Delivering Results ...

EKF Diagnostics Holdings plc
Annual Report 2011

... for
+ Patients
+ Practitioners
+ Shareholders

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In 2010 EKF Diagnostics was a German manufacturer of point-of-care blood analysers used in the measurement of glucose, lactate, haemoglobin and haematocrit.

By 2012 EKF has become a global in-vitro diagnostics business with sites in the British Isles, US and across Europe. Specialist divisions in acute kidney injury and clinical chemistry are driving our business forward and building on our heritage in near-patient testing.

This is how we achieved it.

Our Business at a Glance

EKF Diagnostics Holdings plc is a global, integrated medical diagnostics business.

Our expertise covers the entire IVD chain, starting with fermentation and enzyme production, to the manufacture of liquid reagents, the design and building of world-class diagnostic devices and the distribution of rapid test kits for infectious diseases and pregnancy.

This combination of quality products, intellectual property and new product development – encapsulated within a relatively embryonic business – makes EKF unique in the spectrum of medtech businesses.

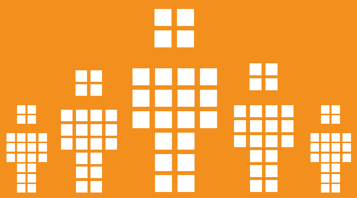
Our history

EKF-diagnostic GmbH opened its doors for business in 1991 in Barleben, a village near Magdeburg in Germany. During the final decade of the twentieth century it made the transition from an engineering business into a specialist medical diagnostics company developing high-quality analysers for the blood bank, diabetes and sports medicine markets.

In 2010 EKF-diagnostic GmbH Germany was acquired by a UK AIM-listed company which was soon renamed EKF Diagnostics Holdings plc. Before the year was out Quotient Diagnostics in Walton-on-Thames and Dublin-based Argutus Medical were bought, broadening EKF's portfolio to include HbA1c and biomarkers for use in pharmaceutical research.

Growing through...

Acquisition



The expanded Group includes nine sites in six countries. Seven of these sites are manufacturing locations. Unlike many acquiring businesses we have invested in our new sites expanding production facilities at Walton-on-Thames, Barleben and Krakow. Accordingly EKF Diagnostics employs 295 people in a variety of roles from R&D, Quality Assurance, manufacturing and finance to sales and marketing.

A global IVD business

EKF Diagnostics Holdings plc headquarters are in Cardiff. Group finance, sales and marketing departments are also based here, along with the CEO.

In Germany, Barleben remains the manufacturing hub for Hemo Control and Biosen, whilst Lactate Scout is developed in Leipzig. Our Polish operation was established to supplement the production of microcuvettes for Hemo Control and now has two automated production lines. EKF Russia, our 60% owned Moscow-based distributor, provides an outlet for EKF's German products.

Walton-on-Thames is the manufacturing base of Quo-Test and Quo-Lab. The size of the facility was tripled to $900m^2$ in 2011 to meet the demand for the production of both analysers and cartridges. The new facilities include a state-of-the-art clean air room, dedicated Quality Assurance area and expanded warehousing and storage.

Boerne, Texas is the primary office of EKF's US operations. In addition, we have a second facility producing enzymes in Elkhart, Indiana. Our US sales team is based in Boerne, working with a network of domestic and regional sales managers. Boerne is also home to our clinical chemistry range with a large and dedicated team of lab technicians, research scientists and production staff.

Dublin is home to Argutus Medical, EKF's biomarker division. Here the focus is on markers for use in testing for kidney and liver damage although the research team are also actively involved in Group R&D programmes.

1 **UK** Cardiff
Head office

2 **Germany** Barleben
R&D, Production, Distribution

3 **Poland** Krakow
Production

4 **Germany** Leipzig
R&D, Production

5 **UK** Walton-on-Thames
R&D, Production

6 **Ireland** Dublin
R&D, Production

7 **US** Boerne
Production, Distribution

8 **US** Elkhart
Production

9 **Russia** Moscow
Distribution

EKF DIAGNOSTICS

QUOTIENT DIAGNOSTICS LIMITED
An EKF Diagnostics Company

In the summer of 2011 EKF bought Stanbio Laboratory, a clinical chemistry manufacturer and distributor of IVD analysers based in Boerne near San Antonio, Texas. Integrating Stanbio into the Group paved the way for EKF to expand its distribution network into new territories and broadened our product portfolio.

Less than two years after the name EKF appeared on the London Stock Exchange it is now a worldwide integrated IVD business with offices and manufacturing in nine locations across Europe and North America and a distribution network that spans the globe.

Delivering results

Turnover (£m)	Gross profit (£m)	Adjusted EBITDA (£m)
£21.66	£10.38	£1.57
+234%	+257%	+64%

2011 was a year of rapid growth for EKF Diagnostics. Paradoxically it was also a year of consolidation as we began the process of integrating the R&D, sales, marketing and finance functions across the Group.

The strength of the newly-integrated business was best demonstrated in the winning of a tender for the Mexican Institute of Social Security in November 2011. More than 3,500 HemoPoint haemoglobin analysers were assembled in Germany and shipped to the US within a month of the order being received, fulfilling the exacting obligations of the contract.

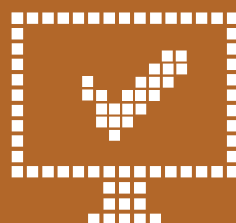
It is this entrepreneurial approach to sales and a positive attitude to business challenges that have driven the business in 2011 and, allied to our strategic acquisitions, have helped deliver turnover growth of 234% and a gross profit increase of 257%.

Organic growth

We recognise the importance of growing the business through the existing product range. In 2011 every product category within the EKF range grew as 14,000 more analysers were placed and sales of associated consumables for all instruments increased. One significant milestone was the sale of the 1,000th Quo-Test HbA1c analyser in Q4.

In total we estimate that there are now approximately 45,000 EKF analysers in active use around the world.

New product development



In parallel to maximising sales of the existing range, and developing new analytes to open up new market segments, EKF is committed to a pipeline of new product development.

We will launch Quo-Lab, a low cost HbA1c analyser for use in emerging markets, in Q2 2012, quickly followed by the release of Biosen HbA1c, an extension of the C-Line and S-Line ranges. We will launch STAT-Site BHB and RenaStat, two more exciting near-patient care instruments, in 2013.

Our Products

Our range of analysers is characterised by three features common to all – quality of manufacture, quality of result and simplicity of use.

Haemoglobin testing

The comprehensive range of EKF haemoglobin analysers are designed for use within a variety of point-of-care settings.

Hemo Control is a robust instrument designed to provide quantitative, quality results (imprecision of less than 2%) within approximately 30 seconds for blood banks, hospitals and clinics. And, thanks to its integrated rechargeable battery, it is used in the field for anaemia screening programmes in Peru, Tanzania and Mexico.

The Hemo Control range has been extended to include Hemo Speed which is built on the same platform but provides a result within ten seconds. The range also includes the Hemo Control Manager which provides bar-coded identification of patients, operators, controls and cuvettes.

STAT-Site M is a hand-held device that combines low cost per test with portability. It is especially suited to blood screening programmes in developing world markets but also has a niche in settings where operators are mobile. A new, strip-based version of STAT-Site is scheduled for launch in 2012.

More information at
www.ekfdiagnostics.com

Glycated haemoglobin (HbA1c) testing

Glycated haemoglobin (also known as HbA1c) has gathered momentum as the preferred method of measuring and monitoring diabetes within the medical community over the last decade. The primary advantages of HbA1c are that sufferers are not required to fast before taking a test, unlike blood glucose monitoring, and the procedure need only be carried out four times a year.

EKF's flagship HbA1c analyser is Quo-Test. It uses a patented Fluorescence Quenching technology to measure HbA1c from a four microlitre sample taken from a finger prick or venous blood. Sample results are available within four minutes and up to 7,000 patient readings can be stored on the instrument.

2011 saw a significant growth in the placement of Quo-Test analysers with more than 1,000 now in use around the world.

However the EKF HbA1c range is primed for considerable growth in 2012 with the launch of Quo-Lab, a scaled-back version of Quo-Test aimed at developing markets, and Biosen HbA1c which will be the only near-patient testing instrument to provide HbA1c and glucose measurements from one sample.

Glucose and lactate testing

Much of EKF's heritage resides within Biosen. Over the years Biosen has served two particular markets – diabetes management and sports medicine – providing glucose and lactate measurements for up to 63 different samples at any one time.

The series now includes six different models and is a familiar brand name in laboratories and sports clinics around the world, particularly Europe, the Middle East and Asia.

Lactate Scout's origins also began in sports medicine. It is a pocket-sized blood analyser which has been developed to provide performance coaches with lab-accurate lactate measurements from tiny finger pricked or earlobe pricked samples.

Recently, however developments in birth medicine have offered the possibility of new applications for Lactate Scout. To meet this untapped demand, a product extension, Lactate Scout Medic, is undergoing development at our Leipzig site.

Clinical chemistry

The addition of clinical chemistry to the EKF product portfolio is a direct result of the acquisition of Stanbio Laboratory by EKF in June 2011. Stanbio has a worldwide reputation as a manufacturer of reagents used on high volume auto-analysers as well as its own brand of bench-top analysers. Alongside this sits a loyal customer base for Stanbio's own-label rapid tests for pregnancy and infectious diseases.

Stanbio's enzyme production division, Stanbio Life Sciences, based in Elkhart, Indiana, is the starting point for a number of products in the clinical chemistry portfolio. Key to our growth in 2011 was the success of Beta-Hydroxybutyrate (ßHB) LiquiColor reagent which enjoyed a significant increase in sales as a test for ketoacidosis. An increasing number of hospitals with programmes focused on diabetes and endocrine imbalances are using this quantitative enzymatic array on their chemistry analyses.

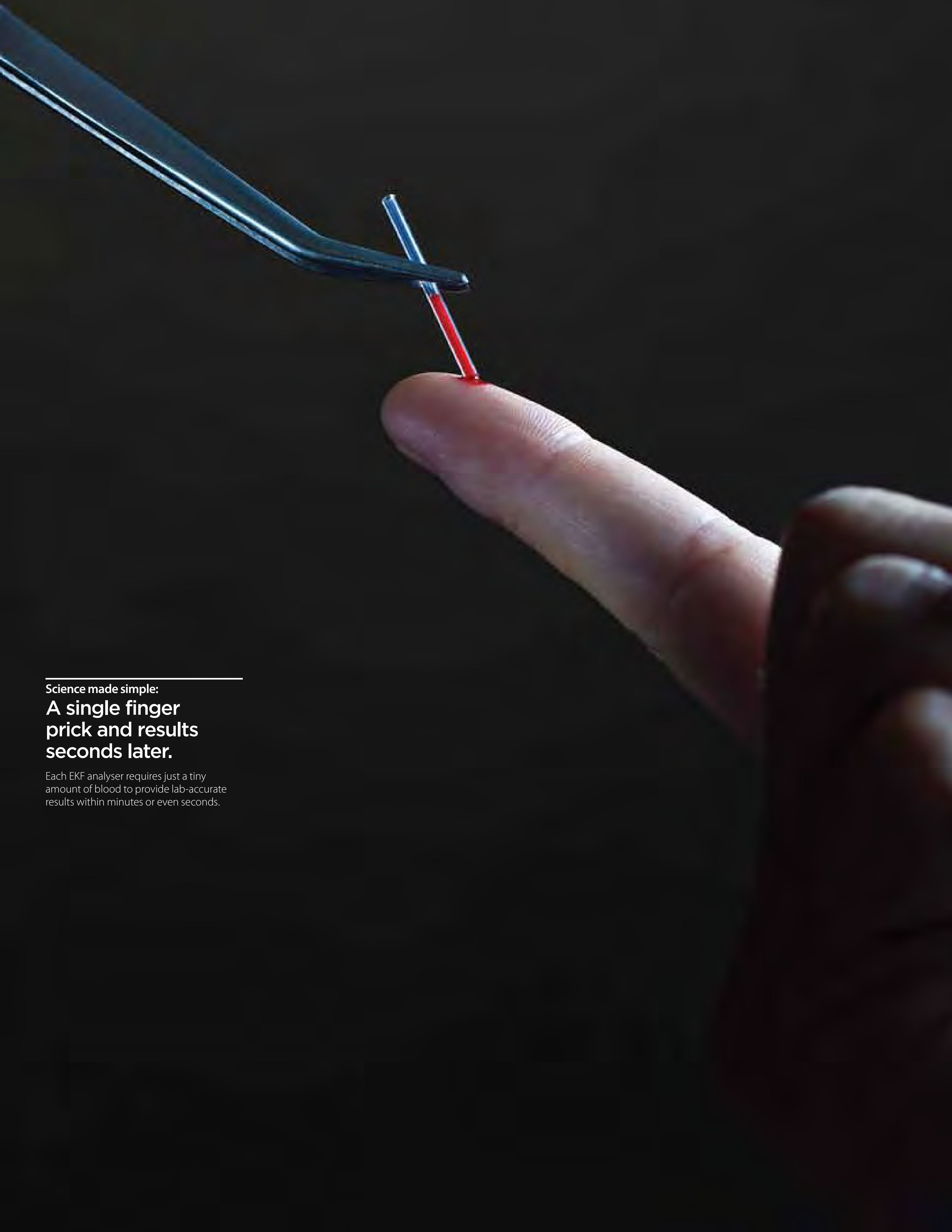
2012 promises to take ßHB into an entirely new arena as we have announced plans to launch a diagnostic instrument that will allow ketoacidosis to be assessed in a near-patient setting.

Biomarkers

EKF's acquisition of Argutus Medical has given the Group a position as one of the leading developers and manufacturers of kidney and liver biomarkers.

Our specialism is kidney biomarker tests and the range includes a complete panel of tests for acute kidney injury (AKI) detection. These tests can be used individually or used together to provide a complete picture of where AKI is occurring and where healthy kidney remains.

The fusing of biomarkers with near-patient care technology is an exciting and logical development for EKF. Towards the end of 2012 we expect to undertake the first in-situ trials of our POC assay that utilises two of our proprietary kidney markers (α-GST and π-GST). We believe that this product will provide a unique solution into a market segment that has yet to be addressed.



Science made simple:

A single finger prick and results seconds later.

Each EKF analyser requires just a tiny amount of blood to provide lab-accurate results within minutes or even seconds.

Delivering Results for Patients

At the **heart of the concept** of point-of-care (POC) is the principle that medical tests are convenient and immediate to the patient.

In order for this to occur POC devices need to deliver fast and accurate results time after time. The device should be easy to operate thereby reducing the amount of time required to undertake a test and, equally, minimise the product training required for staff to operate the device appropriately.

EKF's analysers are designed with the principles of technical quality and ease of use at the forefront of the development process. The R&D teams in each of our development sites have spent years refining the technology and the software to deliver a positive patient testing experience.

We know from testimonies from practitioners using one of the 45,000 EKF devices in use today that our analysers give them the results they need to prescribe care with confidence. Allied to this, because Hemo Control, Quo-Test, STAT-Site and Biosen C-Line series are designed for GPs offices, pharmacies and clinics we remove the requirement for patients to endure the lengthy wait for results to be returned from a central laboratory.

By delivering lab-accurate results within minutes or even seconds EKF is at the forefront of making POC a better experience for everyone.

Science made simple:

Simple, effective design that empowers medical professionals.

Reliable results from reliable technology provides medical practitioners with a hassle-free alternative to laboratory testing. The simple testing procedures and maintenance empowers staff with the confidence to make decisions quickly for the benefit of all.

Delivering Results for Practitioners

Regardless of location or application, medical practitioners require the same performance criteria for POC devices.

Quality of result, time to result, operating costs and an intuitive user experience are high on most end-user's lists. EKF's haemoglobin and HbA1c analysers are built to meet these needs. Our range, supplemented by the new products due for release in 2012, provides us with the unique ability to deliver products that fulfil the regulatory requirements, at a price tailored for markets as disparate as India and the US.

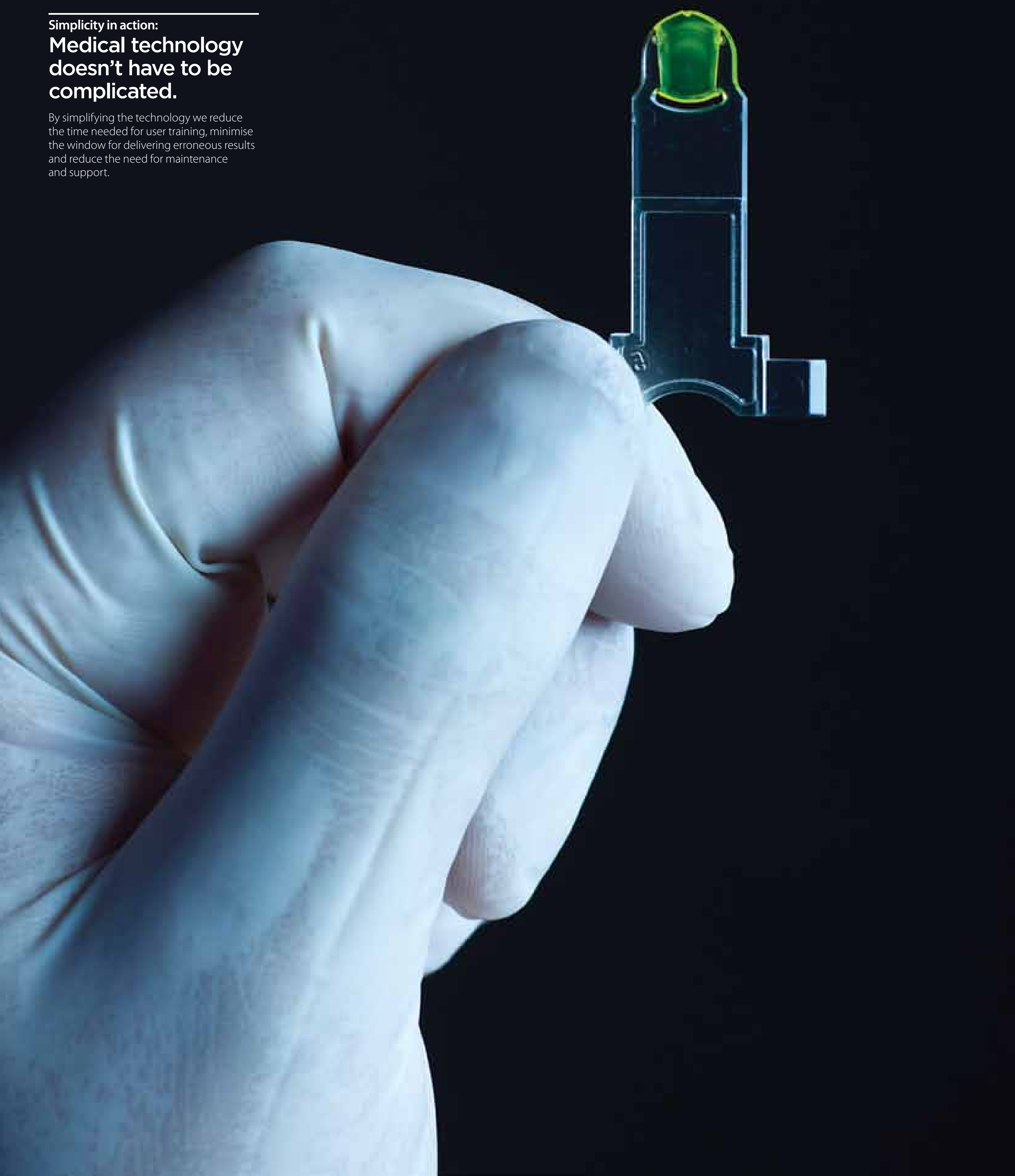
The ability to reproduce results is a key factor in the customer's decision-making process. Furthermore the level of precision is paramount in giving the end user the confidence to make considered treatment decisions for their patients. EKF analysers deliver results with a level of imprecision of just 2-3% CV, a level comparable with that of laboratory auto-analysers. This ability to produce consistently accurate readings across a variety of settings and applications has been put to the test by a number of independent regulatory bodies throughout 2011 including the US FDA, Chinese FDA, SKUP (Scandinavian Evaluation of Laboratory Equipment for Primary Health Care) and by the certification programmes operated by NGSP and IFCC. These validations are vital in helping EKF in its objectives of increasing market share and enhancing brand reputation.

