

27 August 2008

## Source BioScience plc

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

### Interim results for the six months ended 30 June 2008

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 results for the six months ended 30 June 2008.

#### Financial highlights

- Revenue up 88% to £5.9 million
- Operating loss (before exceptional items) reduced by 55% to £0.4 million
- Loss for the period reduced by 40% to £0.2 million
- Operations now cash generative (2007: £0.9 million negative)
- Cash reserves of £8.3 million

#### Key events

- Acquisition of Autogen Bioclear UK Limited, a profitable and cash-generative privately owned UK business, for up to £5.9 million enhancing the Group's portfolio for life science research products
- Investment in the Illumina, Inc. next generation DNA sequencing and genotyping platforms with applications in life science research and molecular diagnostics for healthcare, becoming the UK's first commercial service provider for these leading edge technologies
- Change of name to Source BioScience plc to more appropriately reflect the nature and scope of the Group's activities

#### Post period event

- Also announced today, the Board is proposing that the Company restructure its balance sheet. This will enable the payment of future dividends out of distributable profits and provide the flexibility for the Company to purchase its own shares, should circumstances and opportunity allow

Laurie Turnbull, Executive Chairman, said: **"The Group has maintained good momentum during the first half of the year with strong performance across each of our divisions. This robust first half performance underpins confidence in the continued improvement in the financial performance of the Group for the full year.**

**"We believe the growth opportunities across the Group are strong. We expect demand for our services and products to grow and we will continue to enhance our product and service portfolio to meet that demand. We are also exploring new markets for our products and services and looking to exploit the cross-selling opportunities we now have from our broad customer base and extended portfolio."**

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**About Source BioScience:**

Source BioScience plc (LSE: SBS) is a highly focused healthcare and biotechnology company offering expert, quality services and products to the healthcare, pharma biotech and life science research sectors. Its Healthcare division provides the latest cytology screening equipment and techniques as well as diagnostic testing for cancer and other diseases, including 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 Science Research 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 where it operates state of the art reference laboratory facilities, with additional laboratory facilities in Cambridge and Oxford. Source BioScience is CPA, GLP and GCP accredited and is licensed by the Human Tissue Authority.

Further information is available on the Source BioScience website: [www.sourcebioscience.com](http://www.sourcebioscience.com)

# Chairman's Statement

## Introduction

The first half of 2008 has been another period of continued growth and development for Source Bioscience. In March we completed our second acquisition within twelve months acquiring Autogen Bioclear UK Limited ('Autogen Bioclear'). This expanded the Group's product portfolio and enhanced our Life Science Research activities. Since the acquisition, there has been significant focus on the rapid and effective integration of the business into the Group to consolidate the operations and crystallise the commercial opportunities.

In our interim management statement issued on 13 May 2008 we reported a strong first quarter performance and this strong performance has continued for the full six months to 30 June 2008, underpinning confidence in the continued improvement in the financial performance of the Group for the full year.

As also announced today, the Board is proposing that the Company cancel its share premium account in order to restructure the Company's balance sheet, subject to shareholder and court approval. This will allow the payment of dividends out of future distributable profits in the event that the Company is profitable and has sufficient resources to do so. In addition, it will enable the Company the flexibility to purchase its own shares should circumstance and opportunity allow. The ability of the Company to pay dividends out of future profits and acquire its own shares is an important component of the Board's strategy to deliver value to shareholders.

## Financial Review

Turnover for the six months ended 30 June 2008 increased by 88% to £5.9 million compared with the first half of 2007 (2007: £3.1 million). Of the £2.8 million revenue growth, £2.4 million was attributable to our new Life Science Research division representing the acquired businesses of Geneservice (£1.6 million revenue) and Autogen Bioclear (£0.8 million revenue). There was also strong organic growth in our Healthcare division which delivered sales growth of 13% compared with the same period last year.

The cost base of the enlarged Group has increased in line with expectations following the expansion of the operations and acquisitions. However, it is worth noting that normal administrative expenses for the period fell to 36% of revenue compared with 56% for the same period last year. This improvement has been achieved through increased efficiency of operations and demonstrates the continued importance the Board places on cost control within the business.

