

24 August 2010

Source BioScience plc
("Source BioScience" or "the Company" or "the Group")

HALF YEARLY REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2010

The Board of Source BioScience plc (LSE: SBS) the provider of expert, quality services and products to the healthcare, pharma biotech and life science research sectors, announces its interim financial results for the six months ended 30 June 2010.

Financial highlights

- Profitable and cash generative
- Revenue £6.9 million (2009: £6.7 million)
- Operating profit of £17,000 (2009: loss of £29,000)
- EBITDA increased by 26% to £0.6 million (2009: £0.4 million)
- Profit before tax of £0.1 million (2009: £0.1 million)
- Cash of £5.5 million

Key events

- Award of cervical cancer screening agreement with Cervical Screening Wales; worth up to £5.0 million over five years
- Agreement with Astra Zeneca to provide genetic testing for lung cancer
- Launch of companion diagnostic testing service for stomach cancer with leading pharmaceutical company
- DNA sequencing facility opened in Dublin, Ireland
- Illumina CPro certification awarded for next generation sequencing service quality
- Source BioScience has significantly boosted its next generation sequencing capability and is the first laboratory in the UK to order the Illumina HiSeq 2000 high throughput next generation sequencing platform
- £0.9 million capital investment in leading edge technology platforms and infrastructure to support growth of the business
- Added distributors in Canada and the USA

Laurie Turnbull, Chairman of Source BioScience, said:

"We have continued with our strategy of controlled growth for the business, focusing on our key strengths as an expert provider of high quality laboratory services and products.

"Revenue and operating profit have increased compared with last year. This is against a background of a trying economic climate, and highlights the strength and robustness inherent in the Source BioScience business model. Moreover, as we reported at this time last year, the first half of 2009 was a period of record activity for the business, with exceptional demand for our cervical cancer screening services. It is therefore very pleasing to be able to report increased revenue and operating profits for the first half of 2010 compared with the exceptional first half of last year.

"Like many businesses, we experienced considerable disruption to our activities at the start of the year due to issues associated with inclement weather and volcanic ash. This had the greatest impact on our Life Sciences products business where the volcanic ash prevented many American, and some European, suppliers from shipping products to us and prevented us shipping products to our international customers. It is a credit to the entire team at Source

BioScience, and demonstrates the determination of everyone involved with the business, that despite these difficulties our financial performance has improved yet again.

“We have made substantial investment in leading edge technology platforms, demand for which is growing at a significant rate. To further support the growth of the business, we will shortly be launching an enhanced e-commerce platform and information management system which will considerably benefit the customer experience and provide greater flexibility and functionality.

“This robust first half performance and the opportunities our markets present underpin confidence in the continued improvement in the financial performance of the Group for the full year.”

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CHAIRMAN'S STATEMENT

Introduction

The first half of 2010 has been another period of sustained growth and development for Source BioScience. In our interim management statement issued on 18 May 2010 we reported a robust first quarter performance and this has been sustained for the full six months to 30 June 2010. As a result, I am happy to report that Source BioScience continues to be both profitable and cash generative.

Financial Review

Revenue for the six months ended 30 June 2010 increased to £6.9 million (2009: £6.7 million). Revenue was strong across all three divisions and the aggregate gross margin has remained robust at 43% (2009: 43%).

Whilst revenue increased, the cost base remained tightly controlled. Administrative expenses of £2.2 million were consistent with the same period last year (2009: £2.1 million) and represent 32% of revenue (2009: 32% of revenue).

EBITDA increased by 26% to £0.6 million (2009: £0.4 million) and profit before, and after, tax was £0.1 million (2009: £0.1 million). It is worth noting that profit before tax has been maintained despite a reduction of £0.1 million in interest income primarily due to continuing low bank rates.

The financial position of the Company remains very strong. At 30 June 2010 net assets were £15.3 million (31 December 2009: £15.2 million) and, importantly, net current assets increased to £5.6 million (31 December 2009: £5.4 million). The Company has no debt, other than a negligible balance of £3,000, and all deferred consideration due on historic acquisitions has been settled in full.

The business continues to be cash generative from operations. Net cash outflow in the period was £1.5 million and this was after investing £1.7 million including payment of deferred consideration for acquisitions (£0.8 million) and capital expenditure (£0.9 million). The capital expenditure was targeted at enhancements to our technology platforms and developing a new laboratory information management system, which will improve the efficiency of our laboratory operations. The Group's cash balance was £5.5 million at 30 June 2010 (30 June 2009: £7.7 million; 31 December 2009: £7.0 million).

Divisional Performance Review

All three divisions continue to be profitable and the aggregate operating profit for the three divisions, before central costs, increased 9% to £1.5 million (2009: £1.4 million).