EKF's portfolio of clinical chemistry products enjoys the same reputation amongst lab managers and technicians. Here our range of liquid-stable reagents are used in hospital and private pathology labs across the world on auto-analysers from leading manufacturers. The wide spectrum of reagents – including β-Hydroxybutyrate, Bilirubin, Cholesterol, Creatinine, Glycated Haemoglobin and Triglycerides – undergo strict Quality Assurance at every stage ensuring that practitioners get the results they need.

Simplicity in action:

Medical technology doesn't have to be complicated.

By simplifying the technology we reduce the time needed for user training, minimise the window for delivering erroneous results and reduce the need for maintenance and support.



Delivering Results for Shareholders

We believe that delivering **consistent revenue and profit growth** can be best achieved by creating simple, innovative, high-quality products.

We understand that delivering results for shareholders means delivering significant long-term positive cash flows. At EKF we know that producing such cash-flows is the result of ensuring the organic growth of existing products through excellent sales and marketing, acquiring new and relevant technologies and synergistically combining the jewels in our portfolio to generate incremental value for our customers and their patients.

At the same time we have rigorous controls over our development procedures to ensure our new products meet regulatory requirements and insist on tight quality processes in our factories, so the customer is never disappointed and the patient enjoys the best care possible.

Chairman's Statement

"2011 has been a year of continued progress towards our goal of building a successful, profitable, international IVD business with our results significantly better than our expectations."

Dear Fellow Shareholder,

I have pleasure in reporting the results of EKF Diagnostics for the year ended 31 December 2011. It has been a year of continued progress with the year-end numbers being ahead of our expectations in large part due to the contribution made by our US business.

Strategic direction

Before commenting on the results for the year I think it is worth reviewing where we are today and the future direction for the Group.

We made our first acquisition less than two years ago and since then we have made three further acquisitions including one in the financial year just ended. The primary, but not exclusive, focus has been on point-of-care diagnostics and our product areas have been defined by the companies we have acquired: haemoglobin, glycated haemoglobin, haematocrit, glucose, lactate and acute kidney injury.

In seeking to grow initially through a series of acquisitions, there are inevitable challenges until one reaches a sufficient level of critical mass to drive significant cost synergies through the organisation, however, we are not yet at that level.

Our key challenges with a Group spread over nine locations are ones of communication and co-ordination. These challenges continue to be met and I am pleased with the progress that we have made, particularly in EKF Germany where we have moved from an owner-managed environment to one capable of living with the rigours of being a quoted company.

We will seek to grow both organically and via acquisition but it is important for shareholders to understand that we are not seeking to grow by acquisition at any cost in endeavouring to achieve a level of critical mass. We have reviewed many opportunities and reached advanced levels of negotiation on more than one occasion, but ultimately took the decision not to commit to a course of action where, although critical mass would have been achieved, it was unclear that future enhancements in shareholder value would have been realised. I hope that this sends a clear and obvious message that EKF is not engaged in growth by acquisition at any cost.

Looking forward, in terms of building future value, I want the Group to focus in three areas:

Firstly, to identify areas of unmet clinical need where we believe, either organically or through acquisition, we can make a difference and provide a better outcome for both patient and clinician. In that regard we are currently reviewing a number of interesting opportunities, some of which fall within the framework of point-of-care and some which do not.

We are becoming more creative in our thinking as to how we exploit these opportunities. However, there is in reality a limit to how much we can leverage our existing research and development capability, although we are currently examining expansion of our lactate platform into new areas and the underlying Quotient technology into other disease tests. That, however, is insufficient for the demands I am placing on the organisation in my drive for future growth. Therefore, we are examining a number of opportunities we are looking to access via corporate venturing or other creative mechanisms where that unique combination of innovation and entrepreneurship is captured. Easy to say and difficult to achieve, but we believe we have a number of such viable opportunities in our sights.

Secondly, to identify product licensing opportunities which will enhance our overall value to our distribution channel customers. We are in active negotiation to achieve this. We believe we offer many companies market reach they would not otherwise be able to achieve in a short timescale.

Thirdly, to extend our channel reach in Europe and Asia. We will achieve this by extending our direct sales channels in key territories and in Asia through partnerships that offer the patients in those countries more cost-effective solutions.

Acquisition of Stanbio

Stanbio Laboratory LP was acquired in June 2011 for a maximum consideration of $25.9m. The Company raised approximately £12.4m net of expenses through the issue of Ordinary Shares to fund the acquisition.

Stanbio is an established 50 year old US-based, medical diagnostic devices distribution and manufacturing business, with a strong brand and robust product sales. It sells a broad range of products (including EKF's Hemo Control device, under the brand name HemoPoint H2), both direct to a high-quality customer base and also through a distribution network focused on North and South America. This network complements the existing EKF distribution channels. Stanbio has an FDA audited facility in Texas and a facility in Indiana.

Stanbio's product portfolio includes the manufacture and sale of chemical reagents used mainly in laboratories for use across a range of auto-analyser instruments; haemoglobin products primarily bought from EKF including both instruments and the microcuvettes; and rapid test strips (such as pregnancy tests) where Stanbio acts as a distributor of products manufactured by third parties.

Alere contract

At the same time as the acquisition of Stanbio we signed a contract with Alere Inc. under which we appointed them as exclusive distributor of our Hemo Control analyser (sold in the US as the HemoPoint H2) in the US. In November 2011 we received Clinical Laboratory Improvement Amendments (CLIA) waiver allowing the device to be sold under the Alere name in the US and we shipped HemoPoint H2 instruments and cuvettes to them in March 2012. The Board believes that access to one of the largest direct sales forces in the North American point of care market will grow our market share in the US haemoglobin testing market significantly.

Results overview

Revenue

Revenue for the year was £21.7m (2010: £6.5m). This represented organic growth of 24% in EKF Germany and 144% in Quotient over the same period previous year.

Gross margin

Gross profit of £10.4m (2010: £2.9m) was achieved. This represents a gross margin of 48% (2010: 45%). 2010 gross margins have been restated to include certain direct costs which were previously included in administrative expenses.

Administration expenses and operating profits

Administration costs have risen as a result of the increased investment in sales and finance personnel to aid integration and to develop the business. Research and development expenditure was £0.9m (2010: £0.1m) of which £0.6m was capitalised as development costs. The Group capitalises development expenditure only when a successful product launch is probable and otherwise charges expenditure to the income statement immediately. The charge for depreciation and the amortisation of intangibles was £2.3m (2010: £0.8m). The operating loss was £2m (2010: £1.9m).

Adjusted earnings before interest, tax, depreciation and amortisation

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year was £0.3m (2010: Loss £1.1m). A more meaningful measure is considered to be Adjusted EBITDA of £1.6m. (2010: £1.0m) which excludes the effects of share-based payments of £0.8m (2010: £0.2m) and exceptional costs of £0.5m (2010: £1.9m).

Exceptional items and share-based payments

Following a revision to International Financial Reporting Standard 3 "Business combinations", acquisition costs are now expensed immediately. Acquisition costs expensed during the year were £0.4m (2010: £1.6m). IFRS 3 also requires that inventory within acquired businesses is uplifted to fair value, resulting in a £0.1m (2010: £0.3m) reduction in post-acquisition gross margin. These have been treated as exceptional costs. Charges for share-based payments were £0.8m (2010: £0.2m).

Net finance costs

Net finance costs for the year were £0.3m (2010: £0.2m). This mainly represents the cost of servicing the small amount of debt acquired within EKF and Stanbio, and the interest element on deferred consideration on acquisitions, offset by interest on deposits.

Loss before tax

The loss before tax was £2.4m (2010: £2.1m). The loss is in line with management expectations and was incurred because of the high level of exceptional items associated with acquisition costs, plus the investments required in the development of the Group.

Loss per share

The basic loss per share was 1.35p (2010: 3.51p). On a fully diluted basis the loss per share was 1.26p (2010: 2.11p) from continuing operations only.

Balance sheet

The Group had non-current assets at 31 December 2011 of £44.2m (2010: £26.1m). These consist of plant, property and equipment of £10.6m (2010: £5.5m), intangible assets of £33.1m (2010: £20.3m), available-for-sale assets of £0.3m (2010: £0.1m) and deferred tax of £0.2m (2010: £0.2m). The intangible assets mainly relate to the trade names, customer relationships, trade secrets, development costs and goodwill on acquisitions.

The Group had cash in hand at 31 December 2011 of £5.3m (2010: £3.2m).

The Group's main current assets are inventory totalling £4.8m (2010: £3.0m), and debtors of £4.3m (2010: £3.6m). Current liabilities are £9.5m (2010: £5.1m). Non-current liabilities, which consist of deferred consideration on acquisitions of £5.2m (2010: £4.2m), deferred tax liabilities of £4.4m (2010: £2.8m) relating to acquisitions and borrowings of £2.1m (2010: £0.3m).

Management and employees

We have sought to strengthen the management team during the period as we moved to establish a Group structure and culture that is appropriate to meet the demands of a rapidly growing public listed company.

In September Richard Evans was appointed to Group Finance Director replacing Paul Foulger who had been undertaking the task on a part-time basis. I would like to thank Paul for all his hard work during his period at the helm. His talents have not been lost to the Group as he is continuing his involvement in the capacity of Company Secretary and his on-going contribution is appreciated.

In February 2011 Richard Evans was hired by EKF firstly to oversee the transition in Germany from an owner-managed and controlled structure to one that was capable of achieving the growth demands being placed upon that organisation. During that transition period he worked with the previous owner Berthold Walther to ensure that change was achieved in as effective a manner as possible. Berthold will continue to work in an advisory capacity for the Group until the end of June 2012 and remains a significant shareholder. I would like to thank Berthold for his assistance in this transition period and for creating one of the foundation stones on which this Group is built.

The day to day operations in Germany are being managed by Steffen Borlich who was recently appointed as a General Manager. Steffen brings with him over 20 years of experience working with EKF across several functions.

Following the acquisition of Stanbio, the previous owner Bill Pippin has continued in his capacity as CEO and is very much committed to the continued growth of our operations in the Americas. We have been very fortunate to be able to retain someone of Bill's calibre to lead our American operations.

Yesterday we announced the appointment of Tony Wilks as Group Head of Sales. I have had the pleasure of working with Tony at IDS and I know he is capable of making a significant contribution to the EKF Group.

With the acquisition of Stanbio and investment in additional resources, our headcount had reached 295 by the year end. Our employees, both new and established, have had many challenges to face over the year and will have many more in 2012. The Board would like to thank them for their efforts during the past year. We are sure they will continue to show the same commitment and dedication in the next 12 months.

Outlook

We have had the benefit of a strong tailwind as we completed 2011 and we expect to continue to grow in 2012 in line with the current market expectation. Our first quarter's trading will be broadly in line with that. It is important that our 2011 result is seen in context and that none of us get carried away with a heightened sense of expectation. 2012 remains a transitional year.

We see the growth being achieved across a number of key areas:

- The launch of Quo-Lab and the striking of a distribution partnership arrangement with a larger IVD company.
- The continued penetration of Quo-Test into world markets.
- The contribution from Alere.
- The continued process of tendering for Hemo Control and Hemopoint H2 in developing countries, in United Nations organisations and national blood banks.
- The launch of BHB to the wider diabetic community through the development of a near-patient diagnostic device.

We are also looking to achieve cost synergies throughout the Group which should result in increases in gross margin once fully implemented.

I am genuinely excited by the prospects for EKF Diagnostics and I believe the core team have dynamism and a desire to succeed which will power the business towards continued growth and success.

David Evans
Executive Chairman
21 March 2012

The Investment Case

Six reasons to invest in EKF Diagnostics Holdings plc. All of them contribute to long-term positive cash-flows.

#1

A proven track record

We have acquired two businesses, Stanbio and EKF, with proven track records and first-class reputations in the diagnostic field, one which is over 50 years old and one over 20 years old.
These businesses are the backbone of our organic growth strategy and yet both continue to develop new technologies.

#3

Continued organic growth

The limited financial resources of the original owners of our businesses meant they were unable to expand into all the markets which are potential targets for our products.
This is EKF's major opportunity – to fill in the gaps on the map where our presence has been limited. In addition, we can also build on a substantial installed base of instruments into which we can sell consumables.

#4

Increasing margins

Our product development strategy in combination with our acquisitions has enabled us to establish a portfolio of products we can target to specific markets which have different price points.
The right product for the right market means that we can increase our average margins rather than forcing higher cost products into lower price market segments and depressing margins. Furthermore, we will be taking advantage of the purchasing power of the group from 2012 onwards, which will lower our product costs.

#5

Extensive distribution network

EKF possesses a global distribution network combining the specialist distributors who had previously worked with the individual businesses.
We are now in a position to leverage that network in order to provide additional sales growth. For example, EKF is starting to market products from Stanbio through its European distributors and Russian subsidiary.

#2

Successful acquisition strategy

In addition to acquiring a robust backbone for the business we have added two businesses, in Quotient and Argutus which will provide significant impetus and new growth for the future.
Quotient is on the cusp of exciting new developments in its product line which will help it to gain market share in emerging markets. Argutus has innovative new markers for kidney diagnostics which will be of major benefit to patients.

#6

Strong management team

The EKF senior management team brings together many years of experience in the in-vitro diagnostics industry.
They combine knowledge of how to drive rapid sales and profit growth with strong development discipline and tight financial control. In a short period of time they have developed an excellent understanding of the roles each will play and of the support which they can give each other in order to ensure the success of the team.

Chief Executive's Review

EKF Diagnostics performed strongly in 2011 although we have some way to go before the business reaches its full potential. We have grown organically and through acquisition and have made good progress in developing our pipeline of new products. We also invested time and resources in assessing the Group's capabilities and completed the integration of the sales, marketing and finance functions. Alongside this we have instigated an on-going review of Group manufacturing practices.

It is my belief that these changes have put EKF in a strong position to tackle the challenges that lie ahead in 2012 and begin to realise its business ambitions.

Business performance

We conducted a detailed analysis of our installed customer and product base in 2011. As a result of this we were able to focus our sales effort much more effectively. Specifically, we have undertaken a structured review of distributors in territories with a low installed base and have set in motion a programme to drive volume in underperforming markets with the objective of increasing market share.

The strong second half was the result of a number of factors, including a large order for the Hemo Control haemoglobin analyser from the Mexican Institute of Social Security, the commencement of shipments of Hemo Control microcuvettes to Peru for an infant malnutrition programme and continued orders of the Quo-Test HbA1c analyser. It was pleasing to note that in Q4 we shipped our 1,000th Quo-Test analyser.

The increase in Quo-Test sales is primarily due to a more aggressive marketing strategy focused on placing products in clinics and small labs, particularly in China where in January we received approval from the Safety for Food and Drugs Administration (SFDA).

Towards the end of 2011 we received a favourable report from SKUP (Scandinavian Evaluation of Laboratory Equipment for Primary Health Care). This study will enable us to promote Quo-Test to a wider market, particularly in Western Europe where rebates for health tests are significantly higher than in developing countries.

As mentioned in the Chairman's statement I am delighted to welcome Tony Wilks as Group Head of Sales. I am confident that Tony's experience and knowledge of the in-vitro diagnostics (IVD) sector will enhance the team that we already have in place and that he will play a key role in driving sales in 2012.

Channel development

It was particularly pleasing to win the tender in Mexico in the face of fierce competition. We were able to achieve this through close co-operation between EKF's manufacturing site in Germany and Stanbio's sales team in Texas. This approach validates the strategy behind the acquisition of Stanbio. The collaboration between the commercial and manufacturing departments across the Atlantic was very effective and I would like to thank all involved.

I am also delighted to be able to announce that in March 2012 we shipped the first consignment of HemoPoint H2 instruments and cuvettes to Alere Inc. in the United States under the terms of our 2011 agreement. The Board believes that access to Alere's direct sales force, one of the largest in the North American point-of-care market, will significantly grow our market share in the US haemoglobin testing market.

Another reason for optimism is evidence that 'point-of-care' is beginning to establish itself in both Eastern Europe, where EKF has an established presence, and in Asia where growth is being stimulated by an increasing per capita GDP and a greater incidence of western diseases such as diabetes. With the introduction in 2012 of products aimed at emerging markets, such as Quo-Lab and STAT-Site M, we feel we have a product portfolio that meets the needs of the developing world at a price tailored to these markets.

Regulatory

We are in the process of engaging with the US FDA via a Pre-IDE submission for our Quo-Test A1c analyser. Our application process, which is being managed by our expert teams at Quotient and Stanbio, is more rigorous than when previously submitted by Quotient prior to its acquisition by EKF. It is anticipated that the submission under 510k regulations will be made in 2012.

