments set out in the Articles. Until the publication of the annual audited consolidated balance sheet for the Company for the year ended 31 March 2005 the principal amount which can be borrowed by the Company is limited to £6,000,000.

3.2.8 Winding up

On a winding up of the Company the liquidator may with the authority of an extraordinary resolution and any other sanction required by law, divide amongst the members *in specie* the whole or any part of the assets of the Company and may for such purposes set such value as he deems fair upon the property to be divided and may determine how such division shall be carried out as between the members.

3.2.9 Electronic communications with shareholders

The Articles incorporate provisions which enable the directors to elect to offer members the opportunity to receive certain communications electronically.

4. DIRECTORS’ AND OTHER INTERESTS

4.1 As at 21 December 2004 (being the latest practicable date prior to the publication of this document), the interests (all of which are beneficial unless otherwise indicated) of the Directors and their immediate families in the issued share capital of the Company which (i) have been notified to the Company pursuant to section 324 or 328 of the Act, or which (ii) are required to be entered in the register maintained by the Company under section 325 of the Act, or which (iii) are interests of a person connected (within the meaning of section 346 of the Act) with a Director which would, if the connected person were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director, were as follows:

<i>Director</i>	<i>Prior to Admission</i>		
	<i>Number of ordinary shares of £1 each</i>	<i>Approximate percentage of issued ordinary share capital</i>	<i>Number of ordinary shares subject to options</i>
Roger Duggan†	44,740	22.75%	–
Paul Hailes†	27,384	13.92%	–
David Evans	–	–	–
Eddie Blair	–	–	–
Will Dracup	–	–	–
<i>Director</i>	<i>Immediately following Admission</i>		
	<i>Number of Ordinary Shares</i>	<i>Approximate percentage of issued Ordinary Share capital</i>	<i>Number of Ordinary Shares subject to options</i>
Roger Duggan†	2,393,860	18.08%	333,617
Paul Hailes†	1,418,210	10.71%	333,617
David Evans*	343,127	2.59%	333,617
Eddie Blair	–	–	–
Will Dracup	–	–	–

The interest of the Directors in the issued share capital of the Company immediately following Admission assume all the Placing Shares are issued and are as set out above.

* This includes Ordinary Shares subscribed for by Mr Evans in the Placing from the net payment of the bonus due to him as mentioned in paragraph 5.3 below.

† This includes Ordinary Shares registered in the name of the Immunodiagnostic System Limited Employee Benefit Trust, the beneficial interest in which are held for Dr Duggan and Mr Hailes.

- 4.2 As at 21 December 2004 (being the latest practicable date prior to the publication of this document), the Company is not aware of any person, other than the Directors and their immediate families, who is interested (whether directly or indirectly) in 3 per cent or more of the issued share capital of the Company other than as set out below:

<i>Shareholder</i>	<i>Prior to Admission</i>		<i>Immediately Following Admission</i>	
	<i>Number of ordinary shares of £1 each</i>	<i>Approximate percentage of issued ordinary share capital</i>	<i>Number of Ordinary Shares</i>	<i>Approximate percentage of issued Ordinary Share capital</i>
3i Group plc	57,000	28.98%	2,506,862	18.94%
David Laurie†‡	27,384	13.92%	1,369,200	10.34%
James Stoker	19,666	10.00%	983,300	7.43%
New Star Asset Management	–	–	882,350	6.67%
Immunodiagnostic Systems Limited				
Employee Benefit Trust‡	8,925	4.54%	446,250	3.37%
Paul Puntin	8,286	4.21%	414,300	3.13%

The interests of the above shareholders in the issued share capital of the Company immediately following Admission assume all the Placing Shares are issued or sold.

‡ Certain Ordinary Shares registered in the name of the Immunodiagnostic System Limited Employee Benefit Trust are held beneficially for certain Directors and employees. Where such an individual is the holder of more than 3 per cent. of the entire issued share capital of the Company the beneficial interest is included for the individual in the relevant columns of paragraphs 4.1 and 4.2.

- 4.3 Save as set out in paragraphs 4.1 and 4.2 above, the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- 4.4 Save as set out in paragraphs 4.1 to 4.3 (inclusive) above, none of the Directors and no person connected with them for the purposes of section 346 of the Act has any interest in the issued share capital of the Company or any of its subsidiary undertakings.

5. DIRECTORS

- 5.1 On 13 July 2004 Dr Roger Duggan entered into a service contract with the Company regarding duties to be performed by him to the Group. This service contract can be terminated by Dr Duggan or the Company on 6 calendar months' written notice to the other party. The contract automatically terminates on Dr Duggan attaining the age of 65 years. Under the service contract Dr Duggan is appointed as an officer of the Group and as Managing Director of the Company with a current basic annual salary of £95,000. Dr Duggan is entitled to participate in such a pension scheme as is offered by the Board and to 25 days' holiday in each year (excluding statutory holidays). Dr Duggan is required to assign any intellectual property created in his employment to the Company. Dr Duggan is subject to post-termination obligations for a period of 12 months from the date of termination of employment. These obligations relate to non-competition and non-solicitation of customers, clients or employees. Dr Duggan's service contract does not provide expressly for any commission or profit sharing arrangements. Salaries are reviewed by the Board (or Remuneration Committee as appropriate) on an annual basis. Dr Duggan is further entitled to participate at the Company's expense in any permanent health insurance scheme as is offered by the Board for himself, his spouse and dependent children.
- 5.2 On 13 July Paul Hailes entered into a service contract with the Company regarding duties to be performed by him to the Group. This service contract is in similar terms to the service contract entered into by Dr Duggan summarised in paragraph 5.1 above with the exception that Mr Hailes is appointed as Finance Director of the Company and his basic annual salary being £77,500.
- 5.3 The current fees of the Company's non-executive Directors are as follows:

<i>Director</i>	<i>Current annual fees (£)</i>
David Evans	£15,000
William Dracup	£15,000
Edward Blair	£15,000

The appointments of the non-executive Directors are terminable upon three months' notice by either party.

In addition, a bonus fee is payable to Mr. Evans upon successfully achieving Admission. The amount of this bonus fee is £100,000. As mentioned in paragraph 4.1 above Mr. Evans has undertaken to subscribe the net amount of this bonus for Ordinary Shares in the Placing.