Healthcare

Revenue of £3.55 million was broadly consistent with the same period last year (2009: £3.60 million) with profitability improved by 14% to £1.0 million (2009: £0.9 million). This improved profitability is a tremendous result for the Healthcare division, especially given the exceptional demand we experienced for our cervical cancer screening offering during the first half of 2009.

Cytology

Demand for our liquid based cytology ('LBC') consumables was very strong during the period. The volumes have bounced back from the lower volumes we experienced during the latter half of 2009, which had followed the exceptional demand during the first half of last year.

The scheduled programme of re-tendering for LBC supply agreements with the NHS is now underway and has commenced with a contract win worth up to £5.0 million over five years. This cervical cancer screening contract for Cervical Screening Wales ('CSW'), our largest LBC customer, is for an initial period of three years, extendable for a further two, and is initially worth £0.8 million per annum. Additional revenue of up to £0.25 million per annum is achievable on the adoption and roll out of automated imaging by CSW. CSW will continue its planned assessment of automated imaging until the end of this year and will then look to roll out the system in early 2011. Winning this tender provides yet another vote of confidence for Source BioScience's cytology services and we are delighted to be able to continue our excellent relationship with everyone at CSW.

Diagnostic Pathology

In the first half of 2010 we have seen increasing demand for our molecular diagnostic tests in tandem with increasing demand for our traditional portfolio of companion diagnostic tests.

Companion diagnostics are biomarker tests which can provide information about whether a drug or other therapy may or may not work. Testing for K-RAS mutations prior to making a decision on whether to prescribe a drug such as Erbitux, is an example of companion diagnostic testing. As demand increases for targeted therapies which will improve treatment success and reduce costs, there is an increasing need for companion diagnostics to accompany those therapies.

In particular, demand for the K-RAS gene test continues to increase. This test indicates whether patients are unlikely to respond favourably to particular therapies for certain types of cancer, making treatment decisions more relevant and treatment regimes more cost effective. Current demand for K-RAS testing is mainly in relation to patients with colorectal cancer, where the presence of a mutated form of the K-RAS gene in the cancer cells may indicate whether a patient is unsuitable for anti-EGFR drugs such as Erbitux and Vectibix.

Understanding of the link between the cancer genome, the progression of the cancer and how those cancers may respond to therapies is expanding constantly. During the period we have enhanced our portfolio of companion diagnostic testing services in response to the demand for greater information about the genetics of the disease and have been working to develop, and validate, proprietary assays for the most important genetic tests. These proprietary assays improve our laboratory efficiency, reduce our costs and provide a competitive advantage.

We have entered into agreements with a number of pharmaceutical companies to provide diagnostic testing services for specific cancers. Earlier in the year we announced an agreement with Astra Zeneca to provide a companion diagnostic genetic testing service for lung cancer. Also announced was a further agreement, with another leading pharmaceutical company, to provide companion diagnostic testing for stomach cancer patients. Source BioScience is the only reference centre in the UK to provide validated HER2 status testing as a companion diagnostic for possible Herceptin (trastuzumab) therapy for stomach cancer.

During the second half of this year we will continue to enhance our molecular diagnostic and companion diagnostic portfolio and leverage our experience and credibility as a provider of expert, quality laboratory services as the foundation for the increased penetration of our molecular diagnostic services into the NHS. We are working closely with key opinion leaders in the oncology and pathology community, and with a number of biotechnology and pharmaceutical companies, to increase awareness and utilisation of molecular pathology techniques in public healthcare. A number of IT initiatives and solutions have been introduced that facilitate faster access to test results, generating real operational and clinical benefits for both the hospital and the patient as diagnoses can be received, reviewed and acted upon more quickly.

Pharma Biotech Services

Pharma Biotech Services has delivered another improved performance during the first half of 2010 with revenue up 26% to £0.5 million (2009: £0.4 million).

There has been increased interest from a broader spectrum of pharma biotech customers in our enhanced pathology to genomics offering, particularly from the top tier pharmaceutical companies. The combination of our established pathology expertise and our leading edge genomics capability represents a powerful offering, particularly with accelerating interest in biomarkers and targeted therapies.

A number of new initiatives have commenced with pharmaceutical companies in support of research and development and ongoing clinical trials. Our input has been across a broad range of our services including traditional pathology and immunohistochemistry, genetic testing and circulating tumour cell enumeration and analysis. This is consistent with the focus that pharma companies are placing on reducing the costs of therapy development by improving the efficiency with which potential drug targets can be identified; determining ways by which the potential patient population can be segmented to eliminate likely non-responders; identifying and establishing biomarkers for disease and response; creating targeted therapies with a companion diagnostic and ensuring that the later phase clinical trials are as effective as possible.

