

Company Registration No. 02957012

LAB 21 HEALTHCARE LIMITED

Annual Report and Financial Statements

31 December 2019



LAB 21 HEALTHCARE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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LAB 21 HEALTHCARE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A W Dyer
G D Mullis
P B Sefton (resigned 24 October 2019)

REGISTERED OFFICE

Unit 1 Watchmoor Point
Watchmoor Road
Camberley
GU15 3AD
United Kingdom

BANKERS

Barclays Bank PLC
Town Gate House
Church Street East
Woking
Surrey
GU21 6AE

AUDITOR

Constantin
Statutory Auditor
25 Hosier Lane
London
EC1A 9LQ
United Kingdom

LAB 21 HEALTHCARE LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

The directors have taken the small companies exemption contained in s414B of the Companies Act 2006 from the requirement to prepare a strategic report.

The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption. All applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

PRINCIPAL ACTIVITY

The principal activity of the company is the development and production of immunodiagnostics for infectious diseases.

RESULTS AND DIVIDENDS

The company was acquired by Novacyt UK Holdings Limited on 18 July 2019.

As shown in the company's statement of comprehensive income on page 8, the company's revenue amounted to £3,098k (2018 - £3,427k), whilst the company incurred a loss before tax of £646k (2018 - £221k) for the year.

As shown in the company's statement of financial position on page 9, net liabilities amounted to £813k (2018 - £167k) of which £2,505k (2018 - £2,489k) related to group undertakings as set out in notes 13 and 14.

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

FUTURE DEVELOPMENTS

The company will continue to manufacture diagnostic reagents.

RESEARCH AND DEVELOPMENT

The company continued to develop a number of immunodiagnostics for infectious diseases during the year.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a number of financial risks including cash flow risk, credit risk and liquidity risk. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company does not hedge against this exposure.

Credit risk

The Company's principal financial assets are bank balances and cash and trade and other receivables.

The Company's credit risk is primarily attributable to its trade and intercompany receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses intercompany finance.

LAB 21 HEALTHCARE LIMITED

DIRECTORS' REPORT

GOING CONCERN

The company is financed by Novacyt SA, its parent company (together with its subsidiaries "the Group").

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing the financial statements.

The going concern model covers the period up to and including May 2021. In making this assessment the Directors have considered the following elements:

- the working capital requirements of the business;
- a positive cash balance at 31 December 2019 of €1,805,000;
- the repayment of the current bond borrowings according to the agreed repayment schedules;
- the financing cash inflow relating to the exercise of warrants in Q1 2020;
- a payment of the first tranche of the LTIP that commenced in November 2017;
- increased operating cash inflow generated by the Covid-19 pandemic;

The forecast prepared by the Group shows that it is able to cover its cash needs during the financial year 2020 and until May 2021 without the raising of any further bank or other financing facility.

SUBSEQUENT EVENTS

During January and February 2020 Novacyt SA's share price increased to over €2 per share, a key contributing factor being the launch of a Covid-19 diagnostic test kit by Primerdesign. This share price increase resulted in all remaining warrant holders exercising their warrants which gave rise to a net cash inflow of €2,400,000 into the business and the warrant overhang has now been removed completely.

DIRECTORS

The directors who served during the year and to the date of this report were as follows:

G D Mullis
A W Dyer
P B Sefton (resigned 24 October 2019)

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

LAB 21 HEALTHCARE LIMITED

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

AUDITOR

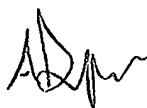
Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Constantin were appointed as auditor in the period and have expressed their willingness to continue in office as auditor. A resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on its behalf



A W Dyer
Director

Date: 26th May 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LAB 21 HEALTHCARE LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Lab 21 Healthcare Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the Related Notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LAB 21 HEALTHCARE LIMITED (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit for the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LAB 21 HEALTHCARE LIMITED (continued)

Matters on which we are required to report by exception

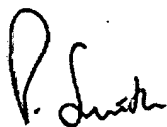
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report and from the requirement to prepare a Strategic Report.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Peter Smith (Senior Statutory Auditor)
For and on behalf of Constantin
Statutory Auditor
25 Hosier Lane, London EC1A 9LQ, United Kingdom
Date: 26 May 2020

LAB 21 HEALTHCARE LIMITED

STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Continuing Operations			
REVENUE	3	3,098	3,427
Cost of sales		(2,042)	(2,114)
GROSS PROFIT		1,056	1,313
Administration expense		(1,528)	(1,382)
Exceptional costs	5	(118)	(121)
Other income		3	24
OPERATING LOSS		(587)	(166)
Finance cost	8	(69)	(58)
Finance income	8	10	3
LOSS BEFORE TAX	4	(646)	(221)
Tax on loss	9	-	-
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO THE COMPANY		<u>(646)</u>	<u>(221)</u>

There were no items of other comprehensive income in either the current year or preceding year.