- 5.4 Save for the service agreements detailed in paragraphs 5.1 and 5.2 above, there are no existing or proposed service agreements between any Director and the Company or any of its subsidiary undertakings.
- 5.5 The aggregate remuneration paid and benefits in kind granted to or in respect of the services of the Directors by the Company and its subsidiary undertakings for the period ended 31 March 2004 (being the last completed financial year of the Subsidiary) amounted to £301,543.
- 5.6 It is estimated that under the arrangements currently in force the aggregate remuneration payable and benefits in kind to be granted to or in respect of the services of the Directors by the Company and its subsidiary undertakings for the financial year ending 31 March 2005 will amount to £362,000.
- 5.7 The business address of the Directors is Boldon Business Park, Boldon, Tyne & Wear, NE35 9PD.
- 5.8 In addition to their directorships of the Group the Directors hold or have held the following directorships and are or have been a partner in the following partnerships within the five years prior to the date of this document.

<i>Director</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
David Evans	Omega Diagnostics Limited Storyland Limited BBI Holdings plc Eurodiagnostica B.V. Microtest Matrices Limited Platform Diagnostics Limited	Cy Realisations Limited Lineplan Limited Powerplan (Scotland) Limited Axis-Shield plc Shield Immunologicals Limited Axis-Shield Diagnostics Limited Porton Cambridge Limited British Biocell International Limited Plasmatec Laboratory Products Limited Guardian Laboratories Limited Immunodiagnostic Systems Limited TTP Limited (Barbados) Axis-Shield ASA Medinor ASA Shaws Dundee Sweet Factory Limited Acolyte Biomedica Limited Scottish Enterprise Tayside Haptogen Limited Nestech Limited
Paul Hailes	–	The Whickham Golf Club Limited
Roger Duggan	Perinatal Diagnostics Limited Palindromx Limited Pyrronostics Limited	
Will Dracup	Nonlinear Dynamics Limited Nonlinear International Limited Nonlinear USA Inc. Nonlinear EBT Limited Phoretix International Limited	
Eddie Blair	Integrated Medicines Limited Phynova Limited Phynova Group plc	

- 5.9 At the date of this document, none of the Directors has any unspent convictions in relation to indictable offences. No Director has previously been subject to any public criticism by any statutory or regulatory authorities (including recognised professional bodies) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company. No Director has been made bankrupt or has been the subject of an individual voluntary arrangement. Save as disclosed in paragraph 5.11 below, there have been no receiverships, compulsory liquidations, creditors voluntary liquidations, administrations, company voluntary arrangements or any composition or arrangement with its creditors generally or any class of its creditors of any company of which any Director

was a director at the time or within the 12 months preceding the date of, such event. There have been no compulsory liquidations, administrations or partnership voluntary arrangements of any partnership of which any Director was a partner at the time of, or within the 12 months preceding the date of, such event. There have been no receiverships of any asset of any Director or of a partnership of which any Director was a partner at the time of, or within the 12 months preceding the date of, such event.

- 5.11 Mr Evans was a director of Cytocell Limited (now CY Realisations Limited), a company which went into creditors' voluntary liquidation on 11 April 2003. The directors statement of affairs dated 11 April 2003 showed a creditor shortfall of £237,254 and advised that there would be sufficient funds to pay preferential creditors in full but that any funds available for unsecured creditors would be dependent on the receipt of deferred income. Mr Evans was not the subject of public criticism at the creditors meeting in connection with the liquidation.

Mr Evans was a director of Lineplan Limited a company which went into creditors' voluntary liquidation on 18 May 2000. The directors statement of affairs dated 18 May 2000 showed a creditor shortfall of £72,680. Mr Evans has not been the subject of public criticism by the liquidator in connection with the liquidation.

6. SHARE OPTION SCHEMES

6.1 General

On 22 December 2004, following an Extraordinary General Meeting of the Company at which the directors of this Company were authorised to adopt each of the relevant schemes, the Board adopted the IDS Unapproved Share Option Scheme and the IDS EMI Scheme and (subject to Inland Revenue approval) the IDS Approved Share Option Scheme and the IDS SAYE Share Option Scheme. Each of these schemes will be administered by the board, although grants of options to full-time executive directors may only be made with the approval of the Remuneration Committee.

6.2 IDS SAYE Share Option Scheme

The IDS SAYE Share Option Scheme is an all employee share scheme designed to be approved by the Inland Revenue in accordance with the provisions of Schedule 3 to ITEPA.

(a) Eligibility

Broadly, all employees or full time directors of the Company or a company within the group (designated by the board as a participating company (a "Participating Company"), who have worked for such minimum period (not exceeding 6 months) as the board determines are eligible to participate in the IDS SAYE Share Option Scheme, as long as they do not have a material interest in the Company or a Participating Company. In addition, the board (or Remuneration Committee as appropriate) have discretion to invite employees (including executive directors) who have not worked for the required period to participate in the IDS SAYE Share Option Scheme.

(b) Issue of invitations and grant of options

Invitations to apply for options may be issued under the IDS SAYE Share Option Scheme during the 42 day period beginning on the day on which the IDS SAYE Share Option Scheme is approved by resolution of the Company or (if later) the date of approval of the IDS SAYE Scheme pursuant to Schedule 3 of ITEPA by the Inland Revenue or (if later) within 42 days of the date on which any Ordinary Shares were first admitted to AIM. Thereafter invitations may be issued (i) within 42 days of the dealing day immediately following the date of the preliminary announcement of the group's interim or final results, (ii) within 42 days of any day on which changes to the legislation affecting savings-related share option schemes approved by the Inland Revenue pursuant to ITEPA are proposed or made or when a new form of savings contract prospectus is announced or takes effect; or (iii) on any day when circumstances are considered by the board to be sufficiently exceptional to justify the grant of options. Options may not be granted later than the tenth anniversary of the date on which the IDS SAYE Share Option Scheme is approved by resolution of the Company. In addition, options may not be granted at any time when the grant of awards is prohibited in terms of the Model Code, the Criminal Justice Act 1993 or the Financial Services and Markets Act 2000. Where the grant of an option is so restricted, invitations may be issued within seven days of such restriction ceasing to apply. Applications for options must be received from eligible employees within the period specified in the invitation (which will be not less than 14 days after the date on which the invitation was issued). If applications are received for options over more Ordinary Shares than are available on any occasion, applications may be scaled down. No consideration is payable in respect of the grant of an option under the IDS SAYE Share Option Scheme.