We will continue to promote our genomic capability to pharmaceutical companies requiring molecular analysis as part of their pre-clinical research and development programmes as well as emerging pharmacogenomic analysis supporting clinical development of therapeutics, especially targeted therapeutics. Opportunities are being explored with a number of pharmaceutical companies to determine the genetics of diseases such as diabetes and cardiovascular disease. These are disease areas complementary to our expertise in oncology and are areas of focus for pharmaceutical companies looking to employ pharmacogenomic analysis.

Life Sciences

Life Sciences performed consistently with the same period last year; revenue was £2.8 million (2009: £2.7 million) and the division delivered an operating profit of £0.3 million (2009: £0.4 million).

Services

Source BioScience has established a strong track record as a leading provider of DNA sequencing services. In January, our fifth sequencing laboratory was opened in Trinity College Dublin, adding to the existing UK network of sequencing and genotyping facilities. The new facility in Dublin extends the Company's reach and provides a platform for increased penetration of the vibrant Irish life science research market.

In addition to this network of conventional sequencing laboratories, the Company now also operates one of Europe's most comprehensive next generation sequencing facilities from its laboratories in Nottingham, using Illumina sequencing technology.

Earlier this year the Company trebled its next generation sequencing capacity by investing in a further two Illumina Genome Analyzer IIx sequencing platforms. This investment demonstrates the Company's commitment to be the market leader in Europe for the provision of expert, high quality laboratory services to the life science research and healthcare sectors.

To further enhance this capability, Source BioScience was the first UK provider to place an order for the Illumina HiSeq 2000 high throughput next generation sequencing platform. The enhanced service portfolio will provide greater flexibility and encourage the development of new applications to meet individual customer requirements in life science research as well as clinical diagnostics.

Source BioScience also offers a comprehensive bioinformatics and data analysis service. This is a key component of our next generation sequencing service and enables customers to interpret the billions of bases of sequencing data that the Illumina platforms generate. Demand for bioinformatics support will increase as the throughput of, and data generated by, the latest technology platforms increases.

Quality is paramount and the Company has been awarded CSPro certified service provider status for sequencing by Illumina. Source BioScience is the only laboratory in the UK to be awarded this status and one of only 14 such laboratories in the world.

The success of the model to embed our services within academic centres and provide them with core genomic services has been sustained. We continue to explore and identify further opportunities to replicate this model in other suitable academic centres.

Products

Source BioScience offers an extensive portfolio of biological and molecular products and reagents. This includes over 16 million cDNA clones and RNAi libraries in addition to over 90,000 high quality antibodies for applications in life science research. The breadth and depth of this portfolio compares very favourably with any other life sciences company worldwide. Moreover, Source BioScience has an exclusivity position, either within the UK or globally, across much of the portfolio.

We continue to examine routes to market for our portfolio. In 2009 we added distributors in Germany, France and Italy and during the first half of this year we have appointed distributors in Canada and the USA.

We already operate an extensive online catalogue for our entire portfolio of products and we will shortly be launching an enhanced e-commerce platform. This will enable customers to access the full range of our products and services through a single, combined portal and enable us to bundle and cross-sell products and services more readily.

Prospects

The Group has demonstrated sustained growth during the first half of the year and this robust first half performance underpins confidence in the maintained improvement in the financial performance of the Group for the full year.

As highlighted above, we believe we have an extremely solid business and business model, and the growth opportunities across the Group are strong.

In Healthcare, we hold a dominant position in England and Wales in support of the cervical cancer screening programme. This is a mature market which is highly cash generative and the barriers to entry are significant. Opportunities exist with the adoption, and roll out of automated imaging in the UK, which will be additive to our existing offering.

Opportunities also exist with further penetration of genetic testing into healthcare diagnostics and the potential for increased outsourcing by the NHS. The NHS spends in the region of £2 billion on pathology every year, of which around 10% is on histopathology services, and the global market for cancer diagnostics is estimated at £4 billion. With our unique offering of histopathology, plus cutting-edge genomics, we are well placed to capitalise on the increasing demand for genetic testing and companion diagnostics.

In Life Sciences, we have established Source BioScience as one of the leading operations in Europe for conventional and next generation sequencing. This status will be further enhanced with the introduction of the Illumina HiSeq 2000 high throughput platform. There is an expanding, global market for outsourced next generation sequencing estimated to be worth £100 million by the end of 2011. We will continue to invest in the most appropriate technology, and bioinformatics support, to grow our share of this market.

We also believe that we have significant untapped potential within our Life Sciences products portfolio. We have a unique portfolio comprising over 16 million clones and more than 90,000 antibodies in addition to other cell biology and research tools. We have been working to enhance our e-commerce platform and online catalogue and will shortly be launching a new Life Sciences website. This will improve the customer experience but also enable customers to access our full spectrum of products and services through a single portal. It will also enable us to exploit the opportunities to bundle products and services and cross-sell more readily across our customer base.

