Annual Report

Orchid Cellmark Limited

For the year ended 31 December 2017

Registered number: 04045527

Company Information

Directors	D Hartshorne F Eberts III (resigned 7 August 2018) R Pringle (appointed 12 May 2017, resigned 7 August 2018) R Derbyshire (resigned 30 April 2017)
Company secretary	SISEC Limited (reisgned 7 August 2018)
Registered number	04045527
Registered office	Abingdon Business Park 16 Blacklands Way Abingdon Oxfordshire OX14 1DY
Independent auditors	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor Victoria House 199 Avebury Boulevard Milton Keynes MK9 1AU

Contents

Strategic Report
For the year ended 31 December 2017

Business review

The audited financial statements for the year ended 31 December 2017 are set out on pages 10 - 29. The Company recorded a loss before tax of £5.563m (2016 profit: £95k) from a turnover of £23.066m (2016: £30.824m). The Company recorded an after tax loss of £4.703m (2016 profit: £349k).

The Directors are aware of the exceptional loss in 2017 trading and attribute this to a combination of police contract changes in the first quarter of 2017 which resulted in reduced levels of work, as well as general reductions in volume and pricing within the forensic market. The company is engaged in plans during 2018 and 2019 to recover a profitable position through increasing revenue and reducing cost, and although reduced by trading losses, the net asset position will remain strongly positive during this period.

Principal risks and uncertainties

The directors regularly review risks and uncertainties that affect the Company. The principal risks that affect the Company are in relation to ongoing business activity, both in relation to the achievement of performance targets in ongoing contracts and in winning new tender work against the uncertainties of price and timing. Other key risks that affect the Company are in planning capacity to meet new tender awards and that a significant proportion of the Company's work is concentrated in one core area of the market place.

Financial key performance indicators

The directors monitor the progress and strategy of the Company by reference to certain financial and non-financial key performance indicators. A summary of key performance indicators used is set out below:

	2017	2016	Method of calculation
Turnover	£23.1m	£30.8m	Turnover is monitored in turn on a monthly basis, by reference to contribution of individual projects
Gross profit margin	5%	23%	Gross profit as a percentage of turnover
Operating profit margin	(24)%	0%	Operating profit as a percentage of turnover

Financial risk management objectives and policies

The Company uses various financial instruments, these include cash and various items, such as trade debtors and trade creditors that arise directly from its operations.

The main purpose of these financial instruments is to raise finance for the Company's operations.

The existence of these financial instruments exposes the Company to a number of financial risks, which are described in more detail below.

Liquidity risk

The Company seeks to manage financial risk by ensuring sufficient cash resources are available to meet foreseeable needs.

Strategic Report (continued)
For the year ended 31 December 2017

Interest rate risk

The Company finances its operations through retained profits and working capital. The Company is cash positive and therefore exposure to interest rate risk is limited to the effect of interest rates on income received on credit balances.

Credit risk

The Company's principal financial assets are cash and trade debtors. The credit risk associated with cash is limited, the principal credit risk therefore arises from its trade debtors. A significant portion of the debt is from UK Government Agencies but the remainder is managed through a diversified customer base such that no one customer represents a significant proportion of the Company's trade.

Currency risk

A small proportion of the Company's purchases were from continental Europe. The Company is exposed to translation and transaction foreign exchange risk in this respect. The Company manages this risk by monitoring exchange rates at the time of purchase.

This report was approved by the board on 26th September 2018 and signed on its behalf.

D Hartshorne

D Hartshorne
Director

Directors' Report
For the year ended 31 December 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the Company's financial statements 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;
- 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 to 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.

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

Principal activity

The Company is a specialist DNA testing and forensic analysis company. The organisation was established in 1987 as the UK's first commercial DNA fingerprinting company and trades as Cellmark and Cellmark Forensic Services. Working directly for many of the UK's largest police forces the Company provides a broad range of forensic analytical services for the investigation of a wide range of criminal offences and is an accredited supplier of DNA profiles to the UK National DNA Database®. The Company also provides DNA paternity and relationship analysis services to the Courts, the legal profession and the general public, and under contract to UK and International government agencies. In addition the Company also provides specialist animal DNA services for identification and disease susceptibility in livestock.

Results and dividends

The loss for the year, after taxation, amounted to £4,703,000 (2016: profit £349,000).

The directors paid a dividend of £Nil for 2017 (2016: £Nil).

