

Company Registration No. 05382262

LAB 21 LIMITED

Report and Financial Statements

31 December 2011



LAB 21 LIMITED

REPORT AND FINANCIAL STATEMENTS 2011

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Directors' responsibilities statement	7
Independent auditor's report	8
Consolidated profit and loss account	10
Consolidated statement of total recognised gains and losses	11
Consolidated balance sheet	12
Company balance sheet	13
Consolidated cash flow statement	14
Notes to the financial statements	15

LAB 21 LIMITED

REPORT AND FINANCIAL STATEMENTS 2011

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

B E Clarke
K Deusch (Non-executive)
C T Evans (Non-executive Chairman)
S D Lowther
G D Mullis
E Snape (Non-executive)
J C Wakefield (Non-executive)

SECRETARY

S D Lowther

REGISTERED OFFICE

184 Cambridge Science Park
Cambridge
CB4 0GA

BANKERS

Lloyds TSB Bank plc
39 Threadneedle Street
London
EC2R 8AU

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

LAB 21 LIMITED

DIRECTORS' REPORT

The directors present their annual report and the financial statements for the year ended 31 December 2011

PRINCIPAL ACTIVITIES

The activities of the group during the year were focused in two areas

Clinical Laboratory Division: Proprietary manufactured antibody and antigen-based products, for infectious diseases such as syphilis, CMV, TB and malaria which are sold into worldwide blood banking and clinical markets. The Division has a continually expanding portfolio, offering a range of proprietary new and improved immunodiagnostic products.

Diagnostic Products Division: Proprietary molecular diagnostic testing services for patients needing diagnosis and optimised treatment in areas such as cancer and virology. Provides molecular testing to pharmaceutical companies requiring specialised clinical trial services, using state-of-the-art biomarker and molecular diagnostic technologies.

RESULTS AND DIVIDENDS

The group incurred a loss after taxation of £7,498,000 (2010 £5,787,000). The directors do not recommend the payment of a dividend (2010 £nil).

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Business review

In the year the Good Manufacturing Practice (GMP) facility project in Cambridge, UK progressed from facility improvements through validation and manufacturing stages. This is the largest capital project that the Company has undertaken to date, including investment in a Quality Management System (QMS) so that the facility will operate at the standard required to enable the Company's products to be sold in the US market. This investment followed the successful approval of a 510(k) application by the US Food and Drug Administration (FDA) regulatory authority in September 2010 and the company's first product registration in China in June 2010 which are important milestones in the group's commercial plans for two of the largest healthcare markets in the world.

The core UK business continued to deliver organic revenue growth with turnover increasing by 24.5% in the year including an increase of 21.6% in the ongoing business. The overall group EBITDA performance reflected the continued operating support of Lab21 Inc which generated a loss of £0.8m for the year as it moved through its final pre-revenue stages of validating the facility, equipment and protocols. The facility received CLIA approval in September 2011 and validation of initial test menus started in the final quarter of the year.

On 19 May 2011 the group made its seventh acquisition when it acquired the entire share capital of Myconostica Limited, a company incorporated in England and Wales. The initial consideration was £3,200,000 with further deferred consideration of £500,000 payable upon the achievement of performance related milestones in each of the financial years ending 31 December 2012 and 31 December 2013. The consideration was satisfied by the issue of Lab21 Limited shares at a price of £35/share.

The Myconostica acquisition was a key transaction in the year bringing complementary products to Lab21's existing infectious diseases portfolio and adding a strong proprietary technology position in the fungal diagnostics market.

Simultaneous with the acquisition a number of the Myconostica shareholders subscribed for shares in the Company at a price of £30/share.

LAB 21 LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW AND FUTURE DEVELOPMENTS (continued)

Key performance indicators

The group's key financial and other performance indicators during the year were as follows

	2011 £'000	2010 £'000	Change %
Group turnover	11,451	9,197	24.5%
Underlying EBITDA *	(2,845)	(2,527)	(12.6%)
Total operating loss before restructuring costs	(4,981)	(4,381)	(13.7%)
Cash at bank	569	1,777	(68.0%)
Average number of employees	125	99	26.3%

* Underlying EBITDA (Earnings before interest, tax, depreciation and amortisation) is derived by adding back depreciation, amortisation and restructuring costs to the operating loss

Group turnover increased by £2,254,000 (24.5%) during the year. Ongoing business, before divestments and acquisitions, increased from £9,197,000 to £11,188,000, an increase of 21.6%.

The EBITDA loss increased over the prior year by £318,000 (12.6%) including a £190,000 increase in research & development expenditure and £250,000 increase in legal & professional fees as a result of paying Board fees for the first time and increases related to the acquisitions of Microgen and Myconostica.

Total operating loss before restructuring costs increased by £600,000 (13.7%) over the prior year including i) an increase of £209,000 in the amortisation of goodwill and intangible assets following the acquisitions of Microgen and Myconostica, ii) a loss on the partial disposal of Lab21, Inc common stock of £61,000, and iii) research & development expenditure and legal & professional fees as described above.

Total administrative costs of £9,284,000, excluding restructuring, includes £660,000 of research & development costs, £1,852,000 of amortisation of goodwill and other intangible fixed assets and £294,000 of depreciation.

Cash at bank fell by £1,208,000 (68.0%). This comprised operating cash outflows of £3,019,000, cash inflows from financing activities of £3,073,000, inflows from acquisitions and disposals of £702,000, outflows relating to the servicing of finance of £905,000, £1,014,000 on capital investment including capitalised development costs and a £45,000 tax outflow.

Average number of employees increased from 99 in 2010 to 125 in 2011 due to the acquisition of Microgen Bioproducts Limited in December 2010 and Myconostica Limited in May 2011.

Outlook and future development

The Company is focused on driving value from organic growth and delivering profitability whilst it continues to evaluate further acquisition opportunities as part of its buy and build strategy. The pipe-line for further acquisitions remains strong, with targets that are highly complementary to the Company's existing product portfolio, adding profitable revenues, distribution channels, and new technology.

PRINCIPAL RISKS AND UNCERTAINTIES

The group faces various risks and regularly assesses their potential impact and steps to mitigate them. The key risks are broadly grouped as follows:

Management of growth

The ability of Lab21 to implement its business strategy requires effective planning and management control through leadership, process and systems. The group's growth plan may place a significant strain on its management, operational, financial and personal resources. The Company's future growth will depend upon the management team's ability to manage change whilst continuing to improve operational, financial and management information and quality control systems on a timely and cost effective basis. Any failure to expand and improve this information and these systems in line with the divisions' growth could have a material adverse effect on the divisions' business, financial condition or operations.

LAB 21 LIMITED

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Dependence on key executives and personnel

Lab21's success is substantially dependent on retaining and incentivising senior management and certain key employees. The loss of the services of key personnel could have an adverse impact on the divisions' business. Such key employees could leave their division for a variety of reasons and Lab21 therefore ensures all key management and executives are appropriately incentivised.

Competitive risks

Losing major contracts

Lab21 trades with a number of major diagnostic manufacturers who distribute and brand Lab21 products in key markets and there is always the possibility of losing a major contract. However, the main products sold through this route are considered market leading blood screening assays and Lab21 is growing this business with expanded distribution in US and Chinese markets. All contracts entered are non-exclusive which gives Lab21 flexibility to expand its customer base in the event it loses a contract.

The timing of clinical trial revenues in the Clinical Laboratory division are difficult to forecast and the key to developing a robust trial business is to have a significant pipe-line of clinical trial customers. Lab21 through its US operations now has a presence in both the US and Europe which is considered highly attractive to its global pharmaceutical customers.

New consolidators entering the market

Lab21 has created a strong position as a consolidator already in the global IVD market, having successfully acquired and integrated 7 businesses. Whilst new competitors may enter the market, Lab21 continues its leadership position and the market itself continues to be highly attractive for consolidators, with hundreds of potential targets still available to purchase.

Acquisition risk

The success of the continued roll-up strategy depends upon the ability of management to successfully leverage the operations, personnel, technologies and products of acquired companies. The group seeks to mitigate this risk by selecting companies which meet certain selection criteria and by conducting a detailed due diligence review and integration planning as early as reasonably possible in the acquisition process.

