

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

**Interim Results**

EKF Diagnostics Holdings plc (AIM: EKF), the point-of-care diagnostics business, announces its unaudited interim results for the six months ended 30 June 2012.

**Financial Highlights**

- Revenue up 71% to £12.65m (H1 2011: £7.38m)
- Gross margins up to 57% (H1 2011 restated: 48%)
- Operating profit of £0.34m (H1 2011: loss of £1.49m)
- Adjusted EBITDA before exceptional items and share based payments of £1.40m (H1 2011: £0.21m)
- Cash at 30 June 2012 was £3.16m, with a net cash position of £0.96m.

**Operational Highlights**

- Consumable growth of 32% across four major volume products
- Significant improvement in BHB reagent sales
- Commencement of shipments of HemoPoint H2 analysers and consumables to Alere in North America
- Cuvette patent awards in USA and China
- Final exit from sports licensing business with disposal of IBL AG

**Post-period end**

- Alere orders for HemoPoint H2 already exceed first year minimum, five months after launch
- Commercial launch of Quo-Lab HbA1c analyser for emerging markets (early July)
- Collaboration with the Joslin Diabetes Centre to expand future pipeline
- Settlement of patent related litigation with HemoCue, resulting in release of provision for costs of £0.50m

**Commenting on the Company's outlook, David Evans, Executive Chairman of EKF, said:**

*"We are confident that the recent product launches and other programmes that are in place will drive further organic growth in the second half of 2012 and beyond. We will continue to assess acquisition opportunities as they*

*present themselves and progress those which offer good synergy and represent good value for shareholders."*

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## **CHAIRMAN'S STATEMENT**

Dear Fellow Shareholder,

The first six months of the year have been a combination of challenges and opportunities in equal measure. The challenges have been primarily revenue related and are due to a combination of factors. Despite this, adjusted EBITDA for the period is sharply higher than for the same period last year, and with half the year gone we have already achieved more than 85% of 2011's figure.

The main driver for the improved adjusted EBITDA is the Company's decision to increase its sales focus on its higher margin products, in particular Beta-Hydroxybutyrate (BHB) liquid reagents. BHB is the primary ketone present during ketosis, a condition linked with diabetes and other conditions. Sales during the period grew from £0.54m in the second half of 2011 to £1.50m. This also had a significantly positive effect on our bottom line. We are continuing to look to expand sales of this product.

The launch of Quo-Lab, a cost effective HbA1c analyser for developing markets, was originally planned for the first half of the year. We made a conscious decision to delay the launch to review our sales strategy and ensure that the product was technically ready. Quo-Lab was commercially launched in early July and we have seen unexpectedly high initial demand already, demonstrating the opportunity for this product in emerging markets and the strong consumable pull-through associated with it.

We had also anticipated an earlier launch in the North American market of our HemoPoint H2 haemoglobin analyser through Alere but, for reasons outside of our control, the product launch did not occur until mid-April. Despite this, in the five months since launch Alere have already ordered in excess of the guaranteed first year minimum of 1,400 analysers, most of which are for delivery in the second half. We remain extremely confident of our partner's ability to penetrate the market. Our Hemo Control product line, which includes the H2, has benefited from the award of patents in the USA and China for the

NXT cuvette, the new design for which ensures that blood can be collected at any angle without air bubbles collecting in the optical window thus reducing waste.

In addition, on 10 August 2012 we announced that we had entered into a Settlement Agreement with HemoCue in relation to patent-related litigation in Germany and the US. As a result of the Settlement Agreement all claims are mutually settled and finally resolved. The effect of this is that EKF's original design cuvette will continue to be sold in all countries other than China, Switzerland, Germany, Denmark, Spain, Finland, Great Britain, Italy, Japan, The Netherlands, Sweden, the United States and South Africa, while the NXT cuvette will continue to be sold in all countries world-wide. As well as dispelling uncertainty, following the settlement we have released the remaining provision for associated costs totalling £0.50m.

We continue to look to grow the business both organically and by acquisition. The launch of RenaStat has been delayed slightly but we are confident that the technical issues can be overcome. We have made encouraging progress on the development of other analytes on the Quo-Test platform with C-reactive protein (CRP) having passed proof of principle. This is particularly important as it will enable the menu of tests to be expanded and thus enhance the value of the platform beyond HbA1c.

