EKF DIAGNOSTICS

DIAGNOSTICS
It's in our blood

EKF Diagnostics Holdings plc
Annual Report 2012

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

Our expertise covers the entire IVD chain from fermentation and enzyme production, the manufacture of liquid reagents, the development and manufacture of accurate and reliable diagnostic devices and the manufacture and distribution of kidney and liver biomarkers for use in research.

The combination of a strong portfolio with a pipeline of novel products and a forward-looking acquisition strategy makes EKF Diagnostics unique in the spectrum of Medtech businesses.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Delivering results

In 2012 EKF invested considerable time and resources in ensuring the conditions for growth were prepared in key worldwide markets.

2012 was a year in which EKF Diagnostics consolidated its position in the market. Turnover increased 20% to £26m and gross profit and adjusted EBITDA also saw positive improvements, up 38% and 101% respectively.

We were pleased to see the green shoots of new, sustainable growth begin to appear from some of the key commercial agreements that were laid down in 2011.

- Alere Inc. sales of HemoPoint H2 in North America increased from 535 units to 2,460 year-on-year.
- Sales of Beta-Hydroxybutyrate liquid reagent increased more than 265% from 2011.
- New contract signed with Chinese distributor for Quo-Test guaranteeing 600 units and 1m tests in 2013.
- Quo-Lab launched in July 2012, registered and available for sale in 28 countries*.
- Quo-Test registered and available for sale in 43 countries*.

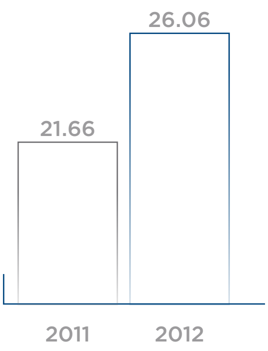
During the year EKF reached a Settlement Agreement with HemoCue in relation to patent-related litigation in Germany and the USA and was also awarded patents for the NXT haemoglobin microcuvette in USA and China, clearing the way for future growth in these markets. To cope with the growth in demand for consumables in 2013, £1m was invested in new plant to provide additional capacity in our manufacturing sites in Magdeburg and Walton-on-Thames.

These agreements and milestones provide a solid basis for ensuring continued revenues from the existing produce range, and will allow us to focus on bringing new products to market that will incrementally grow the business.

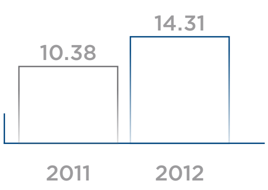
*At 15 March 2013.

Turnover (£m)	Gross profit (£m)	Adjusted EBITDA (£m)
£26.06	**£14.31**	**£3.20**
+20%	+38%	+104%

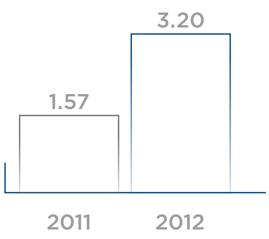
Turnover (£m)



Gross profit (£m)



Adjusted EBITDA (£m)



AT A GLANCE

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 EKF 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 was acquired by UK AIM-listed company IBL plc and before the year was out, Quotient Diagnostics Ltd 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.

In the summer of 2011 EKF acquired 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 the product portfolio.

Less than three 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.

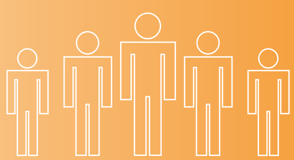
Growth through...

Acquisition

The expanded Group includes nine sites in six countries. Seven of these sites are manufacturing locations.

As at 31 December 2012 EKF Diagnostics employed 302 people with significant increases in manufacturing and commercial departments underlining the business' focus on sales growth.

In early 2013 we announced the acquisition of 360 Genomics and the establishment of EKF Molecular Diagnostics Limited. This new venture marks EKF's entry into the companion diagnostics sector.



Organic growth

One of the primary objectives of EKF Diagnostics is to grow the number of devices placed in primary and secondary care locations including GP surgeries, hospitals, diabetes clinics and laboratories. The total of Quo-Test A1c analysers placed exceeded 1,500 during the year and early in 2013 the 33,333rd Hemo Control was manufactured.

We have also leveraged new opportunities with established products; sales of Beta-Hydroxybutyrate liquid reagent jumped 265% on the back of a dedicated switch-selling campaign by US distributors.

Timeline

2010

JULY
Reverse acquisition of EKF-diagnostic GmbH into International Brand Licensing and renaming of company as EKF Diagnostics Holdings plc.

OCTOBER
Acquired Quotient Diagnostics Ltd. HbA1c diagnostic technology, R&D, distribution.

DECEMBER
Acquired Argutus Medical. Novel kidney and liver biomarkers. Base for EKF R&D.

2011

JUNE
Acquired Stanbio Laboratory. Clinical chemistry reagents, enzyme production and global distribution.

A global IVD business

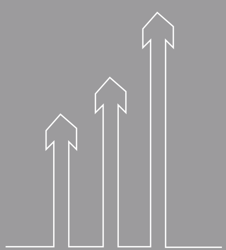
EKF Diagnostics Holdings plc headquarters are in Cardiff. Group finance, sales and marketing departments are based here along with the Chief Executive Officer.

In Germany, Barleben remains the manufacturing hub for Hemo Control and Biosen, whilst Lactate Scout is developed and manufactured in Leipzig. Our Polish operation was established to supplement the production of microcuvettes for Hemo Control and now has three automated production lines in place.

Walton-on-Thames is the manufacturing base of Quo-Test and Quo-Lab. The size of the facility was tripled to 900 sq.m. during 2011 in order 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 with a second enzyme production facility in Elkhart, Indiana. Our US sales team is based here, 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.

EKF's R&D function is based in Dublin along with our kidney and liver biomarker division. Finally EKF Russia, a Moscow-based distributor, is 60% owned by the Group. Russia continues to play an important role in the growth of our business, particularly through sales of Biosen analysers and consumables.



New product development

2013 will see the launch of a number of new products. In the US Stanbio has been developing rapid strip tests for STAT-Site M Hgb and STAT-Site M ßHB, both will be launched mid-2013. Our Dublin facility is in the final stages of developing C-Reactive Protein (CRP) for Quo-Lab and RenaStat, a novel platform for early diagnosis of acute kidney injury, will be placed out for clinical trials in Q3-4. EKF Molecular Diagnostics will also be releasing new products throughout 2013. These products will be innovative tests aimed at identifying patients at risk of developing cancer.

2012

MARCH
HemoPoint H2 NXT cuvettes patented in USA.

APRIL
Hemo Control NXT cuvettes patented in China.

Alere Inc. agreement for sales of HemoPoint H2 in North America commences.

AUGUST
HemoCue Settlement Agreement announced.

2013

MARCH
360 Genomics Ltd acquired and formation of EKF Molecular Diagnostics.

OUR PRODUCTS

EKF Diagnostics' strength lies in the range of IVD products manufactured and distributed by the business. Amongst these are three that have been integral to the growth of the business in 2012.

Hemo Control/HemoPoint H2

Sales of haemoglobin analysers in US market well above expectations

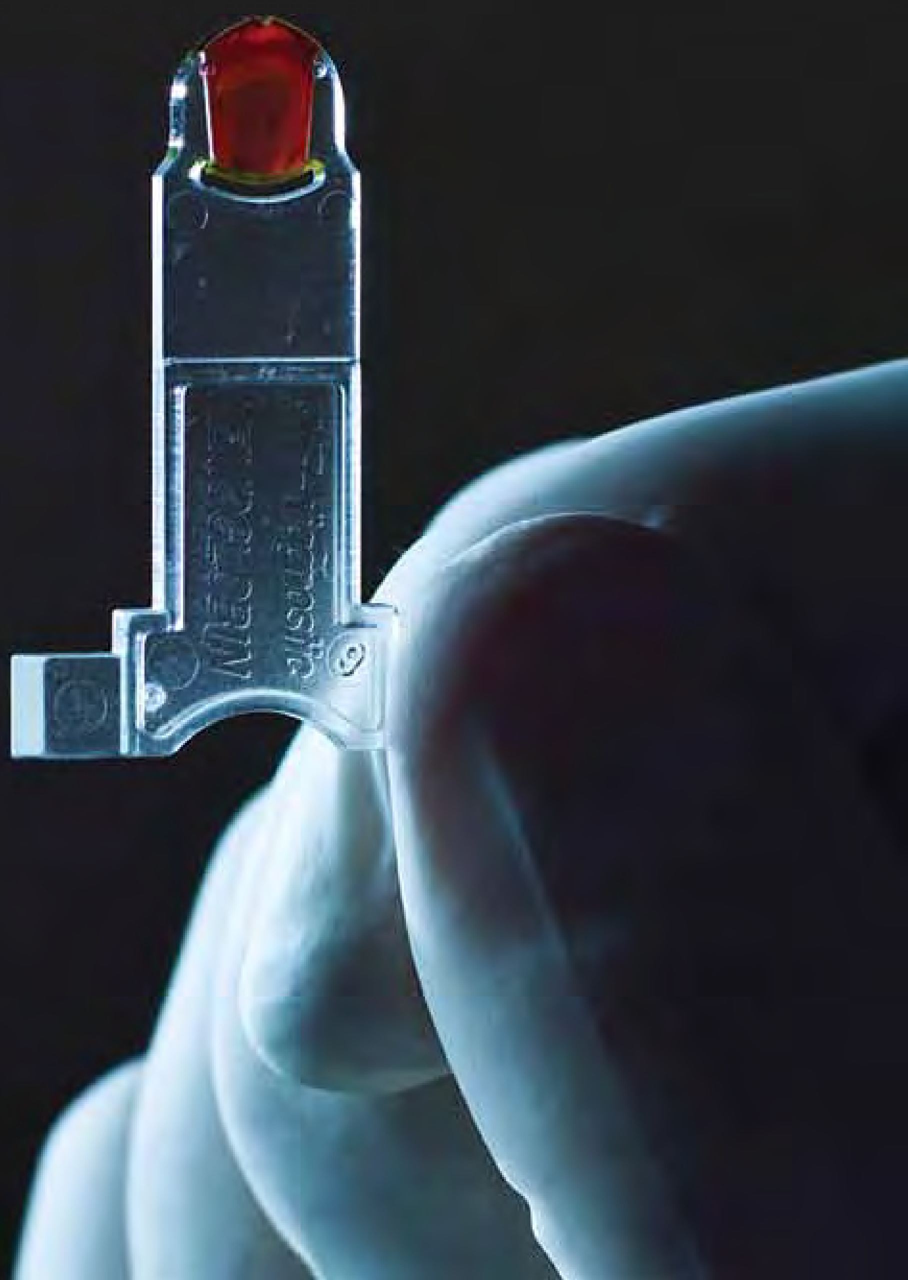
EKF Diagnostics' haemoglobin analyser, Hemo Control (sold as HemoPoint H2 in some territories), is a well-established and trusted device for the determination of anaemia. In early 2013 we celebrated the production of the 33,333rd Hemo Control since the first one was sold to Oman in 2003. That first device is still in use today and is a perfect demonstration of the reliability that has become a hallmark of EKF analysers.

The haemoglobin analysis market is a competitive one but Hemo Control has a number of distinct features that help differentiate it from its rivals. The most significant of these is the introduction of the EKF Diagnostics NXT microcuvettes. The patented design of the cuvette features a wide opening to allow easy blood collection from the patient and also an air gap that delivers bubble-free sampling every time, reducing wastage and keeping patient discomfort to a minimum.

