Company Registration No. 05382262

LAB 21 LIMITED

Report and Financial Statements

31 December 2013

LAB 21 LIMITED

REPORT AND FINANCIAL STATEMENTS 2013

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LAB 21 LIMITED

REPORT AND FINANCIAL STATEMENTS 2013

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C T Evans (Non-executive)
S D Lowther
G D Mullis
J C Wakefield (Non-executive Chairman)

SECRETARY

S D Lowther

REGISTERED OFFICE

184 Cambridge Science Park
Cambridge
CB4 0GA

BANKERS

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

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

LAB 21 LIMITED

STRATEGIC REPORT

The directors, in preparing this Strategic report, have compiled with s414C of the Companies Act 2006

PRINCIPAL ACTIVITIES

The activities of the group during the year included:

Manufacturing antibody and antigen-based products, for infectious diseases.

Proprietary molecular diagnostic testing services for patients needing diagnosis and optimised treatment in areas such as cancer and virology.

The business strategy includes the acquisition and integration of companies in the diagnostics market sector. This strategy has also resulted in the divestment of companies and assets. Such a strategy is often referred to as a 'Buy and Build' which carries execution and delivery risk - which is what this narrative is referring to.

RESULTS AND DIVIDENDS

The group incurred a loss after taxation of £4,810,000 (2012: £7,638,000). The directors do not recommend the payment of a dividend (2012: £nil).

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Business review

The financial performance in the first half of the year continued to be impacted by a shortfall in working capital, which restricted the availability of raw materials and therefore sales.

On 18 July 2013, the company sold certain business assets related to i) the development, manufacture, marketing and distribution of its blood banking products and ii) the know-how and capability to develop, manufacture and sell protein and molecular based assays.

Key performance indicators

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

Continuing operations	**2013 £'000**	**2012 £'000**	**Change %**
Group turnover	4,904	7,549	(35.0%)
Underlying EBITDA *	(716)	62	(1,254.8%)
Total operating loss	(1,462)	(961)	(52.1%)

Discontinued operations	**2013 £'000**	**2012 £'000**	**Change %**
Group turnover	2,078	3,975	(47.7%)
Underlying EBITDA *	(389)	(3,353)	88.4%
Total operating loss	(1,153)	(6,436)	82.1%

BUSINESS REVIEW AND FUTURE DEVELOPMENTS (continued)

Key performance indicators (continued)

Total	2013 £'000	2012 £'000	Change %
Group turnover	6,982	11,524	(39.4%)
Underlying EBITDA *	(1,105)	(3,291)	66.4%
Total operating loss	(2,615)	(7,397)	64.6%
Cash at bank	676	423	59.8%
Average number of employees	91	128	(28.9%)

* 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 decreased by £4,542,000 (39.4%) during the year. Ongoing business, before divestments and acquisitions, decreased from £7,549,000 to £4,904,000, a decrease of 35.0%.

The EBITDA loss decreased over the prior year by £2,186,000 (66.4%) due to staff costs of £3,289,000 in the year (2012: £5,489,000) and foreign exchange costs of £66,000 (2012: £134,000).

Total operating loss decreased by £4,782,000 (64.6%) over the prior year including £nil (2012 - £1,706,000) impairment in investment in Lab21 Healthcare Ltd and Myconostica Ltd.

Total administrative costs of £6,090,000, excluding restructuring, includes £449,000 of research & development costs, £1,190,000 of amortisation of goodwill and other intangible fixed assets and £103,000 of depreciation.

Cash at bank rose by £253,000 (59.8%). This comprised operating cash outflows of £1,928,000, cash outflows from financing activities of £1,045,000, inflows from acquisitions and disposals of £3,839,000, outflows relating to the servicing of finance of £1,193,000, £281,000 inflow on capital investment and a £299,000 tax inflow.

Average number of employees decreased from 128 in 2012 to 91 in 2013.

Disposal of business assets

On 18 July 2013, and as explained in note 1, Lab21 completed the sale of certain business assets related to i) the development, manufacture, marketing and distribution of its blood banking products and ii) the know-how and capability to develop, manufacture and sell protein and molecular based assays. The cash proceeds included £2.6m early repayment of the Clydesdale Bank term loan.

Outlook and future development

Part of the use of proceeds from the sale of certain business assets reduced the 2012 term loan with Clydesdale Bank from £4.0m to £1.4m and therefore the group's liability to its senior lender. This significantly reduces the group's indebtedness to Clydesdale Bank. As part of this prepayment Clydesdale Bank proposed Heads of Terms which included a deferral of all capital repayments until 30 June 2014 to support the restoration of trading at the Bridport site to the level that it experienced in the first half of 2012.

As part of the sale of business assets, the Newmarket and Cambridge sites were assigned to Trinity Biotech which reduced the group's fixed cost overhead base. The group will continue to manufacture and sell from the Camberley and Bridport sites. The clinical laboratory business will remain in Cambridge and with effect from May 2014 will operate from new premises at a lower cost.

