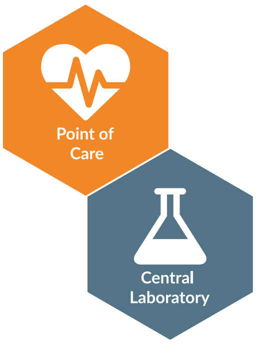
ANNUAL REPORT 2016

EKF Diagnostics Holdings plc

EKF Diagnostics for life



Contents

1.0 Strategic Review

Financial and Operational highlights

Financial Highlights

- Revenue up 28% to £38.6m (2015: £30.0m)
- Gross profit up 24% to £18.3m (2015: £14.7m)
- Adjusted EBITDA* of £6.1m (2015: loss of £0.3m)
- Cash generated from operations of £8.8m (2015: £2.9m used)
- Cash at 31 December 2016 of £7.9m (31 Dec 2015: £2.0m), Net cash of £2.2m (31 Dec 2015: £8.8m Net debt)

* Excluding exceptional items and share based payments

Operational Highlights

- Successful restructuring programme focusing the business on profitability and organic sales growth
- Strong organic growth delivered across all three point-of-care business areas and Central Laboratory
- 13,649 analysers and 69m tests sold worldwide in 2016
- Business stability has allowed strategically key new products to be identified for further development

2016 at a glance

28% increase in revenues year on year

	2016	2015	+/-
Turnover (£m)	£38.6	£30.0	28%
Gross profit (£m)	£18.3	£14.7	24%
Adjusted EBITDA (£m)	£6.1	-£0.3	-

+59% HEMATOLOGY REVENUES

+58% DIABETES CARE REVENUES

+17% MATERNAL & WOMEN'S HEALTH REVENUES

+39% CENTRAL LABORATORY REVENUES

1.0 Strategic Review

EKF Diagnostics Holdings plc

Background

EKF Diagnostics is a global medical diagnostics business with a long history in point-of-care testing and manufacturing reagents for use in central laboratories.

Our point-of-care (POC) products, most of which are designed and manufactured in Germany, have a hard earned reputation for ease of use, reliability and accuracy from professionals working in diabetes, blood banking and sports medicine.

The POC business is built around a large installed based of analysers each of which generates a regular demand for tests, often for the entire life cycle of the analyser. This approach – sometimes known as the 'razor/razorblade' model – permits a percentage of organic growth each year.

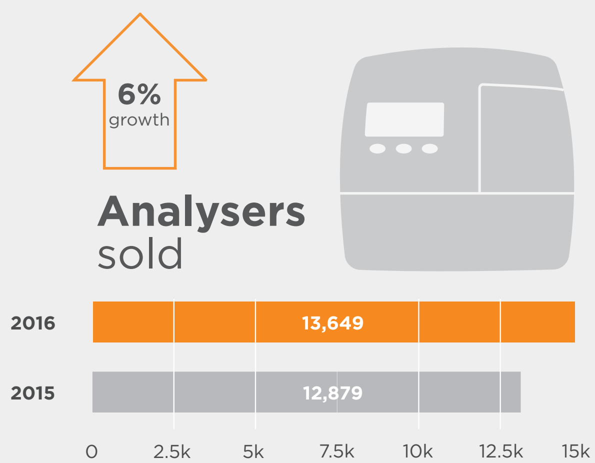
Our Locations

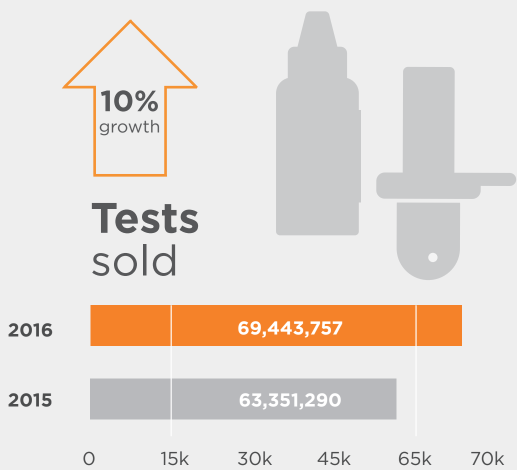
2016 at a glance

Sold to 111 countries

326 Distributors and OEM Partners

18 OEM Partners





1.0 Strategic Review

Point of Care: Hematology

Product portfolio

The hematology product range within EKF Diagnostics, is the largest in terms of revenues and the size of the installed base.

The acquisition of DiaSpect and Separation Technology in 2014 allowed EKF to offer an unparalleled range of hemoglobin and hematocrit point-of-care blood analysers manufactured in Germany and the USA.

Hemo Control™

- Uses 'gold standard' methodology (reagent filled microcuvettes)
- Data management capability; provides a hematocrit calculation
- Proven, robust analyser sold worldwide

DiaSpect Tm

- Handheld analyser utilising reagentless methodology
- Benefits of speed to result (one second), and shelf-life of microcuvettes
- Successor to DiaSpect Hemoglobin T

DiaSpect Hemoglobin T Low

- Tests serum, plasma, aqueous solutions or stored erythrocytes
- Estimates the degree of hemolysis
- Results in less than two seconds
- Reagent-free microcuvettes

UltraCrit Plus™

- Hematocrit analyser using unique ultrasound technology
- Strong presence in US blood banking sector
- International version also provides hemoglobin calculation

HemataStat II™

- Laboratory hematocrit centrifuge and analyser
- Processes multiple samples

Strategy

The EKF Diagnostics portfolio of hemoglobin and hematocrit analysers is unique within the point-of-care diagnostics sector.

Sales are primarily focused around two markets – public health initiatives such as anaemia screening programmes, and private practices where the cost of testing is paid for by an insurance company or the patient.

To approach these markets EKF has two distinct strategies: firstly, OEM partnerships with international distributor/manufacturers such as Fresenius Kabi; and secondly agreements with smaller distributors who are focused on the public health opportunities within their own countries.

Sports medicine and veterinary medicine provide two additional niche sources of customer for EKF distributors.

EKF believes that this portfolio can provide it with a competitive advantage to grow its market share.

Point of Care: Diabetes Care

Product portfolio

EKF's diabetes range aims to provide affordable, easy-to-use technology that reduce the costs of long-term healthcare of the diabetic and pre-diabetic population.

Diabetes has been at the core of EKF's strategy for well over 10 years starting with the early models of the Biosen C-Line and Biosen S-Line glucose analysers. More recently HbA1c analysers have been launched that address the diabetes screening market.

Although they do not strictly belong within a point-of-care framework, clinical chemistry reagents such as Glycated Serum Protein and Beta-Hydroxybutyrate add further provenance to EKF's claim to be a significant contributor to diabetes care worldwide.

Biosen™

- Glucose and/or lactate measurement
- Three models, each aimed at different settings
- Used as the benchmark for blood glucose monitors in China

Quo-Lab® A1c

- HbA1c testing (Glycated Hemoglobin)
- Results in four minutes using a unique methodology
- Targeted at developing world markets

Quo-Test® A1c

- HbA1c testing (Glycated Hemoglobin)
- Same methodology as Quo-Lab but fully automated
- Simple operation requires minimal training

Strategy

Although glucose testing is the most commonly used method of determining glycaemic control within diabetics, HbA1c is the accepted long term barometer of patient well being and their compliance with the treatment regimes.

The growth in popularity of HbA1c measurement has seen an increasing number of entrants to the point-of-care HbA1c market focused on GP surgeries and diabetes clinics.

2016 saw the formal transfer of Quo-Test and Quo-Lab to EKF's Barleben site completed.

The switch began in 2015 with the transfer of plant and knowledge-transfer to the German engineering team, and continued into 2016 with the hand-over of regulatory control for the products. These changes have allowed EKF Diagnostics to make significant operational savings through the centralisation of manufacturing, warehousing, logistics and customer service.

1.0 Strategic Review

Point of Care: Maternal & Women's Health

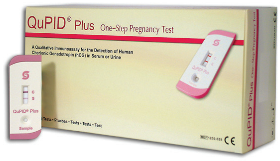
Product portfolio

Maternal and Women's Health focuses primarily on diagnostics used to address conditions and complications associated with pregnancy and child birth.

Sales include revenues from Creamatocrit centrifuges and hemoglobin meters used in Women and Infant Clinics, pregnancy test kits and HbA1c analysers used to diagnose gestational diabetes in pregnant women.

Creamatocrit Plus™

- Small lab centrifuge used in Women and Infant Clinics
- Measures the lipid concentration and caloric density of breast milk
- Allows professionals to guide mothers with underweight infants



Pregnancy kits

- Cassette rapid tests
- Marketed for use in hospital settings

SensPoint

- Handheld lactate analyser with docking station
- Results in 10 seconds
- Undergoing UK evaluations at the time of writing
- Developed for use in maternity wards

Lactate Scout+

- Handheld lactate analyser
- Results in 10 seconds
- Developed for use in sports medicine
- Applications in medical and veterinary medicine

Strategy

EKF's Maternal and Women's Health business unit has seen steady growth since it was created.

SensPoint is awaiting CE marking whilst the product team continue to work with key opinion leaders to educate the future target market on the need for a protocol in the use of lactate in obstetric medicine.

In parallel there is a slowly building commercial interest in this market in Europe. Some medical professionals are using the Lactate Scout+ to provide accurate lactate readings within ten seconds.

Lactate Scout+ uses the same strip system as SensPoint but does not include SensPoint's data management functionality.

Lactate Scout+ has historically been sold into sports medicine, specifically endurance activities such as cross-country skiing, cycling and rowing. This market also contributes significantly to Biosen revenues who use the lactate testing function in the preparation of elite squads of athletes such as Premier League football teams and Olympians.

Central Laboratory

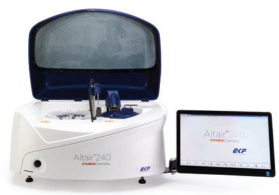
Product portfolio

EKF, through its wholly owned subsidiary Stanbio Laboratory, has had a presence within central laboratory dating back over 50 years. During this time it has built a global customer base for its clinical chemistry reagents that can be used on most open-channel analyser platforms.

The Central Laboratory business also includes the manufacture of enzymes, manufactured at EKF Life Sciences in Elkhart, Indiana.

From this facility EKF Life Sciences sells enzymes used in Stanbio's clinical chemistry portfolio as well as providing contract manufacturing services for third parties.

The acquisition of Separation Technology Inc. provided EKF with a third element to its central laboratory offering. As well as being a manufacturer of hematology products STI has a heritage in manufacturing high quality, US-built, mini-centrifuges.



Altair™ 240

- Automated bench-top analyser
- Runs up to 400 tests per hour and can handle up to 43 different reagents
- Calibrated to run the Stanbio Chemistry range of reagents

Beta-Hydroxybutyrate

- Liquid reagent for the early detection of ketosis
- Primarily sold in USA through national distribution networks

Procalcitonin

- Liquid reagent for the detection of sepsis
- Targeted at European and Asia-Pacific markets

Glycated Serum Protein

- 2-3 week indicator of average blood glucose
- Complementary to HbA1c in diagnosis and screening of diabetes

Strategy

The central laboratory market continues to experience relatively low levels of growth. This is in part because sales of chemistry reagents are inextricably linked to the provision of the analysers on which the tests are performed. EKF Diagnostics' approach to the clinical chemistry market changed in late 2015 with the launch of the Altair 240, a benchtop analyser calibrated to run the Stanbio Chemistry range of reagents.

Further opportunities continue to exist in niche markets. Sales of Beta-Hydroxybutyrate Liquicolor® reagent continue to be healthy with a strong performance from US distributors who have developed a market capitalising on the withdrawl of a previous method of testing for ketosis.

More than 1,000 US hospitals now use EKF's Beta-Hydroxybutyrate reagent. A similar approach is being used for Procalcitonin (PCT) in Europe where EKF has undertaken awareness activity using key opinion leaders in target markets.

1.0 Strategic Review

Chairman's Statement

A year ago I stated that the Board intended to rebuild shareholder value by stabilising the business, growing it organically, and implementing further reductions in the cost base. The very significant progress that has been made so far towards fulfilling these aims is shown in these results.

Strategy and restructuring

Following the divestment of Selah Genomics Inc. in December 2015 and the mothballing of the UK molecular diagnostics business, the Group's activities are focused on point-of-care and the related central laboratory reagents business, and it remains our intention to concentrate on these. Efforts to reduce cost and simplify the business have been and are continuing. The operations of DiaSpect in Sailauf have been closed and integrated into our main European manufacturing site in Barleben, Germany. In addition the STI site in Sanford, Florida, has been shut down and manufacturing and sales brought into our main USA site in Boerne, Texas. As a result, staff numbers have reduced to 299 at year end, over 100 lower than its peak.

The reduction in staff has resulted in large part in the achievement of cost savings in excess of the £6.7m target in 2016. These savings are expected to make a continuing impact in 2017.

Despite the changes resulting from restructuring, revenue is sharply up, with improvements coming across the board. In turn this has led to an improvement in earnings and to significant cash generation from operations, which, added to the proceeds from a share issue in June, has allowed the Group to move to having net cash as at 31 December 2016.

Additional update for Shareholders

On 20 March 2017 we announced that the Directors are currently evaluating plans under which they would split the Company into two separate companies based on the business divisions, namely Point of Care and Lab Diagnostics. Whilst both these business divisions are valuable in their own right, the Directors consider that separating the companies out represents a better route for shareholders and one under which they are more likely to achieve a fair reflection of the value of each separate business.

We are sympathetic to individual investors' requirements and therefore in order to provide those shareholders that do not wish to wait for the completion of the restructuring and subsequent potential sale of the two businesses with an exit, the Company is evaluating the possibility of a share buyback offer to shareholders. This share buyback offer would, if completed, be prior to the commencement of the separation and would be at a price of 21.5p per share.

Results overview

Please refer to the Chief Executive's statement which contains a review of the year and the Finance Director's Review which provides an overview of the financial performance.