In 2012 EKF realised a step-change in its business strategy for haemoglobin measurement through an agreement with Alere Inc. one of the world's largest point-of-care businesses.

EKF's agreement provided Alere with exclusive sales rights to HemoPoint H2 in the USA and Canada. The contract guaranteed an increase in the placement of analysers and gave EKF access to Alere's formidable sales team and their considerable leverage with the largest medical distributors in the North America. Consequently annual sales have increased from 535 to 2,460 units despite Alere only receiving FDA clearance to sell HemoPoint H2 at the end of Q1 2012. HemoPoint's share of the US market has risen from 6% in Q1 2012 to 10% by Q4 (source: GHX).

Sales of Hemo Control/HemoPoint H2 in 2012 were also underpinned by significant contracts in South East Asia, South Africa and ongoing orders from tenders in Mexico, Peru and Tanzania. EKF has also been successful in re-entering the German blood bank sector through a successful tender in Bavaria (Q1 2013).



Quo-Lab A1c

Commercial launch of affordable glycated haemoglobin analyser in Q3

Glycated haemoglobin (HbA1c) is a parameter for monitoring diabetic patients' ability to break down glucose in their blood. The adoption of HbA1c has been growing for a number of years as the technology available has been adapted and refined for use in point-of-care settings.

EKF launched Quo-Test into this market four years ago and now has an installed base of approximately 1,500 devices in a diverse range of countries including China, Sweden, Norway, Germany, Tunisia and South Africa.

In July 2012 Quo-Lab was launched commercially following a hugely successful premiere at Medica 2011. Quo-Lab uses the same technology platform as Quo-Test (Boronate Affinity and Fluorescent Quenching) but fewer automated features to provide lab-accurate results at a lower cost per test.

This approach is aimed at developing world markets where healthcare professionals currently rely on central laboratory testing or resource-hungry point-of-care devices to provide them with patient data.

EKF Diagnostics has invested significant time and resources into preparing the conditions for the sale of Quo-Lab around the world. To date Quo-Lab is available for sale in 28 countries, including the key markets of India, Philippines, Indonesia, Mexico, Russia and South Africa. In 2013 product registration is anticipated in the tightly-regulated markets of China and Brazil completing EKF's entry into all the major developing world diabetes markets.

Beta-Hydroxybutyrate liquid reagent

Sales driven through US distributors and direct sales into hospitals

Beta-Hydroxybutyrate (ßHB) makes up 78% of the ketones found in the body during ketoacidosis. Detecting ßHB in a urine sample allows medical staff to make quicker and more accurate decisions than if they used traditional nitroprusside methods that only detect 22% of ketones.

The unique importance of ßHB to EKF Diagnostics is that EKF owns the process of manufacturing the enzyme and the liquid reagent. The enzyme is manufactured in our Elkhart facility before Stanbio Laboratory processes the reagent. Stanbio's field sales team then oversees the sales strategy either directly into small hospitals or through a central distribution network.

In 2012 sales of ßHB increased by 265%. This growth was led by large US distributors who recognised the opportunity to switch hospitals away from nitroprusside tests. In parallel with this growth EKF ran a series of marketing initiatives which included presentations at distributor events, instigating incentive programmes, symposium and webinar discussions using Key Opinion Leaders and a comprehensive media relations and advertising campaign.

CHAIRMAN'S STATEMENT

Dear Fellow Shareholder,

Welcome to the results for the year ending 31 December 2012 for EKF Diagnostics Holdings plc ('EKF'). The year has been one of consolidation and preparation for future growth while driving the profitability of the business.

Strategy

We are continuing to follow our strategy of building a world class diagnostics business focussed mainly on near patient testing, through partnerships with leading players in the diagnostics market, carefully chosen acquisitions, and through challenging our existing businesses to deliver ever improved levels of performance.

In the months from July 2010 to June 2011 we made four major acquisitions which formed the core of the business during 2012. We have worked hard to bring these diverse organisations together to form a single cohesive business through aligning business objectives and bringing teams together. In many ways the process of cultural change is never-ending but we have made good progress in achieving these goals. While we have been concentrating on this we have also been progressing our acquisition and corporate partnering strategies.

Partnerships and acquisition

During the year we announced a number of partnerships, followed two weeks ago by the announcement of our acquisition of 360 Genomics Limited, which will form the basis of our new operating business, EKF Molecular Diagnostics. More detail on this acquisition is given in the Chief Executive's statement.

360 Genomics develops diagnostic technologies to determine the most appropriate and timely therapies for cancer patients. The Company has a pipeline of analytical tests for the detection of mutations in key oncogenes at sensitivities far greater than existing chemistry platforms, and at a cost that is compatible with near-patient testing and patient screening programmes. The Company's lead technology is Pointman™, a product which enriches samples for all genetic mutations at a target position, using a simple-to-use reagent set that works on Polymerase Chain Reaction machines – the standard equipment used for DNA amplification and extraction.

In addition to the Pointman™ enrichment technology, EKF Molecular will also be exploiting the Arcis DNA extraction technology which we licensed during the year as part of our investment of £250,000 in Arcis Biotechnology Holdings Limited. This technology offers the potential for DNA extraction which is quicker, cheaper, and less complex than competitive products.

The first applications for the Arcis and the Pointman™ technologies will be ready for market by mid-summer 2013, and we are very excited about our entry into the fastest growing area of diagnostics and the prospect of launching new products for diseases which we have not covered until now.

In addition, in July we announced that we had obtained an exclusive licence with Joslin Diabetes Center in Boston, the world's preeminent diabetes research, clinical care and education organisation, covering two markers which can help identify patients with Type 1 and Type 2 diabetes who are at increased risk of developing end-stage renal disease up to ten years in advance of its onset. EKF is working in partnership with the Center to further validate the findings for the two markers and to develop clinical diagnostic tests.

As well as progressing these opportunities we are looking to replicate further the innovative entrepreneurial model which involves entering partnerships with key stakeholders which we have initiated with Andrew Webb in his role at EKF Molecular Diagnostics Limited and 360 Genomics. We are currently reviewing a number of opportunities both in women's health and in the broader molecular space, outside the 360 Genomics field of reference.

New product development

The major development during the year has been the commercial launch of Quo-Lab, our affordable HbA1c analyser which is targeted at developing markets. By the end of February 2013 almost 600 of these had been sold worldwide, making this the most successful product launch in EKF's history to date. We have had enormous interest in the product from our worldwide distributor base as well as from major multi-nationals who wish to sell the product on an OEM basis.

We have also been making progress on our pipeline of products for the future. Following the success in achieving proof of principle for testing for C-reactive protein (CRP) levels on Quo-Test earlier in the year, we have now repeated this on the Quo-Lab analyser and are developing this and other potential analytes for launch within the next 18 months. The technical issues that had hindered the development of RenaStat, our acute kidney injury test, have now been resolved by our R & D team in Dublin, working alongside a third party developer. Clinical trials are planned for later this year, with launch anticipated for 2014. The strip version of our STAT-Site M Hgb analyser is being prepared for launch in non-US markets by mid-year.

Last but not least in 2013 we will launch an enhanced version of our handheld lactate analyser, Lactate Scout+. We have also identified potential uses for near-patient lactate measurement outside sports science, specifically in emergency medicine and obstetrics. New versions of our products targeted at these markets are under development.

Results overview

A more detailed analysis of the 2012 results is contained in the Chief Executive's review. The year was made more challenging by the distraction of two distinct and separate approaches to acquire the Company that ultimately came to nothing due to reasons beyond our control. Despite these distractions, revenue has increased by 20.3% to £26.1m which includes a full year of Stanbio Laboratory. There has been a very significant increase in gross profit margin from an adjusted 48% to 55%, driven by increased sales of liquid reagents for testing Beta-Hydroxybutyrate (ßHB). Earnings before interest, tax, depreciation and amortisation has increased to £3.3m, whilst adjusted earnings before interest tax, depreciation and amortisation, which we consider to be the most meaningful measurement, and which excludes share based payments and exceptional items, has increased by over 100% to £3.2m.

In March 2012, we announced the disposal of our Swiss subsidiary IBL AG for a gross consideration of £50,000. This completed the unwinding of the Group's former existence as a sports brand management business. The disposal triggered the recycling through the consolidated income statement of accumulated translation differences previously taken direct to reserves, in accordance with the relevant accounting standard. This has generated a profit on the disposal of the discontinued business of £1.6m.

Management and employees

In the past 12 months a number of key appointments have been made which will help us fulfil our ambitions for the business. Tony Wilks, Head of Group Sales and Marketing, has now been in place for almost a year and has transformed our selling processes and upgraded our regional sales management team through new appointments in Germany, Asia, and Western Europe.

Andrew Webb has joined as Chief Executive of EKF Molecular Diagnostics. Andy brings enormous experience in this area most recently with QIAGEN and DxS where as Chairman I knew him well. As well as being Chief Executive of EKF Molecular Diagnostics, Andy has also taken an equity stake of 20% in our Molecular Diagnostics business.

Finally our Chief Technology Officer Cormac Kilty has semi-retired. His expertise, enthusiasm, and humour will be much missed. His responsibilities have been transferred to David Corr who has been promoted to Head of R & D, and to Brian Callaghan who has been made responsible for the very important area of regulatory affairs.

Each of our 300 plus employees has played an important role in our success to date, and the Board would like to thank them for their commitment, flexibility, and dedication.

"There has been a very significant increase in gross profit margin from an adjusted 48% to 55%, driven by increased sales of liquid reagents for testing Beta-Hydroxybutyrate (ßHB)."

Outlook

2013 is a year where I anticipate seeing further advancement across all areas of our business as we continue to execute against our ambitious growth plan. Trading in the period to the date of this announcement is in line with expectations and we anticipate continued growth throughout the year.

I look forward to updating you in due course.

David Evans
Executive Chairman
18 March 2013

OUR STRATEGY IN ACTION

In 2012 we drove global sales across our portfolio.

Increased focus on high margin products has led to improved margins and EBITDA.

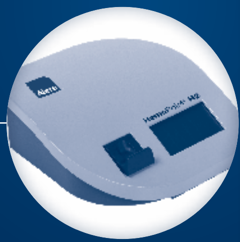
2013 will see EKF penetrate developing world markets, using a mixture of distribution and OEM arrangements.

Growth in the US led by strategic arrangements with national distribution networks.

PRODUCT CASE STUDY:

HEMOPOINT H2 AND ßHB

WHERE: USA



Growth in the US has been the direct result of carefully chosen strategic partnerships.

Alere Inc. hold the rights to the HemoPoint H2 haemoglobin analyser and the resulting increase in sales is a consequence of Alere's focus on taking market share from the leading competitor in this category. EKF Diagnostics, through Stanbio Laboratory, has ensured that Alere received the technical and product support needed to make an impact in a competitive landscape.

A similar strategy has seen sales of the ßHB reagent increase significantly year on year. EKF Diagnostics, again through Stanbio, partnered with several of the country's top medical distribution businesses including Cardinal Healthcare and Fisher Scientific to build awareness of the product and its benefits in identifying patients displaying symptoms of ketoacidosis.

PRODUCT CASE STUDY:

QUO-LAB

WHERE: AFRICA, INDIAN SUB-CONTINENT, LATIN AMERICA

EKF has been approached by several well-known businesses in the IVD world since launching Quo-Lab in 2012.