Acquisitions

The Group has significant cash resources, more than sufficient to support the organic growth strategy and investment in advanced technology platforms as outlined above.

Growth through acquisition represents an important component of the long term business strategy of the Board as we continue building a strong vibrant company. The integration of previous acquisitions has been very successful with solid foundations across the Group and exciting opportunities to create growth. As we continue to look for suitable additions our criteria is exacting to ensure that shareholders and company alike benefit, thus maintaining a track record of success and value.

In the current recessionary economic environment it would be appropriate to assume that there are great value opportunities, however vendors are still maintaining high expectations and in many instances their businesses are underperforming operationally and financially in stark contrast to their perceived value.

We have reviewed many situations and will continue to identify and appraise acquisition candidates, in the UK and overseas, progressing those opportunities which the Board believe will enhance our business and increase shareholder value.

Laurie Turnbull

Chairman

24 August 2010

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Revenue	2	6,857	6,705	12,735
Cost of sales		(3,888)	(3,842)	(7,109)
Gross profit		2,969	2,863	5,626
Selling and distribution expenses		(675)	(676)	(1,321)
Administrative expenses:				
- normal		(2,092)	(2,013)	(3,892)
- amortisation of intangibles arising from acquisitions		(90)	(102)	(204)
Administrative expenses		(2,182)	(2,115)	(4,096)
Research and development		(95)	(101)	(189)
Operating profit/(loss)		17	(29)	20
Finance income		37	92	147
Finance costs		-	(1)	(2)
Share of results of associate		-	-	43
Profit on ordinary activities before tax		54	62	208
Taxation		16	16	59
Profit attributable to equity holders of the Company		70	78	267
Total comprehensive income attributable to equity holders of the Company		70	78	267
Earnings per share:				
Basic profit per ordinary share	3	0.03p	0.04p	0.13p
Diluted profit per ordinary share	3	0.03p	0.04p	0.13p

There are no items of other comprehensive income.

All results derive from continuing operations.

Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity

As at 30 June 2010

	Attributable to equity holders of the Parent Company				Total equity £'000
	Share capital	Merger and other reserves	Special reserve	Profit and loss reserve	
	£'000	£'000	£'000	£'000	
Balance at 1 January 2009	4,075	2,408	10,788	(2,431)	14,840
Profit for the period	-	-	-	78	78
Total comprehensive income for the period	-	-	-	78	78
Transactions with owners, recorded directly in equity					
Employee share option scheme:					
– value of services provided	-	-	-	41	41
Balance at 30 June 2009	4,075	2,408	10,788	(2,312)	14,959
Balance at 1 July 2009	4,075	2,408	10,788	(2,312)	14,959
Profit for the period	-	-	-	189	189
Total comprehensive income for the period	-	-	-	189	189
Transactions with owners, recorded directly in equity					
Employee share option scheme:					
– value of services provided	-	-	-	51	51
Balance at 31 December 2009	4,075	2,408	10,788	(2,072)	15,199
Balance at 1 January 2010	4,075	2,408	10,788	(2,072)	15,199
Profit for the period	-	-	-	70	70
Total comprehensive income for the period	-	-	-	70	70
Transactions with owners, recorded directly in equity					
Employee share option scheme:					
– value of services provided	-	-	-	49	49
Balance at 30 June 2010	4,075	2,408	10,788	(1,953)	15,318

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	As at 30 June 2010 £'000	As at 30 June 2009 £'000	As at 31 December 2009 £'000
Non-current assets			
Goodwill	6,617	6,617	6,617
Other intangible assets	661	694	638
Investment in associate	223	180	223
Loan to associate	-	111	-
Property, plant and equipment	2,304	2,078	2,492
	9,805	9,680	9,970
Current assets			
Inventories	490	592	509
Trade and other receivables	2,841	2,881	2,633
Cash and cash equivalents	5,518	7,716	7,014
	8,849	11,189	10,156
Current liabilities			
Trade and other payables	3,209	4,631	4,033
Financial liabilities			
- borrowings	3	3	3
- loan notes	-	330	-
Deferred consideration	-	750	750
	3,212	5,714	4,786
Net current assets	5,637	5,475	5,370
Total assets less current liabilities	15,442	15,155	15,340
Non-current liabilities			
Financial liabilities			
- borrowings	-	3	1
Deferred tax	124	193	140
	124	196	141
Net assets	15,318	14,959	15,199
Equity			
Issued share capital	4,075	4,075	4,075
Special reserve	10,788	10,788	10,788
Other reserves	2,408	2,408	2,408
Profit and loss reserve	(1,953)	(2,312)	(2,072)
Total equity	15,318	14,959	15,199