Investing in the future

Throughout 2011 we invested in people and infrastructure. As well as welcoming Richard Evans as Finance Director, Cormac Kilty has settled into his role as Chief Technology Officer. New divisional managers have been put in place in Argutus, Quotient and EKF-diagnostic GmbH in Germany. We have also appointed a Group Head of Marketing who leads our global marketing efforts, as well as a highly experienced team of regional sales managers and an experienced Group Manufacturing Manager.

In May 2011 we opened a new manufacturing plant in Poland in order to cope with increased demand for Hemo Control cuvettes.

We continue to invest in Quotient's facility just outside London, both to improve manufacturing quality and to increase production capacity. During the year we invested approximately £0.6m to triple the size of the facility to 900 m^2 and allow Quotient to meet increasing demand for Quo-Test and the anticipated demand for Quo-Lab. The new facilities include a state-of-the-art clean room, a dedicated Quality Assurance facility and expanded warehousing and storage. The investment programme at Quotient will continue through the first half of 2012.

Product development

The commercial launch of Quo-Lab, a low cost HbA1c analyser, and our Biosen HbA1c and glucose analyser are scheduled for the first half of 2012. We previewed the Quo-Lab with great success in November at Medica, the world's biggest medical trade fair. Partly as a result of this we are in advanced negotiations with a number of distributors for Quo-Lab. In addition we have received considerable attention from a number of larger companies who have expressed an interest in licensing the technology. These discussions are ongoing at the time of writing.

The addition of other analytes on to both the Quo-Test and Quo-Lab platforms are currently in development. It is anticipated that we will make further announcements during the second half of 2012.

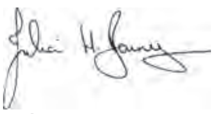
Other new product development projects include a strip based version of the STAT-Site M analyser for testing haemoglobin and β-Hydroxybutyrate (BHB). We also expect to undertake the first in-situ trials of our point-of-care test for acute kidney injury towards the end of the year. This analyser will utilise two of our proprietary kidney markers.

Longer-term opportunities include a development project for a point-of-care coagulation test, and a point-of-care test for Vitamin D.

In addition to the development of new products we have a number of programmes in place to drive down the costs of our existing products, thereby increasing margins and allowing them to be marketed to a wider range of customers.

The future

Although 2012 will be another challenging year, with significant sales and product development milestones to achieve, it is one we are looking forward to with optimism. We believe that we have the strategic, commercial and structural corner stones in place to fulfil our ambitions for the Group and its shareholders.



Julian Baines
Chief Executive Officer
21 March 2012

"Although 2012 will be another challenging year with significant sales and product development milestones to achieve, it is one we are looking forward to with enthusiasm."

The Board

The EKF Board was strengthened in 2011 with the appointment of Richard Evans as full-time Finance Director.

1. David Evans
Executive Chairman (aged 51)
David has significant experience and contacts worldwide within the IVD industry and is currently Chairman of the following listed companies: Omega Diagnostics Group plc, Epistem Holdings plc and Scancell Holdings plc. In addition he was formerly Chairman of Immunodiagnostics Systems Holdings plc and BBI Holdings plc (BBI) and Joint-Managing Director of Axis-Shield plc. He also sits on the Board of a number of private companies.

2. Julian Baines
Chief Executive Officer (aged 47)
Julian was Group CEO of BBI where he undertook a management buyout in 2000, a flotation on AIM in 2004 and was responsible for selling the business to Alere Inc (formerly IMI Inc) in 2008 for circa £85 million. Julian remains on the board as a non-executive director of BBI. In December 2009 Julian became CEO of the group and successfully completed fund raisings in June 2010 and June 2011 to acquire EKF-diagnostic GmbH Germany Group and Stanbio.

3. Adam Reynolds
Non-Executive Director (aged 49)
Adam was a former stockbroker specialising in corporate finance. He has built, rescued and re-financed a number of public companies. He is currently a Director of Orogen Gold Plc, Armscote Plc, Hub Capital Partners Limited, Diablo Consulting Limited and Wilton International Marketing Limited.

4. Gordon Hall
Non-Executive Director (aged 69)
Gordon has spent many years in the Worldwide IVD arena. Much of his experience was gained with Abbott, before becoming Managing Director of Shield Diagnostics. He subsequently held a number of high profile positions in both private and public companies and is currently a Non-Executive Director of Nanoco Group plc.

5. Richard Evans
Finance Director (aged 54)
Richard qualified as a Chartered Management Accountant in 1983 and holds a degree from Edinbugh University and an MBA from INSEAD. Before joining EKF Richard was Finance Director, General Manager and finally Global Account Director at Hitachi Data Systems GmbH. He has also held positions at Fisher Scientific, TRW Seat Belt Systems, Maxtor Corporation, United Technologies Carrier and Abbot Diagnostics GmbH in Germany.

6. Dr Kevin Wilson
Non-Executive Director (aged 61)
Kevin has been on the board of a number of public and private businesses and was Senior Independent Director of BBI from its AIM flotation to its sale in 2008. He has been active in Investment Banking and Stockbroking for 25 years as a corporate finance adviser and is FSA registered. He carries a PhD in Finance and an MBA in Business and is a Visiting Fellow at Manchester Business School and Visiting Senior Lecturer in Finance and Accounting at the University of Lancaster Management School.

7. Paul Foulger
Former Finance Director and current Company Secretary (Aged 42)
Paul is a qualified certified accountant with extensive public and private company experience having been finance director at First Africa Oil plc, Cielo Holdings plc, Elsevier Science, Orogen Gold plc and Porta Communications plc, amongst others. He jointly led a management buy-out of financial communications group, Hansard in 2004 and has been the Company's finance director since June 2005. Paul was Finance Director for EKF until September 2011 and currently holds several other directorships. Paul holds an MBA from Warwick Business School.

Report of the Directors
for the year ended 31 December 2011

The Directors have pleasure in submitting this report together with the audited financial statements of EKF Diagnostics Holdings plc for the year ended 31 December 2011.

Directors
The Directors who held office during the year and as at the date of signing the financial statements were as follows:

David Evans	
Julian Baines	
Richard Evans	(appointed 28 September 2011)
Dr Kevin Wilson	
Adam Reynolds	
Gordon Hall	
Paul Foulger	(resigned 28 September 2011)

Principal activities
During the year the principal activity of the Group continued to be that of a business focused within the in-vitro diagnostic devices (IVD) market place.

Business and financial review
The Board of Directors judge the Company's financial performance by reference to the internal budget which it establishes at the beginning of each financial year. A comprehensive review of the year is given in the Chairman's Statement on pages 10 and 11 and the Chief Executive's review on pages 14 and 15.

The Group is a player in the in-vitro diagnostics business and works on the principle of selling value priced instrumentation which generates long-term revenue streams of consumables. The Group has an existing portfolio of technologies which produce these revenues and will add technologies which are strategically appropriate to this portfolio should they become available providing the additions make economic sense.

Future outlook
The Chairman's Statement on pages 10 to 11 and the Chief Executive's Review on pages 14 to 15 give information on the future outlook of the Group.

Key Performance Indicators (KPIs)
The key performance indicators currently used by the Group are revenue, adjusted EBITDA and cash resources. The Group intends to establish other key performance indicators in due course once the Group has matured sufficiently. The Group does not use and does not at present intend to use non-financial key performance indicators.

Principal risks and uncertainties
The Directors continually identify, monitor and manage the risks and uncertainties of the Group. Risk is inherent in all businesses. Set out below are certain risk factors which could have an impact on the Group's long-term performance and mitigating factors adopted to alleviate these risks. This list does not purport to be an exhaustive summary of the risks affecting the Group.

Management and employees
The Group's future success will be dependent on key employees and their on-going relationships with customers and suppliers. It is believed that the Group is of a size that no one individual represents a significant risk to the Group. The Group also encourages customer or supplier contacts to be maintained by more than one individual. Key staff are incentivised through a mixture of sales commission, profit related bonuses and participation in the Group LTIP and share option schemes. Main Board Directors are incentivised as detailed in the Directors' Remuneration Report.

Political risk
A significant proportion of the Group's revenues are accounted for by agreements in various countries. Any instability in those countries could affect operations and the revenue of the Group.

Regulatory risk
There can be no guarantee that any of the Group's products will be able to obtain or maintain the necessary regulatory approvals in any or all of the territories in respect of which applications for such approvals are made. Where regulatory approvals are obtained, there can be no guarantee that the conditions attached to such approvals will not be considered too onerous by the Group or its distribution partners in order to be able to market its products effectively. The Group seeks to reduce this risk by developing products using safe, well-characterised active compounds with known risk profiles, by seeking advice from regulatory advisers, consultations with regulatory approval bodies and by working with experienced distribution partners.

Competition risk
The Group's current and future potential competitors include, amongst others, major multinational pharmaceutical and healthcare companies with substantially greater resources than those of the Group. There can be no assurance that competitors will not succeed in developing systems and products that are more effective or economic than any of those developed by the Group, with its distribution partners, or which would render the Group's products obsolete or otherwise non-competitive. The Group seeks to reduce this risk by securing patent registration protection for its products, maintaining confidentiality agreements regarding Group's know-how and technology, monitoring technological developments and by selecting leading businesses in their respective fields as distribution partners capable of addressing significant competition, should it arise.

Intellectual property risk
The commercial success of the Group and its ability to compete effectively with other companies depend, amongst other things, on its ability to obtain and maintain patents sufficiently broad in scope to provide protection for the Group's intellectual property rights against third parties and to exploit its pharmaceutical products. The absence of any such patents may have a material adverse effect on the Group's ability to develop its business. The Group seeks to reduce this risk by developing products where legal advice indicates patent protection would be available, seeking patent protection for the Group's products, maintaining confidentiality agreements regarding Group know-how and technology and monitoring technological developments and the registration of patents by other parties. The commercial success of the Group also depends upon not infringing patents granted, now or in the future, 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 products.

Effect of foreign currency
The Group in general does not hedge the foreign currency risk arising from sales by an operation denominated in a currency other than its functional currency. In most cases substantial deposits on such sales are received at the time of the order and the remaining balances are, to a large extent, matched by overseas costs. In respect of the translation of foreign currency assets, the Group endeavours to match a significant amount of foreign currency assets by funding overseas operations through borrowings or loans denominated in the local currency.

Financial risk management
The Group has instigated certain financial risk management policies and procedures which are set out in note 3 to the financial statements.

Going concern
The Directors have considered the applicability of the going concern basis in the preparation of these financial statements. This included the review of internal budgets and financial results which show, taking into account reasonably probable changes in financial performance that the Group should be able to operate within the level of its current funding arrangements.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis of preparation for its consolidated financial statements.

Creditors payment policy
It is the policy of the Group to agree appropriate terms and conditions for its transactions with suppliers (ranging from standard written terms to individual negotiated contracts) and for payment to be made in accordance with these terms provided the supplier has complied with its obligations. The average number of day's credit taken by the Group as at 31 December 2011 was 50 days (2010: 35 days).

Environment
The Directors consider that the nature of the Group's activities is not inherently detrimental to the environment.

Employees
The Group places value on the involvement of its employees and they are regularly briefed on the Group's activities. The Group closely monitors staff attrition rates which it seeks to maintain at current low levels and aims to structure staff compensation levels at competitive rates in order to attract and retain high calibre personnel.

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the specific aptitudes of the applicant involved. It is the policy of the Group that the training, career development and promotion of disabled persons, as far as possible, be identical with that of other employees.

Directors' interests
The interests of those Directors serving at 31 December 2011 and as at the date of signing of these financial statements, all of which are beneficial, in the share capital of the Company were as follows:

	On 31 December 2011 Ordinary Shares of 1p each	On 1 January 2011 Ordinary Shares of 1p each or on appointment if later
David Evans	1,534,325	1,367,660
Julian Baines	1,550,527	1,357,127
Richard Evans	96,700	96,700
Kevin Wilson	1,137,846	1,017,846
Adam Reynolds	1,936,776	1,021,776
Gordon Hall	339,282	339,282

Substantial shareholdings
As at 16 March 2012, the following interests in 3% or more of the issued Ordinary Share capital had been notified to the Company:

Shareholder	Number of shares	Percentage of issued share capital
Pershing Nominees Limited – HECLT	22,013,660	8.76%
HSBC Global Custody Nominee UK – 667656	20,636,364	8.21%
Vidacos Nominees Limited – BRITUT	14,049,018	5.59%
HSBC Global Custody Nominee Limited – 883031	10,303,349	4.10%
Nutraco Nominees Limited – 781083	9,573,171	3.81%
Nortrust Nominees Limited – TDS	8,795,118	3.50%
Nortrust Nominees Limited – SLEND	7,940,898	3.16%
Hargreave Hale Nominees Limited – LON	8,795,118	3.50%

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors liability insurance
The Company has entered into deeds of indemnity for the benefit of each Director of the Company in respect of liabilities to which they may become liable in their capacity as Director of the Company and of any Company in the Group. Those indemnities are qualifying third party indemnity provisions for the purposes of Section 234 of the Companies Act 2006.

Auditors
PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Disclosure of information to the Auditors
The Directors who hold office at the date of approval of this report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make him aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Corporate governance
The Company's statement of corporate governance can be found in the Corporate Governance Report on page 20 of these financial statements. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Annual General Meeting
The resolutions to be proposed at the forthcoming Annual General Meeting are set out in the formal notice of the meeting, as set out on page 57.

Recommendation
The Board considers that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and it is unanimously recommended that shareholders support these proposals as the Board intends to do in respect of their own holdings.

The Directors' report was approved by the Board on 21 March 2012 and signed on its behalf by.

Richard Evans

Richard Evans
Finance Director

Corporate Governance Statement

Compliance

The Directors recognise the value of the principles of the UK Corporate Governance Code (the Code). Although, as an AIM Company, compliance with the Code is not required, the Group seeks to apply the Code where practicable and appropriate for a Company of its size.

The following statement describes how the Group as at 31 December 2011 sought to address the principles underlying the Code.

Board composition and responsibility

The Board currently comprises three executive Directors and three non-executive Directors. The Board notes that the Combined Code guidance recommends that at least half the Board should comprise independent non-executive Directors. The Board has determined that Kevin Wilson, Adam Reynolds and Gordon Hall are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement. The Board is satisfied with the balance between executive and non-executive Directors which allows it to exercise objectivity in decision making and proper control of the Company's business. The Board considers its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between executives and non-executives. Due to the structure of the Company it is considered that it is not appropriate to change the successful Board composition at present.

All Directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and are subject to re-election at least every three years. Non-executive Directors are appointed for a specific term of office which provides for their removal in certain circumstances, including under section 168 of the Companies Act 2006. The Board does not automatically re-nominate non-executive Directors for election by shareholders. The terms of appointment of the non-executive Directors can be obtained by request to the Company Secretary.

The Board's primary objective is to focus on adding value to the assets of the Group by identifying and assessing business opportunities and ensuring that potential risks are identified, monitored and controlled. Matters reserved for Board decisions include strategic long-term objectives and capital structure of major transactions. The implementation of Board decisions and day to day operations of the Group are delegated to Management.

Board meetings

11 Board meetings were held during the year. The Director's attendance record during the year is as follows:

David Evans (Executive Chairman)	11
Julian Baines (Chief Executive Officer)	11
Richard Evans (Finance Director, appointed 28 September 2011)	2
Kevin Wilson (Non Executive Director)	11
Adam Reynolds (Non Executive Director)	11
Gordon Hall (Non Executive Director)	9
Paul Foulger (Finance Director, resigned 28 September 2011)	7

Audit Committee

This comprises two non-executive Directors, Kevin Wilson (Chairman) and Adam Reynolds. Kevin Wilson is the Senior Independent Director and has recent and relevant finance experience. The principal duties of the committee are to review the half-yearly and annual financial statements before their submission to the Board and to consider any matters raised by the auditors. The Committee also reviews the independence and objectivity of the auditors. The terms of reference of the Committee reflect current best practice, including authority to:

- Recommend the appointment, re-appointment and removal of the external auditors;
- Ensure the objectivity and independence of the auditors including occasions when non-audit services are provided; and
- Ensure appropriate 'whistle-blowing' arrangements are in place.

The non-executive Directors may seek information from any employee of the Group and obtain external professional advice at the expense of the Company if considered necessary. Due to the relatively low number of personnel employed within the Group, the nature of the business and the current control and review systems in place, the Board has decided not to establish a separate internal audit department.

Remuneration Committee

The Company has established a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director is involved in deciding his own remuneration.

The remuneration committee is made up of Gordon Hall (Chairman) and Kevin Wilson. The committee considers the employment and performance of individual executive Directors and determines their terms of service and remuneration. It also has authority to grant options under the Company's Executive Share Option Scheme.

The Committee meets at least twice a year. There is a division of responsibilities between the Executive Chairman, who is responsible for the overall strategy of the Group, and the CEO, who is responsible for implementing the strategy and day to day running of the Group. He is assisted by the Finance Director.

Board appointments

There is no formal Nominations Committee, the appointment of new Directors being considered by the full Board.

Internal control

The Directors are responsible for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that the assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, but not absolute, assurance with respect to the preparation of financial reporting and the safeguarding of assets.

The Group, in administering its business has put in place strict authorisation, approval and control levels within which senior management operates. These controls reflect the Group's organisational structure and business objectives. The control system includes clear lines of accountability and covers all areas of the organisation. The Board operates procedures which include an appropriate control environment through the definition of the above organisation structure and authority levels and the identification of the major business risks.

Internal financial reporting

The Directors are responsible for establishing and maintaining the Group's system of internal reporting and as such have put in place a framework of controls to ensure that the on-going financial performance is measured in a timely and correct manner and that risks are identified as early as is practicably possible. There is a comprehensive budgeting system and monthly management accounts are prepared which compare actual results against both the budget and the previous year. They are reviewed and approved by the Board, and revised forecasts are prepared on a regular basis.

Relations with shareholders

The Company reports to shareholders twice a year. The Company dispatches the notice of its Annual General Meeting, together with a description of the items of special business, at least 21 clear days before the meeting. Each substantially separate issue is the subject of a separate resolution and all shareholders have the opportunity to put questions to the Board at the Annual General Meeting. The Chairman of the Audit and Remuneration Committees normally attend the Annual General Meeting and will answer questions which may be relevant to their work. The Chairman advises the meeting of the details of proxy votes cast on each of the individual resolutions after they have been voted on in the meeting.

The Chairman and the non-executive Directors intend to maintain a good and continuing understanding of the objectives and views of the shareholders.