Legislative risks

The manufacturing, marketing and use of the group's products are subject to regulation by government and regulatory agencies in many countries served by Lab21. Of particular importance is the requirement to obtain and maintain approval for a product from the applicable regulatory agencies to enable Lab21's products to be marketed. Approvals can require clinical evaluation of data relating to safety, quality and efficacy of a product. Lab21 seeks to mitigate regulatory risk by conducting its operations within recognised quality assurance systems and undergoes external assessment to ensure compliance with these systems. As the group grows, significant investment in quality systems will continue.

Financial risks

Interest rate risk

The group has used debt as a part of its funding strategy and, as such, is exposed to fluctuations in interest rates. However, interest rates are typically fixed over the term of the loan as part of the loan agreement.

Liquidity and cash flow risk

Liquidity risk is the risk that the group will have difficulties in meeting financial obligations while cash flow risk is the risk that variability in cash flows creates a short term problem with availability of cash. These risks are mitigated by managing cash at both divisional and group level through the use of regularly updated forecasts. Cash collections are closely monitored and compared to previous months in order to identify adverse trends and target a particular customer or type of customer.

The group supplies products and services to many countries around the world, and as such, faces risks associated with non-collection of debts or extended credit terms. Other measures taken include upfront pro forma receipts, deposits, credit insurance and letters of credit.

LAB 21 LIMITED

DIRECTORS' REPORT

SUBSEQUENT EVENTS

Release of warranty shares – Myconostica Limited

On 19 May 2012 3,576 'A' Ordinary shares with a value of £125,160 were released to the former Myconostica Limited shareholders following the first anniversary of completion of the acquisition

Fundraising

Since the year end the company has issued 149,317 'A' Ordinary shares for cash raising £2,437,848. Of these, 42,752 shares relate to the exercise of warrants at a discounted subscription price of £15.00 per share, 101,846 shares upon the conversion of warrants at a discounted subscription price of £16.25 per share, and 4,719 shares relate to new subscriptions at £30.00 per share.

Clydesdale finance

In June 2012 the Company secured a £5,000,000 growth finance package from Clydesdale Bank PLC, consisting of a term loan and an invoice finance facility. As part of this agreement, other venture debt and deferred consideration liabilities were restructured to reduce the overall cash payments through accelerated payments and part conversion into warrants. As of September 2012, there are no outstanding cash deferred consideration liabilities and the restructured venture debt is scheduled to be settled in full by December 2012.

Warrant Issues

In July 2012, the company issued 25,991 warrants in partial satisfaction of loan notes held by the former shareholders of Microgen Bioproducts Limited which had a maturity date of January 2013. The warrants grant the warrant holder a right to subscribe for 'A' Ordinary shares at par value.

GOING CONCERN

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

EMPLOYMENT POLICY

The group gives full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment and to provide training and career development and promotion where appropriate. The group has a policy of employee involvement by making information available to employees on matters of concern to them.

DIRECTORS

The directors who served during the year and to the date of this report, unless otherwise stated, are as follows:

A Atkinson (Non-executive) (resigned 19 June 2011)
B E Clarke
K Deusch (Non-executive)
C T Evans (Non-executive Chairman)
S D Lowther
G D Mullis
E Snape (Non-executive)
J C Wakefield (Non-executive)

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 LIMITED

DIRECTORS' REPORT

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

Deloitte LLP have expressed their willingness to continue in office as auditor and 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 behalf of the Board



S D Lowther

Director

Date 28 September 2012

LAB 21 LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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 proper accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and 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 may differ from legislation in other jurisdictions.

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

We have audited the consolidated financial statements of Lab 21 Limited for the year ended 31 December 2011 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group and parent company's affairs as at 31 December 2011 and of the group's 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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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



Stuart Henderson (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

28 September 2012

LAB 21 LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2011

			2011		2010
	Note	Existing operations £'000	Acquisitions £'000	Continuing operations £'000	Continuing operations £'000
TURNOVER	2	11,188	263	11,451	9,197
Cost of sales		(6,672)	(104)	(6,776)	(5,360)
GROSS PROFIT		<u>4,516</u>	<u>159</u>	<u>4,675</u>	<u>3,837</u>
Administrative expenses					
Restructuring costs		(77)	(235)	(312)	(204)
Other		(8,998)	(286)	(9,284)	(7,958)
		<u>(9,075)</u>	<u>(521)</u>	<u>(9,596)</u>	<u>(8,162)</u>
Distribution costs		<u>(370)</u>	<u>(2)</u>	<u>(372)</u>	<u>(260)</u>
OPERATING LOSS	3	<u>(4,929)</u>	<u>(364)</u>	<u>(5,293)</u>	<u>(4,585)</u>
Finance charges (net)	4			(2,144)	(1,201)
Loss on partial disposal of subsidiary undertaking	9			(61)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION				<u>(7,498)</u>	<u>(5,786)</u>
Tax on loss on ordinary activities	6			-	(1)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION				<u>(7,498)</u>	<u>(5,787)</u>
Equity minority interests	21			123	-
LOSS FOR THE FINANCIAL YEAR	19			<u>(7,375)</u>	<u>(5,787)</u>

LAB 21 LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2011

	2011 £'000	2010 £'000
Loss for the financial year	(7,375)	(5,787)
Currency translation differences on foreign currency net investments	<u>(37)</u>	<u>106</u>
Total recognised losses for the financial year	<u><u>(7,412)</u></u>	<u><u>(5,681)</u></u>

LAB 21 LIMITED

CONSOLIDATED BALANCE SHEET 31 December 2011

	Note	2011 £'000	2010 £'000
FIXED ASSETS			
Development costs, licences and intellectual property		929	64
Goodwill		10,713	9,495
Intangible assets	8	11,642	9,559
Tangible assets	10	786	605
Investments	11	-	22
		12,428	10,186
CURRENT ASSETS			
Stocks	12	1,395	1,541
Debtors	13	2,609	2,239
Cash at bank and in hand		569	1,777
		4,573	5,557
CREDITORS: amounts falling due within one year	14	(9,999)	(7,661)
NET CURRENT LIABILITIES		(5,426)	(2,104)
TOTAL ASSETS LESS CURRENT LIABILITIES		7,002	8,082
CREDITORS: amounts falling due after more than one year	15	(1,673)	(3,763)
PROVISIONS FOR LIABILITIES	17	(210)	(250)
NET ASSETS		5,119	4,069
CAPITAL AND RESERVES			
Called up share capital	18	14	12
Preferred stock	18	565	565
Share premium account	19	29,013	24,951
Shares to be issued	19	314	45
Merger reserve	19	4,976	1,057
Warrant options	19	150	50
Profit and loss account	19	(29,959)	(22,611)
SHAREHOLDERS' FUNDS	20	5,073	4,069
Minority interests	21	46	-
TOTAL CAPITAL EMPLOYED		5,119	4,069

The financial statements of Lab 21 Limited, registered number 05382262, were approved by the Board of Directors and authorised for issue on 28 September 2012

Signed on behalf of the Board of Directors

G D Mullis
Director

G D Mullis

LAB 21 LIMITED

COMPANY BALANCE SHEET 31 December 2011

	Note	2011 £'000	2010 £'000
FIXED ASSETS			
Development costs, licences and intellectual property		253	-
Goodwill		277	372
Intangible assets	8	530	372
Tangible assets	10	256	378
Investments	11	10,700	10,980
		<u>11,486</u>	<u>11,730</u>
CURRENT ASSETS			
Stocks	12	70	41
Debtors	13	5,749	5,308
Cash at bank and in hand		142	459
		<u>5,961</u>	<u>5,808</u>
CREDITORS: amounts falling due within one year	14	<u>(8,169)</u>	<u>(5,877)</u>
NET CURRENT LIABILITIES		<u>(2,208)</u>	<u>(69)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		9,278	11,661
CREDITORS: amounts falling due after more than one year	15	(1,257)	(3,763)
PROVISIONS FOR LIABILITIES	17	<u>(30)</u>	<u>(30)</u>
NET ASSETS		<u>7,991</u>	<u>7,868</u>
CAPITAL AND RESERVES			
Called up share capital	18	14	12
Share premium account	19	29,013	24,951
Shares to be issued	19	314	45
Merger reserve	19	1,057	1,057
Warrant options	19	150	50
Profit and loss account	19	<u>(22,557)</u>	<u>(18,247)</u>
SHAREHOLDERS' FUNDS		<u>7,991</u>	<u>7,868</u>

The financial statements of Lab 21 Limited, registered number 05382262, were approved by the Board of Directors and authorised for issue on 28 September 2012

Signed on behalf of the Board of Directors



S D Lowther

Director

LAB 21 LIMITED

CONSOLIDATED CASH FLOW STATEMENT **For the year ended 31 December 2011**

	Note	2011 £'000	2010 £'000
Net cash outflow from operating activities	22	(3,019)	(2,418)
Returns on investment and servicing of finance	23	(905)	(346)
Taxation	23	(45)	18
Capital expenditure and financial investment	23	(1,014)	(245)
Acquisitions and disposals	23	702	(1,013)
	23		
Cash outflow before financing		(4,281)	(4,004)
Financing	23	3,073	5,115
(Decrease) increase in cash in the year	24	(1,208)	1,111

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year, with the exception of the policy for research and development expenditure, which is explained below.

