

# Lab 21 Limited

## Report and Financial Statements

31 December 2008



## Lab 21 Limited

---

Registered No 05382262

### **Directors**

C T Evans (Non-executive Chairman)  
B E Clarke  
A Atkinson (Non-executive)  
M E Kennedy  
G D Mullis  
E Snape (Non-executive)  
K Deusch (Non-executive)

### **Secretary**

M E Kennedy

### **Auditors**

Ernst & Young LLP  
Compass House  
80 Newmarket Road  
Cambridge  
CB5 8DZ

### **Bankers**

Lloyds TSB Bank plc  
39 Threadneedle Street  
London  
EC2R 8AU

### **Registered Office**

184 Cambridge Science Park  
Cambridge  
CB4 0GA

## Directors' report

The directors have pleasure in presenting their annual report and financial statements for the year to 31 December 2008

### Principal activity

The activities of the Group are split into three operating divisions, Health Care Diagnostics, Environmental Diagnostics and Immunodiagnostics

#### *Health Care Diagnostics*

The Group supports healthcare providers and the pharmaceutical and biotechnology industries with technically advanced testing services. Offering a rapidly growing portfolio of molecular and viral diagnostics, plus patient profiling tests, which all use cutting-edge technology, the Group can add value to drug discovery, clinical trials and regulatory processes in pharmaceutical development and directly to clinicians or healthcare providers as they diagnose, treat and monitor patients

#### *Environmental Diagnostics*

The Group sells and promotes instrumentation, reagents, service and maintenance. These combined offerings provide highly focused, added value application based solutions to the Environmental Diagnostics market. These systems involve sample preparation, measurement and data management.

During the year the Environmental Diagnostics business was sold to Cogent Environmental Limited, a company in which the Group has a resulting shareholding (accounted for as a trade investment)

#### *Immunodiagnostics*

The Group develops and produces high quality immunodiagnostics for infectious diseases, particularly syphilis

### Results and dividends

The Group made a loss after taxation of £4,090,418 (2007 £3,980,942). The directors do not recommend the payment of a dividend (2007 £nil)

### Business review and future development

The Group achieved turnover in the year of £3,604,377 (2007 £3,662,618)

The Group has continued to consolidate its position as a diagnostics reference laboratory, showing a year of good revenues and further establishing an infrastructure with which to move forward with as the Group continues to mature. The business had been refocused to direct its activities into the Healthcare and Immunodiagnostic divisions with further expansion with the launch of new, scientifically advanced diagnostic tests primarily in the areas of infectious diseases, cardiology and cancer. The infrastructure is largely in place to support this expansion with extra strength having been recruited within the commercial area.

The decision was made to divest of the Environmental division in order to concentrate on this expansion and to target the management and resource to achieving this. Various interested parties were approached during the year to establish interest in the sale of the Environmental division and a successful sale was completed on 16 October 2008 for the trade and assets to Cogent Environmental Limited for a total consideration of £0.4 million, of which £0.15 million was in the form of cash with the remaining balance being satisfied by shares in Cogent Environmental Limited.

On 20 March 2008 the Company completed its acquisition of NP Tech Services Limited, further adding to the growing portfolio of diagnostic services. The consideration comprised £0.15 million which was satisfied by the issue of 5,000 'A' Ordinary shares along with deferred consideration of £0.15 million.

## Directors' report

### Subsequent events

#### *Funding*

In February 2009, additional funding was secured by issuance of 83,824 'A' ordinary shares raising £1.2 million

In May 2009, a rights issue was completed for 6,667 'A' Ordinary shares raising £0.2 million

Also in May 2009, the company issued 99,000 'A' Ordinary shares in the Company. The proceeds of £1.98 million were used to settle the company's overdraft in full.

In August 2009, 3,500 'A' ordinary shares were issued for £0.1 million and in September 2009 a further 10,000 'A' Ordinary shares were issued raising £0.3 million

In October 2009 funding was secured by the issuance of loan notes totalling £0.6 million

In November 2009 funding was secured by the issuance of loan notes totalling £0.6 million. In connection with these loan notes, 40,000 warrants to subscribe for 'A' Ordinary shares were granted

#### *Acquisitions*

In February 2009 the Company acquired Biotec Laboratories Limited for consideration of £1.2 million satisfied by the issue of 40,376 'A' Ordinary shares. Biotec Laboratories Limited is a diagnostics business engaged in the production and distribution of quality reagents, test kits and dehydrated culture media

In May 2009, the Company acquired the trade and assets of Plasmatec Laboratory Products Limited for initial consideration of £1 million and the issue of 23,333 'A' Ordinary shares along with deferred consideration amounting to £0.6 million. Plasmatec Laboratory Products Limited is a manufacturer and international distributor of in vitro diagnostics tests

In November 2009, the Company acquired the trade and assets of Delphic Diagnostics (which was in administration) for consideration of £0.2 million. Delphic Diagnostics is a specialist laboratory services business with particular expertise in HIV and hepatitis

In December 2009, the Company acquired Selah Technologies LLC for consideration of the issue of 58,033 'A' Ordinary shares and agreed to effect a merger of this company, Lab 21 Limited and Lab 21 Inc (a newly formed company). Selah Technologies LLC is a diagnostics business engaged in advanced materials manufacturing, developing and commercialising two proprietary nanotechnologies

### Going Concern

The Company is currently in the process of trying to secure additional funding, firstly for the Group's short term working capital needs but also to fund the growth of the business in the medium term. The fund raising activities of recent months have resulted in a number of agreed term sheets for both debt and equity financing. The Company is in the process of considering and negotiating further the precise terms and conditions of these potential sources of finance. As at the date of these financial statements no final agreement has been reached, but the directors are of the view that they will be able to secure by the end of February 2010 funding required to meet the Group's short term working capital requirement

The validity of applying the going concern assumption therefore depends on securing imminent funding of £1.5 million as well as additional revenues in line with the current business plan. The revenue growth in the business plan is dependent on growth in both core businesses and recent acquisitions

The directors are also of the view that should further funding be required (in addition to the short term funding requirement referred to above) in the event the revenue growth as per the current business plan is not achieved, they will be able to raise additional funding to enable the Group to continue as a going concern for the foreseeable future and have therefore used the going concern basis in the preparation of these financial statements. However, the directors acknowledge that there can be no certainty in regard to