(c) *Option price*

Options will entitle the holders to acquire Ordinary Shares, whether by subscription or purchase, at a price per Ordinary Share (the “Option Price”) determined by the board prior to the issue of invitations. The Option Price may not be less than 80 per cent of the middle-market quotation on the 3 dealing days immediately preceding the date of issue of the invitation or 80 per cent of the market value of an Ordinary Share as the board (or Remuneration Committee as appropriate) determines in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992 (as agreed in advance with the Inland Revenue) and if higher, and if the option is an option to subscribe, the nominal value of an Ordinary Share.

(d) *Savings Contracts and Individual Limits*

As part of the application process a participant will require to enter into a savings contract with the relevant savings provider (who has not yet been appointed), in terms of which the participant will agree to make 36 (in the case of a 3-year savings contract) or 60 (in the case of a 5-year contract) monthly savings contributions of a fixed amount. The monthly amount may not be less than (currently) £10 or more than £250 (these limits may be changed to reflect changes in the limits prescribed in ITEPA) and increase in multiples of £1 up to the maximum of £250. After making such contributions through the entire term of the savings contract, the participant may apply for repayment of his or her savings contributions, in addition to a tax free bonus of an amount equal to (currently) 1.9 or 6.1 (for a 3-year option and a 5-year option respectively) monthly savings contributions. Alternatively, and if permitted by the board, the participant may elect, when applying for a 5-year option, not to apply for repayment of his or her savings contributions until after a further period of two years when he or she will receive a tax-free bonus of an amount equal to 11.5 monthly savings contributions. In any case, the participant may (subject to the rules of the IDS SAYE Share Option Scheme relating to the exercise of options) apply the proceeds of the savings contract in exercising his or her option.

(e) *Exercise of options*

An option may be exercised only by the person to whom it was granted, or his personal representative(s) and is not transferable. An option may only be exercised once and normally only during the period of 6 months after the date on which the participant first becomes entitled to repayment of his or her savings contributions plus bonus (that is, at the end of 3, 5 or 7 years, as appropriate) (the “Bonus Date”). If a participant ceases to be in the employment of the group due to injury or disability, redundancy, retirement at 65 or at the optionholder’s contractual retirement age, early retirement more than three years after the date of grant, the optionholder being employed by a company which ceases to be a member of the group or the optionholder being employed in an undertaking or part of an undertaking which is transferred to a person who is not a member of the group then the participant may exercise his option within the period of six months following such cessation, and if not so exercised, the option will lapse. Where a participant dies before the Bonus Date, the personal representative(s) of the deceased may exercise an option within a period of one year following his death. Where a participant dies within the six months following the Bonus Date, the personal representative(s) of the deceased may exercise an option during a period of one year from the Bonus Date. On cessation of employment (more than three years after the date of grant) for any reason other than those set out above an option can be exercised within six months of the date of such cessation and, if not so exercised, will lapse at the end of that period. An option will lapse if the participant leaves the employment of the group within three years of the grant of the option, other than in the circumstances referred to in the above paragraphs, or if the option is not exercised within the relevant prescribed period, or (unless the option is at that time already exercisable) if he gives notice to terminate the relevant savings contract. A participant may (but need not) exercise his options on reaching his contractual retirement age if he does not retire but his option must be exercised within a period of six months commencing on the date on which he attained his contractual retirement age. If not so exercised, the options will remain exercisable in accordance with the remaining rules of the IDS SAYE Share Option Scheme. Options will also lapse following the take-over of the Company or on certain other amalgamations and reconstructions of the Company (when, broadly, options may be exercised within the following six months); and if a resolution is passed for the voluntary winding up of the Company, options become exercisable for a period of six months following the date of such resolution, and if not so exercised options will lapse.

(f) *Overall scheme limits*

The number of Ordinary Shares issuable pursuant to options granted under the IDS SAYE Share Option Scheme, when aggregated with the number of Ordinary Shares issued or issuable pursuant to options granted under all employee share schemes of the group within the previous ten years, may not exceed 15 per cent of the Company’s issued ordinary share capital at that time. In determining the above limit any options which have been renounced, lapsed, or otherwise become incapable of being

exercised are disregarded. For the avoidance of doubt, Ordinary Shares issued or issuable pursuant to Mr Evans' Options and Mr Wood's Options are also disregarded.

(g) *Issue or Transfer of Shares on exercise*

Within 30 days of receipt of a notice of the exercise of an option from a participant, Ordinary Shares will be issued or transferred to the participant concerned. Ordinary Shares allotted or transferred on the exercise of options will rank *pari passu* with the Ordinary Shares existing at the date of allotment or transfer (save as regards any rights attaching by reference to a record date prior to the effective date of such transfer or allotment). Application will be made for any new shares issued under the IDS SAYE Share Option Scheme to be admitted to AIM.

(h) *Exchange of options*

In the event of a takeover or certain amalgamations or reconstructions of the Company, the participants may, with the agreement of the acquiring company, exchange their options for options over shares in the acquiring company or in a company associated with the acquiring company. Options can only be exchanged if the new options are equivalent to the existing options.

(i) *Variation of share capital*

On certain variations of the ordinary share capital of the Company including capitalisation, consolidation or sub-division or reduction of share capital, the number of Ordinary Shares subject to a subsisting option and/or the Option Price may be adjusted by the board in such manner as they determine, subject to the approval of the Inland Revenue. The board may seek confirmation from the Company's auditors that any proposed adjustment is fair and reasonable.

(j) *Alterations to the IDS SAYE Share Option Scheme*

The rules of the IDS SAYE Share Option Scheme may (save as outlined in the paragraphs below) be added to or amended by the board provided that amendments which are to the benefit of participants (whether present or future) and which relate to certain matters including the persons eligible to participate, the determination of the Option Price, the limit on the number of Ordinary Shares which can be placed under option under the IDS SAYE Share Option Scheme, the price at which Ordinary Shares may be acquired on the exercise of an option and the adjustment to options on a variation of share capital may not be made without prior approval of the Company in general meeting.

Shareholder approval is not required for minor amendments to benefit the administration of the IDS SAYE Share Option Scheme or amendments to take account of a change in legislation or to maintain Inland Revenue approval or obtain or maintain favourable tax, exchange control or regulatory treatment for the Company or participants.

The power of the board to amend the IDS SAYE Share Option Scheme is subject to the restrictions that no amendments may be made without the prior approval of the Inland Revenue and amendments which would adversely affect the subsisting rights of participants may only be made with the written consent of such number of participants as hold options to acquire more than 50 per cent of shares which would be issued or transferred under the IDS SAYE Share Option Scheme if all options under the IDS SAYE Share Option Scheme were exercised, or by resolution of a meeting passed by not less than 50 per cent of the participants who attend and vote.

