



15 September 2014

EKF Diagnostics Holdings plc
("EKF", the "Company" or the "Group")

Half Yearly Report

EKF Diagnostics Holdings plc (AIM: EKF), the point-of-care diagnostics business, announces its unaudited interim results for the six months ended 30 June 2014.

Financial Highlights

- Revenue up 12.6% to £16.77m (H1 2013: £14.89m)
 - *c. £1m negative effect of exchange rates*
 - *Underlying organic growth at constant currency rates of 3.4%*
- Adjusted EBITDA* up 4.7% to £2.22m (H1 2013: £2.12m)
- Cash at 30 June 2014 was £11.12m (31 Dec 2013: £2.55m), net cash of £5.2m
 - *after deferred consideration payments of £0.36m*
 - *after strategic investments of £0.90m*

* Before exceptional items and share based payments

Operational Highlights

- Point-of care product sales up 16% to £11.4m (H1 2013: £9.8m)
- Order for 1,900 Biosen analysers from China worth c €4m over 2.5 years
- Central Lab sales disproportionately impacted by exchange rates, but β -HB sales up 6% year-on-year
- Three value adding acquisitions to make a considerable contribution to future growth
- Technology transfer of Quo-Test and Quo-Lab to Barleben, Germany now completed
- First revenues from Molecular Diagnostics division and portfolio of tests in development

Commenting on outlook, David Evans, Executive Chairman of EKF, said:

"Whilst trading conditions continue to be challenging, the general outlook for the second half is very positive, not only in terms of operational improvements and the long term strategic positioning of the Group, but also in terms of the further organic growth we anticipate and the first full six month contribution from our recent acquisitions."

"We remain confident of meeting market expectations for the full year. Our focus in the second half and beyond is on rebuilding shareholder value. Form is temporary but class is permanent and we believe we have a first class offering."

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CHAIRMAN'S STATEMENT

Dear Fellow Shareholder,

I am pleased to present the results for the first half of 2014, a period which has seen the Group make very significant strategic and operational progress, whilst facing some challenges and setbacks.

Unaudited revenues for the six months ended 30 June 2014 were 12.6% ahead of the same period last year at £16.77m (H1 2013: £14.89m), despite the negative impact of exchange rates of circa £1m during the period. Unaudited adjusted EBITDA for the period was £2.22m, a marginal increase on the previous year (H1 2013: £2.12m); excluding the effect of exchange rates, adjusted EBITDA would have shown a c. 20% improvement on the same period last year.

Strategy, acquisitions, and investments

The first half of the year was shaped by the completion of three value-adding acquisitions; Separation Technology, Inc. (STI), DiaSpect Medical AB (DiaSpect), and Selah Genomics, Inc. (Selah). These acquisitions materially enhance the Company's overall product offering and are expected to make a considerable contribution to the future growth of the business.

STI, which was acquired in March for \$4.0m (£2.4m) in cash, is the manufacturer and supplier of a range of haematology and centrifuge instruments and their associated consumables. It is based in Sanford in Florida, USA, and previously formed part of a large US based life sciences company.

DiaSpect, acquired in April, has its head office in Sweden but its main operations are in Sailauf near Frankfurt in Germany. DiaSpect is the developer and supplier of a desktop and a handheld haematology instrument and their associated consumables. The instruments use reagentless cuvettes which give a faster result and are cheaper to produce than the standard cuvettes used by EKF's Hemo Control product which provides a competitive advantage in blood banks and emerging markets. DiaSpect was acquired for an initial sum of £16.0m, payable in cash and in shares, with up to a further £4.75m payable in cash depending on the achievement of a number of regulatory and performance milestones.

The STI and DiaSpect products have been integrated into our haematology point-of-care product group alongside the Hemo Control (H2 in the USA), giving us the most comprehensive range of haematology analysers of any manufacturer. Our international sales team has been trained and we are already beginning to see sales for these new products come through our pre-acquisition existing sales channels.

Selah, which is based in Greenville, South Carolina, was also acquired in April. It is a supplier of contract molecular testing services, and now forms part of our molecular division. The initial consideration for the acquisition was \$40m (£23.9m), of which \$35.6m (£21.3m) was paid in shares. Further amounts are payable of up to \$35m (£20.5m) in shares, contingent on the achievement of revenue targets.

During the period, EKF has also invested in Dx Economix Inc, a company which builds and implements market entry strategies for new or existing healthcare technology products. EKF will work closely with Dx Economix, strengthening a partnership that will create new market opportunities for the EKF products whilst offering both an economic benefit to the healthcare system as well as improved clinical benefit for the patient. EKF expects to start generating revenues from this relationship in early 2015. The initial investment is £0.75m. In addition we have invested £0.15m in a US based rapid diagnostics test company.

Operations

Point-of-care

EKF's range of Point-of-care products have performed well in the first half showing c. 16% sales growth on the previous comparable period (H1 2013: £9.8m) with further progress expected in the second half. As recently announced, the Company has gained an order for 1,900 glucose and lactate analysers (Biosen C-Line) to a new distribution partner in China, a deal worth approximately €4.0m (£3.2m) over a two and a half year period with potential for a further €2.0m (£1.6m) of consumable revenues. Following regulatory approval in China and Japan for our TS haemoglobin instrument, the prospects for growth across Asia, and particularly China, are encouraging.

The Company is also confident of securing tender wins in South America and in the area of WIC (Women, Infants and Children) health programmes before the end of the year. Furthermore, EKF expects contributions from new product launches scheduled for the second half, as well as benefits from the cross-selling of DiaSpect and STI products across the Group.

In addition, the second half will see the first full period impact of the operational benefits from the transfer of production of Quo-Test and Quo-Lab instruments and reagents cartridges to the Barleben manufacturing site.

Central laboratory

The first half for clinical chemistry products was more challenging and reflects the increasingly mature nature of this market. Whilst overall sales were down 18% to £4.1m (H1 2013: £5.0m), sales of our β -HB liquid reagent continued to perform well, up c. 6% year-on-year. Given the concentration of sales in the US this division was disproportionately impacted by the sterling / dollar exchange rates and the first half was subject to some issues on timing on Enzyme orders and orders from our Asian distributors. Over the full year the Company expects this division to continue to make a strong contribution to cash flow and to generate additional revenues from three new products that will be launched before the year end.

Molecular diagnostics

In May, not long after the completion of the acquisition of Selah, we announced that Palmetto GBA, the local Medicare Administrative Contractor which covers Selah, was significantly reducing the reimbursement level for Selah's DME panel, which represents a small part of Selah's potential. This was disappointing news which naturally raised questions from our shareholders over the acquisition and the due diligence process. A rigorous due diligence process was carried out using finance and legal teams, who have worked on a number of acquisitions for EKF as well as other businesses connected to the Directors, commercial due diligence by our own in-house team and by an internationally renowned industry specialist. Despite the reimbursement setback, the Directors believe that Selah will bring significant value to the Group through both the DME panel, the other products in its portfolio, and the potential synergies with the rest of our molecular business.

