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LaboGene ApS

Annual report 2013

Ben dinggaard
12/5-2014


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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of LaboGene ApS for the financial year 1 January – 31 December 2013.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2013 and of the results of its operations for the financial year 1 January – 31 December 2013.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.


Lynge, 12 May, 2014

Executive Board:



Kim Müller
CEO

Board of Directors:



Niels Boel Sørensen
Chairman



Susanne Lervad



Jan Sørensen

Independent auditors' report

To the shareholder of LaboGene ApS

Independent auditors' report on the financial statements

We have audited the financial statements of LaboGene ApS for the financial year 1 January – 31 December 2013. The financial statements comprise accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act. Management is also responsible for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the independent auditors consider the internal control relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Conclusion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2013 and of the results of its operations for the financial year 1 January – 31 December 2013 in accordance with the Danish Financial Statements Act.

Emphasis of matter

Emphasis of matter regarding the financial statements

Without modifying our opinion, we draw attention to note 1 to the financial statements where it is stated that a commitment has been obtained for the necessary financing of the Company's operations, including settlement of the Company's liabilities, and consequently, the financial statements have been prepared on a going concern basis.

Independent auditors' report

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copenhagen, 12 May, 2014

KPMG

Statsautoriseret Revisionspartnerselskab



Peter Gath

State Authorised Public Accountant

Management's review

Company details

LaboGene ApS
Industrivej 6
DK-3540 Lyngø

Telephone: +45 30 16 09 90
Registration no.: 32 29 91 54
Established: 4 June 2009
Financial year: 1 January – 31 December

Board of Directors

Niels Boel Sørensen (Chairman)
Susanne Lervad
Jan Sørensen

Executive Board

Kim Müller, CEO

Auditors

KPMG
Statsautoriseret Revisionspartnerselskab
Osvold Helmuths Vej 4
DK-2000 Frederiksberg

Annual general meeting

The annual general meeting is to be held on 12 May 2014.

Management's review

Operating review

Principal activities of the Company

During the year, the principal activities of the LaboGene ApS Group consisted of manufacturing, marketing and selling basic laboratory equipment for hospitals, the pharmaceutical industry, research institutions and other pharmaceutical companies working with animals, chemicals, microbiology, cytostatics, genetic products, etc.

The Company's products are marketed and sold all over the world, and the export share amounts to approx. 80%.

The products are sold to the end users in the respective markets through a network of distributors.

The products are marketed and sold under the trademarks: ScanLaf (Laminar flow equipment), ScanVac (freeze drying equipment), ScanSpeed (centrifuges), ScanCool (-860 degrees C ultra low temperature freezers), ScanConstruct (industrial customer-oriented laminar flow modules), ScanShake (laboratory shaker/mixer) and ScanCell (CO₂ cell culture incubators).

The Company also markets and sells a number of different OEM products from foreign business partners.

Special circumstances that may have affected recognition or measurement

No special circumstances have affected recognition and measurement.

Uncertainty regarding recognition and measurement

In recognising and measuring assets and liabilities, any predictable losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account. In the opinion of Management, there is therefore no material uncertainties related to the recognition and measurement of assets and liabilities that have not been considered.

Development in activities and financial matters

The results realised by the LaboGene ApS Group (LaboGene ApS and ScanLaf A/S) were considered less satisfactory but significantly better than in 2012, which saw a loss of approx. DKK 29.3 million.

As described in the Management's review for 2012, extensive turnaround measures were initiated in the Company in 2013 with special focus on streamlining of procurement, inventory management, logistics and production.

The implementation of the projects and initiatives, which started in 2013 at management as well as strategic and operational level, continued in 2014, and it is expected that it will not be completed until the second half of 2014.

In connection with the merger in 2013 of LaboGene ApS and its affiliated company, ScanLaf A/S, (the LaboGene Group) with the first-mentioned as the continuing company,

Management's review

Operating review

the Company's general management was strengthened with the employment of a new CEO, a new sales and marketing manager and a new procurement and production manager. Moreover, the Company's staff has been adjusted to the activity level on a regular basis.

The Company's transport function and own trucks have been sold, and the activities are now carried out by external carriers.