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Cash flows from operating activities			
Profit for the period	70	78	267
Adjustments for:			
Depreciation of tangible fixed assets	390	310	685
Recognition of grant income	(6)	(6)	(13)
Amortisation of capitalised development costs	9	15	29
Amortisation of other intangibles	91	103	206
Share of associate's result	-	-	(43)
Profit on sale of property, plant and equipment	-	(7)	(14)
Interest payable	-	1	2
Interest receivable	(37)	(92)	(147)
Share-based payments – value of employee service	49	41	92
Change in working capital	(404)	428	(156)
Cash generated from operations	162	871	908
Interest paid	-	(1)	(2)
Tax received on behalf of acquired subsidiaries	-	40	40
Tax paid on behalf of acquired subsidiaries	-	-	(29)
Net cash generated from operating activities	162	910	917
Cash flows from investing activities			
Acquisition of subsidiaries	(750)	(750)	(1,080)
Receipts from associate	-	16	127
Purchases of property, plant and equipment	(788)	(196)	(713)
Proceeds from sale of property, plant and equipment	-	13	31
Purchases of intangible assets	(123)	-	(61)
Interest received	4	106	178
Net cash used in investing activities	(1,657)	(811)	(1,518)
Cash flows from financing activities			
Finance lease principal repayments	(1)	(30)	(32)
Net cash used in financing activities	(1)	(30)	(32)
Net (decrease)/increase in cash and cash equivalents	(1,496)	69	(633)
Net (decrease)/increase in cash and cash equivalents	(1,496)	69	(633)
Cash and cash equivalents at beginning of period	7,014	7,647	7,647
Cash and cash equivalents at end of period	5,518	7,716	7,014

Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed consolidated interim financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and
- the interim report includes a fair review of the information required by:
 - DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year)
 - DTR 4.2.8R (disclosure of related party transactions and charges therein)

By order of the Board

Laurie Turnbull
Chairman

Nick Ash
Managing Director

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010

1. Basis of preparation

Source BioScience plc is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interests in associates.

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed and adopted for use in the European Union. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2009, which have been prepared in accordance with IFRS adopted by the European Union.

As required by the Disclosure and Transparency Rules of the Financial Services Authority, these condensed consolidated interim financial statements have been prepared applying the accounting policies that we applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2009. The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year ending 31 December 2010:

- IFRS 3 Business Combinations (revised) which introduces a fundamental change to the treatment of any direct costs incurred as part of the acquisition process. Currently such direct costs are included as a cost of acquisition but on adoption of IFRS 3 (revised) such costs will be expensed in the Statement of Comprehensive Income.

Management consider the adoption of the above change to be a significant change to the accounting treatment currently adopted by the Group. The impact on the consolidated financial statements will depend on the number, size and complexity of acquisitions completed in the relevant period.

The condensed consolidated interim financial statements for the six months ended 30 June 2010 have neither been audited nor reviewed by the Group's auditor. The comparative figures for the financial year ended 31 December 2009 are not the Company's statutory consolidated accounts for that financial year but represent an extract from those accounts. Statutory accounts for the year ended 31 December 2009 were approved by the Board on 29 April 2010 and delivered to the Registrar of Companies. The report of the Auditor on those financial statements was (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The consolidated financial statements of the Group as at and for the year ended 31 December 2009 are available on request from the Company's registered office at 1 Orchard Place, Nottingham Business Park, Nottingham NG8 6PX or at www.sourcebioscience.com.

The condensed consolidated interim financial statements are presented in pounds sterling, rounded to the nearest thousand pounds. They are prepared on the historical cost basis except for the valuation to fair value of certain assets as indicated.

The preparation of the condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key source of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2009.

There have been no related party transactions or changes in related party transactions described in the latest annual report that could have a material effect on the financial position or performance of the Group in the first six months of this financial year.

The condensed consolidated interim financial statements for the six months ended 30 June 2010 were approved by the Board of Directors on 24 August 2010.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010

2. Operating segments

Information about reporting segments

At 30 June 2010, the Group's trading operations were organised into three main operating divisions:

- Healthcare (comprising the business units of Cytology and Diagnostic Pathology)
- Pharma Biotech Services
- Life Sciences

During the period there were immaterial sales between business segments (six months ended 30 June 2009: immaterial; year ended 31 December 2009: immaterial) and where these do occur they are at arm's length pricing.

Unallocated costs represent corporate expenses and common operating costs. Segment assets include intangible assets including goodwill, plant and equipment, stocks and debtors. Unallocated assets include property, central debtors and prepayments and operating cash. Segment liabilities comprise operating liabilities and exclude borrowings. Segment capital expenditure comprises additions to plant and equipment and capitalised development costs.