Directors' Report (continued)

For the year ended 31 December 2017

Going concern

The Directors have considered the company's current trading position and, taking into account the fact that the Company has cash at bank in excess of £3,000,000 and that a significant proportion of its annual revenue is derived from contracts that exceed one year from the date of signature of these accounts. On this basis the Directors are confident that the business conducted by the Company is a going concern and, in consequence, these accounts have been prepared on a going concern basis.

Directors

The directors who served during the year were:

D Hartshorne
F Eberts III (resigned 7 August 2018)
R Pringle (appointed 12 May 2017, resigned 7 August 2018)
R Derbyshire (resigned 30 April 2017)

Research and development activities

In 2017, the Company continued to focus on developing its scientific approaches and services, in order to maintain its competitive position, through a targeted research and development programme. The Company employs a team of R&D scientists and software developers and maintains collaborations with other leading scientists, institutions and laboratories. The total R&D spend in the period was £1.083m (2016: £0.8m).

Employee involvement

Employees are provided with information about the Company's performance at both the departmental and company level through a structure of regular team and cross-departmental meetings, by the circulation of company management information and through presentations by Company Directors.

Employees are actively encouraged to contribute and participate in the review of operational and business metrics.

We are an Equal Opportunity Emloyer and do not discriminate on the basis or race, national origin, religion, colour, gender, sexual orientation, age, non-disqualifying physical or mental disability or any other basis covered by law. Employment decisoins are based solely on qualifications, merit and business need.

Qualifying third party indemnity provisions

During the year and up to the date of this report, the Company maintained liability insurance and third-party indemnification provisions for its Directors, under which the Company has agreed to indemnify the Directors to the extent permitted by law in respect of all liabilities to third parties arising our of, or in connection with, the execution of their powers, duties and responsibilities as Directors of the Cmpany.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Report (continued)
For the year ended 31 December 2017

Post balance sheet events

On 7 August 2018, Orchid Cellmark Limited was sold by Laboratory Corporation of American Holdings to DNACO Limited, a company set up by the management team at Orchid Cellmark for the purpose of purchasing the business. Whilst the company is currently trading at a loss, the terms of this sale and the funding available to DNACO Limited enable the business to plan a return to breakeven in 2020.

Auditors

The auditors, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 26th September 2018 and signed on its behalf.

D Hartshorne

D Hartshorne
Director

Grant Thornton

Independent Auditors' Report to the Shareholders of Orchid Cellmark Limited

Opinion

We have audited the financial statements of Orchid Cellmark Limited for the year ended 31 December 2017, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 United Kingdom, including the Financial Reporting Council'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.

Who we are reporting to

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 Auditors' 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.

Grant Thornton

Independent Auditors' Report to the Shareholders of Orchid Cellmark Limited (continued)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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 when the financial statements are authorised for issue.

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 Auditors' 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 this regard.

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

Grant Thornton

Independent Auditors' Report to the Shareholders of Orchid Cellmark Limited (continued)

Matter on which we are required to report by the Companies Act 2006

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 material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

Responsibilities of directors for the financial statements

As explained more fully in the Directors' responsibilities statement on page 3, 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 Auditors' 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 of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' report.

Grant Thornton

Independent Auditors' Report to the Shareholders of Orchid Cellmark Limited (continued)

Grant Thornton UK LLP

Laura Brierley (Senior statutory auditor)
for and on behalf of
Grant Thornton UK LLP
Chartered Accountants
Statutory Auditor
Milton Keynes
Date: 26 September 2018

Statement of Comprehensive Income
For the year ended 31 December 2017

	Note	2017 £	2016 £000
Turnover	4	**23,066**	30,824
Cost of sales		**(21,928)**	(23,832)
Gross profit		**1,138**	6,992
Administrative expenses		**(6,771)**	(6,995)
Operating loss	5	**(5,633)**	(3)
Interest receivable and similar income	9	**70**	98
(Loss)/profit before tax		**(5,563)**	95
Tax on (loss)/profit	10	**860**	254
(Loss)/profit for the financial year		**(4,703)**	349

There were no recognised gains and losses for 2017 or 2016 other than those included in the statement of comprehensive income.

There was no other comprehensive income for 2017 (2016:£NIL).

The notes on pages 13 to 29 form part of these financial statements.

All amounts relate to continuing operations.