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisitions method.

Going concern

The Lab21 Limited group (the "Group") is financed by a combination of debt and equity. Under the terms of the debt financing with Clydesdale Bank plc ("Clydesdale"), which was finalised in June 2012 as described in the subsequent events section of the Directors' Report, there are a number of covenants with which the Group is required to comply on a consolidated basis, together with cross guarantees between companies within the Group.

The financial covenants include a requirement to maintain total cash balances in excess of a specified "cash floor" and to achieve certain levels of revenue on a quarterly, rolling 12 monthly basis.

The Directors have prepared a cash flow forecast ("the Forecast") for the period ending 31 December 2014. The Forecast represents the directors' best estimate of the Group's future performance and necessarily includes a number of assumptions, including the level of sales and the impact of the continued uncertain economic environment.

The Forecast also includes an assumption that additional equity funding, totalling \$1,000,000 (£625,000) will be secured in two equal tranches in September and December 2012. This is also a condition subsequent of the Clydesdale term loan, as described further in note 27.

The Directors are confident of receiving the first tranche of \$500,000 in October, based on the current status of discussions with investors.

In the event that Lab 21 does not succeed in raising this additional equity funding, the cash floor would be breached. The Directors have therefore prepared a sensitivity scenario, under which the forecast level of discretionary expenditure is reduced in order to avoid breaching the cash floor covenant. The Directors consider that such mitigating actions would be straight forward to implement and would not adversely impact on Lab 21's overall strategy. Accordingly, they do not consider that this constitutes a material uncertainty.

This Forecast therefore demonstrates that the Directors have a reasonable expectation that the Group will be able to meet its liabilities as they fall due and comply with the financial covenants, for a period of at least 12 months from the date of approval of these financial statements.

On the basis of the above factors and, after having made appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Intangible assets - research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period is between three and five years. Provision is made for any impairment.

This represents a change of accounting policy as, in the preceding year, all research and development expenditure was written off as incurred. This change of accounting policy did not require a restatement of the prior year comparatives, since there was no such expenditure that would have met the criteria for capitalisation as at the prior year balance sheet date.

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 written off on a straight line basis over its useful economic life, which is between 5 and 15 years. Provision is made for any impairment.

Intangible assets - licences

Licences are included at cost and depreciated in equal annual instalments over their estimated useful economic life, which is between 7 and 20 years. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. Depreciation is provided on the cost of tangible fixed assets to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to their recoverable amount. The annual depreciation rates used are:

Leasehold improvements	Period of lease
Computer software	33% straight line
Fixtures and fittings	33% straight line
Computer equipment	33% straight line
Laboratory equipment	33% straight line

Residual value is calculated on prices prevailing at the date of acquisition.

Trade investments

Trade investments held as fixed assets are shown at cost less provision for impairment.

Stocks

Stocks 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 the estimated sales price after allowing for all further costs of completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

- Raw materials and goods for resale - purchase cost on first in, first out basis, and
- Work in progress and finished goods - cost of direct materials and labour plus attributable overheads

Taxation

Current tax, including UK corporation tax and foreign 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 balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable results and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

Turnover

Revenue, which excludes value added tax, represents turnover generated from the provision of contracted research and testing services to customers in the pharmaceutical and biotechnology industries, the sale of diagnostic tests, and the sale of environmental monitoring instruments

Contracted research and testing services

The group provides research and testing services to its customers in exchange for a fee which is generally dependent on the resource dedicated to the project. Revenue on such contracts is recognised when the services are rendered. In other cases, the group performs research services on a fixed price basis. In this case, revenue is recognised as work is performed using the percentage completion method, as measured by costs incurred to date compared to the estimated total costs to completion

Product sales

The group recognises the revenue attributable to product sales upon shipment of the product, when there are no specific vendor obligations remaining. Typical obligations include customer acceptance and site acceptance testing

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

Pension costs

The group operates a number of defined contribution pension schemes. The assets of the schemes are invested and managed independently of the finances of the group. The pension cost charge represents 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 balance sheet

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or the rate contracted, as applicable

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 December 2011**

1. ACCOUNTING POLICIES (continued)

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the terms of the leases. Where operating lease agreements include rent-free periods this incentive is accounted for on a straight-line basis.

Share based payments

Equity settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Share based payments (continued)

Issue of shares for services rendered

For equity-settled share-based payments, the goods or services received, and the corresponding increase in equity are measured directly at the fair value of those goods or services. Where the fair value of such goods and services cannot reliably be estimated, their value, and that of the corresponding increase in equity is measured indirectly by reference to the fair value of the equity instruments granted.

Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Financial liabilities and equity

Financial liabilities and equity instruments, including share warrants, are classified according to the substance of the contractual arrangement entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Convertible loan notes

The group has convertible loan notes, the terms of which are assessed to determine whether the instrument contains an equity element and, hence, is a compound financial instrument. Where the loan note converts into a fixed number of equity shares, there is deemed to be an equity element. For such loans, at the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity, is included in equity. Where, however, the conversion feature is not fixed in terms of the number of equity shares issued, then there is deemed to be no equity element and the loan is presented in full as a liability.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The portion relating to the liability component is offset against the liability and charged to the profit and loss account over the term of the liability.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2. TURNOVER

The directors consider more detailed revenue disclosure to be seriously prejudicial to the commercial success of the company. Consequentially, detail of revenue components is not disclosed in these accounts.

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

3. OPERATING LOSS

	2011 £'000	2010 £'000
Operating loss is after charging (crediting):		
Amortisation of goodwill	1,818	1,591
Amortisation of other intangible fixed assets	34	39
Depreciation of tangible fixed assets		
Owned	66	32
Held under finance leases	228	189
Operating lease rentals		
Plant and machinery	34	25
Other	868	423
Government grants	(140)	(67)
Restructuring costs	312	204
Loss on sale of fixed assets	4	-
Foreign exchange losses	8	56
Research and development costs		
- current year expenditure	660	470
	<u>660</u>	<u>470</u>

The analysis of auditor's remuneration is as follows

Fees payable to the Company's auditor for the audit of the Company's annual accounts	33	33
The audit of the Company's subsidiaries pursuant to legislation	<u>47</u>	<u>25</u>
Total audit fees	<u>80</u>	<u>58</u>
Fees payable to the Company's auditor and their associates for other services to the Group		
Tax services	<u>-</u>	<u>-</u>
Total non-audit fees	<u>-</u>	<u>-</u>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

4. FINANCE CHARGES (NET)

	2011 £'000	2010 £'000
Interest payable and similar charges	2,345	1,205
Less investment income	(201)	(4)
	<u>2,144</u>	<u>1,201</u>
<i>Interest payable and similar charges</i>		
Interest on convertible loan notes	304	104
Unwinding of discount on deferred consideration	36	141
Interest on financial instruments	949	841
Interest on other loans	1,001	110
Other interest	55	9
	<u>2,345</u>	<u>1,205</u>
<i>Investment income</i>		
Bank interest	1	1
Income from fixed asset investments	21	-
Other interest	179	-
Other income	-	3
	<u>201</u>	<u>4</u>

5. STAFF COSTS AND DIRECTORS' EMOLUMENTS

Group	2011 No.	2010 No
The average monthly number of persons employed by the group, including directors, during the year was as follows:		
Production	57	47
Research and development	16	12
Administration	24	24
Sales and marketing	28	16
	<u>125</u>	<u>99</u>
The aggregate staff costs were as follows:		
Wages and salaries	4,403	3,203
Social security costs	464	345
Pension costs	195	175
Other benefits	119	76
	<u>5,181</u>	<u>3,799</u>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

5 STAFF COSTS AND DIRECTORS' EMOLUMENTS (continued)

Included in wages and salaries is a total expense of share-based payments of £nil (2010 £76,000) all of which arises from transactions accounted for as equity-settled share-based payments (see note 25)

	2011 £'000	2010 £'000
Emoluments	475	468
Company contributions to money purchase schemes	21	20
	<u>496</u>	<u>488</u>
	No	No
Number of directors accruing retirement benefits under the money purchase pension scheme	3	2
Number of directors who received shares for qualifying services	-	-

The highest paid director received total emoluments of £205,000 (2010 £206,000) and £9,300 contributions (2010 £nil) were made to that director's money purchase pension scheme in the current year. Furthermore, the highest paid director received no shares for qualifying services (2010 nil) and exercised no options (2010 nil) during the year.