## Directors' report

securing further funding, and have identified cost saving measures, which, if capable of being implemented, would enhance the cash position of the group and would allow the Group to continue in its present state without the need for additional funding

### 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 were as follows

C T Evans  
N A Kerton (Resigned 31 October 2008)  
B E Clarke  
A S Tyms (Resigned 31 January 2008)  
A Atkinson  
J N B Walker (Resigned 31 January 2008)  
M E Kennedy  
G D Mullis (Appointed 29 January 2008)  
E Snape (Appointed 22 December 2008)

Subject to the year end on 27 February 2009 Dr K Deusch was appointed as a director of the Company

### 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 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



M E Kennedy  
Secretary

Date 23 February 2010

## **Statement of directors' responsibilities in respect of the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 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 1985. 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 financial statements of Lab 21 Limited for the year ended 31 December 2008 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Independent auditor's report**

**to the members of Lab 21 Limited**

### **Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and Company's affairs as at 31 December 2008 and of the Group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

### **Emphasis of matter – going concern**

In forming our opinion, which is not qualified, we have also considered the adequacy of the disclosures made in the financial statements concerning the Group's ability to continue as a going concern. The conditions described in note 1 indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
Cambridge

Date *24 February 2010*



## Group profit and loss account

for the year ended 31 December 2008

	Notes	2008 £	2007 £
<b>Turnover</b>			
Discontinued operations		431,035	429,116
Continuing operations			
Ongoing		3,046,824	3,233,502
Acquisition of NPTech Services Limited		126,518	–
		<u>3,173,342</u>	<u>3,233,502</u>
<b>Group turnover</b>	2	<u>3,604,377</u>	<u>3,662,618</u>
Cost of sales	3	(2,599,646)	(2,587,254)
<b>Gross profit</b>		<u>1,004,731</u>	<u>1,075,364</u>
Other operating expenses			
- exceptional	3	(201,629)	(658,337)
- other	3	(4,111,925)	(3,882,185)
		<u>(4,313,554)</u>	<u>(4,540,522)</u>
<b>Operating loss</b>			
Discontinued operations		(264,069)	(287,702)
Continuing operations			
Ongoing		(2,999,527)	(3,177,456)
Acquisition of NPTech Services Limited		(45,227)	–
		<u>(3,044,754)</u>	<u>(3,177,456)</u>
<b>Group operating loss</b>	4	<u>(3,308,823)</u>	<u>(3,465,158)</u>
Profit on sale of Environmental Business	4	128,879	–
Interest receivable	5	7,949	45,296
Interest payable and similar charges	6	(918,423)	(588,591)
		<u>(4,090,418)</u>	<u>(4,008,453)</u>
<b>Loss on ordinary activities before taxation</b>			
Tax on loss on ordinary activities	8	–	27,511
<b>Retained loss for the year</b>	19	<u>(4,090,418)</u>	<u>(3,980,942)</u>

## Group statement of total recognised gains and losses

for the year ended 31 December 2008

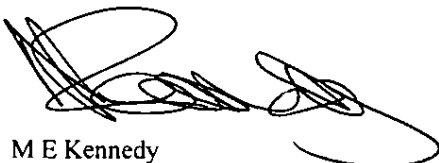
There were no recognised gains or losses other than the loss for the financial year ended 31 December 2008 of £4,090,418 (2007 £3,980,942)

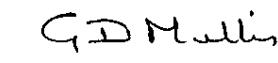
## Group balance sheet

at 31 December 2008

	Notes	2008 £	2007 £
<b>Fixed assets</b>			
Intangible assets			
- goodwill	9	3,833,942	4,278,879
- licences	9	-	84,497
Tangible fixed assets	10	121,145	167,919
Investments	11	125,100	-
		<u>4,080,187</u>	<u>4,531,295</u>
<b>Current assets</b>			
Stock	12	280,073	442,512
Debtors	13	743,699	933,309
Cash at bank and in hand		1,379,026	667,700
		<u>2,402,798</u>	<u>2,043,521</u>
<b>Creditors</b> amounts falling due within one year	14	(4,030,965)	(3,260,971)
<b>Net current liabilities</b>		<u>(1,628,167)</u>	<u>(1,217,450)</u>
<b>Total assets less current liabilities</b>		<u>2,452,020</u>	<u>3,313,845</u>
<b>Creditors</b> amounts falling due after more than one year	15	(2,143,342)	(3,577,854)
<b>Provisions for liabilities</b>	17	(39,605)	(79,210)
<b>Net assets/(liabilities)</b>		<u>269,073</u>	<u>(343,219)</u>
<b>Capital and reserves</b>			
Called up share capital	18	6,755	4,167
Share premium account	19	13,875,884	9,181,291
Equity element of convertible loan notes	19	-	493,495
Profit and loss account	19	(13,613,566)	(10,022,172)
<b>Shareholders' funds/(deficit)</b>	20	<u>269,073</u>	<u>(343,219)</u>

These financial statements were approved by the directors and are signed on their behalf by

  
M E Kennedy  
Director

  
G D Mullis  
Director

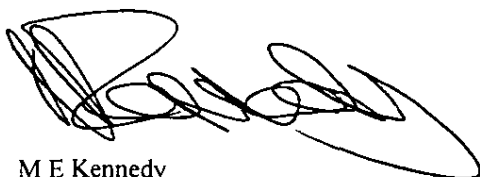
Date 23 February 2010

## Company balance sheet

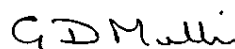
at 31 December 2008

	Notes	2008 £	2007 £
<b>Fixed assets</b>			
Intangible assets			
- goodwill	9	144,453	646,306
- licences	9	-	84,497
Tangible fixed assets	10	80,230	139,508
Investments	11	4,719,419	4,260,264
		<u>4,944,102</u>	<u>5,130,575</u>
<b>Current assets</b>			
Stock	12	35,934	222,351
Debtors	13	542,940	619,337
Cash at bank and in hand		1,342,085	616,852
		<u>1,920,959</u>	<u>1,458,540</u>
<b>Creditors</b> amounts falling due within one year	14	(4,183,338)	(3,233,238)
<b>Net current liabilities</b>		<u>(2,262,379)</u>	<u>(1,774,698)</u>
<b>Total assets less current liabilities</b>		<u>2,681,723</u>	<u>3,355,877</u>
<b>Creditors</b> amounts falling due after more than one year	15	(2,128,461)	(3,577,854)
<b>Provisions for liabilities</b>	17	(39,605)	(79,210)
<b>Net assets/(liabilities)</b>		<u>513,657</u>	<u>(301,187)</u>
<b>Capital and reserves</b>			
Called up share capital	18	6,755	4,167
Share premium account	19	13,875,884	9,181,291
Equity element of convertible loan notes	19	-	493,495
Profit and loss account	19	(13,368,982)	(9,980,140)
<b>Shareholders' funds/(deficit)</b>		<u>513,657</u>	<u>(301,187)</u>