The collaboration with the Joslin Diabetes Centre, Boston announced in July is one example of our efforts to expand our future pipeline. The licence will provide EKF's wholly owned subsidiary, Argutus Medical Ltd, with exclusive rights to the Joslin's Intellectual Property surrounding two markers, Tumor Necrosis Factor Receptor 1 and 2, that, when found at elevated levels in the blood stream, can help identify patients with diabetes who are at increased risk of developing end stage renal disease up to ten years in advance. Another example is our investment in Arcis Biotechnology Holdings Limited where we have invested £0.25m for a 3.62% shareholding. We were simultaneously granted a licence by Arcis for DNA extraction which we believe will allow us an exposure to the continued growth of molecular diagnostics in particular in point of care. We continue to evaluate acquisition opportunities and as highlighted in my comments at the time of the Annual Report we are not in pursuit of acquisitions at any cost and such acquisitions must be compatible with our long-term value creation strategy.

## **Financial review**

### *Revenue*

Revenue has increased to £12.65m, an increase over the same period last year of 71%, largely as a result of the acquisition of Stanbio in June 2011. On a like for like basis, including Stanbio's revenue for the period prior to acquisition, revenue increased by 7%. As well as reflecting the delayed launches mentioned above, this reflects delays in tender business resulting from political uncertainty particularly in Mexico. During the period we have sold to over 100 countries worldwide.

## *Margins*

Gross margins have increased from 48% to 57%, largely as a result of improved product mix, particularly where we have seen an increased contribution from consumables sales which were up 32% year on year across four major volume products. Comparative margins in the first half of 2011 have been restated to include certain direct costs which were previously included in administrative expenses.

## *Adjusted EBITDA*

The Group has made a small operating profit in the period of £0.34m (H1 2011: loss of £1.49m). We continue to consider that at this stage of the Group's development adjusted EBITDA offers a more meaningful measure, although this will change as the business matures. Adjusted EBITDA was £1.40m for the period against £0.21m in the same period last year. Adjusted EBITDA excludes depreciation and amortisation of £1.52m, the effect of share based payments of £0.26m, and exceptional profits relating to the sale of listed securities (£0.21m) and to the release of the provision for costs following the settlement with HemoCue (£0.50m). Administration costs increased as the Group continued to invest in sales, marketing, and finance infrastructure.

During the period, the Group completed its exit from its former sports licensing business. As a result of the disposal of its Swiss subsidiary International Brand Licencing AG, accumulated translation differences have been recycled through the consolidated income statement in accordance with International Accounting Standard 21 as part of the profit on disposal of the discontinued business. These gains totalling £1.59m had previously been taken direct to reserves.

## *Balance Sheet*

During the period the Group invested £0.32m in development costs and £0.34m in Plant, Machinery and Equipment. Capital projects in the second half will include investment in automation for Quo-Test and Quo-Lab, and a cuvette line capacity upgrade.

Group cash at 30 June 2012 amounted to £3.16m (30 June 2011: £5.52m) which is sufficient to maintain our continued programme of investment for the foreseeable future. Deferred consideration of £0.64m in relation to the acquisition of Stanbio has been paid during the period. Of the deferred consideration payable within 12 months, £2.51m is payable in shares.

## **Outlook**

We are confident that the recent product launches and other programmes that are in place will drive further organic growth in the second half of 2012 and beyond. We will continue to assess acquisition opportunities as they present themselves and progress those which offer good synergy and represent good value for shareholders.

We are driving change hard and challenging our employees to achieve success. There remains much work to be done but our employees are dedicated and flexible and I would like to thank them for their hard work.

**David Evans**  
**Executive Chairman**

**CONSOLIDATED INCOME STATEMENT  
FOR THE 6 MONTHS ENDED 30 JUNE 2012**

	Notes	Unaudited 6 months ended 30 June 2012 £'000	Restated unaudited 6 months ended 30 June 2011 £'000	Audited Year ended 31 December 2011 £'000
<b>Continuing operations</b>				
Revenue	3	12,652	7,380	21,658
Cost of sales		(5,384)	(3,869)	(11,277)
<b>Gross profit</b>		<b>7,268</b>	3,511	10,381
Administrative expenses		(7,243)	(5,113)	(12,906)
Other income	4	313	112	485
<b>Operating profit/(loss)</b>		<b>338</b>	(1,490)	(2,040)
Depreciation and amortisation		(1,515)	(1,019)	(2,321)
Share based payments		(264)	(361)	(753)
Exceptional items	5	716	(320)	(534)
<b>EBITDA before exceptional items and share based payments</b>		<b>1,401</b>	210	1,568
Finance income		17	9	76
Finance costs		(203)	(71)	(396)
<b>Profit/(loss) before income tax</b>		<b>152</b>	(1,552)	(2,360)
Income tax (charge)/credit	6	(538)	34	(198)
<b>Loss for the period from continued operations</b>		<b>(386)</b>	(1,518)	(2,558)
<b>Discontinued operations</b>				
Profit/(loss) for the period from discontinued operations		1,598	(108)	(187)
<b>Profit/(loss) for the period</b>		<b>1,212</b>	(1,626)	(2,745)
<b>Profit/(loss) attributable to:</b>				
Owners of the parent		1,151	(1,658)	(2,884)
Non-controlling interest		61	32	139
		1,212	(1,626)	(2,745)
<b>Profit/(loss) per ordinary share from continuing and discontinued operations attributable to the equity holders of the company during the period</b>	7			
		<b>Pence</b>	<b>Pence</b>	<b>Pence</b>
<b>Basic</b>				
From continuing operations		(0.18)	(0.89)	(1.26)
From discontinued operations		0.64	(0.06)	(0.09)