The operating loss was £0.4 million (2007: £0.9 million before exceptional item of £0.2 million credit) and the loss before taxation was £0.2 million (2007: £0.3 million).

Cash was generated from operations. After acquisitions, and other non-trading items, net cash outflow was £4.0 million (2007: £1.1 million outflow). The initial net consideration for Autogen Bioclear was £2.7 million (note 6) and deferred consideration for Geneservice was £1.4 million. We also invested £0.3 million in our new technology platforms including the Illumina next generation gene sequencing and genotyping platforms and the FocalPoint™ automated cytology screening system. The Group's cash balance was £8.3 million as at 30 June 2008 (30 June 2007: £14.1 million; 31 December 2007: £12.3 million).

## Divisional Performance Review

### Healthcare

Revenues were in line with expectations for our Cytology business at £2.2 million (2007: £2.1 million) and exceeded expectations for our Diagnostic Pathology operations, growing 34% to £1.1 million for the period (2007: £0.8 million).

Both business units improved financial performance in the period. Cytology generated a profit of £0.6 million, up 9% on the same period last year and Diagnostic Pathology generated a profit of £0.2 million, compared with break-even performance in 2007.

## **Chairman's Statement**

### ***Diagnostic Pathology***

Our Diagnostic Pathology operations have benefited from a significant amount of non-recurring work in the period but underlying laboratory activity has also been strong for both routine diagnostic services and, increasingly, for our molecular diagnostic offering.

The first half of 2008 has seen increasing demand, primarily from the private healthcare sector, for our molecular diagnostic tests. These include the *OncotypeDX*<sup>™</sup> prognostic test for breast cancer and the K-RAS gene test which indicates whether patients are unlikely to respond favourably to particular therapies for certain types of cancer, making treatment more cost effective.

Our strategy is to expand the range of diagnostic tests we provide but also to extend the penetration of our molecular diagnostic offering 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.

Molecular diagnostics can also be used as companion tests. Companion diagnostic tests indicate the likely response, or non-response, of a patient to specific therapies. There is increasing demand for targeted therapies as a means to improve treatment success and reduce costs. Accordingly there is increasing demand for companion diagnostics to identify which patients are likely to respond and which are not. The K-RAS test is one example of such a companion diagnostic. Recent studies in colorectal and lung cancers show that mutations in the K-RAS gene can impart resistance to some therapies and a positive result from the K-RAS test indicates that a patient is unlikely to respond favourably to those therapies.

During the second half of this year we aim to strengthen 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.

### ***Cytology***

During 2007 we completed our liquid based cytology roll-out programme to those regions that selected the *SurePath*<sup>™</sup> system. As a consequence, we expected revenue from our existing Cytology operations to be consistent with the second half of 2007.

We have identified the introduction of automated cervical cancer screening in the UK as a significant opportunity for the Group and during the period we received the first payment from an NHS customer for our *FocalPoint*<sup>™</sup> automated cytology screening offering. This represents an important milestone and demonstrates the intent of the NHS to accept and adopt this technology into the cervical screening programme. *FocalPoint*<sup>™</sup> is highly complementary with our existing Cytology business and enables the automated screening of cytology slides produced using the *SurePath*<sup>™</sup> liquid based cytology system. With over 3.5 million cytology slides manually screened for cervical cancer every year in the UK, cytology lends itself to increased automation.

In the second half of this year we will continue to support the Government's ongoing Health Technology Assessment trial of automated cytology screening systems. We will also continue to collaborate with NHS trusts to demonstrate the utility of the *FocalPoint*<sup>™</sup> system within the clinical setting.

### **Pharma Biotech Services**

In the period ended 30 June 2008, Pharma Biotech Services has maintained the sales performance achieved during the first half of 2007 with revenue of £0.2 million (2007: £0.2 million). However, better utilisation of resources improved overall financial performance by £0.1 million, to an operating loss of £0.1 million, for period (2007: £0.2 million operating loss).

We have continued to focus our sales and marketing activity on the smaller to medium pharmaceutical and biotechnology companies with operations located mainly in the UK and Europe. We are, however, seeing increased interest from a broader spectrum of pharma biotech customers in our enhanced "one-stop shop" pathology to genomics offering. The combination of our established pathology expertise combined with our biomaterials resource of human tissue, DNA and RNA libraries represents a powerful offering particularly with accelerating interest in targeted therapies, as highlighted above.