Despite the reduction in reimbursement levels for Selah's DME panel, EKF has benefitted from over £1.2m of sales from Selah in H1, the first material revenues recorded for the Molecular Diagnostics division. In addition, Selah has also recently launched a reimbursable Women's Health panel. The number of test samples is expected to increase in the second half, coming not only from the DME and Women's Health panels, but also from new products which the team has been working hard to deliver.

As a result of the previously announced reduction in reimbursement of the DME panel, Selah did not achieve their first quarter gross revenue target, as indicated in the Agreement and Plan Merger document dated 20 March 2014, hence no earn-out merger consideration is payable with respect to the first quarter of the first earn-out year.

The second half will also see the first, if modest, contribution to revenues from our oncology biomarkers. Significant progress has been made with PointMan and the detection of circulating tumour cells in whole blood. Following initial work with Swansea University, a successful collaboration with GILUPI in the area of lung and colorectal cancer marks a major step towards the routine and reliable detection of cancer cells in blood samples.

Board and management changes

In June we were very pleased to appoint Tito Bacarese-Hamilton as Chief Technical Officer. Tito was previously Vice President, R&D for New Products & Platforms at Lifescan Scotland Limited, part of Johnson & Johnson where he had global responsibility for the full-scale development and commercial launch of all new product platforms and was the main interface with manufacturing operations for the production of LifeScan's new, multi-product sensing platforms. We will benefit from his proven track record of developing innovative diagnostics technology into revenue-generating platforms.

Recently we have announced the appointment of two new Non-Executive Directors. David Toohey joined the corporate executive team of Inverness Medical (now Alere Inc) in 2001, taking a number of roles including VP New Products, President of Global Professional Diagnostics and President of International Business Operations. Doris-Ann Williams has been Chief Executive of the British In Vitro Diagnostics Association since October 2001 and has more than 30 years' experience working in the IVD sector. She has had a variety of experience, initially in R&D and subsequently in commercial roles including international responsibilities.

During the period Paul Foulger, Interim Finance Director, was appointed as Finance Director and Gordon Hall retired as a Director at the end of March. We thank Gordon for his service as a director and wish him well for the future.

In addition to these board level changes we have strengthened our team through a number of appointments to our new sales and business development positions, including new regional managers in Europe and in Asia, and a Manager of Distribution. In China, we have set up a regional representative office, led by the General Manager Asia.

Financial review

Revenue

Revenue has increased by 12.6% to £16.77m (H1 2013: £14.89m) of which £2.44m came from new acquisitions. On a constant exchange rate basis, the turnover would have been over £1m higher. Sales in Russia have been affected both by the exchange rate and by budget constraints within the Russian health system. Underlying organic growth on a constant exchange rate was 3.4% with revenues excluding contributions from acquisitions of £15.4m (H1 2013: £14.89m).

Margins

We achieved gross margins of 47% (H1 2013: 51%). This is largely as a result of product mix as well as the business method used at Selah whereby 50% of revenues are passed to our marketing partner and treated as cost of sales. This results in a lower margin for this business than our traditional business.

Adjusted EBITDA (before exceptional items and share based payments)

The Group continues to consider that adjusted earnings before interest, tax, depreciation and amortisation (AEBITDA) is the most meaningful measure of profitability at this stage of the Group's development. AEBITDA has increased marginally to £2.22m (H1 2013: £2.12m). This was impacted by exchange rates and the continued investment in sales and business development infrastructure.

Profit before tax and loss after tax

The Group has made a loss before tax of £2.47m. This is largely as a result of exceptional items, mainly the write-off of costs associated with the acquisitions made during the period, and the costs of transferring the Quotient business to Germany, and of increased amortisation of intangibles.

Balance sheet

The cash position of the Company remains strong, with unaudited cash balances as at 30 June 2014 of £11.1m (31 December 2013: £2.6m), and a net cash position of £5.2m. This reflects the £26m raised in April through an oversubscribed Placing and Offer, the payment of the cash considerations for the recent acquisitions, and the final deferred consideration payment made in relation to the acquisition of Quotient Diagnostics.

Outlook

Whilst trading conditions continue to be challenging, the general outlook for the second half is very positive, not only in terms of operational improvements and the long term strategic positioning of the Group, but also in terms of the further organic growth we anticipate and the first full six month contribution from our recent acquisitions.

Operational improvements

From an operational point of view we expect to see a significant uplift in the second half as we reap the full benefits of the newly transferred Quo-Test manufacturing line, which is now up and running in Barleben, as well as the margin benefits brought by the newly installed automated manufacturing line for Quo-Lab cartridges. As a result the second half will see full and uninterrupted contributions from these manufacturing lines. On top of this we are committing to a further €2m investment in the manufacturing infrastructure in Barleben, which will help drive further margin improvements and increase the throughput capacity of our haemoglobin offering to meet the demands of our growing customer base.

As part of the Group's integration process we are looking to further rationalise our current infrastructure and, following the transfer of manufacturing to Barleben, we have opted to reduce our presence in Ireland. This, plus the recent streamlining of Quotient based in Walton-on-Thames, will bring long-term efficiency savings.

We have also completed the integration of our sales teams following the recent acquisitions with all sales staff now fully trained on the entire EKF portfolio and we expect to see more cross-selling of products across the Group.

Organic growth & full H2 contribution from acquisitions

Whilst we recorded organic growth of 3.4% in the first half, excluding the impact of currency movement, we expect to deliver further growth in the second half through contribution from a number of factors. As mentioned above we received an order for 1,900 Biosen glucose and lactate analysers; 400 of these instruments will be shipped in the second half with the expectation of consumable sales to follow. In addition, we have a number of key tenders that we expect to conclude before the year end, including further potential orders from South America and also from Africa.

As well as the prospects for growth across Asia following the DiaSpect regulatory approvals in China and Japan we are close to finalising two distribution agreements for Quo-Lab in Asia which will see an uplift in distributor stocking orders once these conclude.

The second half will also see the full contribution of revenues from our three most recent acquisitions. This will also include new revenue lines generated from the recently launched DME and our new Women's Health panels, as well as other new products that will be launched in H2.

Long term strategic positioning of the Group

We have faced short-term headwinds following our recent acquisition of Selah. Those headwinds are being tackled through actions on the ground to replace the revenue shortfall and the panels mentioned above will contribute to this. Whilst the immediate-term revenue shortfall has undoubtedly had an impact on our market valuation, as well as a direct impact on the vendors' ability to meet their earn-out targets, the Directors believe that Selah adds considerable strategic value to the business in its own right as well as leveraging the PointMan technology through Selah. The combination of Selah and our PointMan technology will provide a very valuable offering for large pharmaceutical companies to find the best drug candidates in a much earlier phase of trial than before. PointMan has already proved its huge potential through our collaboration with GILUPI whereby our DNA enrichment capacity has shown that routine and reliable detection of cancer cells in blood is possible. We hope to be able to update shareholders on another significant collaboration which could see this goal become a reality. We are confident of the long-term strategic value of Selah and PointMan and we will focus on demonstrating this and converting this into results that deliver tangible shareholder value.