<i>Continued and discontinued operations</i>	<b>0.46</b>	(0.95)	(1.35)
<b>Diluted</b>			
<i>From continuing operations</i>	<b>(0.16)</b>	(0.89)	(1.26)
<i>From discontinued operations</i>	<b>0.57</b>	(0.06)	(0.09)
<i>Continued and discontinued operations</i>	<b>0.41</b>	(0.95)	(1.35)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME  
FOR THE 6 MONTHS ENDED 30 JUNE  
2012**

	<b>Unaudited 6 months ended 30 June 2012 £'000</b>	<b>Unaudited 6 months ended 30 June 2011 £'000</b>	<b>Audited Year ended 31 December 2011 £'000</b>
Profit/(loss) for the period	<b>1,212</b>	(1,626)	(2,745)
<b>Other comprehensive income:</b>			
Actuarial loss on pension scheme	<b>(3)</b>	(5)	(2)
Fair value adjustment in respect of available for sale assets	-	-	155
Recycling of currency translations in respect of disposal of subsidiary	<b>(1,587)</b>	-	-
Currency translation differences	<b>(660)</b>	752	(408)
<b>Other comprehensive income for the period</b>	<b>(2,250)</b>	747	(255)
<b>Total comprehensive loss for the period</b>	<b>(1,038)</b>	(879)	(3,000)
<b>Attributable to:</b>			
Owners of the parent	<b>(1,099)</b>	(911)	(3,126)
Non-controlling interests	<b>61</b>	32	126
	<b>(1,038)</b>	(879)	(3,000)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2012**

	<b>Notes</b>	<b>Unaudited as at 30 June 2012 £'000</b>	<b>Restated unaudited as at 30 June 2011 £'000</b>	<b>Audited as at 31 December 2011 £'000</b>
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment		<b>10,226</b>	10,577	10,629
Intangibles	<b>8</b>	<b>31,911</b>	34,207	33,116
Investments		<b>250</b>	-	-
Deferred tax assets		<b>158</b>	183	168
Available-for-sale financial assets		<b>54</b>	135	280
<b>Total non-current assets</b>		<b>42,599</b>	45,102	44,193
<b>Current Assets</b>				
Inventories		<b>5,685</b>	5,517	4,811
Trade and other receivables		<b>4,422</b>	4,482	4,273

Available for sale financial assets	-	110	51
Deferred tax assets	66	33	67
Cash and cash equivalents	3,165	5,515	5,338
<b>Total current assets</b>	<b>13,338</b>	<b>15,657</b>	<b>14,540</b>
<b>Total assets</b>	<b>55,937</b>	<b>60,759</b>	<b>58,733</b>
<b>Equity attributable to owners</b>			
Ordinary shares	2,539	2,350	2,512
Share premium account	38,372	35,118	38,372
Other reserve	-	244	244
Foreign currency reserves	(670)	2,705	1,577
Retained Earnings	(4,008)	(4,988)	(5,664)
	36,233	35,429	37,041
<b>Non-controlling interest</b>	<b>363</b>	<b>311</b>	<b>386</b>
<b>Total equity</b>	<b>36,596</b>	<b>35,740</b>	<b>37,427</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	2,006	2,201	2,097
Deferred consideration	3,091	11,610	5,222
Deferred tax liability	4,131	5,010	4,434
Retirement benefit obligation	101	98	97
<b>Total non-current liabilities</b>	<b>9,329</b>	<b>18,919</b>	<b>11,850</b>
<b>Current liabilities</b>			
Trade and other payables	4,416	4,516	4,793
Deferred consideration	4,514	-	2,932
Current income tax liabilities	429	146	317
Deferred tax liabilities	457	392	392
Borrowings	196	477	435
Provisions for other liabilities and charges	-	569	587
<b>Total current liabilities</b>	<b>10,012</b>	<b>6,100</b>	<b>9,456</b>
<b>Total liabilities</b>	<b>19,341</b>	<b>25,019</b>	<b>21,306</b>
<b>Total equity and liabilities</b>	<b>55,937</b>	<b>60,759</b>	<b>58,733</b>

#### CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 6 MONTHS ENDED 30 JUNE 2012

	Unaudited 6 months ended 30 June 2012 £'000	Unaudited 6 months ended 30 June 2011 £'000	Audited Year to 31 December 2011 £'000
<b>Cash flow from operating activities</b>			
Profit/(loss) before income tax	152	(1,552)	(2,360)
Adjustments for			
- Discontinued activities	1,598	(108)	(187)
- Recycle of foreign exchange gains on disposal of subsidiary	(1,587)	-	-
- Release of 6provisions	(503)	-	-
- Depreciation	554	387	925
- Amortisation and impairment charges	961	632	1,396
- Impairment of available for sale asset	-	-	49
- Share-based payments	264	361	753
- Foreign exchange (gains)/loss on operating activities	(5)	154	(122)
- Net finance costs	186	62	320
Changes in working capital			
- Inventories	(874)	(729)	(23)
- Trade and other receivables	(149)	(697)	(488)
- Trade and other payables	(445)	(351)	(432)
Cash generated by/(used in) operations	152	(1,841)	(169)
Interest paid	(73)	(30)	(158)
Income tax paid	(566)	(194)	(479)
<b>Net cash used in operating activities</b>	<b>(487)</b>	<b>(2,065)</b>	<b>(806)</b>
<b>Cash flow from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	-	(8,689)	(8,689)
Acquisition of investments	(250)	-	-
Purchase of property, plant and equipment (PPE)	(340)	(811)	(1,555)
Purchase of intangibles	(333)	(352)	(660)
Proceeds from sale of PPE	17	-	15
Proceeds from sale of intangible assets	-	1,220	1,220

Proceeds from disposal of available-for-sale assets	277	-	78
Interest received	16	8	8
<b>Net cash used in investing activities</b>	<b>(613)</b>	<b>(8,624)</b>	<b>(9,583)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issuance of ordinary shares	27	12,774	12,774
New borrowings	181	450	450
Repayment of borrowings	(392)	(212)	(451)
Dividends paid to non-controlling interests	(84)	(45)	(45)
Repayment of deferred consideration	(637)	-	(323)
<b>Net cash (used in)/generated by financing activities</b>	<b>(905)</b>	<b>12,967</b>	<b>12,405</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,005)</b>	<b>2,278</b>	<b>2,016</b>
Cash and cash equivalents at beginning of period	5,219	3,192	3,192
Exchange gains on cash and cash equivalents	(49)	45	11
<b>Cash and cash equivalents at end of period</b>	<b>3,165</b>	<b>5,515</b>	<b>5,219</b>

**STATEMENT OF CHANGES IN EQUITY  
FOR THE 6 MONTHS ENDED 30 JUNE 2012**

	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
<b>At 1 January 2011</b>	<b>1,681</b>	<b>23,013</b>	<b>244</b>	<b>1,972</b>	<b>(3,686)</b>	<b>23,224</b>	<b>305</b>	<b>23,529</b>
<b>Comprehensive income</b>								
(Loss)/profit for the period	-	-	-	-	(1,658)	(1,658)	32	(1,626)
<b>Other comprehensive income</b>								
Actuarial loss on pension	-	-	-	-	(5)	(5)	-	(5)
Currency translation differences	-	-	-	733	-	733	19	752
<b>Transactions with owners</b>								
Proceeds from shares issued	669	12,105	-	-	-	12,774	-	12,774
Share based payment	-	-	-	-	361	361	-	361
Dividends payment to minority	-	-	-	-	-	-	(45)	(45)
<b>At 30 June 2011</b>	<b>2,350</b>	<b>35,118</b>	<b>244</b>	<b>2,705</b>	<b>(4,988)</b>	<b>35,429</b>	<b>311</b>	<b>35,740</b>
<b>Comprehensive income</b>								
(Loss)/profit for the period	-	-	-	-	(1,226)	(1,226)	107	(1,119)
<b>Other comprehensive income</b>								
Actuarial gain on pension	-	-	-	-	3	3	-	3
Fair value adjustment in respect of available-for-sale financial assets	-	-	-	-	155	155	-	155
Currency translation differences	-	-	-	(1,128)	-	(1,128)	(32)	(1,160)
<b>Transactions with owners</b>								
Proceeds from shares issued	162	3,254	-	-	-	3,416	-	3,416
Share based payment	-	-	-	-	392	392	-	392
<b>At 31 December 2011</b>	<b>2,512</b>	<b>38,372</b>	<b>244</b>	<b>1,577</b>	<b>(5,664)</b>	<b>37,041</b>	<b>386</b>	<b>37,427</b>
<b>Comprehensive income</b>								
Profit for the period	-	-	-	-	1,151	1,151	61	1,212
<b>Other comprehensive income</b>								
Actuarial loss on pension	-	-	-	-	(3)	(3)	-	(3)
Recycling of reserves in respect of disposal of subsidiary	-	-	(244)	(1,587)	244	(1,587)	-	(1,587)
Currency translation differences	-	-	-	(660)	-	(660)	-	(660)
<b>Transactions with owners</b>								
Proceeds from shares issued	27	-	-	-	-	27	-	27
Share based payment	-	-	-	-	264	264	-	264
Dividends payment to minority	-	-	-	-	-	-	(84)	(84)
<b>At 30 June 2012</b>	<b>2,539</b>	<b>38,372</b>	<b>-</b>	<b>(670)</b>	<b>(4,008)</b>	<b>36,233</b>	<b>363</b>	<b>36,596</b>