These financial statements were approved by the directors and are signed on their behalf by



M E Kennedy  
Director



G D Mullis  
Director

Date 23 February 2010

## Group cash flow statement

for the year ended 31 December 2008

	Notes	2008 £	2007 £
<b>Net cash outflow from operating activities</b>	21	(1,632,309)	(2,813,619)
Returns on investment and servicing of finance	22	(467,248)	(65,171)
Taxation	22	7,446	(75,012)
Capital expenditure and financial investment	22	(86,116)	(152,834)
Acquisitions and disposals	22	14,781	-
<b>Cash outflow before financing</b>		<u>(2,163,446)</u>	<u>(3,106,636)</u>
Financing	22	2,394,772	(166,666)
<b>Increase/(decrease) in cash in the year</b>	23	<u>231,326</u>	<u>(3,273,302)</u>

## Notes to the financial statements

at 31 December 2008

### 1. Accounting policies

#### *Basis of preparation*

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 (using the acquisition method of accounting) the financial statements of Lab 21 Limited and its subsidiary undertakings, drawn up to 31 December 2008. No profit and loss account is presented for Lab 21 Limited as permitted by section 230 of the Companies Act 1985. The retained loss dealt with in the financial statements of the parent Company is £3,887,866 (2007 £3,929,483).

NP Tech Services Limited (acquired during 2008) has been included in the Group financial statements using the acquisition method of accounting. Accordingly the Group profit and loss account and the Group cash flow statement include the results and the cash flows of NP Tech Services Limited for the period from 20 March 2008 to 31 December 2008. The purchase consideration has been allocated to the assets and liabilities on the basis of the fair value at the date of acquisition.

#### *Going concern*

The financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. During the year, the Group incurred a loss after tax of £4,090,418 (2007 £3,980,942), and at the year end had net assets of £269,073 (2007 net deficit of £343,219).

During 2009, the Company raised £3.78 million from the issue of new shares. Of these proceeds £1.98 million was used to settle in full the Company's overdraft and £1.2 million was used for acquisitions made during 2009. In addition the Company raised £1.2 million by the issuance of loan notes. The Company also negotiated a capital repayment holiday for 2009 in relation to its venture debt.

The company is currently in the process of trying to secure additional funding, firstly for the group's short term working capital needs but also to fund the growth of the business in the medium term. The fund raising activities of recent months have resulted in a number of agreed term sheets for both debt and equity financing. The company is in the process of considering and negotiating further the precise terms and conditions of these potential sources of finance. As at the date of these financial statements no final agreement has been reached, but the directors are of the view that they will be able to secure by the end of February 2010 funding required to meet the group's short term working capital requirement.

The validity of applying the going concern assumption therefore depends on securing imminent funding of £1.5 million as well as additional revenues in line with the current business plan. The revenue growth in the business plan is dependent on growth in both core businesses and recent acquisitions.

The directors are also of the view that should further funding be required (in addition to the short term funding requirement referred to above) in the event the revenue growth as per the current business plan is not achieved, they will be able to raise additional funding to enable the Group to continue as a going concern for the foreseeable future and have therefore used the going concern basis in the preparation of these financial statements. However, the directors acknowledge that there can be no certainty in regard to securing further funding, and have identified cost saving measures, which, if capable of being implemented, would enhance the cash position of the group and would allow the group to continue in its present state without the need for additional funding.

The condition described above indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. If the Group does not raise the necessary funding in the short term and/or achieve its revenue forecast and further finance were not available (should it be required), the going concern basis would not be appropriate, and adjustments would be

## Notes to the financial statements

at 31 December 2008

### 1. Accounting policies (continued)

#### *Going concern (continued)*

required to reduce the carrying value of fixed assets to the net realisable value, to provide for any further liabilities which might arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities

#### *Revenue recognition*

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 dependant 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.

#### *Sale of diagnostic tests and environmental monitoring products*

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.

#### *Deferred 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 profits 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.

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.

## Notes to the financial statements

at 31 December 2008

### 1. Accounting policies (continued)

#### *Foreign currencies*

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

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction

All differences are taken to the profit and loss account

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation. 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

#### *Stock*

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
Work in progress and finished goods	– cost of direct materials and labour plus attributable overheads

#### *Research and development*

Research and development expenditure is written off as incurred.

#### *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.

#### *Operating leases*

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.

#### *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. 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. Provision is made for any impairment.

## Notes to the financial statements

at 31 December 2008

### 1. Accounting policies (continued)

#### *Financial liabilities and equity*

Financial liabilities and equity instruments 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*

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. 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.

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 to the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

#### *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 an external valuer 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 income statement 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.



## Notes to the financial statements

at 31 December 2008

### 2. Turnover

Turnover by class of business is as follows

	2008	2007
	£	£
Healthcare	691,398	677,174
Environmental- discontinued operation	431,035	429,116
Immunodiagnostics	2,481,944	2,556,328
	<u>3,604,377</u>	<u>3,662,618</u>

Turnover by geographical market is as follows

	2008	2007
	£	£
United Kingdom	1,281,834	1,745,089
Rest of Europe	1,423,241	807,835
United States of America	449,347	221,104
Rest of World	449,955	888,590
	<u>3,604,377</u>	<u>3,662,618</u>

### 3. Cost of sales and other operating expenses

	2008		2007	
	<i>Continuing</i>	<i>Discontinued</i>	<i>Continuing</i>	<i>Discontinued</i>
	£	£	£	£
Cost of sales	2,284,990	314,656	2,284,695	302,559
Other operating expenses	3,933,106	380,448	4,126,263	414,259
	<u>2,284,990</u>	<u>314,656</u>	<u>2,284,695</u>	<u>302,559</u>
	<u>3,933,106</u>	<u>380,448</u>	<u>4,126,263</u>	<u>414,259</u>