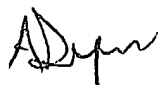
LAB 21 HEALTHCARE LIMITED

STATEMENT OF FINANCIAL POSITION As at 31 December 2019

	Note	2019 £'000	2018 £'000
NON-CURRENT ASSETS			
Intangible assets	10	1,239	1,591
Property, plant and equipment	11	219	69
Other receivables	13	12	12
		<u>1,470</u>	<u>1,672</u>
CURRENT ASSETS			
Inventory	12	862	987
Trade and other receivables	13	957	1,212
Cash at bank and in hand		150	145
		<u>1,969</u>	<u>2,344</u>
TOTAL ASSETS		<u>3,439</u>	<u>4,016</u>
CURRENT LIABILITIES			
Trade and other payables	14	(3,979)	(4,117)
Obligations under operating leases	15	(34)	-
		<u>(4,013)</u>	<u>(4,117)</u>
NON-CURRENT LIABILITIES			
Obligations under operating leases	15	(173)	-
Provisions	17	(66)	(66)
		<u>(4,252)</u>	<u>(4,183)</u>
TOTAL LIABILITIES		<u>(4,252)</u>	<u>(4,183)</u>
NET (LIABILITIES)/ASSETS		<u>(813)</u>	<u>(167)</u>
EQUITY			
Called up share capital	18	-	-
Capital contribution		4,079	4,079
Retained earnings		(4,892)	(4,246)
		<u>(813)</u>	<u>(167)</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>(813)</u>	<u>(167)</u>

The financial statements of Lab 21 Healthcare Limited, registered number 02957012, were approved by the Board of Directors and authorised for issue on 26th May 2020.

Signed on behalf of the Board of Directors



A W Dyer

Director

LAB 21 HEALTHCARE LIMITED

STATEMENT OF CHANGES IN EQUITY As at 31 December 2019

	Called up share capital £'000	Capital contribution £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018	-	4,079	(4,025)	54
Loss for the year	-	-	(221)	(221)
Total comprehensive expense for the year	-	-	(221)	(221)
Balance at 31 December 2018	-	4,079	(4,246)	(167)
Loss for the year	-	-	(646)	(646)
Total comprehensive expense for the year	-	-	(646)	(646)
Balance at 31 December 2019	-	4,079	(4,892)	(813)

Called up share capital is £6, see note 18.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

General information and basis of accounting

Lab 21 Healthcare Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is given on page 1.

The principal activity of the company and the nature of its operations are set out in the Directors' Report on page 2.

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Novacyt SA. The group accounts of Novacyt SA can be obtained from the address given in note 21.

Amendments to IFRS Standards and the new Interpretation that are mandatorily effective for the current year

Impact of application of IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and is effective for an entity's financial statements for annual reporting periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

- The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.
- The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

IFRS 16's transition provisions permit lessees to use either a full retrospective or a modified retrospective approach for leases existing at the date of initial application of the standard, with options to use certain transition reliefs.

The company has elected to apply the standard using the modified retrospective approach from 1 January 2019, utilising certain of the practical expedients provided within the Standard, and the cumulative effect of initial application will be recognised in retained earnings at 1 January 2019. Comparative figures for the year ended December 31, 2018 are not restated to reflect the adoption of IFRS 16 but instead continue to reflect the lessee's accounting policies under IAS 17 Leases.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

1. ACCOUNTING POLICIES (continued)

Impact of application of IFRS 16 *Leases* (continued)

The company has elected to apply for the following practical expedients allowed for entities adopting IFRS 16 using the modified retrospective approach:

- Discount rate - instead of requiring a lessee to determine the incremental borrowing rate for every single lease, IFRS 16 allows a lessee to apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
- Initial direct costs - as a practical expedient, IFRS 16 allows a lessee to exclude initial direct costs from the measurement of the ROU asset on transition.
- Use of hindsight for lease term - a lessee is required to determine the lease term at the date of initial application, which includes purchase and renewal options reasonably expected to be exercised and excludes termination options reasonably expected to be exercised. To alleviate the burden of reconstructing a lessee's initial assessment of the lease term and subsequent changes thereafter, IFRS 16 allows a lessee to use hindsight to determine which renewal and termination options to include or exclude.
- Onerous lease determination - similar to other non-financial assets, ROU assets are subject to impairment testing under IAS 36 Impairment of Assets and a lessee is required to perform an impairment review for each of its ROU assets at date of initial application. IFRS 16 allows a lessee to use its onerous contract assessment under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before transition instead of performing an impairment review under IAS 36. The ROU asset is then reduced by any existing provision for related onerous leases – there were no onerous contracts within the company at 1 January 2019.
- Short-term leases - for leases with a remaining term of less than one year at the date of initial application, the lessee may choose to apply the short-term lease exemption in IFRS 16 and expense lease payments rather than recognize an ROU asset and a lease liability. When using the short-term lease exemption, a lessee is required to disclose the amount of lease payments expensed as a result of using this expedient.

On application of IFRS 16, the company recognised £239k right-of-use assets and £239k lease liabilities.

When measuring lease liabilities, the company discounted the lease payments using the group's borrowing rate at 1 January 2019. The rate applied is 7.5%.

Going concern

The company is financed by Novacyt SA, its parent company (together with its subsidiaries "the Group").

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing the financial statements.

The going concern model covers the period up to and including May 2021. In making this assessment the Directors have considered the following elements:

- the working capital requirements of the business;
- a positive cash balance at 31 December 2019 of €1,805,000;
- the repayment of the current bond borrowings according to the agreed repayment schedules;
- the financing cash inflow relating to the exercise of warrants in Q1 2020;
- a payment of the first tranche of the LTIP that commenced in November 2017;
- increased operating cash inflow generated by the Covid-19 pandemic;

The forecast prepared by the Group shows that it is able to cover its cash needs during the financial year 2020 and until May 2021 without the raising of any further bank or other financing facility.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. ACCOUNTING POLICIES (continued)

Foreign currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Revenue

The Company recognises revenue from the provision of immunodiagnostics for infectious diseases..

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a product or service to a customer.

Product sales

The company recognises the revenue attributable to product sales upon shipment of the product, when there are no specific vendor obligations remaining.

The amount, if any, by which the amount invoiced exceeds recorded revenue is shown within liabilities as deferred income. The amount, if any, by which recorded revenue is in excess of amounts invoiced is shown within receivables as accrued income.

Pension costs

For defined contribution schemes the amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Exceptional items

Exceptional items are those costs or incomes that, in the view of the Board of Directors, require separate disclosure by virtue of their size or incidence, and are charged/credited in arriving at operating profit in the historical financial information.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortisation period for each class of intangible asset is as follows:

Computer software	33% straight line
Customer/workforce & brand value	11% straight line

Intangible assets - goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and has an indefinite economic life. Provision is made for any impairment.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the company's development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. ACCOUNTING POLICIES (continued)

Internally-generated intangible assets – research and development expenditure (continued)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in the profit and loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. There are none at present.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all property, plant and equipment assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements and Right-of-Use assets	Period of lease
Research and development (R&D) equipment	33% straight line
Computer hardware	33% straight line

Useful lives and residual values are reviewed at the end of every reporting period.

Impairment of tangible and intangible assets

At each statement of financial position date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Net realisable value is based on estimated selling price. No provision is made for obsolete, slow-moving or defective inventory as every item that is not in a condition to sell or to use is written off.

Financial assets

Trade and other receivables are classified as loans and receivables, these are initially recognised at fair value. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in profit and loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an expected credit loss allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2019**

1. ACCOUNTING POLICIES (continued)

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the profit and loss.

A financial liability is derecognised only when the obligation is extinguished.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares
- "Capital contribution" represents forgiveness of Intercompany debt
- "Retained earnings" represents retained profits or losses.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

Other than those involving estimations (which are dealt with separately below), the directors have made critical judgements in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements, as discussed below.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying the Company's accounting policies (continued)

Measurement of goodwill

Goodwill is tested for impairment on an annual basis. The recoverable amount of goodwill is determined mainly on the basis of forecasts of future cash flows.