## **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 14 Kinnerton Place South, London SW1X 8EH.

The Group's principal activity continues to be 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 2011 and which will form the basis of the 2012 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 2011 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 2012 and 30 June 2011 is unaudited and the twelve months to 31 December 2011 is audited.

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

The unaudited information for the 6 months to 30 June 2011 has been restated to include within cost of sales certain direct costs totalling £1.21m which were previously included in administrative expenses. The balance sheet as at 30 June 2011 has been restated to show £0.03m deferred tax asset as current rather than non-current, and to show £0.39m deferred tax liability as current rather than non-current. These

changes are presentational and do not affect either the loss for the period or net assets.

## **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 12 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 7 to 16 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.

### **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 profits on disposal of listed securities, the one off effect of a litigation settlement, and in prior periods transactional costs and one off items relating to business combinations, such as acquisition expenses.

## **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 2012 unaudited

	Germany £'000	UK £'000	USA £'000	Ireland £'000	Poland £'000	Russia £'000	Discontinued £'000	Other £'000	Total £'000
<b>Income statement</b>									
Revenue	5,566	648	7,106	286	552	1,285	-	-	15,443
Inter segment	(2,714)	(73)	-	-	(4)	-	-	-	(2,791)
<b>External revenue</b>	<b>2,852</b>	<b>575</b>	<b>7,106</b>	<b>286</b>	<b>548</b>	<b>1,285</b>	<b>-</b>	<b>-</b>	<b>12,652</b>
<b>Adjusted EBITDA</b>	<b>917</b>	<b>(325)</b>	<b>1,448</b>	<b>(353)</b>	<b>119</b>	<b>196</b>	<b>-</b>	<b>(601)</b>	<b>1,401</b>
Share based payment	-	-	-	-	-	-	-	(264)	(264)
Exceptional items	503	-	-	-	-	-	-	213	716
<b>EBITDA</b>	<b>1,420</b>	<b>(325)</b>	<b>1,448</b>	<b>(353)</b>	<b>119</b>	<b>196</b>	<b>-</b>	<b>(652)</b>	<b>1,853</b>
Depreciation	(284)	(89)	(134)	(18)	(13)	(6)	-	(10)	(554)
Amortisation	(289)	(106)	(384)	(104)	(56)	(22)	-	-	(961)
<b>Operating profit/(loss)</b>	<b>847</b>	<b>(520)</b>	<b>930</b>	<b>(475)</b>	<b>50</b>	<b>168</b>	<b>-</b>	<b>(662)</b>	<b>338</b>
Net finance income/(costs)	2	-	(148)	-	(1)	-	-	(39)	(186)
Income tax	(188)	(7)	(280)	(18)	(12)	(33)	-	-	(538)
Discontinued operations	-	-	-	-	-	-	1,598	-	1,598
<b>Retained profit/(loss)</b>	<b>661</b>	<b>(527)</b>	<b>502</b>	<b>(493)</b>	<b>37</b>	<b>135</b>	<b>1,598</b>	<b>(701)</b>	<b>1,212</b>
<b>Segment assets</b>									
Operating assets	16,603	7,517	22,039	2,892	1,404	1,114	-	26,079	77,648
Inter segment assets	(322)	(15)	-	-	-	-	-	(24,539)	(24,876)
External operating assets	16,281	7,502	22,039	2,892	1,404	1,114	-	1,540	52,772
Cash and cash equivalents	984	81	535	68	47	313	-	1,137	3,165
<b>Total assets</b>	<b>17,265</b>	<b>7,583</b>	<b>22,574</b>	<b>2,960</b>	<b>1,451</b>	<b>1,427</b>	<b>-</b>	<b>2,677</b>	<b>55,937</b>
<b>Segment liabilities</b>									
Operating liabilities	8,329	3,976	18,093	1,463	194	118	-	9,752	41,925
Inter segment liabilities	(6,341)	(3,703)	(13,385)	(1,241)	(116)	-	-	-	(24,786)
External operating liabilities	1,988	273	4,708	222	78	118	-	9,752	17,139
Borrowings	558	-	1,632	-	12	-	-	-	2,202
<b>Total liabilities</b>	<b>2,546</b>	<b>273</b>	<b>6,340</b>	<b>222</b>	<b>90</b>	<b>118</b>	<b>-</b>	<b>9,752</b>	<b>19,341</b>
<b>Other segmental information</b>									
Non current assets - PPE	3,208	677	4,320	77	207	26	-	1,711	10,226
Non current assets - Intangibles	9,419	5,681	13,430	2,185	777	419	-	-	31,911