Given that focus, we are consciously not reviewing any acquisition opportunities in the short to medium term as we integrate our recent acquisitions and demonstrate that they are value accretive.

As I've said earlier, trading conditions in our markets continue to be challenging but I am confident that we can rise to that challenge and that the second half will show a considerable uplift from the first half due to the factors listed above. We have minimised the risk to the business of changing reimbursement rates in the US due to a widening of our portfolio of panels and like all companies trading in Russia we have no control over the deteriorating economic conditions but we are taking measures to minimise the effect on our business.

That said, we must look at EKF as a whole and we remain confident of meeting market expectations for the full year. Our focus in the second half and beyond is on rebuilding shareholder value. Form is temporary but class is permanent and we believe we have a first class offering.

David Evans
Executive Chairman

**CONSOLIDATED INCOME STATEMENT
FOR THE 6 MONTHS ENDED 30 JUNE 2014**

| | Notes | Unaudited 6 months ended 30 June 2014 £'000 | Unaudited 6 months ended 30 June 2013 £'000 | Audited Year ended 31 December 2013 £'000 |
|--|-------|---|---|---|
| Continuing operations | | | | |
| Revenue | 3 | 16,766 | 14,887 | 31,804 |
| Cost of sales | | (8,854) | (7,239) | (15,459) |
| Gross profit | | 7,912 | 7,648 | 16,345 |
| Administrative expenses | | (9,952) | (7,110) | (14,439) |
| Other income | | 168 | 121 | 495 |
| Operating (loss)/profit | | (1,872) | 659 | 2,401 |
| Depreciation and amortisation | | (2,326) | (1,744) | (3,554) |
| Share based payments | | (273) | (231) | (709) |
| Exceptional items | 4 | (1,489) | 510 | 1,840 |
| EBITDA before exceptional items and share based payments | | 2,216 | 2,124 | 4,824 |
| Finance income | | 4 | 3 | 5 |
| Finance costs | | (600) | (471) | (1,799) |
| (Loss)/profit before income tax | | (2,468) | 191 | 607 |
| Income tax charge | 5 | (159) | (1,134) | (1,500) |
| Loss for the period | | (2,627) | (943) | (893) |
| (Loss)/profit attributable to: | | | | |
| Owners of the parent | | (2,718) | (1,019) | (1,126) |
| Non-controlling interest | | 91 | 76 | 233 |
| | | (2,627) | (943) | (893) |
| Loss per ordinary share from operations attributable to the equity holders of the company during the period | | | | |
| | 6 | | | |
| | | Pence | Pence | Pence |
| Basic | | | | |
| <i>From continuing operations</i> | | (0.81) | (0.38) | (0.41) |
| Diluted | | | | |
| <i>From continuing operations</i> | | (0.81) | (0.36) | (0.41) |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 6 MONTHS ENDED 30 JUNE 2014**

| | Unaudited 6 months ended 30 June 2014 £'000 | Unaudited 6 months ended 30 June 2013 £'000 | Audited Year ended 31 December 2013 £'000 |
|---|---|---|--|
| Loss for the period | <u>(2,627)</u> | <u>(943)</u> | <u>(893)</u> |
| Other comprehensive income: | | | |
| Actuarial gain on pension scheme | - | - | 9 |
| Currency translation differences | <u>(2,658)</u> | <u>1,713</u> | <u>199</u> |
| Other comprehensive income for the period | <u>(2,658)</u> | <u>1,713</u> | <u>208</u> |
| Total comprehensive (loss)/profit for the period | <u>(5,285)</u> | <u>770</u> | <u>(685)</u> |
| Attributable to: | | | |
| Owners of the parent | <u>(5,344)</u> | <u>693</u> | <u>(881)</u> |
| Non-controlling interests | <u>59</u> | <u>77</u> | <u>196</u> |
| | <u>(5,285)</u> | <u>770</u> | <u>(685)</u> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

| | Notes | Unaudited as at 30 June 2014 £'000 | Unaudited as at 30 June 2013 £'000 | Audited as at 31 December 2013 £'000 |
|--------------------------------------|-------|---|--|--|
| Assets | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | | 10,137 | 9,971 | 9,785 |
| Intangibles | 7 | 96,258 | 36,605 | 34,725 |
| Investments | | 1,152 | 250 | 250 |
| Deferred tax assets | | 862 | 977 | 903 |
| Total non-current assets | | 108,409 | 47,803 | 45,663 |
| Current Assets | | | | |
| Inventories | | 6,414 | 5,691 | 5,308 |
| Trade and other receivables | | 9,915 | 5,342 | 7,155 |
| Deferred tax assets | | 44 | 47 | 46 |
| Cash and cash equivalents | | 11,122 | 3,138 | 2,551 |
| Total current assets | | 27,495 | 14,218 | 15,060 |
| Total assets | | 135,904 | 62,021 | 60,723 |
| Equity attributable to owners | | | | |
| Ordinary shares | | 4,221 | 2,728 | 2,727 |
| Share premium account | | 91,276 | 41,783 | 41,783 |
| Other reserve | | 41 | 41 | 41 |
| Foreign currency reserves | | (3,240) | 645 | (725) |
| Retained earnings | | (5,968) | (3,686) | (3,412) |
| | | 86,330 | 41,511 | 40,414 |
| Non-controlling interest | | 397 | 389 | 508 |
| Total equity | | 86,727 | 41,900 | 40,922 |
| Liabilities | | | | |
| Non-current liabilities | | | | |
| Borrowings | | 2,235 | 2,234 | 2,108 |
| Deferred consideration | | 16,803 | 5,237 | 5,471 |
| Deferred tax liability | | 15,849 | 3,911 | 3,442 |
| Retirement benefit obligation | | 115 | 128 | 103 |
| Total non-current liabilities | | 35,002 | 11,510 | 11,124 |
| Current liabilities | | | | |
| Trade and other payables | | 6,057 | 4,879 | 4,189 |
| Deferred consideration | | 2,829 | 2,132 | 1,778 |
| Current income tax liabilities | | 1,535 | 1,103 | 1,998 |
| Deferred tax liabilities | | 66 | 241 | 380 |
| Borrowings | | 3,688 | 256 | 332 |
| Total current liabilities | | 14,175 | 8,611 | 8,677 |
| Total liabilities | | 49,177 | 20,121 | 19,801 |
| Total equity and liabilities | | 135,904 | 62,021 | 60,723 |