As a result of the cost reductions and the sales recovery of the Bridport site, it is expected that the continuing business should achieve sustainable profitability.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS (continued)

Promissory Note

In the first quarter of 2013 the Company received £1,058,000 from an unsecured promissory note provided by existing shareholders. The note has a two year term to 31 January 2015 with an interest rate of 15% p.a. and a premium of 30% if the note is repaid after 2 years and 20% if repaid within 1 year. A total of 169,433 new warrants were issued to the loan note holders with an exercise price of 1p.

Conversion of Medicis Loan Notes

In March 2013 a loan note payable to Medicis of €100,000 plus interest was converted into 2,641 "A" Ordinary shares at a price of £22.50 per share and a loan note of €250,000 plus interest was converted in to 27,021 "A" Ordinary shares at a price of £14.58 per share.

Conversion of Warrants

In March 2013, 17,089 Lab 21 Ltd warrants, held by the former shareholders of Microgen Bioproducts Limited, were converted in to "A" Ordinary shares.

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 change

The ability of Lab21 to implement its business strategy requires effective planning and management control through leadership, process and systems. The group's future growth will depend upon the ability to adapt and manage change whilst continuing to improve operational, financial and management information and quality control systems on a timely and cost effective basis. A failure to manage change whilst making improvements could have a material adverse effect on the group's business, financial condition or operations.

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 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 diagnostic manufacturers who distribute and brand Lab21 products in key markets and there is always the possibility of losing a contract. The group seeks to mitigate this risk by having multiple distributors and non-exclusive agreements which gives Lab21 flexibility to expand its customer base in the event it loses a contract.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Competitive risks (continued)

Acquisition risk

The success of the buy and build 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.

Cash flow is the single largest risk that the group has managed during the last 18 to 24 months.

SUBSEQUENT EVENTS

On 20 March 2014 EKF Diagnostics plc announced the acquisition of Selah Genomics Inc. This acquisition triggered a change of control in Selah Genomics Inc and resulted in the payment of a $1.14m promissory note to Lab21 Limited. The promissory note proceeds were received by Lab21 Limited on 28 April 2014.

On 9 May 2014 Lab21 Limited made a prepayment of $1.14m to the term loan with Clydesdale Bank, which reduced the total capital outstanding to £0.7m.

STRATEGIC REPORT

GOING CONCERN

On 18 June 2012, Lab21 Limited signed a term loan and confidential invoice discounting facility with Clydesdale Bank including cross guarantees between the group companies. The company's ability to continue as a going concern is therefore reliant on the ability of the group to continue as a going concern.

On 18 July 2013, Lab21 Limited sold certain business assets related to i) the development, manufacture, marketing and distribution of its blood banking products and ii) the know-how and capability to develop, manufacture and sell protein and molecular based assays. Out of the total cash proceeds of £3.8m, £2.6m was paid to Clydesdale Bank to reduce the term loan from, £4.0m to £1.4m, and as part of this prepayment the Bank proposed Heads of Terms to amend the facility agreement including i) a deferral of all capital repayments until 30 June 2014, ii) a reduction of the exit event or success based payment and iii) a reset of the financial covenants. The directors are in regular contact with Clydesdale Bank but an amended loan agreement has not been signed.

The term loan agreement contains a number of financial covenants including a sales covenant whereby the group sales revenue should exceed 75% of the turnover set out in the 2012 budget for the period commencing 1 September 2012 and ending 31 December 2013. The group did not meet this covenant and was advised of the breach by Clydesdale Bank on 14 March 2014. Since that date, and up until the date of approval of these financial statements, the group has not remedied this breach. The directors are confident of a positive outcome, based on discussions with Clydesdale Bank; however, until such time as an amendment is signed, there remains a material uncertainty as to the company's ability to continue as a going concern.

Following the disposal of assets, the continuing business traded on a reduced cost base and therefore the losses were reduced in the second half of the financial year. The directors of Lab21 have prepared budgets for the continuing business for the three years to 31 December 2016, including detailed cash flow forecasts, which assume a level of trading from the continuing business and the proposed, revised term loan repayment terms. These budgets show that the Lab21 group will be able to meet its liabilities as they fall due and will be able to comply with the revised financial covenants for a period of at least 12 months from the date of approval of these financial statements.

Accordingly, the directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the concern basis of preparation.

Approved by the Board of Directors
and signed on behalf of the Board

S D Lowther

S D Lowther

Director

Date: 20 May 2014

LAB 21 LIMITED

DIRECTORS' REPORT

The directors present their annual report and the financial statements for the year ended 31 December 2013. Please note that the directors report should be read in conjunction with the strategic report.

DIRECTORS

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

K Deusch (Non-executive)	(resigned 3 May 2013)
C T Evans (Non-executive)	
S D Lowther	
G D Mullis	
M Jennings (Non-executive)	(appointed 15 January 2013, resigned 30 April 2013)
E Snape (Non-executive)	(resigned 14 April 2013, reappointed 4 March 2014)
J C Wakefield (Non-executive Chairman)	

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' 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.