(k) *Termination*

The IDS SAYE Share Option Scheme will terminate on the tenth anniversary of its approval by the shareholders of the Company.

6.3 **IDS Approved Share Option Scheme**

The IDS Approved Share Option Scheme is intended to be a discretionary share option scheme designed to be approved by the Inland Revenue in accordance with the provisions of Schedule 4 to ITEPA. Options over Ordinary Shares can be granted to employees and full-time directors. Options are granted free of charge and may only be exercised by the persons to whom they are granted or by their personal representatives and are not transferable.

(a) *Eligibility*

Options are granted at the discretion of the Board to employees and full-time directors of the group, save that options will not be granted to individuals due to retire within six months or those individuals who have a material interest in a company within the group.

(b) *Shares issued or transferred on exercise*

Shares allotted on the exercise of options will rank equally in all respects with the Ordinary Shares in issue on the date of the allotment of those shares (save as regards any rights attaching by reference to a record date prior to the date of allotment). Application will be made for any new shares issued under the IDS Approved Share Option Scheme to be admitted to AIM. Ordinary Shares transferred pursuant to the exercise of options will be transferred free from all liens, charges and encumbrances and with all rights attaching thereto except that they will not be entitled to any rights attaching to shares by reference to a record date preceding the date of exercise.

(c) *Grant of options*

Options can be granted within 42 days of the dealing day immediately following the day on which Inland Revenue approval of the IDS Approved Share Option Scheme is given or (if later) within 42 days of the date on which any Ordinary Shares were first admitted to AIM. Thereafter, options may be granted within 42 days of the dealing day immediately following the day of the announcement by the Company of its results for any period and on any day when circumstances are considered by the board to be sufficiently exceptional to justify the grant of options. Options may only be granted within ten years of approval of the IDS Approved Share Option Scheme by the Inland Revenue. Options may not be granted at any time where the grant of options is prohibited in terms of the Model Code, the Criminal Justice Act 1993 or the Financial Services and Markets Act 2000. Where the grant of options is so restricted, options may be granted within seven days of such restriction ceasing to apply. No individual may be granted options to replace those he has already exercised unless the board are satisfied that the grant of such options is justified by the performance of the Company in the preceding two years.

(d) *Overall scheme limits*

The number of Ordinary Shares issuable pursuant to options granted under the IDS Approved Share Option Scheme when aggregated with the number of Ordinary Shares issued or issuable pursuant to options granted within the previous ten years under all employee share schemes adopted by the Company may not exceed fifteen per cent of the Company's issued ordinary share capital at that time. In determining the above limit any options which have lapsed, been renounced or otherwise become incapable of being exercised are disregarded. For the avoidance of doubt, Ordinary Shares issued or issuable pursuant to Mr Evans' Options and Mr Wood's Options are also disregarded.

(e) *Individual limits on participation*

An individual's participation under the IDS Approved Share Option Scheme is limited so that the aggregate market value of the Ordinary Shares (measured at the date of grant) comprised in subsisting approved options held by that individual cannot exceed £30,000.

(f) *Exercise of options*

Options may normally only be exercised in whole or in part within the period of three to ten years after the date of grant and then only if the performance conditions attached to the options have been satisfied. Exceptionally, options may be exercised (and will lapse if not so exercised within the period specified) at an earlier date:

- (i) following the death of the optionholder (when options may be exercised by the personal representatives of the optionholder within the period of twelve months following the date of death of the optionholder);
- (ii) following cessation of the optionholder's employment within the group due to injury or disability; sickness; pregnancy; redundancy; retirement at the optionholder's contractual retirement age or at such date agreed between the optionholder and his employer company; the optionholder being employed by a company which ceases to be a member of the group or the optionholder being employed in an undertaking or part of an undertaking which is transferred to a person who is not a member of the group. In each of these circumstances options may be exercised within twelve months following the date of cessation of employment;
- (iii) on the optionholder ceasing to be employed with the group for any reason other than those specified in paragraph (ii) above at the discretion of the board (when the options may be exercised during such period, not exceeding twelve months from the date of cessation of employment, as the board may determine);
- (iv) following the take-over of the Company or on certain other amalgamations and reconstructions of the Company (when, broadly, options may be exercised within the following six months);

- (v) if notice is given of a resolution for the voluntary winding-up of the Company, options may be exercised for the period of six months after such resolution becomes effective; and
- (vi) on the optionholder being transferred to another country where the tax regime is disadvantageous, in relation to the exercise of options or where securities or exchange control laws, of the relevant country would restrict the ability to exercise the option or to deal in the Ordinary Shares resulting from the exercise of that option.

Where options are exercisable in the circumstances outlined in paragraphs (ii) to (v) above they will only be exercisable where the performance conditions attached to those options have been satisfied on a pro-rata basis taking into account the relevant reduction in the length of the performance period. Options may not be exercised where the exercise of options is prohibited by the Model Code, the Criminal Justice Act 1993 or the Financial Services and Markets Act 2000.

(g) Performance conditions

The exercise of options granted under the IDS Approved Share Option Scheme is subject to the achievement of the performance conditions set by the board. For initial options granted under the IDS Approved Share Option Scheme the following performance measure has been adopted:

Exercise of an option will be dependent upon the achievement by the Company of a specified threshold of earnings per share (“EPS”) growth (calculated after excluding amortisation of goodwill, gains or losses on the disposal of assets, changes resulting from the expensing of options through the profit and loss account and any extraordinary or exceptional items at the discretion of the Remuneration Committee) in excess of the growth in Retail Price Index over a three or more years performance period (the “Performance Period”). For an option to become exercisable in full, the growth in the EPS of the Company over the Performance Period must exceed the growth in Retail Price Index over the same period by a specified percentage. If the excess is 15 percent or greater in respect of the first three years of the Performance Period then the performance condition is met. Where the performance condition is not met at the end of the first three years then the Performance Period is extended one financial year at a time and the growth in EPS is increased by five per cent for each additional financial year while the options remain in existence until the performance condition as so increased has been met. As soon as the performance condition is met the options vest in their entirety and become exercisable in whole or in part at any time, subject to the rules of the IDS Approved Share Option Scheme.

(h) Exercise Price

The price at which an optionholder may acquire each Ordinary Share on the exercise of an option will be determined by the board or the Remuneration Committee and will not be less than the market value of an Ordinary Share at the time of grant (or, if higher, in the case of options to subscribe, the nominal value of an Ordinary Share).