One of these, a European based manufacturer and distributor, will be launching its own-label version of Quo-Lab into developing world markets in late Q1/early Q2 2013. This world renowned business has made a significant commitment to EKF and is one of our commercial priorities for the coming year.

PRODUCT CASE STUDY:

BIOSEN, LACTATE SCOUT+, QUO-TEST

WHERE: CHINA

A primary strategic goal for EKF has been having its own presence in key markets.

China is one of those markets and in 2012 we appointed a Sales Manager for the region in order to provide a local point of contact for our distribution network. China is the primary market for sales of Quo-Test but we have also seen significant growth in sales of the Biosen glucose and lactate analyser. 2013 will also see sales of Lactate Scout+ devices grow and the launch of Quo-Lab once SFDA clearance has been obtained.

PRODUCT CASE STUDY:

HEMO CONTROL

WHERE: SOUTH AFRICA

Like many countries, South Africa has both private and public health systems.

These market segments act differently, have different requirements, and are served by different distributors. Appointing one distributor with exclusive access to a single product limits the sales potential in the region. In 2011 EKF set up a unique agreement allowing two distributors to sell the same product to mutually exclusive sectors of the healthcare system in South Africa, thereby incrementally increasing the market potential.

CHIEF EXECUTIVE'S REVIEW

EKF Diagnostics has traded well in 2012, making progress on a number of levels, achieving earnings before interest, tax, depreciation and amortisation (adjusted for share based payments and exceptional items) higher than market consensus expectations and an operating profit, and profit before and after tax for the first time. Each of these is a significant achievement.

Operations

One of the main reasons behind the improved margins during the period was the increased sales of our liquid reagents for testing Beta-Hydroxybutyrate (ßHB). This is used for the diagnosis of ketoacidosis, which is commonly linked to diabetes and other dietary conditions. Testing for ßHB offers improvements in efficiency and sensitivity over traditional methods of testing for ketoacidosis. Improved market conditions plus an increasing recognition of the benefits of the ßHB test mean that 8 out of the top 10 diabetes and endocrinology hospitals in the US are now using the EKF test.

In July we completed the successful commercial launch of Quo-Lab, our affordable HbA1c analyser which is based on the same technology as our Quo-Test automated analyser. In the first instance this is being targeted at emerging markets. We have been very pleased with the initial reaction to this product. We have also signed a revised contract for Quo-Test with our distributor in China with significantly increased minimum quantities. There is a growing acceptance of the advantages of HbA1c (glycated haemoglobin) testing for diabetes management by regulators following recommendations by both the World Health Organisation and the National Institute for Health and Clinical Excellence (NICE). Validation of HbA1c from bodies such as these will help drive market acceptance of the test.

It has been a highly successful year for EKF's haemoglobin analyser, which is sold as the HemoPoint H2 in the US and as the Hemo Control in the rest of the world. In April we commenced sales in North America through Alere Inc, one of the world's premier diagnostics businesses. In the first eight months, they have increased sales in the USA and Canada by more four times the figure achieved in 2011. This high level of instrument sales should drive growth in consumable sales in 2013 and beyond.

At the end of the year EKF received through its local distributor a further order for $2.1m from the Instituto Mexicano del Seguro Social ('IMSS'), the Mexican Institute of Social Security, for cuvettes for the HemoPoint H2. This follows on from the $3.6m order announced in November 2011 to supply the IMSS with 3,500 HemoPoint H2 instruments and related cuvettes. Whilst $0.7m of the order will be recognised in the 2012 figures, around $1.4m will contribute to sales for 2013. This order was originally expected to be received in full during 2012 but was delayed by political uncertainty earlier in the year.

The work we have done during the year has enabled the Group in its present form to achieve an operating profit for the first time, and profits both before and after tax also for the first time. Most importantly, as we feel it is the most appropriate measure at present, adjusted earnings before interest, tax, depreciation and amortisation has doubled to £3.2m (2011: £1.6m). I am extremely pleased with these results which are proof of our commitment to increase margins and efficiency across the Group, and reflect the outstanding efforts of our staff in achieving this goal.

Regulatory

In August, we announced that we have entered into a Settlement Agreement with HemoCue in relation to patent-related litigation in Germany and the US. As a result of the Settlement Agreement all claims are mutually settled and finally resolved. The effect of this is that EKF's original design of cuvette will continue to be sold in all countries other than China, Switzerland, Germany, Denmark, Spain, Finland, Great Britain, Italy, Japan, The Netherlands, Sweden, the United States and South Africa, while the newer design NXT cuvette will continue to be sold in all countries world-wide. As well as dispelling uncertainty, following the settlement we have released the remaining provision for associated costs totalling £0.5m. This has been treated as an exceptional credit within the income statement.

We have been successful in being awarded patents for the NXT cuvette in both the USA and in China. The NXT cuvette has significant advantages over competitor products. Its unique, patented design reduces wastage and is easier to use.

We are working hard to achieve relevant regulatory approvals for our key products around the world. In 2012 we sold to over 110 different countries, each of which has its own regulatory requirements. To demonstrate our commitment to emerging markets we have already gained approval for Quo-Lab in 28 countries in the eight months since launch. We have appointed a new Regulatory Coordinator with the responsibility to manage and prioritise these issues.

Acquisition

On 4 March 2013 we announced the acquisition by our subsidiary company EKF Molecular Diagnostics Limited of 360 Genomics Limited, a business developing diagnostic technologies for cancer gene detection, for initial consideration of £1.6m payable in shares, plus additional consideration in cash, contingent on future revenues, of up to a further £8m.

Results overview

Revenue
Revenue for the period was £26.1m (2011: £21.7m), an increase of 20.3%. When comparing revenue on a pro-forma basis including a full year of results for Stanbio for 2011, revenue was flat. This was a result of the large one-off sale to IMSS in the second half of 2011. Pro-forma revenue of £26.1m for 2011 includes pre-acquisition revenue relating to Stanbio of £4.5m.

Gross margin
Gross margin of £14.3m (2011: £10.4m) was achieved. This represents a margin on turnover of 55% (2011: 48%). Margins have increased as a result of a greater concentration on high margin products such as the ßHB liquid reagent and Biosen consumables, a focussed cost reduction programme, and higher manufacturing volumes for the NXT cuvette.

Administration costs and research and development costs
Administration costs have risen as a result of the increased investment in sales and marketing personnel to aid integration and to develop the business.

Research and development expenditure charged to the consolidated income statement was £0.1m (2011: £0.3m). In addition, the Group capitalised expenditure on research and development of £0.9m (2011: £0.6m). The Group capitalises research and 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 £3.1m (2011: £2.3m).

Operating profit and adjusted earnings before interest tax and depreciation
The Group made a small operating profit of £0.2m (2011: operating loss of £2.0m).

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year was £3.3m (2011: £0.3m). A more meaningful measure is considered to be Adjusted EBITDA which for 2012 was £3.2m (2011: £1.6m) which excludes the effects of share based payments (£0.5m (2011: £ 0.8m)) and exceptional items (profit of £0.6m (2011: loss of £0.5m)). In 2012, exceptional items include the release of provisions following the settlement with HemoCue, and profits on the disposal of available for sale items. These items were small legacy holdings in various listed companies. The profit is stated after the recycling of revaluations previously taken to reserves.

Balance sheet
Property, plant and equipment
During the year we have invested £1.0m in new equipment. The major projects have been capacity upgrades for the manufacture of cuvettes in Germany and for Quo-Test/Quo-Lab in the UK.

Deferred consideration
Payments of deferred consideration have been made in respect of the acquisitions of EKF-diagnostic GmbH (£1.9m in shares) and Stanbio Laboratory (£0.6m in cash), in accordance with agreements made at the time of purchase.

Cash and working capital
In 2012 the Group has successfully generated £2.5m of cash from operations (2011: £0.2m used). Cash generation was particularly strong in the second half of the year, while over the year as a whole net cash (cash less borrowings) has reduced to £2.0m (2011: £2.8m), largely as a result of the build-up of inventory for the IMSS contract, investments in R & D and equipment plus the payment of deferred cash consideration. The Group continues to concentrate on working capital management, in particular ensuring that inventories are held at an appropriate level to support the business.

"The work we have done during the year has enabled the Group in its present form to achieve an operating profit for the first time, and profits both before and after tax also for the first time."

The future

We have set ourselves ambitious targets for revenue and profit growth in 2013. Achieving these will require hard work and dedication. While there are many challenges ahead I believe that driven by a full year of HemoPoint H2 sales through Alere in North America and of Quo-Lab we are in a very good position to meet our targets and I am looking forward to a successful year.

Julian Baines
Chief Executive Officer
18 March 2013

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 businesses, with proven track records and first-class reputations in the diagnostic field. These businesses are the backbone of our organic growth strategy and yet both continue to develop new technologies.

2 *Successful acquisition strategy*

In addition to the robust backbone of the business we continue to look for acquisitions and licensing opportunities that will drive revenues and open up new sectors of the Medtech market to us. The establishment of EKF Molecular Diagnostics and the purchase of 360 Genomics demonstrate our commitment to building and diversifying the EKF Diagnostics brand.

3 *Valuable commercial relationships*

Our commercial relationships with distribution partners in USA, China and developing world markets have provided us with a strong sales baseline. We will be adding to this throughout 2013, with priority given to opportunities within the largest healthcare market places.

4 *Growing product base*

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. By taking advantage of increased purchasing power we have been successful in lowering production costs, which in turn has contributed to improved margins and EBITDA.

5 *Extensive distribution network*

Throughout 2012 we invested significant time in reviewing our distribution network and appointing new distributors in several key markets. We also signed OEM agreements with a large European IVD business and renegotiated terms with our primary distributor in China. These leave us well placed to drive volume sales across the range in 2013.

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. Since 2011 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.

Science made simple

THE BOARD

Executive Board

David Evans

Executive Chairman (aged 52)

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, Scancell Holdings plc and Venn Life Sciences Holdings plc. In addition he was formerly Chairman of Immunodiagnostics Systems Holdings plc and BBI Holdings Limited ('BBI') and Joint-Managing Director of Axis-Shield plc. He also sits on the Board of a number of private companies.

Julian Baines

Chief Executive Officer (aged 48)

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 £85m. 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.

Richard Evans

Finance Director (aged 55)

Richard qualified as a Chartered Management Accountant in 1983 and holds a degree from Edinburgh 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.

Non-Executive Board

Gordon Hall

Non-Executive Director (aged 70)

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 and Bluebird Energy plc.

Adam Reynolds

Non-Executive Director (aged 50)

Adam is 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, Hubco Investments PLC, Hub Capital Partners Limited, Diablo Consulting Limited and Wilton International Marketing Limited, and Chairman of Autoclenz Limited.

Dr Kevin Wilson

Non-Executive Director (aged 62)

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.

Paul Foulger

Company Secretary (Aged 43)

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, and also jointly led the management buy-out of financial communications group, Hansard plc, in 2004. Paul was Finance Director for EKF until September 2011 and currently holds several other directorships, including Venn Life Sciences Holdings plc, Autoclenz Limited, and Arcis Biotechnology Limited. Paul holds an MBA from Warwick Business School.

REPORT OF THE DIRECTORS

for the year ended 31 December 2012

The Directors have pleasure in submitting this report together with the audited consolidated financial statements of EKF Diagnostics Holdings plc for the year ended 31 December 2012.