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 6 MONTHS ENDED 30 JUNE 2014**

| | Unaudited 6 months ended 30 June 2014 £'000 | Unaudited 6 months ended 30 June 2013 £'000 | Audited Year to 31 December 2013 £'000 |
|---|---|---|--|
| Cash flow from operating activities | | | |
| (Loss)/profit before income tax | (2,468) | 191 | 607 |
| Adjustments for | | | |
| - Restructuring of UK operations | 680 | - | (334) |
| - Warranty claim in relation to EKF-diagnostic | - | (595) | (1,241) |
| - Depreciation | 624 | 654 | 1,304 |
| - Amortisation and impairment charges | 1,702 | 1,090 | 3,000 |
| - Release of deferred consideration | - | - | (1,108) |
| - Fair value adjustment | - | - | 750 |
| - Loss/(profit)/ on disposal of assets | - | 18 | (8) |
| - Share-based payments | 273 | 231 | 709 |
| - Net finance costs | 596 | 468 | 1,044 |
| Changes in working capital | | | |
| - Inventories | 119 | (529) | (298) |
| - Trade and other receivables | (1,424) | (683) | (1,930) |
| - Trade and other payables | (2,028) | 719 | 677 |
| Cash generated by operations | (1,926) | 1,564 | 3,172 |
| Interest paid | (136) | (54) | (152) |
| Income tax paid | (1,255) | (503) | (1,013) |
| Net cash (used in)/generated by operating activities | (3,317) | 1,007 | 2,007 |
| Cash flow from investing activities | | | |
| Acquisition of investments | (902) | - | - |
| Purchase of property, plant and equipment (PPE) | (898) | (293) | (1,185) |
| Purchase of intangibles | (702) | (630) | (1,097) |
| Proceeds from sale of PPE | 290 | 127 | 61 |
| Acquisition of subsidiaries (net of cash acquired) | (12,379) | - | - |
| Interest received | 4 | 3 | 5 |
| Net cash used in investing activities | (14,587) | (793) | (2,216) |
| Cash flow from financing activities | | | |
| Proceeds from issuance of ordinary shares | 25,007 | - | - |
| New borrowings | 1,895 | 212 | 477 |
| Repayment of borrowings | - | (149) | (439) |
| Dividends paid to non-controlling interests | (170) | (169) | (169) |
| Repayment of deferred consideration | (355) | (1,429) | (1,429) |
| Net cash generated by /(used in) by financing activities | 26,377 | (1,535) | (1,560) |
| Net increase/(decrease) in cash and cash equivalents | 8,473 | (1,321) | (1,769) |
| Cash and cash equivalents at beginning of period | 2,551 | 4,331 | 4,331 |
| Exchange gains/(losses) on cash and cash equivalents | 98 | 128 | (11) |
| Cash and cash equivalents at end of period | 11,122 | 3,138 | 2,551 |

STATEMENT OF CHANGES IN EQUITY
FOR THE 6 MONTHS ENDED 30 JUNE 2014

| | Share Capital | Share Premium | Other Reserve | Foreign Currency Reserve | Retained earnings | Total | Non- controlling interest | Total equity |
|---|------------------|------------------|------------------|--------------------------------|----------------------|----------------|---------------------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2013 | 2,671 | 40,240 | - | (961) | (3,004) | 38,946 | 481 | 39,427 |
| Comprehensive income | | | | | | | | |
| (Loss)/profit for the period | - | - | - | - | (1,019) | (1,019) | 76 | (943) |
| Other comprehensive income | | | | | | | | |
| Currency translation differences | - | - | - | 1,606 | 106 | 1,712 | 1 | 1,713 |
| Total comprehensive income | - | - | - | 1,606 | (913) | 693 | 77 | 770 |
| Transactions with owners | | | | | | | | |
| Proceeds from shares issued | 57 | 1,543 | - | - | - | 1,600 | - | 1,600 |
| Issue of convertible loan notes in subsidiary | - | - | 41 | - | - | 41 | - | 41 |
| Dividends to non-controlling interest | - | - | - | - | - | - | (169) | (169) |
| Share based payment | - | - | - | - | 231 | 231 | - | 231 |
| Total contributions by and distributions to owners | 57 | 1,543 | 41 | - | 231 | 1,872 | (169) | 1,703 |
| At 30 June 2013 | 2,728 | 41,783 | 41 | 645 | (3,686) | 41,511 | 389 | 41,900 |
| Comprehensive income | | | | | | | | |
| (Loss)/profit for the period | - | - | - | - | (107) | (107) | 157 | 50 |
| Other comprehensive income | | | | | | | | |
| Actuarial gain on pension | - | - | - | - | 9 | 9 | - | 9 |
| Currency translation differences | - | - | - | (1,370) | (106) | (1,476) | (38) | (1,514) |
| Total comprehensive income | - | - | - | (1,370) | (204) | (1,574) | 119 | (1,455) |
| Transactions with owners | | | | | | | | |
| Proceeds from shares issued* | (1) | - | - | - | - | (1) | - | (1) |
| Dividends to non-controlling interest | - | - | - | - | - | - | - | - |
| Share based payment | - | - | - | - | 478 | 478 | - | 478 |
| Total contributions by and distributions to owners | (1) | - | - | - | 478 | 477 | - | 477 |
| At 31 December 2013 | 2,727 | 41,783 | 41 | (725) | (3,412) | 40,414 | 508 | 40,922 |
| Comprehensive income | | | | | | | | |
| Loss for the period | - | - | - | - | (2,718) | (2,718) | 91 | (2,627) |
| Other comprehensive income | | | | | | | | |
| Currency translation differences | - | - | - | (2,515) | (111) | (2,626) | (32) | (2,658) |
| Total comprehensive income | - | - | - | (2,515) | (2,829) | (5,344) | 59 | (5,285) |
| Transactions with owners | | | | | | | | |
| Proceeds from shares issued | 1,494 | 49,493 | - | - | - | 50,987 | - | 50,987 |
| Dividends to non-controlling interest | - | - | - | - | - | - | (170) | (170) |
| Share based payment | - | - | - | - | 273 | 273 | - | 273 |
| Total contributions by and distributions to owners | 1,494 | 49,493 | - | - | 273 | 51,260 | (170) | 51,090 |
| At 30 June 2014 | 4,221 | 91,276 | 41 | (3,240) | (5,968) | 86,330 | 397 | 86,727 |

* Rounding adjustment

NOTES FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

1. General information and basis of presentation

EKF Diagnostics Holdings plc is a public limited company incorporated in the United Kingdom (Registration Number 04347937). The address of the registered office is Avon House, 19 Stanwell Road, Penarth, CF64 2EZ.

The Group's principal activity continues to be that of a business focused within the In-Vitro Diagnostics devices ("IVD") market place.

The financial information in these interim results is that of the holding company and all of its subsidiaries. It has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards as adopted for use in the EU (IFRSs). The accounting policies applied by the Group in this financial information are the same as those applied by the Group in its financial statements for the year ended 31 December 2013 and which will form the basis of the 2014 financial statements except for a number of new and amended standards which have become effective since the beginning of the previous financial year. These new and amended standards are not expected to materially affect the Group.