Board

Ron Zwanziger, Lurene Joseph, and David Evans left the Board during the year, and Carl Contadini and I both joined. Carl has worked with me for many years and is an expert at cost control and containment. The Non-Executive Directors waived their fees during the year.

Outlook

Much has been done very quickly to turn the Group around, however work continues to simplify the business to allow the management team to concentrate on making it more cost efficient so that we can service our growing customer base and build for the future. I am confident that shareholders will see the continuing benefits of this in 2017, and we are currently trading in line with management's expectations.

Christopher Mills

Christopher Mills
Non-Executive Chairman
20 March 2017

1.0 Strategic Review

Chief Executive's Review

Operations

I am delighted to report that 2016 has been a year of positive transformation which has seen a strong performance across the Group which exceeded market forecasts which themselves had been upgraded throughout the year. We have seen a considerable improvement in revenue growth and profitability, with cash generation strong over the year, which coupled with a successful share placing in June, 2016 allowed us to move into a net cash position and significantly reduce our borrowings.

This turnaround has been achieved with quite remarkable speed, and all employees can be very proud of these results. Our plans for 2017 are equally as ambitious.

Structural change

Actions taken in 2016 have built upon those started in 2015 and before. Our small remaining presence in Ireland has ended and the biomarker business line has been sold to a third party for a nominal sum. The residual staff who had been located in the former Quotient facility in Walton-on-Thames, UK, have also left the Group, and the building handed back to the landlords. The STI facility in Sanford, Florida was closed in Q3, and all activities transferred to our main US facility in Boerne, Texas. A small number of staff have transferred or are continuing to operate from home offices. As part of this transfer we have taken the opportunity to review and rationalise the STI product range. Finally, the DiaSpect facility in Sailauf, Germany has been closed down. Administrative, sales, and finance functions are now integrated into our main European factory in Barleben, Germany. The manufacturing operations have been transferred to DiaSpect's long term third party sub-contractor, which has also taken occupancy of that part of the Sailauf facility they did not already occupy. We have therefore now concentrated operations on eight sites, a reduction of four. We are continuing to review operations to minimise costs and maximise efficiency.

As a result of the structural changes, the number of employees has reduced from a peak of 403 in early 2015 to 299 by December 2016. Regrettably much of this reduction has had to be achieved through compulsory redundancy, and we offer former employees our best wishes for the future.

Point of Care

Our point-of-care business has seen a very successful year. EKF's business model is to sell analysers into the market and then benefit from the ongoing revenue stream generated by sales of the dedicated consumables. Over the last four years we have sold almost 70,000 analysers for use worldwide, and in 2016 we supplied almost 70m tests for use on these, an increase of 9.8% over the previous year.

i. Hematology

Sales of Hematology products have increased by 59% to £11.70m (2015: £7.37m), with revenues benefiting from the return of US HemoPoint H2 sales to EKF control from Alere in June 2016. This has led to improved margin and sales, with US sales of HemoPoint H2 (sold as Hemo Control in the rest of the world) up 101% year-on-year. Sales of DiaSpect Tm are up 53%.

ii. Diabetes Care

In Diabetes, revenues were up by 58% year-on-year to £10.20m (2015: £6.46m), with a particularly successful year for Biosen (up 79% year-on-year) and Quo-Test (up 62%). We have continued to supply Quo-Test products to Saudi Arabia under the tender won in 2015, and have been awarded a follow up contract for 2016-17. Registration issues which had caused Biosen sales to China to pause in 2015 have now been solved, which is reflected in the rise in overall unit sales. Sales of STAT-Site M β-HB rose by 143% over the previous year.

iii. Maternal & Women's Health

Revenues from our products that address aspects of maternal and women's health increased by 17% to £2.88m (2015: £2.46m). This has been driven by an improvement in sales of our Lactate Scout+ product line which are up by 31%, and pregnancy tests sales have increased by 10%.

Central Laboratory

Our Central laboratory sales show an overall improvement of 39% on the previous year to £12.05m (2015: £8.70m), and have continued to be driven by our β-HB Liquicolor reagent product. β-HB sales were up by 76% and we have continued to sign up additional hospitals in the US, resulting in sales doubling since 2012. We have had some success with our Altair 240 analyser product and are continuing to sign up distributors especially in Asia and the Middle East. As a result, Clinical Chemistry sales, which included our first Altair 240 sales were up 19%. Sales of our enzymes rose by 26% compared to last year. Our efforts in this segment are concentrating on building markets while continuing to increase penetration of our β-HB product.

New products

The new building at Barleben, Germany commenced in 2015 has now been completed and operations are beginning to move in. The building will house a number of new and updated production lines where we have determined that highly targeted capital expenditure can improve efficiency and capacity.

We took a conscious decision in early 2016 to concentrate on product development plus the development of technologies already owned by EKF. Not surprisingly this has meant that there has been relatively little movement in developing new products, with the majority of effort being expended on improving the quality of existing products. However our connectivity solutions for point-of-care instruments have been showcased at distributor shows such as Medica. With cash flow much improved we are focussing on the development of our sTNFR biomarker (early detection of end stage renal disease in diabetic patients), SensPoint (maternity care) and the redevelopment of our Lactate Scout for ambulatory care (early indication of Sepsis).

Outlook

The actions taken to turn around the Group in 2016 have had rapid and significant positive effects. We now have a stable platform for further growth based on driving the existing business and continuing to reduce cost.

Julian Baines
Chief Executive Officer
20 March 2017

1.0 Strategic Review

Finance Director's Review

Results

2015 results show Selah Genomics Inc. as a discontinued business.

Revenue

Revenue for the year was £38.6m (2015: £30.0m), an increase of 28%. Of the increase, 15.3% was the result of improvements in foreign currency exchange rates, largely because of the fall in the value of sterling against the US dollar and Euro in the second half of the year. The remainder of the increase comes from organic growth.

Revenue by disease state, which is presented for illustration purposes only, is as follows:

	FY 2016 £'000	FY 2015 £'000	+/-%
Hematology	11,704	7,371	+59%
Diabetes Care	10,203	6,463	+58%
Maternal Health	2,880	2,455	+17%
Central Laboratory	12,051	8,701	+39%
Other	1,751	5,055	-65%
Total revenue	**38,589**	**30,045**	**+28%**

Gross profit

Gross profit increased to £18.3m (2015: £14.7m). The gross margin percentage on sales was 47.5% (2015: 48.8%), a further small decrease. This was once again affected by additional provisions taken against older stock balances.

Administration costs and research and development costs

Administration expenses have fallen substantially to £18.7m (2015: £29.2m). While 2015 had seen a sharp rise over the previous year, the reduction shows the effect of the cost saving programmes put in place during the year. Excluding depreciation, amortisation, and exceptional items, administration expenses were £14.0m (2015: £16.3m), a 14.1% reduction. R & D costs included in administration expenses were £2.0m, with a further £0.6m being capitalised as an intangible cost. Gross R & D expenses have therefore reduced from £5.4m in 2015 to £2.6m this year.

The charge for depreciation of fixed assets and amortisation of intangible assets is £5.0m (2015: £8.1m). There have been no impairments during 2016, following the refocusing of the business in late 2015 on our core products.

Exceptional items mainly relate to provisions made and costs incurred in the closures and relocations of the DiaSpect and STI manufacturing sites, offset by the release of an unutilised provision relating to EKF Molecular.

Operating profit and adjusted earnings before interest tax and depreciation

The Group made a small operating loss of £0.3m (2015: £14.3m). While this shows very considerable improvement, it indicates that there remains work to be done on increasing profitability. We continue to consider that adjusted earnings before interest, tax, depreciation and amortisation, share based payments and exceptional items (adjusted EBITDA) is a better measure of progress because the Board believes it gives clearer comparability of operating performance between periods. In 2016 we achieved adjusted EBITDA of £6.1m (2015: loss of £0.3m). The calculation of this non-GAAP measure is shown on the face of the income statement. It excludes the effect of share-based payment charges of £1.0m (2015: £0.2m) and exceptional losses of £0.5m (2015: £5.7m). Of the increase in adjusted EBITDA of £6.4m, £1.1m is attributable to the effect of more favourable exchange rates, with the remainder being attributable to improved underlying performance.

Finance costs

Finance costs have continued to fall, to £0.7m in 2016 (2015: £1.4m). This is largely as a result of lower charges relating to the discounting of deferred consideration than in previous years. External debt has been reduced during 2016 which should lead to lower debt interest in 2017 and beyond.

Tax

There is an income tax credit of £1.2m (2015: £2.2m). This is largely because of a tax refund received in the USA relating to the carry back of losses against previous years.

Balance sheet

Property, plant and equipment

Additions to fixed assets were £1.3m (2016: £2.3m) of which £0.6m related to the completion of the new building at Barleben.

Intangible assets

The increase in value of intangible assets from £42.9m to £46.5m is almost entirely attributable to foreign exchange movements as intangibles on consolidation are denominated in the functional currency of the underlying businesses, offset by the annual amortisation charge.

Deferred consideration

The remaining deferred consideration relates to the share-based payment to the former owner of EKF-Diagnostic GmbH. Finalisation of the contracts to conclude the position is expected to take place in 2017.

Cash and working capital

At 31 December 2015, borrowings included a secured convertible loan of £3.0m from Zwanziger Family Ventures LLC (ZFV), a company associated with the Zwanziger family. This was repaid in April 2016 from the proceeds of a new loan of £3.0m from North Atlantic Smaller Companies Investment Trust PLC, a company associated with Christopher Mills. This in turn was repaid from the proceeds of a share placing which took place in June 2016, and raised £4.5m net of expenses. Gross cash rose in the year from £2.0m to £7.9m, and at the same time borrowings decreased from £10.8m to £5.7m. As a result the Group moved from having net debt of £8.8m to having net cash of £2.2m by the 2016 year end. Of the improvement in net debt, £6.5m has been generated internally.

Inventory has reduced to £6.0m (2015: £8.2m). Some of the reduction has come from efforts made to reduce inventory during the year and the remainder from increased inventory provisions.

Both receivables and payables have increased, reflecting increased activity during the year.

Richard Evans
Finance Director and Chief Operating Officer
20 March 2017

1.0 Strategic Review

Board of Directors

Executive Directors

Julian Baines MBE

Chief Executive Officer (aged 52)

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. in 2008 for circa £85 million. In December 2009 Julian became CEO of the Group and has subsequently successfully completed fund raisings in 2010, 2011 and 2014, and the acquisition and subsequent integration of eight businesses in seven countries. In 2016 he was awarded an MBE for services to the life sciences industry.

Richard Evans

Chief Operating Officer and Finance Director (aged 59)

Richard qualified as a Chartered Management Accountant in 1983 and holds a Bachelor of Commerce in Business Studies and Law 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 Abbott Diagnostics GmbH in Germany.

1.0 Strategic Review

Board of Directors

Non-Executive Directors

Christopher Mills

Non-Executive Chairman (aged 64)

Christopher founded Harwood Capital Management in 2011, a successor from its former parent company J.O. Hambro Capital Management, which he co-founded in 1993. He is Chief Executive and Investment Manager of North Atlantic Smaller Companies Investment Trust plc and Chief Investment Officer of Harwood Capital LLP. He is a Non-Executive Director of several companies. Christopher was a Director of Invesco MIM, where he was Head of North American Investments and Venture Capital, and of Samuel Montagu International. Christopher is a member of the Audit Committee and chairs the Remuneration Committee.

Adam Reynolds

Non-Executive Director (aged 54)

Adam is a former stockbroker specialising in corporate finance. He has built, rescued and re-financed a number of public companies. He is currently Chairman of Autoclenz Group Limited, Orogen Gold plc, OptiBiotix Plc, Premaitha Health Plc, and Concepta Plc, and a Non-executive Director of Big Sofa Technologies plc. Adam chairs the Audit Committee and is a member of the Remuneration Committee.

Carl Contadini

Non-Executive Director (aged 68)

Carl has been a director of numerous companies throughout his career, predominately focusing on the healthcare and electronics sectors. He is currently a board member and past Chairman of Waterbury Healthcare Systems Inc., a US-based healthcare group, and an Operational Adviser to Harwood Capital LLP, where he assists in sourcing, evaluating and monitoring investments. Carl also holds the positions of Executive Chairman and Non-Executive Chairman at Utitec Holdings Inc. and Curtis Gilmour Holding Inc. respectively. Carl has, in the past, also been a director of Bionostics Limited and Celsis Group Limited. He holds an Associate of Science degree in Business Administration and Marketing from Tunix Community College, Connecticut and a Batchelor of General Studies degree specialising in Human Resources from University of Connecticut.

Strategic Report

for the year ended 31 December 2016

Review of the business

A review of the business is contained in the Chairman's Statement on page 8, and in the Chief Executive's Review on pages 9 and 10 and the Finance Director's Review on pages 11 and 12.

Risk Management

We recognise that effective risk management is essential to the successful delivery of the Group's strategy and will help us build a world class in-vitro diagnostic business. As we continue to grow our business we believe it is important to develop and enhance our approach to risk management, and to ensure it remains fit for purpose. We are in the process of enhancing and formalising our risk management processes and control environment, and continuing our journey of maturing our approach to how we identify and manage risks across the Group in a consistent and robust manner.

Below we describe our risk management approach, the principal risks and uncertainties faced by the Group and the controls in place to manage them.

Overview of risk management approach

Each business area is responsible for identifying, assessing and managing the risks in their respective area. Risks are identified and assessed by all business areas on a periodic basis, and are measured against a defined set of criteria, considering likelihood of occurrence, and potential impact. The Executive Board members also conduct a strategic risk identification and assessment exercise to identify risks, including those that could impact the business model, future performance, solvency or liquidity. This risk information is combined with a consolidated view of the business area risks. The most significant risks identified are included in our Group Risk Profile, which is reported to the Executive Board for review and challenge, ahead of it being submitted to the Group Board for final review, challenge and approval. The Board has the overall accountability for ensuring that risk is effectively managed across the Group and therefore ensuring that it is comfortable with the nature and extent of the principal risks faced in achieving its strategic objectives.