The total figures for continuing operations in 2008 include the following amounts relating to the acquisition of NPTech Services Limited Cost of sales £121,015 and other operating expenses £50,730

Other operating expenses comprise

	2008	2007
	£	£
<i>Exceptional</i>		
Impairment charge for intangibles	76,629	339,667
Impairment charge for investments	125,000	—
Restructuring costs	—	318,670
	<u>201,629</u>	<u>658,337</u>
<i>Other</i>		
Administrative expenses	4,111,925	3,882,185
	<u>4,111,925</u>	<u>3,882,185</u>
	<u>4,313,554</u>	<u>4,540,522</u>

## Notes to the financial statements

at 31 December 2008

### 4. Operating loss

This is stated after charging/(crediting)

	2008	2007
	£	£
Amortisation of intangible fixed assets	672,031	699,328
Impairment of intangible assets	76,629	—
Depreciation of tangible fixed assets	134,791	177,145
Impairment of investments	125,000	—
Operating lease rentals – land and buildings	288,983	373,244
– plant and machinery	12,364	27,531
Loss on sale of fixed assets	1,229	875
Foreign exchange gains	(76,725)	(1,085)
Auditor's remuneration – audit of the financial statements	22,000	22,000
Other fees to auditors – statutory audit for subsidiary	8,000	8,000
– tax compliance services	14,325	9,350
Research and development costs	36,359	413,369

### *Profit on sale of Environmental Business*

During the year the Company sold its Environmental Business, resulting in a profit on disposal of £128,879. The tax effect of this disposal is £nil due to the tax losses available.

### 5. Interest receivable

	2008	2007
	£	£
Bank interest	7,949	45,296

### 6. Interest payable and similar charges

	2008	2007
	£	£
Bank interest	120,830	78,533
Interest on convertible loan notes	401,631	200,000
Accretion of interest on convertible loan notes	82,383	278,124
Interest on other loans	313,579	31,934
	918,423	588,591

## Notes to the financial statements

at 31 December 2008

### 7. Staff costs and directors' emoluments

#### (a) Staff costs

The average monthly number of persons employed by the Group, including directors, during the year was as follows

	2008 <i>No</i>	2007 <i>No</i>
Production	21	21
Research and development	3	3
Administration	15	14
Sales and marketing	11	7
	<u>50</u>	<u>45</u>

The aggregate staff costs were as follows

	2008 £	2007 £
Wages and salaries	2,076,639	1,770,960
Social security costs	198,629	188,476
Other pension costs	68,505	70,113
	<u>2,343,773</u>	<u>2,029,549</u>

Included in wages and salaries is a total expense of share-based payments of £5,529 (2007 £19,947) all of which arises from transactions accounted for as equity-settled share-based payments

#### (b) Directors' emoluments

	2008 £	2007 £
Emoluments	460,492	406,589
Company contributions to money purchase schemes	20,836	12,923
	<u>481,328</u>	<u>419,512</u>
	<i>No</i>	<i>No</i>
Number of directors accruing retirement benefits under the money purchase pension scheme	3	4

The highest paid director received total emoluments of £204,000 (2007 £123,863). In addition, contributions of £9,300 (2007 £1,705) were made to that director's money purchase pension scheme

### 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 £68,505 (2007 £70,113). Contributions outstanding at the year end were £nil (2007 £7,665).

## Notes to the financial statements

at 31 December 2008

### 8. Taxation on ordinary activities

	2008 £	2007 £
UK corporation tax based on the results for the year at 28.5% (2007: 30%)	–	(19,777)
Total current tax	–	(19,777)
Deferred tax		
Origination and reversal of timing differences	–	(7,734)
Total deferred tax	–	(7,734)
Tax on loss on ordinary activities	–	(27,511)

#### **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:

	2008 £	2007 £
Loss on ordinary activities before taxation	(4,090,418)	(4,008,453)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(1,165,769)	(1,202,536)
Effect of:		
Depreciation in excess of capital allowances	38,372	53,266
Expenditure not deductible for tax purposes	152,692	110,846
Other timing differences	1,056	9,575
Adjustments in respect of prior years	–	(19,777)
Unrelieved tax losses	973,649	1,028,849
Current tax charge for the year	–	(19,777)

Deferred taxation (assets)/liabilities unprovided are as follows:

	2008 £	Unprovided 2007 £
Decelerated capital allowances	(38,594)	(90,669)
Other short term timing differences	(1,324)	(8,937)
Tax losses	(3,625,622)	(2,612,191)
	(3,665,540)	(2,711,797)

## Notes to the financial statements

at 31 December 2008

### 9. Intangible fixed assets

<i>Group</i>	<i>Goodwill arising on acquisitions £</i>	<i>Licences £</i>	<i>Total £</i>
Cost			
At 1 January 2008	6,075,599	114,396	6,189,995
Additions	377,769	–	377,769
Disposals	(1,585,000)	–	(1,585,000)
	4,868,368	114,396	4,982,764
Amortisation			
At 1 January 2008	1,796,720	29,899	1,826,619
Charge for the year	664,163	7,868	672,031
Disposals	(1,426,457)	–	(1,426,457)
Impairment	–	76,629	76,629
At 31 December 2008	1,034,426	114,396	1,148,822
Net book value			
At 31 December 2008	3,833,942	–	3,833,942
At 1 January 2008	4,278,879	84,497	4,363,376
<i>Company</i>	<i>Goodwill arising on acquisitions £</i>	<i>Licences £</i>	<i>Total £</i>
Cost			
At 1 January 2008	2,112,800	114,396	2,227,196
Additions	–	–	–
Disposals	(1,585,000)	–	(1,585,000)
At 31 December 2008	527,800	114,396	642,196
Amortisation			
At 1 January 2008	1,466,494	29,899	1,496,393
Charge for the year	343,310	7,868	351,178
Disposals	(1,426,457)	–	(1,426,457)
Impairment	–	76,629	76,629
At 31 December 2008	383,347	114,396	497,743
Net book value			
At 31 December 2008	144,453	–	144,453
At 1 January 2008	646,306	84,497	730,803

## Notes to the financial statements

at 31 December 2008

### 9. Intangible fixed assets (continued)

#### Licences

The useful economic life over which the licences (for exploitation of technology) were being amortised was 3 years

#### Goodwill

On 22 April 2005, the Company acquired the trade and assets of Lab 21 Holdings Limited (a company incorporated in the British Virgin Islands), by way of a hive down agreement. The trade and assets held by Lab 21 Holdings Limited were derived from its acquisition (which also occurred on 22 April 2005) of the trade and assets of MTI AG ("MTI"), the business of which is the development and manufacture of products for the measurement of trace metals. The goodwill arising on the acquisition of MTI was £1,585,000. The useful economic life, as determined by the directors, over which this goodwill is being amortised is 5 years. During 2008 the trade and assets of the Environmental Diagnostics division ("MTI") were sold to Cogent Environmental Limited, hence the relating goodwill has been disposed of.