Six months ended 30 June 2010

	Healthcare £'000	Pharma Biotech Services £'000	Life Sciences £'000	Unallocated £'000	Group £'000
Revenue	3,549	526	2,782	-	6,857
Segment result	1,036	140	346	(1,505)	17
Finance income				37	37
Finance costs				-	-
(Loss)/profit before tax				(1,468)	54
Taxation				16	16
Profit/(loss) for the period	1,036	140	346	(1,452)	70
Segment assets	2,895	281	8,757	-	11,933
Unallocated assets					
- property, plant and equipment				482	482
- debtors and prepayments				721	721
- cash and cash equivalents				5,518	5,518
Total assets	2,895	281	8,757	6,721	18,654
Segment liabilities	827	66	598	-	1,491
Unallocated liabilities					
- creditors and accruals				1,845	1,845
Total liabilities	827	66	598	1,845	3,336
Other segment items					
Capital expenditure					
- tangible assets	14	-	106	82	202
- intangible assets	98	-	25	-	123
Depreciation	122	2	186	80	390
Amortisation of intangible assets	-	5	95	-	100
Other non-cash expenses					
- share option scheme	-	-	-	49	49

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010

2. Operating segments (continued) Information about reporting segments (continued)

Six months ended 30 June 2009

	Healthcare £'000	Pharma Biotech Services £'000	Life Sciences £'000	Unallocated £'000	Group £'000
Revenue	3,595	418	2,692	-	6,705
Segment result	911	107	374	(1,421)	(29)
Finance income				92	92
Finance costs				(1)	(1)
(Loss)/profit before tax				(1,330)	62
Taxation				16	16
Profit/(loss) for the period	911	107	374	(1,314)	78
Segment assets	3,189	211	8,616	-	12,016
Unallocated assets					
- property, plant and equipment				522	522
- debtors and prepayments				615	615
- cash and cash equivalents				7,716	7,716
Total assets	3,189	211	8,616	8,853	20,869
Segment liabilities	1,735	156	1,701	-	3,592
Unallocated liabilities					
- creditors and accruals				2,318	2,318
Total liabilities	1,735	156	1,701	2,318	5,910
Other segment items					
Capital expenditure					
- tangible assets	403	-	126	30	559
Depreciation	114	10	111	75	310
Amortisation of intangible assets	-	11	107	-	118
Other non-cash expenses					
- share option scheme	-	-	-	41	41

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010

2. Operating segments (continued) Information about reporting segments (continued)

Year ended 31 December 2009

	Healthcare £'000	Pharma Biotech Services £'000	Life Sciences £'000	Unallocated £'000	Group £'000
Revenue	6,934	892	4,909	-	12,735
Segment result	1,937	216	495	(2,585)	63
Finance income				147	147
Finance costs				(2)	(2)
(Loss)/profit before tax				(2,440)	208
Taxation				59	59
Profit/(loss) for the year	1,937	216	495	(2,381)	267
Segment assets	2,803	299	8,770	-	11,872
Unallocated assets					
- property, plant and equipment				497	497
- debtors and prepayments				743	743
- cash and cash equivalents				7,014	7,014
Total assets	2,803	299	8,770	8,254	20,126
Segment liabilities	799	61	1,979	-	2,839
Unallocated liabilities					
- creditors and accruals				2,088	2,088
Total liabilities	799	61	1,979	2,088	4,927
Other segment items					
Capital expenditure					
- tangible assets	426	-	854	79	1,359
- intangible assets	61	-	-	-	61
Depreciation	247	12	286	140	685
Amortisation of intangible assets	-	21	214	-	235
Other non-cash expenses					
- share option scheme	-	-	-	92	92

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2010

3. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity shareholders of the Parent Company by the weighted average number of shares outstanding during the period. Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity shareholders by the weighted average number of ordinary shares outstanding during the period adjusted for the effects of dilutive options.

The calculation of basic and diluted earnings per share for each respective period is outlined in the table below:

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
Earnings (£'000)	70	78	267
Basic EPS			
Weighted average number of shares	203,765,232	203,765,232	203,765,232
Earnings per share	0.03p	0.04p	0.13p
Diluted EPS			
Weighted average number of shares	203,765,232	203,765,232	203,765,232
Dilutive options adjustment	6,638,536	1,092,818	3,119,110
Weighted average number of shares adjusted for dilutive options	210,403,768	204,858,050	206,884,342
Diluted earnings per share	0.03p	0.04p	0.13p

IAS 33 Earnings Per Share requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. Assuming that option holders will not exercise out of the money options, no adjustment has been made to the diluted earnings per share for out of the money share options.

4. Interim results

Copies of the interim results for the six months ended 30 June 2010 will be sent to all shareholders and will be posted on the Company's website at www.sourcebioscience.com. In addition, copies may be obtained from the Company Secretary at Source BioScience plc, 1 Orchard Place, Nottingham Business Park, Nottingham NG8 6PX.