Corporate social responsibility

The Board recognises that it has a duty to be a good corporate citizen and is conscious that its business processes minimise harm to the environment, contributes as far as is practicable to the local communities in which it operates and takes a responsible and positive approach to employment practices.

Report of the Remuneration Committee
for the year ended 31 December 2011

Statement of compliance
This report does not constitute a Directors Remuneration Report in accordance with the Directors Remuneration Regulations 2007 which do not apply to the Company as it is not fully listed. This report sets out the Group policy on Directors' remuneration, including emoluments, benefits and other share-based awards made to each Director.

Policy on Executive Directors' remuneration
Remuneration packages are designed to motivate and retain executive Directors to ensure the continued development of the Company and to reward them for enhancing value to shareholders. The main elements of the remuneration package for executive Directors are basic salary or fees, performance related bonuses, benefits and share option incentives.

Directors' remuneration
The remuneration of the Directors for the year ended 31 December 2011 is shown below:

	Salary and fees	Benefits in kind	Bonus	**2011 £'000**	2010 £'000
Executive Directors					
David Evans*	39	–	–	**39**	21
Julian Baines	197	6	63	**266**	174
Richard Evans**	44	2	42	**88**	–
Paul Foulger***	67	1	50	**118**	115
	347	9	155	511	310
Non-Executive Directors					
Kevin Wilson	25	–	–	**25**	13
Adam Reynolds	38	–	–	**38**	50
Gordon Hall	25	–	–	**25**	15
	88	–	–	**88**	78
Total fees and emoluments	435	9	155	599	388

* David Evans remuneration is paid through his personal consultancy, MBA Consultancy.

** Richard Evans remuneration is disclosed from the day of his appointment on 28 September 2011.

*** Paul Foulger remuneration includes £80,000 invoiced through Wilton International Marketing Limited, a company in which he is a director. Paul Foulger resigned as a director on 28 September 2011.

Directors' share options
As at 31 December 2011 the following options to Directors of the Company existed:

	Option Holder Option price per Ordinary Share	Number of Ordinary Shares under option	Exercise period
David Evans	15p	8,545,638	1 January 2014 – 31 December 2020
Julian Baines	15p	8,545,638	1 January 2014 – 31 December 2020
Richard Evans	20p	4,260,000	1 January 2014 – 31 December 2020
Gordon Hall	20p	500,000	29 June 2006 – 28 June 2012

Half of the options granted to David Evans and Julian Baines and all the options of Richard Evans are subject to the achievement of 15% compound annual Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) growth for the three years commencing on 1 January 2011. The base EBITDA was equal to twice the audited EBITDA achieved by Group for the six months ending 31 December 2010. The other half of the options granted to David Evans and Julian Baines are conditional upon reaching the Company's share price of 45p per share within the three years commencing 1 January 2011.

On 28 June 2011, Adam Reynolds and Paul Foulger (current Secretary and former Director) exercised their options over 625,000 Ordinary Shares of 1p at a premium of 19p. The potential gain at the date of the exercise of their options was £62,500.

The maximum entitlements under the bonus and share incentive scheme to Directors to whom awards have been made are set out as follows:

Director	Maximum share entitlement
Adam Reynolds	883,659
Gordon Hall	400,000
Paul Foulger (Company Secretary and former Director)	883,659

Independent Auditor's Report to the Members of EKF Diagnostics Holdings plc

We have audited the Group and Parent Company financial statements (the "financial statements") of EKF Diagnostics Holdings plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Cash Flows, the Consolidated and Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2011 and of the Group's loss and Group's and parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Mark C Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
21 March 2012

Consolidated Income Statement

	Notes	2011 £'000	2010 £'000
Continuing operations			
Revenue	5	**21,658**	6,483
Cost of sales		**(11,277)**	(3,572)
Gross profit		**10,381**	2,911
Administrative expenses	6, 7	**(12,906)**	(5,271)
Other income		**485**	430
Operating loss		**(2,040)**	(1,930)
Depreciation and amortisation	5	**(2,321)**	(815)
Share-based payment		**(753)**	(151)
Exceptional items	7	**(534)**	(1,919)
EBITDA before exceptional items and share-based payment	5	**1,568**	955
Finance income	12	**76**	28
Finance costs	12	**(396)**	(187)
Loss before income tax		**(2,360)**	(2,089)
Income tax (charge)/credit	13	**(198)**	49
Loss for the year from continuing operations		**(2,558)**	(2,040)
Discontinued operations			
Loss for the year from discontinued operations	36	**(187)**	(1,372)
Loss for the year		**(2,745)**	(3,412)
Loss attributable to:			
Owners of the parent		**(2,884)**	(3,435)
Non-controlling interest		**139**	23
		(2,745)	(3,412)

	Notes	Pence	Pence
Loss per Ordinary Share from continuing and discontinued operations attributable to the equity holders of the Company during the year			
From continuing operations			
Basic and diluted	14	**(1.26)**	(2.11)
From discontinued operations			
Basic and diluted	14	**(0.09)**	(1.40)
Continuing and discontinued operations			
Basic loss per share	14	**(1.35)**	(3.51)

The notes on pages 29 to 56 are an integral part of these consolidated financial statements.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company income statement account.

The loss for the parent Company for the year was £1,282,000 (2010: £2,112,000).

Consolidated Statement of Comprehensive Income

	Notes	2011 £'000	2010 £'000
Loss for the year		**(2,745)**	(3,412)
Other comprehensive income:			
Actuarial loss on pension scheme	32	**(2)**	(11)
Fair value adjustment in respect of available-for-sale financial assets	20	**155**	(6)
Currency translation differences		**(408)**	705
Other comprehensive (loss)/income for the year		**(255)**	688
Total comprehensive loss for the year		**(3,000)**	(2,724)
Attributable to:			
Owners of the parent		**(3,126)**	(2,747)
Non-controlling interests		**126**	23
Total comprehensive loss for the year		**(3,000)**	(2,724)

Items stated above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 13.

The notes on pages 29 to 56 are an integral part of these consolidated financial statements.

Consolidated and Company's Statement of Financial Position

	Notes	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Assets					
Non-current assets					
Property, plant and equipment	16	**10,629**	5,467	**1,674**	1,670
Intangible assets	17	**33,116**	20,260	**–**	–
Investments in subsidiaries	18	**–**	–	**15,613**	15,613
Deferred tax assets	27	**168**	217	**94**	94
Available-for-sale financial assets	20	**280**	135	**280**	135
Total non-current assets		**44,193**	26,079	**17,661**	17,512
Current assets					
Inventories	22	**4,811**	2,983	**–**	–
Trade and other receivables	21	**4,273**	3,625	**23,354**	7,210
Available-for-sale financial assets	20	**51**	100	**–**	–
Deferred tax assets	27	**67**	–	**–**	–
Cash and cash equivalents	23	**5,338**	3,192	**2,773**	1,766
Total current assets		**14,540**	9,900	**26,087**	8,976
Total assets		**58,733**	35,979	**43,748**	26,488
Equity attributable to owners					
Ordinary shares	28	**2,512**	1,681	**2,512**	1,681
Share premium account	28	**38,372**	23,013	**38,372**	23,013
Other reserve	31	**244**	244	**–**	–
Foreign currency reserves	31	**1,577**	1,972	**–**	–
Retained earnings	30	**(5,664)**	(3,686)	**(4,967)**	(4,593)
		37,041	23,224	**35,917**	20,101
Non-controlling interest		**386**	305	**–**	–
Total equity		**37,427**	23,529	**35,917**	20,101
Liabilities					
Non-current liabilities					
Borrowings	25	**2,097**	309	**–**	–
Deferred consideration	26	**5,222**	4,168	**1,747**	4,168
Deferred tax liabilities	27	**4,434**	2,796	**–**	–
Retirement benefit obligation	32	**97**	88	**–**	–
Total non-current liabilities		**11,850**	7,361	**1,747**	4,168
Current liabilities					
Trade and other payables	24	**4,793**	3,969	**3,579**	2,219
Deferred consideration	26	**2,932**	–	**2,505**	–
Current income tax liabilities		**317**	210	**–**	–
Deferred tax liabilities	27	**392**	120	**–**	–
Borrowings	25	**435**	229	**–**	–
Provisions for other liabilities and charges	33	**587**	561	**–**	–
Total current liabilities		**9,456**	5,089	**6,084**	2,219
Total liabilities		**21,306**	12,450	**7,831**	6,387
Total equity and liabilities		**58,733**	35,979	**43,748**	26,488

The notes on pages 29 to 56 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 21 March 2012.

Julian Baines
Chief Executive Officer
EKF Diagnostics Holdings plc
Registered no: 04347937

Richard Evans
Finance Director

Consolidated and Company's Statement of Cash Flows

	Notes	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Cash flow from operating activities					
Cash used in operations	35	**(169)**	(1,010)	**(13,678)**	(8,558)
Interest paid		**(158)**	(167)	**(4)**	–
Income tax paid		**(479)**	(232)	**–**	–
Net cash used in operating activities		**(806)**	(1,409)	**(13,682)**	(8,558)
Cash flow from investing activities					
Acquisition of subsidiaries, net of cash acquired	37	**(8,689)**	(8,463)	**–**	(5,553)
Purchase of property, plant and equipment (PPE)		**(1,555)**	(2,474)	**(4)**	(1,670)
Purchase of intangibles		**(660)**	(4)	**–**	–
Proceeds from sale of PPE	35	**15**	3	**–**	–
Proceeds from sale of intangible assets	36	**1,220**	562	**1,220**	–
Proceeds from available-for-sale financial assets		**78**	–	**78**	–
Interest received		**8**	28	**581**	109
Net cash (used in)/generated by investing activities		**(9,583)**	(10,348)	**1,875**	(7,114)
Cash flow from financing activities					
Proceeds from issuance of Ordinary Shares	28	**12,774**	14,498	**12,774**	14,498
New bank loans		**450**	–	**–**	–
Repayments on borrowings		**(451)**	(2,616)	**–**	–
Dividend payment to non-controlling interest		**(45)**	–	**–**	–
Repayment of deferred consideration		**(323)**	–	**–**	–
Net cash generated by financing activities		**12,405**	11,882	**12,774**	14,498
Net increase/(decrease) in cash and cash equivalents		**2,016**	125	**967**	(1,174)
Cash and cash equivalents at beginning of year		**3,192**	3,037	**1,766**	2,940
Exchange gains on cash and cash equivalents		**11**	30	**–**	–
Cash and cash equivalents at end of year	23	**5,219**	3,192	**2,733**	1,766

Consolidated and Company's Statement of Changes in Shareholders' Equity

Consolidated	Share capital £'000	Share premium £'000	Other reserve £'000	Foreign currency reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2010	**420**	**4,077**	**244**	**1,265**	**(386)**	**5,620**	**–**	**5,620**
Comprehensive income								
Loss for the year	–	–	–	–	(3,435)	(3,435)	23	(3,412)
Other comprehensive Income								
Actuarial loss on pension	–	–	–	–	(11)	(11)	–	(11)
Fair value adjustment in respect of available-for-sale financial assets	–	–	–	–	(6)	(6)	–	(6)
Currency translation Differences	–	–	–	707	–	707	(2)	705
Total comprehensive income	**–**	**–**	**–**	**707**	**(3,452)**	**(2,745)**	**21**	**(2,724)**
Transactions with owners								
Proceeds from shares issued	1,261	18,936	–	–	–	20,197	–	20,197
Share-based payments	–	–	–	–	152	152	–	152
Total contributions by and distributions to owners	**1,261**	**18,936**	**–**	**–**	**152**	**20,349**	**–**	**20,349**
Non-controlling interests arising on business combinations	–	–	–	–	–	–	284	284
At 1 January 2011	**1,681**	**23,013**	**244**	**1,972**	**(3,686)**	**23,224**	**305**	**23,529**
Comprehensive income								
Loss for the year	–	–	–	–	(2,884)	(2,884)	139	(2,745)
Other comprehensive income								
Actuarial loss on pension	–	–	–	–	(2)	(2)	–	(2)
Fair value adjustment in respect of available-for-sale financial assets	–	–	–	–	155	155	–	155
Currency translation differences	–	–	–	(395)	–	(395)	(13)	(408)
Total comprehensive income	**–**	**–**	**–**	**(395)**	**(2,731)**	**(3,126)**	**126**	**(3,000)**
Transactions with owners								
Proceeds from shares issued	831	15,359	–	–	–	16,190	–	16,190
Dividends to non-controlling interest	–	–	–	–	–	–	(45)	(45)
Share-based payments	–	–	–	–	753	753	–	753
Total contributions by and distributions to owners	**831**	**15,359**	**–**	**–**	**753**	**16,943**	**(45)**	**16,898**
At 31 December 2011	**2,512**	**38,372**	**244**	**1,577**	**(5,664)**	**37,041**	**386**	**37,427**

Consolidated and Company's Statement of Changes in Shareholders' Equity continued

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
As at 1 January 2010	**420**	**4,077**	**(2,627)**	**1,870**
Comprehensive income				
Loss for the year	–	–	(2,112)	(2,112)
Other comprehensive income				
Fair value adjustment in respect of available-for- sale financial assets	–	–	(6)	(6)
Total comprehensive income	**–**	**–**	**(2,118)**	**(2,118)**
Transactions with owners				
Proceeds from shares issued	1,261	18,936	–	20,197
Share-based payments	–	–	152	152
Total contributions by and distributions to owners	**1,261**	**18,936**	**152**	**20,349**
At 1 January 2011	**1,681**	**23,013**	**(4,593)**	**20,101**
Comprehensive income				
Loss for the year	–	–	(1,282)	(1,282)
Other comprehensive income				
Fair value adjustment in respect of available-for-sale financial assets	–	–	155	155
Total comprehensive income	**–**	**–**	**(1,127)**	**(1,127)**
Transactions with owners				
Proceeds from shares issued	831	15,359	–	16,190
Share-based payments	–	–	753	753
Total contributions by and distributions to owners	**831**	**15,359**	**753**	**16,943**
At 31 December 2011	**2,512**	**38,372**	**(4,967)**	**35,917**

Notes to the Financial Statements
for the year ended 31 December 2011

1. General information
EKF Diagnostics Holdings Plc is a company incorporated in England and Wales. The Company is a public limited company, which is listed on the AIM market of the London Stock Exchange. The address of the registered office is 14 Kinnerton Place South, London, SW1X 8EH.

The principal activity of the Group continued to be that of a business focused within the In-Vitro Diagnostic devices (IVD) market place. During the year the Group acquired Stanbio Laboratory LP, a US-based business to further strengthen its position within the IVD industry. The Group has presence in UK, US, Germany, Poland, Russia and Ireland and sell throughout the world including Asia.

The financial statements are presented in British Pounds Sterling, the currency of the primary economic environment in which the Company's headquarters is operated. The Group comprises EKF Diagnostics Holdings Plc and its subsidiary Companies as set out in note 18.

The registered number of the Company is 04347937.

2. Summary of significant accounting policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied throughout the year, unless otherwise stated.

Basis of preparation
The consolidated financial statements of EKF Diagnostics Holdings plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS's), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. Practice is continuing to evolve on the application and interpretations of IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale assets at fair value through the income statement, share-based payment and pensions.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2010 income statement figures have been restated to reclassify direct costs which were included in administrative expenses. The reclassification resulted in increasing cost of sales and reducing administrative expenses by £797,000. There was no impact on operating results of 2010.

(a) Standards, amendments and interpretations effective in 2011
There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group. However the following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2011, but are not currently considered to be relevant or material to the Group (although they may affect the accounting for future transactions and events).
- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 clarifies and simplifies the definition of a related party. The Group will need to disclose details of relationships between a parent and its subsidiaries.
- 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.
- 'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments are effective for annual periods beginning 1 January 2011.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group
The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:
- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and may affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group is yet to assess IFRS 9's full impact.
- IAS 19, 'Employee benefits' was amended in June 2011. The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is yet to assess the full impact of the amendments.
- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Parent Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 11, 'Joint arrangements' effective for periods beginning on or after 1 January 2013. This standard significantly amends the accounting treatment of joint arrangements but it is not expected to impact the Company.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Financial Statements continued
for the year ended 31 December 2011

2. Summary of significant accounting policies continued

Going concern
The Group meets its day-to-day working capital requirements through the use of cash reserves and existing bank facilities. The Group has maintained its liquidity profile through the year.

The Directors have considered the applicability of the going concern basis in the preparation of these financial statements. This included the review of internal budgets and financial results which show, taking into account reasonably probable changes in financial performance, that the Group should be able to operate within the level of its current funding arrangements.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason they have adopted the going concern basis in the preparation of the financial statements.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings. Subsidiaries are all entities over which the Group has the power to govern their financial and operating policies generally accompanying a shareholding of more than fifty per cent of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

Inter-Company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation
(a) Functional and presentational currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in British Pounds Sterling, which is the Company's functional and presentational currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within 'administrative expenses', except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(c) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentational currency as follows:
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors who make strategic decisions.

Government grants
Government grants receivable in connection with expenditure on property, plant and equipment are accounted for as deferred income, which is credited to the Income Statement over the expected useful economic life of the related assets, on a basis consistent with the depreciation policy. Revenue grants for the reimbursement of costs charged to the Income Statement are credited to the Income Statement in the year in which the costs are incurred.

Property, plant and equipment
Property, plant and equipment are stated at historical cost less accumulated depreciation and any provision for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Any borrowing costs associated with qualifying property plant and equipment are capitalised and depreciated at the rate applicable to that asset category.

2. Summary of significant accounting policies continued

Property, plant and equipment continued

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method or reducing balances method to allocate their cost to its residual values over their estimated useful lives, as follows:

Land and buildings	2%
Fixtures and fittings	20%–25%
Plant and machinery	20%–33.3%
Motor vehicles	25%

The assets' residual values and useful economic lives are reviewed regularly, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on the disposal of assets are determined by comparing the proceeds with the carrying amount and are recognised in administration expenses in the income statement.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill has an infinite useful life and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(b) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licenses acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives of between 8 to 12 years and is charged to administrative expenses in the income statement.

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of between 6 to 12 years and is charged to administrative expenses in the income statement.

(d) Trade secrets

Trade secrets, includes technical know-how, operating procedures, methods and processes, acquired in a business combination are recognised at fair value at the acquisition date. Trade secrets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trade secrets over their estimated useful lives of between 7 to 16 years and is charged to administrative expenses in the income statement.