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

Dr Kevin Wilson

Adam Reynolds

Gordon Hall

Principal activities

During the year the principal activity of the Group and Company 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 6 and 7 and the Chief Executive's review on pages 10 to 11.

The Group operates in the in-vitro diagnostics business and works on the principle of selling value priced instrumentation which generates long-term revenue streams from the subsequent sale 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 6 and 7 and the Chief Executive's Review on pages 10 to 11 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. KPIs are discussed in more detail in the Chief Executive's review on pages 10 and 11.

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 the 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 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 and Company 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 days credit taken by the Group as at 31 December 2012 was 38 days (2011: 50 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 2012 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 2012 Ordinary Shares of 1p each	On 1 January 2012 Ordinary Shares of 1p each
David Evans	**1,534,325**	1,534,325
Julian Baines	**1,550,527**	1,550,527
Richard Evans	**96,700**	96,700
Kevin Wilson	**1,137,846**	1,137,846
Adam Reynolds	**3,276,153**	1,936,776
Gordon Hall	**839,282**	339,282

Substantial shareholdings

As at 14 March 2013, 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
Chase Nominees Limited	25,980,785	9.53
HSBC Global Custody Nominee (UK)	20,222,303	7.42
Pershing Nominees Limited	16,054,542	5.89
State Street Nominees Limited	12,333,123	4.52
Nutraco Nominees Limited	12,218,132	4.48
Vidacos Nominees Limited	10,322,849	3.79
Nortrust Nominees Limited	8,351,896	3.06

REPORT OF THE DIRECTORS CONTINUED

for the year ended 31 December 2012

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 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 and have been in force during the whole of the financial year and up to the date of approval of the financial statements.

Independent 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 Statement on pages 19 and 20 of these financial statements. The Corporate Governance Statement forms part of this Report of the Directors 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 59.

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 Report of the Directors was approved by the Board on 18 March 2013 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 2012 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.

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.

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)	11
Kevin Wilson (Non-Executive Director)	9
Adam Reynolds (Non-Executive Director)	10
Gordon Hall (Non-Executive Director)	9

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.

Board appointments

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

CORPORATE GOVERNANCE STATEMENT CONTINUED

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 the Group has a duty to be a good corporate citizen and is conscious that its business processes minimise harm to the environment, that it 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 2012

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 2012 is shown below:

	Salary and fees £'000	Pension £'000	Benefits in kind £'000	Bonus £'000	**2012 £'000**	2011 £'000
Executive Directors						
David Evans*	44	–	–	–	**–**	39
Julian Baines	204	4	2	20	**230**	266
Richard Evans**	154	–	20	30	**204**	88
Paul Foulger***	–	–	–	–	**–**	–
	402	4	22	50	**478**	511
Non-Executive Directors						
Kevin Wilson	25	–	–	–	**25**	25
Adam Reynolds	25	–	–	–	**25**	38
Gordon Hall	25	–	–	–	**25**	25
	75	–	–	–	**75**	88
Total fees and emoluments	477	4	22	50	**553**	599

* David Evans remuneration is paid through his personal consultancy, MBA Consultancy.
** Richard Evans remuneration in 2011 is disclosed from the day of his appointment on 28 September 2011.
*** Paul Foulger's remuneration in 2011 includes £80,000 invoiced through Wilton International Marketing Limited, a company in which he was a director. Paul Foulger resigned as a director on 28 September 2011.

On 21 March 2012 Adam Reynolds exercised his options over 1,325,488 Ordinary Shares of 1p at a premium of 21p. The potential gain at the date of exercise of the options was £291,000. On 18 December 2012 Gordon Hall exercised his options over 500,000 Ordinary Shares of 1p at a premium of 19p. The potential gain at the date of exercise of the options was £25,000.

Directors' share options

As at 31 December 2012 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

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 the 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.

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
Gordon Hall	600,000

INDEPENDENT AUDITORS' 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 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company's Statements of Financial Position, the Consolidated and Company's Statements of Cash Flows, the Consolidated and Company's Statements 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 Statement of Directors' Responsibilities set out on page 18, 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 Annual Report 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 2012 and of the Group's profit 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 Report of the Directors 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
18 March 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Continuing operations			
Revenue	5	**26,060**	21,658
Cost of sales		**(11,747)**	(11,277)
Gross profit		**14,313**	10,381
Administrative expenses	6, 7	**(14,651)**	(12,906)
Other income		**542**	485
Operating profit/(loss)		**204**	(2,040)
Depreciation and amortisation	5	**(3,079)**	(2,321)
Share-based payment		**(537)**	(753)
Exceptional items	7	**618**	(534)
EBITDA before exceptional items and share-based payment	5	**3,202**	1,568
Finance income	12	**4**	76
Finance costs	12	**(404)**	(396)
Loss before income tax		**(196)**	(2,360)
Income tax credit/(expense)	13	**606**	(198)
Profit/(loss) for the year from continuing operations		**410**	(2,558)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	37	**1,594**	(187)
Profit/(loss) for the year		**2,004**	(2,745)
Profit/(loss) attributable to:			
Owners of the parent		**1,830**	(2,884)
Non-controlling interest		**174**	139
		2,004	(2,745)

	Notes	Pence	Pence
Earnings/(loss) per Ordinary Share from continuing and discontinued operations attributable to the owners of the parent during the year			
Basic			
From continuing operations	14	**0.09**	(1.26)
From discontinued operations	14	**0.62**	(0.09)
Continuing and discontinued operations	14	**0.71**	(1.35)
Diluted			
From continuing operations	14	**0.09**	(1.26)
From discontinued operations	14	**0.59**	(0.09)
Continuing and discontinued operations	14	**0.68**	(1.35)

The notes on pages 29 to 58 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.

The loss for the Parent Company for the year was £1,536,000 (2011: £1,282,000).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Profit/(loss) for the year		**2,004**	(2,745)
Other comprehensive income:			
Actuarial loss on pension scheme	33	**(18)**	(2)
Fair value adjustment in respect of available-for-sale financial assets	20	**–**	155
Recycling of reserves in respect of available-for-sale financial assets		**67**	–
Recycling of currency translations in respect of previously held interest in IBL AG	32	**(1,587)**	–
Currency translation differences		**(947)**	(408)
Other comprehensive loss for the year		**(2,485)**	(255)
Total comprehensive loss for the year		**(481)**	(3,000)
Attributable to:			
Owners of the parent		**(659)**	(3,126)
Non-controlling interests		**178**	126
Total comprehensive loss for the year		**(481)**	(3,000)

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

The notes on pages 29 to 58 are an integral part of these consolidated financial statements.

CONSOLIDATED AND COMPANY'S STATEMENTS OF FINANCIAL POSITION

as at 31 December 2012

	Notes	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Assets					
Non-current assets					
Property, plant and equipment	16	**10,014**	10,629	**1,641**	1,674
Intangible assets	17	**31,250**	33,116	**–**	–
Investments in subsidiaries	18	**–**	–	**15,613**	15,613
Investments	21	**250**	–	**250**	–
Trade and other receivables	22	**–**	–	**17,877**	–
Deferred tax assets	28	**973**	168	**82**	94
Available-for-sale financial assets	20	**–**	280	**–**	280
Total non-current assets		**42,487**	44,193	**35,463**	17,661
Current assets					
Inventories	23	**4,971**	4,811	**–**	–
Trade and other receivables	22	**3,884**	4,273	**6,794**	23,354
Available-for-sale financial assets	20	**–**	51	**–**	–
Deferred tax assets	28	**44**	67	**–**	–
Cash and cash equivalents	24	**4,331**	5,338	**736**	2,733
Total current assets		**13,230**	14,540	**7,530**	26,087
Total assets		**55,717**	58,733	**42,993**	43,748
Equity attributable to owners of the parent					
Share capital	29	**2,671**	2,512	**2,671**	2,512
Share premium account	29	**40,240**	38,372	**40,240**	38,372
Other reserve	32	**–**	244	**–**	–
Foreign currency reserves	32	**(961)**	1,577	**–**	–
Retained earnings	31	**(3,004)**	(5,664)	**(5,899)**	(4,967)
		38,946	37,041	**37,012**	35,917
Non-controlling interest		**481**	386	**–**	–
Total equity		**39,427**	37,427	**37,012**	35,917
Liabilities					
Non-current liabilities					
Borrowings	26	**2,031**	2,097	**–**	–
Deferred consideration	27	**3,114**	5,222	**845**	1,747
Deferred tax liabilities	28	**3,793**	4,434	**–**	–
Retirement benefit obligation	33	**112**	97	**–**	–
Total non-current liabilities		**9,050**	11,850	**845**	1,747
Current liabilities					
Trade and other payables	25	**3,743**	4,793	**3,542**	3,579
Deferred consideration	27	**2,600**	2,932	**1,594**	2,505
Current income tax liabilities		**200**	317	**–**	–
Deferred tax liabilities	28	**417**	392	**–**	–
Borrowings	26	**280**	435	**–**	–
Provisions for other liabilities and charges	34	**–**	587	**–**	–
Total current liabilities		**7,240**	9,456	**5,136**	6,084
Total liabilities		**16,290**	21,306	**5,981**	7,831
Total equity and liabilities		**55,717**	58,733	**42,993**	43,748

The notes on pages 29 to 58 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 18 March 2013.

Julian Baines
Chief Executive Officer

Richard Evans
Finance Director

EKF Diagnostics Holdings plc
Registered no: 04347937

CONSOLIDATED AND COMPANY'S STATEMENTS OF CASH FLOWS

for the year ended 31 December 2012

	Notes	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash flow from operating activities					
Cash generated by/(used in) operations	36	**2,520**	(169)	**(3,436)**	(13,678)
Interest paid		**(144)**	(158)	**–**	(4)
Income tax paid		**(777)**	(479)	**–**	–
Net cash generated by/(used in) operating activities		**1,599**	(806)	**(3,436)**	(13,682)
Cash flow from investing activities					
Acquisition of subsidiaries, net of cash acquired		**–**	(8,689)	**–**	–
Purchase of investments		**(250)**	–	**(250)**	–
Purchase of property, plant and equipment (PPE)		**(961)**	(1,555)	**(12)**	(4)
Purchase of intangibles		**(977)**	(660)	**–**	–
Proceeds from sale of PPE	36	**120**	15	**–**	–
Proceeds from sale of intangible assets	37	**–**	1,220	**–**	1,220
Proceeds from sale of available-for-sale financial assets		**462**	78	**462**	78
Interest received		**4**	8	**1,112**	581
Net cash (used in)/generated by investing activities		**(1,602)**	(9,583)	**1,312**	1,875
Cash flow from financing activities					
Proceeds from issuance of Ordinary Shares	29	**127**	12,774	**127**	12,774
New bank loans		**–**	450	**–**	–
Repayments on borrowings		**(312)**	(451)	**–**	–
Dividend payment to non-controlling interest		**(83)**	(45)	**–**	–
Payment of deferred consideration		**(617)**	(323)	**–**	–
Net cash (used in)/generated by financing activities		**(885)**	12,405	**127**	12,774
Net (decrease)/increase in cash and cash equivalents		**(888)**	2,016	**(1,997)**	967
Cash and cash equivalents at beginning of year		**5,219**	3,192	**2,733**	1,766
Exchange gains on cash and cash equivalents		**–**	11	**–**	–
Cash and cash equivalents at end of year	24	**4,331**	5,219	**736**	2,733

CONSOLIDATED AND COMPANY'S STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2012