Pensions

The company contributes defined contributions to employee stakeholder pensions and has no other pension obligations other than these contributions. Contributions for the year were £195,000 (2010 £175,000). Contributions outstanding at the year end were £23,000 (2010 £23,000).

During the year 2,429 'A' Ordinary shares at a value of £55,000 were issued to the beneficiaries of A Atkinson (2010 £nil).

6. TAX ON LOSS ON ORDINARY ACTIVITIES

Tax charge for the year

	2011 £'000	2010 £'000
Current taxation		
United Kingdom corporation tax at 26.5% (2010 - 28%)	-	1
Tax charge on loss on ordinary activities	<u>-</u>	<u>1</u>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

6. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

Factors affecting the tax charge for the year

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

	2011 £'000	2010 £'000
Loss on ordinary activities before taxation	(7,498)	(5,786)
Loss on ordinary activities multiplied by the blended standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(1,987)	(1,620)
Effect of		
Depreciation in excess of capital allowances	123	70
Expenditure not deductible for tax purposes	659	287
Other timing differences	3	7
Unrelieved tax losses	1,202	1,257
Current tax charge for the year	-	1

Deferred taxation assets unprovided are as follows

	2011 £'000	Not provided 2010 £'000
Decelerated capital allowances	272	218
Other short term timing differences	6	7
Tax losses	8,108	5,800
	8,386	6,025

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

In accordance with FRS 19 'Deferred tax' no deferred tax asset has been recognised in respect of these losses as there is insufficient persuasive and reliable evidence that they will be utilised, other than to the extent of offsetting the deferred tax liability in respect of other timing differences

In March 2011, the UK Government announced a reduction in the standard rate of UK corporation tax to 26% effective 1 April 2011. This rate reduction was substantively enacted in March 2011.

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012 respectively. The UK Government also proposed to further reduce the standard rate of UK corporation tax to 22% effective 1 April 2014, but this change has not been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

7. LOSS ATTRIBUTABLE TO THE COMPANY

The loss for the financial year dealt with in the financial statements of the company was £4,376,000 (2010: £2,801,000). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of recognised gains and losses are presented in respect of the company.

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

8. INTANGIBLE FIXED ASSETS

GROUP

	Goodwill arising on acquisitions £'000	Develop- ment costs £'000	Licences £'000	Intellectual property £'000	Total £'000
Cost					
At 1 January 2011	13,112	-	140	54	13,306
Additions	3,042	361	-	272	3,675
Acquisitions	-	-	81	185	266
Disposals	(7)	-	-	-	(7)
Exchange adjustments	1	-	-	-	1
At 31 December 2011	16,148	361	221	511	17,241
Amortisation					
At 1 January 2011	3,617	-	117	13	3,747
Charge for the year	1,818	-	10	24	1,852
At 31 December 2011	5,435	-	127	37	5,599
Net book value					
At 31 December 2011	10,713	361	94	474	11,642
At 31 December 2010	9,495	-	23	41	9,559

COMPANY

Cost					
At 1 January 2011	1,003	-	114	-	1,117
Additions	-	-	-	265	265
At 31 December 2011	1,003	-	114	265	1,382
Amortisation					
At 1 January 2011	631	-	114	-	745
Charge for the year	95	-	-	12	107
At 31 December 2011	726	-	114	12	852
Net book value					
At 31 December 2011	277	-	-	253	530
At 31 December 2010	372	-	-	-	372

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

8 INTANGIBLE FIXED ASSETS (continued)

Licences

The useful economic life over which licences are amortised is 3 years

Goodwill

Goodwill generated in previous years

On 22 April 2005, the company acquired the trade and assets of Oneida Theradiagnostics Limited ("Oneida Theradiagnostics") (since renamed Viogen Limited), the business of which is the precision of diagnostic test and support services to the pharmaceutical and diagnostics industry. The goodwill arising on the acquisition of Oneida Theradiagnostics was £528,000.

On 5 October 2006 the company acquired 100% of the issued share capital of Lab21 Healthcare Limited (formerly Newmarket Laboratories Limited) for consideration of £4,000,000 satisfied by £2,000,000 of cash and the issue of a £2,000,000 convertible loan. The goodwill arising on the acquisition was £3,963,000. The useful economic life, as determined by the directors, over which this goodwill is being amortised is 15 years.

On 20 March 2008 the company acquired 100% of the issued share capital of NPTECH Services Limited. The consideration comprised £150,000 which was satisfied by the issue of 5,000 'A' ordinary shares along with deferred consideration of £141,000 payable in cash and shares in three instalments between 31 March 2010 and 29 January 2011. The goodwill arising on the acquisition was £387,000, which consists of £378,000 previously reported and further acquisition costs of £9,000 identified during 2009. The useful economic life, as determined by the directors, over which this goodwill is being amortised is 5 years.

On 28 February 2009 the company acquired 100% of the issued share capital of Biotec Laboratories Limited, for a total consideration of £1,300,000. The consideration was satisfied by the issue of 42,877 'A' Ordinary shares. The goodwill arising on the acquisition was £1,324,000, which consists of £1,329,000 previously reported and reduced acquisition costs of £5,000 identified during the year. The useful economic life, as determined by the directors, over which this goodwill is being amortised is 5 years.

On 19 May 2009 the company acquired the trade and assets of Plasmatec Laboratory Products Limited (effective 1 May 2009), for a total consideration of £2,700,000. The consideration comprised an initial cash consideration of £1,000,000 paid at completion, £700,000 satisfied by the issue of 23,333 'A' Ordinary shares, and deferred payments due on the first, second and third anniversary of completion. The goodwill arising on the acquisition was £2,236,000. The useful economic life, as determined by the directors, over which this goodwill is being amortised is 5 years.

On 26 November 2009 the company acquired the trade and assets of Delphic Laboratories (Liverpool) Limited, Delphic Laboratories (Kent) Limited, Delphic Diagnostics Limited and Delphic Europe Diagnostics Limited (together "Delphic") for a total cash consideration of £500,000. The goodwill arising on the acquisition was £475,000. The useful economic life, as determined by the directors, over which this goodwill is being amortised is 5 years.

On 17 December 2009 the group acquired the trade and assets of Selah Technologies LLC, a South Carolina limited liability company for consideration of £2,000,000 satisfied by the issue of 60,661 'A' Ordinary shares. The goodwill arising on the acquisition was £2,002,000, which consists of £1,916,000 previously reported, further acquisition costs of £12,000 identified during the year and £74,000 cumulative exchange adjustments. The useful economic life, as determined by the directors, over which this goodwill is being amortised is 5 years.

On 23 December 2010 the company acquired the entire issued share capital of Microgen Bioproducts Limited. The consideration amounted to £3,400,000 which was satisfied by a cash payment of £1,200,000 and two £1,050,000 interest bearing loan notes to be repaid 12 and 24 months from the date of acquisition. The goodwill arising on the acquisition was £2,197,000. The useful economic life, as determined by the directors, over which this goodwill is being amortised is 15 years.

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

8 INTANGIBLE FIXED ASSETS (continued)

Additions to goodwill in the current year were as follows

On 19 May 2011, the company acquired the entire issued share capital of Myconostica Limited, a company incorporated in England and Wales. The consideration amounted to £3,972,000 which was satisfied by the issue of 79,143 'A' Ordinary shares of £0.01 at £35 each, 30,000 'A' Ordinary shares of £0.01 at £30 each, 3,572 'A' Ordinary shares of £0.01 at £35 each to be issued on the first anniversary and 3,571 'A' Ordinary shares of £0.01 at £35 each on the second anniversary. In addition, there is deferred contingent consideration, which has not been recognised, as explained in note 26. In accordance with section 615 of the Companies Act 2006, the Company has taken no account of any premium on the shares issued and has recorded the cost of the investment at the nominal value of the shares issued [plus the fair value of the other consideration]. The resulting difference arising on consolidation has been credited to other reserves.