Orchid Cellmark Limited
Registered number:04045527

Statement of Financial Position

As at 31 December 2017

	Note		2017 £000		2016 £000
Fixed assets					
Intangible assets	11		**1,010**		1,418
Tangible fixed assets	12		**1,575**		1,960
			2,585		3,378
Current assets					
Stocks	13	**1,506**		1,333	
Debtors: amounts falling due within one year	14	**12,154**		9,192	
Cash at bank and in hand	15	**3,640**		11,646	
		17,300		22,171	
Creditors: amounts falling due within one year	16	**(2,079)**		(3,119)	
Net current assets			**15,221**		19,052
Total assets less current liabilities			**17,806**		22,430
Provisions for liabilities					
Other provisions	19	**(628)**		(549)	
			(628)		(549)
Net assets			**17,178**		21,881
Capital and reserves					
Called up share capital			**-**		-
Other reserves	21		**3,154**		3,154
Profit and loss account	21		**14,024**		18,727
			17,178		21,881

The financial statements were approved and authorised for issue by the board on 26th September 2018 and were signed on its behalf.

D Hartshorne

D Hartshorne
Director

The notes on pages 13 to 29 form part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2017

	Other reserves	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2017	3,154	18,727	21,881
Comprehensive income for the year			
Loss for the year	-	(4,703)	(4,703)
Total comprehensive income for the year	-	(4,703)	(4,703)
At 31 December 2017	3,154	14,024	17,178

Statement of Changes in Equity
For the year ended 31 December 2016

	Other reserves	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2016	3,154	18,378	21,532
Comprehensive income for the year			
Profit for the year	-	349	349
Total comprehensive income for the year	-	349	349
At 31 December 2016	3,154	18,727	21,881

The notes on pages 13 to 29 form part of these financial statements.

Notes to the Financial Statements
For the year ended 31 December 2017

1. General information

Orchid Cellmark Limited is a private company limited by shares and incorporated in the United Kingdom. The registered office is 16 Blacklands Way, Abingdon, Oxfordshire, OX14 1DY.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Laboratory Corporation of America Holdings as at 31 December 2017 and these financial statements may be obtained from 531 South Spring Street, Burlington, NC 27215.

2.3 Going concern

The Directors have considered the company's current trading position and, taking into account the fact that the Company has cash at bank in excess of £3,000,000 and that a significant proportion of its annual revenue is derived from contracts that exceed one year from the date of signature of these accounts. On this basis the Directors are confident that the business conducted by the Company is a going concern and, in consequence, these accounts have been prepared on a going concern basis.

Notes to the Financial Statements
For the year ended 31 December 2017

2. Accounting policies (continued)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Revenues relating to Genetic Testing are recognised upon despatch of the sample results to the client.

Revenue on casework is recognised when a statement is produced for the client after evidential work has been concluded.

2.5 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Statement of Comprehensive Income over its useful economic life.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

Notes to the Financial Statements

For the year ended 31 December 2017

2. Accounting policies (continued)

2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Leasehold improvements	- life of lease
Plant and equipment	- 2 to 5 years
Computer equipment	- 2 to 5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.7 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted averagebasis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

2.8 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Notes to the Financial Statements
For the year ended 31 December 2017

2. Accounting policies (continued)

2.10 Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.11 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Notes to the Financial Statements

For the year ended 31 December 2017

2. Accounting policies (continued)

2.12 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

2.13 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The Company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard 01 January 2015 to continue to be charged over the period to the first market rent review rather than the term of the lease.

2.14 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

Notes to the Financial Statements
For the year ended 31 December 2017

2. Accounting policies (continued)

2.15 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Statement of Financial Position date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Statement of Financial Position date.

2.16 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.17 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

2.18 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Notes to the Financial Statements
For the year ended 31 December 2017

2. Accounting policies (continued)

2.19 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

Expenditure on research and development is charged to the Statement of Comprehensive Income in the year in which it is incurred. Expenditure on fixed assets employed in research and development activities is capitalised.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported in the statement of comprehensive income for the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgments (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Operating lease commitments
The Company has entered into operating leases as a lessee. The classification of such leases as operating or finance leases requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

The following are the Company's key sources of estimation uncertainty:

Goodwill and intangible assets
The Company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, any legal, regulatory or contractual provision that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Dilapidation provisions
The Company has made provisions for dilapidation in respect of it's leasehold properties. The provision requires the cost of returning the properties to their original state at the end of the lease to be estimated and the actual costs incurred may differ from the original estimate.