The total amount of anticipated cash flows reflects management's best estimate of the future benefits and liabilities expected for the relevant cash-generating unit (CGU).

The assumptions used and the resulting estimates sometimes cover very long periods, taking into account the technological, commercial and contractual constraints associated with each CGU.

These estimates are mainly subject to assumptions in terms of volumes, selling prices and related production costs, and the exchange rates of the currencies in which sales and purchases are denominated. They are also subject to the discount rate used for each CGU.

The value of the goodwill is tested whenever there are indications of impairment and reviewed at each annual closing date or more frequently should this be justified by internal or external events.

Measurement and useful lives of intangible assets

Other intangible assets (except for goodwill) are considered to have a finite economic useful life. They are amortised over their estimated useful lives that are reviewed at each reporting date. In the event of impairment, an estimate of the asset's recoverable amount is made.

The value of the intangible assets is tested whenever there are indications of impairment and reviewed at each annual closing date or more frequently should this be justified by internal or external events.

Trademark

The value of this asset was determined by discounting the cash flows that could be generated by licensing the trademark, estimated as a percentage of revenue derived from information available on comparable assets.

This asset is amortised on a straight-line basis over a period of nine years, estimated as its useful life. It is also tested for impairment. Its recoverable amount is determined on the basis of forecasts of future cash flows. The total amount of anticipated cash flows reflects management's best estimate of the future benefits and liabilities expected from the operation of the trademark.

The assumptions used and the resulting estimates are subject to discount rate, percentage of revenue and useful life assumptions.

Customer relationships

The value of this asset was determined by discounting the additional margin generated by customers after remuneration of the contributing assets.

Customer relationships are amortised on a straight-line basis over a period of nine years, estimated as its useful life. It is also tested for impairment. Its recoverable amount is determined on the basis of forecasts of future cash flows over an estimated period of time. The total amount of anticipated cash flows reflects management's best estimate of the future benefits and liabilities expected from customer relationships.

The assumptions used and the resulting estimates are subject to assumptions in respect of the discount rate, additional margin generated by customers after remuneration of contributing assets and useful lives.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Trade receivables – recoverability

The nature of the company's business activities is such that it sells to a number of developing countries – it is not unusual for amounts due from customers in such territories to take a number of months to be settled. The company had overdue debtors of £223k (2018 - £490k) outstanding at the balance sheet date, of which £66k (2018 - £27k) remained unpaid as at the date of approval of these financial statements; based on our ongoing discussions and correspondence with the relevant customers, together with other evidence and relevant factors (including past payment history), we do not consider that there are any indications of material impairment to any of the outstanding amounts.

3. REVENUE

All of the company's revenue, in both the current year and the prior year, was derived from the Company's principal activity.

Furthermore, all revenue was derived from the provision of services and goods and was recognised at a point in time.

An analysis of the Company's turnover by geographical market is set out below.

	2019 £'000	2018 £'000
Revenue:		
Geographical market Africa	543	621
Geographical market Europe	616	916
Geographical market Asia-Pacific	1,065	1,080
Geographical market America	395	361
Geographical market Middle East	478	449
	<u>3,098</u>	<u>3,427</u>

4. LOSS BEFORE TAX

	2019 £'000	2018 £'000
Loss before tax is after charging (crediting):		
Amortisation of other intangible fixed assets	152	80
Depreciation of owned property, plant and equipment	71	32
Net (gain)/loss on foreign currency translation	(17)	19
Research and development	28	40
Cost of inventories recognised as an expense	<u>1,431</u>	<u>1,491</u>

Auditor's remuneration for the audit of the company's annual accounts, amounted to £24k (2018 - £26k). There were no non-audit fees in either the current year or preceding year.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

5. EXCEPTIONAL COSTS

	2019 £'000	2018 £'000
Asset purchase costs	-	116
Axminster site closure	101	
Other	17	5
	<u>118</u>	<u>121</u>

The asset purchase costs were incurred in relation to the asset purchase agreement the Infectious Disease business from Omega Diagnostics Ltd.