(i) Takeovers, reconstructions and amalgamations

In the event of a takeover or certain amalgamations or reconstructions of the Company, the optionholders may (with the agreement of the acquiring company) exchange their options for options over shares in the acquiring company, a company which has control of the acquiring company or a company which is or has control of a company which is a member of a consortium which owns the acquiring company or a company which has control of the acquiring company. An option may only be exchanged if the new options are equivalent to the existing options and if the performance conditions attached to that option have been satisfied on a pro rated basis taking into account the reduction in the performance period. Options which are not exchanged within the period specified lapse.

(j) Variation of share capital

On certain variations of the ordinary share capital of the Company including a capitalisation, consolidation, sub-division or reduction of share capital the number of Ordinary Shares subject to an option and the price payable on exercise may be adjusted by the board in such manner as they determine to the intent that the maximum aggregate option price remains unchanged. Such adjustments are subject to approval by the Inland Revenue. The directors may seek confirmation from the Company’s auditors that any proposed adjustment is fair and reasonable.

(k) Alterations to the IDS Approved Share Option Scheme

The board may amend the IDS Approved Share Option Scheme although no amendment will have effect until the amendment is approved by the Inland Revenue. In addition, certain alterations which

are to the benefit of present or future optionholders cannot take effect without shareholder approval, including alterations to the rules relating to the persons eligible to participate, the determination of the price payable on exercise of an option and the maximum number of Ordinary Shares over which an employee may hold options. Any alteration or amendment which adversely affects the subsisting rights of the optionholders cannot be made without the written consent of such number of participants as hold options to acquire more than 50 per cent of the Ordinary Shares which would be issued or transferred under the IDS Approved Share Option Scheme if all options under the IDS Approved Share Option Scheme were exercised or by resolution of a meeting passed by not less than 50 per cent of the participants who attend and vote. Shareholder approval is not required for minor amendments to benefit the administration of the IDS Approved Share Option Scheme or amendments to maintain Inland Revenue approval or to take account of a change in relevant legislation or to obtain favourable tax, regulatory or exchange control treatment.

(1) *NIC/PAYE recovery*

If the Company is obliged to account for tax and national insurance contributions for which the optionholder is liable as a result of the exercise of an option, the Company is entitled to sell sufficient shares (which would otherwise have been issued or transferred to the optionholder on exercise of the option) to satisfy that liability, unless the Company has received the necessary amount to discharge the liability from the optionholder.

6.4 **IDS Unapproved Share Option Scheme**

The IDS Unapproved Share Option Scheme will not be approved by the Inland Revenue. The rules of the IDS Unapproved Share Option Scheme are the same in all material respects as those of the IDS Approved Share Option Scheme summarised at paragraph 6.3 above save that:

6.4.1 as it is possible that the Company will have an immediate tax and social security liability in the event of the exercise of options granted under the IDS Unapproved Share Option Scheme, provision is made for the optionholder to indemnify the Company against such tax or social security liability before the option may be exercised. Alternatively, the optionholder may make arrangements with the Company (such as authorising the Company to sell some of the Ordinary Shares which would be issued or transferred to the optionholder on the exercise of his options) to ensure that the Company is reimbursed for such tax and social security liability. In addition, the board can oblige the optionholder to enter into an election whereby any liability for employer's secondary national insurance contributions on the exercise of the options is transferred to the optionholder;

6.4.2 there is no provision whereby the directors may seek confirmation from the Company's auditors that adjustments to options are fair and reasonable;

6.4.3 there is no £30,000 limit on the value of options which can be granted to an individual under the IDS Unapproved Share Option Scheme; and

6.4.4 there is no requirement to seek Inland Revenue approval of amendments to the IDS Unapproved Share Option Scheme.

6.5 **IDS EMI Scheme**

Under the relevant legislation, for options to qualify as EMI options they must be entered into by virtue of an agreement between the individual optionholder and the Company. That agreement is required to contain details of, among other things:

- the price to be paid on exercise of the option;
- the number of shares placed under option;
- any restrictions and forfeiture provisions attached to the shares;
- any performance conditions applicable to exercise of the option; and
- details of the period and manner in which the option may be exercised.

Apart from the performance conditions (details of which are set out in paragraph 6.5 (i) below) it is not presently intended to impose any additional restrictions or forfeiture provisions on the shares which are subject to an EMI option, beyond those contained in the Company's articles of association from time to time, a copy of which will be appended to each agreement entered into pursuant to the IDS EMI Scheme.

The principal terms of the rules of the IDS EMI Scheme are as follows:

(a) Grant of options

The board (or Remuneration Committee as appropriate) may grant options to any qualifying employee to acquire Ordinary Shares in the Company. Options may be satisfied either by subscription for new shares or the transfer of existing shares. Broadly, a “qualifying employee” is a full time employee of the Company or any subsidiary of the Company (each a “Participating Company”) who does not have a material interest in the Company or any company within the group. In addition, no person is entitled to be granted an option which would take the aggregate market value of shares (at the date of grant) which that person is entitled to acquire under options granted under the IDS EMI Scheme and any company share option plan approved under Schedules 4 and 5 to ITEPA to more than £100,000 (or such other amount as may be prescribed from time to time).

(b) Option price

The price at which an option may be exercised is determined by the board (or Remuneration Committee as appropriate), but may not be less than the higher of the market value of an ordinary share at the time of grant or, in the case of options to subscribe, nominal value.

(c) Exercise of options

An option may be exercised only by the person to whom it was granted or his personal representative(s) and is not transferable. The option may only, subject to a few exceptions, be exercised whilst the participant is a “qualifying employee”. Where a performance condition has been imposed, that condition must be complied with save in certain specified circumstances. An option may be exercised by the personal representatives of an optionholder, without compliance with any performance condition (unless its terms state the contrary), within the period of the earlier of one year following the death of the optionholder and the tenth anniversary of the date of grant. Options may normally only be exercised in whole or in part within the period of three to ten years after the date of grant and then only if the performance conditions attached to the options have been satisfied. Exceptionally, options may be exercised (and will lapse if not so exercised within the period specified) at an earlier date:

- (i) following the death of the optionholder (when options may be exercised by the personal representatives of the optionholder within the period of twelve months following the date of death of the optionholder);
- (ii) following cessation of the optionholder’s employment within the Group due to injury or disability, redundancy, or retirement at the optionholder’s contractual retirement age or at such other date agreed between the optionholder and his employer company, the optionholder being employed by a company which ceases to be a member of the group of companies formed by the Company and its subsidiaries from time to time (the “Group”) or the optionholder being employed in an undertaking or part of an undertaking which is transferred to a person who is not a member of the Group and in each case options may be exercised within twelve months following the date of cessation of employment;
- (iii) on the optionholder ceasing to be employed with the Group for any reason (other than those specified in paragraph (ii) above) at the discretion of the Directors (when the options may be exercised during such period, not exceeding twelve months from the date of cessation of employment, as the Directors may determine);
- (iv) on the optionholder being transferred to another country where the tax regime is disadvantageous in relation to the exercise of options or where securities or exchange control laws of the relevant country would restrict the ability to exercise the option or to deal in the Ordinary Shares resulting from the exercise of that option.