In 2015 the Group faced a number of issues. In response to these the Group has reduced its risk profile by returning to a strategy based on point-of-care and clinical chemistry and reducing its cost base.

Principal risks and uncertainties

Set out below are the principal risks which we believe could materially affect the Group's ability to achieve its financial and operating objectives and control or mitigating activities adopted to manage them. The risks are not listed in order of significance.

Key employees

Lack of retention of key employees affects the continuity and effectiveness of on-going relationships with key customers and suppliers.

This risk is minimised by ensuring that a minimum of two individuals manage every relationship with key customers and suppliers. In addition, in retaining the key employees, incentivisation packages are offered 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 developing countries. Any instability in these countries could significantly affect the operations and the revenue of the Group. In particular the Group has significant revenue from customers in Russia which are ultimately largely funded by the government.

The Group spreads the risk through seeking a portfolio of diversified revenue streams geographically with a mixture of distribution partners in developing and developed countries.

In 2016, following the European Union (EU) membership referendum, the UK Government indicated that it would shortly commence the process for the United Kingdom to withdraw from the EU. Although at present the Group does not anticipate significant issues, as the Group has facilities, customers, and suppliers in both the United Kingdom and the EU, withdrawal may affect the Group's operational abilities and costs. The Group seeks to manage this risk by monitoring events and taking mitigating actions if necessary.

Supply chain continuity

The Group relies on third party manufacturers for the supply of the majority of raw materials. Problems with obsolescence and manufacturer facilities may lead to delay and disruptions in the supply chain which could have a significant negative impact on the Group.

The Group maintains a close dialogue with key suppliers and closely monitors its inventory status and customer demand to ensure that any problems with the supply chain can be managed, and back up sources of supply are maintained where possible.

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 manufacturing the products to recognised standards, by keeping appraised with changes in the standards geographically, by seeking advice from regulatory advisers, consultations with regulatory approval bodies and by working with experienced distribution partners.

Competition risk

Due to the Group's current and future potential competitors, such as major multinational pharmaceutical and healthcare companies, having substantially greater resources than those of the Group, the competitors may develop systems and products that are more effective or economic than any of those developed by the Group, rendering the Group's products obsolete or otherwise non-competitive.

The Group seeks to mitigate 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 depends, 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 products. The absence of any such patents may have a material adverse effect on the Group's ability to develop its business.

The Group mitigates this risk by developing products where legal advice indicates patent protection would be available, seeking patent protection for the Group's products, maintaining confidentiality agreements regarding Group know-how and technology and monitoring technological developments and the registration of patents by other parties. The commercial success of the Group also depends upon not infringing patents granted, now or in the future, to third parties who may have filed applications or who have obtained, or may obtain, patents relating to business processes which might inhibit the Group's ability to develop and exploit its own products.

Foreign exchange risk

The Group has transactional currency exposures as the majority of revenues and expenditure and certain borrowings are denominated in foreign currencies. Fluctuations in exchange rates between the Group's functional currency of Sterling and the currency of the overseas operations could adversely impact the financial results. In most cases the Group matches the currency receipts and expenditure of the overseas operations. The Group also endeavours to match the foreign currency assets of the foreign operations by funding through borrowings and loans denominated in the currency of the overseas operations, and to negotiate currency protection in major contracts.

Reimbursement levels

There is no guarantee that the Group may be able to sell its products or services profitably if the reimbursement level from third party payers, including government and private health insurers, is unavailable or limited. Third party payers are increasingly attempting to contain health care costs through measures that could impact the Group including challenging the prices charged for health care products and services, limiting both coverage and the amount of reimbursement for new diagnostics products and services, and denying or limiting coverage for products that are approved by the regulatory agencies but are considered experimental by third party payers.

The Group understands that due to third party dependency it is extremely difficult to eradicate this risk. However the Group manages this risk with constant dialogue and educating the third party payers on the Group's products and also developing new technologies in order to seek additional reimbursements.

Financial reporting and disclosure

Due to the nature of the Group there is a requirement to report accurate financial information in compliance with accounting standards and applicable legislation.

This risk is mitigated through the Group's internal controls over the financial information and reporting, overseen by the local financial heads and then reviewed by the central finance team, including the Finance Director. The annual financial statements are also subject to audit by the Group's external auditors.

Cyber security risk

The Group uses computers extensively in its operations and has an online presence but does not trade online. It is at risk of attack through hacking or other methods. This risk is mitigated by the use of robust security measures, staff training, and back up systems.

Review of strategy and business model

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.

EKF's strategy is to create a world class IVD business through organic growth. IVD has a wide spectrum, and within this spectrum we have chosen to concentrate on point-of-care, while maintaining our existing central laboratory business.

We have identified and acquired businesses in these areas with strong product lines and distribution networks which can benefit from better, more professional management, greater resources, and from the synergistic benefits of being part of a larger group.

We sell worldwide to over 100 countries. In many territories we sell through local distributors, however where appropriate we sell direct to end users which include hospitals, laboratories, and government agencies. Our distributors are supported by a network of regional sales managers and by product managers who are specialists in our product range. We manufacture the majority of the products we sell ourselves, but also distribute a number of carefully chosen products on behalf of others. We have product support centres in the USA and Germany.

The Group works mainly 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 revenues and will add technologies which are strategically appropriate to this portfolio should they become available and providing the additions make economic sense.

Future outlook

The Chairman's Statement on page 8 and the Chief Executive's Review on pages 9 to 10 give information on the future outlook of the Group, including the main trends and factors likely to affect its future development.

Key Performance Indicators (KPIs)

The key performance indicators currently used by the Group are revenue, gross margin, adjusted EBITDA and cash resources. The Group is working to establish other key performance indicators including non-financial measures. KPIs are discussed in more detail in the Finance Director's review on pages 11 and 12.

Environment

The Directors consider that the nature of the Group's activities is not inherently detrimental to the environment. The Group is committed to minimising any effect on the environment caused by its operations.

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 keep at 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.

Social, community, and human rights

The Board recognises that the Group has a duty to be a good corporate citizen and to respect the laws, and where appropriate the customs and culture of the territories in which it operates. The Group has donated product to selected appropriate charities which operate within its area, and encourages staff to take part in charitable activities which are related to our business areas or customers. 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.

The Strategic Report was approved by the Board on 20 March 2017 and signed on its behalf by:

Richard Evans

Richard Evans
Finance Director and Chief Operating Officer
20 March 2017

Report of the Directors

for the year ended 31 December 2016

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 2016.

Corporate details

EKF Diagnostics Holdings public limited company is incorporated and registered in England and Wales number 4347937. The registered office is Avon House, 19 Stanwell Road, Penarth, Cardiff CF64 2EZ.

Directors

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

- Christopher Mills (appointed 8 April 2016)
- Julian Baines
- Richard Evans
- Adam Reynolds
- Carl Contadini (appointed 11 July 2016)
- Ron Zwanziger (resigned 11 April 2016)
- Lurene Joseph (resigned 9 May 2016)
- David Evans (resigned 2 June 2016)

Salim Hamir was appointed Company Secretary on 2 March 2016.

Principal activities

During the year the principal activities of the Group and Company were the development, manufacture and supply of products into the in-vitro diagnostics (IVD) market place. Future developments and research and development activities are discussed in the Chairman's Statement on page 8, the Chief Executive's Review on pages 9 and 10 and the Finance Director's Review on pages 11 and 12.

Dividends

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

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.

During 2016, the convertible loan provided by the Zwanziger Family Trust in 2015 was repaid using a loan from the North Atlantic Smaller Companies Investment Trust plc (a company associated with Christopher Mills). This in turn was repaid using the proceeds of a fundraising in June 2016.

The restructuring and cost saving actions taken in late 2015 and early 2016 have allowed the Group to become cash generative in the second half of 2016.

Taking these changes into account, and 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.

Financial risk management

Financial risk management is discussed in Note 3 of the financial statements.

Employee policies

Employee policies are discussed in the Strategic Report on pages 15 to 17.

Directors' interests

The interests of those Directors serving at 31 December 2016 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 2016 Ordinary Shares of 1p each	On 31 December 2015* Ordinary Shares of 1p each
Christopher Mills	130,000,000	81,200,000
Julian Baines	1,855,288	1,721,955
Richard Evans	178,842	178,842
Adam Reynolds	3,318,613	3,229,724
Carl Contadini	-	-

*or at the date of appointment where later.

Mr Mills' interest in the Company's shares is held through North Atlantic Smaller Companies Investment Trust PLC ("NAIT") and Oryx International Growth Fund Limited ("Oryx"). Harwood Capital LLP ("Harwood") is investment manager and investment adviser to NAIT and Oryx respectively. Christopher Mills is a partner and Chief Investment Officer of Harwood. Christopher Mills is also a director of Oryx and NAIT. He holds 2.16 per cent. of the shares in Oryx in his own name as well as a further 46.44 per cent. of the shares in Oryx via his 25.06 per cent. shareholding in NAIT. Transactions in the Company's share capital during the year by NAIT and Oryx are as follows:

Date	NAIT	Oryx
20 May 2016	2,450,000	350,000
7 June 2016	16,297,656	4,650,000
9 June 2016	447,666	-
17 June 2016	532,781	-
21 June 2016	4,500,000	-
23 June 2016	2,000,000	-
24 June 2016	2,613,957	-
8 July 2016	3,057,940	-
18 July 2016	9,000,000	-
20 July 2016	2,900,000	-

Carl Contadini holds no shares personally, but acts as an Operational Advisor to Harwood which acts as investment manager and investment adviser to NAIT and Oryx respectively.

On 7 June 2016, Julian Baines acquired 133,333 ordinary shares and Adam Reynolds acquired 88,889 ordinary shares, both at a price of 11.25p per share.

Substantial shareholdings

As at 15 March 2017, 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
The Bank Of New York (Nominees) Limited	90,858,077	19.6%
N.Y. Nominees Limited	47,851,369	10.3%
Securities Services Nominees Limited	40,025,000	8.6%
HSBC Global Custody Nominee (UK) Limited	28,244,158	6.1%
Nortrust Nominees Limited	27,051,294	5.8%
Vidacos Nominees Limited	20,497,604	4.4%
Pershing Nominees Limited	16,020,832	3.5%

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and parent company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Report of the Directors confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Chairman's Statement, Chief Executive's Review and Finance Director's Review include a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that it faces.

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 has 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 they ought to have taken as a Director in order to make themselves 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 22 and 23 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 71.

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 20 March 2017 and signed on its behalf by:

Richard Evans

Richard Evans
Finance Director and Chief Operating Officer

2.0 Corporate Governance

Corporate Governance Statement

for the year ended 31 December 2016

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 business of its size.

The following statement describes how the Group as at 31 December 2016 sought to address the principles underlying the Code.

Board composition and responsibility

The Board currently comprises two Executive Directors and three Non-Executive Directors. During the year Ron Zwanziger stood down as Non-Executive Chairman and subsequently resigned as a Non-Executive Director, and David Evans and Lurene Joseph resigned as Non-Executive Directors, Christopher Mills was appointed Non-Executive Chairman, and Carl Contadini joined as Non-Executive Director. 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 Adam Reynolds is independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of his independent judgement. The Board considers that Christopher Mills and Carl Contadini do not meet the criteria to be considered independent because of their relationships with Harwood, NAIT, and Oryx. 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 revised 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 make any further changes to the Board composition at present.

There is a division of responsibilities between the Non-Executive Chairman, who is responsible for the overall strategy of the Group and running the Board, 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 and Chief Operating Officer.

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

13 Board meetings were held during the year. The Directors' attendance record during the year, along with the number of meetings held during their tenure is as follows:

Christopher Mills (Non-Executive Chairman)	6	(7)
Julian Baines (Chief Executive Officer)	13	(13)
Richard Evans (Chief Operating Officer and Finance Director)	13	(13)
Adam Reynolds (Non-Executive Director)	12	(13)
Carl Contadini (Non-Executive Director)	3	(3)
Ron Zwanziger (formerly Non-Executive Chairman)	5	(5)
David Evans (formerly Non-Executive Deputy Chairman)	7	(8)
Lurene Joseph (formerly Non-Executive Director)	6	(6)

Audit Committee

This comprises two Non-Executive Directors, Christopher Mills and Adam Reynolds (Chairman). Adam Reynolds 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. The committee met once formally during 2016. There were no significant matters communicated to the Committee by the Auditors and no interaction with the Financial Reporting Council. During 2016 a tender process for the audit was completed, as a result of which PricewaterhouseCoopers LLP were reappointed, subject to shareholder approval.

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 Christopher Mills (Chairman), and Adam Reynolds. 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 met twice during 2016.

Board appointments

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

Internal control

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

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

The Group has continued its project to enhance and formalise its internal controls including the establishment of a Risk Steering Committee.

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 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 Chair(s) 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.

With effect from the financial year to 31 December 2016, the Group becomes subject to the requirements of the Modern Slavery Act 2015. The Group will publish the required statement on its website in due course.

The Corporate Governance Report was approved by the Board on 20 March 2017 and signed on its behalf by:

Richard Evans
Finance Director and COO

Report of the Remuneration Committee

for the year ended 31 December 2016

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 Group 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 - Audited

The remuneration of the Directors for the year ended 31 December 2016 is shown below:

	Salary and fees £'000	Pension £'000	Benefits in kind £'000	Bonus £'000	**2016 £'000**	2015 £'000
Executive Directors						
Julian Baines	245	12	12	50	**319**	269
Richard Evans	190	6	24	50	**270**	201
Tito Bacarese-Hamilton[1]	-	-	-	-	-	357
Paul Foulger[1]	-	-	-	-	-	229
	435	18	36	100	**589**	1,056
Non-Executive Directors						
Christopher Mills[2]	-	-	-	-	-	-
Carl Contadini[2]	-	-	-	-	-	-
Adam Reynolds[3]	-	-	-	-	-	33
David Evans[4]	-	-	-	-	-	42
Ron Zwanziger[5]	-	-	-	-	-	-
Lurene Joseph[5]	6	-	-	-	**6**	-
David Toohey[1]	-	-	-	-	-	28
Doris-Ann Williams[1]	-	-	-	-	-	28
Kevin Wilson[1]	-	-	-	-	-	27
	6	-	-	-	**6**	158
Total fees and emoluments	441	18	36	100	**595**	1,214

1. 2015 remuneration for Tito Bacarese-Hamilton, Paul Foulger, David Toohey, Doris–Ann Williams, and Kevin Wilson is shown for the period until they ceased to be a director.
2. Remuneration for Christopher Mills and Carl Contadini is shown from their date of appointment. Both have waived any salary for the period.
3. Adam Reynolds has waived his salary for the period.
4. David Evans' remuneration was paid through his personal consultancy, MBA Consultancy, and is shown until his resignation as a director. Mr Evans waived his salary during the period.
5. Ron Zwanziger and Lurene Joseph's remuneration is shown up to the date of their resignation. Mr Zwanziger waived his salary during the period.