## Chairman's Statement

Maintaining our laboratory accreditations is key to generating growth especially where we are performing work associated with regulatory studies and clinical trials. We have enhanced our quality environment with accreditation for Good Clinical Practice ('GCP') being awarded to the Group in February 2008 and have maintained our Good Laboratory Practice ('GLP') status and Human Tissue Authority license throughout the period.

We will continue to promote our genomic capability to pharmaceutical companies which require 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. Current opinion on the genetics of diseases suggests that cancer, diabetes and cardiovascular disease are likely to be the areas of focus for pharmaceutical companies looking to employ pharmacogenomic analysis.

### Life Science Research

Life Science Research performed strongly in the period; revenue was £2.4 million and the division delivered an operating profit of £0.3 million.

Revenue from gene sequencing, genotyping and genomic reagents grew by 26% to £1.6 million compared with the second half of 2007 (H2 2007: £1.3 million). This was a result of the rapid and effective integration of the Geneservice business and cross-selling opportunities being identified and exploited. The Geneservice business operating profit reflected this, improving to £245,000 compared with £71,000 for the second half of 2007. Again, there has been a number of non-recurring projects in the period; however Source BioScience is clearly competing effectively in this market.

Technologies within this sector are developing rapidly and we recognise the need to stay at the forefront of genomic services. During the period we brought in-house the latest in next generation gene sequencing and genotyping technologies by investing in the Illumina Genome Analyser™ and Illumina Beadstation™ platforms. Source BioScience is the first commercial service provider of these technologies in the UK and we are working in partnership with the supplier and end users to develop the market and applications for this service.

We have seen the continued success of our model to embed our services within academic centres and provide them with core genomic services. This has proved successful with our Oxford laboratory which is based within the Department of Biochemistry at Oxford University. We are pursuing opportunities to duplicate this model in other major genomic research centres where we can consolidate the existing service provision and secure volumes for our embedded technology.

On 10 March 2008 we were delighted to announce the acquisition of Autogen Bioclear for consideration of up to £5.9 million (note 6). Autogen Bioclear distributes a wide range of products for applications in life sciences and clinical research, offering customers rapid access to high quality, leading-edge genomic products, antibodies, cell culture, diagnostic kits and related research tools. The business is highly complementary with the Group's existing Life Science Research activities and its customers include academic and research institutions, NHS laboratories and pharma biotech companies.

Since the acquisition, there has been significant focus on the integration of the Autogen Bioclear business into the Group to consolidate the operations and crystallise the commercial opportunities.

Turnover in the period since acquisition was £0.8 million and operating profit was £0.1 million. This was in line with expectations after taking into account employment costs for the vendors in their new roles within the Group and one-off costs associated with restructuring and integrating the business.

During the second half of the year we will continue to enhance our Life Science Research product and service portfolio. In particular, there are significant opportunities to expand our range of genomic products and antibodies. Potential partners are being attracted by our broad customer base combined with our technical ability and credibility as a provider of genomic services as well as genomic products.

We are also examining routes to overseas markets for both our life science products and services, especially those in East Asia and the Far East where there is significant demand for our product and service portfolio. We already operate an extensive online catalogue for our entire portfolio of genomic reagents and antibodies and we will exploit this through local distributor networks where appropriate.

## **Chairman's Statement**

### **Board**

On 27 June 2008 we were delighted to announce the appointment of Dr Nick Leaves to the Board as Operations Director, from his existing position as Head of Operations for the Group. Nick has been instrumental in integrating the Geneservice and Autogen Bioclear operations and will be a great asset to the Board as we continue to expand our activities. As also announced, Dr Tom Weaver, Commercial Director, left the Group at the end of July and we wish him every success in his new role at the Medical Research Council.

### **Prospects**

It has been the short term objective of the Board to deliver profit before tax and cash generation. Excluding the cash impact in the period of the acquisitions of Geneservice and Autogen Bioclear, in aggregate £4.1 million, the Group was cash generative. It remains the short term objective to deliver profitability. The Group has maintained good momentum during the first half of the year with strong performance across the divisions. This robust first half performance underpins confidence in the continued improvement in the financial performance of the Group for the full year.