Where options are exercisable in the circumstances outlined in paragraphs (ii) and (iii) above they will only be exercisable where the performance conditions attached to those options have been satisfied on a pro rata basis taking into account the relevant reduction in the length of the performance period.

Options are also exercisable within a limited prescribed period in the event of a takeover, reconstruction, or voluntary winding up of the Company, but following a takeover may alternatively, with the agreement of the acquiring company, be exchanged for options over the acquiring company’s shares. In the absence of rollover, the options will lapse at the end of the prescribed period.

(d) *Overall scheme limit*

The number of Ordinary Shares issuable pursuant to options granted under the IDS EMI Scheme when aggregated with the number of Ordinary Shares issued or issuable pursuant to options granted within the previous ten years under all employee share schemes adopted by the Company may not exceed fifteen per cent of the Company's issued ordinary share capital at that time. In determining the above limit any options which have lapsed, been renounced or otherwise become incapable of being exercised are disregarded. For the avoidance of doubt, Ordinary Shares issued or issuable pursuant to Mr Evans' Options and Mr Wood's Options are also disregarded.

(e) *Income Tax/National Insurance Contributions*

Although there will not normally be a liability to Pay As You Earn or National Insurance Contributions (either employer or employee) in relation to the exercise of options which qualify as EMI options, it is possible that in certain circumstances options may cease to qualify for this treatment, in which event such liability may arise. Accordingly, the IDS EMI Scheme provides that if that is the case the Company or the optionholder's employing company (as the case may be) is to be indemnified in respect of any liability it may incur in that respect and is to be entitled to sell such number of the relevant shares as may be required to ensure that any such liability is properly reimbursed to the Company or the optionholder's employing company (as the case may be).

(f) *Adjustments for reorganisations*

On certain variations of the ordinary share capital of the Company including a rights issue, open offer, subdivision, consolidation and division or reduction of share capital the board may make such adjustments to the number of shares over which an option is granted, and the option price, as it shall determine, to the intent that the maximum aggregate option price payable in respect of an option, insofar as possible, remains unchanged.

(g) *Alterations*

The board may alter the IDS EMI Scheme or the terms of any option granted under it in any way, provided that no amendment may be made which would result in options ceasing to be qualifying options, for EMI purposes, without the consent of the optionholders. Amendments to the rules which are to the advantage of optionholders may only be made with the prior approval by ordinary resolution of the members of the Company in general meeting. No alteration which relates solely to a performance condition may be made unless the board (acting reasonably) considers that without alteration, the performance condition or any aspect of it would not achieve its original purpose and the board must act fairly and reasonably in making the alteration.

(h) *Notification*

The Company is required presently to notify the Inland Revenue of the grant of any option within 92 days of its grant date, in a prescribed form which must also be signed by the relevant optionholder. In addition the Company must issue annual returns to the Inland Revenue in agreed form giving details of optionholders within 3 months of the end of each tax year.

(i) *Lapse of options*

An option lapses upon the occurrence of the earliest of:

- (i) the tenth anniversary of the date of grant;
- (ii) the expiry of any specified periods mentioned under paragraph 6.5(c) above, with the exception of the 6 month period in respect of an employee who has transferred to another country;
- (iii) the participant ceasing to hold office or employment with a Participating Company in any circumstances other than those specified in paragraph 6.5(c) above;
- (iv) the passing of an effective resolution, or the making of an order by the court, for the winding up of the Company (subject to the right of an optionholder to exercise an option (without application of performance condition) within six months of the passing of a resolution for voluntary winding up of the Company); or
- (v) the participant being deprived (otherwise than on death) of the legal or beneficial ownership of the option by operation of law, or doing or omitting to do anything which causes him to be so deprived or become bankrupt or apparently insolvent.

(j) *Performance conditions*

The performance conditions which will be attached to initial options granted under the IDS EMI Scheme are the same as the performance conditions set out in paragraph 6.3(g) above in relation to the IDS Approved Share Option Scheme.

6.6 **Mr Evans' Options**

On 22 December 2004 the Company entered into an agreement (the "David Evans Option Agreement") with David Evans to record the terms of an informal agreement made some time previously. Under the terms of the David Evans Option Agreement, Mr Evans is granted options over such number of Ordinary Shares as is equal to 2.5 per cent of the enlarged issued share capital following Admission. The exercise price per Ordinary Share is equal to the Placing Price. The terms of this option are similar to the terms of the IDS Unapproved Share Option Scheme save that the options are only exercisable whilst Mr Evans continues to hold office with the Company, except in particular circumstances (such as death, illness etc) in which case the options are exercisable within a certain period of time following such event. Performance conditions in identical terms to the performance conditions summarised in paragraph 6.3(g) above, in relation to the IDS Approved Share Option Scheme also apply to the David Evans Option Agreement.

6.7 **Mr Wood's Option**

On 22 December 2004 the Company entered into an agreement (the "Christopher Wood Option Agreement") with Christopher Wood, a former director of the Subsidiary. Under the terms of the Christopher Wood Option Agreement, Mr Wood is granted options over such number of Ordinary Shares as is equal to 0.1 per cent of the enlarged issued share capital following Admission. The exercise price per Ordinary Share is equal to the Placing Price. The terms of this option are similar to the terms of the IDS Unapproved Share Option Scheme. Performance conditions in identical terms to the performance conditions summarised in paragraph 6.3(g) above, in relation to the IDS Approved Share Option Scheme also apply to the Christopher Wood Option Agreement. This option recognises Mr Wood's contribution to the development of the Group.

7. **WORKING CAPITAL**

The Directors are of the opinion that, having made due and careful enquiry and taking into account available bank and other facilities and the net proceeds of the Placing receivable by the Company, the working capital available to the Company is sufficient for its present requirements, that is, for at least the next twelve months from the date of Admission.