Directors' share options and Long-Term Incentive Plan

As at 31 December 2016 the following options to Directors of the Company existed under the Company's unapproved share-option scheme and Long-Term Incentive Plan:

Option Holder	Option price per Ordinary Share	Number of Ordinary Shares under option	Exercise period
Julian Baines	15p	5,127,383	1 January 2014 – 31 December 2020
Richard Evans	20p	4,260,000	1 January 2014 – 31 December 2020

4,272,819 options granted to Julian Baines and all the options of Richard Evans were subject to a condition relating to the achievement of an Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) growth target which has been met, and the options have therefore vested. 854,564 options granted to Julian Baines were subject to a share price condition which has also been met, and have therefore vested.

On 2 June 2016 two Directors were granted a cash settled share-based incentive award. The awards vest if a controlling interest in the Company is acquired by a third party prior to 30 June 2019. In these circumstances a minimum amount of £0.5m is payable to each Director, which increases by reference to the sale price achieved. The fair value of this award has been calculated at £2,100,000 using a modified form of a Black Scholes model. The fair value has been spread over the assumed vesting period, with a charge of £753,000 recognised in 2016. The key assumptions used in the model are disclosed in Note 30.

Independent auditors' report to the members of EKF Diagnostics Holdings plc

Report on the financial statements

Our opinion

In our opinion:

- EKF Diagnostics Holdings Plc's group financial statements and parent company financial statements (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 2016 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("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.

What we have audited

The financial statements, included within the Annual Report comprise:

- the consolidated and company's statements of financial position as at 31 December 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated and company's statements of cash flows for the year then ended;
- the consolidated and company's statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is 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, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matter prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the group, the parent company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 20, 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) ("ISAs (UK & 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 parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 group's and the parent 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Jason Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditor
Cardiff
20 March 2017

3.0 Financial Statements

Consolidated Income Statement

	Notes	2016 £'000	2015 £'000
Revenue	5	**38,589**	30,045
Cost of sales	6	**(20,267)**	(15,376)
Gross profit	6	**18,322**	14,669
Administrative expenses	6	**(18,734)**	(29,156)
Other income		**85**	139
Operating loss		**(327)**	(14,348)
Depreciation and amortisation	5	**(4,961)**	(8,052)
Share-based payments		**(973)**	(226)
Exceptional items	7	**(532)**	(5,722)
EBITDA before exceptional items and share-based payments	5	**6,139**	(348)
Finance income	12	**37**	35
Finance costs	12	**(713)**	(1,457)
Loss before income tax		**(1,003)**	(15,770)
Income tax credit	13	**1,172**	2,206
Profit/(loss) for the year from continuing operations		**169**	(13,564)
Loss for the year from discontinued operations attributable to the equity holders of the Company		**-**	(23,369)
Profit/(loss) for the year		**169**	(36,933)
Profit/(loss) attributable to:			
Owners of the parent		**(18)**	(37,123)
Non-controlling interest		**187**	190
		169	(36,933)

Loss per Ordinary Share attributable to the owners of the parent during the year		Pence	Pence
Basic			
From continuing operations	14	**(0.00)**	(3.26)
From discontinued operations	14	-	(5.54)
		(0.00)	(8.80)
Diluted			
From continuing operations	14	**(0.00)**	(3.26)
From discontinued operations	14	-	(5.54)
		(0.00)	(8.80)

The notes on pages 35 to 70 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 £5,474,000 (2015: loss of £31,595,000).

Consolidated Statement of Comprehensive Income

	Notes	2016 £'000	2015 £'000
Profit/(loss) for the year – continuing		**169**	(13,564)
Loss for the year - discontinued		**-**	(23,369)
Profit/(loss) for the year		**169**	(36,933)
Other comprehensive income: *Items that may be subsequently reclassified to profit or loss*			
Recycling of currency translations In respect of previously held interest In Selah Genomics	32	**-**	(4,479)
Currency translation differences		**9,343**	792
Other comprehensive gain/(loss) for the year		**9,343**	(3,687)
Total comprehensive gain/(loss) for the year		**9,512**	(40,620)
Attributable to:			
Owners of the parent		**9,198**	(40,756)
Non-controlling interests		**314**	136
Total comprehensive gain/(loss) for the year		**9,512**	(40,620)

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 35 to 70 are an integral part of these consolidated financial statements.

Consolidated and Company's Statements of Financial Position

	Notes	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Assets					
Non-current assets					
Property, plant and equipment	16	**12,124**	10,680	**1,510**	1,547
Intangible assets	17	**46,503**	42,927	**538**	-
Investments in subsidiaries	18	**-**	-	**30,521**	30,521
Investments	20	**152**	402	**152**	402
Trade and other receivables	22	**-**	-	**22,016**	18,550
Deferred tax assets	28	**371**	340	**371**	340
Total non-current assets		**59,150**	54,349	**55,108**	51,360
Current assets					
Inventories	23	**6,025**	8,234	**-**	-
Trade and other receivables	22	**9,370**	7,242	**6,350**	14,549
Deferred tax assets	28	**13**	47	**-**	-
Cash and cash equivalents	24	**7,874**	2,017	**2,567**	11
Total current assets		**23,282**	17,540	**8,917**	14,560
Total assets		**82,432**	71,889	**64,025**	65,920
Equity attributable to owners of the parent					
Share capital	29	**4,643**	4,221	**4,643**	4,221
Share premium account	29	**95,393**	91,276	**95,393**	91,276
Other reserve	32	**41**	41	**-**	-
Foreign currency reserves	32	**5,609**	(3,607)	**-**	-
Retained earnings	31	**(45,236)**	(45,438)	**(45,673)**	(40,419)
		60,450	46,493	**54,363**	55,078
Non-controlling interest		**521**	261	**-**	-
Total equity		**60,971**	46,754	**54,363**	55,078
Liabilities					
Non-current liabilities					
Borrowings	26	**1,130**	1,167	**-**	-
Deferred tax liabilities	28	**3,751**	3,559	**-**	-
Total non-current liabilities		**4,881**	4,726	**-**	-
Current liabilities					
Trade and other payables	25	**9,401**	8,331	**4,828**	4,308
Deferred consideration	27	**693**	485	**693**	485
Current income tax liabilities		**1,160**	1,087	**-**	-
Deferred tax liabilities	28	**738**	831	**-**	-
Borrowings	26	**4,588**	9,675	**4,141**	6,049
Total current liabilities		**16,580**	20,409	**9,662**	10,842
Total liabilities		**21,461**	25,135	**9,662**	10,842
Total equity and liabilities		**82,432**	71,889	**64,025**	65,920

The notes on pages 35 to 70 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 20 March 2017

Julian Baines
Chief Executive Officer

Richard Evans
Finance Director and Chief Operating Officer

EKF Diagnostics Holdings plc
Registered no: 04347937

3.0 Financial Statements

Consolidated and Company's Statements of Cash Flows

	Notes	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Cash flow from operating activities					
Cash generated by/(used in) operations	35	**8,816**	(2,914)	**646**	(5,970)
Interest paid		**(496)**	(370)	**(283)**	(143)
Income tax received/(paid)		**623**	(1,001)	**(13)**	(14)
Net cash generated by/(used in) operating activities		**8,943**	(4,285)	**350**	(6,127)
Of which discontinued		**-**	(2,412)	**-**	-
Cash flow from investing activities					
Sale of investments		**250**	-	**250**	-
Purchase of property, plant and equipment (PPE)		**(1,261)**	(2,296)	**(27)**	(33)
Purchase of intangibles		**(663)**	(3,096)	**(56)**	-
Proceeds from sale of PPE	35	**211**	42	**-**	-
Interest received		**37**	35	**-**	-
Net cash (used in)/generated by investing activities		**(1,426)**	(5,315)	**167**	(33)
Of which discontinued		**-**	(136)	**-**	-
Cash flow from financing activities					
Proceeds from issuance of Ordinary Shares	29	**4,539**	-	**4,539**	-
New loans		**5,957**	7,922	**3,500**	6,206
Repayments on borrowings		**(12,555)**	(3,000)	**(6,000)**	(3,000)
Dividend payment to non-controlling interest		**(54)**	(228)	**-**	-
Payment of deferred consideration		**-**	(1,425)	**-**	(1,425)
Net cash (used in)/generated by financing activities		**(2,113)**	3,269	**2,039**	1,781
Of which discontinued		**-**	2,426	**-**	-
Net increase/(decrease) in cash and cash equivalents		**5,404**	(6,331)	**2,556**	(4,379)
Cash and cash equivalents at beginning of year		**2,017**	8,346	**11**	4,390
Exchange gains on cash and cash equivalents		**453**	2	**-**	-
Cash and cash equivalents at end of year	24	**7,874**	2,017	**2,567**	11

3.0 Financial Statements

Consolidated and Company's Statements of Changes in Equity

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 2015	**4,221**	**91,276**	**41**	**26**	**(8,541)**	**87,023**	**353**	**87,376**
Comprehensive income								
(Loss)/profit for the year - continuing	-	-	-	-	(13,754)	**(13,754)**	190	**(13,564)**
(Loss)/profit for the year - discontinued	-	-	-	-	(23,369)	**(23,369)**	-	**(23,369)**
Other comprehensive income								
Recycling of currency translations in respect of previously held interest in Selah Genomics Inc	-	-	-	(4,479)	-	**(4,479)**	-	**(4,479)**
Currency translation differences	-	-	-	846	-	**846**	(54)	**792**
Total comprehensive income/(expense)	**-**	**-**	**-**	**(3,633)**	**(37,123)**	**(40,756)**	**136**	**(40,620)**
Transactions with owners								
Dividends to non-controlling interest	-	-	-	-	-	**-**	(228)	**(228)**
Share-based payments	-	-	-	-	226	**226**	-	**226**
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**226**	**226**	**(228)**	**(2)**
At 1 January 2016	**4,221**	**91,276**	**41**	**(3,607)**	**(45,438)**	**46,493**	**261**	**46,754**
Comprehensive income								
(Loss)/profit for the year	-	-	-	-	(18)	**(18)**	187	**169**
Other comprehensive income								
Currency translation differences	-	-	-	9,216	-	**9,216**	127	**9,343**
Total comprehensive income/(expense)	**-**	**-**	**-**	**9,216**	**(18)**	**9,198**	**314**	**9,512**
Transactions with owners								
Proceeds from shares issued	422	4,117	-	-	-	**4,539**	-	**4,539**
Dividends to non-controlling interest	-	-	-	-	-	**-**	(54)	**(54)**
Share-based payments	-	-	-	-	220	**220**	-	**220**
Total contributions by and distributions to owners	**422**	**4,117**	**-**	**-**	**220**	**4,759**	**(54)**	**4,705**
At 31 December 2016	**4,643**	**95,393**	**41**	**5,609**	**(45,236)**	**60,450**	**521**	**60,971**

3.0 Financial Statements

Consolidated and Company's Statements of Changes in Equity continued

for the year ended 31 December 2016

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2015	**4,221**	**91,276**	**(9,050)**	**86,447**
Comprehensive income				
Loss for the year	-	-	(31,595)	(31,595)
Total comprehensive income/(expense)	-	-	**(31,595)**	**(31,595)**
Transactions with owners				
Share-based payments	-	-	226	226
Total contributions by and distributions to owners	**-**	**-**	**226**	**226**
At 1 January 2016	**4,221**	**91,276**	**(40,419)**	**55,078**
Comprehensive income				
Loss for the year	-	-	(5,474)	(5,474)
Total comprehensive income/(expense)	-	-	**(5,474)**	**(5,474)**
Transactions with owners				
Proceeds from shares issued	422	4,117	-	4,539
Share-based payments	-	-	220	220
Total contributions by and distributions to owners	**422**	**4,117**	**220**	**4,759**
At 31 December 2016	**4,643**	**95,393**	**(45,673)**	**54,363**

Notes to the Financial Statements

for the year ended 31 December 2016

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 Avon House, 19 Stanwell Road, Penarth, Cardiff CF64 2EZ.

The principal activity of the Group is the development, manufacture and supply of products and services into the in-vitro diagnostic (IVD) market place. The Group discontinued its service based molecular diagnostics business in 2015. The Group has presence in the UK, USA, Germany, Poland, Russia, and China, and sells throughout the world including Europe, the Americas, Asia, and Africa.

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 certain financial liabilities at fair value through profit and 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) New standards, amendments and interpretations adopted by the Group.

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016. They do not materially impact on the Group results:

- Annual improvements 2010 – 2012
- Annual improvements 2012 – 2014
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation
- Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures'

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted.

A number of new standards and amendments to standards and interpretations have been endorsed for annual periods beginning after 1 January 2017 (noted below), and have not been early adopted in preparing these consolidated financial statements.

- IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)
- IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2018)

None of these are expected to have a significant effect on the consolidated financial statements of the Group, however we are undertaking a review of the Group's contracts with customers in preparation of the adoption of IFRS 15.

A number of new standards and amendments to standards and interpretations have been issued but are not yet endorsed for annual periods beginning after 1 January 2017 (noted below), and have not been adopted in preparing these consolidated financial statements.