## Year ended December 2011 audited

	Germany	UK	USA	Ireland	Poland	Russia	Switzerland (Discontinued)	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Income statement</b>									
<b>Revenue</b>	11,430	1,074	8,396	799	1,062	3,233	-	-	25,994
<b>Inter segment</b>	(4,247)	(80)	-	-	(9)	-	-	-	(4,336)
<b>External revenue</b>	7,183	994	8,396	799	1,053	3,233	-	-	21,658
<b>Adjusted</b>									
<b>EBITDA*</b>	<b>1,883</b>	<b>(1,024)</b>	<b>2,056</b>	<b>(245)</b>	<b>251</b>	<b>436</b>	-	<b>(1,789)</b>	<b>1,568</b>
Exceptional items	-	-	(137)	-	-	-	-	(397)	(534)
Share based payment	-	-	-	-	-	-	-	(753)	(753)
<b>EBITDA</b>	<b>1,883</b>	<b>(1,024)</b>	<b>1,919</b>	<b>(245)</b>	<b>251</b>	<b>436</b>	-	<b>(2,939)</b>	<b>281</b>
Depreciation	(622)	(106)	(131)	(44)	(13)	(4)	-	(5)	(925)
Amortisation	(595)	(197)	(262)	(187)	(111)	(44)	-	-	(1,396)
<b>Operating profit/(loss)</b>	<b>666</b>	<b>(1,327)</b>	<b>1,526</b>	<b>(476)</b>	<b>127</b>	<b>388</b>	-	<b>(2,944)</b>	<b>(2,040)</b>
Net finance costs	(156)	-	(146)	-	(1)	-	-	(17)	(320)
Income tax	86	39	(241)	(1)	(14)	(67)	-	-	(198)
Discontinued operations	-	-	-	-	-	-	(187)	-	(187)
<b>Retained profit/(loss)</b>	<b>596</b>	<b>(1,288)</b>	<b>1,139</b>	<b>(477)</b>	<b>112</b>	<b>321</b>	<b>(187)</b>	<b>(2,961)</b>	<b>(2,745)</b>
<b>Segment assets</b>									
Operating assets	17,709	7,167	21,948	2,881	1,417	1,027	53	25,526	77,728
Inter segment assets	(1,104)	(25)	-	-	-	-	-	(23,204)	(24,333)
External operating assets	16,605	7,142	21,948	2,881	1,417	1,027	53	2,322	53,395
Cash and cash equivalents	782	42	1,210	55	14	473	19	2,743	5,338
<b>Total assets</b>	<b>17,387</b>	<b>7,184</b>	<b>23,158</b>	<b>2,936</b>	<b>1,431</b>	<b>1,500</b>	<b>72</b>	<b>5,065</b>	<b>58,733</b>
<b>Segment liabilities</b>									
Operating liabilities	10,138	3,069	18,758	910	215	86	32	9,899	43,107
Inter segment liabilities	(7,383)	(2,634)	(13,534)	(631)	(151)	-	-	-	(24,333)
External operating liabilities	2,755	435	5,224	279	64	86	32	9,899	18,774
Borrowings	840	-	1,677	-	15	-	-	-	2,532
<b>Total liabilities</b>	<b>3,595</b>	<b>435</b>	<b>6,901</b>	<b>279</b>	<b>79</b>	<b>86</b>	<b>32</b>	<b>9,899</b>	<b>21,306</b>
<b>Other segmental information</b>									
Non current assets - PPE	3,443	735	4,412	96	208	32	-	1,703	10,629
Non current assets - Intangibles	10,000	5,669	13,973	2,203	820	451	-	-	33,116