Consolidated	Share capital £'000	Share premium account £'000	Other reserve £'000	Foreign currency reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
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 1 January 2012	**2,512**	**38,372**	**244**	**1,577**	**(5,664)**	**37,041**	**386**	**37,427**
Comprehensive income								
Profit for the year	–	–	–	–	1,830	1,830	174	2,004
Other comprehensive income								
Actuarial loss on pension	–	–	–	–	(18)	(18)	–	(18)
Recycling of reserves in respect of previously held interest in IBL AG	–	–	(244)	(1,587)	244	(1,587)	–	(1,587)
Recycling of reserves in respect of available-for-sale financial assets	–	–	–	–	67	67	–	67
Currency translation differences	–	–	–	(951)	–	(951)	4	(947)
Total comprehensive income	**–**	**–**	**(244)**	**(2,538)**	**2,123**	**(659)**	**178**	**(481)**
Transactions with owners								
Proceeds from shares issued	159	1,868	–	–	–	2,027	–	2,027
Dividends to non-controlling interest	–	–	–	–	–	–	(83)	(83)
Share-based payments	–	–	–	–	537	537	–	537
Total contributions by and distributions to owners	**159**	**1,868**	**–**	**–**	**537**	**2,564**	**(83)**	**2,481**
At 31 December 2012	**2,671**	**40,240**	**–**	**(961)**	**(3,004)**	**38,946**	**481**	**39,427**

CONSOLIDATED AND COMPANY'S STATEMENTS OF CHANGES IN EQUITY CONTINUED for the year ended 31 December 2012

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
As 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 1 January 2012	**2,512**	**38,372**	**(4,967)**	**35,917**
Comprehensive income				
Loss for the year	–	–	(1,536)	(1,536)
Other comprehensive income				
Recycling of reserves in respect of available-for-sale financial assets	–	–	67	67
Total comprehensive income	**–**	**–**	**(1,469)**	**(1,469)**
Transactions with owners				
Proceeds from shares issued	159	1,868	–	2,027
Share-based payments	–	–	537	537
Total contributions by and distributions to owners	**159**	**1,868**	**537**	**2,564**
At 31 December 2012	**2,671**	**40,240**	**(5,899)**	**37,012**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. General information

EKF Diagnostics Holdings Plc is a company incorporated and domiciled in the United Kingdom. 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. The Group has presence in UK, US, Germany, Poland, Russia and Ireland and sells 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 profit or loss.

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.

(a) Standards, amendments and interpretations effective in 2012

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

(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 2012 and have not been early adopted:

- Amendment to IAS 1, 'Financial statements presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income and will be adopted no later than the accounting period beginning on or after 1 January 2013.
- IAS19, 'Employee benefits', was amended in June 2011. The impact for the Group will be 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. The Group is yet to assess the full impact of the amendment and intends to adopt the amendment no later than the accounting period which begins on or after 1 January 2013.
- IFRS 9, 'Financial instruments', issued in December 2009 and October 2010. This addresses the classification, measurement and recognition of financial assets and financial liabilities and may affect the Group's accounting for its financial assets and liabilities. IFRS 9 requires financial assets to be classified into two measurement categories (fair value and amortised cost) with the determination to be made at initial recognition by reference to the business model for managing financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities the main change relates to the treatment of changes in fair value relating to an entity's own credit risk under the fair value option which will now be recorded in other comprehensive income rather than the income statement. 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.
- 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 2012

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 presentation 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'.

(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.

2. Summary of significant accounting policies *continued*

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.

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:

Buildings	2%-2.5%
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, trade names and licences
Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences 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 licences over their estimated useful lives of between 8 to 12 years and is charged to administrative expenses in the income statement.

(c) 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 and 12 years and is charged to administrative expenses in the income statement.

(d) Trade secrets
Trade secrets, including 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 and 16 years and is charged to administrative expenses in the income statement.

(e) Development costs
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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

2. Summary of significant accounting policies *continued*

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.

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 as loans and receivables. 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 asset 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.

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.

2. Summary of significant accounting policies *continued*

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.

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 expenses'.

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

2. Summary of significant accounting policies continued

(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.

Revenue recognition

(a) Sale of goods

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 licence income

Royalty and licence 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, and Zloty 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 USDs, Euros, Roubles, and Zloty as the Group has subsidiary businesses located in US, Germany, Ireland, Poland, and Russia.

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 2012**	Average rate 2011	**Year end rate 2012**	Year end rate 2011
Euro	**1.232**	1.15	**1.233**	1.20
Russian Rouble	**49.442**	47.26	**49.636**	49.68
Polish Zloty	**5.163**	4.77	**5.032**	5.34
US Dollar	**1.590**	1.59	**1.626**	1.55

3. Financial risk management *continued*

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 £10,000 and £29,000 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.

(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 2012 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 2012:					
Borrowings (inc. finance leases)	293	271	425	1,489	2,478
Deferred consideration	2,030	1,000	2,460	–	5,490
Trade and other payables	3,537	–	–	–	3,537
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

(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 2012. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

3. Financial risk management continued

(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.

	2012 Level 1 £'000	2011 Level 1 £'000
Assets		
Available-for-sale financial assets – equity securities	–	280

The Group has no Level 2 or 3 classified financial assets as at 31 December 2012 (2011: none).

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, licences, 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 30.

(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. A deferred tax asset in respect of tax losses relating to the Company has not been recognised as insufficient future taxable profit in the Company is currently forecast. A deferred tax asset has not been recognised in respect of the historic losses within the Group's Irish business as the RenaStat product remains in development and future taxable profit is not forecast in the short term. The carrying amount of deferred tax assets at the balance sheet date was £1,017,000 (2011: £235,000). In addition there were £1,054,000 (2011: £1,961,000) 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, such as 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 2012 is as follows:

2012	Germany £'000	UK £'000	US £'000	Ireland £'000	Poland £'000	Russia £'000	Switzerland (Discontinued) £'000	Other £'000	Total £'000
Income statement									
Revenue	11,108	1,691	13,989	469	1,210	3,318	–	–	31,785
Inter-segment	(5,386)	(332)	–	–	(7)	–	–	–	(5,725)
External revenue	**5,722**	**1,359**	**13,989**	**469**	**1,203**	**3,318**	**–**	**–**	**26,060**
Adjusted EBITDA*	**3,426**	**(248)**	**2,791**	**(421)**	**303**	**558**	**–**	**(3,207)**	**3,202**
Exceptional costs	503	–	–	–	–	–	–	115	618
Share-based payment	–	–	–	–	–	–	–	(537)	(537)
EBITDA	**3,929**	**(248)**	**2,791**	**(421)**	**303**	**558**	**–**	**(3,629)**	**3,283**
Depreciation	(575)	(181)	(268)	(39)	(30)	(12)	–	(60)	(1,165)
Amortisation	(583)	(218)	(742)	(210)	(117)	(44)	–	–	(1,914)
Operating profit/(loss)	**2,771**	**(647)**	**1,781**	**(670)**	**156**	**502**	**–**	**(3,689)**	**204**
Net finance costs	(47)	–	(282)	–	(2)	–	–	(69)	(400)
Income tax	(44)	1,088	(301)	(13)	(17)	(95)	–	(12)	(606)
Profit/(loss) from continuing operations	**2,680**	**441**	**1,198**	**(683)**	**137**	**407**	**–**	**(3,770)**	**410**
Discontinued operations	–	–	–	–	–	–	1,594	–	1,594
Retained profit/(loss)	**2,680**	**441**	**1,198**	**(683)**	**137**	**407**	**1,594**	**(3,770)**	**2,004**
Segment assets									
Operating assets	16,851	9,355	22,370	3,023	1,410	1,122	–	22,233	76,364
Inter-segment assets	(97)	(51)	–	–	–	–	–	(24,830)	(24,978)
External operating assets	16,754	9,304	22,370	3,023	1,410	1,122	–	(2,597)	51,386
Cash and cash equivalents	2,069	413	266	37	143	667	–	736	4,331
Total assets	**18,823**	**9,717**	**22,636**	**3,060**	**1,553**	**1,789**	**–**	**(1,861)**	**55,717**
Segment liabilities									
Operating liabilities	9,460	5,606	18,085	1,872	160	183	–	3,373	38,739
Inter-segment liabilities	(6,610)	(4,702)	(12,090)	(1,354)	(4)	–	–	–	(24,760)
External operating liabilities	2,850	904	5,995	518	156	183	–	3,373	13,979
Borrowings	455	–	1,846	–	10	–	–	–	2,311
Total liabilities	**3,305**	**904**	**7,841**	**518**	**166**	**183**	**–**	**3,373**	**16,290**
Other segmental information									
Non-current assets – PPE	3,181	807	4,045	58	222	36	–	1,665	10,014
Non-current assets – Intangibles	9,312	5,786	12,725	2,267	753	407	–	–	31,250
Non-current assets – additions	686	588	255	335	36	16	–	22	1,938

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

5. Segmental reporting continued

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 items 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:

	2012 £'000	2011 £'000
Americas		
United States of America	**8,322**	4,751
Rest of Americas	**3,406**	3,683
Europe, Middle East and Africa (EMEA)		
Germany	**2,992**	3,097
United Kingdom	**514**	153
Rest of Europe	**2,548**	2,568
Russia	**3,339**	3,244
Middle East	**622**	423
Africa	**1,043**	1,077
Rest of World		
China	**1,511**	1,273
Asia	**1,731**	1,365
New Zealand/Australia	**32**	24
Total revenue	**26,060**	21,658

Revenues of approximately £1.9m (2011: £2.3m) are derived from a single external customer. These revenues are attributable to the US segment.

6. Expenses – analysis by nature

	2012 £'000	2011 £'000
Inventories consumed in cost of sales	**6,550**	7,521
Employee benefit expense (Note 10)	**11,263**	8,959
Depreciation and amortisation	**3,079**	2,321
Transaction costs relating to business combinations (Note 7)	**–**	397
Research and development expenses	**143**	269
Foreign exchange	**83**	(213)
Operating lease payments	**172**	173
Other expenses	**5,108**	4,756
Total cost of sales and administrative expenses	**26,398**	24,183

Included within the 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:

	Notes	2012 £'000	2011 £'000
Exceptional items includes:			
– Profit on disposal of available-for-sale assets	a	**115**	–
– Release of provision associated with patent litigation	b	**503**	–
– Transaction costs relating to business combinations		**–**	(397)
– Loss on stock		**–**	(137)
Exceptional items – continuing		**618**	(534)
Exceptional items – discontinued		**–**	(49)

(a) Profit on disposal of available-for-sale assets.

The Group made a net profit of £115,000 (2011: Nil) as a result of the sale of its holding of listed securities. The profit is reported after the recycling from reserves of previous revaluation losses of £67,000.

(b) Release of provision associated with patent litigation.

Following the final settlement of patent litigation, the Group has released the unused associated provision for litigation costs of £503,000.

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:

	2012 £'000	2011 £'000
Fees payable to Company's auditor for the audit of the Parent Company and consolidated financial statements	**31**	20
Fees payable to the Company's auditor and its associates for other services:		
– The audit of Company's subsidiaries	**77**	88
– Other services	**5**	79
– Tax compliance services	**11**	16
– Tax advisory services	**–**	40
	124	243

9. Directors emoluments

	2012 £'000	2011 £'000
Aggregate emoluments	**549**	594
Contribution to defined contribution pension scheme	**4**	5
	553	599

Retirement benefits are accruing to 1 (2011: 2) directors under a defined contribution scheme.