The assets acquired and their fair values, along with the resulting goodwill are as follows

	Book value £'000	Fair value adjustment £'000	Fair value to group £'000
Fixed assets			
Intangible assets	267	-	267
Tangible assets	98	-	98
Total fixed assets	365	-	365
Stocks	72	-	72
Trade debtors	15	-	15
Other debtors	80	-	80
Cash at bank and in hand	980	-	980
Total assets	1,512	-	1,512
Creditors			
Trade creditors	(124)	-	(124)
Accruals	(324)	-	(324)
Other creditors	(84)	-	(84)
Total liabilities	(532)	-	(532)
Provisions	-	(50)	(50)
Net assets	980	(50)	930
Goodwill			3,042
			3,972
Satisfied by:			
Shares issued on acquisition			3,670
Retention shares			250
Costs associated with the acquisition			52
Total cost of acquisition			3,972

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

8. INTANGIBLE FIXED ASSETS (continued)

The fair value adjustment relates to the provision for dilapidation costs in respect of leasehold premises

The useful economic life, as determined by the directors, over which this goodwill is being amortised is 15 years

Myconostica Limited incurred £901,000 of the group's net operating cash outflows, utilised £4,000 in respect of net returns on investments and servicing of finance, utilised £nil in respect of taxation and utilised £nil for capital expenditure and financial investment

Net cash outflows in respect of the acquisition comprised

	£
Cash consideration	-
Cash at bank and in hand acquired	980
Bank overdrafts acquired	-
	<u>980</u>

An amount of £235,000 has been charged to the Group profit and loss account in respect of costs incurred in reorganising, restructuring and integrating the acquisition in the period from 19 May 2011 to 31 December 2011

Myconostica Limited incurred a loss after taxation of £3,488,000 in the year ended 31 December 2011 (2010 loss of £1,978,000) of which a loss of £3,121,000 arose in the period 1 January 2011 to 18 May 2011

The summarised profit and loss account and statement of total recognised gains and losses for the period 1 January 2011 to the date of acquisition is as follows

	£'000
Profit and loss account	
Turnover	54
Cost of sales	(23)
	<u>31</u>
Gross profit	31
Other operating expenses (net)	(1,029)
	<u>(998)</u>
Operating loss	(998)
Interest payable	(2,113)
	<u>(3,111)</u>
Loss on ordinary activities before tax	(3,111)
Tax on loss on ordinary activities	(10)
	<u>(3,121)</u>
Loss on ordinary activities after tax	<u>(3,121)</u>
	£'000
Statement of total recognised gains and losses	
Loss for the financial period	(3,121)
Foreign currency translation gain	20
	<u>(3,101)</u>
Total recognised gains and losses relating to the period	<u>(3,101)</u>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

9. PARTIAL DISPOSAL OF SUBSIDIARY UNDERTAKING

On 28 February 2011 the group sold a 15.9% interest in the ordinary share capital of Lab 21 Inc

	£'000
Net assets disposed of and the related sale proceeds were as follows	
Net assets	
Share of net assets on date of disposal	164
Related goodwill	7
	<hr/>
	171
Loss on sale	(61)
	<hr/>
Sale proceeds	110
	<hr/>
Satisfied by:	
Settlement of loan notes	110
	<hr/>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

10. TANGIBLE FIXED ASSETS

GROUP	Leasehold improve- ments £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Laboratory equipment £'000	Assets in the course of construct- ion £'000	Total £'000
Cost						
At 1 January 2011	11	261	391	652	176	1,491
Acquisitions	-	-	-	98	-	98
Additions	47	5	22	218	98	390
Disposals	-	-	-	(43)	-	(43)
Transfers	79	-	13	89	(181)	-
At 31 December 2011	137	266	426	1,014	93	1,936
Depreciation						
At 1 January 2011	3	237	279	367	-	886
Charge for the year	30	18	55	191	-	294
Disposals	-	-	-	(30)	-	(30)
At 31 December 2011	33	255	334	528	-	1,150
Net book value						
At 31 December 2011	104	11	92	486	93	786
At 31 December 2010	8	24	112	285	176	605

The net book value of assets held under finance leases at 31 December 2011 was £502,000 (2010 - £437,000)
Depreciation charged on these assets in the year amounted to £228,000 (2010 - £189,000)

COMPANY	Leasehold improve- ments £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Laboratory equipment £'000	Assets in the course of construct- ion £'000	Total £'000
Cost						
At 1 January 2011	5	5	302	475	64	851
Additions	6	1	17	3	33	60
Disposals	-	-	-	(22)	-	(22)
Transfers	69	-	-	-	(69)	-
At 31 December 2011	80	6	319	456	28	889
Depreciation						
At 1 January 2011	2	3	223	245	-	473
Charge for the year	25	2	36	119	-	182
Disposals	-	-	-	(22)	-	(22)
At 31 December 2011	27	5	259	342	-	633
Net book value						
At 31 December 2011	53	1	60	114	28	256
At 31 December 2010	3	2	79	230	64	378

The net book value of assets held under finance leases at 31 December 2011 was £256,000 (2010 - £378,000)
Depreciation charged on these assets in the year amounted to £182,000 (2010 - £141,000)

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

11. INVESTMENTS

GROUP

	Trade investments £'000
Cost	
At 1 January 2011	250
Disposals	(250)
At 31 December 2011	-
Provisions for impairment	
At 1 January 2011	228
Disposals	(228)
At 31 December 2011	-
Net book value	
At 31 December 2011	-
At 31 December 2010	22

COMPANY

	Subsidiary undertakings £'000	Trade investments £'000	Total £'000
Cost			
At 1 January 2011	11,301	250	11,551
Additions	53	-	53
Disposals	(311)	(250)	(561)
At 31 December 2011	11,043	-	11,043
Provisions for impairment			
At 1 January 2011	343	228	571
Disposals	-	(228)	(228)
At 31 December 2011	343	-	343
Net book value			
At 31 December 2011	10,700	-	10,700
At 31 December 2010	10,958	22	10,980

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. INVESTMENTS (continued)

Details of the investments in which the group and the company hold 20% or more of the nominal value of any class of share capital are as follows

Name of company	Country of incorporation	Holding	Proportion of voting rights and shareholding	Nature of business
<i>Subsidiary undertakings</i>				
Lab21 Healthcare Limited	England and Wales	Ordinary shares	100%	Provision of diagnostic products
NPTEch Services Limited	England and Wales	Ordinary shares	100%	Provision of diagnostic services
Biotech Laboratories Limited	England and Wales	Ordinary shares	100%	Provision of diagnostic products
Microgen Bioproducts Limited	England and Wales	Ordinary shares	100%	Provision of diagnostic products
Myconostica Limited	England and Wales	Ordinary shares	100%	Provision of diagnostic products
Lab21 Inc	USA	Ordinary shares	84.1%	Development of diagnostic products
Myconostica USA Inc	USA	Ordinary shares	100%	Provision of diagnostic products
<i>Joint venture</i>				
Lab21 Diagnostic Services Limited	England and Wales	Ordinary shares	50%	Non-trading

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

12. STOCKS

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Raw materials	915	913	70	41
Work in progress	132	138	-	-
Finished goods	348	490	-	-
	<u>1,395</u>	<u>1,541</u>	<u>70</u>	<u>41</u>

There is no material difference between the balance sheet value of stocks and their replacement cost

13 DEBTORS

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Debtors falling due within one year:				
Trade debtors	1,756	1,477	295	459
Other debtors	403	478	334	418
Corporation tax	2	2	-	-
Prepayments and accrued income	448	282	272	177
Amounts due from subsidiary undertakings	-	-	4,824	4,254
	<u>2,609</u>	<u>2,239</u>	<u>5,725</u>	<u>5,308</u>
Debtors falling due after more than one year:				
Prepayments and accrued income	-	-	24	-
	<u>2,609</u>	<u>2,239</u>	<u>5,749</u>	<u>5,308</u>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (see note 16)	9	4	-	-
Obligations under finance leases (see note 16)	399	245	399	245
Invoice financing facility (see note 16)	66	40	-	-
Other loans (see note 16)	790	903	785	903
Convertible loan notes (see note 16)	65	-	-	-
Promissory notes (see note 16)	-	354	-	354
Trade creditors	2,404	2,004	825	899
Amounts owed to Group undertakings	-	-	753	-
Loan from joint venture (see note 16)	302	302	302	302
Corporation tax	10	55	-	-
Other taxation and social security	132	219	4	183
Deferred consideration	2,290	1,335	2,290	1,335
Liability on financial instruments (see notes 16,18)	1,891	843	1,891	843
Other creditors	249	301	201	264
Accrued interest	372	60	365	60
Accruals and deferred income	1,020	996	354	489
	<u>9,999</u>	<u>7,661</u>	<u>8,169</u>	<u>5,877</u>