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About Source BioScience:

Source BioScience (LSE: SBS) is a highly focused healthcare and biotechnology company providing diagnostic and screening services to the healthcare community and genetic analyses and biomolecular tools and products to the life science research and pharma biotech sectors.

Its Healthcare operations provide screening and reference laboratory diagnostic testing for cancer and other diseases and additional predictive testing for treatment optimisation for clinicians and patients. Pharma Biotech Services offers support for early stage therapeutic development, offering a 'one-stop shop' from tissue pathology, immunohistochemistry, sophisticated image analysis, biomarker determination and assay development to pharmacogenomics including genotyping and gene expression analysis. The Life Sciences division provides core laboratory research support from conceptualisation to implementation, calling upon a wide range of cutting-edge technology platforms including an online catalogue of biomolecular tools. This incorporates DNA sequencing, whole genome amplification and a comprehensive library of genomic reagents and clones including cDNA and RNAi, as well as facilitating rapid access to high quality antibodies, cell cultures, diagnostic assays for cancer and other genetic testing, and related research tools.

The Group has its headquarters in Nottingham, UK where it operates state of the art reference laboratory facilities, with additional laboratory facilities in London, Cambridge, Oxford and Dublin, Ireland. Source BioScience is CPA, GLP and GCP accredited and is licensed by the Human Tissue Authority.

Further information about Source BioScience can be found at www.sourcebioscience.com

GLOSSARY

Antibodies	Antibodies are proteins that are found in blood or other bodily fluids; they are used by the immune system to identify and neutralise foreign objects, such as bacteria and viruses. Antibodies are also used as highly specific probes for detecting proteins of interest in tissues. A wide range of antibodies with a large variety of cellular targets is available to research scientists through distributors such as Source BioScience.
Bioinformatics	The application of information technology, and computer science, to the field of molecular biology. Common activities in bioinformatics include mapping and analysing DNA and protein sequences, aligning different DNA sequences to compare them and handling and analysing huge data sets generated by the latest sequencing technologies.
Biomarkers	Biomarkers often refer to substances found in blood, urine or tissue, changes in which may be used to indicate presence of disease or response to treatment. More generally the term biomarker refers to any molecule that can be used to monitor a particular cellular process and may be a protein, DNA or RNA molecule.
Capillary Electrophoresis DNA Sequencing (also known as Sanger sequencing or conventional sequencing)	DNA sequences are determined using a chemical reaction that results in an array of products that terminate in a different fluorescent coloured dye, which vary in size by one nucleotide. The products are separated, like the rungs of a ladder, by passing them through a capillary with an electric current and determining the order in which they emerge. This method was used for the large DNA sequencing projects of the last 15 years and remains the only way of inexpensively analysing large numbers of small sets of samples (see also Next Generation DNA Sequencing – below).
CYP2D6	Breast cancer patients with certain genetic variations in the CYP2D6 gene may be slow metabolisers of the drug tamoxifen to its active metabolite endoxifen. In this case changes to the treatment regime may be indicated because the efficacy of the drug is reduced.
Circulating Tumour Cells ('CTC')	The identification of small numbers of cancer cells circulating in the blood has been shown to be of potential prognostic significance in breast cancer, colorectal or prostate cancer, and useful for monitoring response to drug therapy.
Clinical Pathology Accreditation ('CPA')	CPA is the accreditation body for clinical pathology services. Accreditation involves audit of the ability of a laboratory to provide a service of high and consistent quality by declaring a defined standard of practice, which is performed by the CPA accreditation body.
Companion Diagnostic	A test based on a biomarker (which might be a protein, DNA or RNA molecule), the presence or absence of which is associated with the likely efficacy of a drug or other treatment. Companion diagnostics are useful in stratifying patients into groups which are known to respond in a particular way to a drug. A good example of such a test from the Source BioScience