6. EMPLOYEE REMUNERATION

	2019 £'000	2018 £'000
The aggregate staff costs were as follows:		
Wages and salaries	698	708
Social security costs	69	69
Other pension costs	36	36
Other benefits	30	30
	<u>833</u>	<u>843</u>

	2019 No.	2018 No.
The average monthly number of employees during the year was as follows:		
Administration	1	2
Production	17	12
Sales and marketing	5	6
Research and development	1	1
	<u>24</u>	<u>21</u>

7. DIRECTORS' REMUNERATION

	2019 £'000	2018 £'000
Emoluments	70	69
Company contributions to money purchase schemes	3	4
	<u>73</u>	<u>73</u>
	No	No
Number of directors accruing retirement benefits under the money purchase pension scheme	1	1

During the year only one of the directors or key management personnel received any emoluments from the company. The other directors and key management personnel are remunerated through the parent company and details of their emoluments as directors of the group are shown in the accounts of that company.

No director received shares for qualifying services or exercised any share options in either the current or prior year.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

8. FINANCE COSTS AND FINANCE INCOME

	2019 £'000	2018 £'000
<i>Interest payable and similar charges</i>		
Intercompany interest	(52)	(58)
Operating lease interest	(17)	-
	<u>(69)</u>	<u>(58)</u>
<i>Investment income</i>		
Intercompany interest	<u>10</u>	<u>3</u>

9. TAX ON LOSS

	2019 £'000	2018 £'000
<i>Current taxation</i>		
United Kingdom corporation tax at 19% (2018 - 19%)	-	-

Factors affecting the tax credit for the year

The tax assessed on the loss for the year differs from the blended standard rate of corporation tax in the UK. The differences are explained below:

	2019 £'000	2018 £'000
Loss before taxation	<u>(646)</u>	<u>(221)</u>
Loss at the blended standard rate of corporation tax in the UK of 19% (2018 - 19%)	(123)	(42)
Effect of:		
Depreciation in (deficit)/excess of capital allowances	(5)	(4)
Disallowed expenses and non-taxable income	-	14
Tax losses created	45	36
Group relief	92	-
R&D enhanced allowances	(7)	(10)
Other temporary differences	<u>(2)</u>	<u>6</u>
Total tax charge	<u>-</u>	<u>-</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the statement of financial position date being 20% with effect from 1 April 2015, 19% effective from 1 April 2017 and 17% effective from 1 April 2020 as enacted by the Finance Act 2019, that gained Royal Assent in February 2019. The closing deferred tax assets and liabilities have been calculated at 17%, on the basis that this is the rate at which those assets and liabilities are expected to unwind.

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

10. INTANGIBLE FIXED ASSETS

	Customer & Brand £'000	Goodwill £'000	Computer software £'000	Total £'000
Cost or deemed cost				
At 1 January 2019	1,386	2,521	28	3,935
Additions	-	-	-	-
At 31 December 2018	1,386	2,521	28	3,935
Amortisation and Impairment				
At 1 January 2019	80	2,236	28	2,344
Charge for the year	152	-	-	152
PPA adjustment	-	200	-	200
At 31 December 2019	232	2,436	28	2,696
Net book value				
At 31 December 2018	1,154	85	-	1,239
At 31 December 2018	1,306	285	-	1,591

PPA adjustment as within 12 month date of acquisition, relating to deferred consideration release.

11. PROPERTY, PLANT AND EQUIPMENT

	Right-of- use assets £'000	Leasehold improve- ments £'000	Computer & R&D equipment £'000	Total £'000
Cost				
At 1 January 2019	-	76	102	178
Additions	239	-	5	244
Disposals	-	(20)	(17)	(37)
At 31 December 2018	239	56	90	385
Accumulated depreciation				
At 1 January 2019	-	46	63	109
Charge for the year	39	13	19	71
Disposals	-	(6)	(8)	(145)
At 31 December 2018	39	53	74	166
Net book value				
At 31 December 2018	200	3	16	219
At 31 December 2018	-	30	39	69

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

12. INVENTORIES

	2019 £'000	2018 £'000
Raw materials	523	362
Work in progress	158	361
Finished goods	181	264
	<u>862</u>	<u>987</u>

There is no provision against inventory. The cost of inventories recognised as an expense and included in "cost of sales" amounted to £1,431k (2018 - £1,506k).

13. TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Current		
Trade receivables, gross	401	991
Provision for doubtful debts	(30)	(16)
	<u>371</u>	<u>975</u>
Trade receivables	371	975
Amount due from group undertakings	521	146
VAT recoverable	16	33
Other receivables	24	22
Prepayments and accrued income	25	36
	<u>957</u>	<u>1,212</u>
Non-current		
Other receivables	<u>12</u>	<u>12</u>

Under a Management Services Agreement, the companies within the Novacyt group provide services, which are recharged across the group, plus the group operates a cash pooling function across all its companies. Interest on any group undertaking balances is charged at 3% above the Bank of England base rate. Any balance is payable on demand. No security is held.

The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision for doubtful debts has been recorded as follows:

	2019 £'000	2018 £'000
Provision at 1 January	16	8
Charge in year	15	15
Credited in year	-	(4)
Recovered in year	(1)	(3)
	<u>30</u>	<u>16</u>
Provision at 31 December		

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

13. TRADE AND OTHER RECEIVABLES (continued)

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	2019 £'000	2018 £'000
Not more than 3 months	134	351
More than 3 months but not more than 6 months	10	23
More than 6 months but not more than 1 year	6	37
More than 1 year	73	79
	<u>223</u>	<u>490</u>

14. TRADE AND OTHER PAYABLES

	2019 £'000	2018 £'000
Trade payables	485	699
Amount due to group undertakings	3,026	2,635
Other taxation and social security	72	72
Other payables	62	40
Accruals and deferred income	319	296
Bank loans and overdrafts	15	-
Deferred Consideration	-	375
	<u>3,979</u>	<u>4,117</u>

The carrying amount of trade and other payables is considered to approximate to fair value.

As at 31 December 2019 the Company's financial liabilities all have contractual maturities due within 12 months

Under a Management Services Agreement, the companies within the Novacyt group provide services, which are recharged across the group, plus the group operates a cash pooling function across all its companies. Interest on any group undertaking balances is charged at 3% above the Bank of England base rate. Any balance is payable on demand. No security is held.

15. OBLIGATION UNDER OPERATING LEASES

	2019 £'000
Non-current	34
Current	<u>173</u>
	<u>207</u>

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

15. OBLIGATION UNDER OPERATING LEASES (continued)

Maturity analysis	Buildings £'000	Equipment £'000
Within one year	29	5
Between two and five years	141	4
After five years	28	-
	<u>198</u>	<u>9</u>

16. DEFERRED TAX ASSETS

The amounts of deferred tax assets not provided are as follows:

	2019 £'000	Not provided 2018 £'000
Decelerated capital allowances	(18)	(31)
Other short term timing differences	-	(5)
Tax losses	(937)	(912)
	<u>(955)</u>	<u>(948)</u>

The tax losses are recoverable against future trading profits from the same trades.

No deferred tax asset has been recognised in respect of these losses as there is insufficient reliable evidence that they will be utilised.

17. PROVISIONS

	Dilapidation provision £'000
At 1 January 2019	(66)
Charged to profit and loss account	-
At 31 December 2018	<u>(66)</u>

This provision is in respect of reinstatement obligations relating to the leasehold property, current lease has been extended to August 2025.

18. CALLED UP SHARE CAPITAL

	2019 £	2018 £
Called up, authroised, allotted and fully paid 6 ordinary shares of £1 each	<u>6</u>	<u>6</u>

LAB 21 HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

19. SUBSEQUENT EVENTS

During January and February 2020 Novacyt SA's share price increased to over €2 per share, a key contributing factor being the launch of a Covid-19 diagnostic test kit by Primerdesign. This share price increase resulted in all remaining warrant holders exercising their warrants which gave rise to a net cash inflow of €2,400,000 into the business and the warrant overhang has now been removed completely.

20. RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

The directors (apart from the one shown under note 7) and key management personnel are remunerated through the parent company and details of their emoluments as directors of the group are shown in the accounts of that company.

21. ULTIMATE PARENT COMPANY

The company is a subsidiary undertaking of Novacyt UK Holdings Limited, whose registered office is Unit 1, Watchmoor Point, Watchmoor Road, Camberley, GU13 3AD, United Kingdom.

The largest and smallest group in which the results of the company are consolidated, for the year ended 31 December 2019, was that headed by Novacyt SA, a company incorporated in France. The consolidated accounts of Novacyt SA are available to the public and may be obtained from Immeuble le Nungesser, 13 Avenue Morane Saulnier, 78140, Velizy-Villacoublay, France.

The ultimate parent company and controlling party at the date of approval of these financial statements was Novacyt SA.