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Obligations under finance leases (see note 16)	158	471	-	471
Deferred consideration	-	1,219	-	1,219
Convertible loan notes (see note 16)	715	521	521	521
Other loans (see note 16)	796	1,549	736	1,549
Accrued interest	4	3	-	3
	<u>1,673</u>	<u>3,763</u>	<u>1,257</u>	<u>3,763</u>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. BORROWINGS

Borrowings are repayable as follows

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Convertible loan notes				
Between two and five years	715	521	521	521
On demand or within one year	65	-	-	-
	<u>780</u>	<u>521</u>	<u>521</u>	<u>521</u>

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Other loans				
Between two and five years	796	1,549	736	1,549
On demand or within one year	1,167	1,603	1,087	1,559
	<u>1,963</u>	<u>3,152</u>	<u>1,823</u>	<u>3,108</u>

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Finance leases				
Between two and five years	158	471	-	471
On demand or within one year	399	245	399	245
	<u>557</u>	<u>716</u>	<u>399</u>	<u>716</u>

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Liability on financial instruments				
On demand or within one year	<u>1,891</u>	<u>843</u>	<u>1,891</u>	<u>843</u>

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Accrued interest				
Between two and five years	4	3	-	3
On demand or within one year	<u>372</u>	<u>60</u>	<u>365</u>	<u>60</u>
	<u>376</u>	<u>63</u>	<u>365</u>	<u>63</u>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

16. BORROWINGS (continued)

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Total borrowings including finance leases				
Between two and five years	1,673	2,544	1,257	2,544
On demand or within one year	3,894	2,751	3,742	2,707
	<u>5,567</u>	<u>5,295</u>	<u>4,999</u>	<u>5,251</u>

Invoice financing facility

The invoice financing facility is secured against the specific trade debtors to which the loan relates

Convertible loan notes

In October 2009 loan notes of £568,000 were issued with an interest rate of 8% per annum and a maturity date 3 years from the date of issue. At the election of the loan note holders, the loan notes are convertible into 'A' Ordinary shares of the company at a rate of the lower of (i) one 'A' Ordinary share for every £22.50 of principal amount and accrued interest or (ii) the subscription price per 'A' Ordinary share paid in by any person in connection with an equity fundraising comprising a subscription for shares in the capital of the company.

In May 2011 a USD 100,000 (£65,000) loan note was issued with an interest rate of 12%. The loan note is convertible into the next round of equity shares offered by Lab 21 Inc or Lab 21 Limited at the option of the holder.

In August 2011 a USD 300,000 (£194,000) loan note was issued with a compound monthly interest rate of 6%. The loan note is convertible into Lab 21 Inc 'A' Preferred stock in February 2013.

Finance lease

A finance lease agreement was entered into in June 2008 and secured by the tangible fixed assets of both the company and Lab21 Healthcare Limited which raised a principal sum of £1,000,000. At 31 December 2011, the amount outstanding was £399,000 (2010 £718,000). The original term of the lease was 36 months, subsequently extended to 42 months as capital repayments were suspended between October 2008 and December 2009. Interest is charged at 14.7% per annum compounded monthly.

In 2011 Lab 21 Inc entered into 4 finance lease agreements which raised a principal sum of USD 281,000 (£182,000) with respect to equipment leased for between 24 and 36 months. At 31 December 2011 the amount outstanding was USD 244,000 (£158,000). Interest is charged at 6.9% per annum.

Other loans

Other loans include £193,000 (2010 £1,075,000) of venture debt, the repayment of which commenced in September 2007 with an original term of 36 months. Capital repayments were suspended between November 2008 and March 2010, with the term being extended to 52 months. The interest rate applicable to the loan facility is 12.4% per annum compounded monthly. The debt security provided by the company is a fixed and floating charge over all the assets, including intellectual property rights, of the company.

Also included is £1,328,000 (2010 £1,376,000) for a loan agreement entered into in March 2010 with the drawdown of £1,500,000 and an original repayment term of 33 months. Capital repayments were suspended between May and September 2010, with the term being extended to 39 months. The interest rate applicable to the loan facility is 15.0% per annum compounded monthly. The debt security provided by the company is a fixed and floating charge over all the assets, including intellectual property rights, of the company.

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. BORROWINGS (continued)

Other loans (continued)

A loan was acquired on acquisition of NP Tech Services Limited in 2008. As at 31 December 2011 the amount outstanding was £nil (2010 £4,000)

A loan was also acquired on acquisition of Myconostica Limited in 2011. As at 31 December 2011 the amount outstanding was £9,000 (2010 £nil)

Lab 21 Inc entered into a loan agreement in February 2011 with a term of 12 months and an interest rate of 12%, secured by equipment. As at 31 December 2011 the amount outstanding was USD 7,000 (£5,000)

Lab 21 Inc entered into a loan agreement in August 2011 with a term of 36 months and an initial interest rate of 6%, secured by inventory, accounts receivable, equipment and fixtures. As at 31 December 2011 the amount outstanding was USD 92,000 (£60,000)

17. PROVISION FOR LIABILITIES

Group	Dilapidations £'000
At 1 January 2011	250
Charged to profit and loss account	(9)
Released unused	(81)
Acquisition of subsidiary undertaking	50
	<hr/>
At 31 December 2011	210
	<hr/>
Company	
At 1 January 2011 and 31 December 2011	30
	<hr/>

The dilapidations provision relates to obligations to make good dilapidations existing at 31 December 2011. The related cash outflows are expected to be incurred within five years of the balance sheet date.

18. CALLED UP SHARE CAPITAL

	2011 £'000	2010 £'000
Called up, allotted and fully paid		
1,379,186 (2010 1,124,439) 'A' ordinary shares of £0.01 each	13	11
51,500 (2010 51,500) ordinary shares of £0.01 each	1	1
	<hr/>	<hr/>
	14	12
	<hr/>	<hr/>

During the year 254,747 'A' ordinary shares with aggregate nominal value of £2,547 were issued for total consideration of £8,030,350

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

18. CALLED UP SHARE CAPITAL (continued)

Warrants

The Company issues share warrants, generally in connection with the issue of debt or equity. Warrants are generally issued at a fixed price and for a fixed number of shares, such that each warrant entitles the holder to subscribe for one £0.01 'A' Ordinary Share in the company. However, certain warrants entitle the holder to subscribe for a variable number of shares and at a price which is determined by reference to, inter alia, the share price on the date of exercise.

Certain of the share warrants have vesting conditions, whilst others vest immediately on issue.

Details of the share warrants outstanding during the year are as follows:

	2011 No.	2011 * WAEP £	2010 No.	2010 * WAEP £
Outstanding at beginning of year	428,548	31.89	54,167	30.00
Granted during the year	143,849	13.98	374,381	32.17
Cancelled during the year	(53,867)	30.00	-	-
Outstanding at end of year	<u>518,530</u>	<u>27.12</u>	<u>428,548</u>	<u>31.89</u>
Exercisable at end of year	<u>478,830</u>	<u>29.37</u>	<u>388,848</u>	<u>32.09</u>

* WAEP denotes Weighted Average Exercise Price.

Share warrants are classified as either debt or equity, in accordance with the requirements of FRS 25 'Financial instruments: Disclosure and presentation'. Details of the classification of warrants at the end of the year are as follows:

	2011 No.	2010 No.
Classified as debt (Liability on financial instruments in note 14)	131,908	103,800
Classified as equity	<u>386,622</u>	<u>324,748</u>
	<u>518,530</u>	<u>428,548</u>

Of the total number of warrants granted in the year, 104,149 (2010 - 334,681) vested immediately. Of the remainder, 39,700 (2010 - 39,700) are exercisable immediately prior to an exit event such as (i) any liquidation, dissolution or winding up of the company (ii) any distribution or return of capital or (iii) any sale, disposal or stock market listing of the company.