As highlighted above, we believe the growth opportunities across the Group are strong. We expect demand for our services and products to grow and we will continue to enhance our product and service portfolio to meet that demand. We are exploring new markets for our products and services and looking to exploit the cross-selling opportunities we now have from our broad customer base and expanded portfolio.

We will continue to equip the business with the necessary skills, expertise, technology and products to deliver controlled growth and value to shareholders.

Laurie Turnbull

Executive Chairman

27 August 2008

# Unaudited Consolidated Income Statement

For the six months ended 30 June 2008

	Note	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Revenue	2	5,874	3,120	7,531
Cost of sales		(3,444)	(1,851)	(4,404)
<b>Gross profit</b>		<b>2,430</b>	<b>1,269</b>	<b>3,127</b>
Selling and distribution expenses		(592)	(353)	(680)
Administrative expenses:				
- normal		(2,126)	(1,735)	(3,731)
- restructuring costs		-	-	(29)
- exceptional credit	5	-	206	206
Administrative expenses		(2,126)	(1,529)	(3,554)
Research and development		(109)	(61)	(110)
<b>Operating loss</b>		<b>(397)</b>	<b>(674)</b>	<b>(1,217)</b>
Finance income		195	386	728
Finance costs		(6)	(12)	(24)
Share of results of associate		27	(4)	(20)
<b>Loss on ordinary activities before tax</b>		<b>(181)</b>	<b>(304)</b>	<b>(533)</b>
Taxation		-	-	-
<b>Loss attributable to equity holders of the Company</b>		<b>(181)</b>	<b>(304)</b>	<b>(533)</b>
<b>Earnings per share:</b>				
Basic and diluted loss per ordinary share	3	(0.09)p	(0.15)p	(0.26)p

All results derive from continuing operations

# Unaudited Consolidated Statement of Changes in Shareholders' Equity

As at 30 June 2008

	Attributable to equity holders of the Parent Company				<b>Total equity</b>
	Share capital	Share premium	Merger and other reserves	Profit and loss reserve	
	£'000	£'000	£'000	£'000	
Balance at 1 January 2007	4,075	32,284	2,408	(23,340)	<b>15,427</b>
Loss for the period	-	-	-	(304)	<b>(304)</b>
Total recognised expense for the period	-	-	-	(304)	<b>(304)</b>
Employee share option scheme:					
– value of services provided	-	-	-	15	<b>15</b>
<b>Balance at 30 June 2007</b>	<b>4,075</b>	<b>32,284</b>	<b>2,408</b>	<b>(23,629)</b>	<b>15,138</b>
Balance at 1 July 2007	4,075	32,284	2,408	(23,629)	<b>15,138</b>
Loss for the period	-	-	-	(229)	<b>(229)</b>
Total recognised expense for the period	-	-	-	(229)	<b>(229)</b>
Employee share option scheme:					
– value of services provided	-	-	-	55	<b>55</b>
<b>Balance at 31 December 2007</b>	<b>4,075</b>	<b>32,284</b>	<b>2,408</b>	<b>(23,803)</b>	<b>14,964</b>
Balance at 1 January 2008	4,075	32,284	2,408	(23,803)	<b>14,964</b>
Loss for the period	-	-	-	(181)	<b>(181)</b>
Total recognised expense for the period	-	-	-	(181)	<b>(181)</b>
Employee share option scheme:					
– value of services provided	-	-	-	58	<b>58</b>
<b>Balance at 30 June 2008</b>	<b>4,075</b>	<b>32,284</b>	<b>2,408</b>	<b>(23,926)</b>	<b>14,841</b>