8. **UNITED KINGDOM TAXATION**

The comments in this paragraph are intended as a general guide to the tax position of a United Kingdom resident under United Kingdom law and Inland Revenue practice as at the date of this memorandum. Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult a professional adviser without delay.

(a) *Stamp duty and stamp duty reserve tax*

No stamp duty or stamp duty reserve tax is payable on the issue of new shares by the Company to shareholders.

Any subsequent disposal of Ordinary Shares by a shareholder will generally give rise to the payment of *ad valorem* stamp duty on the transfer document at the rate of 50p per £100, or part, on the amount or value of the consideration paid. Agreements for such transfers are generally subject to stamp duty reserve tax (unless, in general, the transfer of the relevant shares is duly stamped with *ad valorem* duty), generally at the rate of 0.5 per cent. of the amount or value of the consideration paid. Liability to pay any stamp duty reserve tax is generally that of the transferee or purchaser. Where a purchase or transfer is effected through a member of the London Stock Exchange or a qualified dealer, the member or dealer will normally account for the collection and payment of the tax, but in all other cases the transferee or purchaser must account for the tax to the Inland Revenue.

Persons operating clearance services or depository receipt schemes may be required to account for stamp duty and stamp duty reserve tax at rates higher than those referred to above.

(b) *Taxation of capital gains*

A subsequent disposal of Ordinary Shares by persons resident or ordinarily resident in the United Kingdom in a tax year which gives rise to gains may be liable to capital gains tax (individuals and trustees) and corporation tax (companies). Liability to tax and the rate of tax will depend on the

shareholder's circumstances and the availability of exemptions or allowable losses. Trustees may be subject to tax at a different rate from that applicable to individuals.

Indexation allowance, which increases the acquisition cost of an asset in line with the rise in the retail price index, is available for corporate shareholders during the period of ownership.

For individuals and trustees, taper relief may be available to reduce the amount of a chargeable gain according to how long the asset has been held.

Individuals and certain trusts have an overall annual exemption from capital gains tax for the first £8,200 of chargeable gains in the current tax year. Most settlements have an equivalent exemption of £4,100 in the current tax year.

Losses realised on the disposal of assets may be set against other gains made during the tax year or carried forward and set against gains in future tax years.

Individuals subscribing for shares eligible for relief under the Enterprise Investment Scheme may be exempt from capital gains on certain disposals and may have relief for capital losses restricted.

Different tax treatment applies to persons who trade in securities.

Persons who are neither resident nor ordinarily resident in the United Kingdom will not normally be liable to tax in the United Kingdom in respect of any gain accruing to them on a disposal of Ordinary Shares. The terms of a relevant double taxation treaty may apply to persons with dual residence.

(c) Taxation of dividends

For UK corporate shareholders there is no tax liability on dividends paid by the Company.

For individuals and trustees the dividend carries a tax credit equal to one-ninth of the amount received. Individuals taxed at the starting or basic rates of tax have no additional tax liability. Individuals taxed at the higher rate of tax have a further liability equivalent to 25 per cent of the dividend received. Trustees liable at the rate applicable to the trust may claim relief for the tax credit.

Persons who are not resident in the United Kingdom should consult their own tax advisers on the possible application of relevant local tax law and to what relief or credit they may be entitled in the jurisdiction in which they are resident.

9. PLACING AND OTHER ARRANGEMENTS

9.1 Placing Agreement

A conditional agreement dated 22 December 2004 entered into between the Directors, the Company and Teather & Greenwood, (the "Placing Agreement") pursuant to which Teather & Greenwood has agreed as agent for the Company, to use reasonable endeavours to place 3,128,282 Placing Shares at the Placing Price. The Placing Agreement contains certain warranties and indemnities given by the Company and the Directors. The Agreement is conditional, amongst other things, on Admission and may be terminated at any time prior to Admission in the event that, amongst others, any of the warranties given are not or cease to be true and accurate in all material respects. In consideration of its services under the Placing Agreement, the Company has agreed to pay Teather & Greenwood a fee of £83,764 together with commission of £27,049 plus any VAT and outlays (including legal costs). The Placing is not being underwritten by Teather & Greenwood.

Each of the Director shareholders, certain members of the management team and James Stoker have undertaken to the Company and Teather & Greenwood (subject to certain limited exceptions) not to dispose of the Ordinary Shares held by each of them and their connected persons following Admission at any time prior to the first anniversary of Admission and for a period of one year thereafter through the Company's then broker in accordance with Teather & Greenwood's reasonable requirements.

9.2 Nominated Adviser and Broker Agreement

An agreement dated 22 December 2004 between Teather & Greenwood and the Company whereby the Company confirmed the appointment of Teather & Greenwood as its Nominated Adviser and Broker for the purposes of the AIM Rules. The Agreement contains certain undertakings by the Company.

10. MATERIAL CONTRACTS AND INTELLECTUAL PROPERTY

10.1 *Material Contracts*

The following contracts, not being entered into in the ordinary course of business and which are, or may be, material, have been entered into by the Company or any of its subsidiary undertakings within the two years immediately preceding the date of this document.

- (a) The placing agreement between the Company, the Directors and Teather & Greenwood which is summarised in paragraph 9.1 above;
- (b) The agreement between the Company, the Directors and Teather & Greenwood under which Teather & Greenwood was appointed as the Company's Nominated Adviser and Broker for the purposes of the AIM Rules, summarised in paragraph 9.2 above;
- (c) The lock-in agreements between, *inter alia*, the Company, Teather & Greenwood, Roger Duggan, Paul Hailes, David Laurie, James Stoker, Paul Puntin, Iva Bernardi, David Evans and the Immunodiagnostic Systems Limited Employee Benefit Trust which are summarised in paragraph 9.1 above;
- (d) The agreements between the Company and David Evans and Christopher Wood respectively granting Mr Evans' Options and Mr Wood's Options which are summarised in paragraphs 6.6 and 6.7 above; and
- (e) An Option Deed dated 22 December 2004 by the Company in favour of Teather & Greenwood, creating options over an aggregate of 106,964 Ordinary Shares exercisable at any time up to 22 December 2014 at a price of 2 pence per Ordinary Share.
- (f) The conditional Subscription Agreement dated 22 December 2004 between the Company and Shepherd+ Wedderburn whereby Shepherd+ Wedderburn undertake to subscribe for an aggregate of 158,474 Ordinary Shares at the Placing Price on or around 24 December 2004.