See further disclosures within the Remuneration Report on page 21.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

9. Directors emoluments continued

	2012 £'000	2011 £'000
Total emoluments received	**226**	262
Defined contribution pension scheme	**4**	4

10. Employee benefit expense

	2012 £'000	2011 £'000
Wages and salaries	**9,298**	7,001
Social security costs	**1,490**	1,037
Share options granted to Directors and senior management	**537**	753
Pension costs – defined contribution plans (Note 33)	**127**	151
Pension costs – defined benefit plans (Note 33)	**9**	10
	11,461	8,952

Employee costs of £0.2m have been capitalised as part of research and development costs.

11. Monthly average number of people employed

	2012 Number	2011 Number
Monthly average number of people (including Executive Directors) employed was:		
Administration	**55**	56
Research and development	**36**	42
Sales and marketing	**70**	60
Manufacturing, production and after sales	**139**	126
	300	284

The total number of employees at 31 December 2012 was 302 (2011: 295).

12. Finance income and costs

	2012 £'000	2011 £'000
Finance costs:		
– Bank borrowings	**130**	126
– Finance lease liabilities	**1**	13
– IAS 19 interest expense (Note 33)	**6**	7
– Interest on other loans	**7**	80
– Deferred consideration-unwinding of discount (Note 27)	**260**	170
Finance costs	**404**	396
Finance income		
– Interest income on cash and short-term deposits	**4**	4
– Other interest	**–**	72
Finance income	**4**	76
Net finance costs	**400**	320

13. Income tax

Group	2012 £'000	2011 £'000
Current tax:		
Current tax on loss for the year	**659**	586
Total current tax	**659**	586
Deferred tax (Note 28):		
Origination and reversal of temporary differences	**(104)**	(388)
Adjustment arising in previous period	**(775)**	–
Impact of deferred tax rate change	**(386)**	–
Total deferred tax	**(1,265)**	(388)
Income tax (credit)/charge	**(606)**	198

On 21 March 2012 the UK Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012. In addition, the Finance Act 2012, which passed into law on 3 July 2012 included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013. The change in the main rate from 25% to 23% in the UK has resulted in a deferred tax credit of £386,000.

The proposed further reduction in the UK corporation tax rate by 2% to 21% from 1 April 2014 is expected to be enacted separately, the effect of this change on deferred tax cannot be reliably quantified at this stage.

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:

	2012 £'000	2011 £'000
Loss before tax	**(196)**	(2,360)
Tax calculated at domestic tax rates applicable to UK standard rate of tax of 24.5% (2011: 25%)	**(48)**	(590)
Tax effects of:		
– Expenses not deductible for tax purposes	**(518)**	369
– Losses carried forward	**865**	322
– Impact of different tax rates in other jurisdictions	**243**	97
– Utilisation of previously unrecognised tax losses	**(891)**	–
– Effect of reduction in tax rate	**(386)**	–
– Other movements	**129**	–
Tax (credit)/charge	**(606)**	198

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

14. Earnings/(loss) per share

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to owners of the parent by the weighted average number of Ordinary Shares in issue during the year.

	2012 £'000	2011 £'000
Profit/(loss) attributable to owners of the parent	**1,830**	(2,884)
Profit/(loss) from continuing operations attributable to owners of the parent	**236**	(2,697)
Profit/(loss) from discontinued operations attributable to owners of the parent	**1,594**	(187)
Weighted average number of Ordinary Shares in issue	**255,156,200**	213,580,118
Basic earnings/(loss) per share	**0.71 pence**	(1.35) pence
Basic earnings/(loss) per share from continuing operations	**0.09 pence**	(1.26) pence
Basic earnings/(loss) per share from discontinued operations	**0.62 pence**	(0.09) pence

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

14. Earnings/(loss) per share continued

(b) Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of Ordinary Shares outstanding assuming 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.

	2012 £'000	2011 £'000
Profit/(loss) attributable to owners of the parent	**1,830**	(2,884)
Profit/(loss) from continuing operations attributable to owners of the parent	**236**	(2,697)
Profit/(loss) from discontinued operations attributable to owners of the parent	**1,594**	(187)
Weighted average number of Ordinary Shares in issue	**269,011,446**	213,580,118
Basic earnings/(loss) per share	**0.68 pence**	(1.35) pence
Basic earnings/(loss) per share from continuing operations	**0.09 pence**	(1.26) pence
Basic earnings/(loss) per share from discontinued operations	**0.59 pence**	(0.09) pence

	2012 £'000	2011 £'000
Weighted average number of Ordinary Shares in issue	**255,156,200**	213,580,118
Adjustment for:		
– Assumed conversion of share awards	**9,811,306**	–
– Assumed payment of equity deferred consideration	**4,043,940**	–
Weighted average number of Ordinary Shares for diluted earnings per share	**269,011,446**	213,580,118

15. Dividends

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

16. Property, plant and equipment

Group	Land and buildings £'000	Fixtures and fittings £'000	Plant and 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	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**
Accumulated 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**

16. Property, plant and equipment *continued*

Group	Land and buildings £'000	Fixtures and fittings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2012 – restated	6,088	490	6,325	116	13,019
Additions	15	74	859	13	961
Exchange differences	(188)	(11)	(127)	(2)	(328)
Disposals	–	(41)	(118)	(62)	(221)
At 31 December 2012	**5,915**	**512**	**6,939**	**65**	**13,431**
Accumulated depreciation					
At 1 January 2012 – restated	111	170	2,088	21	2,390
Charge for the year	176	127	836	26	1,165
Exchange differences	(3)	(3)	(30)	(1)	(37)
Disposals	–	(40)	(18)	(43)	(101)
At 31 December 2012	**284**	**254**	**2,876**	**3**	**3,417**
Net book value					
At 31 December 2012	**5,631**	**258**	**4,063**	**62**	**10,014**

Opening cost and accumulated depreciation have been restated to include fully written down assets that continue to be used within the business. The restatement has had no impact on the net book value of property, plant and equipment or the current or prior year income statements.

Depreciation expense of £592,000 (2011: £729,000) has been charged to cost of sales and £533,000 (2011: £196,000) has been charged to administrative expenses.

Company	Land and buildings £'000	Fixtures and Fittings £'000	Total £'000
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**
Accumulated 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**
Cost			
At 1 January 2012	1,670	4	1,674
Additions	–	12	12
Disposal	–	–	–
At 31 December 2012	**1,670**	**16**	**1,686**
Accumulated depreciation			
At 1 January 2012	–	–	–
Charge for the year	40	5	45
Disposals	–	–	–
At 31 December 2012	**40**	**5**	**45**
Net book value			
At 31 December 2012	**1,630**	**11**	**1,641**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

16. Property, plant and equipment *continued*

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 (£139,000) (2011: €167,000 (£145,000)) was paid to the Parent Company for the year.

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

Group	2012 £'000	2011 £'000
Cost – capitalised finance leases	**256**	320
Accumulated depreciation	**(72)**	(70)
Net book value	**184**	250

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

The Company has no finance lease agreements.

17. Intangible assets

Group	Goodwill £'000	Trademarks, trade names and licences £'000	Customer relationships £'000	Trade secrets £'000	Development costs £'000	Total £'000
Cost						
At 1 January 2011	9,086	414	1,839	9,371	–	20,710
Acquisition of subsidiaries	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**
Accumulated 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**
Cost						
At 1 January 2012	13,787	1,596	8,933	9,756	876	34,948
Additions	–	42	–	–	935	977
Exchange differences	(345)	(63)	(321)	(208)	(23)	(960)
At 31 December 2012	**13,442**	**1,575**	**8,612**	**9,548**	**1,788**	**34,965**
Accumulated amortisation						
At 1 January 2012	–	115	527	1,153	37	1,832
Exchange differences	–	(3)	(3)	(24)	(1)	(31)
Charge for the year	–	149	799	871	95	1,914
At 31 December 2012	**–**	**261**	**1,323**	**2,000**	**131**	**3,715**
Net book value						
At 31 December 2012	**13,442**	**1,314**	**7,289**	**7,548**	**1,657**	**31,250**

The amortisation charge of £1,914,000 (2011: £1,396,000) has been charged to administrative expenses in the income statement.

17. Intangible assets *continued*

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.

	2012 £'000	2011 £'000
UK	**3,390**	3,390
Germany	**3,863**	3,970
Poland	**332**	313
Russia	**157**	156
Ireland	**997**	1,024
US	**4,703**	4,934
Total	**13,442**	13,787

Goodwill is tested for impairment at the balance sheet date. The recoverable amount of goodwill at 31 December 2012 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 for each unit and the calculation of a terminal value based upon the longer-term growth rates set out below. 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.

The key assumptions used for value in use calculations in 2012 are as follows:

	Germany %	UK %	US %	Ireland %	Poland %	Russia %
Longer-term growth rate	3	3	3	10	3	3
Discount rate	13	15	12	20	26	13

The Irish cash-generating unit is at a stage of significant product development and early-stage revenues and is 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 pipeline in its segment.

The Directors have performed a sensitivity analysis to assess the impact of downside risk of the key assumptions underpinning the projected results of the Irish cash-generating unit. The projections and associated headroom used for the Irish cash-generating unit are sensitive to the EBITDA growth assumptions that have been applied. A 50% reduction in EBITDA growth from the point at which the business is forecast to achieve profitability in management projections would result in a reduction in headroom in the impairment model to a negligible level.

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

Trade name	7-11 years
Customer relations	5-11 years
Trade secrets	5-12 years
Development costs	14 years

The Company has no intangible assets.

18. Investments in subsidiaries

Company shares in Group undertakings	2012 £'000	2011 £'000
Beginning and end of year	**15,613**	15,613

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

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for the year ended 31 December 2012

18. Investments in subsidiaries continued

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

Name of company	Note	Proportion held	Class of shareholding	Nature of business
EKF Diagnostics Limited	1	100%	Ordinary	Head Office
Quotient Diagnostics Limited	1	100%	Ordinary	Sale of diagnostic equipment
EKF-diagnostic GmbH Germany	2	100%	Ordinary	Manufacture and sale of diagnostic equipment
Senslab GmbH	2	100% (indirect)	Ordinary	Diagnostic testing
EKF Diagnostyka Sp.z.o.o.	3	100%	Ordinary	Manufacture and sale of diagnostic equipment
000 EKF Diagnostika	4	60%	Ordinary	Sale of diagnostic equipment
EKF Diagnostics Inc	5	100%	Ordinary	Intermediary Holding Company
Stanbio Laboratory LP	5	100% (indirect)	Ordinary	Manufacture and sale of diagnostic equipment
Argutus Medical Limited	6	100%	Ordinary	Manufacture and sale of diagnostic equipment

Notes
1. Incorporated and registered in the United Kingdom.
2. Incorporated and registered in Germany.
3. Incorporated and registered in Poland.
4. Incorporated and registered in Russia.
5. Incorporated and registered in the United States of America.
6. Incorporated and registered in Ireland. In January 2013 the Company changed its name to EKF Diagnostics Limited.

During the year International Brand Licensing AG was sold for £50,000.