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/she ought to have taken as a director to make himself/herself 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

S D Lowther

Director

Date: 20 May 2014

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 these 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 adequate 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 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 2013 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 30. 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2013 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

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's ability to continue as a going concern. The group incurred a net loss of £4,810,000 during the year ended 31 December 2013 and, at that date, the group had net current liabilities of £2,264,000. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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 Strategic Report and 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

20 May 2014

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2013

	Note	Continuing operations £'000	Discontinued operations £'000	2013 £'000	Continuing operations £'000	Discontinued operations £'000	2012* £'000
TURNOVER	2	4,904	2,078	6,982	7,549	3,975	11,524
Cost of sales		(2,590)	(731)	(3,321)	(4,105)	(2,566)	(6,671)
GROSS PROFIT		2,314	1,347	3,661	3,444	1,409	4,853
Administrative expenses:							
Restructuring costs		-	-	-	(4)	(63)	(67)
Impairment of goodwill		-	-	-	-	(1,706)	(1,706)
Other		(3,698)	(2,392)	(6,090)	(4,202)	(5,992)	(10,194)
		(3,698)	(2,392)	(6,090)	(4,206)	(7,761)	(11,967)
Distribution costs		(78)	(108)	(186)	(199)	(84)	(283)
OPERATING LOSS	3	(1,462)	(1,153)	(2,615)	(961)	(6,436)	(7,397)
Finance charges (net)	4			(957)			(1,594)
Gain on sale of subsidiary undertaking				-			925
Loss on sale of discontinued operations	9			(1,339)			-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION				(4,911)			(8,066)
Tax on loss on ordinary activities	6			101			428
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION				(4,810)			(7,638)
Equity minority interests	21			-			(152)
LOSS FOR THE FINANCIAL YEAR	19			(4,810)			(7,790)

*restatement of prior year figures due to discontinued operations

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2013

	2013 £'000	2012 £'000
Loss for the financial year	(4,810)	(7,790)
Currency translation differences on foreign currency net investments	-	(165)
Total recognised losses for the financial year	(4,810)	(7,955)

LAB 21 LIMITED

CONSOLIDATED BALANCE SHEET
31 December 2013

	Note	2013 £'000	2012 £'000
FIXED ASSETS			
Development costs, licences and intellectual property		13	772
Goodwill		2,035	6,452
Intangible assets	8	2,048	7,224
Tangible assets	10	62	223
		2,110	7,447
CURRENT ASSETS			
Stocks	12	752	1,161
Debtors	13	1,473	3,082
Cash at bank and in hand		676	423
		2,901	4,666
CREDITORS: amounts falling due within one year	14	(5,165)	(10,214)
NET CURRENT LIABILITIES		(2,264)	(5,548)
TOTAL ASSETS LESS CURRENT LIABILITIES		(154)	1,899
CREDITORS: amounts falling due after more than one year	15	(1,341)	-
PROVISIONS FOR LIABILITIES	17	(90)	(160)
NET (LIABILITIES)/ASSETS		(1,585)	1,739
CAPITAL AND RESERVES			
Called up share capital	18	19	16
Share premium account	19	35,827	33,067
Shares to be issued	19	-	665
Merger reserve	19	4,976	4,976
Warrant options	19	317	929
Profit and loss account	19	(42,724)	(37,914)
SHAREHOLDERS' (DEFICIT)/FUNDS	20	(1,585)	1,739

The financial statements of Lab 21 Limited, registered number 05382262, were approved by the Board of Directors and authorised for issue on 20 May 2014.

Signed on behalf of the Board of Directors

SD Lowther

S D Lowther
Director

COMPANY BALANCE SHEET
31 December 2013

	Note	2013 £'000	2012 £'000
FIXED ASSETS			
Development costs, licences and intellectual property		13	341
Goodwill		87	182
Intangible assets	8	100	523
Tangible assets	10	39	141
Investments	11	3,402	6,584
		3,541	7,248
CURRENT ASSETS			
Stocks	12	30	42
Debtors	13	4,732	4,282
Cash at bank and in hand		20	13
		4,782	4,337
CREDITORS: amounts falling due within one year	14	(4,948)	(8,847)
NET CURRENT LIABILITIES		(166)	(4,510)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,375	2,738
CREDITORS: amounts falling due after more than one year	15	(1,341)	-
PROVISIONS FOR LIABILITIES	17	-	(30)
NET ASSETS		2,034	2,708
CAPITAL AND RESERVES			
Called up share capital	18	19	16
Share premium account	19	35,827	33,067
Shares to be issued	19	-	665
Merger reserve	19	1,057	1,057
Warrant options	19	317	929
Profit and loss account	19	(35,186)	(33,026)
SHAREHOLDERS' FUNDS		2,034	2,708

The financial statements of Lab 21 Limited, registered number 05382262, were approved by the Board of Directors and authorised for issue on 20 May 2014.