# Unaudited Consolidated Balance Sheet

As at 30 June 2008

	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 31 December 2007 £'000
<b>Non-current assets</b>			
Goodwill	7,558	583	3,729
Other intangible assets	266	80	347
Investment in associate	180	144	128
Loan to associate	134	125	130
Property, plant and equipment	2,044	1,411	1,709
	<b>10,182</b>	<b>2,343</b>	<b>6,043</b>
<b>Current assets</b>			
Inventories	576	455	435
Trade and other receivables	2,828	1,608	1,903
- cash and cash equivalents	8,341	14,083	12,267
	<b>11,745</b>	<b>16,146</b>	<b>14,605</b>
<b>Current liabilities</b>			
Trade and other payables	3,884	3,064	3,034
Financial liabilities			
- borrowings	111	166	166
- loan notes and deferred consideration	1,734	-	2,133
	<b>5,729</b>	<b>3,230</b>	<b>5,333</b>
<b>Net current assets</b>	<b>6,016</b>	<b>12,916</b>	<b>9,272</b>
<b>Total assets less current liabilities</b>	<b>16,198</b>	<b>15,259</b>	<b>15,315</b>
<b>Non-current liabilities</b>			
Financial liabilities			
- borrowings	19	121	51
- loan notes and deferred consideration	1,338	-	300
	<b>1,357</b>	<b>121</b>	<b>351</b>
<b>Net assets</b>	<b>14,841</b>	<b>15,138</b>	<b>14,964</b>
<b>Equity</b>			
Issued share capital	4,075	4,075	4,075
Share premium	32,284	32,284	32,284
Other reserves	2,408	2,408	2,408
Profit and loss reserve	(23,926)	(23,629)	(23,803)
<b>Total equity</b>	<b>14,841</b>	<b>15,138</b>	<b>14,964</b>

# Unaudited Consolidated Cashflow Statement

For the six months ended 30 June 2008

	Note	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
<b>Cash flows from operating activities</b>				
Cash generated from/(used in) operations	4	33	(863)	(1,126)
Interest paid		(6)	(12)	(22)
Tax paid on behalf of acquired subsidiaries		(144)	-	(40)
<b>Net cash used in operating activities</b>		<b>(117)</b>	<b>(875)</b>	<b>(1,188)</b>
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries		(5,244)	-	(1,503)
Cash acquired with subsidiaries		1,474	-	269
Transaction costs in relation to acquisitions		(335)	-	(444)
Investment in associate		(25)	(148)	(148)
Loan to associate		-	(125)	(125)
Purchases of property, plant and equipment		(280)	(64)	(347)
Proceeds from sale of property, plant and equipment		546	-	15
Transaction costs arising from sale of subsidiary		-	(53)	(53)
Interest received		142	200	726
<b>Net cash used in investing activities</b>		<b>(3,722)</b>	<b>(190)</b>	<b>(1,610)</b>
<b>Cash flows from financing activities</b>				
Repayment of borrowings		(57)	(53)	(108)
Finance lease principal repayments		(30)	(28)	(56)
<b>Net cash used in financing activities</b>		<b>(87)</b>	<b>(81)</b>	<b>(164)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,926)</b>	<b>(1,146)</b>	<b>(2,962)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,926)</b>	<b>(1,146)</b>	<b>(2,962)</b>
Cash and cash equivalents at beginning of period		12,267	15,229	15,229
<b>Cash and cash equivalents at end of period</b>		<b>8,341</b>	<b>14,083</b>	<b>12,267</b>

## Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed consolidated interim financial statements 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**  
Executive Chairman

By order of the Board

**Nick Ash**  
Managing Director

# Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2008

## 1. Basis of preparation

Source BioScience plc is a company domiciled in the United Kingdom. The condensed consolidated financial interim statements of the Company as at and for the six months ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interests in associates.

These 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 2007, which have been prepared in accordance with IFRSs 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 2007. The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year ending 31 December 2008:

- IFRIC 11, IFRS 2 Group and Treasury Share Transactions – effective for annual periods beginning on or after 1 March 2007
- IFRIC 12 Service Concession Arrangements – effective for annual periods beginning on or after 1 January 2008
- IFRIC 14 Recognition of a Defined Benefit Pension Scheme Surplus – effective for annual periods beginning on or after 1 January 2008

Management do not expect the adoption of these amendments to materially affect the Group results or financial position.

The interim condensed consolidated financial statements for the six months ended 30 June 2008 have not been audited or reviewed by the Group's auditor. The comparative figures for the financial year ended 31 December 2007 are not the Company's statutory consolidated accounts for that financial year. Statutory accounts for the year ended 31 December 2007 were approved by the Board on 24 April 2008 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 237(2) or (3) of the Companies Act 1985. The consolidated financial statements of the Group as at and for the year ended 31 December 2007 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](http://www.sourcebioscience.com).