The financial information presented herein does not constitute full statutory accounts under Section 434 of the Companies Act 2006 and was not subject to a formal review by the auditors. The financial information in respect of the year ended 31 December 2013 has been extracted from the statutory accounts which have been delivered to the Registrar of Companies. The Group's Independent Auditor's report on those accounts was unqualified, did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006. The financial information for the half years ended 30 June 2014 and 30 June 2013 is unaudited and the twelve months to 31 December 2013 is audited.

These interim accounts have not been prepared in accordance with IAS 34.

2. Significant accounting policies

Intangible Assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill has an infinite useful life and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(b) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licenses acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives of between 8 to 12 years and is charged to administrative expenses in the income statement.

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of between 6 to 15 years and is charged to administrative expenses in the income statement.

(d) Trade secrets

Trade secrets, includes technical knowhow, operating procedures, methods and processes, acquired in a business combination are recognised at fair value at the acquisition date. Trade secrets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trade secrets over their estimated useful lives of between 6 to 15 years and is charged to administrative expenses in the income statement.

(e) Research and Development costs

Research and development costs acquired in a business combination are recognised at fair value at the acquisition date. Research and development costs have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 15 years and is charged to administrative expenses in the income statement.

Expenditure incurred on the development of new or substantially improved products or processes is capitalised, provided that the related project satisfies the criteria for capitalisation, including the project's technical feasibility and likely commercial benefit. All other research and development costs are expensed as incurred.

Development costs are amortised over the estimated useful life of the products with which they are associated. Amortisation commences when a new product is in commercial production. The amortisation is charged to administrative expenses in the income statement. The estimated remaining useful lives of development costs are reviewed at least on an annual basis.

The carrying value of capitalised development costs is reviewed for potential impairment at least annually and if a product becomes unviable and an impairment is identified the deferred development costs are immediately charged to the income statement.

(f) Non-Compete clauses

Non-compete clauses included in contracts for business combinations are recognised at fair value at the acquisition date. Non-compete clauses have a finite useful life and are carried at fair value less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the value of non-compete clauses over their estimated useful lives of 3 years and is charged to administrative expenses in the income statement.

Inventories

Inventories and work in progress are stated at the lower of cost and net realisable value. Cost is calculated on a first in and first out basis and includes raw materials, direct labour, other direct costs and attributable production overheads, where appropriate. Net realisable value represents the estimated selling price less all estimated costs of completion and applicable selling costs. Where necessary, provision is made for slow moving and obsolete inventory. Inventory on consignment and their related obligations are recognised in current assets and payables respectively.

Provisions

Provision for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. Restructuring provisions are recognised where the restructuring has been announced prior to the end of the reporting period. Restructuring costs include the costs of redundancy, outplacement fees and relocation where appropriate.

Provision is made for product warranty claims to the extent that the Group has a current obligation under warranties given. Warranty accruals are based on historic warranty claims experience. Provisions are discounted to their present value where the impact is significant.

Employee benefits

Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments of the Group. Equity-settled share-based payments are measured at fair value at the date of grant and are expensed over the vesting period based on the number of instruments that are expected to vest. For plans where vesting conditions are based on share price targets, the fair value at the date of grant reflects these conditions. Where applicable the Group recognises the impact of revisions to original estimates in the income statement, with a corresponding adjustment to equity for equity-settled schemes. Fair values are measured using appropriate valuation models, taking into account the terms and conditions of the awards.

When the share based payment awards are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Revenue recognition

(a) Sale of goods and services

Revenue for the sale of medical diagnostic instruments and reagents is measured at the fair value of the consideration received or receivable and represents the invoiced value for the sale of the goods and services net of sales taxes, rebates and discounts. Revenue from the sale of goods is recognised when a Group Company has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Exceptional items

These are items of an unusual or non-recurring nature incurred by the Group and include the estimated effect of a warranty claim, transactional costs relating to business combinations and in prior periods profits on disposal of listed securities, and the one off effect of a litigation settlement.

3. Segmental reporting

Management has determined the Group's operating segments based on the monthly management reports presented to the Chief Operating Decision Maker ('CODM'). The CODM is the Executive Directors and the monthly management reports are used by the Group to make strategic decisions and allocate resources.

The principal activity of the Group is the design, development, manufacture and selling of diagnostic instruments, reagents and certain ancillary products. This activity takes place across various countries, US, Germany, Poland, Russia, United Kingdom and Ireland, and as such the Board considers the business primarily from a geographic perspective. Although not all the segments meet the quantitative thresholds required by IFRS 8, management has concluded that given the recent acquisitions, all segments should be maintained and reported, given potential future growth of the segments.

The reportable segments derive their revenue primarily from the manufacture and sale of medical diagnostic equipment. Other services include the servicing and distribution of other Company products under separate distribution agreements.

Currently the key operating performance measures used by the CODM are Revenue and adjusted EBITDA.

The segment information provided to the Board for the reportable segments is as follows:

Period ended 30 June 2014 unaudited

| | Germany | UK | USA | Ireland | Poland | Russia | Other | Total |
|-------------------------------------|----------------|----------------|---------------|----------------|---------------|---------------|----------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income statement | | | | | | | | |
| Revenue | 6,541 | 2,538 | 9,813 | 189 | 712 | 1,493 | (4,520) | 16,766 |
| Inter segment | (2,662) | (1,847) | (7) | - | (4) | - | 4,520 | - |
| External revenue | 3,879 | 691 | 9,806 | 189 | 708 | 1,493 | - | 16,766 |
| Adjusted EBITDA | 1,793 | 133 | 1,775 | (385) | 338 | 315 | (1,753) | 2,216 |
| Share based payment | - | - | - | - | - | - | (273) | (273) |
| Exceptional items | (81) | (677) | - | - | - | - | (731) | (1,489) |
| EBITDA | 1,712 | (544) | 1,775 | (385) | 338 | 315 | (2,757) | 454 |
| Depreciation | (313) | (68) | (172) | (9) | (18) | (11) | (33) | (624) |
| Amortisation | (508) | (288) | (721) | (109) | (57) | (19) | - | (1,702) |
| Operating profit/(loss) | 891 | (900) | 882 | (503) | 263 | 285 | (2,790) | (1,872) |
| Net finance costs | (26) | (288) | (134) | - | - | - | (148) | (596) |
| Income tax | (59) | 183 | 272 | 118 | (34) | (49) | (590) | (159) |
| Profit/(loss) for the period | 806 | (1,005) | 1,020 | (385) | 229 | 236 | (3,528) | (2,627) |
| Segment assets | | | | | | | | |
| Operating assets | 22,932 | 18,645 | 39,667 | 2,331 | 1,055 | 1,014 | 67,975 | 153,619 |
| Inter segment assets | (559) | (2,049) | - | - | - | - | (26,229) | (28,837) |
| External operating assets | 22,373 | 16,596 | 39,667 | 2,331 | 1,055 | 1,014 | 41,746 | 124,782 |
| Cash and cash equivalents | 687 | 105 | 1,895 | 78 | 407 | 455 | 7,495 | 11,122 |
| Total assets | 23,060 | 16,701 | 41,562 | 2,409 | 1,462 | 1,469 | 49,241 | 135,904 |
| Segment liabilities | | | | | | | | |
| Operating liabilities | 9,325 | 11,298 | 19,964 | 461 | 62 | 185 | 30,535 | 71,830 |
| Inter segment liabilities | (5,556) | (7,217) | (15,858) | - | 55 | - | - | (28,576) |
| External operating liabilities | 3,769 | 4,081 | 4,106 | 461 | 117 | 185 | 30,535 | 43,254 |
| Borrowings | 650 | - | 2,140 | - | - | - | 3,133 | 5,923 |
| Total liabilities | 4,419 | 4,081 | 6,246 | 461 | 117 | 185 | 33,668 | 49,177 |
| Other segmental information | | | | | | | | |
| Non current assets – PPE | 4,048 | 158 | 4,261 | 14 | 179 | 88 | 1,389 | 10,137 |
| Non current assets – Intangibles | 8,860 | 11,079 | 11,041 | 1,702 | 560 | 291 | 62,725 | 96,258 |