Also 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 provision of diagnostic test and support services to the pharmaceutical and diagnostics industry. The goodwill arising on the acquisition of Oneida Theradiagnostics was £527,800.

On 5 October 2006 the Company acquired 100% of the issued share capital of Lab 21 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 £3,962,799. The useful economic life, as determined by the directors, over which this goodwill is being amortised is 15 years.

## Notes to the financial statements

at 31 December 2008

### 9 Intangible fixed assets (continued)

On 20 March 2008 the Company acquired 100% of the issued share capital of NP Tech Services Limited. The consideration comprised £0.15 million which was satisfied by the issue of 5,000 'A' ordinary shares along with deferred consideration of £0.15 million payable in cash in two instalments on 29 January 2010 and 29 January 2011. The assets acquired and their fair values, along with the resulting goodwill are as follows:

	<i>Book value</i>	<i>Fair value</i>	<i>Fair value</i>
	<i>£</i>	<i>adjustment</i>	<i>to Group</i>
		<i>£</i>	<i>£</i>
Fixed assets			
Tangible assets	3,130	–	3,130
Current assets			
Stocks	4,000	–	4,000
Debtors	13,577	(10,000)*	3,577
Other debtors	21,100	–	21,100
Total assets	38,677	(10,000)	28,677
Creditors			
Trade creditors	11,230	–	11,230
Accruals	12,718	–	12,718
Bank overdraft	34,029	–	34,029
Bank loan	17,904	–	17,904
Total liabilities	75,881	–	75,881
Net liabilities	(34,074)	(10,000)	(44,074)
Goodwill			377,769
Satisfied by			
Issue of shares			150,000
Deferred consideration			132,505
Costs associated with the acquisition			51,190
Total cost of acquisition			333,695

The useful economic life, as determined by the directors, over which this goodwill is being amortised is 5 years.

#### Adjustments

\* Increase in bad debt provision

NP Tech Services Limited contributed £45,140 to the Group's net operating cash flows, received £88 in respect of net returns on investments and servicing of finance, paid £nil in respect of taxation and utilised £nil for capital expenditure and financial investment.

## Notes to the financial statements

at 31 December 2008

### 9. Intangible fixed assets (continued)

NP Tech Services Limited earned a loss after taxation of £43,625 in the year ended 31 December 2008 (2007 £3,935) of which a profit of £1,602 arose in the period 1 January 2008 to 20 March 2008. The summarised profit and loss account for the period 1 January to the effective date of acquisition is as follows

	£
Profit and loss account	
Turnover	35,586
Cost of sales	(14,820)
Gross profit	20,766
Other operating expenses (net)	(18,164)
Operating profit	2,602
Interest payable	(1,000)
Profit on ordinary activities before tax	1,602
Tax on profit on ordinary activities	–
Profit on ordinary activities after tax	1,602

There were no recognised gains and losses in the period 1 January 2008 to 20 March 2008 other than the profit after tax of £1,602 above

### 10. Tangible fixed assets

Group	Leasehold improvements	Computer software	Fixtures & fittings £	Computer equipment £	Laboratory equipment £	Total £
Cost						
At 1 January 2008	67,153	40,900	175,388	196,534	210,025	690,000
Acquisition of subsidiary undertaking	–	–	3,130	–	–	3,130
Additions	5,030	–	44,553	22,317	14,216	86,116
Disposals	–	–	–	(4,106)	(18,568)	(22,674)
At 31 December 2008	72,183	40,900	223,071	214,745	205,673	756,572
Depreciation						
At 1 January 2008	35,271	31,811	161,003	151,215	142,781	522,081
Charge for the year	14,033	9,089	28,595	36,946	46,128	134,791
On disposals	–	–	–	(2,897)	(18,548)	(21,445)
At 31 December 2008	49,304	40,900	189,598	185,264	170,361	635,427
Net book value						
At 31 December 2008	22,879	–	33,473	29,481	35,312	121,145
At 1 January 2008	31,882	9,089	14,385	45,319	67,244	167,919



# Notes to the financial statements

at 31 December 2008

## 10. Tangible fixed assets (continued)

<i>Company</i>	<i>Leasehold improvements</i>	<i>Computer software</i>	<i>Fixtures &amp; fittings £</i>	<i>Computer equipment £</i>	<i>Laboratory equipment £</i>	<i>Total £</i>
Cost						
At 1 January 2008	67,153	40,900	2,247	154,983	131,254	396,537
Additions	5,030	—	387	22,317	7,616	35,350
Disposals	—	—	—	(4,106)	(18,568)	(22,674)
At 31 December 2008	72,183	40,900	2,634	173,194	120,302	409,213
Depreciation						
At 1 January 2008	35,271	31,811	1,121	114,263	74,563	257,029
Charge for the year	14,033	9,089	300	34,141	35,832	93,395
On disposals	—	—	—	(2,896)	(18,545)	(21,441)
At 31 December 2008	49,304	40,900	1,421	145,508	91,850	328,983
Net book value						
At 31 December 2008	22,879	—	1,213	27,686	28,452	80,230
At 1 January 2008	31,882	9,089	1,126	40,720	56,691	139,508

## 11. Investments

*Group*

	<i>Joint venture £</i>	<i>Trade investments £</i>	<i>Total £</i>
Cost			
At 1 January 2008	—	—	—
Additions	100	250,000	250,100
At 31 December 2008	100	250,000	250,100
Impairment			
At 1 January 2008	—	—	—
Charge for the year	—	125,000	125,000
At 31 December 2008	—	125,000	125,000
Net book value			
At 31 December 2008	100	125,000	125,100
At 31 January 2008	—	—	—