## Period ended 30 June 2011 unaudited

	Germany	UK	USA	Ireland	Poland	Russia	Switzerland (Discontinued)	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Income statement</b>									
<b>Revenue</b>	9,619	470	458	537	490	1,196	-	-	12,770
<b>Inter segment</b>	(5,390)	-	-	-	-	-	-	-	(5,390)
<b>External revenue</b>	4,229	470	458	537	490	1,196	-	-	7,380
<b>Adjusted</b>									
<b>EBITDA*</b>	<b>1,180</b>	<b>(478)</b>	<b>41</b>	<b>(127)</b>	<b>99</b>	<b>102</b>	-	<b>(607)</b>	<b>210</b>
Exceptional items	-	-	-	-	-	-	-	(320)	(320)
Share based payment	-	-	-	-	-	-	-	(361)	(361)
<b>EBITDA</b>	<b>1,180</b>	<b>(478)</b>	<b>41</b>	<b>(127)</b>	<b>99</b>	<b>102</b>	-	<b>(1,288)</b>	<b>(471)</b>
Depreciation	(306)	(45)	(8)	(24)	(2)	(2)	-	-	(387)
Amortisation	(320)	(95)	(19)	(107)	(67)	(24)	-	-	(632)
<b>Operating profit/(loss)</b>	<b>554</b>	<b>(618)</b>	<b>14</b>	<b>(258)</b>	<b>30</b>	<b>76</b>	-	<b>(1,288)</b>	<b>(1,490)</b>
Net finance costs	(73)	-	(3)	1	-	-	-	13	(62)

Income tax	14	24	(7)	27	(11)	(13)	-	-	34
Discontinued operations	-	-	-	-	-	-	(108)	-	(108)
<b>Retained profit/(loss)</b>	<b>495</b>	<b>(594)</b>	<b>4</b>	<b>(230)</b>	<b>19</b>	<b>63</b>	<b>(108)</b>	<b>(1,275)</b>	<b>(1,626)</b>
<b>Segment assets</b>									
Operating assets	20,813	6,780	20,924	2,888	1,621	1,298	1,897	19,661	75,882
Inter segment assets	(1,252)	-	-	-	-	-	(1,661)	(17,725)	(20,638)
External operating assets	19,561	6,780	20,924	2,888	1,621	1,298	236	1,936	55,244
Cash and cash equivalents	309	182	190	209	15	172	76	4,362	5,515
<b>Total assets</b>	<b>19,870</b>	<b>6,962</b>	<b>21,114</b>	<b>3,097</b>	<b>1,636</b>	<b>1,470</b>	<b>312</b>	<b>6,298</b>	<b>60,759</b>
<b>Segment liabilities</b>									
Operating liabilities	14,739	2,609	22,763	1,003	422	321	269	6,209	48,335
Inter segment liabilities	(7,969)	(1,769)	(8,696)	(372)	(171)	-	-	(1,661)	(20,638)
External operating liabilities	6,770	840	14,067	631	251	321	269	4,548	27,697
Borrowings	(1,025)	-	(1,653)	-	-	-	-	-	(2,678)
<b>Total liabilities</b>	<b>5,745</b>	<b>840</b>	<b>12,414</b>	<b>631</b>	<b>251</b>	<b>321</b>	<b>269</b>	<b>4,548</b>	<b>25,019</b>
<b>Other segmental information</b>									
Non current assets - PPE	3,771	547	4,331	120	113	4	-	1,691	10,577
Non current assets - Intangibles	11,106	5,681	13,543	2,291	1,061	525	-	-	34,207

\*- Adjusted EBITDA excludes exceptional items and share based payments

Other primarily relates to the Holding company.

#### Disclosure of Group revenues by geographic location

	Unaudited 6 months ended 30 June 2012 £000	Unaudited 6 months ended 30 June 2011 £000	Audited Year ended 31 December 2011 £000
<b>Americas</b>			
United States of America	4,313	1,229	4,751
Rest of Americas	1,634	129	3,683
<b>Europe, Middles East and Africa (EMEA)</b>			
Germany	1,701	993	3,097
United Kingdom	270	25	153
Rest of Europe	1,387	1,863	2,568
Russia	1,298	1,478	3,244
Middle East	258	225	423
Africa	500	554	1,077
<b>Rest of World</b>			
China	617	579	1,273
Rest of Asia	656	293	1,365
New Zealand/Australia	18	12	24
	<b>12,652</b>	<b>7,380</b>	<b>21,658</b>

#### 4 Other income

Other income is split as follows:

Unaudited 6 months ended 30 June 2012 £000	Unaudited 6 months ended 30 June 2011 £000	Audited Year ended 31 December 2011 £000
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Profit on disposal of available-for-sale assets	<b>213</b>	-	-
Grant income	<b>100</b>	112	485
	<b>313</b>	112	485

## 5. Exceptional items

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

	<b>Unaudited 6 months ended 30 June 2012</b>	<b>Unaudited 6 months ended 30 June 2011</b>	<b>Audited year ended 31 December 2011</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Exceptional items includes:</b>			
- Transaction costs relating to business combinations (note a)	-	(320)	(397)
- Loss on stock (note b)	-	-	(137)
- Profit on disposal of available-for-sale assets (note c)	<b>213</b>	-	-
- Release of patent litigation provision (note d)	<b>503</b>	-	-
Exceptional items - continuing	<b>716</b>	(320)	(534)
Exceptional items - discontinued (note e)	-	-	(49)

(a) Transaction costs relating to business combinations - included within administrative expenses

(b) Loss on stock - included within cost of sales

Under the requirements of IFRS 3 'Business combinations' the value of inventory acquired with the acquisitions was uplifted to its sales value less cost to sell. The post-acquisition impact of selling the acquired inventory at its uplifted sales value has been to reduce gross profit.