Year ended December 2013 audited

| | Germany | UK | USA | Ireland | Poland | Russia | Other | Total |
|------------------------------------|---------------|----------------|---------------|--------------|--------------|--------------|----------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income statement | | | | | | | | |
| Revenue | 13,091 | 3,143 | 17,338 | 389 | 1,241 | 3,900 | - | 39,102 |
| Inter segment | (6,191) | (1,099) | - | - | (8) | - | - | (7,298) |
| External revenue | 6,900 | 2,044 | 17,338 | 389 | 1,233 | 3,900 | - | 31,804 |
| Adjusted EBITDA* | 3,492 | (1,341) | 4,576 | 237 | 418 | 746 | (3,304) | 4,824 |
| Exceptional items | 1,575 | 757 | 258 | - | - | - | - | 2,590 |
| Share based payment | - | - | - | - | - | - | (709) | (709) |
| EBITDA | 5,067 | (584) | 4,834 | 237 | 418 | 746 | (4,013) | 6,705 |
| Depreciation | (662) | (180) | (299) | (45) | (38) | (15) | (65) | (1,304) |
| Exceptional impairment | - | - | - | (750) | - | - | - | (750) |
| Amortisation | (650) | (495) | (728) | (218) | (118) | (41) | - | (2,250) |
| Operating profit/(loss) | 3,755 | (1,259) | 3,807 | (776) | 262 | 690 | (4,078) | 2,401 |
| Net finance costs | (247) | (488) | (256) | - | (1) | - | (802) | (1,794) |
| Income tax | (1,115) | 179 | (540) | 131 | (36) | (131) | 12 | (1,500) |
| Profit/(loss) for the year | 2,393 | (1,568) | 3,011 | (645) | 225 | 559 | (4,868) | (893) |
| Segment assets | | | | | | | | |
| Operating assets | 16,858 | 14,147 | 21,101 | 2,347 | 1,136 | 1,052 | 26,325 | 82,966 |
| Inter-segment assets | (314) | (43) | - | - | - | - | (24,437) | (24,794) |
| External operating assets | 16,544 | 14,104 | 21,101 | 2,347 | 1,136 | 1,052 | 1,888 | 58,172 |
| Cash and cash equivalents | 1,123 | 244 | 42 | - | 256 | 727 | 159 | 2,551 |
| Total assets | 17,667 | 14,348 | 21,143 | 2,347 | 1,392 | 1,779 | 2,047 | 60,723 |
| Segment liabilities | | | | | | | | |
| Operating liabilities | 7,335 | 9,891 | 13,525 | 402 | (126) | 179 | 6,962 | 38,168 |
| Inter-segment liabilities | (4,663) | (6,350) | (9,981) | - | 187 | - | - | (20,807) |
| External operating liabilities | 2,672 | 3,541 | 3,544 | 402 | 61 | 179 | 6,962 | 17,361 |
| Borrowings | 481 | 166 | 1,789 | - | 4 | - | - | 2,440 |
| Total liabilities | 3,153 | 3,707 | 5,333 | 402 | 65 | 179 | 6,962 | 19,801 |
| Other segmental information | | | | | | | | |
| Non current assets – PPE | 3,386 | 688 | 3,769 | 23 | 206 | 87 | 1,626 | 9,785 |
| Non current assets – Intangibles | 9,188 | 11,068 | 11,758 | 1,738 | 642 | 331 | - | 34,725 |
| Non-current assets - additions | 1,034 | 5,851 | 78 | 394 | 19- | 77 | 27 | 7,480 |

Period ended 30 June 2013 unaudited

| | Germany | UK | USA | Ireland | Poland | Russia | Other | Total |
|-------------------------------------|---------------|--------------|---------------|--------------|--------------|--------------|----------------|---------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income statement | | | | | | | | |
| Revenue | 6,404 | 1,567 | 8,141 | 188 | 532 | 1,578 | - | 18,410 |
| Inter segment | (2,960) | (558) | - | - | (5) | - | - | (3,523) |
| External revenue | 3,444 | 1,009 | 8,141 | 188 | 527 | 1,578 | - | 14,887 |
| Adjusted EBITDA | 1,652 | 39 | 2,238 | (505) | 155 | 244 | (1,699) | 2,124 |
| Share based payment | - | - | - | - | - | - | (231) | (231) |
| Exceptional items | - | - | - | - | - | - | 510 | 510 |
| EBITDA | 1,652 | 39 | 2,238 | (505) | 155 | 244 | (1,420) | 2,403 |
| Depreciation | (329) | (93) | (150) | (23) | (19) | (7) | (33) | (654) |
| Amortisation | (311) | (121) | (397) | (110) | (58) | (22) | (71) | (1,090) |
| Operating profit/(loss) | 1,012 | (175) | 1,691 | (638) | 78 | 215 | (1,524) | 659 |
| Net finance costs | (110) | - | (134) | - | (1) | - | (223) | (468) |
| Income tax | (728) | 22 | (338) | - | (11) | (40) | (39) | (1,134) |
| Profit/(loss) for the period | 174 | (153) | 1,219 | (638) | 66 | 175 | (1,786) | (943) |
| Segment assets | | | | | | | | |
| Operating assets | 16,762 | 8,912 | 21,963 | 3,046 | 1,229 | 1,136 | 32,673 | 85,721 |
| Inter segment assets | (452) | (173) | - | - | - | - | (26,313) | (26,838) |
| External operating assets | 16,310 | 8,739 | 21,963 | 3,046 | 1,229 | 1,136 | 6,460 | 58,883 |
| Cash and cash equivalents | 1,890 | 246 | 118 | 114 | 179 | 498 | 93 | 3,138 |
| Total assets | 18,200 | 8,985 | 22,081 | 3,160 | 1,408 | 1,634 | 6,801 | 62,269 |
| Segment liabilities | | | | | | | | |
| Operating liabilities | 9,512 | 5,447 | 15,216 | 426 | 61 | 280 | 9,292 | 40,234 |
| Inter segment liabilities | (6,087) | (5,042) | (11,458) | - | (16) | - | - | (22,603) |
| External operating liabilities | 3,425 | 405 | 3,758 | 426 | 45 | 280 | 9,292 | 17,631 |
| Borrowings | 400 | - | 1,920 | - | 7 | - | 163 | 2,490 |
| Total liabilities | 3,825 | 405 | 5,678 | 426 | 52 | 280 | 9,455 | 20,121 |
| Other segmental information | | | | | | | | |
| Non current assets – PPE | 3,047 | 730 | 4,229 | 45 | 221 | 40 | 1,659 | 9,971 |
| Non current assets – Intangibles | 9,721 | 5,854 | 13,206 | 2,438 | 691 | 383 | 4,312 | 36,605 |

*- Adjusted EBITDA excludes exceptional items and share based payments

Other primarily relates to the Holding company and to molecular diagnostics.