## Notes to the financial statements

at 31 December 2008

### 11. Investments (continued)

#### Company

	<i>Subsidiary undertakings</i>	<i>Joint venture</i>	<i>Trade investments</i>	<i>Total</i>
	£	£	£	£
Cost				
At 1 January 2008	4,260,624	–	–	4,260,624
Additions	333,695	100	250,000	583,795
At 31 December 2008	4,594,319	100	250,000	4,844,419
Impairment				
At 1 January 2008	–	–	–	–
Charge for the year	–	–	125,000	125,000
At 31 December 2008	–	–	125,000	125,000
Net book value				
At 31 December 2008	4,594,319	100	125,000	4,719,419
At 31 January 2008	4,260,624	–	–	4,260,624

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

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shareholding</i>	<i>Nature of business</i>
<i>Subsidiary undertakings</i>			
Lab 21 Healthcare Limited	Ordinary shares	100%	Development and production of immunodiagnostics
NPTech Services Limited	Ordinary shares	100%	Provision of diagnostic services
<i>Joint Venture</i>			
Lab 21 Diagnostics Limited	Ordinary shares	50%	Non-trading
<i>* Acquired during the year</i>			
<i>Trade investments</i>			
Cogent Environmental Limited	Ordinary shares	26%*	Provision of environmental diagnostics

*\* Although the Company holds more than 20% of the share capital the directors are of the opinion that Lab 21 Limited does not exercise significant influence over the financial and operating policies of this company and hence this shareholding has been classified as a trade investment rather than an associated undertaking*

## Notes to the financial statements

at 31 December 2008

### 12. Stock

	2008	Group 2007	2008	Company 2007
	£	£	£	£
Raw materials	218,731	187,492	35,934	20,689
Work in progress	34,688	116,693	–	107,870
Finished goods	26,654	138,327	–	93,792
	<u>280,073</u>	<u>442,512</u>	<u>35,934</u>	<u>222,351</u>

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

### 13. Debtors

	2008	Group 2007	2008	Company 2007
	£	£	£	£
Debtors falling due within one year				
Trade debtors	283,789	689,767	121,727	402,711
Other debtors	136,769	105,295	111,797	93,373
Corporation tax	–	7,366	–	–
Prepayments and accrued income	323,141	130,881	293,594	123,253
Amounts due by Group companies	–	–	15,822	–
	<u>743,699</u>	<u>933,309</u>	<u>542,940</u>	<u>619,337</u>

Included in debtors is £48,630 (2007 £69,623) which is due after one year

### 14. Creditors: amounts falling due within one year

	2008	Group 2007	2008	Company 2007
	£	£	£	£
Bank overdraft	1,980,000	1,500,000	1,980,000	1,500,000
Other loans (see note 16)	236,023	666,667	236,023	666,667
Trade creditors	991,582	495,298	704,087	306,565
Amounts due to subsidiary undertaking	–	–	539,184	202,698
Loan from joint venture	320,000	–	320,000	–
Corporation tax	80	–	–	–
Other taxation and social security	246,801	64,876	179,041	51,897
Accruals and deferred income	256,479	534,130	225,003	505,411
	<u>4,030,965</u>	<u>3,260,971</u>	<u>4,183,338</u>	<u>3,233,238</u>

The bank overdraft was secured by floating charge over certain of the Group's assets. Subsequent to the year end the bank overdraft was settled in full. This was funded by the issue of further shares in May 2009.

## Notes to the financial statements

at 31 December 2008

### 15. Creditors: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Deferred consideration	132,505	–	132,505	–
Convertible 10% loan notes (see note 16)	–	1,913,242	–	1,913,242
Accruals – interest on convertible 10% loan notes (see note 16)	–	497,945	–	497,945
Other loans (see note 16)	2,010,837	1,166,667	1,995,956	1,166,667
	<u>2,143,342</u>	<u>3,577,854</u>	<u>2,128,461</u>	<u>3,577,854</u>

### 16. Borrowings

	<i>Group</i>		<i>Company</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Due within the year				
Other loans	236,023	666,667	236,023	666,667
Loan from joint venture	320,000	–	320,000	–
Due between two and five years				
Convertible 10% loan notes (inclusive of accrued interest and accretion of interest)	–	2,411,187	–	2,411,187
Other loans	2,010,837	1,166,667	1,995,956	1,166,667
	<u>2,566,860</u>	<u>4,244,521</u>	<u>2,551,979</u>	<u>4,244,521</u>

#### *Convertible loans*

During 2008 all of the convertible loans were converted into equity

#### *Other loans*

Other loans include £1,333,166 (2007 £1,833,334) of venture debt, the repayment of which commenced in September 2007 with the repayment being over 36 months. The repayment rate applicable to the loan facility is 3.3% per month 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.

On 24 June 2008 the Group entered into a loan agreement secured by the tangible fixed assets of both the Company and Lab 21 Healthcare Limited. This transaction raised £1 million. At 31 December 2008, the amount outstanding was £898,813 (2007: £nil). The term of the loan is three years and interest is charged at 3.37%.

A loan was also acquired on acquisition of NP Tech Services Limited. As at 31 December 2008 the amount outstanding was £14,881 (2007: £nil).

## Notes to the financial statements

at 31 December 2008

### 17. Provision for liabilities

#### *Group*

	<i>Onerous lease</i> £
At 1 January 2008	79,210
Release in the year	(39,605)
At 31 December 2008	<u>39,605</u>

#### *Company*

	<i>Onerous lease</i> £
At 1 January 2008	79,210
Release in the year	(39,605)
At 31 December 2008	<u>39,605</u>

The onerous lease provision relates to a property which is no longer in use

### 18. Share capital

	2008 £	2007 £
<i>Group and Company</i>		
Authorised		
50,000,000 'A' Ordinary shares of 1p each	500,000	500,000
50,000,000 Ordinary shares of 1p each	500,000	500,000
	<u>1,000,000</u>	<u>1,000,000</u>
Allotted and fully paid		
625,475 (2007 366,667) 'A' Ordinary shares of 1p each	6,255	3,667
50,000 Ordinary shares of 1p each	500	500
	<u>6,755</u>	<u>4,167</u>

On 12 December 2008, the Company issued 5,000 'A' Ordinary shares of 1p each which represented £150,000 of the consideration for the acquisition of NPTech Services Limited

On 22 December 2008, the Company issued 253,808 A' Ordinary shares of 1p each. Of the shares issued, 165,308 shares were issued in satisfaction of the convertible loan notes outstanding along with the conversion of a loan from the Company's principal shareholder of £0.6 million into equity. The remaining shares were issued for cash proceeds of £1.3 million.