- Annual improvements 2014-2016 cycle
- Amendment to IFRS 2, 'Share based payments' – classification and measurement of share based payment transactions
- Amendment to IFRS 7, 'Statement of cash flows' on disclosure initiative

- Amendment to IAS 12, 'Income Taxes' on recognition of deferred tax assets for unrealised losses
- Amendment to IFRS 10 and IAS 28 on sale of contribution of assets (postponed)
- IFRS 16, Leases

With the exception of IFRS 16, none of these amendments are expected to have a significant effect on the consolidated financial statements of the Group. To prepare for the adoption of IFRS 16 we are undertaking a review of the Group's leasing arrangements.

Going concern

The Group meets its day-to-day working capital requirements through the use of cash reserves and existing bank facilities.

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.

During 2016, the convertible loan provided by the Zwanziger Family Trust in 2015 was repaid using a loan from the North Atlantic Smaller Companies Investment Trust plc (a company associated with Christopher Mills). This in turn was repaid using the proceeds of a fundraising in June 2016.

The restructuring and cost saving actions taken in late 2015 and early 2016 have allowed the Group to become cash generative in the second half of 2016.

The Directors believe 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.

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

Foreign currency translation

(a) Functional and presentational currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within 'administrative expenses'.

(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 presentational currency are translated into the presentational currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

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

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

Segmental reporting

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

Government grants

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

Property, plant and equipment

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

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

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 and 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 15 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 6 and 15 years and is charged to administrative expenses in the income statement.

(e) Development costs

Development costs acquired in a business combination are recognised at fair value at the acquisition date. 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, currently 4 to 5 years. 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.

(f) Non-compete agreements

Non-compete agreements arising from a business combination are recognised at fair value at the acquisition date. Non-compete agreements have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of non-compete agreements over their estimated useful lives of three years and is charged to administrative expenses in the income statement.

Impairment of non-financial assets

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

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for 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.

Investments

Investments where the Group does not have a controlling interest are initially recognised at cost. The carrying value is tested annually for impairment and an impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount.

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 where there is a right of offset.

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.

Financial liabilities

Debt is measured at fair value, being net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost with the exception of deferred equity consideration which is categorised as a financial liability at fair value through profit and loss. 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 and other 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.

Deferred consideration

Deferred consideration is recognised at fair value. Where the value of deferred consideration is based on a future event, management estimate the likelihood of the consideration becoming payable. Deferred consideration is discounted to take account of the time value of money at rates based on those used for the valuation of related intangible assets.

Employee benefits

(a) Pension obligations

Group companies operate various pension schemes all of which are 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.

The Group no longer has any defined benefit schemes.

(b) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees and others 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.

The Group operates a cash-settled compensation plan for certain senior employees. Cash-settled share-based payments are measured at fair value at the date of grant and are expensed over the expected vesting period. The fair value amount is recognised in liabilities.

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 has 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 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) Sale of services

Revenue for the sale of services is measured at the fair value of the consideration received or receivable and represents the invoiced value for the sale of the services net of sales taxes, rebates and discounts. Revenue from the sale of services is recognised when a Group Company has completed the services and collectability of the related receivables is reasonably assured.

(c) 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.

(d) 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.

Other income

Other income includes grant income and R & D tax credits passed through income where this is permitted by the relevant jurisdiction.

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 the USA, Germany, Russia, and Poland.

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 2016	Average rate 2015	Year end rate 2016	Year end rate 2015
Euro	1.229	1.376	1.170	1.359
Russian Rouble	90.826	94.362	75.550	108.480
Polish Zloty	5.365	5.766	5.193	5.808
US Dollar	1.356	1.528	1.233	1.476

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 £8,000 and £50,000 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 interest-bearing liabilities which relate to borrowings and finance lease obligations in the Group's UK, US and German subsidiaries. Interest rates on cash and cash equivalents are floating whilst interest rates on certain 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 if possible 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. Where extended credit is granted, this is agreed by the Finance Director.

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.

	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 2016:					
Borrowings (inc. finance leases)	4,750	221	664	347	5,982
Deferred consideration	693	-	-	-	693
Trade and other payables	9,300	-	-	-	9,300
At 31 December 2015:					
Borrowings (inc. finance leases)	9,917	431	573	234	11,155
Deferred consideration	485	-	-	-	485
Trade and other payables	8,028	-	-	-	8,028

(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.

(e) Fair value estimation

The Group has no Level 1, 2 or 3 classified financial assets as at 31 December 2016 (2015: 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) Going concern

The Directors believe that the Group has adequate resources to conduct normal business for the foreseeable future and as a result the Group continues to adopt the going concern basis of preparation for its consolidated financial statements.

In order to reach this conclusion, the Directors have prepared month-by-month forecasts for the period to 31 December 2018. These forecasts are based on estimates for sales, profitability, capital expenditure and other balance sheet items which the Directors consider to be reasonable. Working capital estimates assume that inventory levels continue to reduce during the period as a proportion of sales. The Directors have applied sensitivities to these forecasts to model the effect of lower sales.

(b) Legal disputes

A dispute has arisen between EKF-diagnostic GmbH and a distributor involving disputed invoices from the distributor, relating mainly to the period prior to the acquisition of the company by the Group. The dispute is not covered by any outstanding warranty from the former owner. Earlier litigation in the UK has been settled in EKF's favour. Having taken legal advice the Directors believe that no provision is required in relation to this dispute.

A dispute has arisen with a second distributor in relation to issues with the registration of a product, for which the distributor is claiming damages. EKF contend that the registration was the distributor's responsibility and that in any case there is no liability for damages. The dispute is likely to go to mediation in the UK.

(c) 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.

(d) 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.

(e) 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. Trade receivables with a gross value of £5.1m are considered to have no value, and were impaired in full in 2015 and written off in 2016.

(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. The carrying amount of deferred tax assets at the balance sheet date was £384,000 (2015: £387,000). In addition there were £6,374,000 (2015: £2,532,000) of deferred tax assets not recognised, primarily relating to the UK Companies.

(g) Tax warranties

The Group has been assessed for and has paid taxation in Germany relating to the periods prior to acquisition by the Group. Under the warranties contained in the acquisition agreement EKF has withheld payment of part of the deferred consideration. The warranty claim effect which reduced in prior periods as a result of reduction in the Company's share price, has increased during the current year. The increase of the potential claim is included within administration costs and has been disclosed as an exceptional item. The determination of the related warranty claim, is based on management judgement.

(h) Impairment of aged inventories

Inventories are carried at the lower of cost and net realisable value (NRV), less any estimated provision for impairment. When calculating the inventory provision management considers the nature and condition of inventory as well as applying assumptions around anticipated saleability of finished instruments and consumables, and future usage of raw materials. Further details are given in Note 23.

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 the USA, Germany, Poland, Russia, and the United Kingdom, 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 all segments should be maintained and reported, given potential future growth of the segments. The new matrix structure for revenue based partly on disease states introduced in 2015 has been discontinued and this structure has not therefore been reflected in the segmental analysis.

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

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

5. Segmental reporting continued

The segment information provided to the Board for the reportable segments for the year ended 31 December 2016 is as follows:

2016	Germany £'000	USA £'000	Poland £'000	Russia £'000	Other £'000	**Total £'000**
Income statement						
Revenue	17,835	21,199	1,582	2,677	33	43,326
Inter-segment	(4,683)	1	(33)	-	(22)	(4,737)
External revenue	13,152	21,200	1,549	2,677	11	38,589
Adjusted EBITDA*	**3,074**	**6,136**	**908**	**599**	**(4,578)**	**6,139**
*Exceptional items (Note 7)	(28)	(525)	-	-	21	(532)
*Share-based payment (Note 30)	-	-	-	-	(973)	(973)
EBITDA	**3,046**	**5,611**	**908**	**599**	**(5,530)**	**4,634**
Depreciation	(678)	(405)	(33)	(27)	(66)	(1,209)
Amortisation	(2,063)	(1,519)	(61)	(29)	(80)	(3,752)
Operating profit/(loss)	**305**	**3,687**	**814**	**543**	**(5,676)**	**(327)**
Net finance costs	(47)	(155)	6	29	(509)	(676)
Income tax	225	1,245	(157)	(126)	(15)	1,172
Retained profit/(loss)	**483**	**4,777**	**663**	**446**	**(6,200)**	**169**
Segment assets						
Operating assets	43,199	30,170	1,504	623	37,570	113,066
Inter-segment assets	(125)	(3,870)	(528)	-	(33,985)	(38,508)
External operating assets	43,074	26,300	976	623	3,585	74,558
Cash	1,803	2,192	229	959	2,691	7,874
Total assets	**44,877**	**28,492**	**1,205**	**1,582**	**6,276**	**82,432**
Segment liabilities						
Operating liabilities	17,277	27,463	82	137	9,290	54,249
Inter-segment liabilities	(10,490)	(22,082)	-	-	(5,934)	(38,506)
External operating liabilities	6,787	5,381	82	137	3,356	15,743
Borrowings	1,191	195	-	-	4,332	5,718
Total liabilities	**7,978**	**5,576**	**82**	**137**	**7,688**	**21,461**
Other segmental information						
Non-current assets – PPE	5,898	4,538	106	71	1,511	12,124
Non-current assets – Intangibles	29,351	15,555	329	151	1,117	46,503
PPE - additions	1,058	169	-	7	27	1,261
Intangible assets – additions	285	308	-	-	70	663

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

3.0 Financial Statements

5. Segmental reporting continued

2015	Germany £'000	US £'000	Poland £'000	Russia £'000	Discont £'000.	Other £'000	Total £'000
Income statement							
Revenue	15,106	16,399	1,228	2,243	-	93	35,069
Inter-segment	(4,904)	(40)	(20)	-	-	(60)	(5,024)
External revenue	**10,202**	**16,359**	**1,208**	**2,243**	**-**	**33**	**30,045**
Adjusted EBITDA*	**1,234**	**2,879**	**544**	**598**	-	**(5,603)**	**(348)**
Exceptional items (Note 7)	(351)	(2,413)	-	-	-	(2,958)	(5,722)
Share based payments (Note 30)	-	-	-	-	-	(226)	(226)
EBITDA	**883**	**466**	**544**	**598**	-	**(8,787)**	**(6,296)**
Depreciation	(586)	(367)	(32)	(20)	-	(168)	(1,173)
Amortisation	(1,855)	(2,378)	(102)	(20)	-	(2,524)	(6,879)
Operating profit/(loss)	**(1,558)**	**(2,279)**	**410**	**558**	-	**(11,479)**	**(14,348)**
Net finance costs	(95)	(124)	10	12	-	(1,225)	(1,422)
Income tax	1,209	574	(70)	(113)	-	606	2,206
Discontinued operations	-	-	-	-	(23,369)	-	(23,369)
Retained profit/(loss)	**(444)**	**(1,829)**	**350**	**457**	**(23,369)**	**(12,098)**	**(36,933)**
Segment assets							
Operating assets	43,419	43,472	1,250	470	-	44,700	133,311
Inter-segment assets	(455)	(19)	(446)	(4)	-	(62,515)	(63,439)
External operating assets	42,964	43,453	804	466	-	(17,815)	69,872
Cash	1,283	83	154	398	-	99	2,017
Total assets	**44,247**	**43,536**	**958**	**864**	**-**	**(17,716)**	**71,889**
Segment liabilities							
Operating liabilities	13,723	18,401	96	91	-	23,231	55,542
Inter-segment liabilities	(9,348)	(16,053)	-	(4)	-	(15,844)	(41,249)
External operating liabilities	4,375	2,348	96	87	-	7,387	14,293
Borrowings	2,540	2,070	-	1	-	6,231	10,842
Total liabilities	**6,915**	**4,418**	**96**	**88**	**-**	**13,618**	**25,135**
							-
Other segmental information							
Non-current assets – PPE	5,043	4,066	127	8	-	1,376	10,680
Non-current assets – Intangibles	26,828	13,978	348	125	-	1,648	42,927
PPE- additions	1,768	427	2	41	-	58	2,296
Intangible assets – additions	1,225	576	-	-	-	1,295	3,096

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

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

5. Segmental reporting continued

Disclosure of Group revenues by geographic location of customer is as follows:

	2016 £'000	2015 £'000
Americas		
United States of America	**15,122**	10,857
Rest of Americas	**3,979**	3,394
Europe, Middle East and Africa (EMEA)		
Germany	**6,082**	5,057
United Kingdom	**276**	238
Rest of Europe	**2,761**	2,637
Russia	**2,687**	2,259
Middle East	**2,870**	1,676
Africa	**882**	916
Rest of World		
China	**929**	677
Rest of Asia	**2,922**	2,242
New Zealand/Australia	**79**	92
Total revenue	**38,589**	30,045

No single external customer represented more than 10% of revenues in either 2016 or 2015.

6. Expenses – analysis by nature

	2016 £'000	2015 £'000
Inventories consumed in cost of sales	**11,388**	6,856
Employee benefit expense (note 10)	**14,636**	20,127
Employee costs capitalised as intangible assets	**(267)**	(837)
Depreciation and amortisation	**4,961**	8,052
Transaction costs relating to business combinations (note 7)	**-**	178
Exceptional items	**532**	5,722
Research and development expenses	**2,039**	2,346
Foreign exchange	**481**	432
Operating lease payments	**477**	1,263
Other expenses	**4,754**	393
Total cost of sales and administrative expenses	**39,001**	**44,532**

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

7. Exceptional items

Included within administrative expenses are exceptional items as shown below:

	Note	2016 £'000	2015 £'000
Warranty claim	a	**129**	(349)
Business reorganisation costs	b	**(661)**	(727)
Transaction costs relating to business combinations	c	**-**	(178)
Impairment charges – other	d	**-**	(5,948)
Release of deferred consideration provisions	e	**-**	7,353
Impairment of investment	f	**-**	(750)
Bad debts written off	g	**-**	(5,123)
Exceptional items		**(532)**	(5,722)

a. Estimated warranty claim in relation to the acquisition of EKF-diagnostic GmbH increased because of higher share price.

b. Restructuring costs, mainly redundancy and notice costs, associated with the closure of STI and DiaSpect's Sailauf facility, the transfer of production of Quo-Test and Quo-Lab to Germany, and other restructuring activities.

c. Transaction costs in 2015 relate to additional costs of acquisition in the previous year.

d. Impairment of EKF Molecular Diagnostics Ltd, and the remaining value of EKF Ireland and capitalised R & D.

e. Reduction of carrying value of deferred contingent consideration associated with EKF Molecular and Stanbio.

f. Impairment of investment in DX Economix Inc.

g. Write off of bad debts associated with certain customers in Mexico.