Disclosure of Group revenues by geographic location

| | Unaudited 6 months ended 30 June 2014 £000 | Unaudited 6 months ended 30 June 2013 £000 | Audited Year ended 31 December 2013 £000 |
|---|--|--|--|
| Americas | | | |
| United States of America | 5,403 | 4,489 | 9,873 |
| Rest of Americas | 3,431 | 2,014 | 5,189 |
| Europe, Middles East and Africa (EMEA) | | | |
| Germany | 2,343 | 2,202 | 4,002 |
| United Kingdom | 140 | 289 | 251 |
| Rest of Europe | 1,518 | 1,367 | 2,702 |
| Russia | 1,504 | 1,591 | 3,905 |
| Middle East | 362 | 328 | 763 |
| Africa | 662 | 630 | 1,114 |
| Rest of World | | | |
| China | 615 | 919 | 2,050 |
| Rest of Asia | 814 | 1,035 | 1,913 |
| New Zealand/Australia | 23 | 23 | 42 |
| | <u>16,766</u> | <u>14,887</u> | <u>31,804</u> |

4. Exceptional items

Included within administration expenses and cost of sales are exceptional items as shown below:

| | Note | Unaudited 6 months ended 30 June 2014 £000 | Unaudited 6 months ended 30 June 2013 £000 | Audited year ended 31 December 2013 £000 |
|---|------|--|--|---|
| Exceptional items includes: | | | | |
| - Transaction costs relating to business combinations | | (809) | (85) | (93) |
| - Business reorganisation costs | a | (759) | - | - |
| - Warranty claim | b | - | 595 | 1,241 |
| - Exceptional release of provision | b | - | - | 334 |
| - Impairment charges | c | - | - | (750) |
| - Release of deferred consideration provisions | d | 79 | - | 1,108 |
| Exceptional items – continuing | | <u>(1,489)</u> | <u>510</u> | <u>1,840</u> |

- (a) Costs associated with the transfer of production of Quo-Test and Quo-Lab from the UK to Germany
- (b) Estimated warranty claim in relation to the acquisition of EKF-diagnostic GmbH and the release of a previously held provision associated with the tax claim.
- (c) Impairment of goodwill associated with EKF Diagnostics Limited, Ireland.
- (d) Release of deferred consideration provisions associated with Stanbio Laboratory LP and Quotient Diagnostics Limited

5. Income tax charge/(credit)

| | Unaudited 6 months ended 30 June 2014 £000 | Unaudited 6 months ended 30 June 2013 £000 | Audited Year ended 31 December 2013 £000 |
|---|--|--|--|
| Current tax | | | |
| Current tax on loss for the period | 651 | 1,403 | 1,602 |
| Adjustments for prior periods | <u>(194)</u> | - | <u>1,022</u> |
| Total current tax | <u>457</u> | <u>1,403</u> | <u>2,624</u> |
| Deferred tax | | | |
| Origination and reversal of temporary differences | (308) | (89) | (701) |
| Adjustment arising in previous period | 10 | - | - |
| Impact of deferred tax rate change | <u>-</u> | <u>(180)</u> | <u>(423)</u> |
| | <u>(298)</u> | <u>(269)</u> | <u>(1,124)</u> |
| Income tax charge | <u>159</u> | <u>1,134</u> | <u>1,500</u> |

6. (Loss)/profit per share

Basic (loss)/profit per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary share: equity based long term incentive plans, equity based bonus incentive plans and share options.

| | Unaudited 6 months ended 30 June 2014 £'000 | Unaudited 6 months ended 30 June 2013 £'000 | Audited year ended 31 December 2013 £'000 |
|--|---|---|---|
| (Loss)/profit attributable to owners of the parent | (2,718) | (1,019) | (1,126) |
| Weighted average number of ordinary shares in issue | 336,507,224 | 270,657,251 | 271,695,776 |
| Effect of dilutive potential ordinary shares | <u>15,558,727</u> | <u>13,855,246</u> | <u>14,606,988</u> |
| Weighted average number of ordinary shares – diluted | <u>352,065,951</u> | <u>284,512,497</u> | <u>286,302,764</u> |
| | Pence | Pence | Pence |
| Basic | | | |
| (Loss)/profit per share from continuing operations | <u>(0.81)</u> | <u>(0.38)</u> | <u>(0.41)</u> |
| | Pence | Pence | Pence |
| Diluted | | | |
| (Loss)/profit per share from continuing operations | <u>(0.81)</u> | <u>(0.38)</u> | <u>(0.41)</u> |

The potential shares are not dilutive as the Group has made a loss per share.