The warrants outstanding at 31 December 2011 had a weighted average exercise price of £27.12 (2010 - £31.89) and a weighted average remaining contractual life of 3 years 1 month (2010 - 4 years 4 months). Warrants were granted at various points during 2011. The aggregate of the estimated fair values of the options granted is £3,183,000. The aggregate of the estimated fair values of options that were cancelled during the year is £844,000. In 2010, warrants were granted in March, April, July, November and December. The aggregate of the estimated fair values of the options granted on those dates is £6,261,000.

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

18. CALLED UP SHARE CAPITAL (continued)

Warrants (continued)

The fair value of the warrants classified as debt and of the warrants accounted for in accordance with FRS 20 'Share based payments' is measured by use of the Black-Scholes option pricing model

The inputs into the Black Scholes model are as follows

	Other-11	Jan-11	Other-10	Apr-10
Weighted average share price	£30 00	£30 00	£32 50	£30 00
Weighted average exercise price	£32 50	£0 01	£32 50	£30 00
Expected volatility	60%	60%	60%	60%
Expected life	3 0 years	3 0 years	5 0 years	3 0 years
Risk-free rate	2 00%	2 00%	2 00%	2 00%
Expected dividend yield	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Mar-10	Nov-09	Jun-08	Sept-07
Weighted average share price	£30 00	£30 00	£30 00	£30 00
Weighted average exercise price	£30 00	£30 00	£30 00	£30 00
Expected volatility	60%	60%	60%	60%
Expected life	5 0 years	3 0 years	5 0 years	5 0 years
Risk-free rate	2 00%	2 00%	2 00%	2 00%
Expected dividend yield	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Expected volatility was determined by calculating the historical volatility of listed entities in a similar sector to the group. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

The group recognised total expenses of £66,000 and £175,000 related to equity-settled share-based payment transactions in 2011 and 2010 respectively. The expense in the current year was in connection with the issue of shares and was therefore recorded against share premium.

For details of shares issued subsequent to the year end, refer to note 30

Rights of the classes of shares

Except as otherwise expressly provided below the 'A' Ordinary shares and the Ordinary shares rank pari passu in all respects

Rights on a liquidation

On a return of assets on a liquidation, the assets of the company remaining after payment of its debts and liabilities and available for distribution shall be applied in the following order of priority

- Firstly, in paying to the holders of the 'A' Ordinary shares, pari passu an amount equal to twice the issue price of the shares held
- Thereafter, in distributing the balance of such assets amongst the holders of the 'A' Ordinary shares and the Ordinary shares pro rata to the number of shares held

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. CALLED UP SHARE CAPITAL (continued)

Rights on a sale (continued)

On a sale the total consideration received in respect of the equity shares shall be allocated and distributed in the following order of priority

- Firstly, in paying to the holders of the 'A' Ordinary shares, pari passu, an amount equal to twice the issue price of the shares held
- Thereafter, in distributing the balance of such assets amongst the holders of the 'A' Ordinary shares and the Ordinary shares pro rata to the number of shares held

Voting rights

Except as expressly provided in the articles, all the shares carry equal voting rights

During a default period only the 'A' Ordinary shareholders are entitled to vote. Default period (as defined in the Articles of Association) means any period in which, except with Investor Consent

- The company is in liquidation,
- An event of default in connection with any borrowing or financial facilities,
- Any breaches of the terms of the Articles of Association, or
- The company or any other party (not being an Investor) is in breach of any of its obligations and shall have failed within 14 days to remedy the breach

Unless agreed by Investor Consent, no leaver shall be able to exercise their voting rights

Group	2011 £'000	2010 £'000
Allotted and fully paid		
9,087 shares of preferred stock of \$100 each	565	565

The preferred stock relates to Lab21 Inc and is held by third parties. The key terms of the preferred stock are as follows

No voting rights

The holders of the preferred stock shall not be entitled to vote

No dividends

The holders of the preferred stock shall not be entitled to receive dividends except that in the case of Lab21 Limited ceasing to hold the majority of the common stock of Lab21 Inc then to the extent Lab21 Limited declares and pays any dividend to its 'A' Ordinary shareholders, the preferred stock holders would be permitted to participate in that dividend

Rights on liquidation of Lab 21 Inc

In the event of any voluntary or involuntary liquidation, dissolution or winding up of Lab21 Inc, the preferred stock holders would be entitled to be paid out of the assets of the company available for distribution to its stockholders, after payment of the company's debts and before any payment shall be made to the holders of the common stock, an amount equal to two times the issue price or at the election of the preferred stock holder such number of 'A' Ordinary shares as determined with reference to the preferred stock agreement. If the assets of the company are insufficient to pay the full amount then the assets would be shared rateably between the preferred stock holders

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. CALLED UP SHARE CAPITAL (continued)

Rights on liquidation of Lab 21 Limited

In the event of any voluntary or involuntary liquidation, dissolution or winding up of Lab21 Limited, the preferred stock holders shall be entitled to be paid out of the assets of Lab21 Limited available for distribution after payment of the company's debts, an amount equal to two times the issue price of the preferred stock. If the assets of Lab21 Limited available for distribution are insufficient to pay in full the amount due to the preferred stock holders as well as the amounts due to the holders of the 'A' Ordinary shares (of Lab21 Limited) then the preferred stock holders and the 'A' Ordinary stock holders shall share rateably the assets. When there are assets remaining after settlement of the amounts due to both the preferred stock holders and the 'A' Ordinary shareholders, the assets will be distributed amongst the preferred stock holders and the UK stockholders pro rata to the terms of the preferred stock agreement.

19. RESERVES

	Share premium account £'000	Merger reserve £'000	Shares to be issued £'000	Warrant options £'000	Profit and loss account £'000
Group					
At 1 January 2011	24,951	1,057	45	50	(22,611)
Loss for the year	-	-	-	-	(7,375)
Foreign exchange loss	-	-	-	-	(39)
Issue of shares	4,359	3,919	269	-	-
Share issue costs	(231)	-	-	-	-
Warrant options	(66)	-	-	100	66
At 31 December 2011	<u>29,013</u>	<u>4,976</u>	<u>314</u>	<u>150</u>	<u>(29,959)</u>
Company					
At 1 January 2011	24,951	1,057	45	50	(18,247)
Loss for the year	-	-	-	-	(4,376)
Issue of shares	4,359	-	269	-	-
Share issue costs	(231)	-	-	-	-
Warrant options	(66)	-	-	100	66
At 31 December 2011	<u>29,013</u>	<u>1,057</u>	<u>314</u>	<u>150</u>	<u>(22,557)</u>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

20. RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	2011 £'000	2010 £'000
Retained loss for the year	(7,375)	(5,787)
Other recognised gains and losses	(37)	106
Issue of equity shares (net of share issue costs)	8,316	4,804
Credit to equity for share based payments	-	76
Warrants issued	100	50
	<u>1,004</u>	<u>(751)</u>
Increase (decrease) in shareholders' funds	4,069	4,820
Opening shareholders' funds	<u>5,073</u>	<u>4,069</u>
Closing shareholders' funds	<u>5,073</u>	<u>4,069</u>

21. MINORITY INTERESTS

	2011 £'000	2010 £'000
At 1 January 2011	-	-
Loss on ordinary activities after taxation	(123)	-
Part disposal of subsidiary undertaking	164	-
Exchange movement	5	-
	<u>46</u>	<u>-</u>
At 31 December 2011	<u>46</u>	<u>-</u>

22. RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	2011 £'000	2010 £'000
Operating loss	(5,293)	(4,585)
Depreciation of tangible fixed assets	293	221
Amortisation of intangible assets	1,839	1,630
Share based payments	203	210
Decrease (increase) in stock	220	(156)
(Increase) decrease in debtors	(275)	495
Decrease in creditors	(41)	(250)
Decrease in provisions	(90)	-
Loss on fixed asset disposal	4	-
P&L impact of minority interests	123	-
Exchange movement	(2)	17
	<u>(3,019)</u>	<u>(2,418)</u>