In March 2013, the LaboGene ApS Group sold the activity IVF (In Vitro Fertilisation) to a long-standing business partner within the fertilisation area. The sale resulted in a considerable cash inflow to the LaboGene ApS Group and a positive contribution to operations of approx. DKK 4.4 million.

The development projects initiated in 2012 for the purpose of creating a new technological generation of advanced laboratory equipment, including in the laminar flow and freeze drying areas, continued in 2013/14, and Management expects that these initiatives will strengthen the position of the LaboGene ApS Group in the world market.

In connection with the financial reporting for 2013, an error was identified regarding prior years. The error was corrected in the opening balance sheet at 1 January 2012. Consequently, equity at 1 January 2012 has been reduced by a total amount of DKK 12,355 thousand, and impairment losses on current assets were reduced by DKK 12,355 thousand in 2012.

Financing

As part of the strengthening of equity and financing, the Company's ultimate owner, Kontiki Holding ApS, made a total debt conversion of approx. DKK 35 million during the year.

The total liquidity of the LaboGene ApS Group developed as expected

Significant events after the balance sheet date

No significant events have occurred after the balance sheet date.

Management expects that, in 2014, the financing and equity base will be sufficient for LaboGene ApS to meet its liabilities for a period of at least 12 months after the preparation of the annual report.

Expected development

Management expects that, in 2014, the Company will improve earnings and results and that, as from 2015, the Company will realise a profit.

Financial statements for the period 1 January – 31 December

Accounting policies

The annual report of LaboGene ApS for 2013 has been prepared in accordance with the provisions applying to reporting class B enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

During the financial year, the Company merged with the affiliated company ScanLaf A/S. The merger was implemented in accordance with the uniting-of-interests method. In that connection, the comparative figures were restated.

Correction of error in prior annual reports:

In 2013, it was ascertained that the Company's inventories had been erroneously overstated in 2011 and prior periods. The effect of the error has been corrected in the opening balance sheet at 1 January 2012 and stated as follows:

Reduction of impairment losses on current assets in 2012, DKK 12,355 thousand.

Reduction of equity at 1 January 2012, DKK 12,355 thousand.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be reliably measured.

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and when the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

Certain financial assets and liabilities are measured at amortised cost implying the recognition of a constant effective interest rate to maturity. Amortised cost is calculated as initial cost minus any principal repayments and plus or minus the cumulative amortisation of any difference between cost and nominal amount.

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities measured at fair value or amortised cost. Equally, costs incurred to generate the year's earnings are recognised, including depreciation, amortisation, impairment losses and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognised in the income statement.

Financial statements for the period 1 January – 31 December

Accounting policies

Leases

Leases for non-current assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are recognised in the balance sheet as assets. On initial recognition, assets are measured at estimated cost, corresponding to the lower of fair value and the present value of the future lease payments. In calculating the net present value of the future lease payments, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are depreciated the same way as other similar non-current assets.

The capitalised residual lease obligation is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

All other leases are considered operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed in contingent liabilities, etc.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carryforwards, are measured at the expected value of their realisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable values.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Income statement

Revenue

Income from the sale of goods is recognised in the income statement when delivery and transfer of risk to the buyer has taken place before year end and provided that the income can be reliably measured and is expected to be received.

Financial statements for the period 1 January – 31 December

Accounting policies

Revenue is measured at the fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties.

All discounts granted are recognised in revenue.

Cost of sales

Cost of sales comprises the cost of goods sold and goods used in the production during the year.

Other external costs

Other external costs comprise costs for distribution, sale, advertising, administration, premises, bad debt losses, operating leases, etc.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance and pensions, and other social security costs, etc., for the Company's employees. Refunds received from public authorities are deducted from staff costs.

Financial income and expenses

Financial income and expenses comprise interest income and expense, charges in respect of finance leases, realised and unrealised gains and losses on receivables, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme etc.

Dividend from investments in subsidiaries is recognised in the income statement in the financial year when the dividend is declared.

Tax on profit/loss for the year

Tax for the year comprises current tax for the year and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity. The tax expense recognised in the income statement relating to the extraordinary profit/loss for the year is allocated to this item whereas the remaining tax expense is allocated to the profit/loss for the year from ordinary activities.