7. Intangible Fixed Assets

| Group | Goodwill £'000 | Trademarks trade names & licences £'000 | No n- compet e £'000 | Customer relationships £'000 | Trade secrets £'000 | Develop- ment costs £'000 | Total £'000 |
|----------------------------|-------------------|--|----------------------------------|------------------------------------|---------------------------|------------------------------------|----------------|
| Cost | | | | | | | |
| At 1 January 2013 | 13,442 | 1,575 | - | 8,612 | 9,548 | 1,788 | 34,965 |
| Additions | 291 | 11 | 70 | - | 3,950 | 619 | 4,941 |
| Exchange differences | 588 | 98 | - | 511 | 402 | 73 | 1,672 |
| At 30 June 2013 | 14,321 | 1,684 | 70 | 9,123 | 13,900 | 2,480 | 41,578 |
| Transfer in | - | - | - | - | - | 114 | 114 |
| Additions | 887 | 25 | - | - | - | 442 | 1,354 |
| Exchange differences | (567) | (113) | - | (644) | (248) | (60) | (1,632) |
| At 31 December 2013 | 14,641 | 1,596 | 70 | 8,479 | 13,652 | 2,976 | 41,414 |
| Additions | 29,822 | 2,330 | - | 20,456 | 11,932 | 1,059 | 65,559 |
| Exchange differences | (1,110) | (111) | - | (793) | (572) | (30) | (2,616) |
| At 30 June 2014 | 43,353 | 3,815 | 70 | 28,142 | 25,012 | 4,005 | 104,397 |
| Amortisation | | | | | | | |
| At 1 January 2013 | - | 261 | - | 1,323 | 2,000 | 131 | 3,715 |
| Exchange differences | - | 14 | - | 62 | 88 | 4 | 168 |
| Charge for the year | - | 82 | 6 | 421 | 520 | 61 | 1,090 |
| At 30 June 2013 | - | 357 | 6 | 1,806 | 2,608 | 196 | 4,973 |
| Exchange differences | - | 10 | - | (80) | (120) | (4) | (194) |
| Impairment charge | 750 | - | - | - | - | - | 750 |
| Charge for the year | - | 45 | 12 | 368 | 632 | 103 | 1,160 |
| At 31 December 2013 | 750 | 412 | 18 | 2,094 | 3,120 | 295 | 6,689 |
| Exchange differences | (29) | 10 | - | (73) | (155) | (5) | (252) |
| Charge for the year | - | 96 | 12 | 690 | 795 | 109 | 1,702 |
| At 30 June 2014 | 721 | 518 | 30 | 2,711 | 3,760 | 399 | 8,139 |
| Net book value | | | | | | | |
| 30 June 2014 | 42,632 | 3,297 | 40 | 25,431 | 21,252 | 3,606 | 96,258 |
| 31 December 2013 | 13,891 | 1,184 | 52 | 6,385 | 10,532 | 2,681 | 34,725 |
| 30 June 2013 | 14,321 | 1,327 | 64 | 7,317 | 11,292 | 2,284 | 36,605 |

8. Business combinations

Acquisition of Separation Technology Inc.

On 11 March 2014 the Group acquired, through its subsidiary company EKF Diagnostics Inc., 100% of the share capital of Separation Technology Inc.(STI), a US based company which manufactures and sells devices for the haematology testing market.

The goodwill of £833,000 arising from the acquisition is attributable to the expected future benefits arising from the acquired business.

The following table summarises the provisional fair values of the consideration paid for STI and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date. Acquisition related costs of £50,000 have been written off against income and disclosed as an exceptional item.

| | Provisional fair values £000 |
|---|---|
| Consideration | |
| Cash | 2,400 |
| | <u>2,400</u> |
| Recognised amounts of identifiable assets acquired and liabilities assumed | |
| Trade name – included within intangibles | 228 |
| Customer relationships –included in intangibles | 1,074 |
| Trade secrets – included in intangibles | 210 |
| Plant, property and equipment | 177 |
| Cash | 72 |
| Inventories | 353 |
| Trade and other debtors | 310 |
| Trade and other payables | (267) |
| Deferred tax | (590) |
| Total identifiable net assets | <u>1,567</u> |
| Goodwill | <u>833</u> |

Acquisition of DiaSpect Medical AB

On 17 April 2014 the Group acquired 100% of the share capital of Diaspect Medical AB (DiaSpect), a group based in Sweden and Germany which manufactures and sells point-of-care haemoglobin analysers and their associated consumables.

The goodwill of £11,783,000 arising from the acquisition is attributable to the expected future benefits arising from the acquired business.

The following table summarises the provisional fair values of the consideration paid for DiaSpect and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date. Acquisition related costs are disclosed below.

| | Provisional fair values £000 |
|---|---|
| Consideration | |
| Cash | 10,248 |
| Equity instruments | 5,555 |
| Deferred contingent consideration | 3,929 |
| | <u>19,732</u> |
| Recognised amounts of identifiable assets acquired and liabilities assumed | |
| Trade name – included within intangibles | 840 |
| Customer relationships –included in intangibles | 4,049 |
| Trade secrets – included in intangibles | 4,140 |
| Research and development – included in intangibles | 370 |
| Plant, property and equipment | 443 |
| Cash | 39 |
| Inventories | 842 |
| Trade and other debtors | 216 |
| Trade and other payables | (644) |
| Borrowings | (186) |
| Deferred tax | (2,256) |
| Total identifiable net assets | <u>7,853</u> |
| Goodwill | <u>11,879</u> |

The deferred contingent consideration is payable over a period of up to four years, and is contingent upon the achievement of certain technical and volume milestones. The amount has been discounted at a rate of 14.2% to take account of the time value of money.

Acquisition of Selah Genomics Inc.

On 17 April 2014 the Group acquired 100% of the share capital of Selah Genomics Inc. (Selah), a US company which develops molecular diagnostics for personalised medicine.

The goodwill of £17,109,000 arising from the acquisition is attributable to the expected future benefits arising from the acquired business.

The following table summarises the provisional fair values of the consideration paid for Selah and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date. Costs relating to the acquisitions of both DiaSpect and Selah of £759,000 have been written off against income and disclosed as an exceptional item. Because the acquisitions of DiaSpect and Selah were simultaneous it is not possible to split the costs.

| | Provisional fair values £000 |
|---|---|
| Consideration | |
| Equity instruments | 20,425 |
| Deferred contingent consideration | 8,498 |
| | <u>28,923</u> |
| Recognised amounts of identifiable assets acquired and liabilities assumed | |
| Trade name – included within intangibles | 1,247 |
| Customer relationships –included in intangibles | 15,333 |
| Trade secrets – included in intangibles | 7,582 |
| PPE | 578 |
| Cash | 158 |
| Inventories | 172 |
| Trade and other debtors | 1,030 |
| Trade and other payables | (2,978) |
| Borrowings | (1,402) |
| Deferred tax | (9,906) |
| Total identifiable net assets | <u>11,814</u> |
| Goodwill | <u><u>17,109</u></u> |

The deferred contingent consideration is payable over a period of up to two years, and is contingent upon the achievement of certain revenue milestones. The amount has been discounted at a rate of 13.2% to take account of the time value of money.

9. Dividends

No dividends to shareholders of the holding company were provided or paid during the six months.

10. Share capital

On 27 January 2014 the Company issued 225,000 Ordinary Shares at an issue price of 18p following the exercise of share options.

On 26 March 2014 the Company issued 600,000 Ordinary Shares at an issue price of 1p following the exercise of share options.

On 26 March 2014 the Company issued 14,285,714 Ordinary Shares at an issue price of 35p in a placing associated with the acquisitions of Selah Genomics Inc. and DiaSpect Medical AB.

On 17 April 2014 the Company issued 59,999,999 Ordinary Shares at an issue price of 35p, 15,872,840

Ordinary Shares at an issue price of 36.238p, and 58,356,152 Ordinary Shares at an issue price of 36.52p, in association with the acquisitions of Selah Genomics Inc. and DiaSpect Medical AB, and for working capital.

11. Press

A copy of this announcement is available from the Company's website, being www.ekfdiagnostics.com. If you would like to receive a hard copy of the interim report please contact the EKF Diagnostics Holdings plc offices on +44 (0) 29 2071 0570 to request a copy.