(e) Research and development

Research and development costs acquired in a business combination are recognised at fair value at the acquisition date. Research and development costs have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives of 15 years and is charged to administrative expenses in the income statement.

Expenditure incurred on the development of new or substantially improved products or processes is capitalised, provided that the related project satisfies the criteria for capitalisation, including the project's technical feasibility and likely commercial benefit. All other research and development costs are expensed as incurred.

Development costs are amortised over the estimated useful life of the products with which they are associated. Amortisation commences when a new product is in commercial production. The amortisation is charged to administrative expenses in the income statement. The estimated remaining useful lives of development costs are reviewed at least on an annual basis.

The carrying value of capitalised development costs is reviewed for potential impairment at least annually and if a product becomes unviable and an impairment is identified the deferred development costs are immediately charged to the income statement.

Impairment of non-financial assets

Assets that have an indefinite life such as goodwill are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount.

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in the prior period. A reversal of an impairment loss is recognised in the income statement immediately. If goodwill is impaired however, no reversal of the impairment is recognised in the financial statements.

Notes to the Financial Statements continued
for the year ended 31 December 2011

2. Summary of significant accounting policies continued

Financial assets

Classification

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired and management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

(b) Available-for-sale financial assets

Available-for-sale assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase the asset. Assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the risk and rewards of ownership have been transferred.

Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement for the period. If an available-for-sale investment is determined to be impaired, the cumulative loss previously recognised in equity is included in the income statement for the period.

Financial liabilities

Debt is measured at fair value, being net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost. Debt issue costs are recognised in the income statement over the expected term of such instruments at a constant rate on the carrying amount.

Inventories

Inventories and work in progress are stated at the lower of cost and net realisable value. Cost is calculated on a first in and first out basis and includes raw materials, direct labour, other direct costs and attributable production overheads, where appropriate. Net realisable value represents the estimated selling price less all estimated costs of completion and applicable selling costs. Where necessary, provision is made for slow-moving and obsolete inventory. Inventory on consignment and their related obligations are recognised in current assets and payables respectively.

Trade and other receivables

Trade receivables are initially recognised at fair value, being the original invoice amount, and subsequently measured at amortised cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Trade receivables that are less than three months past due are not considered impaired unless there are specific financial or commercial reasons that lead management to conclude that the customer will default. Older debts are considered to be impaired unless there is sufficient evidence to the contrary that they will be settled. The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of less than three months, reduced by overdrafts to the extent that there is a right of offset against other cash balances.

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above net of outstanding bank overdrafts.

Share capital

Ordinary Shares are classified as equity. Proceeds in excess of the nominal value of shares issued are allocated to the share premium account and are also classified as equity. Incremental costs directly attributable to the issue of new Ordinary Shares or options are deducted from the share premium account.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed in the consolidated Group income statement under the heading 'finance costs'. Arrangement and facility fees together with bank charges are charged to the income statement under the heading 'administrative costs'.

2. Summary of significant accounting policies continued

Current and deferred income tax

The tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income where the associated tax is also recognised in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised in respect of all temporary differences except where the deferred tax liability arises from the initial recognition of goodwill in business combinations.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and tax losses, to the extent that they are regarded as recoverable. They are regarded as recoverable where, on the basis of available evidence, there will be sufficient taxable profits against which the future reversal of the underlying temporary differences can be deducted.

The carrying value of the amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. Restructuring provisions are recognised where the restructuring has been announced prior to the end of the reporting period. Restructuring costs include the costs of redundancy, outplacement fees and relocation where appropriate.

Provision is made for product warranty claims to the extent that the Group has a current obligation under warranties given. Warranty accruals are based on historic warranty claims experience. Provisions are discounted to their present value where the impact is significant.

Leases

Leases which transfer substantially all the risks and rewards of ownership of an asset are treated as a finance lease. Assets held under finance leases are capitalised at their fair value at the inception of the lease and depreciated over the estimated useful economic life of the asset or lease term if shorter. The finance charges are allocated to the income statement in proportion to the capital amount outstanding.

All other leases are classified as operating leases. Operating lease rentals are charged to the income statement in equal annual amounts over the lease term.

Employee benefits

(a) Pension obligations

Group companies operate various pension schemes and have both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity with the pension cost charged to the income statement as incurred. The Group has no further obligations once the contributions have been paid.

Under a defined benefit scheme, the amount of retirement benefit that will be received by an employee is defined with respect to periods of service and final salary. The amount recognised in the balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the average vesting period.

(b) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments of the Group. Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period based on the number of instruments that are expected to vest. For plans where vesting conditions are based on share price targets, the fair value at the date of grant reflects these conditions. Where applicable the Group recognises the impact of revisions to original estimates in the income statement, with a corresponding adjustment to equity for equity-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

When the share-based payment awards are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

National insurance on share options

To the extent that the share price at the balance sheet date is greater than the exercise price on options granted under unapproved share-based payment compensation schemes, provision for any National Insurance Contributions have been based on the prevailing rate of National Insurance. The provision is accrued over the performance period attaching to the award.

Notes to the Financial Statements continued
for the year ended 31 December 2011

2. Summary of significant accounting policies continued

Revenue recognition

(a) Sale of goods and services

Revenue for the sale of medical diagnostic instruments and reagents is measured at the fair value of the consideration received or receivable and represents the invoiced value for the sale of the goods and services net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when a Group Company has delivered products to the customer, the customer has accepted delivery of the products and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(c) Royalty and license income

Royalty and license income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Interim dividends are recognised when paid.

Exceptional items

These are items of an unusual or non-recurring nature incurred by the Group and include transactional costs and one off items relating to business combinations, such as acquisition expenses.

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk and cash flow interest rate risk), credit risk, liquidity risk, capital risk and fair value risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Risk management is carried out by the head office finance team. It evaluates and mitigates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management whilst the head office finance team provides specific policy guidance for the operating units in terms of managing foreign exchange risk, credit risk and cash and liquidity management.

(a) Market risk

(i) Foreign exchange – cash flow risk

The Group's presentational currency is sterling although it operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily between GBP, USD, the Euro, Rouble, Zloty and Swiss Franc such that the Group's cash flows are affected by fluctuations in the rate of exchange between GBP and the aforementioned foreign currencies.

This exposure is managed by a natural currency hedge as the Group's operating subsidiaries cost base is also denominated in USD's, Euro's, Rouble's, Zloty and Swiss Franc's as the Group has subsidiary businesses located in US, Germany, Ireland, Poland, Russia and Switzerland.

Management do not use derivative financial instruments to mitigate the impact of any residual foreign currency exposure not mitigated by the natural hedge within the business model. The Group does not speculate in foreign currencies and no operating Company is permitted to take unmatched positions in any foreign currency.

(ii) Foreign exchange – Fair value risk

Translation exposures that arise on converting the results of overseas subsidiaries are not hedged. Net assets held in foreign currencies are hedged wherever practical by matching borrowings in the same currency.

The principal exchange rates used by the Group in translating overseas profits and net assets into GBP are set out in the table below.

Rate compared to GBP	**Average rate 2011**	Average rate 2010	**Year end rate 2011**	Year end rate 2010
Euro	**1.15**	1.18	**1.20**	1.16
Russian Rouble	**47.26**	48.02	**49.68**	47.55
Polish Zloty	**4.77**	4.77	**5.34**	4.61
US Dollar	**1.59**	–	**1.55**	–
Swiss Franc	**1.43**	1.48	**1.46**	1.47

As a guide to the sensitivity of the Group's results to movements in foreign currency exchange rates, a one cent movement in the Euro and US Dollars to Sterling rate would impact annual earnings by approximately £15,000 and £18,000 respectively.

(iii) Cash flow and fair value interest rate risk

The Group has interest bearing assets in the form of cash and cash equivalents and limited interest bearing liabilities which relate to long-term borrowing and finance lease obligations in the Group's US and German subsidiaries. Interest rates on cash and cash equivalents are floating whilst interest rates on borrowings have been fixed and therefore expose the Group to fair value interest rate risk. The Group does not speculate on future changes in interest rates.

Where overseas acquisitions are made, it is the Group's policy to arrange any borrowings required in local currency.

It is the Group's policy not to trade in financial instruments. The Group does not use interest rate swaps.

3. Financial risk management continued

(b) Credit risk

Credit risk is managed on a Group basis, except for credit risk relating to accounts receivable balances. Each local subsidiary and operating business unit is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. It is the Group policy to obtain deposits from customers where possible, particularly overseas customers. In addition the Group will seek confirmed letters of credit for the balances due. Credit risk is managed at the operating business unit level and monitored at the Group level to ensure adherence to Group policies. If there is no independent rating, local management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers.

(c) Liquidity risk

Cash flow forecasting is performed in the individual operating entities of the Group and is aggregated by Group finance. Group finance monitors cash and cash flow forecasts and it is the Group's liquidity risk management policy to maintain sufficient cash and available funding through an adequate amount of cash and cash equivalents and committed credit facilities from its bankers. Due to the dynamic nature of the underlying businesses, the head office finance team aims to maintain flexibility in funding by keeping sufficient cash and cash equivalents available to fund the requirements of the Group.

The Group's policy in relation to the finance of its overseas operations requires that sufficient liquid funds be maintained in each of its territory subsidiaries to support short and medium-term operational plans. Where necessary, short-term funding is provided by the holding Company. In the UK, the working capital bank facility and the management of liquid funds in excess of operational needs are controlled centrally. Typically excess funds are placed as short-term deposits, to provide a balance between interest earnings and flexibility.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. In the case of deferred consideration the amount shown as payable between 2 and 5 years for 31 December 2011 is the total gross contractual liability should all performance criteria be met, not the estimated liability based on current and forecast performance.

	Less than one year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	More than 5 years £'000	Total £'000
At 31 December 2011:					
Borrowings (inc. finance leases)	549	365	792	1,490	3,196
Deferred consideration	427	1,290	4,581	–	6,298
Trade and other payables	4,294	–	–	–	4,294
At 31 December 2010:					
Borrowings (inc. finance leases)	301	190	175	–	666
Deferred consideration	–	–	2,000	–	2,000
Trade and other payables	3,906	–	–	–	3,906

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is the sum of net debt plus equity.

The Group is currently largely un-geared, having net cash at 31 December 2011. It is the stated strategy of the Group to grow both organically and through acquisition with acquisitions to be funded through a mixture of debt and equity funding. The Company raised approximately £12.4m net of expenses through issue of Ordinary Shares to fund the acquisition of Stanbio Laboratory LP.

(e) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. Level 1 has been defined as quoted prices (unadjusted) in active markets.

	2011 Level 1 £'000	2010 Level 1 £'000
Assets		
Available-for-sale financial assets – equity securities	**280**	135

The Group has no Level 2 or 3 classified financial assets as at 31 December 2011 (2010: none)

Notes to the Financial Statements continued
for the year ended 31 December 2011

4. Critical accounting estimates and judgements
In the process of applying the Group's accounting policies, management has made accounting judgements in the determination of the carrying value of certain assets and liabilities. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates. The following judgements have the most significant effect on the amounts recognised in the financial statements.

(a) Business combinations
The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognised as goodwill.

(i) Goodwill
The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement.

Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to indefinite lived and finite lived intangible assets.

(ii) Finite lived intangible assets
Finite lived intangible assets include trademarks, trade names, licenses, customer relationships and trade secrets acquired as part of business combinations. The fair value of these separately identifiable assets is determined by discounting estimated future net cash flows generated by the asset. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets. The relative size of the Group's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives critical to the Group's financial position and performance.

(b) Impairment of goodwill
The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as set out in note 17.

(c) Share-based payments
A number of accounting estimates and judgements are incorporated within the calculation of the charge to the income statement in respect of share-based payments. These are described in more detail in note 29.

(d) Impairment of receivables
Trade and other receivables are carried at the contractual amount due less any estimated provision for non-recovery. Provision is made based on a number of factors including the age of the receivable, previous collection experience and the financial circumstances of the counterparty.

(e) Inventory provisions
Inventories are carried at the lower of cost and net realisable value. Provision is made based on a number of factors including the age of inventories, the risk of obsolescence and the expected future usage.

(f) Deferred tax assets
Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets at the balance sheet date was £235,000 (2010: £217,000). In addition there were £1,961,000 (2010: £1,855,000) of deferred tax assets not recognised.

5. Segmental reporting

Management has determined the Group's operating segments based on the monthly management reports presented to the Chief Operating Decision Maker ('CODM'). The CODM is the Executive Directors and the monthly management reports are used by the Group to make strategic decisions and allocate resources.

The principal activity of the Group is the design, development, manufacture and selling of diagnostic instruments, reagents and certain ancillary products. This activity takes place across various countries, US, Germany, Poland, Russia, United Kingdom and Ireland, and as such the Board considers the business primarily from a geographic perspective. Although not all the segments meet the quantitative thresholds required by IFRS 8, management has concluded that given the recent acquisitions, all segments should be maintained and reported, given potential future growth of the segments.

The reportable segments derive their revenue primarily from the manufacture and sale of medical diagnostic equipment. Other services include the servicing and distribution of other Company products under separate distribution agreements.

Currently the key operating performance measures used by the CODM are Revenue and adjusted EBITDA.

The segment information provided to the Board for the reportable segments for the year ended 31 December 2011 is as follows:

2011	Germany £'000	UK £'000	US £'000	Ireland £'000	Poland £'000	Russia £'000	Switzerland (Discontinued) £'000	Other £'000	Total £'000
Income statement									
Revenue	11,430	1,074	8,396	799	1,062	3,233	–	–	25,994
Inter-segment	(4,247)	(80)	–	–	(9)	–	–	–	(4,336)
External revenue	**7,183**	**994**	**8,396**	**799**	**1,053**	**3,233**	**–**	**–**	**21,658**
Adjusted EBITDA*	**1,883**	**(1,024)**	**2,056**	**(245)**	**251**	**436**	**–**	**(1,789)**	**1,568**
Exceptional costs	–	–	(137)	–	–	–	–	(397)	(534)
Share-based payment	–	–	–	–	–	–	–	(753)	(753)
EBITDA	**1,883**	**(1,024)**	**1,919**	**(245)**	**251**	**436**	**–**	**(2,939)**	**281**
Depreciation	(622)	(106)	(131)	(44)	(13)	(4)	–	(5)	(925)
Amortisation	(595)	(197)	(262)	(187)	(111)	(44)	–	–	(1,396)
Operating profit/(loss)	**666**	**(1,327)**	**1,526**	**(476)**	**127**	**388**	**–**	**(2,944)**	**(2,040)**
Net finance costs	(156)	–	(146)	–	(1)	–	–	(17)	(320)
Income tax	86	39	(241)	(1)	(14)	(67)	–	–	(198)
Discontinued operations	–	–	–	–	–	–	(187)	–	(187)
Retained profit/(loss)	**596**	**(1,288)**	**1,139**	**(477)**	**112**	**321**	**(187)**	**(2,961)**	**(2,745)**
Segment assets									
Operating assets	17,709	7,167	21,948	2,881	1,417	1,027	53	25,526	77,728
Inter-segment assets	(1,104)	(25)	–	–	–	–	–	(23,204)	(24,333)
External operating assets	16,605	7,142	21,948	2,881	1,417	1,027	53	2,322	53,395
Cash and cash equivalents	782	42	1,210	55	14	473	19	2,743	5,338
Total assets	**17,387**	**7,184**	**23,158**	**2,936**	**1,431**	**1,500**	**72**	**5,065**	**58,733**
Segment liabilities									
Operating liabilities	10,138	3,069	18,758	910	215	86	32	9,899	43,107
Inter-segment liabilities	(7,383)	(2,634)	(13,534)	(631)	(151)	–	–	–	(24,333)
External operating liabilities	2,755	435	5,224	279	64	86	32	9,899	18,774
Borrowings	840	–	1,677	–	15	–	–	–	2,532
Total liabilities	**3,595**	**435**	**6,901**	**279**	**79**	**86**	**32**	**9,899**	**21,306**
Other segmental information									
Non-current assets – PPE	3,443	735	4,412	96	208	32	–	1,703	10,629
Non-current assets – Intangibles	10,000	5,669	13,973	2,203	820	451	–	–	33,116

* Adjusted EBITDA excludes exceptional costs and share-based payments.

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for the year ended 31 December 2011

5. Segmental reporting continued

2010	Germany £'000	UK £'000	Ireland £'000	Poland £'000	Russia £'000	Switzerland (Discontinued) £'000	Other £'000	Total £'000
Income statement								
Revenue	5,844	185	50	486	1,478	–	–	8,043
Inter-segment	(1,560)	–	–	–	–	–	–	(1,560)
External revenue	**4,284**	**185**	**50**	**486**	**1,478**	**–**	**–**	**6,483**
Adjusted EBITDA*	**1,044**	**(91)**	**(37)**	**151**	**18**	**–**	**(130)**	**955**
Exceptional costs	–	–	–	–	–	–	(1,919)	(1,919)
Share-based payment	–	–	–	–	–	–	(151)	(151)
EBITDA	**1,044**	**(91)**	**(37)**	**151**	**18**	**–**	**(2,200)**	**(1,115)**
Depreciation	(342)	(11)	(3)	(6)	(3)	–	–	(365)
Amortisation	(304)	(44)	(15)	(64)	(23)	–	–	(450)
Operating profit/(loss)	**398**	**(146)**	**(55)**	**81**	**(8)**	**–**	**(2,200)**	**(1,930)**
Net finance costs	(247)	–	–	–	–	–	88	(159)
Income tax	(17)	12	77	(11)	(12)	–	–	49
Discontinued operations	–	–	–	–	–	(1,372)	–	(1,372)
Retained profit/(loss)	**134**	**(134)**	**22**	**70**	**(20)**	**(1,372)**	**(2,112)**	**(3,412)**
Segment assets								
Operating assets	21,551	6,075	2,183	1,284	688	1,534	9,100	42,415
Inter-segment assets	(1,090)	–	–	–	–	(1,344)	(7,194)	(9,628)
External operating assets	20,461	6,075	2,183	1,284	688	190	1,906	32,787
Cash and cash equivalents	811	76	202	13	203	112	1,775	3,192
Total assets	**21,272**	**6,151**	**2,385**	**1,297**	**891**	**302**	**3,681**	**35,979**
Segment liabilities								
Operating liabilities	12,702	1,438	517	304	178	14	6,387	21,540
Inter-segment liabilities	(7,473)	(775)	–	(35)	–	464	(1,809)	(9,628)
External operating liabilities	5,229	663	517	269	178	478	4,578	11,912
Borrowings	538	–	–	–	–	–	–	538
Total liabilities	**5,767**	**663**	**517**	**269**	**178**	**478**	**4,578**	**12,450**
Other segmental information								
Non-current assets – PPE	3,378	243	112	56	8	–	1,670	5,467
Non-current assets – Intangibles	11,006	5,573	2,111	1,022	548	–	–	20,260

* Adjusted EBITDA excludes exceptional costs and share-based payments.