Financial statements for the period 1 January – 31 December

Accounting policies

Balance sheet

Property, plant and equipment

Land and buildings, fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. The basis of depreciation is cost less any expected residual value at the end of the useful life. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

The cost of self-constructed assets comprises direct and indirect costs of materials, components, subsuppliers, and wages and salaries.

The basis of depreciation is cost less expected residual value at the end of the useful life.

Depreciation, which is calculated as cost less any residual value, is provided on a straight-line basis over the expected useful life. The expected useful lives are as follows:

Buildings	25 years
Fixtures and fittings, tools and equipment	3 years

Depreciation is recognised in the income statement under depreciation of property, plant and equipment.

Gains and losses on the disposal of property, plant and equipment are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. The gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as factory administration and management.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Financial statements for the period 1 January – 31 December

Accounting policies

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a receivable portfolio has been impaired. If there is objective evidence that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis.

Write-downs are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received.

Equity – dividends

The expected dividend payment for the year is disclosed as a separate item under equity.

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date).

Liabilities

Financial liabilities comprising amounts owed to credit institutions, trade payables and payables to group enterprises are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost.

Other liabilities are measured at net realisable value.

Financial statements for the period 1 January – 31 December

Notes

Income statement

	Note	2013	2012
			DKK'000
Revenue		76,148,913	76,813
Cost of sales		-51,569,954	-47,082
Other operating income		5,499,803	0
Other external costs		-13,424,577	-26,097
Gross profit		16,654,185	3,634
Staff costs	2	-18,323,212	-22,849
Depreciation of property, plant and equipment and impairment losses		-206,189	-2,197
Impairment loss on current assets		-2,611,531	-5,289
Operating loss		-4,486,747	-26,701
Financial income	3	200,261	33
Financial expenses	4	-2,840,466	-2,932
Loss from ordinary activities before tax		-7,126,952	-29,600
Income taxes	5	0	322
Loss for the year		-7,126,952	-29,278
 Proposed distribution of loss			
Retained earnings		-7,126,952	-29,278
		-7,126,952	-29,278

Financial statements for the period 1 January – 31 December

Balance sheet

	Note	2013	2012
			DKK'000
ASSETS			
Non-current assets			
Property, plant and equipment			
	6		
Land and buildings		6,849,061	6,966
Fixtures and fittings, tools and equipment		289,041	160
Total non-current assets		<u>7,138,102</u>	<u>7,126</u>
Current assets			
Inventories			
Raw materials and consumables		10,378,274	7,999
Work in progress		544,683	2,002
Finished goods and goods for resale		961,418	6,046
		<u>11,884,375</u>	<u>16,047</u>
Receivables			
Trade receivables		8,144,071	20,962
Receivables from group enterprises		164,375	0
Other receivables		1,358,736	3,056
Corporation tax receivable		110,000	36
		<u>9,777,182</u>	<u>24,054</u>
Cash at hand and in bank	10	<u>3,442,208</u>	<u>2,333</u>
Total current assets		<u>25,103,765</u>	<u>42,434</u>
TOTAL ASSETS		<u><u>32,241,867</u></u>	<u><u>49,560</u></u>

Financial statements for the period 1 January – 31 December

	Note	2013	2012
			DKK'000
EQUITY AND LIABILITIES			
Equity			
Share capital		125,000	125
Retained earnings		2,228,374	-25,393
Total equity		<u>2,353,374</u>	<u>-25,268</u>
Provisions			
Other provisions		<u>0</u>	<u>858</u>
Liabilities other than provisions			
Non-current liabilities other than provisions			
Finance lease obligations		<u>368,099</u>	<u>1,884</u>
Current liabilities other than provisions			
Short-term portion of non-current liabilities other than provisions			
Credit institutions		1,531,304	1,431
Payables to factoring company		8,941,043	9,215
Trade payables		7,354,976	14,218
Payables to group enterprises		8,173,665	20,924
Other payables		66,652	20,248
Prepayments received		3,148,576	5,658
		<u>304,178</u>	<u>392</u>
Total current liabilities other than provisions		<u>29,520,394</u>	<u>72,086</u>
Total liabilities other than provisions		<u>29,888,493</u>	<u>73,970</u>
TOTAL EQUITY AND LIABILITIES		<u>32,241,867</u>	<u>49,560</u>
Disclosure of material uncertainties regarding going concern			
Mortgages and collateral		1	
Related party disclosures		9	
		11	