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	2012 Loans and receivables £'000	2012 Available for sale £'000	2011 Loans and receivables £'000	Available for sale 2011 £'000
31 December				
Assets as per balance sheet				
Available-for-sale financial assets	–	–	–	331
Trade and other receivables excluding prepayments	**3,537**	–	3,985	–
Cash and cash equivalents	**4,331**	–	5,338	–
Total	**7,868**	–	9,323	331

Company	2012 Loans and receivables £'000	2012 Available for sale £'000	2011 Loans and receivables £'000	Available for sale 2011 £'000
31 December				
Assets as per balance sheet				
Available-for-sale financial assets	–	–	–	280
Trade and other receivables	**24,644**	–	23,311	–
Cash and cash equivalents	**736**	–	2,733	–
Total	**25,380**	–	26,044	280

(b) Liabilities

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
31 December				
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities)	**1,892**	2,341	–	–
Finance lease liabilities	**419**	191	–	–
Trade and other payables	**3,537**	4,294	**3,504**	3,550
Total	**5,848**	6,826	**3,504**	3,550

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

19. Financial instruments by category *continued*

(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 counterparties to perform their obligations as at 31 December 2012 and 31 December 2011, 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 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:

	2012 £'000	2011 £'000
AA	**266**	1,211
Other	**4,065**	4,127
Total	**4,331**	5,338

20. Available-for-sale financial assets

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
At 1 January	**331**	235	**280**	135
Additions	**–**	68	**–**	68
Revaluation	**–**	155	**–**	155
Net impairment charge	**–**	(49)	**–**	–
Disposals	**(331)**	(78)	**(280)**	(78)
At 31 December	**–**	331	**–**	280
Current portion	**–**	51	**–**	–
Non-current portion	**–**	280	**–**	280

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

	2012 £'000	2011 £'000
Listed securities – UK equity securities (Group and Company)	**–**	280
Intangible assets – Trademarks (Group only)	**–**	51
	–	331

The available-for-sale financial assets were denominated in UK sterling. Following the disposal of the assets a revaluation loss of £67,000 was recycled from reserves to the profit and loss account.

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

21. Investments

Group and Company	**2012 £'000**	2011 £'000
At 1 January	**–**	–
Additions	**250**	–
At 31 December	**250**	–

The investment consists of a 2.93% shareholding in Arcis Biotechnology Holdings Limited, a privately held company operating in the biotechnology industry.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

22. Trade and other receivables

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Non-Current				
Amounts owed by subsidiary undertakings	–	–	17,877	–
Current				
Trade receivables	3,128	3,423	15	–
Less: provision for impairment of trade receivables	(334)	(380)	–	–
Trade receivables – net	2,794	3,043	15	–
Prepayments	265	288	27	43
Amounts owed by subsidiary undertakings	–	–	6,731	23,204
Other receivables	825	942	21	107
	3,884	4,273	6,794	23,354

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

As of 31 December 2012, trade receivables of £15,000 (2011: £630,000) 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 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Up to 3 months	15	630	15	–

As of 31 December 2012, trade receivables of £334,000 (2011: £380,000) were impaired and provided for. The ageing of these impaired receivables is as follows:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Up to 3 months	–	80	–	–
3 to 6 months	–	20	–	–
6 months to one year	334	280	–	–

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

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
At 1 January	380	251	–	–
Provision for receivables impairment	4	254	–	–
Receivables written off during the year as uncollectible	–	(87)	–	–
Unused amounts reversed	(50)	(38)	–	–
At 31 December	334	380	–	–

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 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
UK Sterling	560	512	4,765	2,783
Euros	1,316	1,446	7,913	7,989
US Dollar	1,545	1,921	11,993	12,582
Russian Rouble	235	214	–	–
Polish Zloty	228	178	–	–
Other currencies	–	2	–	–
	3,884	4,273	24,671	23,354

23. Inventories

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Raw materials	**3,301**	2,950	**–**	–
Work in progress	**492**	769	**–**	–
Finished goods	**1,178**	1,092	**–**	–
	4,971	4,811	**–**	–

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 £592,000 (2011: £456,000).

The cost of inventories recognised as expense and included in 'cost of sales' amounted to £6,550,000 (2011: £7,521,000).

The Company held no inventories.

24. Cash and cash equivalents

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash at bank and in hand	**4,331**	2,807	**736**	234
Short-term bank deposits	**–**	2,531	**–**	2,499
Cash and cash equivalents (excluding bank overdrafts)	**4,331**	5,338	**736**	2,733

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

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash and cash equivalents	**4,331**	5,338	**736**	2,733
Bank overdraft (Note 26)	**–**	(119)	**–**	–
Cash and cash equivalents	**4,331**	5,219	**736**	2,733

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

25. Trade and other payables

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Trade payables	**1,508**	2,029	**54**	110
Amounts due to subsidiary undertakings	**–**	–	**2,661**	2,775
Social security and other taxes	**206**	499	**38**	29
Other payables	**515**	645	**–**	120
Accrued expenses and deferred income	**1,514**	1,620	**789**	545
	3,743	4,793	**3,542**	3,579

26. Borrowings

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Non-current				
Bank borrowings	**1,658**	1,982	**–**	–
Finance lease liabilities	**373**	115	**–**	–
	2,031	2,097	**–**	–
Current				
Bank overdraft	**–**	119	**–**	–
Bank borrowings	**234**	240	**–**	–
Finance lease liabilities	**46**	76	**–**	–
	280	435	**–**	–

The Company has no borrowings.

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for the year ended 31 December 2012

26. Borrowings continued

The maturity profile of borrowings was as follows:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Amounts falling due				
Within 1 year	**280**	435	**–**	–
Between 1 and 2 years	**248**	356	**–**	–
Between 2 and 5 years	**361**	576	**–**	–
More than 5 years	**1,422**	1,165	**–**	–
Total borrowings	**2,311**	2,532	**–**	–

(a) Bank borrowings

Bank borrowings have maturity profiles from 2012 through to 2020 and bear an average fixed coupon of 4.7% annually (2011: 4.96%).

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, has covenants attached to it. The Group has been compliant to these covenants throughout the year.

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% (2011: 5%).

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

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Euros	**362**	530	**–**	–
US Dollar	**1,520**	1,677	**–**	–
Polish Zloty	**10**	15	**–**	–
Total	**1,892**	2,222	**–**	–

(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.

	2012 £'000	2011 £'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**51**	86
Later than 1 year and no later than 5 years	**160**	107
Later than 5 years	**220**	29
	431	222
Future finance charges on finance leases	**(12)**	(31)
Present value of finance lease liabilities	**419**	191

The present value of finance lease liabilities is as follows:

	2012 £'000	2011 £'000
No later than 1 year	**47**	76
Later than 1 year and no later than 5 years	**152**	88
Later than 5 years	**220**	27
	419	191

27. Deferred consideration

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
At 1 January	**8,154**	4,168	**4,252**	4,168
On acquisition of subsidiaries	**–**	3,985	**–**	–
Unwinding of discount (Note 12)	**260**	170	**87**	84
Payments made	**(2,517)**	(323)	**(1,900)**	–
Exchange differences	**(183)**	154	**–**	–
At 31 December	**5,714**	8,154	**2,439**	4,252
Current portion	**2,600**	2,932	**1,594**	2,505
Non-current portion	**3,114**	5,222	**845**	1,747

The deferred consideration is made up as follows:

- 4,043,940 Ordinary Shares valued at £605,000 to be issued 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 £1,834,000 (2011: £1,747,000). The contingent consideration is dependent on numbers of instruments sold by April 2014.
- $5,662,000 contingent consideration payable as part of consideration for acquisition of Stanbio Laboratory LP. The discounted value at the year-end amounted to £3,275,000 (2011: £3,902,000). The contingent consideration is largely based on achieving revenue and earnings before interest, tax, depreciation and amortisation (EBITDA) targets.

28. 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	2012 £'000	2011 £'000
Deferred tax assets		
Deferred tax asset to be recovered within 12 months	**(44)**	(67)
Deferred tax asset to be recovered after more than 12 months	**(973)**	(168)
	(1,017)	(235)
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	**3,793**	4,434
Deferred tax liability to be recovered within 12 months	**417**	392
	4,210	4,826
Deferred tax liabilities – net	**3,193**	4,591

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

	2012 £'000	2011 £'000
At 1 January	**4,591**	2,699
Exchange differences	**(133)**	83
On acquisition of subsidiaries	**–**	2,197
Effect of reduction in tax rate	**(386)**	–
Income statement movement (Note 13)	**(879)**	(388)
At 31 December	**3,193**	4,591

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

28. 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 2011	2,916	2,916
Acquisition of subsidiaries	2,197	2,197
Credited to the income statement	(370)	(370)
Exchange differences	83	83
At 31 December 2011	**4,826**	**4,826**
At 1 January 2012	**4,826**	**4,826**
Credited to the income statement	**(94)**	**(94)**
Impact of deferred tax rate change	**(386)**	**(386)**
Exchange differences	**(136)**	**(136)**
At 31 December 2012	**4,210**	**4,210**

Deferred tax assets	Tax losses £'000	Other £'000	Total £'000
At 1 January 2011	(123)	(94)	(217)
Credited to the income statement	(18)	–	(18)
At 31 December 2011	**(141)**	**(94)**	**(235)**
At 1 January 2012	(141)	(94)	(235)
Charged to the income statement	(797)	12	(785)
Exchange differences	3	–	3
At 31 December 2012	**(935)**	**(82)**	**(1,017)**

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 £1,054,000 (2011: £1,961,000) mainly in respect of tax losses amounting to £4,391,000 (2011: £7,843,000) that can be carried forward against future taxable income.

Company	**2012 £'000**	2011 £'000
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	**82**	94
Deferred tax	**82**	94

The movement during the year related to the recycling of impairment of assets and the deferred tax assets relate to other tax differences.

29. Share capital and premium

Group and Company	Number of Shares £'000	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2012	**251,228,134**	**2,512**	**38,372**	**40,884**
Issue of shares	15,839,518	159	1,868	2,027
At 31 December 2012	**267,067,652**	**2,671**	**40,240**	**42,911**

On 21 March Paul Foulger (Company Secretary) and Adam Reynolds (Director) each exercised options over 1,325,488 Ordinary shares at 1p per share.

On 9 November 12,688,542 Ordinary shares were issued in respect of deferred consideration relating to the acquisition of EKF-diagnostic GmbH. These shares had a fair value of £1,900,000.

On 18 December Gordon Hall (Director) exercised options over 500,000 Ordinary shares at 20p each.

30. Share options and share-based payments

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

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

	2012 Number of notional shares	2011 Number of notional shares
At 1 January and 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.

(b) Unapproved share option

	2012		2011	
	Av. Exercise price per share (£)	**Options (Number)**	Av. Exercise price per share (£)	Options (Number)
At 1 January	**0.218**	**7,185,000**	0.195	2,625,000
Granted	**0.252**	**400,000**	0.220	6,860,000
Exercised (Note 29)	**0.200**	**(500,000)**	0.195	(1,900,000)
Forfeited	**–**	**–**	0.252	(400,000)
At 31 December	**0.221**	**7,085,000**	0.218	7,185,000

The unapproved share options include the following:

- Directors' options totalling 500,000 were in issue at the beginning of the year. The Board granted a 6 month extension to the exercise date to 28 December 2012. The options were held by Gordon Hall and the exercise price remained at 20p per share. The 500,000 options were exercised on 18 December 2012.
- 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 in issue at an 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.
- 2,200,000 options were in issue to senior employees of the Group at the beginning of the year at an exercise price of 25.25p 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 were issued on 19 April 2012 to a senior employee of the Group at an exercise price of 25.25p 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.