8. Auditor remuneration

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

	2016 £'000	2015 £'000
Fees payable to Company's auditor and its associates for the audit of the parent Company and consolidated financial statements	**28**	38
Fees payable to the Company's auditor and its associates for other services:		
– The audit of Company's subsidiaries	**64**	87
– Other services	**19**	32
– Tax compliance services	**11**	13
	122	170

9. Directors' emoluments

	2016 £'000	2015 £'000
Aggregate emoluments	**577**	1,179
Contribution to defined contribution pension scheme	**18**	35
	595	1,214

Retirement benefits are accruing to 2 (2015: 4) current directors under a defined contribution scheme.
See further disclosures within the Remuneration Report on page 25.

10. Employee benefit expense

	2016 £'000	2015 £'000
Wages and salaries	**11,681**	16,920
Social security costs	**1,763**	2,663
Share based payments granted to Directors and senior management (Note 30)	**973**	226
Pension costs – defined contribution plans (Note 33)	**219**	318
	14,636	20,127

Employee costs of £0.3m (2015: £0.8m) have been capitalised as part of development costs.

11. Monthly average number of people employed

	2016 Number	2015 Number
Monthly average number of people (including Executive Directors) employed was:		
Administration	**56**	80
Research and development	**16**	35
Sales and marketing	**63**	87
Manufacturing, production and after sales	**173**	195
	308	397

The total number of employees at 31 December 2016 was 299 (2015: 365).

12. Finance income and costs

	2016 £'000	2015 £'000
Finance costs:		
– Bank borrowings	**338**	312
– Other interest	**158**	50
– Financial liabilities at fair value through profit or loss – losses/(gains)	**208**	(395)
– Deferred consideration - unwinding of discount (Note 27)	**-**	1,482
– Convertible debt	**9**	8
Finance costs	**713**	1,457
Finance income		
– Interest income on cash and short-term deposits	**37**	34
– Other interest	**-**	1
Finance income	**37**	35
Net finance costs	**676**	1,422

13. Income tax

Group	2016 £'000	2015 £'000
Current tax:		
Current tax on loss for the year	**1,602**	220
Adjustments for prior periods	**(2,219)**	(76)
Total current tax	**(617)**	144
Deferred tax (note 28):		
Origination and reversal of temporary differences	**(555)**	(2,350)
Total deferred tax	**(555)**	(2,350)
Income tax credit	**(1,172)**	(2,206)

The Finance Act 2015 which was substantially enacted in 2015 included legislation to reduce the main rate of UK corporation tax to 19% from 1 April 2019 and the Finance Act 2016 which was substantially enacted in 2016 included legislation to reduce the main rate of UK corporation tax to 17% from 1 April 2020.

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:

	2016 £'000	2015 £'000
Loss before tax	**(1,003)**	(15,770)
Tax calculated at domestic tax rates applicable to UK standard rate of tax of 20% (2015: 20%)	**(201)**	(3,154)
Tax effects of:		
– Expenses not deductible for tax purposes	**390**	5,518
– Losses carried forward	**(63)**	(4,628)
– Adjustment in respect of prior years	**(2,219)**	76
– Impact of different tax rates in other jurisdictions	**428**	(272)
– Other movements	**493**	254
Tax credit	**(1,172)**	(2,206)

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

14. Loss per share

(a) Basic

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

	2016 £'000	2015 £'000
Loss attributable to owners of the parent	**(18)**	(37,123)
Loss from continuing operations attributable to equity holders of the company	**(18)**	(13,754)
Loss from discontinued operations attributable to equity holders of the company	**-**	(23,369)
Weighted average number of Ordinary Shares in issue	**446,042,831**	422,057,074
Basic loss per share	**(0.00) pence**	(8.80) pence
Basic loss per share from continuing operations	**(0.00) pence**	(3.26) pence
Basic loss per share from discontinued operations	**-**	(5.54) pence

(b) Diluted

Diluted 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 two categories of dilutive potential ordinary share: equity-based long-term incentive plans and share options. The potential shares are not dilutive in either 2016 or 2015 as the Group has made a loss per share.

	2016 £'000	2015 £'000
Loss attributable to owners of the parent	**(18)**	(37,123)
Loss from continuing operations attributable to equity holders of the company	**(18)**	(13,754)
Loss from discontinued operations attributable to equity holders of the company	**-**	(23,369)
Weighted average diluted number of Ordinary Shares	**446,042,831**	422,057,074
Diluted loss per share	**(0.00) pence**	(8.80) pence
Basic loss per share from continuing operations	**(0.00) pence**	(3.26) pence
Basic loss per share from discontinued operations	**-**	(5.54) pence

	2016 £'000	2015 £'000
Weighted average number of Ordinary Shares in issue	**446,042,831**	422,057,074
Adjustment for:		
– Assumed conversion of share awards	**-**	4,272,819
– Assumed payment of equity deferred consideration	**4,043,940**	4,043,940
Weighted average number of Ordinary Shares including potentially dilutive shares	**450,086,771**	430,373,833

15. Dividends

There were no dividends paid or proposed by the Company in either year. The Board's policy is to enhance shareholder value mainly through the growth of the Group. The Board will consider the payment of dividends if and when appropriate, however the Company at present does not have available cash and has a significant deficit on reserves.

16. Property, plant and equipment

Group	Land and buildings £'000	Fixtures & fittings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2015	6,294	954	9,013	82	16,343
Additions	1,476	146	634	40	2,296
Disposal with subsidiaries	(40)	-	(1,009)	-	(1,049)
Transfers	-	57	(57)	-	-
Exchange differences	147	2	(260)	(16)	(127)
Disposals	-	(79)	(250)	(9)	(338)
At 31 December 2015	**7,877**	**1,080**	**8,071**	**97**	**17,125**
Accumulated depreciation					
At 1 January 2015	602	542	4,613	18	5,775
Charge for the year	171	152	825	25	1,173
Charge - discontinued business	-	-	232	-	232
Disposal with subsidiaries	(9)	-	(299)	-	(308)
Transfers	-	29	(29)	-	-
Exchange differences	18	(5)	(141)	(8)	(136)
Disposals	-	(63)	(225)	(3)	(291)
At 31 December 2015	**782**	**655**	**4,976**	**32**	**6,445**
Net book value at 31 December 2015	**7,095**	**425**	**3,095**	**65**	**10,680**
Cost					
At 1 January 2016	7,877	1,080	8,071	97	17,125
Additions	623	135	496	7	1,261
Transfers	214	(13)	(201)	-	-
Exchange differences	1,146	170	1,349	49	2,714
Disposals	(31)	(232)	(1,027)	(11)	(1,301)
At 31 December 2016	**9,829**	**1,140**	**8,688**	**142**	**19,799**
Accumulated depreciation					
At 1 January 2016	782	655	4,976	32	6,445
Charge for the year	232	168	781	28	1,209
Exchange differences	124	104	829	24	1,081
Disposals	(31)	(144)	(876)	(9)	(1,060)
At 31 December 2016	**1,107**	**783**	**5,710**	**75**	**7,675**
Net book value at 31 December 2016	**8,722**	**357**	**2,978**	**67**	**12,124**

Depreciation expense of £774,000 (2015: £878,000) has been charged to cost of sales and £435,000 (2015: £557,000) has been charged to administrative expenses.

16. Property, plant and equipment continued

Company	Land and buildings £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2015	1,673	56	1,729
Additions	-	33	33
At 31 December 2015	**1,673**	**89**	**1,762**
Accumulated depreciation			
At 1 January 2015	122	31	153
Charge for the year	41	21	62
At 31 December 2015	**163**	**52**	**215**
Net book value At 31 December 2015	**1,510**	**37**	**1,547**
Cost			
At 1 January 2016	1,673	89	1,762
Additions	-	27	27
Disposals	-	(1)	(1)
At 31 December 2016	**1,673**	**115**	**1,788**
Accumulated depreciation			
At 1 January 2016	163	52	215
Charge for the year	40	24	64
Disposals	-	(1)	(1)
At 31 December 2016	**203**	**75**	**278**
Net book value At 31 December 2016	**1,470**	**40**	**1,510**

The Company's freehold property is in Germany and occupied by its subsidiary undertaking, EKF-diagnostic GmbH Germany. EKF-diagnostic GmbH is paying rental income of €13,900 (£11,880) per month to the parent Company. €167,000 (£142,700) (2015: €167,000 (£130,000)) 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	2016 £'000	2015 £'000
Cost – capitalised finance leases	**37**	372
Accumulated depreciation	**(3)**	(71)
Net book value	**34**	301

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	Non-compete agreements £'000	Goodwill £'000	Trademarks, trade name and licences £'000	Customer relationships £'000	Trade secrets £'000	Development costs £'000	Total £'000
Cost							
At 1 January 2015	70	46,420	4,007	18,518	30,897	4,829	104,741
Additions	-	-	30	-	-	3,066	3,096
Disposal	-	(23,541)	(1,355)	(5,142)	(14,282)	-	(44,320)
Exchange differences	-	839	(189)	439	263	(113)	1,239
At 31 December 2015	**70**	**23,718**	**2,493**	**13,815**	**16,878**	**7,782**	**64,756**
Accumulated amortisation							
At 1 January 2015	41	954	702	3,344	4,977	1,201	11,219
Exchange differences	-	(50)	(2)	50	(132)	(31)	(165)
Impairment charge	6	1,178	-	53	3,225	1,486	5,948
Disposal	-	-	(194)	(492)	(1,366)	-	(2,052)
Charge for the year	23	-	872	1,600	2,162	2,222	6,879
At 31 December 2015	**70**	**2,082**	**1,378**	**4,555**	**8,866**	**4,878**	**21,829**
Net book value At 31 December 2015	**-**	**21,636**	**1,115**	**9,260**	**8,012**	**2,904**	**42,927**
Cost							
At 1 January 2016	70	23,718	2,493	13,815	16,878	7,782	64,756
Additions	-	-	45	-	-	618	663
Exchange differences	-	3,319	514	2,561	1,747	385	8,526
At 31 December 2016	**70**	**27,037**	**3,052**	**16,376**	**18,625**	**8,785**	**73,945**
Accumulated amortisation							
At 1 January 2016	70	2,082	1,378	4,555	8,866	4,878	21,829
Exchange differences	-	146	187	844	654	30	1,861
Charge for the year	-	-	332	1,418	1,074	928	3,752
At 31 December 2016	**70**	**2,228**	**1,897**	**6,817**	**10,594**	**5,836**	**27,422**
Net book value At 31 December 2016	**-**	**24,809**	**1,155**	**9,559**	**8,031**	**2,949**	**46,503**

Amortisation charge of £34,000 (2015: Nil) has been charged to cost of sales and £3,718,000 (2015: £6,277,000) has been charged to administrative expenses in the income statement.

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

	2016 £'000	2015 £'000
Germany	**17,055**	15,154
Poland	**322**	288
Russia	**103**	72
USA	**7,329**	6,122
Total	**24,809**	21,636

Germany includes EKF-Diagnostic, Senslab, and DiaSpect, while the USA includes Stanbio and STI.

Goodwill is tested for impairment at the balance sheet date. The recoverable amount of goodwill at 31 December 2016 was assessed on the basis of value in use. The assessed value exceeded the carrying value and no impairment loss was recognised.

The key assumptions in the calculation to assess value in use are future revenues and the ability to generate future cash flows. The most recent financial results and initial budgets approved by the Board for the next year were used and forecasts for a further four 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 discount rates applied reflect a risk-adjusted weighted average cost of capital.

The key assumptions used in 2016 for the value in use calculations of cash generating units with significant goodwill are as follows:

	EKF Germany %	DiaSpect %	Stanbio %	STI %
Longer-term growth rate	3	2	3	3
Discount rate	10	10	10	10

The impairment assessments for EKF Germany, Poland, Russia, Stanbio, and STI showed assessed values that exceeded the carrying values with significant headroom.

For DiaSpect, the impairment assessment has been carried out over a 5 year period with a terminal value based on the long-term growth rate. The Directors estimate that growth rates in the 5 year period from the DiaSpect products will be high because they are relatively new products that will bring market benefits.

In Year 1 a growth rate of 19% has been used, reflecting the current sales run-rate, followed by 20% for years 2-4, reflecting a combination of continuing instrumentation sales and increasing consumable volumes as the established instrument base increases in the market. The forecast growth rates then fall to 2% thereafter. The Directors believe that market benefits will allow the product to be sold at a margin in excess of other products sold by the Group. A one percentage point increase in the discount rate or a reduction in forecast revenue growth rates in year 2-4 to 18% would result in an impairment.

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

Trade name	2–8 years
Customer relations	0–13 years
Trade secrets	0–13 years
Development costs	4-10 years

The Company holds capitalised development costs with a cost and net value of £1,253,000 and £538,000 respectively. These are amortised over their useful life and an amortisation charge of £317,000 has been recognised in the income statement in 2016.

18. Investments in subsidiaries

Company Shares in Group undertakings	2016 £'000	2015 £'000
1 January	**30,521**	61,043
Disposal	-	(28,922)
Impairment	-	(1,600)
31 December	**30,521**	30,521

The disposal in 2015 relates to Selah Genomics Inc. The impairment relates to the investment in EKF Molecular Diagnostics Limited.