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

23 ANALYSIS OF CASH FLOWS

	2011 £'000	2010 £'000
Returns on investments and servicing of finance:		
Bank interest received	3	4
Interest on other loans	(908)	(350)
Net cash outflow	(905)	(346)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(391)	(226)
Purchase of intangible fixed assets	(633)	(19)
Proceeds from sale of tangible fixed assets	10	-
Net cash outflow	(1,014)	(245)
Acquisitions and disposals:		
Cash acquired with Myconostica Limited	980	-
Cash acquired with Microgen Bioproducts Limited	-	868
Purchase of Microgen Bioproducts Limited	(50)	(1,255)
Purchase of Biotec Laboratories Limited	-	(5)
Purchase of Plasmatec trade and assets	(200)	(570)
Purchase of NPTech Limited	(50)	(39)
Purchase of Selah trade and assets	-	(12)
Disposal of investment in Cogent Environmental Limited	22	-
Net cash inflow (outflow)	702	(1,013)
Taxation:		
Corporation tax	(45)	18
Financing:		
Shares issued (net of expenses)	3,963	4,625
Warrants issued for cash	100	50
New loans	324	1,500
Invoice finance facility	25	(192)
Loan repayments	(1,252)	(687)
Finance lease repayments	(260)	(181)
New finance leases	173	-
Net cash inflow	3,073	5,115

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

24. ANALYSIS AND RECONCILIATION OF NET DEBT

Group	At 1 January 2011 £'000	Net cash flow £'000	Non cash changes £'000	At 31 December 2011 £'000
Cash at bank	1,777	(1,208)	-	569
	1,777	(1,208)	-	569
Invoice finance facility	(40)	(26)	-	(66)
Convertible loan notes	(521)	(259)	-	(780)
Other loans	(2,456)	834	27	(1,595)
Finance leases	(716)	87	72	(557)
Loan from joint venture	(302)	-	-	(302)
Promissory notes - Delphic	(30)	30	-	-
Promissory notes - Other	(324)	324	-	-
	(2,612)	(218)	99	(2,731)
Liability on financial instruments	(843)	-	(1,048)	(1,891)
Accrued interest	(63)	-	(313)	(376)
	(3,518)	(218)	(1,262)	(4,998)
			2011 £'000	2010 £'000
(Decrease) increase in cash in the year			(1,208)	1,111
Cash inflow from increase in debt			990	(441)
Change in net debt resulting from cash flows			(218)	670
Non cash changes			(1,263)	(882)
Movement in net debt in year			(1,481)	(212)
Net debt at beginning of year			(3,517)	(3,306)
Net debt at end of year			(4,998)	(3,518)

Major non-cash transactions

See note 8 for details of the acquisition of Myconostica Limited

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2011

25. FINANCIAL COMMITMENTS

Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows

Group	2011 £'000	2010 £'000
Land and buildings, leases expiring		
within one year	29	93
between one and two years	134	4
between two and five years	419	480
in more than five years	152	-
	<u>734</u>	<u>577</u>
Other, leases expiring		
within one year	39	37
between one and two years	30	29
between two and five years	24	7
	<u>93</u>	<u>73</u>
 Company	 2011 £'000	 2010 £'000
Land and buildings, leases expiring		
between one and two years	36	4
between two and five years	419	232
	<u>455</u>	<u>236</u>
Other, leases expiring		
within one year	31	22
between one and two years	10	24
between two and five years	-	5
	<u>41</u>	<u>51</u>

Capital commitments

The group and company had no capital commitments contracted for but not provided at the year end (2010 £nil)

26. CONTINGENT LIABILITIES

As described in note 8, the company acquired the entire issued share capital of Myconostica Limited on 19 May 2011. Under the terms of the acquisition, there is deferred contingent consideration, which has not been recognised in these financial statements, amounting to £1,000,000. This would become payable in two equal tranches in the event that Myconostica Limited meets certain revenue targets in each of the two 12 month periods subsequent to the date of acquisition.

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

27. GUARANTEES

As explained in the Going Concern section in note 1, the company entered into a financing agreement with Clydesdale Bank plc ("Clydesdale") in June 2012. Under the terms of this agreement, Clydesdale holds a charge over the majority of the Group's assets, excluding those of Lab 21 Inc. In addition, Clydesdale holds a contingent charge over the assets of Lab21 Inc which crystallises, inter alia, in the event that Lab 21 Inc does not raise a specified amount of equity within 180 days of the date of the financing agreement.

28. SHARE BASED PAYMENTS

Share option scheme

The Company has an unapproved share option scheme as below

The Lab21 Limited Unapproved Share Option Scheme

Options under the scheme, may generally be exercised three years from the date of grant and cease to be exercisable ten years from the date of grant.

The expense recognised for equity settled share-based payments in respect of share options during the year to 31 December 2011 is £nil for the group (2010: £nil) and £nil for the company (2010: £nil).

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2011 No	2011 WAEP	2010 No	2010 WAEP
Outstanding at beginning of year	3,000	£20	3,000	£20
Lapsed during the year	(2,000)	£20	-	£20
Outstanding at end of year	1,000	£20	3,000	£20
Exercisable at end of year	1,000	£20	3,000	£20

For the share options outstanding as at 31 December 2011, the weighted average remaining contractual life is 3.25 years (2010: 4.30 years).

The fair value of equity-settled share options granted was estimated as at the date of grant using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006 in which year all the options were granted.

	2006
Dividend yield (%)	-
Expected share price volatility (%)	60.00
Historical volatility (%)	35.29
Risk-free interest rate (%)	4.43
Expected life of option (years)	2.50
Weighted average share price (£)	20.00

LAB 21 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. SHARE BASED PAYMENTS (continued)

Restricted shares

In December 2009, an aggregate of 2,628 restricted shares were issued to two employees. The restricted shares vest upon the occurrence of both (i) a liquidation, flotation or sale of Lab21 Limited (each a "Trigger I"), and (ii) the employee remaining in employment within the group for one year from the date of grant ("Trigger II"). Notwithstanding the above, if a Trigger I event occurs prior to the occurrence of Trigger II and the employee is, and remains, employed within the group until the closing date of the Trigger I event, all granted shares shall vest at that date.

The FRS 20 expense recognised for these restricted shares during the year amounted to £nil for the group (2010 £76,000) and £nil for the company (2009 £nil). The fair value applied to each restricted share was £30.

Services provided by non-executive directors

During the year 2,000 'A' Ordinary shares of £0.01 at £20 each were issued to a non-executive director in recognition of his services. No shares were issued to non-executive directors in 2010. The expense recognised in the year in respect of shares issued to a non-executive director is £40,000 (2010 £nil).

29. RELATED PARTY TRANSACTIONS

During the year the group received a charge of £28,500 (2010 £30,000) for consulting services provided by Merlin Scientific LLP and a charge of £7,500 (2010 £25,000) from Excalibur Fund Managers Limited for expenses incurred on behalf of the Company, both entities in which CT Evans has an interest.

At the year end, the company has a loan of £302,000 (2010 £302,000) from Lab21 Diagnostic Services Limited, a joint venture.

During the year Lab 21 Limited recharged Lab 21 Inc, a partially owned subsidiary, £35,000 costs and was recharged £4,000 costs. At 31 December 2011 Lab 21 Inc owed £887,000 to Lab 21 Limited, with the whole balance relating to short-term loans.

30. SUBSEQUENT EVENTS

Acquisition of Myconostica Limited

On 19 May 2012, a further consideration of £125,160, payable upon the first anniversary of completion of the Myconostica Ltd acquisition, was satisfied by the issuance of 3,576 of 'A' Ordinary shares at £35.00 per share.

Fundraising

Since the year end the company has issued 149,317 'A' Ordinary shares for cash raising £2,437,848. Of these, 42,752 shares relate to the conversion of warrants held by existing investors exercised at a discounted subscription price of £15.00 per share, 101,846 shares relate to the conversion of warrants held by existing investors exercised at a discounted subscription price of £16.25 per share, and 4,719 shares relate to new equity raised at £30.00 per share.

Clydesdale finance

In June 2012 the Company secured a £5,000,000 growth finance package from Clydesdale Bank PLC, consisting of a term loan and an invoice finance facility. As part of this agreement, other venture debt and deferred consideration liabilities were restructured to reduce the overall cash payments through accelerated payments and part conversion into warrants. As of September 2012, there are no outstanding cash deferred consideration liabilities and the restructured venture debt is scheduled to be settled in full by December 2012.

Warrant Issues

In July 2012, the company issued 25,991 warrants in satisfaction of the loan notes of Microgen Bioproducts. The warrants grant the right to subscribe for 'A' Ordinary shares at a subscription price of £30.00 per share.

31. ULTIMATE PARENT AND CONTROLLING PARTY

In the opinion of the directors there is no single controlling party.