10.2 *Intellectual Property*

The Group's intellectual property consists of granted patents, patent applications, know-how and a trade mark for technology owned by the Group. The Group also has access to a substantial amount of technology by way of licence.

In relation to its existing products the Group has made two patent applications. The first PCT/GB97/03097 is for a Vitamin D immunoassay system for the detection of the concentration of 1,25-dihydroxy Vitamin D. Patents have been granted in Germany, France and Italy with an application pending in Japan. The second patent application is for a method used to detect the amount of a vitamin D metabolite in a sample of plasma or serum. Applications for this are pending in Europe, Japan and USA derived from the international patent application PCT/GB01/05395, claiming priority from a UK patent filed on 6 December 2000.

The Group has an exclusive licence from the University of Durham for the use of chaperone stabilisation technology in immunoassays. Patent applications are pending for this technology in Europe, Japan and the USA. The applications are derived from International patent application PCT/GB03/01721 claiming priority from a UK patent application filed on 23 April 2002. The application is in the name of the University Court of the University of Dundee who have granted an exclusive worldwide licence to the University of Durham. The University of Durham have granted a worldwide exclusive licence to IDS Limited.

The Group also has an equity stake in three "spin out" companies as narrated above. In at least two of the cases the Group also has exclusive manufacturing and marketing agreements.

The Group holds one registered trade mark ("OMNIA").

The Group has significant ongoing research and development which gives rise to technological developments e.g. Liposome technology. Developments are maintained as confidential and the Group may seek patent protection for developments which may have future potential value.

The Subsidiary has an exclusive licence of the cell line 1G7 from Manchester University that is critical to one of the Group's key existing immunoassays (1,25 dihydroxy Vitamin D). Although the cell line is held at two locations, the cell line is not available elsewhere and there is no guarantee that it would be possible to recreate the cell line if it died or was destroyed. Other products of the Group also rely on cell lines for monoclonal antibodies or pools of polyclonals which would be difficult to replace.

11. MISCELLANEOUS

- 11.1 The total costs and expenses of, and incidental to, the Placing are estimated to amount to approximately £671,065 (excluding VAT) and are payable by the Company. It is expected that approximately up to £1.60 million will be raised by the Company in the Placing and that the net proceeds, after deduction of expenses payable in cash, will be approximately £1.12 million (excluding VAT). This includes approximately £40,000 payable to Watson Burton, Solicitors, Newcastle who have assisted the Group in connection with various matters relating to the Placing.
- 11.2 The minimum amount which, in the opinion of the Directors, must be raised pursuant to the Placing is £1.60 million, gross of costs and expenses, which will be applied by the Company as to approximately; £480,000 for the expenses (excluding non-recoverable VAT and commissions) of the Placing, £1.12 million to develop technology, and for working capital.
- 11.3 Mr Wilks, the Managing Director of IDS GmbH and Sales and Marketing Director of IDS Ltd who joined the Group in November 2004, is to receive an introductory payment for joining the Group on Admission amounting to approximately €75,000. Mr Wilks has undertaken to subscribe part of his introductory payment (approximately £30,000) for Ordinary Shares in the Placing.
- 11.4 Save as disclosed herein there is no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) who has:
- 11.4.1 received, directly or indirectly, from any undertaking in the Group within the twelve month period immediately preceding the application for Admission;
- 11.4.2 entered into contractual arrangements (not otherwise disclosed herein) to receive, directly or indirectly, from any undertaking in the Group on or after Admission any of the following:
- (i) fees totalling £10,000 or more; or
 - (ii) securities in the Company with a value of £10,000 or more calculated by reference to the issue price; or
 - (iii) any other benefit with a value of £10,000 or more at the date of Admission.
- 11.5 Teather & Greenwood has given and has not withdrawn its consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear. Baker Tilly has given and has not withdrawn its consent to the inclusion in this document of its report set out in Part III of this document and the references thereto and to its name in the form and context in which they appear.
- 11.6 Save as disclosed in this document, the Directors are unaware of any exceptional factors which have influenced the Group's activities.
- 11.7 Save as disclosed in this document, there are no investments in progress which are significant to the Group.
- 11.8 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 31 March 2004, being the date of the last audited accounts of the Group to which the last audited non statutory financial statements were prepared.
- 11.9 Save as disclosed in this document, there are no litigation or arbitration proceedings active, pending or threatened against, or being brought by, the Company or the Subsidiary which have or may have a significant effect on the Company's or the Group's financial position.
- 11.10 Save as referred to in paragraph 10 of this Part V and as otherwise disclosed in this document, the Directors believe that the Company is not dependent on patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business.
- 11.11 Definitive share certificates for the Ordinary Shares in issue are expected to be despatched on the date of Admission (or as soon as practicable thereafter). No temporary documents of title will be issued. In respect of uncertificated Ordinary Shares, it is expected that shareholders' CREST accounts will be credited on that date.
- 11.12 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the application procedures issued by Teather & Greenwood until such time as the Placing becomes unconditional in all respects. If the Placing does not become unconditional in all respects by 8.00 am on 31 December 2004 subscription monies will be returned to placees as soon as practicable at their own risk and without interest.
- 11.13 The Placing Price represents a premium over the nominal value of 49p per Ordinary Share.

11.14 The financial information contained in Part III of this document does not constitute statutory accounts within the meaning of Section 240 of the Act. A copy of the audited accounts of the Company for the period ended 31 March 2004 has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 237 of the Act.

11.15 Teather & Greenwood, whose principal office is at Beaufort House, 15 St Botolph Street, London EC3A 7QR is regulated in the United Kingdom by the Financial Services Authority and is acting as the Company's nominated adviser and broker.

11.16 The Company has applied to CRESTCo Limited for the Ordinary Shares to be admitted to CREST as a participating security. It is expected that the admission of the Ordinary Shares to CREST as a participating security will be effective from Admission. Shareholders who are direct or sponsored members of CRESTCo Limited will then be able to dematerialise their Ordinary Shares in accordance with the rules and practices instituted by CRESTCo Limited.

11.17 The Placing Shares are not currently admitted to dealings on a recognised investment exchange and, other than the Company's application for the Ordinary Shares, both issued and to be issued under the Placing, to be admitted to trading on AIM, no applications for such admissions have been made.

12. PUBLICATION

Copies of this document will be available free of charge to the public at the registered office of the Company and the offices of Teather & Greenwood, Beaufort House, 15 St Botolph Street, London, EC3A 7QR from the date of this document for at least one month.

Dated 22 December 2004