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

The subsidiaries of EKF Diagnostics Holdings plc are as follows:

Name of Company	Note	Proportion Held	Class of Shareholding	Nature of Business
EKF Diagnostics Limited (UK)*	1	100%	Ordinary	Head Office
Quotient Diagnostics Limited*	1	100%	Ordinary	Sale of diagnostic equipment
360 Genomics Limited*	1	100% (indirect)	Ordinary	Sale of diagnostic equipment
EKF Molecular Diagnostics Limited*	1	100%	Ordinary	Manufacture and sale of diagnostic equipment
DiaSpect Medical AB	2	100%	Ordinary	Head office and IP licencing
DiaSpect Medical GmbH	3	100%	Ordinary	Manufacture and sale of diagnostic equipment and consumables
EKF-diagnostic GmbH	3	100%	Ordinary	Manufacture and sale of diagnostic equipment and consumables
Senslab GmbH	3	100% (indirect)	Ordinary	Manufacture and sale of diagnostic equipment and consumables
EKF Diagnostyka Sp.z.o.o.	4	100% (indirect)	Ordinary	Manufacture and sale of diagnostic equipment and consumables
000 EKF Diagnostika	5	60% (indirect)	Ordinary	Sale of diagnostic equipment
EKF Diagnostics Inc	6	100%	Ordinary	Intermediate holding company
Stanbio Laboratory LP	6	100% (indirect)	Partnership	Manufacture and sale of diagnostic equipment and consumables
EKF Life Sciences LP	6	100% (indirect)	Partnership	Manufacture and sale of diagnostic equipment and consumables
Separation Technology, Inc	6	100%	Ordinary	Manufacture and sale of diagnostic equipment and consumables
1261 N Main LP	6	100%	Partnership	Dormant
Stanlab Management LLC	6	100%	Ordinary	Dormant
1261 N Main Management LLC	6	100%	Ordinary	Dormant
Argutus Intellectual Property Limited	7	100% (Indirect)	Ordinary	Dormant
EKF Diagnostics Limited (Ireland)	7	100%	Ordinary	Manufacture and sale of diagnostic equipment
EKF Diagnostics (Shanghai) Co. Ltd	8	100%	Ordinary	Dormant

Notes

1. Incorporated, registered and having its principal place of business in the United Kingdom, with its registered office being Avon House, 19 Stanwell Road, Penarth Vale of Glamorgan, CF64 2EZ.
2. Incorporated in Sweden. The principal place of business is in Germany. The registered address is Lytta Gard, 75593 Uppsala, Sweden.
3. Incorporated, registered, and having its principal place of business in Germany at Ebendorfer Chaussee 3, 39179 Barleben, Germany.

4. Incorporated, registered, and having its principal place of business in Poland at ul. Kazimierza Wielkiego 58, 32-400 Myślenice, Poland.
5. Incorporated, registered, and having its principal place of business in Russia at 117648, Moscow, PO Box: 30, District Severnoe Chertanovo, House 2, building 207.
6. Incorporated and registered, or formed, and having its principal place of business in the United States of America at 1261 North Main Street, Boerne, Texas, USA 78006.
7. Incorporated and registered in Ireland c/o Mazars, Harcourt Centre, Block 3, Harcourt Road, Dublin 2. Its principal place of business is in the United Kingdom.
8. Incorporated and registered in China, Suite 1202, Jin Hong Qiao International Center Building I, No. 523 Loushan-guan Road, Changning District, Shanghai, P.R.C. 200051

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.

* All UK subsidiaries are exempt from the requirement to file audited accounts by virtue of section 479A of the Companies Act 2006. As part of this process, the Company has provided statutory guarantees to these subsidiaries.

19. Financial instruments by category

(a) Assets

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
31 December				
Assets as per balance sheet				
Trade and other receivables excluding prepayments and corporation tax	8,481	6,403	28,286	32,970
Cash and cash equivalents	7,874	2,017	2,567	11
Total	**16,355**	**8,420**	**30,853**	**32,981**

Receivables in the analysis above are all categorised as 'loans and receivables' for the Group and Company.

(b) Liabilities

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
31 December				
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities)	5,685	10,439	4,141	6,049
Finance lease liabilities	33	403	-	-
Trade and other payables	9,300	8,028	4,776	4,076
Deferred consideration	693	485	693	485
Total	**15,711**	**19,355**	**9,610**	**10,610**

Liabilities in the analysis above are all categorised as 'other financial liabilities at amortised cost' for the Group and Company, with the exception of deferred equity consideration totalling £693,000 (2015: £485,000) that is categorised as a financial liability at fair value through profit and loss.

(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 2016 and 31 December 2015, 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:

	2016 £'000	2015 £'000
AA-	2,929	13
Ratings lower than AA- or unrated	4,945	2,004
Total	**7,874**	**2,017**

20. Investments

Group and Company	**2016 £'000**	2015 £'000
1 January	402	1,152
Disposals	(250)	-
Impairments	-	(750)
31 December	**152**	**402**

The investment consists of a 0.67% holding in Epinex Diagnostics Inc., a US based privately held company operating in the medical diagnostics industry; and a 19.90% holding in DX Economix, Inc., a Canadian based privately held company operating in the healthcare consultancy industry the value of which has been 100% impaired. In December 2016, the Group disposed of its investment in Arcis Biotechnology Holdings Limited, a UK based privately held company, at cost.

21. Disposal

On 23 December 2015 the Company disposed of all of its 100% shareholding in Selah Genomics Inc. for a consideration of $10. Selah Genomics Inc. filed for dissolution on 3 November 2016.

22. Trade and other receivables

	Group 2016	Group 2015	**Company 2016**	Company 2015
Non-current				
Amounts owed by subsidiary undertakings	-	-	22,016	18,550
Current				
Trade receivables	5,669	9,640	-	-
Less: provision for impairment of trade receivables	(69)	(5,575)	-	-
Trade receivables – net	5,600	4,065	-	-
Prepayments	212	229	80	129
Amounts owed by subsidiary undertakings	-	-	6,233	14,376
Corporation tax receivable	677	610	-	-
Other receivables	2,881	2,338	37	44
	9,370	**7,242**	**6,350**	**14,549**

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

As of 31 December 2016, trade receivables of £818,000 (2015: £490,000) 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 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Up to 3 months	805	266	-	-
3 to 6 months	13	223	-	-
6 months to 12 months	-	1	-	-
	818	**490**	**-**	**-**

As of 31 December 2016, trade receivables of £69,000 (2015: £5,575,000) were impaired and provided for. The ageing of these impaired receivables is as follows:

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Up to 3 months	-	-	-	-
3 to 6 months	-	23	-	-
6 months to one year	69	429	-	-
Greater than one year	-	5,123	-	-
Total	**69**	**5,575**	**-**	**-**

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

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
At 1 January	5,575	978	-	-
Provision for receivables impairment	2	5,191	-	-
Receivables written off during the year as uncollectible	(5,123)	-	-	-
Unused amounts reversed	(458)	(178)	-	-
Disposal of Selah Genomics	-	(419)	-	-
Exchange differences	73	3	-	-
At 31 December	**69**	**5,575**	**-**	**-**

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 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
UK Sterling	295	277	6,051	9,007
Euros	5,256	4,460	4,123	8,193
US dollar	3,226	2,199	18,192	15,899
Russian rouble	96	44	-	-
Polish zloty	497	262	-	-
	9,370	**7,242**	**28,366**	**33,099**

23. Inventories

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Raw materials	3,026	3,892	–	–
Work in progress	1,019	1,466	–	–
Finished goods	1,980	2,876	–	–
	6,025	**8,234**	**–**	**–**

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 £3,237,000 (2015: £1,641,000).

The cost of inventories recognised as expense and included in 'cost of sales' amounted to £11,388,000 (2015: £6,856,000).

The Company held no inventories.

24. Cash and cash equivalents

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Cash at bank and in hand	7,874	2,017	2,567	11
Cash and cash equivalents (excluding bank overdrafts)	**7,874**	**2,017**	**2,567**	**11**

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

25. Trade and other payables

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Trade payables	1,198	2,090	145	489
Amounts due to subsidiary undertakings	-	-	2,983	2,812
Social security	101	303	52	232
Other payables	2,193	1,129	800	-
Accrued expenses and deferred income	5,909	4,809	848	775
	9,401	**8,331**	**4,828**	**4,308**

26. Borrowings

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Non-current				
Bank borrowings	1,130	665	-	-
Convertible loan	-	182	-	-
Finance lease liabilities	-	320	-	-
	1,130	**1,167**	**-**	**-**
Current				
Bank borrowings	4,364	6,592	4,141	3,049
Convertible loan	191	-	-	-
Other borrowing	-	3,000	-	3,000
Finance lease liabilities	33	83	-	-
	4,588	**9,675**	**4,141**	**6,049**

The maturity profile of borrowings was as follows:

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Amounts falling due				
Within 1 year	4,588	9,675	4,141	6,049
Between 1 and 2 years	211	401	-	-
Between 2 and 5 years	610	549	-	-
More than 5 years	309	217	-	-
Total borrowings	**5,718**	**10,842**	**4,141**	**6,049**

(a) Bank borrowings

Bank borrowings have maturity profiles from 2017 through to 2022 and bear an average fixed coupon of 2.81% annually (2015: 3.21%).

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

The Group facility, and the US Dollar and Euro denominated borrowings have covenants attached to them. The Group has been compliant with these covenants throughout the year.

The bank borrowings are repayable by either monthly or quarterly instalments, or at the end of a loan period which may be one month, two months, or six months.

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

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Euros	1,191	2,440	-	-
US Dollar	3,803	4,817	3,641	3,049
GBP	500	-	500	-
Total	**5,494**	**7,257**	**4,141**	**3,049**

(b) Convertible loan

Andrew Webb has loaned £200,000 to EKF Molecular Diagnostics Limited in return for a convertible loan note. The note is redeemable on 31 December 2017 or convertible under certain circumstances on or before 30 November 2017 into shares representing 20% of the share capital of EKF Molecular Diagnostics Limited. Interest only becomes payable in the event of a default. The principal has been split into a debt element and an equity element. The equity element is disclosed in Other Reserves. The note is denominated in sterling.

(c) Finance lease liabilities

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

	2016 £'000	2015 £'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	37	99
Later than 1 year and no later than 5 years	-	85
Later than 5 years	-	363
	37	547
Future finance charges on finance leases	(4)	(144)
Present value of finance lease liabilities	**33**	**403**

The present value of finance lease liabilities is as follows:

	2016 £'000	2015 £'000
No later than 1 year	33	83
Later than 1 year and no later than 5 years	-	67
Later than 5 years	-	253
	33	**403**

(d) Other borrowing

In December 2015 Zwanziger Family Ventures LLC ("ZFV") loaned the Company £3,000,000 by way of a convertible loan, secured on the assets of the Group, which had a maximum term of two years and an interest rate of 5% above LIBOR. The ultimate beneficiaries of ZFV are the family of Ron Zwanziger who was at the time a director of the Company. On 10 May 2016 this loan was redeemed in full. At the same time North Atlantic Smaller Companies Investment Trust PLC ("NAIT") loaned the Company £3,000,000 by way of a non-convertible loan secured on the assets of the Group, which had an interest rate of 5% above LIBOR. This loan was repayable on 30 days' notice from NAIT. NAIT is a company associated with Christopher Mills, a director of the Company. On 8 June 2016 this loan was redeemed in full.

27. Deferred consideration

	Group 2016 £'000	Group 2015 £'000	**Company 2016 £'000**	Company 2015 £'000
At 1 January	485	18,029	485	11,658
Unwinding of discount (note 12)	-	1,482	-	644
Fair value adjustment	208	(395)	208	(395)
Reduction of provisions	-	(17,350)	-	(9,997)
Payments made	-	(1,425)	-	(1,425)
Exchange differences	-	144	-	-
At 31 December	**693**	**485**	**693**	**485**
Current portion	**693**	**485**	**693**	**485**
Non-current portion	**-**	**-**	**-**	**-**

The deferred consideration consists of 4,043,940 Ordinary Shares originally valued at £605,000 to be issued as part of the consideration paid for the acquisition of EKF-diagnostic GmbH Germany. The value of the shares has been adjusted to its fair value at 31 December 2016 of £693,000. Whilst agreement has been reached in principle to conclude the position, the contract amendment has not yet been signed.

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	2016 £'000	2015 £'000
Deferred tax assets		
Deferred tax asset to be recovered within 12 months	(13)	(47)
Deferred tax asset to be recovered after more than 12 months	(371)	(340)
	(384)	**(387)**
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	3,751	3,559
Deferred tax liability to be recovered within 12 months	738	831
	4,489	4,390
Deferred tax liabilities – net	**4,105**	**4,003**

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

	2016 £'000	2015 £'000
At 1 January	4,003	13,731
Exchange differences	657	325
Discontinued	-	(7,703)
Income statement movement (note 13)	(555)	(2,350)
At 31 December	**4,105**	**4,003**

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 2015	14,014	14,014
Credited to the income statement	(2,247)	(2,247)
Discontinued business	(7,703)	(7,703)
Exchange differences	326	326
At 31 December 2015	**4,390**	**4,390**
At 1 January 2016	4,390	4,390
Credited to the income statement	(569)	(569)
Exchange differences	668	668
At 31 December 2016	**4,489**	**4,489**

Deferred tax assets	Tax losses £'000	Other £'000	Total £'000
At 1 January 2015	(45)	(238)	(283)
Charged to the income statement	(1)	(102)	(103)
Exchange differences	(1)	-	(1)
At 31 December 2015	**(47)**	**(340)**	**(387)**
At 1 January 2016	(47)	(340)	(387)
Charged to the income statement	45	(31)	14
Exchange differences	(11)	-	(11)
At 31 December 2016	**(13)**	**(371)**	**(384)**

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 £6,374,000 (2015: £5,120,000) mainly in respect of tax losses amounting to £33,109,000 (2015: £24,381,000), primarily arising in the UK entities, that can be carried forward against future taxable income, as the likely timing of recovery is considered too remote.

Company	2016 £'000	2015 £'000
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	371	387
Deferred tax	**371**	**387**

29. Share capital and premium

Group and Company	Number of Shares	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2016	422,057,074	4,221	91,276	95,497
Issue of shares	42,205,707	422	4,117	4,539
31 December 2016	**464,262,781**	**4,643**	**95,393**	**100,036**

On 2 June 2016, 42,205,707 ordinary shares were issued at a price of 11.25p as a result of an equity placing. Transaction costs associated with the placing of £209,000 have been offset against the share premium account.