Notes to the Financial Statements
For the year ended 31 December 2017

4. Turnover

Analysis of turnover by country of destination:

	2017 £000	2016 £000
United Kingdom	**22,507**	29,622
Rest of Europe	**236**	636
Rest of the world	**323**	565
	23,066	30,823

5. Operating loss

The operating loss is stated after charging:

	2017 £000	2016 £000
Depreciation of tangible fixed assets	**645**	670
Amortisation of intangible assets, including goodwill	**408**	442
Other operating lease rentals	**732**	-

6. Auditors' remuneration

	2017 £000	2016 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**39**	39

Notes to the Financial Statements

For the year ended 31 December 2017

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2017 £000	2016 £000
Wages and salaries	**15,348**	16,382
Social security costs	**1,535**	1,647
Cost of defined contribution scheme	**1,099**	1,118
	17,982	19,147

The average monthly number of employees, including the directors, during the year was as follows:

	2017 No.	2016 No.
Techincian	**430**	472
Administration	**94**	80
	524	552

8. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	**194**	303
Company contributions to defined contribution pension schemes	**18**	24
	212	327

During the year retirement benefits were accruing to no directors (2016 - NIL) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £166,815 (2016 - £157,309).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £15,229 (2016 - £15,229).

During the year the directors received £73,343 (2016 - £60,292) in respect of amounts receivable under long-term incentive schemes.

Key management personnel are considered to be senior management. During the year key management personnel compensation was £714,955 (2016 - £740,749).

Notes to the Financial Statements
For the year ended 31 December 2017

9. Interest receivable

	2017 £000	2016 £000
Interest receivable from group companies	**54**	1
Other interest receivable	**16**	97
	70	98

10. Taxation

	2017 £000	2016 £000
Corporation tax		
Current tax on profits for the year	**(840)**	(228)
Total current tax	**(840)**	(228)
Deferred tax		
Origination and reversal of timing differences	**(20)**	(26)
Total deferred tax	**(20)**	(26)
Taxation on loss on ordinary activities	**(860)**	(254)

Notes to the Financial Statements

For the year ended 31 December 2017

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016: lower than) the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £000	2016 £000
(Loss)/profit on ordinary activities before tax	**(5,563)**	95
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	**(1,071)**	19
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	**10**	6
Adjust opening deferred tax to average rate for the year	**-**	1
Adjust closing deferred tax to average rate for the year	**1**	-
Payment for group relief	**(757)**	(65)
Surrender/receipt of group relief	**1,050**	(113)
Share scheme	**(10)**	(13)
Adjustment to tax charge in respect of prior periods	**(83)**	(89)
Total tax charge for the year	**(860)**	(254)

Factors that may affect future tax charges

At the year end date legislation has been enacted which reduced the main rate of deferred tax to 19% from 1 April 2017 and 18% from 1 April 2020. This reduction has been reflected in the calculation of the company's deferred tax assets and liabilities.

Notes to the Financial Statements
For the year ended 31 December 2017

11. Intangible assets

	Goodwill £000
Cost	
At 1 January 2017	**4,265**
At 31 December 2017	**4,265**
Amortisation	
At 1 January 2017	**2,847**
Charge for the year	**408**
At 31 December 2017	**3,255**
Net book value	
At 31 December 2017	**1,010**
At 31 December 2016	1,418

The carrying value of goodwill represents goodwill on the acquisition of Keith Borer Consultants in 2015 and is being amortised over its estimated useful economic life of five years.

Notes to the Financial Statements

For the year ended 31 December 2017

12. Tangible fixed assets

	Leasehold improvements £000	Plant and machinery £000	AUC £000	Total £000
Cost or valuation				
At 1 January 2017	4,523	7,456	-	11,979
Additions	-	148	112	260
Disposals	-	(123)	-	(123)
At 31 December 2017	4,523	7,481	112	12,116
Depreciation				
At 1 January 2017	3,444	6,575	-	10,019
Charge for the year on owned assets	273	372	-	645
Disposals	-	(123)	-	(123)
At 31 December 2017	3,717	6,824	-	10,541
Net book value				
At 31 December 2017	806	657	112	1,575
At 31 December 2016	1,079	881	-	1,960

Notes to the Financial Statements

For the year ended 31 December 2017

13. Stocks

	2017 £000	2016 £000
Raw materials and consumables	**836**	814
Work in progress (goods to be sold)	**670**	519
	1,506	1,333

Stock recognised in cost of sales during the year as an expense was £6,009,000 (2016 - £6,568,000).