Other primarily relates to the holding company and head office costs.

Disclosure of Group revenues by geographic location is as follows:

	2011 £'000	2010 £'000
Americas		
United States of America	**4,751**	888
Rest of Americas	**3,683**	1,028
Europe, Middle East and Africa (EMEA)		
Germany	**3,097**	975
United Kingdom	**153**	45
Rest of Europe	**2,568**	1,016
Russia	**3,244**	1,528
Middle East	**423**	208
Africa	**1,077**	189
Rest of World		
China	**1,273**	355
Asia	**1,365**	224
New Zealand/Australia	**24**	27
Total revenue	**21,658**	6,483

Revenues of approximately £2.3m are derived from a single external customer. These revenues are attributable to the US segment.

6. Expenses – analysis by nature

	2011 £'000	2010 £'000
Inventories consumed in cost of sales	**7,521**	2,071
Employee benefit expense (note 10)	**8,959**	3,177
Depreciation and amortisation	**2,321**	815
Transaction costs relating to business combinations (note 7)	**397**	1,582
Research and development expenses	**269**	143
Operating lease payments	**173**	105
Other expenses	**4,543**	950
Total cost of sales and administrative expenses	**24,183**	8,843

Included within above expenses are exceptional items as set out in note 7.

7. Exceptional items

Included within Administrative expenses and costs of sales are exceptional items as shown below:

	Note	2011 £'000	2010 £'000
Exceptional items includes:			
– Transaction costs relating to business combinations	a	**397**	1,582
– Loss on stock	b	**137**	337
Exceptional items – continuing		**534**	1,919
Exceptional items – discontinued	c	**49**	354

(a) Transaction costs relating to business combinations.
The Group incurred acquisition expenses of £397,000 (2010 – £1,582,000) associated with the acquisitions of subsidiaries which are included within administrative expenses in the consolidated income statement.

(b) Loss on stock – included within cost of sales.
Under the requirements of IFRS 3 'Business combinations' the value of inventory acquired with the acquisitions of subsidiary was uplifted to its sales value less cost to sell. The post acquisition impact of selling the acquired inventory at its uplifted sales value has been to reduce gross profit by £137,000 (2010 – £337,000).

(c) Discontinued exceptional items relate to an impairment charged in 2011 and 2010.

8. Auditor remuneration

Services provided by the Company's auditor and its associates. During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

	2011 £'000	2010 £'000
Fees payable to Company's auditor for the audit of the parent Company and consolidated financial statements	**20**	29
Fees payable to the Company's auditor and its associates for other services:		
– The audit of Company's subsidiaries pursuant to legislation	**88**	42
– Other services	**79**	7
– Tax services	**50**	–
	237	78

9. Directors emoluments

	2011 £'000	2010 £'000
Aggregate emoluments	**594**	383
Contribution to defined contribution pension scheme	**5**	5
	599	388

See further disclosures within the Remuneration Report on page 21.

Highest paid Director	2011 £'000	2010 £'000
Total emoluments received	**262**	169
Defined benefit pension scheme	**4**	5

Notes to the Financial Statements continued
for the year ended 31 December 2011

10. Employee benefit expense

	2011 £'000	2010 £'000
Wages and salaries	**7,001**	2,566
Social security costs	**1,037**	423
Share options granted to Directors and senior management	**753**	152
Pension costs – defined contribution plans (note 32)	**151**	24
Pension costs – defined benefit plans (note 32)	**17**	12
	8,959	3,177

11. Average number of people employed

	2011 £'000	2010 £'000
Average number of people (including Executive Directors) employed was:		
Administration	**56**	40
Research and development	**42**	30
Sales and marketing	**60**	33
Manufacturing, production and after sales	**126**	56
	284	159

The total number of employees at 31 December 2011 was 295 (2010: -162).

12. Finance income and costs

	2011 £'000	2010 £'000
Interest expense:		
– Bank borrowings	**126**	47
– Finance lease liabilities	**13**	2
– IAS 19 interest expense (note 32)	**7**	5
– Interest on other loans	**80**	113
– Deferred consideration-unwinding of discount (note 26)	**170**	20
Finance costs	**396**	187
Finance income		
– Interest income on cash and short-term deposits	**4**	28
– Other interest	**72**	–
Finance income	**76**	28
Net finance costs	**320**	159

13. Income tax expense

Group	2011 £'000	2010 £'000
Current tax:		
Current tax on loss for the year	**586**	132
Total current tax	**586**	132
Deferred tax (note 27):		
Origination and reversal of temporary differences	**(388)**	(181)
Total deferred tax	**(388)**	(181)
Income tax charge/(credit)	**198**	(49)

13. Income tax expense continued

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the standard tax rate applicable to the profits of the consolidated entities as follows:

	2011 £'000	2010 £'000
Loss before tax	**(2,360)**	(2,089)
Tax calculated at domestic tax rates applicable to UK standard rate of tax of 25% (2010:28%)	**(590)**	(585)
Tax effects of:		
– Expenses not deductible for tax purposes	**369**	201
– Losses carried forward	**322**	331
– Impact of different tax rates in other jurisdictions	**97**	4
Tax charge/(credit)	**198**	(49)

There are no tax effects on the items in the statement of comprehensive income.

14. Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

	2011 £'000	2010 £'000
Loss attributable to equity holders of the Company	**(2,884)**	(3,435)
Loss from continuing operations attributable to equity holders of the Company	**(2,697)**	(2,063)
Loss from discontinued operations attributable to equity holders of the Company	**(187)**	(1,372)
Weighted average number of Ordinary Shares in issue	**213,580,118**	97,800,087
Basic (loss) per share	**(1.35) pence**	(3.51) pence
Basic (loss) per share from continuing operations	**(1.26) pence**	(2.11) pence
Basic (loss) per share from discontinued operations	**(0.09) pence**	(1.40) pence

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary Shares outstanding to assume conversion of all dilutive potential Ordinary Shares. The Company has three categories of dilutive potential ordinary share: equity based long-term incentive plans, equity based bonus incentive plans and share options. Due to the loss in the year the dilutive potential Ordinary Shares have no dilutive effect.

15. Dividends

There were no dividends paid or proposed by the Company in either year.

16. Property, plant and equipment

Group	Land & buildings £'000	Fixtures & fittings £'000	Plant & machinery £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2010	–	12	–	–	12
Additions	1,721	28	711	14	2,474
Acquired with subsidiaries	493	223	2,429	94	3,239
Exchange differences	22	8	109	6	145
Disposals	–	(6)	–	–	(6)
At 31 December 2010	**2,236**	**265**	**3,249**	**114**	**5,864**
Depreciation					
At 1 January 2010	–	12	–	–	12
Charge for the year	17	33	292	23	365
Exchange differences	1	1	19	2	23
Disposals	–	(3)	–	–	(3)
At 31 December 2010	**18**	**43**	**311**	**25**	**397**
Net book value					
At 31 December 2010	**2,218**	**222**	**2,938**	**89**	**5,467**

Notes to the Financial Statements continued
for the year ended 31 December 2011

16. Property, plant and equipment continued

Group	Land & buildings £'000	Fixtures & fittings £'000	Plant & machinery £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2011	2,236	265	3,249	114	5,864
Additions	63	167	1,437	51	1,718
Acquired with subsidiaries (note 37)	3,639	77	623	–	4,339
Exchange differences	121	(7)	(91)	(5)	18
Disposals	(7)	(6)	(29)	(34)	(76)
At 31 December 2011	**6,052**	**496**	**5,189**	**126**	**11,863**
Depreciation					
At 1 January 2011	18	43	311	25	397
Charge for the year	75	97	729	24	925
Exchange differences	(2)	(5)	(19)	(2)	(28)
Disposals	(7)	(6)	(16)	(31)	(60)
At 31 December 2011	**84**	**129**	**1,005**	**16**	**1,234**
Net book value					
At 31 December 2011	**5,968**	**367**	**4,184**	**110**	**10,629**

Depreciation expense of £729,000 (2010: £292,000) has been charged to cost of sales and £196,000 (2010: £73,000) has been charged to administrative expenses.

Company	Land & buildings £'000	Fixtures & Fittings £'000	Total £'000
Cost			
At 1 January 2010	–	12	12
Additions	1,670	–	1,670
At 31 December 2010	**1,670**	**12**	**1,682**
Depreciation			
At 1 January 2010	–	12	12
At 31 December 2010	**–**	**12**	**12**
Net book value			
At 31 December 2010	**1,670**	**–**	**1,670**
Cost			
At 1 January 2011	1,670	12	1,682
Additions	–	4	4
Disposal	–	(12)	(12)
At 31 December 2011	**1,670**	**4**	**1,674**
Depreciation			
At 1 January 2011	–	12	12
Disposals	–	(12)	(12)
At 31 December 2011	**–**	**–**	**–**
Net book value			
At 31 December 2011	**1,670**	**4**	**1,674**

The Company's freehold property is in Germany and occupied by its subsidiary undertaking, EKF-diagnostic GmbH Germany. EKF-diagnostic GmbH Germany is paying rental income of €13,900 (£12,000) per month to the parent Company. €167,000 (£145,000) (2010 – €88,000 (£75,000)) was paid to the parent Company for the year.

Plant and Machinery, include the following amounts where the Group is a lessee under a finance lease arrangement:

Group	2011 £'000	2010 £'000
Cost – capitalised finance leases	**320**	153
Accumulated depreciation	**(70)**	(43)
Net book amount	**250**	110

The Group leases various assets under non-cancellable finance lease agreements. The lease terms are between 2 and 6 years.

17. Intangible fixed assets

Group	Goodwill £'000	Trademarks, trade names & licences £'000	Customer relationships £'000	Trade secrets £'000	Development costs £'000	Total £'000
Cost						
At 1 January 2010	–	1,949	–	–	–	1,949
Transfer to current assets	–	(100)	–	–	–	(100)
Acquisition of subsidiaries	8,967	397	1,740	9,100	–	20,204
Exchange differences	119	245	99	271	–	734
Disposals	–	(1,723)	–	–	–	(1,723)
Impairment	–	(354)	–	–	–	(354)
At 31 December 2010	**9,086**	**414**	**1,839**	**9,371**	**–**	**20,710**
Amortisation						
At 1 January 2010	–	–	–	–	–	–
Charge for the year	–	24	114	312	–	450
At 31 December 2010	**–**	**24**	**114**	**312**	**–**	**450**
Net book value						
At 31 December 2010	**9,086**	**390**	**1,725**	**9,059**	**–**	**20,260**
Cost						
At 1 January 2011	9,086	414	1,839	9,371	–	20,710
Acquisition of subsidiaries (note 37)	4,750	1,118	6,963	602	236	13,669
Additions	–	29	–	–	631	660
Exchange differences	(49)	35	131	(217)	9	(91)
At 31 December 2011	**13,787**	**1,596**	**8,933**	**9,756**	**876**	**34,948**
Amortisation						
At 1 January 2011	–	24	114	312	–	450
Exchange differences	–	5	(10)	(9)	–	(14)
Charge for the year	–	86	423	850	37	1,396
At 31 December 2011	**–**	**115**	**527**	**1,153**	**37**	**1,832**
Net book value						
At 31 December 2011	**13,787**	**1,481**	**8,406**	**8,603**	**839**	**33,116**

The amortisation charge of £1,396,000 (2010: £450,000) has been charged to administrative expenses in the income statement.

Goodwill is allocated to the Group's cash-generating units (CGU's) identified according to geographic operating segment. An operating segment-level summary of the goodwill allocation is presented below.

	2011 £'000	2010 £'000
UK	**3,390**	3,390
Germany	**3,970**	4,103
Poland	**313**	363
Russia	**156**	170
Ireland	**1,024**	1,060
United States of America	**4,934**	–
Total	**13,787**	9,086

Goodwill is tested for impairment at the balance sheet date. The recoverable amount of goodwill at 31 December 2011 was assessed on the basis of value in use. As this exceeded carrying value no impairment loss was recognised.

The key assumptions in the calculation to assess value in use are the future revenues and the ability to generate future cash flows. The most recent financial results and initial budgets approved by management for the next year were used and forecasts for three further years, followed by an extrapolation of expected cash flows at a constant growth rate of each unit. The projected results were discounted at a rate which is a prudent evaluation of the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the cash-generating units.

Notes to the Financial Statements continued

for the year ended 31 December 2011

17. Intangible fixed assets continued

The key assumptions used for value in use calculations in 2011 are as follows:

	Germany %	UK %	US %	Ireland %	Poland %	Russia %
Longer-term growth rate	3	5	5	20	3	2
Discount rate	13	14	12	18	26	13

The UK and Irish cash-generating units are at a stage of significant product development and early-stage revenues and are consequently loss-making. The Directors have made some significant estimates on future revenues and EBITDA growth over the next four years based on the uniqueness of the product pipelines in their different segments.

The Directors have performed a sensitivity analysis to assess the impact of downside risk of the key assumptions underpinning the projected results of the UK and Irish cash-generating units. The projections and associated headroom used for the UK and Irish cash units are sensitive to the EBITDA growth assumptions that have been applied. A 25% reduction in EBITDA growth; in the first four years of the management projections would result in an impairment of £1.08m in the UK cash-generating unit and £1.31m in the Irish business.

The remaining average useful lives of the intangibles are as follows:

Trade name	8–12 years
Customer relations	6–12 years
Trade secrets	6–13 years
Research and development	15 years

The Company has no intangible assets.

18. Investments in subsidiaries

Company Shares in Group undertakings	**2011 £'000**	2010 £'000
Beginning of year	**15,613**	213
Additions in year	**–**	15,400
End of year	**15,613**	15,613

Investments in Group undertakings are recorded at cost, which is the fair value of the consideration paid.

During the year the Group, through the Company's subsidiary undertaking, EKF Diagnostics Inc, acquired US-based business, Stanbio Laboratory LP for £16.1m ($25.9m). Details of the acquisition are disclosed in note 37.

The principal subsidiaries of EKF Diagnostics Holdings plc are as follows:

Name of Company	Note	Proportion Held	Class of Shareholding	Nature of Business
International Brand Licensing AG	1	100%	Ordinary	Intellectual property management
EKF Diagnostics Limited	2	100%	Ordinary	Head Office
Quotient Diagnostics Limited	2	100%	Ordinary	Sale of diagnostic equipment
EKF-diagnostic GmbH Germany	3	100%	Ordinary	Manufacture and sale of diagnostic equipment
Senslab GmbH	3	100% (indirect)	Ordinary	Diagnostic testing
EKF Diagnostyka Sp.z.o.o.	4	100%	Ordinary	Manufacture and sale of diagnostic equipment
000 EKF Diagnostika	5	60%	Ordinary	Sale of diagnostic equipment
EKF Diagnostics Inc	6	100%	Ordinary	Intermediary holding Co
Stanbio Laboratory LP	6	100% (indirect)	Ordinary	Manufacture and sale of diagnostic equipment
Argutus Medical Limited	7	100%	Ordinary	Manufacture and sale of diagnostic equipment

Notes

1. Incorporated and registered in Switzerland.
2. Incorporated and registered in the United Kingdom.
3. Incorporated and registered in Germany.
4. Incorporated and registered in Poland.
5. Incorporated and registered in Russia.
6. Incorporated and registered in the United States of America.
7. Incorporated and registered in Ireland.

During the year EKF Sales GmbH (German sales division) merged with EKF-diagnostic GmbH Germany.

All subsidiaries are included in the consolidation. The proportions of voting shares held by the parent Company do not differ from the proportion of Ordinary Shares held.

19. Financial instruments by category

(a) Assets

Group	2011 Loans & receivables £'000	2011 Available for sale £'000	2010 Loans & receivables £'000	2010 Available-for-sale £'000
31 December				
Assets as per balance sheet				
Available-for-sale financial assets	–	331	–	235
Trade and other receivables excluding prepayments	3,985	–	3,519	–
Cash and cash equivalents	5,338	–	3,192	–
Total	9,323	331	6,711	235

Company	2011 Loans & receivables £'000	2011 Available for sale £'000	2010 Loans & receivables £'000	2010 Available-for-sale £'000
31 December				
Assets as per balance sheet				
Available-for-sale financial assets	–	280	–	135
Trade and other receivables	23,311	–	7,203	–
Cash and cash equivalents	2,733	–	1,766	–
Total	26,044	280	8,969	135

(b) Liabilities

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
31 December				
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities)	2,341	–	466	–
Finance lease liabilities	191	–	72	–
Trade and other payables	4,294	3,550	3,906	2,199
Total	6,826	3,550	4,444	2,199

Liabilities in the analysis above are all categorised as 'other financial liabilities at amortised cost' for the Group and Company.

(c) Credit quality of financial assets

The Group is exposed to credit risk from its operating activities (primarily for trade receivables and other receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group's maximum exposure to credit risk, due to the failure of counter parties to perform their obligations as at 31 December 2011 and 31 December 2010, in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the accompanying balance sheets.

Trade receivables

The credit quality of trade receivables that are neither past due date nor impaired have been assessed based on historical information about the counterparty default rate. The Group does not hold any other receivable balances with customers, whose past default has resulted in the recovery of the receivables balances.

Cash at bank

The credit quality of cash has been assessed by reference to external credit ratings, based on reputable credit agencies' long-term issuer ratings:

	2011 £'000	2010 £'000
AA	1,211	–
Other	4,127	3,192
Total	5,338	3,192

Notes to the Financial Statements continued
for the year ended 31 December 2011

20. Available-for-sale financial assets

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
At 1 January	**235**	614	**135**	141
Additions	**68**	–	**68**	–
Revaluation	**155**	–	**155**	–
Net impairment charge	**(49)**	(6)	**–**	(6)
Transfer from intangible assets	**–**	100	**–**	–
Disposals	**(78)**	(473)	**(78)**	–
At 31 December	**331**	235	**280**	135
Current portion	**51**	100	**–**	–
Non-current portion	**280**	135	**280**	135

The available-for-sale financial assets include the following:

	2011 £'000	2010 £'000
Listed securities – UK equity securities (Group and Company)	**280**	135
Intangible assets – Trademarks (Group only)	**51**	100
	331	235

The available-for-sale financial assets are denominated in UK sterling. The fair value of all equity securities is based on their current bid prices in an active market.