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')

	Number of notional shares
At 1 January 2016	17,091,276
Waived	(6,836,510)
At 31 December 2016	**10,254,766**

Long-term incentive plan share awards over notional shares totalling 17,091,276 were granted to an Executive Director and a now former Executive Director. The key terms of the awards were revised on 11 June 2013. On 15 June 2016 the option holders waived options over 6,836,510 shares. The conditions relating to the remaining grants have been met and the options have therefore vested in full. The remaining options have an exercise price of 15p, and can be exercised at any time before 31 December 2020.

(b) Unapproved share option scheme

	2016		2015	
	Av. Exercise price per share (£)	Options (Number)	Av. Exercise price per share (£)	Options (Number)
At 1 January	0.254	10,510,000	0.27	10,210,000
Granted	0.15	6,600,000	0.218	1,800,000
Expired	0.278	(3,600,000)	0.3175	(1,500,000)
At 31 December	**0.197**	**13,510,000**	**0.254**	**10,510,000**

The unapproved share options include the following:

- 4,260,000 options were in issue at an exercise price of 20p per share subject to certain non-market based performance conditions. These conditions have now been met and the options have vested in full.
- 200,000 options were in issue to a senior employee of the Group at an exercise price of 25.25p per share subject to certain non-market based performance conditions. These conditions have now been met and the options have vested in full.
- 650,000 options were issued on 7 July 2013 to senior employees at an exercise price of 27.25p per share. These options are exercisable from the third anniversary of grant with a maximum term of 10 years. These vested during the year.
- 1,300,000 options were issued on 21 January 2014 to senior employees at an exercise price of 37.625p per share. These options are exercisable from the third anniversary of grant with a maximum term of 10 years.
- 500,000 options were issued to a third party on 17 May 2015 at an exercise price of 23.5p. The shares will vest from 6 April 2016 subject to the completion of certain contractual obligations, and to the Company's mid-market closing share price attaining 35p or higher. The maximum term is 10 years from grant.
- On 12 September 2016, 6,600,000 options were issued to senior employees at an exercise price of 15p, subject to certain non-market conditions. These options are exercisable from the third anniversary of grant with a maximum term of 10 years.

All share option awards are equity settled. Out of the 13,510,000 (2015: 10,510,000) outstanding options 5,110,000 (2015: 8,060,000) were exercisable.

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

	2016		2015	
Expiry Date	Exercise price per share (£)	Options (Number)	Exercise price per share (£)	Options (Number)
31.12.2016	-	-	0.35	1,300,000
31.12.2016	-	-	0.225	1,300,000
16.06.2021	0.200	4,260,000	0.200	4,260,000
28.09.2021	0.252	200,000	0.252	1,200,000
07.07.2023	0.2725	650,000	0.2725	650,000
21.01.2024	0.37625	1,300,000	0.37625	1,300,000
06.04.2025	0.200	500,000	0.200	500,000
12.09.2026	0.150	6,600,000	-	-
		13,510,000		**10,510,000**

The weighted average fair value of options granted during 2016 determined using the Black-Scholes valuation model was £0.127 (2015: £0.048). The significant inputs into the model are detailed below:

	2016	2015
Weighted average share price	15.9p	13.7p
Weighted average option exercise price	15.0p	21.8p
Expected volatility	86.4%	76.8%
Risk-free interest rate	0.25	0.50
Expected option life	10 years	3.5 years
Dividend yield	-	-

Expected volatility was determined by calculating the volatility in the historic share price over a period of one year. 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.

On 2 June 2016 two Directors were granted a cash settled share-based incentive award. The awards vest if a controlling interest in the Company is acquired by a third party prior to 30 June 2019. In these circumstances a minimum amount of £0.5m is payable to each Director, which increases by reference to any sale price achieved. The fair value of this award has been calculated at £2,100,000 using a modified form of a Black Scholes model. The key assumptions in the model included expected volatility of 60.2%, a risk free rate of (0.03%) and an assumed acquisition premium and option life. £753,000 has been recognised as an expense in administrative expenses in the current year, and is shown as a liability on the balance sheet at 31 December 2016 within trade and other payables.

31. Retained earnings

	Group £'000	Company £'000
At 1 January 2015	(8,541)	(9,050)
Loss for the year	(37,123)	(31,595)
Share-based payment	226	226
At 31 December 2015	**(45,438)**	**(40,419)**
At 1 January 2016	**(45,438)**	**(40,419)**
Loss for the year	(18)	(5,474)
Share-based payment	220	220
At 31 December 2016	**(45,236)**	**(45,673)**

32. Other reserves

Group	Foreign currency £'000	Other £'000	**Total £'000**
At 1 January 2015	26	41	67
Currency translation differences	846	-	846
Recycling of reserves in respect of previously held interest in Selah Genomics	(4,479)		(4,479)
At 31 December 2015	**(3,607)**	**41**	**(3,566)**
At 1 January 2016	(3,607)	41	(3,566)
Currency translation differences	9,216	-	9,216
At 31 December 2016	**5,609**	**41**	**5,650**

In return for a payment of £200,000, Andrew Webb has been granted a loan note convertible into equity in EKF Molecular Diagnostics Limited. The equity element has been included in Other Reserves. The debt element is included in borrowings.

33. Retirement benefit obligations

Pension benefits

The Company operates defined contribution pension schemes the assets of which are held separately from those of the Company in independently administered funds. The pension cost for the year represents contributions made by the Company to the funds and amounted to £219,000 (2015: £318,000).

34. Commitments

(a) Capital commitments

The Group has contracted £nil (2015: £606,000) capital expenditure at the end of the reporting period that had not yet been 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 office equipment and assets under non-cancellable operating lease agreements. The lease terms are between one and five years.

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

	Land and buildings		Other	
Group	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
No later than 1 year	149	219	80	114
Later than 1 year and no later than 5 years	23	661	124	146
Later than 5 years	-	123	-	-
Total	**172**	**1,003**	**204**	**260**

35. Cash used in operations

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Loss before tax	(1,003)	(15,770)	(5,492)	(27,791)
Adjustments for:				
– Depreciation	1,209	1,173	64	62
– Amortisation	3,752	6,879	317	-
– Impairment of intangibles, excluding discontinued business	-	5,948	-	-
– Impairment of investment	-	750	-	750
– Warranty claim	(129)	349	-	-
– Loss on disposal of fixed assets	30	5	-	-
– Restructure of operations	(360)	(2,055)	-	18,088
– Share-based payments	220	226	220	226
– Release of deferred consideration	-	(7,353)	-	-
– Fair value adjustment	208	(395)	208	(395)
– Foreign exchange	481	432	(5,221)	141
– Bad debt written down	-	5,123	8,717	-
– Net finance costs/(income)	468	1,817	(1,366)	(634)
Changes in working capital				
– Inventories	2,767	(2,760)	-	-
– Trade and other receivables	(1,127)	1,901	2,679	3,033
– Trade and other payables	2,300	816	520	550
Net cash generated by/(used in) operations	**8,816**	**(2,914)**	**646**	**(5,970)**

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

Group	**2016 £'000**	2015 £'000
Net book value	241	47
Loss on disposal of property, plant and equipment	(30)	(5)
Proceeds from disposal of property, plant and equipment	**211**	**42**

Non-cash transactions

The principal non-cash transactions are; movements on deferred consideration provisions; the fair value adjustment relating to the deferred equity consideration in respect of EKF Germany, the warranty claim, and release of accruals no longer required.

36. Related Party Disclosures

Directors

Ron Zwanziger is a substantial shareholder in Lumira Diagnostics Limited ("Lumira") and in the Company, through the Zwanziger Family Trust. Between January 2016 and April 2016 the Group shared certain human resources and their associated costs with Lumira totalling £47,000. In December 2015 The Zwanziger Family Trust lent £3,000,000 to the Group, secured by a debenture. This loan was repaid in April 2016. Interest charges for the period of the loan were £66,000.

Christopher Mills controls 28% of the Company's share capital through North Atlantic Smaller Companies Investment Trust PLC ("NAIT") and Oryx International Growth Fund Limited ("Oryx"). Harwood Capital LLP ("Harwood") is investment manager and investment adviser to NAIT and Oryx respectively. Christopher Mills is a partner and Chief Investment Officer of Harwood. Christopher Mills is also a director of Oryx and NAIT. He holds 2.16 per cent. of the shares in Oryx in his own name as well as a further 46.44 per cent. of the shares in Oryx via his 25.06 per cent. shareholding in NAIT. In

April 2016 NAIT loaned £3,000,000 to the Group on commercial terms, secured by a debenture. This loan was repaid in June 2016. Interest charges were £14,000.

The Group was invoiced £18,000 (2015: £18,000) by J & K (Cardiff) Limited for property rent. Julian Baines is a Director of J & K (Cardiff) Limited.

Carl Contadini acts as an Operational Advisor to Harwood which acts as investment manager and investment adviser to NAIT and Oryx respectively.

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

Other related party transactions

Sergey Kots who is Chief Executive of OOO EKF Diagnostika ("EKF Russia"), owns 20% of the subsidiary's share capital. During the year EKF Russia invoiced £656,000 (2015: £589,000) to OOO Laboratory Diagnostic Systems, a company of which Mr Kots' brother is a director.

Andrzej Biedron is the Chief Executive of EKF Diagnostyka Sp. z.o.o ("EKF Poland"). Mr Biedron is a shareholder and director of P.H.P.U. Allmed ("Allmed"). During the year the Group invoiced £237,000 (2015: £212,000) to Allmed. In addition the Group paid £40,000 for consulting services to Firma Laser-med, a company owned by Mr Biedron's partner, and was invoiced £50,000 (2015: £50,000) for property rent by A.B Inwestycje Sp.z.o.o., a company of which Mr Biedron is part owner.

Key management compensation

Key management compensation for the year was as follows:

	2016 £'000	2015 £'000
Salaries and other short-term employee benefits	577	1,179
Share-based payments	753	116
Employer contribution to pension scheme	18	35
	1,348	**1,330**

Key management includes the Directors of the Company only.

The Company

During the year the Company invoiced management charges of £2,268,000 (2015: £1,799,000) and interest of £1,649,000 (2015: £1,421,000) to its subsidiary companies. It purchased goods and services from subsidiaries totalling £120,000 (2015: £228,000). At 31 December 2016 the Company was owed £28,249,000 (2015: £32,926,000) by its subsidiaries and owed £2,983,000 (2015: £2,812,000) to other subsidiaries.

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 Harwood Capital LLP, 6 Stratton Street, Mayfair, London, W1J 8LD on 10 May 2017 at 11.00 a.m. for the following purposes:

Ordinary Resolutions

1. To receive and adopt the statement of accounts for the year ended 31 December 2016 together with the reports of the Directors and the auditors thereon.
2. To re-elect Julian Baines, who retires by rotation, as a Director.
3. To re-elect Carl Contadini, who has been appointed since the previous Annual General Meeting, as a Director.
4. 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.
5. 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 £237,647.66 (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 £464,262.78 (in addition to the authorities conferred in sub-paragraphs (i) above) representing approximately 10% 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 2018, 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.

Special Resolution

6. 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 £464,262.78 representing approximately 10% 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 2017, 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

Avon House
19 Stanwell Road
Penarth
CF64 2EZ
20 March 2017

BY ORDER OF THE BOARD

Salim Hamir
Company Secretary

4.0 Additional Information

Notes:

1. The Company specifies that only those members registered on the Company's register of members at close of business on 8 May 2017 or if this general meeting is adjourned, at close of business 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 Annual General Meeting to represent you. Details of how to appoint the chairman of the Annual 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 Annual lGeneral 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.
6. To appoint a proxy using the Proxy Form, the Proxy Form must be:
   i. completed and signed;
   ii. sent or delivered to Capita Asset Services, The Registry, 34 Beckenham Road, Kent BR3 4TU; and
   iii. received by Capita Asset Services, at the address provided in paragraph 5(b) above no later than 11.00 a.m. on 8 May 2017.
7. 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.
8. 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. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
9. 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.
10. 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.
11. 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.
12. 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 Asset Services 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.
13. The revocation notice must be received by Capita Asset Services no later than 11.00 a.m. on 8 May 2017.
14. 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.
15. 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.
16. 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.
17. Voting on all resolutions will be conducted by way of a poll rather than on a show of hands.
18. As at 5.00 p.m. on the day immediately prior to the date of posting of this notice, the Company's issued share capital comprised 464,262,781 Ordinary Shares of 1p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00 p.m. on the day immediately prior to the date of posting of this notice is 464,262,781.

Company Information

Directors:

Christopher Mills
(Non-Executive Chairman)

Julian Baines MBE
(Chief Executive Officer)

Richard Evans
(Chief Operating Officer and Finance Director)

Carl Contadini
(Non-Executive Director)

Adam Reynolds
(Non-Executive Director)

Company Secretary:

Salim Hamir

Registered Office and 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:

N+1 Singer

1 Bartholomew Lane

London EC2N 2AX

Solicitors to the Company:

Berry Smith LLP

Haywood House

Dumfries Place

Cardiff, CF10 3GA

Registrars:

Capita Asset Services

The Registry

34 Beckenham Road

Beckenham

Kent

BR3 4TU

If you have a query regarding your shareholding please call (from inside the UK) 0871 664 0300 (calls cost 12p per minute plus network extras), or (from outside the UK) +44 371 664 0300 or e-mail:

shareholder.services@capitaregistrars.com

Financial public relations:

Walbrook PR Limited

4 Lombard Street

London

EC3V 9HD

Investor relations email:

investors@ekfdiagnostics.com

Diagnostics
for life

EKF Diagnostics Holdings plc

Avon House
19 Stanwell Road
Penarth
Cardiff, CF64 2EZ

Tel: +44 (0) 29 20 710570
Fax: +44 (0) 29 20 705715
Email: investors@ekfdiagnostics.com

ekfdiagnostics.com