14. Debtors

	2017 £000	Restated 2016 £000
Trade debtors	**4,411**	6,449
Amounts owed by group undertakings	**6,008**	2,001
Other debtors	**75**	21
Prepayments and accrued income	**527**	515
Tax recoverable	**1,112**	205
Deferred taxation	**21**	1
	12,154	9,192

Amounts owed by group undertakings are repayable on demand and not subject to interest.

The prior year has been restated to reflect the tax recoverable within debtors to aid comparability year on year.

15. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	**3,640**	11,646
Less: bank overdrafts	**(4)**	-

Notes to the Financial Statements

For the year ended 31 December 2017

16. Creditors: Amounts falling due within one year

	2017 £000	Restated 2016 £000
Bank overdrafts	**4**	-
Trade creditors	**621**	1,012
Amounts owed to group undertakings	**27**	-
Other taxation and social security	**852**	1,279
Accruals and deferred income	**575**	828
	2,079	3,119

Amounts owed by group undertakings are repayable on demand and not subject to interest.

The prior year has been restated to reflect the tax recoverable within debtors to aid comparability year on year.

17. Financial instruments

	2017 £000	2016 £000
Financial assets		
Financial assets measured at fair value through profit or loss	**3,640**	11,646
Financial assets that are debt instruments measured at amortised cost	**10,494**	8,471
	14,134	20,117
Financial liabilities		
Financial liabilities measured at amortised cost	**(1,200)**	(1,420)

Financial assets measured at amortised cost comprise trade and other debtors.

Financial liabilities measured at amortised cost comprise of trade creditors, accrued expenses, bank overdrafts and deferred income.

Notes to the Financial Statements
For the year ended 31 December 2017

18. Deferred taxation

	2017 £000	2016 £000
At beginning of year	1	(25)
Charged to the profit or loss	20	26
At end of year	**21**	1

	2017 £000	2016 £000
Accelerated capital allowances	21	1

19. Provisions

	Dilapidation £000
At 1 January 2017	549
Charged to profit or loss	79
At 31 December 2017	**628**

20. Share capital

Authorised
10,000 Ordinary shares of £100 each.

Allotted, called up and fully paid
1 Ordinary share of £100 each.

21. Reserves

Other Reserves

On 31 December 2002 the Company's parent, Orchid Cellmark Inc, made a capital contribution of £3,395,000. This was offset against the intercompany payable balance with Orchid Cellmark Inc and taken to reserves.

Profit and loss account

Includes all current and prior period retained profits and losses.

Notes to the Financial Statements
For the year ended 31 December 2017

22. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £1,099,000 (2016: £1,437,000). Contributions totalling £132,596 (2016: £139,168) were payable to the fund at the reporting date.

23. Commitments under operating leases

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
Not later than 1 year	**654**	383
Later than 1 year and not later than 5 years	**1,226**	601
	1,880	984

24. Related party transactions

At the year end, the ultimate controlling party is Laboratory Corporation of American Holdings.

As the Company is a wholly owned subsidiary of Laboratory Corporation of American Holdings, it has taken advantage of the exemption constrained in FRS 102 Section 33 not to disclose transactions or balances with entities which form part of the group.

At the date of signing of the fiancial statements, the ultimate controlling party is DNACO Limited.

25. Post balance sheet events

On 7 August 2018, Orchid Cellmark Limited was sold by Laboratory Corporation of American Holdings to DNACO Limited, a company set up by the management team at Orchid Cellmark for the purpose of purchasing the business. Whilst the company is currently trading at a loss, the terms of this sale and the funding available to DNACO Limited enable the business to plan a return to breakeven in 2020.

26. Controlling party

At the year end, the Company was a subsidiary undertaking of Orchid Cellmark Inc, incorporated in the USA.

The largest and smallest group in which the results of the Company are consolidated in that headed by the ultimate parent company, Laboratory Corporation of America Holdings, incorporated in the USA. The consolidated accounts of this group are available to the public and may be obtained from Laboratory Corporation of America Holdings, 531 South Spring Street, Burlington, NC 27215.

At the date of signing the financial statements, the Company is a subsidiary undertaking of DNACO Limited, incorporated in England.