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 2013

	Note	2013 £'000	2012 £'000
Net cash outflow from operating activities	22	(1,601)	(3,222)
Returns on investment and servicing of finance	23	(1,193)	(815)
Taxation	23	299	129
Capital expenditure and financial investment	23	(46)	(237)
Acquisitions and disposals	23	3,839	(1,779)
	23		
Cash inflow/(outflow) before financing		1,298	(5,924)
Financing net of loan repayments	23	(1,045)	5,778
Increase/(decrease) in cash in the year	24	253	(146)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

1. ACCOUNTING POLICIES

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

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

On 18 June 2012, Lab21 Limited signed a term loan and confidential invoice discounting facility with Clydesdale Bank including cross guarantees between the group companies. The company's ability to continue as a going concern is therefore reliant on the ability of the group to continue as a going concern.

On 18 July 2013, Lab21 Limited sold certain business assets related to i) the development, manufacture, marketing and distribution of its blood banking products and ii) the know-how and capability to develop, manufacture and sell protein and molecular based assays. Out of the total cash proceeds of £3.8m, £2.6m was paid to Clydesdale Bank to reduce the term loan from, £4.0m to £1.4m, and as part of this prepayment the Bank proposed Heads of Terms to amend the facility agreement including i) a deferral of all capital repayments until 30 June 2014, ii) a reduction of the exit event or success based payment and iii) a reset of the financial covenants. The directors are in regular contact with Clydesdale Bank but an amended loan agreement has not been signed.

The term loan agreement contains a number of financial covenants including a sales covenant whereby the group sales revenue should exceed 75% of the turnover set out in the 2012 budget for the period commencing 1 September 2012 and ending 31 December 2013. The group did not meet this covenant and was advised of the breach by Clydesdale Bank on 14 March 2014. Since that date, and up until the date of approval of these financial statements, the group has not remedied this breach. The directors are confident of a positive outcome, based on discussions with Clydesdale Bank; however, until such time as an amendment is signed, there remains a material uncertainty as to the company's ability to continue as a going concern.

Following the disposal of assets, the continuing business traded on a reduced cost base and therefore the losses were reduced in the second half of the financial year. The directors of Lab21 have prepared budgets for the continuing business for the three years to 31 December 2016, including detailed cash flow forecasts, which assume a level of trading from the continuing business and the proposed, revised term loan repayment terms. These budgets show that the Lab21 group will be able to meet its liabilities as they fall due and will be able to comply with the revised financial covenants for a period of at least 12 months from the date of approval of these financial statements. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Accordingly, the directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the concern basis of preparation.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

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.

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.

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.

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.

Licencing revenue

Technology and product licencing revenue represents amounts earned for licences provided under licencing agreements, including up-front payments, milestone payments and technology access fees. Revenues are recognised when they are non-refundable, the Group's obligations related to the revenues have been discharged and their collection is reasonably assured. Refundable licencing revenue is deferred until such time as it is no longer refundable. In general, up-front payments relating to scientific or technical achievements are recognised as income when the milestones are accomplished.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

1. **ACCOUNTING POLICIES (continued)**

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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

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 to 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

3. OPERATING LOSS

	2013 £'000	2012 £'000
Operating loss is after charging (crediting):		
Amortisation of goodwill	1,169	1,897
Amortisation of other intangible fixed assets	21	64
Depreciation of tangible fixed assets:		
Owned	103	352
Operating lease rentals:		
Plant and machinery	11	34
Other	590	890
Government grants	(51)	(63)
Restructuring costs	-	67
Impairment of goodwill	-	1,706
Loss on sale of fixed assets	327	1
Foreign exchange losses	66	134
Research and development costs:		
- current year expenditure	449	688

The analysis of auditor's remuneration is as follows:

	2013 £'000	2012 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	37	35
The audit of the Company's subsidiaries pursuant to legislation	29	49
Total audit fees	66	84
Fees payable to the Company's auditor and their associates for other services to the Group		
Tax services	-	8
Total non-audit fees	-	8

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

4. FINANCE CHARGES (NET)

	2013 £'000	2012 £'000
Interest payable and similar charges	986	1,594
Less: investment income	(29)	-
	957	1,594
Interest payable and similar charges		
Interest on convertible loan notes	228	580
Unwinding of discount on deferred consideration	146	9
Interest on venture debt	-	99
Interest on other loans	81	673
Bank interest	480	204
Other interest	51	29
	986	1,594
Investment income		
Other interest	29	-

5. STAFF COSTS AND DIRECTORS' EMOLUMENTS

Group	2013 No.	2012 No.
The average monthly number of persons employed by the group, including directors, during the year was as follows:		
Production	47	68
Research and development	10	13
Administration	17	26
Sales and marketing	17	21
	91	128
	£'000	**£'000**
The aggregate staff costs were as follows:		
Wages and salaries	2,914	4,692
Social security costs	289	474
Pension costs	141	210
Other benefits	38	113
	3,382	5,489

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS (continued)

	2013 £'000	2012 £'000
Emoluments	427	570
Company contributions to money purchase schemes	18	21
	445	591
	No	No
Number of directors accruing retirement benefits under the money purchase pension scheme	2	3
Number of directors who received shares for qualifying services	-	-

The highest paid director received total emoluments of £246,000 (2012: £209,000) and £9,600 (2012: £9,500) 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 (2013: £nil) and exercised no options (2012: none) 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 £141,000 (2012: £210,000). Contributions outstanding at the year end were £23,000 (2012: £15,000) and are included in accruals.