The maximum exposure to credit risk at the reporting date is the carrying value of the above securities classified as available-for-sale.

21. Trade and other receivables

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Trade receivables	**3,423**	2,234	**–**	–
Less: provision for impairment of trade receivables	**(380)**	(251)	**–**	–
Trade receivables – net	**3,043**	1,983	**–**	–
Prepayments	**288**	106	**43**	7
Amounts owed by subsidiary undertakings	**–**	–	**23,204**	7,194
Other receivables	**942**	1,536	**107**	9
	4,273	3,625	**23,354**	7,210

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

As of 31 December 2011, trade receivables of £630,000 (2010: £317,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Up to 3 months	**630**	317	**–**	–

As of 31 December 2011, trade receivables of £380,000 (2010: £251,000) were impaired and provided for. The aging of these impaired receivables is as follows:

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Up to 3 months	**80**	–	**–**	–
3 to 6 months	**20**	26	**–**	–
6 months to one year	**280**	225	**–**	–

Movements on the provision for impairment of trade receivables are as follows:

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
At 1 January	**251**	28	**–**	–
Acquired with subsidiaries	**–**	212	**–**	–
Provision for receivables impairment	**254**	79	**–**	–
Receivables written off during the year as uncollectible	**(87)**	(39)	**–**	–
Unused amounts reversed	**(38)**	(29)	**–**	–
At 31 December	**380**	251	**–**	–

21. Trade and other receivables continued

The other classes within trade and other receivables do not contain impaired assets.

The carrying amounts of the Group's trade and other receivables denominated in foreign currencies were as follows:

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
UK Sterling	**512**	752	**2,783**	792
Euros	**1,446**	1,551	**7,989**	6,418
US dollar	**1,921**	734	**12,582**	–
Russian rouble	**214**	172	**–**	–
Polish zloty	**178**	159	**–**	–
Other currencies	**2**	257	**–**	–
	4,273	3,625	**23,354**	7,210

22. Inventories

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Raw materials	**2,950**	1,458	**–**	–
Work in progress	**769**	540	**–**	–
Finished goods	**1,092**	985	**–**	–
	4,811	2,983	**–**	–

The Directors are of the opinion that the replacement values of inventories are not materially different to the carrying values stated above. The carrying values above are stated net of impairment provisions of £456,000 (2010: £177,000).

The cost of inventories recognised as expense and included in 'cost of sales' amounted to £7,521,000 (2010: £2,071,000).

The Company held no inventories.

23. Cash and cash equivalents

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Cash at bank and on hand	**2,807**	1,387	**234**	266
Short-term bank deposits	**2,531**	1,805	**2,499**	1,500
Cash and cash equivalents (excluding bank overdrafts)	**5,338**	3,192	**2,733**	1,766

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Cash and cash equivalents	**5,338**	3,192	**2,733**	1,766
Bank overdraft (note 25)	**(119)**	–	**–**	–
Cash and cash equivalents	**5,219**	3,192	**2,733**	1,766

All of the Group's cash and cash equivalents are at floating rate between 0.5% and 2%. The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

24. Trade and other payables

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Trade payables	**2,029**	2,051	**110**	83
Amounts due to subsidiary undertakings	**–**	–	**2,775**	1,810
Social security and other taxes	**499**	63	**29**	20
Other payables	**645**	766	**120**	125
Accrued expenses and deferred income	**1,620**	1,089	**545**	181
	4,793	3,969	**3,579**	2,219

Notes to the Financial Statements continued
for the year ended 31 December 2011

25. Borrowings

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Non-current				
Bank borrowings	**1,982**	267	**–**	–
Finance lease liabilities	**115**	42	**–**	–
	2,097	309	**–**	–
Current				
Bank overdraft	**119**	–	**–**	–
Bank borrowings	**240**	199	**–**	–
Finance lease liabilities	**76**	30	**–**	–
	435	229	**–**	–

The Company has no borrowings.

The maturity profile of borrowings was as follows:

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Amounts falling due				
Within 1 year	**435**	229	**–**	–
Between 1 and 2 years	**356**	156	**–**	–
Between 2 and 5 years	**576**	153	**–**	–
More than 5 years	**1,165**	–	**–**	–
Total borrowings	**2,532**	538	**–**	–

(a) Bank borrowings

Bank borrowings have maturity profiles from 2011 through to 2020 and bear an average fixed average coupon of 4.96% annually (2010: 4.87%).

Bank borrowings are secured against certain assets of the Group. The Parent Company has also provided guarantees against these bank borrowings which are denominated in foreign currencies.

The US Dollar denominated borrowing, acquired on acquisition of Stanbio Laboratory LP, has covenants attached to it. The Group has been compliant to these covenants throughout the period.

The bank borrowings are repayable by either monthly or quarterly instalments.

The Group is not exposed to interest rate changes or contractual re-pricing dates at the end of the reporting period, as the borrowings are fixed in nature.

The fair value of both current and non-current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5% (2010: 4.8%).

The carrying amounts of the Group's bank borrowings are denominated in the following foreign currencies:

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Euros	**530**	466	**–**	–
US Dollar	**1,677**	–	**–**	–
Polish Zloty	**15**	–	**–**	–
Total	**2,222**	466	**–**	–

(b) Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	2011 £'000	2010 £'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**86**	34
Later than 1 year and no later than 5 years	**107**	44
Later than 5 years	**29**	–
	222	78
Future finance charges on finance leases	**(31)**	(6)
Present value of finance lease liabilities	**191**	72

25. Borrowings continued

The present value of finance lease liabilities is as follows:

	2011 £'000	2010 £'000
No later than 1 year	**76**	30
Later than 1 year and no later than 5 years	**88**	42
Later than 5 years	**27**	–
	191	72

26. Deferred consideration

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
At 1 January	**4,168**	–	**4,168**	–
On acquisition of subsidiaries (note 37)	**3,985**	4,148	**–**	4,148
Unwinding of discount (note 12)	**170**	20	**84**	20
Payments made	**(323)**	–	**–**	–
Exchange differences	**154**	–	**–**	–
At 31 December	**8,154**	4,168	**4,252**	4,168
Current portion	**2,932**	–	**2,505**	–
Non-current portion	**5,222**	4,168	**1,747**	4,168

The deferred consideration is made up as follows:

- 16,732,482 Ordinary Shares valued at £2,505,000 to be issued in July 2012 as part of consideration paid for acquisition of EKF-diagnostic GmbH Germany.
- £2,000,000 contingent consideration payable as part of consideration for acquisition of Quotient Diagnostics Limited. The discounted value at the year-end amounted to £1,747,000 (2010: £1,663,000). The contingent consideration is dependent on sale of instruments by April 2014.
- $6,662,000 contingent consideration payable as part of consideration for acquisition of Stanbio Laboratory LP. The discounted value at the year-end amounted to £3,902,000. The contingent consideration is largely based on achieving revenue and earnings before interest, tax, depreciation and amortisation (EBITDA) targets.

27. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The amounts concerned are as follows:

Group	2011 £'000	2010 £'000
Deferred tax assets		
Deferred tax asset to be recovered within 12 months	**(67)**	–
Deferred tax asset to be recovered after more than 12 months	**(168)**	(217)
	(235)	(217)
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	**4,434**	2,796
Deferred tax liability to be recovered within 12 months	**392**	120
	4,826	2,916
Deferred tax liabilities – (net)	**4,591**	2,699

The gross movement on the deferred income tax account is as follows:

	2011 £'000	2010 £'000
At 1 January	**2,699**	(94)
Exchange differences	**83**	–
On acquisition of subsidiaries (note 37)	**2,197**	3,029
Acquired with subsidiaries (note 37)	**–**	(55)
Income statement movement (note 13)	**(388)**	(181)
At 31 December	**4,591**	2,699

Notes to the Financial Statements continued
for the year ended 31 December 2011

27. Deferred income tax continued

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Accelerated tax depreciation £'000	Total £'000
At 1 January 2010	**–**	–
(Credited) to the income statement	**(113)**	(113)
Acquisition of subsidiaries	**3,029**	3,029
At 31 December 2010	**2,916**	**2,916**
At 1 January 2011	**2,916**	2,916
Acquisition of subsidiaries (note 37)	**2,197**	2,197
(Credited) to the income statement	**(370)**	(370)
Exchange differences	**83**	83
At 31 December 2011	**4,826**	**4,826**

Deferred tax assets	Tax losses £'000	Other £'000	Total £'000
At 1 January 2010	–	(94)	(94)
(Credited) to the income statement	(68)	–	(68)
Acquisition of subsidiaries	(55)	–	(55)
At 31 December 2010	**(123)**	**(94)**	**(217)**
At 1 January 2011	**(123)**	**(94)**	**(217)**
(Credited) to the income statement	(18)	–	(18)
At 31 December 2011	**(141)**	**(94)**	**(235)**

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of £1,961,000 (2010: £1,885,000) mainly in respect of tax losses amounting to £7,843,000 (2010: £8,576,000) that can be carried forward against future taxable income.

Company	2011 £'000	2010 £'000
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	**94**	94
Deferred tax	**94**	94

There was no movement during the year and the deferred tax assets relate to other tax differences.

28. Share capital and premium

Group and Company	Number of Shares No.	1p Ordinary Shares £'000	Share premium £'000	Total £'000
At 1 January 2011	**168,138,459**	**1,681**	**23,013**	**24,694**
Issue of shares	83,089,675	831	15,359	16,190
At 31 December 2011	**251,228,134**	**2,512**	**38,372**	**40,884**

The Company issued 65,000,000 Ordinary Shares to investors on 16 June 2011 to fund the acquisition of Stanbio Laboratory LP through its subsidiary undertaking, EKF Diagnostics Inc. The Ordinary Shares issued have the same rights as the other shares in issue. The fair value of the shares issued amounted to £13,000,000 (20p per share). The related transaction costs of £597,000 have been netted off against the deemed proceeds. This gave rise to net funds of £12,403,000 from the share issue.

The Company also issued 16,189,675 Ordinary Shares to the vendor of Stanbio Laboratory LP as part of the consideration for the business under the terms of the sale and purchase agreement. The fair value of the shares amounted to $5.5m (£3.4m) or 21p per share-based on the average closing price per share over the ten consecutive trading days ending a day before the agreement date.

Adam Reynolds (Director) and Paul Foulger (Company Secretary and former-Director) exercised their options over 625,000 Ordinary Shares each at 20p per share.

@miral BV exercised their option over 650,000 Ordinary Shares at 18.5p per share.

29. Share options and share-based payments

The share options and share incentive schemes in existence were as follows:

(a) Long-term Incentive Plans ('LTIP')

	2011 No. of notional shares	2010 No. of notional shares
At 1 January	**17,091,276**	–
Granted	–	17,091,276
At 31 December	**17,091,276**	17,091,276

Long-term incentive plan share awards over notional shares totalling 17,091,276 have been granted to two Executive Directors. The key terms of the awards relating to the grants noted above are as follows.

a) 8,545,638 notional shares, with an exercise price of 15p will vest if the Company's mid-market closing share price attains 45 pence or higher per share for a period of five consecutive days (on which The London Stock Exchange is open for business) at any time during the period of three years commencing on 1 January 2011 and ending on 31 December 2013.

b) 8,545,638 notional shares, with an exercise price of 15p will vest if the Company's EBITDA for the year to 31 December 2013 is at least 52.0875% (being growth at 15% per annum compounded) higher than twice the EBITDA for the six months to 31 December 2010. For these purposes EBITDA shall mean EBITDA (earnings before interest, taxes, depreciation and amortisation) as shown in the audited accounts for the period in question, as adjusted to remove any adjustment, accrual or expense in respect of the grant of or exercise of the Award granted to the Award holder.

The weighted average fair value of the long-term incentive plan share awards linked to the share price target determined using the Monte Carlo valuation model was 7.40p in 2010. The weighted average fair value of the long-term incentive plan share awards linked to the EBITDA target determined using the Black Scholes valuation model was 9.20p in 2010. The significant inputs into the model are detailed below:

	LTIP – Share price target		LTIP – EBITDA target	
	2011	2010	**2011**	2010
Share price at date of grant	–	24.5 pence	–	24.5 pence
Weighted average exercise price	–	15.0 pence	–	15.0 pence
Expected volatility	–	40%	–	40%
Risk-free interest rate	–	0.71%	–	1.25%
Expected life (years)	–	1.62	–	–
Dividend yield	–	–	–	–

Expected volatility was determined by calculating the volatility in the historic share price over a period consistent with the expected exercise period of the award. This level of volatility has then been benchmarked by comparing the level of share price volatility for other quoted medical diagnostic businesses over a three to ten year period.

(b) Unapproved share option

	2011		2010	
	Av. Exercise price per share (£)	**Options (No.)**	Av. Exercise price per share (£)	Options (No.)
At 1 January	**0.195**	**2,625,000**	0.195	2,625,000
Granted	**0.220**	**6,860,000**	–	–
Exercised (note 28)	**0.195**	**(1,900,000)**	–	–
Forfeited	**0.252**	**(400,000)**	–	–
At 31 December	**0.218**	**7,185,000**	0.195	2,625,000

The unapproved share options include the following:

- Directors' options totalling 1,750,000 were in issue at the beginning of the year of which 1,250,000 were exercised on 28 June 2011 at 20p per share. For the remaining 500,000 options which were expiring on 28 June 2011, the Board granted a 12 month extension to 28 June 2012. The options were held by Gordon Hall and the exercise price remains at 20p per share.
- The 225,000 options granted to a former employee on 29 January 2004 are conditional on the employee completing two years' service (the vesting period) and are exercisable from the 2nd anniversary of the date of grant. The options have a contractual option term of ten years and the Company has no legal or constructive obligation to repurchase or settle the options in cash. The exercise price of the granted options is equal to the market price of the shares on the date of grant.
- 4,260,000 options were issued to a Director on 15 June 2011 at exercise price of 20p per share. The shares will vest if the Company's EBITDA for the year to 31 December 2013 is at least 52.0875% (being growth at 15% per annum compounded) higher than the target adjusted EBITDA of £777,408. All EBITDA contribution from current and future acquisitions of the Company will be used in assessing if the annual compound growth rate is achieved. For these purposes EBITDA shall mean EBITDA (earnings before interest, taxes, depreciation and amortisation) as shown in the audited financial statements for the period in question.
- 2,600,000 options were issued to senior employees of the Group on 28 September 2011 at exercise price of 25.25 per share. The shares will vest if the Company's EBITDA for the year to 31 December 2013 is at least 52.0875% (being growth at 15% per annum compounded) higher than the target adjusted EBITDA of £777,408. All EBITDA contribution from future acquisitions of the Company will be excluded in assessing if the annual compound growth rate is achieved. For these purposes EBITDA shall mean EBITDA (earnings before interest, taxes, depreciation and amortisation) as shown in the audited financial statements for the period in question.
- 400,000 options issued to a senior employee of the Group were forfeited during the year when the employee left the Group.

All share option awards are equity settled. Out of the 7,185,000 (2010: 2,625,000) outstanding options 725,000 (2010: 2,625,000) were exercisable.

Notes to the Financial Statements continued
for the year ended 31 December 2011

29. Share options and share-based payments continued

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	2011		2010	
Expiry Date	Exercise price per share (£)	Options (No.)	Exercise price per share (£)	Options (No.)
11.01.2011	–	–	0.185	650,000
28.06.2011	0.20	–	0.20	1,750,000
28.06.2012	0.20	500,000	–	–
29.01.2014	0.18	225,000	0.18	225,000
16.06.2021	0.20	4,260,000	–	–
28.09.2021	0.25	2,200,000	–	–
		7,185,000		2,625,000

The weighted average fair value of options granted during 2011 determined using the Black-Scholes valuation model was £0.05 (2010: £nil). The significant inputs into the model are detailed below:

	2011	2010
Weighted average share price	22p	–
Weighted average option exercise price	22p	–
Expected volatility	40%	–
Risk-free interest rate	2.05	–
Expected option life	4 year	–
Dividend yield	–	–

Expected volatility was determined by calculating the volatility in the historic share price over a period consistent with the expected exercise period of the option. This level of volatility has then been benchmarked by comparing the level of share price volatility for other quoted medical diagnostic businesses over a three to ten year period.

(c) Bonus and share incentive scheme ('BAPSI')

	2011 No. of notional shares	2010 No. of notional shares
At 1 January	2,167,318	2,167,318
At 31 December	2,167,318	2,167,318

Bonus and share incentive scheme awards over notional shares totalling 2,167,318 (2010: 2,167,318) have been granted to three Directors. The latest exercise date for these options is 30 November 2015. The key terms of the awards are as follows:

a) The maximum entitlements under these awards are achieved in full if the Company's market capitalisation reaches £20 million or greater, with entitlements vesting at the following targets: 70% at a market capitalisation of £18 million, 45% at £16 million, 30% at £13 million and 15% at £10 million.

b) In the event that the Company is subject to a takeover and is valued at £15m or higher, further new Ordinary Shares equivalent to 50% of the number of notional shares will be issued to the option holder. This condition has been fulfilled.

Out of the 2,167,318 (2010: 2,167,318) outstanding BAPSI awards 2,167,318 (2010: 2,167,318) were exercisable.

30. Retained earnings

	Group £'000	Company £'000
At 1 January 2010	(386)	(2,627)
Loss for the year	(3,435)	(2,112)
Share-based payment	152	152
Actuarial loss on pension scheme	(11)	–
Fair value adjustment in respect of available-for-sale financial assets	(6)	(6)
At 31 December 2010	(3,686)	(4,593)
At 1 January 2011	(3,686)	(4,593)
Loss for the year	(2,884)	(1,282)
Share-based payment	753	753
Actuarial loss on pension scheme	(2)	–
Fair value adjustment in respect of available-for-sale financial assets	155	155
At 31 December 2011	(5,664)	(4,967)

31. Other reserves

Group	Foreign currency £'000	Other £'000	Total £'000
At 1 January 2010	1,265	244	1,509
Currency translation differences	707	–	707
At 31 December 2010	1,972	244	2,216
At 1 January 2011	**1,972**	**244**	**2,216**
Currency translation differences	**(395)**	**–**	**(395)**
At 31 December 2011	**1,577**	**244**	**1,821**

Other reserves were created at the inception of the Company on the merger with its Swiss subsidiary, International Brand Licencing AG.