For details of shares issued subsequent to the year end, refer to note 27

## Notes to the financial statements

at 31 December 2008

### 18. Share capital (continued)

#### *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

#### *Rights on a sale*

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

#### *Rights on a flotation*

On a flotation, the Company shall take such steps as are necessary to issue to each holder of 'A' Ordinary shares such number of additional new 'A' Ordinary shares such that the proportion which the 'A' Ordinary shares held by that shareholder bears to the issued ordinary share capital following completion of all such issues shall be equal to the proportion that the proceeds on a sale that the 'A' Ordinary shareholder would have been entitled to receive on that date would bear to the valuation of the Company at the date (assuming that the valuation of the Company was equal to the Pre New Money Valuation\*) The additional ordinary shares shall be paid up by the automatic capitalisation of any amount standing to the credit of the share premium account or any other available reserve of the Company as determined by the directors and such additional shares shall be issued at par fully paid To the extent that there is insufficient share capital to effect the said issue the directors shall procure (as far as they are able) that the Company's share capital is increased to the extent necessary to permit the issue required and all shareholders shall vote in favour of the necessary resolutions as are approved by the investors to effect such increase

*\* Pre New Money Valuation (as defined in the Articles of Association) is the result of multiplying the total number of shares in issue immediately after the flotation (but excluding any new Ordinary shares issued upon flotation) by the subscription price per share (including any premium) in respect of new Ordinary shares issued at the time of the flotation*

#### *Other*

In the event that the Company proposes to issue shares, other than pursuant to any option granted in accordance with the share option scheme adopted by the Company, at a price per share of less than the issue price of the 'A' Ordinary shares then the Company shall procure the issue of the holders of the 'A' Ordinary shares by way of capitalisation of the Company's share premium account or otherwise in respect of any 'A' Ordinary shares held by them of such number of additional 'A' Ordinary shares so as to reflect the number of shares the investors would have received had the investors subscribed for the shares at the lower issue price

## Notes to the financial statements

at 31 December 2008

### 18. Share capital (continued)

#### 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

### 19. Reserves

<i>Group</i>	<i>Share premium account £</i>	<i>Equity element of convertible loan notes £</i>	<i>Profit and loss account £</i>
At 31 December 2006	9,181,291	690,861	(6,258,543)
Retained loss for the year ended 31 December 2007	–	–	(3,980,942)
Repayment of convertible loans – equity component	–	(197,366)	197,366
Share based payments	–	–	19,947
At 31 December 2007	9,181,291	493,495	(10,022,172)
Retained loss for the year ended 31 December 2008	–	–	(4,090,418)
Issue of shares	4,694,593	–	–
Conversion of convertible loans – equity component	–	(493,495)	493,495
Share based payments	–	–	5,529
At 31 December 2008	13,875,884	–	(13,613,566)
<i>Company</i>			
At 31 December 2006	9,181,291	690,861	(6,267,970)
Retained loss for the year ended 31 December 2007	–	–	(3,929,483)
Repayment of convertible loans – equity component	–	(197,366)	197,366
Share based payments	–	–	19,947
At 31 December 2007	9,181,291	493,495	(9,980,140)
Retained loss for the year ended 31 December 2008	–	–	(3,887,866)
Issue of shares	4,694,593	–	–
Conversion of convertible loans – equity component	–	(493,495)	493,495
Share based payments	–	–	5,529
At 31 December 2008	13,875,884	–	(13,368,982)

## Notes to the financial statements

at 31 December 2008

### 20. Reconciliation of movements in group shareholders' funds/(deficit)

	2008	2007
	£	£
Retained loss for the year	(4,090,418)	(3,980,942)
Issue of equity shares	4,697,181	–
Share based payments	5,529	19,947
Net movement	612,292	(3,960,995)
Opening shareholders' (deficit)/funds	(343,219)	3,617,776
Closing shareholders' funds/(deficit)	269,073	(343,219)

### 21. Reconciliation of operating loss to operating cash flows

	2008	2007
	£	£
Operating loss	(3,308,823)	(3,465,158)
Impairment of intangible assets	76,629	–
Depreciation of tangible fixed assets	134,791	177,145
Amortisation of intangible assets	672,031	1,038,995
Impairment of investment	125,000	–
Share based payments	5,529	19,947
Decrease/(increase) in stock	106,711	(124,564)
Decrease/(increase) in debtors	194,879	(503,720)
Increase/(decrease) in creditors	400,311	(36,349)
Difference between pension charge and cash contributions	(991)	–
(Decrease)/increase in provisions	(39,605)	79,210
Loss on fixed asset disposal	1,229	875
Net cash outflow from operating activities	(1,632,309)	(2,813,619)



## Notes to the financial statements

at 31 December 2008

### 22. Analysis of cash flows

	2008	2007
	£	£
Returns on investments and servicing of investments		
Bank interest received	7,949	45,296
Bank interest paid	(120,830)	(78,533)
Interest on other loans	(354,367)	(31,934)
Net cash outflow	(467,248)	(65,171)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(86,116)	(76,206)
Purchase of intangible fixed assets	–	(76,628)
Net cash outflow	(86,116)	(152,834)
Acquisitions and disposals		
Purchase of NPTECH Services Limited	(51,190)	–
Overdraft acquired with NPTECH Services Limited	(34,029)	–
Sale of Environmental business	100,000	–
Net cash inflow	14,781	–
Taxation		
Corporation tax	7,446	(75,012)
Net cash inflow/(outflow)	7,446	(75,012)
Financing		
Shares issued (net of expenses)	1,241,021	–
New loans	1,590,000	2,000,000
Loan acquired with NPTECH Services Limited	17,904	–
Repayment of convertible loan notes	–	(2,000,000)
Loan repayments	(774,153)	(166,666)
Loan from joint venture	320,000	–
Net cash inflow/(outflow)	2,394,772	(166,666)