6. TAX ON LOSS ON ORDINARY ACTIVITIES

Tax credit for the year

	2013 £'000	2012 £'000
Current taxation		
Tax credit on loss on ordinary activities	(101)	(428)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

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 blended standard rate of corporation tax in the UK. The differences are explained below:

	2013 £'000	2012 £'000
Loss on ordinary activities before taxation	(4,911)	(8,066)
Loss on ordinary activities multiplied by the blended standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	(1,142)	(1,976)
Effect of:		
Depreciation (less than)/in excess of capital allowances	(26)	80
Expenditure not deductible for tax purposes	504	982
Under provision in prior years	(101)	(428)
Other timing differences	-	3
Unrelieved tax losses	664	1,082
Tax losses utilised	-	(171)
Current tax credit for the year	(101)	(428)

Deferred taxation assets unprovided are as follows:

	Not provided 2013 £'000	 2012 £'000
Decelerated capital allowances	272	308
Other short term timing differences	3	6
Tax losses	7,797	7,560
	8,072	7,874

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.

The Finance Act 2013, which provides for reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective 1 April 2015, was substantially enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

7. LOSS ATTRIBUTABLE TO THE COMPANY

The loss for the financial year dealt with in the financial statements of the company was £2,160,000 (2012: £10,390,000). 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

8. INTANGIBLE FIXED ASSETS

GROUP

	Goodwill arising on acquisitions £'000	Development costs £'000	Licences £'000	Intellectual property £'000	Total £'000
Cost					
At 1 January 2013	13,907	361	162	453	14,883
Additions	1,230	-	-	35	1,265
Disposals	(8,376)	(361)	(162)	(474)	(9,373)
At 31 December 2013	6,761	-	-	14	6,775
Amortisation					
At 1 January 2013	7,455	-	134	70	7,659
Charge for the year	1,169	-	5	16	1,190
Disposals	(3,898)	-	(139)	(85)	(4,122)
At 31 December 2013	4,726	-	-	1	4,727
Net book value					
At 31 December 2013	2,035	-	-	13	2,048
At 31 December 2012	6,452	361	28	383	7,224

COMPANY

	Goodwill arising on acquisitions £'000	Development costs £'000	Licences £'000	Intellectual property £'000	Total £'000
Cost					
At 1 January 2013	1,003	-	114	386	1,503
Additions	-	-	-	35	35
Disposals	-	-	(114)	(407)	(521)
At 31 December 2013	1,003	-	-	14	1,017
Amortisation					
At 1 January 2013	821	-	114	45	980
Charge for the year	95	-	-	12	107
Disposals	-	-	(114)	(56)	(170)
At 31 December 2013	916	-	-	1	917
Net book value					
At 31 December 2013	87	-	-	13	100
At 31 December 2012	182	-	-	341	523

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 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. 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 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.

On 18 July 2013 the sale of certain business assets triggered the issue of contingent shares to Myconostica Shareholders giving rise to goodwill of £1,230,000 which was then subsequently disposed of.

9. DISPOSAL OF DISCONTINUED OPERATIONS

On 18 July 2013 Lab21 successfully completed the sale of certain business assets related to i) the development, manufacture, marketing and distribution of its blood banking products and ii) the know-how and capability to develop, manufacture and sell protein and molecular based assays ("the Sale").

	£'000
Net assets disposed of and the related sale proceeds were as follows:	
Net assets (liabilities)	
Share of net assets on date of disposal	700
Related goodwill	4,478
	5,178
Loss on sale	(1,339)
Sale proceeds	3,839
Satisfied by:	
Cash at bank	3,839
Sale proceeds	3,839

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

10. TANGIBLE FIXED ASSETS

GROUP

	Leasehold improve-ments £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Laboratory equipment £'000	Total £'000
Cost					
At 1 January 2013	90	307	466	636	1,499
Additions	-	6	2	3	11
Disposals	(79)	(299)	(158)	(500)	(1,036)
At 31 December 2013	11	14	310	139	474
Depreciation					
At 1 January 2013	74	268	378	556	1,276
Charge for the year	13	13	44	33	103
Disposals	(78)	(268)	(146)	(475)	(967)
At 31 December 2013	9	13	276	114	412
Net book value					
At 31 December 2013	2	1	34	25	62
At 31 December 2012	16	39	88	80	223