32. Retirement benefit obligations

Group	2011 £'000	2010 £'000
Liability in the balance sheet for pension benefits	**97**	88
Income statement charge for:		
Pension benefits	**17**	12
Actuarial losses recognised in the statement of other comprehensive income in the period	**2**	11
Cumulative actuarial losses recognised in the statement of other comprehensive income	**13**	11

Pension benefits

The Group operates a defined contribution pension scheme the assets of which are held separately from those of the Company in an independently administered fund. The pension cost for the year represents contributions made by the Company to the fund and amounted to £151,000 (2010: £24,000).

The Group operates a funded defined benefit plan for Berthold Walter, the former owner of EKF-diagnostic GmbH Germany.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2011 by SLPM Schweizer Leben Pensions Management GmbH.

The principal actuarial assumptions were as follows:

Group	2011 %	2010 %
Discount rate	**5.25**	5.36
Inflation rate	**2.00**	1.70
Expected return on plan assets	**3.80**	3.80
Future salary increases	**Nil**	Nil
Future pension increases	**2.00**	2.00

Assumptions regarding future mortality experience are set based on the German Pension table "Richttafeln 2005G", and an expected retirement age of 65. This gives an underlying life expectancy of 21.148 years.

The amounts recognised in the balance sheet are determined as follows:

	2011 £'000	2010 £'000
Present value of funded obligation	**(204)**	(183)
Fair value of plan assets	**107**	95
Deficit of funded plans	**(97)**	(88)

The movement in the defined benefit obligation over the year is as follows:

	2011 £'000	2010 £'000
At 1 January	**183**	–
Liabilities acquired in a business combination	**–**	156
Current service cost	**10**	7
Interest cost	**10**	8
Actuarial losses	**1**	12
At 31 December	**204**	183

Notes to the Financial Statements continued
for the year ended 31 December 2011

32. Retirement benefit obligations continued

The movement in the fair value of plan assets over the year is as follows:

	2011 £'000	2010 £'000
At 1 January	95	–
Assets acquired in a business combination	–	85
Expected return on plan asset	3	3
Actuarial losses/(gains)	1	(1)
Employer contributions	8	8
At 31 December	**107**	95

The amounts recognised in the income statement are as follows:

	2011 £'000	2010 £'000
Current service cost	(10)	(7)
Interest cost	(10)	(8)
Expected return on plan asset	3	3
Total	**(17)**	(12)

£10,000 (2010: £7,000) was charged through operating expenses and £7,000 (2010: £5,000) was charged through Finance costs.

The expected contribution rate for 2012 is 8% (2011: 8%).

33. Provisions for other liabilities and charges

Group	Litigation £'000
At 1 January 2010	–
Acquired with subsidiary	606
Exchange differences	26
Utilised in the year	(71)
At 31 December 2010	561
At 1 January 2011	**561**
Exchange differences	**(19)**
Unwind of discount rate	**68**
Utilised in the year	**(23)**
At 31 December 2011	**587**

Analysis of total provisions:

	2011 £'000	2010 £'000
Current	587	561

Litigation

This represents a provision for certain ongoing legal claims where the Group is the defendant in patent related litigation in Germany and the United States. The balance at 31 December 2011 is expected to be utilised during the litigation over a certain period. This period is uncertain at this time, and as such the directors have decided to disclose the entire provision as current. In the Directors' opinion, after taking appropriate legal advice, the outcome of the patent related litigation will not give rise to any significant loss beyond the amounts provided at 31 December 2011.

The Directors have not recognised any contingent gain that may arise with regard to a counter claim that is currently also taking place against the claimant, on the grounds that the Directors consider the success of the claim to be possible rather than probable.

This provision has been discounted.

34. Commitments

a) Capital commitments

The Group has contracted approximately £0.3m capital expenditure at the end of the reporting period but not yet incurred.

b) Operating lease commitments

The Group leases various offices and manufacturing buildings under non-cancellable operating lease agreements. The lease terms are between one and five years.

The Group also leases various assets under non-cancellable operating lease agreements. The lease terms are between one and ten years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land & buildings		Other	
Group	2011 £'000	2010 £'000	2011 £'000	2010 £'000
No later than 1 year	32	55	13	–
Later than 1 year and no later than 5 years	498	33	62	63
Later than 5 years	369	65	–	–
Total	**899**	153	**75**	63

35. Cash used in operations

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Loss before income tax	(2,360)	(2,089)	(1,282)	(2,112)
Adjustments for:				
– Discontinued activities	(187)	(1,372)	–	–
– Depreciation	925	365	–	–
– Amortisation and impairment charges	1,396	804	–	–
– Impairment of available asset for sale	49	–	–	–
– Share-based payments	753	152	753	152
– Loss on disposal of intangibles	–	414	–	–
– Foreign exchange gains on operating activities	(122)	(155)	–	–
– Net finance costs / (income)	320	159	(561)	(89)
Changes in working capital				
– Inventories	(23)	80	–	–
– Trade and other receivables	(488)	5,775	(13,948)	(7,025)
– Trade and other payables	(432)	(5,143)	1,360	516
Net cash used in operations	**(169)**	(1,010)	**(13,678)**	(8,558)

In the statement of cash flows, proceeds from the sale of property, plant and equipment comprise:

Group	2011 £'000	2010 £'000
Net book amount	15	3
Profit/(loss) on disposal of property, plant and equipment	–	–
Proceeds from disposal of property, plant and equipment	**15**	3

Non-cash transactions

The principal non-cash transactions relate to the issue of shares as consideration for the acquisition discussed in note 37.

36. Discontinued operations

Analysis of loss and cash flows for the year from discontinued operations

The results and cash flows of the discontinued operations included in the consolidated income statement and consolidated cash flow statement for 2011 are set out below.

	2011 £'000	2010 £'000
Loss from discontinued operations		
Revenue	–	212
Operating expenses	(138)	(789)
Exceptional impairment of intangibles	–	(354)
Exceptional impairment of available-for-sale asset	(49)	–
Exceptional loss on sale of intangible assets	–	(414)
Taxation	–	(27)
Loss for the year from discontinued operations	**(187)**	(1,372)
Cash flow from discontinued operations		
Net cash flow from operating activities	(138)	(604)
Net cash flow from investing activities	1,220	562
Net cash flow	**1,082**	(42)

Notes to the Financial Statements continued
for the year ended 31 December 2011

37. Business combinations
Acquisition of Stanbio Laboratory LP
On 17 June 2011, the Group through its subsidiary undertaking, EKF Diagnostics Inc acquired Stanbio Laboratory LP, a US-based medical diagnostic devices distribution and manufacturing business.

The goodwill of £4,750,000 arising from the acquisition is attributable to the expected future profitability of the acquired business and synergies expected to arrive from the incorporation of the business within the Group.

The following table summarises the consideration paid for Stanbio Laboratory LP and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	£'000
Consideration at 17 June 2011	
Cash	8,696
Equity instruments (16,189,675 Ordinary Shares – to be issued in 3 tranches at each anniversary of the acquisition)	3,416
Deferred consideration (note 26)	3,985
Total consideration	**16,097**
Acquisition-related costs (included in administrative expenses in the consolidated income statement for the year ended 31 December 2011) (note 7)	397
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	7
Property, plant and equipment (note 16)	4,339
Trade names – included in intangibles (note 17)	1,118
Customer relations – included in intangibles (note 17)	6,963
Trade secrets – included in intangibles (note 17)	602
Research and development costs (note 17)	236
Inventories	1,805
Trade and other receivables	1,380
Trade and other payables	(1,240)
Borrowings	(1,666)
Deferred tax liabilities (note 27)	(2,197)
Total identifiable net assets	**11,347**
Goodwill	**4,750**

The fair value of the 16,189,675 Ordinary Shares to be issued in three tranches at each anniversary of the acquisition, as part of the consideration paid for Stanbio Laboratory LP was based on the average closing price per share over the ten consecutive trading days ending a day before the agreement day.

The contingent consideration arrangement requires the Group to pay the former owner of Stanbio Laboratory LP additional consideration agreed at a maximum of $7,162,000 (£4,448,000) of which $500,000 (£323,000) has been paid since the completion. The majority of the consideration is linked to EBITDA and Revenue targets over a four-year period post acquisition. The Directors believe that there is a near 100% probability that these payments will be made in full. However, the value has been discounted to its net present value to $6,415,000 (£3,985,000) using a rate of 5.50% to reflect the time value of money. Unwind of the discount in the post-acquisition period totals $134,000 (£86,000) and has been included in the finance expense in the income statement (note 12).

The fair value of inventories is £1,805,000. Finished goods and work in progress inventories have been uplifted by £137,000 to sales value less cost to complete and cost to sell (note 7).

The revenue included in the consolidated statement of comprehensive income since 17 June 2011 contributed by Stanbio Laboratory LP was £8,396,000. Stanbio Laboratory LP also contributed retained profit of £1,059,000 over the same period. Had Stanbio Laboratory LP had been consolidated from 1 January 2011, the consolidated statement of comprehensive income, would show revenue of £13,500,000 and profit of £1,486,000.

38. Related Party Disclosures
Directors
During the year the Group was invoiced £63,750 by BBI Holdings Limited and its subsidiary undertaking for development costs. David Evans and Julian Baines are directors of BBI Holdings Limited.

Director's emoluments are set out in the Remuneration Committee report.

Key management compensation
Key management compensation for the year was as follows:

	2011 £'000	2010 £'000
Aggregate emoluments	**594**	383
Share-based payments	**745**	152
Employer contribution to pension scheme	**5**	5
	1,344	540

Key management includes all the Directors only.

39. Post balance sheet events
There are no significant post balance events to report at the date of this annual report.

Notice of Annual General Meeting

EKF Diagnostics Holdings PLC (Company)

NOTICE IS HEREBY GIVEN that the Annual General Meeting (Meeting) of EKF Diagnostics Holdings plc (Company) will be held at the offices of Canaccord Genuity Limited, 88 Wood Street, London, EC2V 7QR on 23 May 2012 at 11 am for the following purposes:

Ordinary Resolutions:

1. To receive and adopt the statement of accounts for the year ended 31 December 2011 together with the reports of the Directors and the auditors thereon.

2. To re-elect Richard Evans, who retires by rotation, as a Director.

3. To re-appoint Messrs PricewaterhouseCoopers LLP as auditors to act as such until the conclusion of the next General Meeting of the Company at which the requirements of section 437 of the Companies Act 2006 are complied with and to authorise the Directors of the Company to fix their remuneration.

4. That in substitution for any existing such authority, the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "2006 Act") to allot Relevant Securities of the Company:

   (i) up to a maximum nominal amount of £300,272.52 (in pursuance of the exercise of outstanding share options granted by the Company but for no other purpose);
   (ii) up to an aggregate nominal amount of £376,842.20 (in addition to the authorities conferred in sub-paragraphs (i) above) representing approximately 15% of the Company's Issued Share Capital,

   such authorities (unless previously renewed, revoked or varied) to expire at the conclusion of the next Annual General Meeting of the Company to be held in 2013, save that the Company may, before such expiry, make an offer or agreement which would or might require Relevant Securities to be allotted after such expiry and the directors may allot Relevant Securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

5. **Special Resolution:**
   That, subject to the passing of the above Resolution the Directors be given the general power to allot equity securities (as defined in section 560 of the 2006 Act) pursuant to the authority conferred by the Resolution above as if section 561(1) of the 2006 Act did not apply to any such allotments provided that this power shall be limited to:

   (i) the allotment of equity securities on the exercise of the share options granted by the Company;
   (ii) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (i) above) for cash in connection with any rights issue or pre emptive offer in favour of holders of equity securities generally;
   (iii) the allotment (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities for cash up to an aggregate nominal amount of £376,842.20 representing approximately 15% of the Company's Issued Share Capital;

   and provided that such power (unless previously renewed, revoked or varied) shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013, save that the Company may, before such power expires, make an offer or enter into an agreement which would or might require equity securities to be allotted after such power expires and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Registered Office
14 Kinnerton Place South
London
SW1X 8EH
21 March 2012

BY ORDER OF THE BOARD
Paul Foulger
Company Secretary

Notice of Annual General Meeting continued

Notes:

(1) The Company specifies that only those members registered on the Company's register of members at 6 pm on 21 May 2012 or if this general meeting is adjourned, at 6 pm on the day two days prior to the adjourned meeting shall be entitled to attend and vote at the General Meeting.

(2) If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the General Meeting and you should have received a Proxy Form with this notice. You can only appoint a proxy using the procedures set out in these notes and the notes to the Proxy Form.

(3) A proxy does not need to be a member of the Company but must attend the General Meeting to represent you. Details of how to appoint the chairman of the General Meeting or another person as your proxy using the Proxy Form are set out in the notes to the Proxy Form. If you wish your proxy to speak on your behalf at the General Meeting you will need to appoint your own choice of proxy (not the chairman) and give your instructions directly to them.

(4) You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Company's registrars at the address set out in note 5.

(5) The notes to the Proxy Form explain how to direct your proxy how to vote on each resolution or withhold their vote.
To appoint a proxy using the Proxy Form, the Proxy Form must be:
(a) completed and signed;
(b) sent or delivered to Capita Registrars, PXS, 34 Beckenham Road, Kent BR3 4TU; and
(c) received by Capita Registrars, at the address provided in paragraph 5(b) above no later than 11 am on 21 May 2012.
In the case of a member which is a company, the Proxy Form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
Any power of attorney or any other authority under which the Proxy Form is signed (or a duly certified copy of such power or authority) must be included with the Proxy Form.

(6) In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

(7) To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars at the address noted in note 5 above.
If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

(8) In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars at PXS, 34 Beckenham Road, Kent, BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
The revocation notice must be received by Capita Registrars no later than 11 am on 21 May 2012.
If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.
Appointment of a proxy does not preclude you from attending the general meeting and voting in person. If you have appointed a proxy and attend the general meeting in person, your proxy appointment will automatically be terminated.

(9) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises power over the same share.

(10) Voting on all resolutions will be conducted by way of a poll rather than on a show of hands.

(11) As at 5 pm on the day immediately prior to the date of posting of this notice, the Company's issued share capital comprised 251,228,134 Ordinary Shares of 1p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5 pm on the day immediately prior to the date of posting of this notice is 251,228,134.

Notes

Notes

Company Information

Directors:	David Evans (Executive Chairman) Julian Baines (Chief Executive Officer) Richard Evans (Finance Director) Kevin Wilson (Non-Executive Director) Adam Reynolds (Non-Executive Director) Gordon Hall (Non-Executive Director)
Company Secretary:	Paul Foulger
Registered office:	14 Kinnerton Place South London SW1X 8EH
Head office:	Avon House 19 Stanwell Road Penarth Cardiff CF64 2EZ
Place of incorporation:	England and Wales (Company number – 4347937)
Auditors:	PricewaterhouseCoopers LLP One Kingsway Cardiff CF10 3PW
Nominated Advisor and Broker:	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Solicitors to the Company:	Berry Smith LLP Haywood House Dumfries Place Cardiff CF10 3GA
Registrars:	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Bankers:	Royal Bank of Scotland plc One Kingsway Cardiff CF10 3AQ
Public relations:	Walbrook PR Limited 4 Lombard Street London EC3V 9HD

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Email: info@ekfdiagnostics.com

www.ekfdiagnostics.com

Proxy Form

EKF Diagnostics Holdings plc (Company)

Annual General Meeting
Before completing this form, please read the explanatory notes below

I /We being a member of the Company appoint the Chairman of the meeting or (see note 3)

as my/our proxy to attend, speak and vote on my/our behalf at the Annual General Meeting of the Company to be held on 23 May 2012 at 11 am and at any adjournment of the meeting.

I/We direct my/our proxy to vote on the following resolutions as I/we have indicated by marking the appropriate box with an 'X'. If no indication is given, my/our proxy will vote or abstain from voting at his or her discretion and I/we authorise my/our proxy to vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

Ordinary Resolutions	For	Against	Vote withheld
1. To receive and adopt the statement of accounts for the year ended 31 December 2011 together with the reports of the Directors and the Auditors thereon.			
2. To re-elect Richard Evans, who retires by rotation, as a Director.			
3. To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors to act as such until the conclusion of the next General Meeting of the Company at which the requirements of section 437 of the Companies Act 2006 are complied with and to authorise the directors of the Company to fix their remuneration.			
4. That in substitution for any existing such authority, the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "2006 Act") to allot Relevant Securities of the Company: (i) up to a maximum nominal amount of £300,272.52 (in pursuance of the exercise of outstanding share options granted by the Company but for no other purpose); (ii) up to an aggregate nominal amount of £376,842.20 (in addition to the authorities conferred in sub-paragraphs (i) above) representing approximately 15 % of the Company's Issued Share Capital, such authorities (unless previously renewed, revoked or varied) to expire at the conclusion of the next Annual General Meeting of the Company to be held in 2013, save that the Company may, before such expiry, make an offer or agreement which would or might require Relevant Securities to be allotted after such expiry and the directors may allot Relevant Securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.			
5. Special Resolution That, subject to the passing of the above Resolution the Directors be given the general power to allot equity securities (as defined in section 560 of the 2006 Act) pursuant to the authority conferred by the Resolution above as if section 561(1) of the 2006 Act did not apply to any such allotments provided that this power shall be limited to: (i) the allotment of equity securities on the exercise of the share options granted by the Company; (ii) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (i) above) for cash in connection with any rights issue or pre emptive offer in favour of holders of equity securities generally; and (iii) the allotment (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities for cash up to an aggregate nominal amount of £376,842.20 representing approximately 15% of the Company's Issued Share Capital, provided that such power (unless previously renewed, revoked or varied) shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013, save that the Company may, before such power expires, make an offer or enter into an agreement which would or might require equity securities to be allotted after such power expires and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.			

Signature Date

Proxy Form continued

Notes to the proxy form

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes.
2. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. To appoint as your proxy a person other than the Chairman of the meeting, insert their full name in the box. If you sign and return this proxy form with no name inserted in the box, the Chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman and give them the relevant instructions directly.
4. To direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
5. To appoint a proxy using this form, the form must be:
   - completed and signed;
   - sent or delivered to Capita Registrars, PXS, 34 Beckenham Road, Kent BR3 4TU; and
   - received by Capita Registrars no later than 48 hours before the time fixed for the Annual General Meeting.
6. In the case of a member which is a company, this proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
7. Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
8. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
9. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
10. For details of how to change your proxy instructions or revoke your proxy appointment see the notes to the notice of meeting.
11. You may not use any electronic address provided in this proxy form to communicate with the Company for any purposes other than those expressly stated.