(c) Profit on the disposal of listed securities

(d) Release of provision for patent litigation costs following the settlement with HemoCue. This is a post-balance sheet adjustment.

(e) Discontinued exceptional items relate to an impairment charged in respect to an asset available for sale.

## 6. Income tax charge/(credit)

	<b>Unaudited 6 months ended 30 June 2012</b>	<b>Unaudited 6 months ended 30 June 2011</b>	<b>Audited Year ended 31 December 2011</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Current tax</b>			
Current tax on loss for the period	<b>678</b>	130	586
<b>Deferred tax</b>			
Origination and reversal of temporary differences	<b>(140)</b>	(164)	(388)
	<b>538</b>	(34)	198



## 7. Profit/(loss) per share

Basic profit/(loss) 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 2012 £'000	Unaudited 6 months ended 30 June 2011 £'000	Audited year ended 31 December 2011 £'000
Profit/(loss) attributable to equity holders of the company	1,151	(1,658)	(2,884)
Loss from continuing operations attributable to equity holders of the company	(447)	(1,550)	(2,697)
Profit/(loss) from discontinued operations attributable to equity holders of the company	1,598	(108)	(187)
Weighted average number of ordinary shares in issue	252,713,846	174,055,862	213,580,118
Effect of dilutive potential ordinary shares	26,215,457	-	-
Weighted average number of ordinary shares - diluted	278,929,303	174,055,862	213,580,118
	Pence	Pence	Pence
<b>Basic</b>			
Profit/(loss) per share	0.46	(0.95)	(1.35)
Loss per share from continuing operations	(0.18)	(0.89)	(1.26)
Profit/(loss) per share from discontinued operations	0.64	(0.06)	(0.09)
	Pence	Pence	Pence
<b>Diluted</b>			
Profit/(loss) per share	0.41	(0.95)	(1.35)
Loss per share from continuing operations	(0.16)	(0.89)	(1.26)
Profit/(loss) per share from discontinued operations	0.57	(0.06)	(0.09)

## 8. Intangible Fixed Assets

Group	Goodwill £'000	Trademarks trade names & licences £'000	Customer relationships £'000	Trade secrets £'000	Development costs £'000	Total £'000
<b>Cost</b>						
At 1 January 2011	9,086	414	1,839	9,371	-	20,710
Acquisition of subsidiaries	4,643	1,119	6,963	602	236	13,563
Additions	-	-	-	-	352	352
Exchange differences	253	28	89	319	-	689

<b>At 30 June 2011</b>	13,982	1,561	8,891	10,292	588	35,314
Additions	-	28	-	-	279	307
Exchange differences	(195)	7	42	(536)	9	(603)
<b>At 31 December 2011</b>	13,787	1,596	8,933	9,756	876	34,948
Additions	-	15	-	-	318	333
Exchange differences	(225)	(28)	(119)	(226)	(16)	(614)
<b>At 30 June 2012</b>	<b>13,562</b>	<b>1,583</b>	<b>8,814</b>	<b>9,530</b>	<b>1,178</b>	<b>34,667</b>
<b>Amortisation</b>						
At 1 January 2011	-	24	114	312	-	450
Exchange differences	-	7	6	12	-	25
Charge for the year	-	23	142	448	19	632
At 30 June 2011	-	54	262	772	19	1,107
Exchange differences	-	(2)	(16)	(21)	-	(39)
Charge for the year	-	63	281	402	18	764
<b>At 31 December 2011</b>	-	115	527	1,153	37	1,832
Exchange differences	-	(3)	(5)	(29)	-	(37)
Charge for the year	-	75	407	435	44	961
<b>At 30 June 2012</b>	-	<b>187</b>	<b>929</b>	<b>1,559</b>	<b>81</b>	<b>2,756</b>

<b>Net book value</b>						
<b>30 June 2012</b>	<b>13,562</b>	<b>1,396</b>	<b>7,885</b>	<b>7,971</b>	<b>1,097</b>	<b>31,911</b>
<b>31 December 2011</b>	13,787	1,481	8,406	8,603	839	33,116
<b>30 June 2011</b>	13,982	1,507	8,629	9,520	569	34,207

## 9. Dividends

There were no dividends provided or paid during the six months.

## 10. Share capital

On 21 March 2012 2,650,976 share options were exercised at 1p per share.

## 11. Press

A copy of this announcement is available from the Company's website, being [www.ekfdiagnostics.com](http://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) 2920 710570 to request a copy.

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