COMPANY

	Leasehold improve-ments £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Laboratory equipment £'000	Total £'000
Cost					
At 1 January 2013	80	42	359	412	893
Additions	-	-	1	-	1
Disposals	(80)	(42)	(94)	(322)	(538)
At 31 December 2013	-	-	266	90	356
Depreciation					
At 1 January 2013	68	7	293	384	752
Charge for the year	11	6	38	12	67
Disposals	(79)	(13)	(94)	(316)	(502)
At 31 December 2013	-	-	237	80	317
Net book value					
At 31 December 2013	-	-	29	10	39
At 31 December 2012	12	35	66	28	141

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

11. INVESTMENTS

COMPANY

	Subsidiary undertakings £'000
Cost	
At 1 January 2013 and 31 December 2013	9,396
Provisions for impairment	
At 1 January 2013	2,812
Additions	3,182
At 31 December 2013	5,994
Net book value	
At 31 December 2013	3,402
At 31 December 2012	6,584

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
Subsidiary undertakings				
Lab21 Healthcare Limited	England and Wales	Ordinary shares	100%	Provision of diagnostic products
NPTech Services Limited	England and Wales	Ordinary shares	100%	No longer trading
Biotec Laboratories Limited	England and Wales	Ordinary shares	100%	No longer trading
Microgen Bioproducts Limited	England and Wales	Ordinary shares	100%	Provision of diagnostic products
Myconostica Limited	England and Wales	Ordinary shares	100%	No longer trading
Selah Technologies Limited	England and Wales	Ordinary shares	100%	Holding Intellectual property

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

12. STOCKS

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Raw materials	540	769	30	42
Work in progress	97	130	-	-
Finished goods	115	262	-	-
	752	1,161	30	42

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

13. DEBTORS

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Debtors falling due within one year:				
Trade debtors	1,014	1,913	402	401
Other debtors	258	454	213	406
Corporation tax	93	301	91	299
Prepayments and accrued income	108	334	68	239
Amounts due from subsidiary undertakings	-	-	3,958	2,829
	1,473	3,002	4,732	4,174
Debtors falling due after more than one year:				
Other loans	-	80	-	80
Prepayments and accrued income	-	-	-	28
	1,473	3,082	4,732	4,282

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (see note 16)	6	67	6	67
Invoice financing facility (see note 16)	124	366	91	338
Other loans (see note 16)	1,318	3,835	1,318	3,835
Trade creditors	1,134	2,634	500	859
Amounts owed to Group undertakings	-	-	844	1,260
Corporation tax	-	10	-	-
Other taxation and social security	76	185	-	4
Liability on financial instruments (see note 16)	1,357	1,357	1,357	1,357
Other creditors	27	256	-	244
Accrued interest (see note 16)	392	380	392	380
Accruals and deferred income	731	1,124	440	503
	5,165	10,214	4,948	8,847

Invoice financing facility

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

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

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Other loans (see note 16)	1,341	-	1,341	-

16. BORROWINGS

Borrowings are repayable as follows:

	Group		Company	
	2013	2012	2013	2012
Other loans	£'000	£'000	£'000	£'000
Between two and five years	1,341	-	1,341	-
On demand or within one year	1,448	4,268	1,415	4,240
	2,789	4,268	2,756	4,240

	Group		Company	
	2013	2012	2013	2012
Liability on financial instruments	£'000	£'000	£'000	£'000
On demand or within one year	1,357	1,357	1,357	1,357

	Group		Company	
	2013	2012	2013	2012
Accrued interest	£'000	£'000	£'000	£'000
On demand or within one year	392	380	392	380

	Group		Company	
	2013	2012	2013	2012
Total borrowings	£'000	£'000	£'000	£'000
Between two and five years	1,341	-	1,341	-
On demand or within one year	3,197	6,005	3,164	5,977
	4,538	6,005	4,505	5,977

16. BORROWINGS (continued)

Other loans

Other loans include £1,274,000 (2012: £nil) of Loan Note funding in January 2013. The principle sum of £1,058,000 is repayable in cash at the company's discretion no later than 2 years from commencement of the loan notes. Interest accrues at 15% per annum, to be paid upon redemption. Furthermore, a premium of 30% of the principal is repayable upon redemption.

Also included is £181,000 (2012: £182,000) for a loan agreement entered into in March 2010 with the drawdown of £1,500,000 and an original repayment term of 33 months. The interest rate applicable to the loan facility is 15.0% per annum compounded monthly. During the term, there have been a number of changes to agreed payment terms, including capital holidays. New terms are currently being negotiated.

Also included is £1,204,000 (2012: £3,652,000) for a loan agreement entered into in June 2012 with the drawdown of £4,000,000 and a repayment term of 6 months holiday plus 48 months repayment. The interest rate applicable to the loan facility is 6.95% 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. £2,575,000 was repaid during 2013 following the sale of certain business assets.