The 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 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 2007.

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 financial statements for the six months ended 30 June 2008 were approved by the Board of Directors on 27 August 2008.

# Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2008

## 2. Segmental analysis

### Primary reporting format – operating divisions

At 30 June 2008, the Group's continuing trading operations were organised into three main operating divisions:

- Healthcare
- Pharma Biotech Services
- Life Science Research

Healthcare comprises the business units of Diagnostic Pathology and Cytology. The Life Science Research Division incorporates the activities of Geneservice and the newly acquired activities of Autogen Bioclear.

During the period there were immaterial sales between business segments (six months ended 30 June 2007: immaterial; year ended 31 December 2007: 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 2008

	Healthcare		Pharma Biotech Services	Life Science Research	Unallocated	Group
	Diagnostic Pathology	Cytology				
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	1,116	2,172	211	2,375	-	<b>5,874</b>
Segment result	206	552	(120)	339	(1,347)	<b>(370)</b>
Finance income					195	<b>195</b>
Finance costs					(6)	<b>(6)</b>
Loss before tax					(1,158)	<b>(181)</b>
Taxation					-	<b>-</b>
Loss for the period					(1,158)	<b>(181)</b>
Segment assets	1,200	1,532	187	12,141	-	<b>15,060</b>
Unallocated assets						
- property, plant and equipment					594	<b>594</b>
- debtors and prepayments					670	<b>670</b>
- cash and cash equivalents					5,603	<b>5,603</b>
<b>Total assets</b>	<b>1,200</b>	<b>1,532</b>	<b>187</b>	<b>12,141</b>	<b>6,867</b>	<b>21,927</b>
Segment liabilities	170	681	140	4,135	-	<b>5,126</b>
Unallocated liabilities						
- corporate borrowings					48	<b>48</b>
- creditors and accruals					1,912	<b>1,912</b>
<b>Total liabilities</b>	<b>170</b>	<b>681</b>	<b>140</b>	<b>4,135</b>	<b>1,960</b>	<b>7,086</b>
<b>Other segment items</b>						
Capital expenditure - tangible fixed assets	5	210	-	425	44	<b>684</b>
Depreciation	19	174	33	90	70	<b>386</b>
Amortisation of intangible assets	-	-	10	71	-	<b>81</b>
Other non-cash expenses						
- share option scheme	-	-	-	-	58	<b>58</b>

# Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2008

## 2. Segmental analysis (continued)

### Primary reporting format – operating divisions (continued)

Six months ended 30 June 2007

	Healthcare		Pharma Biotech Services	Life Science Research	Unallocated	Group
	Diagnostic Pathology	Cytology				
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	830	2,083	207	-	-	<b>3,120</b>
Segment result	31	507	(195)	-	(1,021)	<b>(678)</b>
Finance income					396	<b>386</b>
Finance costs					(12)	<b>(12)</b>
Loss before tax					(647)	<b>(304)</b>
Taxation					-	<b>-</b>
Loss for the period					(647)	<b>(304)</b>
Segment assets	1,168	1,627	312	-	-	<b>3,107</b>
Unallocated assets						
- property, plant and equipment					567	<b>567</b>
- debtors and prepayments					732	<b>732</b>
- cash and cash equivalents					14,083	<b>14,083</b>
<b>Total assets</b>	<b>1,168</b>	<b>1,627</b>	<b>312</b>	<b>-</b>	<b>15,382</b>	<b>18,489</b>
Segment liabilities	128	854	168	-		<b>1,150</b>
Unallocated liabilities						
- corporate borrowings					160	<b>160</b>
- creditors and accruals					2,041	<b>2,041</b>
<b>Total liabilities</b>	<b>128</b>	<b>854</b>	<b>168</b>	<b>-</b>	<b>2,201</b>	<b>3,351</b>
<b>Other segment items</b>						
Capital expenditure - tangible fixed assets	-	57	-	-	7	<b>64</b>
Depreciation	20	162	57	-	48	<b>287</b>
Amortisation of intangible assets	26	-	11	-	-	<b>37</b>
Other non-cash expenses						
- share option scheme					15	<b>15</b>

# Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2008

## 2. Segmental analysis (continued)

### Primary reporting format – operating divisions (continued)

Year ended 31 December 2007

	Healthcare		Pharma Biotech Services	Life Science Research	Unallocated	Group
	Diagnostic Pathology	Cytology				
	£'000	£'000				
Revenue	1,501	4,242	509	1,279	-	<b>7,531</b>
Segment result	31	1,072	(272)	71	(2,139)	<b>(1,237)</b>
Finance income					728	<b>728</b>
Finance costs					(24)	<b>(24)</b>
Loss before tax					(1,435)	<b>(533)</b>
Taxation					-	<b>-</b>
Loss for the year					(1,435)	<b>(533)</b>
Segment assets	1,243	1,451	197	4,830	-	<b>7,721</b>
Unallocated assets						
- property, plant and equipment					625	<b>625</b>
- debtors and prepayments					324	<b>324</b>
- cash and cash equivalents					11,978	<b>11,978</b>
<b>Total assets</b>	<b>1,243</b>	<b>1,451</b>	<b>197</b>	<b>4,830</b>	<b>12,927</b>	<b>20,648</b>
Segment liabilities	173	666	147	2,868	-	<b>3,854</b>
Unallocated liabilities						
- corporate borrowings					105	<b>105</b>
- creditors and accruals					1,725	<b>1,725</b>
<b>Total liabilities</b>	<b>173</b>	<b>666</b>	<b>147</b>	<b>2,868</b>	<b>1,830</b>	<b>5,684</b>
<b>Other segment items</b>						
Capital expenditure – tangible fixed assets	69	63	8	76	131	<b>347</b>
Depreciation	40	325	82	55	126	<b>628</b>
Amortisation of intangible assets	48	-	21	70	-	<b>139</b>
Other non-cash expenses						
- share option scheme	-	-	-	-	70	<b>70</b>

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2008

### 2. Segmental analysis (continued)

#### Secondary reporting format – geographical segments

The Group manages its business segments on a global basis. The operations are based in the UK which is the home country of the Parent Company, where all assets are located and customer orders are received.

The sales analysis in the table below is based on the location of the customer.

#### Six months ended 30 June 2008 and 30 June 2007

	Revenue		Segment assets		Capital expenditure	
	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000
UK	5,403	3,077	21,927	18,489	684	64
Europe (excluding UK)	260	32	-	-	-	-
North America	154	-	-	-	-	-
Middle East, Asia & Australasia	57	11	-	-	-	-
<b>Total</b>	<b>5,874</b>	<b>3,120</b>	<b>21,927</b>	<b>18,489</b>	<b>684</b>	<b>64</b>

#### Year ended 31 December 2007

	Revenue	Segment assets	Capital expenditure
	Year ended 31 December 2007 £'000	Year ended 31 December 2007 £'000	Year ended 31 December 2007 £'000
UK	7,126	20,648	347
Europe (excluding UK)	245	-	-
North America	80	-	-
Middle East, Asia & Australasia	80	-	-
<b>Total</b>	<b>7,531</b>	<b>20,648</b>	<b>347</b>

#### Analysis of revenue by category

The Group's revenue is analysed as follows:

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Revenue from the provision of services	2,490	997	2,768
Revenue from the sales of goods	3,100	1,864	4,260
Revenue from operating lease rentals	284	259	503
<b>Total</b>	<b>5,874</b>	<b>3,120</b>	<b>7,531</b>

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2008

### 3. Loss per share

Basic loss per share amounts are calculated by dividing net loss for the period attributable to ordinary equity shareholders of the Parent Company by the weighted average number of shares outstanding during the period. Diluted loss per share amounts are calculated by dividing the net loss 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 the six months ended 30 June 2008 is based on the loss attributable to ordinary shareholders of £181,000 (six months ended 30 June 2007: loss of £304,000; year ended 31 December 2007: loss of £533,000) and on the weighted average number of ordinary shares in issue in each respective period of 203,765,232.