All share option awards are equity settled. Out of the 7,085,000 (2011: 7,185,000) outstanding options 225,000 (2011: 725,000) were exercisable.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

30. Share options and share-based payments *continued*

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

	2012		2011	
Expiry Date	**Exercise price per share (£)**	**Options (Number)**	Exercise price per share (£)	Options (Number)
28.12.2012	**–**	**–**	0.20	500,000
29.01.2014	**0.18**	**225,000**	0.18	225,000
16.06.2021	**0.20**	**4,260,000**	0.20	4,260,000
28.09.2021	**0.252**	**2,200,000**	0.25	2,200,000
19.04.2022	**0.252**	**400,000**	–	–
		7,085,000		7,185,000

The weighted average fair value of options granted during 2012 determined using the Black-Scholes valuation model was £0.536 (2011: £0.05). The significant inputs into the model are detailed below:

	2012	2011
Weighted average share price	**25.25p**	22p
Weighted average option exercise price	**25.25p**	22p
Expected volatility	**16%**	40%
Risk-free interest rate	**1.25**	2.05
Expected option life	**3 years**	4 years
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')

	2012 Number of notional shares	2011 Number of notional shares
At 1 January	**2,167,318**	2,167,318
Additional entitlement of 50%	**1,083,658**	–
Exercised	**(2,650,976)**	–
At 31 December	**600,000**	2,167,318

Bonus and share incentive scheme awards totalling notional shares of 600,000 (2011: 2,167,318) were outstanding at the end of the year. During the year 2,650,976 were exercised by two of the holders. The latest exercise date for these options is 30 November 2015.

The remaining outstanding BAPSI awards were exercisable at the end of the year.

31. Retained earnings

	Group £'000	Company £'000
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)**
At 1 January 2012	**(5,664)**	**(4,967)**
Profit/(loss) for the year	**1,830**	**(1,536)**
Share-based payment	**537**	**537**
Recycling of reserves in respect of previously held interest in IBL AG	**244**	**–**
Actuarial loss on pension scheme	**(18)**	**–**
Recycling of adjustment in respect of available-for-sale financial assets	**67**	**67**
At 31 December 2012	**(3,004)**	**(5,899)**

32. Other reserves

Group	Foreign currency £'000	Other £'000	Total £'000
At 1 January 2011	1,972	244	2,216
Currency translation differences	(395)	–	(395)
At 31 December 2011	1,577	244	1,821
At 1 January 2012	**1,577**	**244**	**1,821**
Currency translation differences	**(951)**	**–**	**(951)**
Recycling of reserves in respect of previously held interest in IBL AG	**(1,587)**	**(244)**	**(1,831)**
At 31 December 2012	**(961)**	**–**	**(961)**

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

33. Retirement benefit obligations

Group	2012 £'000	2011 £'000
Liability in the balance sheet for pension benefits	**112**	97
Income statement charge for:		
Pension benefits	**15**	17
Actuarial losses recognised in the statement of other comprehensive income in the year	**18**	2
Cumulative actuarial losses recognised in the statement of other comprehensive income	**31**	13

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 £127,000 (2011: £151,000).

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 2012 by SLPM Schweizer Leben Pensions Management GmbH.

The principal actuarial assumptions were as follows:

Group	2012 %	2011 %
Discount rate	**3.85**	5.25
Inflation rate	**2.00**	2.00
Expected return on plan assets	**3.85**	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:

	2012 £'000	2011 £'000
Present value of funded obligation	**(229)**	(204)
Fair value of plan assets	**117**	107
Deficit of funded plans	**(112)**	(97)

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

	2012 £'000	2011 £'000
At 1 January	**204**	183
Exchange differences	**(11)**	–
Current service cost	**9**	10
Interest cost	**10**	10
Actuarial losses	**17**	1
At 31 December	**229**	204

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

33. Retirement benefit obligations continued

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

	2012 £'000	2012 £'000
At 1 January	**107**	95
Exchange differences	**(2)**	–
Expected return on plan assets	**4**	3
Actuarial losses	**1**	1
Employer contributions	**7**	8
At 31 December	**117**	107

The amounts recognised in the income statement are as follows:

	2012 £'000	2011 £'000
Current service cost	**(9)**	(10)
Interest cost	**(10)**	(10)
Expected return on plan assets	**4**	3
Total	**(15)**	(17)

£9,000 (2011: £10,000) was charged through operating expenses and £6,000 (2011: £7,000) was charged through Finance costs.

The expected contribution rate for 2013 is 8% (2012: 8%).

34. Provisions for other liabilities and charges

Group	Litigation £'000
At 1 January 2011	561
Exchange differences	(19)
Unwind of discount rate	68
Utilised in the year	(23)
At 31 December 2011	587
At 1 January 2012	**587**
Exchange differences	**(19)**
Released	**(503)**
Utilised in the year	**(65)**
At 31 December 2012	**–**

Analysis of total provisions:

	2012 £'000	2011 £'000
Current	**–**	587

Litigation:

In August 2012 the Group entered into a Settlement Agreement with HemoCue AB and HemoCue Inc in relation to patent-related litigation in Germany and the US. As a result of the Settlement Agreement all claims are mutually settled and finally resolved. Background information on the patent dispute is contained in the Company's Admission Document dated 15 June 2010.

35. Commitments

a) Capital commitments
The Group has contracted approximately £0.1m 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 and buildings		Other	
Group	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
No later than 1 year	**32**	32	**6**	13
Later than 1 year and no later than 5 years	**488**	498	**61**	62
Later than 5 years	**369**	369	**–**	–
Total	**889**	899	**67**	75

36. Cash used in operations

	Group 2012 £'000	Group 2011 £'000	**Company 2012 £'000**	Company 2011 £'000
Loss before tax	**(196)**	(2,360)	**(1,524)**	(1,282)
Adjustments for:				
– Discontinued activities	**–**	(187)	**–**	–
– Depreciation	**1,165**	925	**45**	–
– Amortisation	**1,914**	1,396	**–**	–
– Impairment of available-for-sale assets	**–**	49	**–**	–
– Profit on disposal of available-for-sale assets	**(115)**	–	**(115)**	–
– Share-based payments	**537**	753	**537**	753
– Release of provision	**(503)**	–	**–**	–
– Defined benefit pension scheme	**(3)**	–	**–**	–
– Foreign exchange gains on operating activities	**–**	(122)	**–**	–
– Net finance costs/(income)	**400**	320	**(1,025)**	(561)
Changes in working capital				
– Inventories	**(314)**	(23)	**–**	–
– Trade and other receivables	**319**	(488)	**(1,317)**	(13,948)
– Trade and other payables	**(684)**	(432)	**(37)**	1,360
Net cash generated by/(used in) operations	**2,520**	(169)	**(3,436)**	(13,678)

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

Group	**2012 £'000**	2011 £'000
Net book value	**120**	15
Profit/(loss) on disposal of property, plant and equipment	**–**	–
Proceeds from disposal of property, plant and equipment	**120**	15

Non-cash transactions
The principal non-cash transactions relate to the issue of deferred shares as consideration for the prior acquisition of EKF-diagnostic GmbH and the recycling of currency reserves on the disposal of International Brand Licensing AG.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2012

37. Discontinued operations

Analysis of profit/(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 2012 and 2011 are set out below.

	2012 £'000	2011 £'000
Profit/(loss) from discontinued operations		
Revenue	–	–
Operating expenses	7	(138)
Recycling of reserves following disposal	1,587	–
Exceptional impairment of available-for-sale asset	–	(49)
Profit/(loss) for the year from discontinued operations	**1,594**	(187)
Cash flow from discontinued operations		
Net cash flow from operating activities	–	(138)
Net cash flow from investing activities	–	1,220
Net cash flow	–	1,082

38. Related Party Disclosures

Directors

During the year the Group was invoiced £89,900 (2011: £63,750) by BBI Holdings Limited and its subsidiary undertaking for development costs. David Evans and Julian Baines are directors of BBI Holdings Limited.

Directors' emoluments are set out in the Remuneration Committee report and in Note 9.

Key management compensation

Key management compensation for the year was as follows:

	2012 £'000	2011 £'000
Aggregate emoluments	603	594
Share-based payments	487	745
Employer contribution to pension scheme	4	5
	1,094	1,344

Key management includes all the Directors only.

The Company

During the year the Company invoiced management charges of £465,000 and interest of £1,112,000 to its subsidiary companies. It purchased goods and services from subsidiaries totalling £143,000. At 31 December 2012 the Company was owed £24,608,000 by its subsidiaries and owed £2,661,000 to other subsidiaries.

39. Post balance sheet events

On 4 March 2013 the Group announced that it had acquired the entire share capital of 360 Genomics Limited for initial consideration of £1.6m payable in shares, plus additional consideration in cash, contingent on future revenues, of up to a further £8m. 360 Genomics develops diagnostic technologies to determine the most appropriate therapy for cancer patients. The Company has a pipeline of assays for the detection of mutations in key oncogenes at sensitivities far greater than existing chemistry platforms, and at a cost that is compatible with near patient testing and patient screening programs. The Company's lead technology is PointMan™, a product which enriches samples for all genetic mutations at a target position, using a simple-to-use reagent set that works on PCR machines – the standard equipment used for DNA amplification and extraction. Sales of PointMan™ to date have been minimal. 360 Genomics will form part of the Group's new molecular diagnostics division, EKF Molecular, which has been set up to allow EKF to address the fast growing companion diagnostics market.

Additional consideration of up to £8m will become payable to the Vendors as a percentage (ranging between 10% and 20%) of the portion of net aggregate revenues of 360 Genomic products which exceed £8m up until the year ended 31 December 2019.

At the date of publication it is impractical to give details of the amount of goodwill (if any) or the factors that make it up; the fair value of consideration; or the values of identifiable assets, liabilities, or contingent assets. The Group did not hold any interest or have any transactions with 360 Genomics prior to acquisition.

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 Hawkpoint Limited, 41 Lothbury, London, UK, EC2R 7AE on 15 May 2013 at 2pm for the following purposes:

Ordinary Resolutions

1. To receive and adopt the statement of accounts for the year ended 31 December 2012 together with the reports of the Directors and the auditors thereon.
2. To re-elect Adam Reynolds, 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 £272,762.76 (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 £409,076.06 (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 2014, 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 £409,076.06 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 2014, 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
18 March 2013

BY ORDER OF THE BOARD
Paul Foulger
Company Secretary

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

EKF Diagnostics Holdings PLC (Company)

Notes:

1. The Company specifies that only those members registered on the Company's register of members at 6pm on 13 May 2013 or if this general meeting is adjourned, at 6pm 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, The Registry, 34 Beckenham Road, Kent BR3 4TU; and
   (c) received by Capita Registrars, at the address provided in paragraph 5(b) above no later than 2pm on 13 May 2013

   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 2pm on 13 May 2013.

   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 5pm on the day immediately prior to the date of posting of this notice, the Company's issued share capital comprised 272,717,369 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 5pm on the day immediately prior to the date of posting of this notice is 272,717,369.

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)

Independent Auditors:
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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

If you have a query regarding your shareholding please call 0871 664 0300 (calls cost 10p per minute plus network extras).

Bankers:
Royal Bank of Scotland plc
One Kingsway
Cardiff
CF10 3AQ

Public relations:
Walbrook PR Limited
4 Lombard Street
London
EC3V 9HD

Investor relations email:
investors@ekfdiagnostics.com

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