Financial statements for the period 1 January – 31 December

Statement of changes in equity

	Share capital	Retained earnings	Total
Equity at 1 January 2012	125,000	5,213,037	5,338,037
Correction due to fundamental error	0	-12,354,999	-12,354,999
Addition by merger	0	11,026,808	11,026,808
Transferred; see distribution of loss	0	-29,277,939	-29,277,939
Equity at 1 January 2013	125,000	-25,393,093	-25,268,093
Remission of debt	0	34,748,419	34,748,419
Transferred; see distribution of loss	0	-7,126,952	-7,126,952
Equity at 31 December 2013	125,000	2,228,374	2,353,374

Financial statements for the period 1 January – 31 December

Notes

1 Cash resources

In 2013, the Company strengthened its capital base and re-established its share capital through remission of debt from group enterprises and other owners, totalling DKK 34.7 million.

Owing to the outlook for the coming years, the future cash flows and the commitment for financing of the Company's operations and necessary investments in the coming years through bridge financing with group enterprises, in the opinion of the Executive Board, it is appropriate to base the financial reporting on the going concern assumption.

	2013	2012
		DKK'000
2 Staff costs		
Wages and salaries	17,900,201	21,791
Pensions	129,051	801
Other social security costs	293,960	257
	<u>18,323,212</u>	<u>22,849</u>
3 Financial income		
Interest income, bank	45,747	0
Interest income, other	22,821	28
Other financial income	0	5
Capital gains	131,693	0
	<u>200,261</u>	<u>33</u>
4 Financial expenses		
Interest expense, banks	1,025,681	1,446
Interest expense, group enterprises	841,081	450
Other interest expense	147,892	489
Capital losses	632,061	422
Other financial expenses	193,751	125
	<u>2,840,466</u>	<u>2,932</u>

Financial statements for the period 1 January – 31 December

Notes

	2013	2012	
		DKK'000	
5 Income taxes			
Specified as follows:			
Adjustment of deferred tax	0	322	
6 Property, plant and equipment			
	Land and buildings	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2013	7,215,507	262,791	7,478,298
Addition by merger	0	996,479	996,479
Additions for the year	19,536	401,525	421,061
Disposals for the year	0	-317,500	-317,500
Cost at 31 December 2013	7,235,043	1,343,295	8,578,338
Depreciation at 1 January 2013	249,753	262,791	512,544
Addition by merger	0	831,670	831,670
Disposals for the year	0	-115,250	-115,250
Amortisation for the year	136,229	75,043	211,272
Depreciation at 31 December 2013	385,982	1,054,254	1,440,236
Carrying amount at 31 December 2013	6,849,061	289,041	7,138,102
Assets held under finance leases	6,829,525		6,829,525
Amortised over	25 years	3 years	

Financial statements for the period 1 January – 31 December

Notes

	2013	2012
		DKK'000
7 Deferred tax		
Deferred tax at 1 January	0	-322
Adjustment of deferred tax	0	322
Deferred tax at 31 December	<u>0</u>	<u>0</u>

8 Contractual obligations and contingencies, etc.

Contingent liabilities

Rental and lease obligations (operating leases) totalling DKK 461 thousand (2012: DKK 508 thousand) fall due within five years.

9 Mortgages and collateral

A company charge in the form of ordinary debt, tools and equipment has been provided as collateral for bank debt of DKK 8,941 thousand, however, limited to DKK 6,000 thousand.

10 Cash and cash equivalents

As security for the receivable from factoring company, collateral has been provided in the Company's trade receivables. At 31 December 2013, receivables charged amounted to DKK 7,355 thousand. As collateral, an amount of DKK 1,523 thousand has been deposited in collateral account.

11 Related party disclosures

LaboGene ApS' related parties comprise the following:

Parties exercising control

ScanLaf Holding A/S holds the majority of the share capital in the Company.

Related party transactions

In 2013, the Company carried out transactions with Kontiki Holding A/S.

Ownership

The following shareholder is registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

ScanLaf Holding A/S
Industrivej 6
3540 Lyngø

A copy of the consolidated financial statements of ScanLaf Holding can be obtained from the Company.