## Notes to the financial statements

at 31 December 2008

### 23. Analysis and reconciliation of net debt

	<i>Beginning of year</i>	<i>Net Cash flow</i>	<i>Non cash changes</i>	<i>End of year</i>
	£	£	£	£
Cash at bank	667,700	711,326	–	1,379,026
Bank overdraft	(1,500,000)	(480,000)	–	(1,980,000)
	(832,300)	231,326	–	(600,974)
Convertible loan notes (inclusive of interest)	(2,411,187)	–	2,411,187*	–
Other loans	(1,833,334)	(833,751)	420,225**	(2,246,860)
Loan from joint venture	–	(320,000)	–	(320,000)
	(5,076,821)	(922,425)	2,831,412	(3,167,834)

\* The convertible loan notes were converted into equity during the year. The non cash changes include interest and accretion charges amounting to £304,973

\*\* Non cash changes in other loans relates to £590,000 converted to equity in the year. Balance is shown net of accrued interest of £169,775

	2008	2007
	£	£
Increase/(decrease) in cash in the year	231,326	(3,273,302)
Cash (inflow)/outflow from (increase)/decrease in debt	(1,153,751)	198,600
Change in net debt resulting from cash flows	(922,425)	(3,074,702)
Non cash changes	2,831,412	(510,923)
Movement in net debt in year	1,908,987	(3,585,625)
Net debt at beginning of year	(5,076,821)	(1,491,196)
Net debt at end of year	(3,167,834)	(5,076,821)

#### Major non-cash transactions

See note 9 for an analysis of the acquisition of NPTECH Services Limited

## Notes to the financial statements

at 31 December 2008

### 24. Finance commitments

#### *Operating lease commitments*

Annual commitments under non-cancellable operating leases are as follows

<i>Group</i>	<i>2008</i>	<i>2007</i>
	<i>£</i>	<i>£</i>
Land and buildings, leases expiring		
- between one and two years	37,933	–
- between two and five years	251,000	288,933
	<u>288,933</u>	<u>288,933</u>
Other, leases expiring		
- between one and two years	8,044	8,428
- between two and five years	–	–
	<u>8,044</u>	<u>8,428</u>
<i>Company</i>	<i>2008</i>	<i>2007</i>
	<i>£</i>	<i>£</i>
Land and buildings, leases expiring		
- between one and two years	37,933	–
- between two and five years	165,500	203,433
	<u>203,433</u>	<u>203,433</u>
Other, leases expiring		
- between one and two years	3,724	2,488
	<u>3,724</u>	<u>2,488</u>

#### **Capital commitments**

The Group and Company had no capital commitments contracted for but not provided at the year end (2007 £nil)

### 25. Share based payments

The Company has an unapproved share option scheme as below

#### **The Lab 21 Limited Unapproved Share Option Scheme**

Options under the scheme, which is unapproved, 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 employee services received during the year to 31 December 2008 is £5,529 (2007 £19,947)

## Notes to the financial statements

at 31 December 2008

### 25. Share based payments (continued)

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

	2008 <i>No</i>	2008 <i>WEAP</i>	2007 <i>No</i>	2007 <i>WEAP</i>
Outstanding at beginning of year	6,055	£20	6,355	£20
Lapsed during the year	(3,055)	£20	(300)	£20
Outstanding at end of year	3,000	£20	6,055	£20
Exercisable at end of year	3,000	£20	-	-

For the share options outstanding as at 31 December 2008, the weighted average remaining contractual life is 0 years (2007 0.92 years)

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black-Scholes option 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 (%)	0.00
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

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options granted were incorporated into the measurement of fair value.

### 26. Related party transactions

During the year the Group received a charge of £5,000 (2007 £45,000) for consulting services provided by Merlin Scientific LLP and a charge of £3,841 (2007 £2,642) from Merlin Biosciences Limited for expenses incurred on behalf of the Company, both entities of which CT Evans has an interest.

Also during the year the Company obtained a loan of £320,000 from Lab 21 Diagnostics Limited, a joint venture. At the end of the year the full amount of the loan was outstanding.

## Notes to the financial statements

at 31 December 2008

### 27. Subsequent events

#### *Funding*

In February 2009, additional funding was secured by issuance of 83,824 'A' ordinary shares raising £1.2 million

In May 2009, a rights issue was completed for 6,667 'A' Ordinary shares raising £0.2 million

Also in May 2009 the company issued 99,000 'A' Ordinary shares in the Company. The proceeds of £1.98 million were used to settle the company's overdraft in full.

In August 2009, 3,500 'A' ordinary shares were issued for £0.1 million and in September 2009 a further 10,000 'A' Ordinary shares were issued raising £0.3 million.

In October 2009 funding was secured by the issuance of loan notes totalling £0.6 million.

In November 2009 funding was secured by the issuance of loan notes totalling £0.6 million. In connection with these loan notes, 40,000 warrants to subscribe for 'A' Ordinary shares were granted.

#### *Acquisitions*

In February 2009 the Company acquired Biotec Laboratories Limited for consideration of £1.2 million satisfied by the issue of 40,376 'A' Ordinary shares. Biotec Laboratories Limited is a diagnostics business engaged in the production and distribution of quality reagents, test kits and dehydrated culture media.

In May 2009, the Company acquired the trade and assets of Plasmatec Laboratory Products Limited for initial consideration of £1 million and the issue of 23,333 'A' Ordinary shares along with deferred consideration amounting to £0.6 million. Plasmatec Laboratory Products Limited is a manufacturer and international distributor of in vitro diagnostics tests.

In November 2009, the Company acquired the trade and assets of Delphic Diagnostics (which was in administration) for consideration of £0.2 million. Delphic Diagnostics is a specialist laboratory services business with particular expertise in HIV and hepatitis.

In December 2009, the Company acquired Selah Technologies LLC for consideration of the issue of 58,033 'A' Ordinary shares and agreed to effect a merger of this company, Lab 21 Limited and Lab 21 Inc (a newly formed company). Selah Technologies LLC is a diagnostics business engaged in advanced materials manufacturing, developing and commercialising two proprietary nanotechnologies.

### 28. Ultimate parent and controlling party

Collectively Merlin General Partner III Limited and Merlin Bioscience General Partner III GmbH owned 86% of the share capital of the Company at the year end and as a result, together, were considered to be the controlling party.

Subsequent to the year end, the collective shareholding of the Merlin entities was reduced to 60%.