	breast cancer portfolio is the HER2 test, which assesses levels of the HER2 protein, expression of which is correlated with response to Herceptin.
DNA and cDNA	DNA (DeoxyriboNucleic Acid) is a large, complex molecule which, by virtue of a unique sequence of building blocks, contains all the genetic information required to create a cell or organism. cDNA (complementary DNA) can be made from all the genes in a genome, from a single gene, or from part of a gene. cDNA is DNA that has been synthesised artificially using an RNA template (see below) from the gene(s) selected.
Duty of Care Review	An audit of a specific pathologist's practice. Pathology departments have a duty of care to patients whose treatment or clinical management may need to be changed in the light of revised opinions arising from a review of a pathologist's or team's work. Where good practice is suspected to have broken down it may be necessary to arrange a systematic review of cases to fulfil a department's duty of care to their patients. Source BioScience offers a full duty of care review service to pathology departments that need specialist second opinion in these circumstances.
FocalPoint ('FP')	An automated imaging system for screening SurePath liquid based cytology slides. It uses complex algorithms to interpret the images of each slide and decide the 10 'fields of view' most likely to have any abnormal cells. It can archive up to 25% as 'no further review' which then do not need to be manually screened.
Fluorescence In Situ Hybridisation ('FISH')	In situ hybridisation ('ISH') is a powerful technique, not unlike immunohistochemistry (below), for visualising the presence of specific sequences of DNA or RNA in tissue sections. The technique uses short synthetic sequences of DNA or RNA which will bind, or hybridise, to the tissue with high specificity for the DNA or RNA of interest. Fluorescent 'tags' are attached to these synthetic sequences, allowing them to be visualised with a special microscope, even when present at very low levels (FISH).
Genomics	Genomics is the study of an organism's entire genome, where the genome of an organism is its whole hereditary information and is encoded in the DNA (see above) and RNA (see below). This includes both the genes and the non-coding sequences of the DNA.
Genomic clone libraries	A clone library is a collection of clones containing complementary DNA ('cDNA') (see above) and is often intended to represent the genes that are expressed within a given cell or tissue type at a given period.
Genomic products and reagents	In this instance, DNA or RNA extracted and purified from a range of species and provided in a variety of forms for research purposes.
Genotyping and sequencing	DNA sequencing is the process of precisely ordering the building blocks, or nucleotides, of an organism's DNA. The method can be used to determine short sequences of DNA or, in larger experiments, to sequence the entire genome of an organism. Genotyping, in turn, is the process whereby DNA is characterised and then compared to reference data or, if large numbers of samples are genotyped, the data can be examined for patterns which might lead to discoveries of the fundamental causes of inherited diseases. Genotyping is commonly performed by PCR (below) or DNA sequencing.
Good Clinical Practice ('GCP')	Good Clinical Practice is an international ethical and scientific quality standard for designing, conducting, recording and reporting clinical trials that involve the participation of human subjects. Compliance with this standard provides public assurance that the rights, safety and well-being of trial subjects are protected, consistent with principles that have their origin in the Declaration of Helsinki. Compliance with the principles of GCP is assured via monitoring by a governmental agency, the Medicines and Healthcare products Regulatory Agency ('MHRA').
Good Laboratory Practice ('GLP')	Good Laboratory Practice is a set of principles that provides a framework within which laboratory studies are planned, performed, monitored, recorded, reported and archived. These studies are undertaken to generate data by which the hazards and risks to users can be assessed for pharmaceuticals (only preclinical studies). GLP helps assure regulatory authorities that data submitted is a true reflection of the results obtained during the study and can therefore be relied upon when making risk/safety assessments. Compliance with the principles of GLP is assured via monitoring by the Medicines and Healthcare products Regulatory Agency ('MHRA').
HER2	Human Epidermal growth factor Receptor 2 is a protein whose over-expression within a breast tumour sample may indicate a patient is suitable for treatment with Herceptin. A test for such over-expression is carried out on all new breast cancer patients.

Histopathology	The study of changes in tissues and cells as a consequence of some disease or toxic processes.
Immunohistochemistry ('IHC')	Immunohistochemistry is a technique for visualising proteins and other molecules in thin sections of tissue. This technique uses antibodies raised in other species against the protein of interest as a tool, and exploits their exquisite sensitivity and specificity for binding to that protein.
K-RAS	K-RAS is a gene that produces an important cell signalling protein responsible for cell growth. The presence of a mutated form of the K-RAS gene in colorectal cancer may indicate that a patient is unsuitable for new anti-EGFR drugs such as Erbitux and Vectibix.
Liquid based cytology ('LBC')	Liquid based cytology is a process for collecting and processing cytology samples from epithelial tissues such as the cervix. It produces a cleaner preparation of cells, without the other materials which frequently contaminate the sample such as blood or mucus.
Next Generation DNA Sequencing ('NGS'), Illumina GAIIX™ and Illumina HiSeq 2000™	Next Generation DNA Sequencing refers generically to a set of recent technologies, in our case Illumina GAIIX and Illumina HiSeq 2000 in which extremely large numbers of short sequences can be determined in a single experiment; for example the Illumina HiSeq 2000 selected by Source BioScience can sequence two human genomes in approximately one week.
RNA	RNA (RiboNucleic Acid) is a molecule similar to DNA, but is an intermediate product between the DNA of the gene, and the ultimate protein product of that gene. The level of expression of a gene can be gauged by the amount of RNA synthesised from that gene, a process usually measured by quantitative real-time polymerase chain reaction ('Q-PCR').
RNA expression analysis	RNA expression analysis measures the activity of a large number of genes simultaneously, generating a global picture of cellular function. The expression analyses, or profiles, can distinguish between cells that are actively dividing, for example, or show how the cells react to a particular treatment.

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