A very short term overdraft was entered into over the 2013 year end period which was cleared early January 2014. As at 31 December 2013 the amount outstanding was £6,000 (2012: £67,000)

17. PROVISION FOR LIABILITIES

Group	Dilapidations £'000
At 1 January 2013	160
Released unused	(70)
At 31 December 2013	90

Company	
At 1 January 2013	30
Released unused	(30)
At 31 December 2013	-

The dilapidations provision relates to obligations to make good dilapidations existing at 31 December 2013. The related cash outflows are expected to be incurred within four years of the balance sheet date.

18. CALLED UP SHARE CAPITAL

	2013 £'000	2012 £'000
Called up, allotted and fully paid		
1,897,032 (2012: 1,561,864) 'A' ordinary shares of £0.01 each	18	15
51,500 (2012: 51,500) ordinary shares of £0.01 each	1	1
	19	16

During the year 335,168 'A' ordinary shares with aggregate nominal value of £3,352 were issued for total consideration of £2,644,377.

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:

	2013 No.	2013 * WAEP £	2012 No.	2012 * WAEP £
Outstanding at beginning of year	424,034	24.19	518,530	27.12
Granted during the year	295,433	0.01	25,991	0.01
Exercised during the year	(268,032)	2.62	(120,487)	31.61
Cancelled during the year	-	-	-	-
Outstanding at end of year	451,435	21.17	424,034	24.19
Exercisable at end of year	411,735	23.21	384,334	26.68

* 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:

	2013 No.	2012 No.
Classified as debt (Liability on financial instruments in note 14)	164,058	115,147
Classified as equity	287,377	308,887
	451,435	424,034

All of the 295,435 warrants granted in the year (2012 - 25,991) vested immediately. In 2011, 39,700 of the warrants issued 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 2013 had a weighted average exercise price of £21.17 (2012 - £24.19) and a weighted average remaining contractual life of 2 years 6 months (2012 - 2 years 9 months). Warrants were granted in January 2013. The aggregate of the estimated fair values of the warrants granted is £1,000. The aggregate of the estimated fair values of warrants that were exercised during the year is £2,448,000. Warrants were granted in July during 2012. The aggregate of the estimated fair values of the warrants granted in 2012 was £1,720,000.

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:

	Jan-13	Jul-12	Other-11	Jan-11	Other-10
Weighted average share price	£0.01	£30.00	£30.00	£30.00	£32.50
Weighted average exercise price	£0.01	£0.01	£32.50	£0.01	£32.50
Expected volatility	56%	60%	60%	60%	60%
Expected life	1.8 years	10.0 years	3.0 years	3.0 years	5.0 years
Risk-free rate	2.00%	2.00%	2.00%	2.00%	2.00%
Expected dividend yield	-	-	-	-	-

	Apr-10	Mar-10	Nov-09	Jun-08	Sept-07
Weighted average share price	£30.00	£30.00	£30.00	£30.00	£30.00
Weighted average exercise price	£30.00	£30.00	£30.00	£30.00	£30.00
Expected volatility	60%	60%	60%	60%	60%
Expected life	3.0 years	5.0 years	3.0 years	5.0 years	5.0 years
Risk-free rate	2.00%	2.00%	2.00%	2.00%	2.00%
Expected dividend yield	-	-	-	-	-

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 £nil and £nil related to equity-settled share-based payment transactions in 2013 and 2012 respectively.

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.

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18. **CALLED UP SHARE CAPITAL (continued)**

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.

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.

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 2013	33,067	4,976	665	929	(37,914)
Loss for the year	-	-	-	-	(4,810)
Issue of shares	2,741	-	(665)	(612)	-
Share issue costs	19	-	-	-	-
At 31 December 2013	35,827	4,976	-	317	(42,724)
Company					
At 1 January 2013	33,067	1,057	665	929	(33,026)
Loss for the year	-	-	-	-	(2,160)
Issue of shares	2,741	-	(665)	(612)	-
Share issue costs	19	-	-	-	-
At 31 December 2013	35,827	1,057	-	317	(35,186)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

20. RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' (DEFICIT) FUNDS

	2013 £'000	2012 £'000
Retained loss for the year	(4,810)	(7,790)
Other recognised gains and losses	-	(165)
Issue of equity shares (net of share issue costs)	1,486	3,893
Reduction in Preference shares re sale of Inc.	-	(565)
Shares to be issued	-	514
Warrants issued	-	779
Movement in shareholders' funds	(3,324)	(3,334)
Opening shareholders' funds	1,739	5,073
Closing shareholders' (deficit) funds	(1,585)	1,739

21. MINORITY INTERESTS

	2013 £'000	2012 £'000
At 1 January 2013	-	46
Gain on ordinary activities after taxation	-	152
Disposal of subsidiary undertaking	-	(198)
At 31 December 2013	-	-

22. RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	2013 £'000	2012 £'000
Operating loss	(2,615)	(7,397)
Depreciation of tangible fixed assets	103	352
Amortisation of intangible assets	1,190	255
Impairment of goodwill	-	1,706
Share based payments	72	199
(Increase) decrease in stock	(11)	135
Decrease (increase) in debtors	1,401	(183)
(Decrease) increase in creditors	(2,066)	72
Decrease in provisions	-	(50)
Loss on disposal of fixed asset investment	-	19
Loss on fixed asset disposal	327	-
Impairment of goodwill	-	1,706
P&L impact of minority interests	-	(46)
Exchange movement	(2)	10
	(1,601)	(3,222)

23. ANALYSIS OF CASH FLOWS

	2013 £'000	2012 £'000
Returns on investments and servicing of finance:		
Bank interest received	29	-
Interest on other loans	(1,222)	(815)
Net cash outflow	(1,193)	(815)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(11)	(181)
Purchase of intangible fixed assets	(35)	(127)
Proceeds from sale of tangible fixed assets	-	54
Proceeds from sale of intangible fixed assets	-	17
Net cash outflows	(46)	(237)
Acquisitions and disposals:		
Purchase of Microgen Bioproducts Limited	-	(1,700)
Purchase of Plasmatec trade and assets	-	(200)
Disposal of certain business assets	3,839	-
Disposal of Lab21 Inc.	-	121
Net cash inflow (outflow)	3,839	(1,779)
Taxation:		
Corporation tax	299	129
Financing:		
Shares issued (net of expenses)	796	3,374
New loans	1,037	4,274
Invoice finance facility	(242)	300
Loan repayments	(2,636)	(1,644)
Finance lease repayments	-	(526)
Net cash (outflow) inflow	(1,045)	5,778

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For the year ended 31 December 2013

24. ANALYSIS AND RECONCILIATION OF NET DEBT

Group	At 1 January 2013 £'000	Net cash flow £'000	Non cash changes £'000	At 31 December 2013 £'000
Cash at bank	423	253	-	676
	423	253	-	676
Invoice finance facility	(366)	242	-	(124)
Other loans	(3,902)	1,598	(361)	(2,665)
	(3,845)	2,093	(361)	(2,113)
Liability on financial instruments	(1,357)	-	-	(1,357)
Accrued interest	(380)	-	(12)	(392)
	(5,582)	2,093	(373)	(3,862)

	2013 £'000	2012 £'000
Increase/(decrease) in cash in the year	253	(146)
Cash outflow (inflow) from decrease (increase) in debt	1,840	(1,760)
Change in net debt resulting from cash flows	2,093	(1,906)
Non cash changes	(373)	1,322
Movement in net debt in year	1,720	(584)
Net debt at beginning of year	(5,582)	(4,998)
Net debt at end of year	(3,862)	(5,582)

NOTES TO THE FINANCIAL STATEMENTS
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25. FINANCIAL COMMITMENTS

Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2013	2012
Group	**£'000**	**£'000**
Land and buildings, leases expiring:		
within one year	48	64
between one and two years	128	-
between two and five years	181	426
	357	490
Other, leases expiring:		
within one year	11	55
between one and two years	11	18
between two and five years	8	17
	30	90

	2013	2012
Company	**£'000**	**£'000**
Land and buildings, leases expiring:		
within one year	48	36
between two and five years	181	426
	229	462
Other, leases expiring:		
within one year	-	48
between one and two years	-	5
	-	53

Capital commitments

The group and company had no capital commitments contracted for but not provided at the year end (2012: none).

26. 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 fixed and floating charge over the majority of the Group's assets.

27. 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 2013 is £nil for the group (2012: £nil) and £nil for the company (2012: £nil).

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

	2013 No	2013 WAEP	2012 No	2012 WAEP
Outstanding at beginning of year	1,000	£20	1,000	£20
Exercisable at end of year	1,000	£20	1,000	£20

For the share options outstanding as at 31 December 2013, the weighted average remaining contractual life is 1.25 years (2012: 2.25 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

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27. 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 (2012: £nil) and £nil for the company (2012: £nil). The fair value applied to each restricted share was £30.

28. RELATED PARTY TRANSACTIONS

During the year the group received a charge of £16,000 (2012: £25,000) for consulting services provided by Merlin Scientific LLP, an entity in which CT Evans, a director of Lab21 Limited, has an interest.

29. SUBSEQUENT EVENTS

On 20 March 2014 EKF Diagnostics plc announced the acquisition of Selah Genomics Inc. This acquisition triggered a change of control in Selah Genomics Inc and resulted in the payment of a $1.14m promissory note to Lab21 Limited. The promissory note proceeds were received by Lab21 Limited on 28 April 2014.

On 9 May 2014 lab21 Limited made a prepayment of $1.14m to the term loan with Clydesdale Bank, which reduced the total capital outstanding to £0.7m.

30. ULTIMATE PARENT AND CONTROLLING PARTY

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