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. Net loss per share in a loss-making company would only be increased by the exercise of share options which were out of the money. Assuming that option holders will not exercise out of the money options, no adjustment has been made to the diluted loss per share for out of the money share options.

### 4. Cash generated from/(used in) operations

	Six months ended 30 June 2008	Six months ended 30 June 2007	Year ended 31 December 2007
	£'000	£'000	£'000
<b>Loss for the period from operations</b>	<b>(181)</b>	(304)	(533)
Depreciation of tangible fixed assets	386	287	628
Recognition of grant income	(17)	(18)	(34)
Amortisation of capitalised development costs	14	37	74
Amortisation of other intangibles	67	-	65
Share of associate's (profit)/loss	(27)	4	20
(Profit)/loss on sale of property, plant and equipment	(24)	-	1
Interest payable	6	12	24
Interest receivable	(195)	(386)	(728)
Share-based payments – value of employee service	58	15	70
(Increase)/decrease in inventories	(28)	78	160
(Increase)/decrease in trade and other receivables	(307)	(250)	(249)
Increase/(decrease) in creditors	281	(338)	(624)
<b>Cash generated from/(used in) operations</b>	<b>33</b>	(863)	(1,126)

### 5. Administrative expenses – exceptional credit

During 2007 agreement was reached with Her Majesty's Revenue and Customs to settle the liability arising following an inspection during the last quarter of 2006 for which an accrual of £446,000 was made at the end of 2006. As a consequence, the balance of the accrual was credited back to the income statement as an exceptional item of £206,000 in the six months ending 30 June 2007.

## Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2008

### 6. Acquisition of subsidiary

On 10 March 2008 Source BioScience plc completed the acquisition of the entire ordinary share capital of Autogen Bioclear UK Limited for total consideration of up to £5.9 million, excluding transaction costs of £0.3 million. The principal activity of Autogen Bioclear is the distribution of products for application in life sciences, clinical research and development including genomic products, antibodies, cell cultures, diagnostic kits and related research tools.

The acquired business contributed revenue of £766,000 and net profit of £94,000 to the Group for the period from 10 March 2008 to 30 June 2008. If the acquisition had occurred on 1 January 2008, Group revenue would have been £785,000 higher and the net loss would have increased by £253,000 on a pro forma basis.

The book and provisional fair values of the assets and liabilities acquired were as follows:

	Provisional fair value	Acquiree's carrying amount
	£'000	£'000
Property, plant and equipment	605	605
Financial assets	14	14
Cash and cash equivalents	1,474	1,474
Inventories	113	198
Other current assets	569	569
Other current liabilities	(381)	(381)
Deferred tax	(23)	(23)
Value of net assets acquired	2,371	2,456
Goodwill arising on acquisition	3,829	3,744
Consideration	6,200	6,200

Consideration is made up as follows:

Initial cash consideration	3,860	3,860
Deferred consideration	2,000	2,000
	5,860	5,860
Transaction costs	340	340
	6,200	6,200

The goodwill represents future economic benefits arising from assets that are not capable of being identified individually nor recognised as separate assets. This will include acquirer specific synergies that arise in the post acquisition period such as cross selling opportunities and the enhancement of technologies and processes between existing and acquired sites; the technical skills and customer support provided by the business and attributable to the workforce and access to Autogen Bioclear's product range.

The fair value adjustments shown above are provisional figures, being the best currently available. Detailed exercises to identify the fair value adjustments are expected to be completed in the second half of the year.

Deferred consideration is payable in two tranches; up to £1,000,000 payable on 10 March 2009 of which £250,000 is contingent upon performance criteria being achieved, and up to £1,000,000 payable on 10 March 2010 again of which £250,000 is subject to performance criteria. The performance criteria relate to target sales revenue across the Autogen Bioclear product portfolio.

For the purposes of the acquisition accounting and calculation of goodwill above, it has been assumed that the performance criteria will be achieved and the deferred consideration will be paid in full. This represents the best estimate at the date of acquisition of the present value of the consideration payable.

# **Notes to the Consolidated Interim Financial Statements**

For the six months ended 30 June 2008

## **7. Interim results**

Copies of the interim results for the six months ended 30 June 2008 will be sent to all shareholders and will be posted on the Company's website at [www.sourcebioscience.com](http://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.