

17 March 2009

## Source BioScience plc

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

### PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The Board of Source BioScience plc (LSE: SBS), the provider of expert, quality services and products to the healthcare, pharma biotech and life sciences research sectors announces its unaudited preliminary results for the year ended 31 December 2008 prepared under International Financial Reporting Standards ('IFRS').

During the year Source BioScience continued its acquisition and growth strategy to broaden the business capability and product portfolio, with the aim of enhancing revenue streams, achieving profitability and generating cash. The Group is now cash generative from operations, holds significant cash reserves and is well on track to profitability.

#### Financial Highlights

- Revenue up 53% to £11.5 million
- Operating loss reduced by 41% to £0.7 million
- Loss for the year reduced by 57% to £0.2 million
- Cash generated from operations of £0.6 million (2007: £1.1 million negative)
- Cash of £7.6 million
- Capital reorganisation received Court approval

#### Operational Highlights

- Acquisition of Autogen Bioclear UK Limited ("Autogen Bioclear") for up to £5.9 million enhancing the Group's product portfolio and customer base
- Addition of the FocalPoint™ location guided screening system for automated cytology screening to the existing exclusive distribution agreement with Becton, Dickinson & Company ('BD')
- Investment in the Illumina next generation gene sequencing and genotyping technology platforms, becoming the UK's first commercial service provider for these leading-edge technologies
- Opened London genomic services facility, located within University College London
- Expansion of distributor network for Life Science Research products and services into the East Asia market
- Launch of the Roche Amplichip™ CYP450 diagnostic test to the portfolio of cancer testing services

Laurie Turnbull, Executive Chairman of Source BioScience, said:

"The past year has been another period of significant change for Source BioScience. The Group has further expanded its operations, both through acquisition and investment in new technologies, enhancing the Group's portfolio of services and products, resulting in access to new and expanding markets.

The Group is in a strong financial position reflecting the positive response to the changes made to the business. Revenue has increased, losses further reduced and, most significantly, the Group was cash generative from operations for the year enabling us to retain significant cash reserves heading into 2009. This places Source BioScience in an ideal position to exploit opportunities that may arise during the current year whilst also providing financial stability and security for the business in the current economic environment. The growth opportunities across the Group are strong and we expect the markets for our services and products to continue to grow."

# Chairman's Statement

## Introduction

I am delighted to be making my third annual report to shareholders of Source BioScience. During the past twelve months there have been a number of significant changes at Source BioScience - with the expansion in the operations of the Group and the acquisition of new technologies and access to new markets. The Board remains committed to making the Group a profitable and cash generative business, focused on providing quality services and products to the healthcare, pharma biotech and life science research markets.

## Summary results

	2008 £'000	2007 £'000	% growth/ (reduction)
Revenue	11,520	7,531	53
Gross profit	4,869	3,127	56
Pro forma operating loss (before exceptional items and amortisation on acquisitions)	(416)	(1,331)	(69)
Operating loss	(717)	(1,217)	(41)
Loss after tax	(227)	(533)	(57)
EBITDA	490	(400)	n/a
Cash flow from operations	601	(1,126)	n/a
Year end cash	7,647	12,267	-

The headline figures above highlight the continued progress that the Group has made during 2008. Revenue increased by 53% to £11.5 million (2007: £7.5 million) and the Group was cash generative from operations.

Each of the Group's operating divisions of Healthcare, Pharma Biotech and Life Science Research performed strongly, with revenue and operating result improved across all activities.

There has also been ongoing focus on cost control, reducing costs where appropriate and improving our operational efficiency. Pro forma operating performance (after adjusting for exceptional items and the amortisation charge resulting from acquisition accounting under IFRS) improved by £0.9 million to a loss of £0.4 million (2007: £1.3 million loss). Central costs have been reduced to 22% of revenues (2007: 31%) illustrating the steps that have been taken to effectively manage the Group's infrastructure costs. Loss after tax was reduced by 57% to £0.2 million (2007: £0.5 million loss).

## Board of Directors

Dr Nick Leaves was appointed to the Board on 27 June 2008 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 is a great asset to the Board as we continue to expand our operations. As also announced, Dr Tom Weaver, Commercial Director, left the Group at the end of July.

The Board is a focused and tightly knit team with the necessary skills, expertise and experience required to ensure that the Group continues to be managed in an effective manner as it enters the next stage of its development.

## Acquisition

On 10 March 2008 we completed the acquisition of Autogen Bioclear for consideration of up to £5.9 million (note 3). 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.

The rapid and effective integration of Autogen Bioclear was a key priority for management and this was successfully completed.

## **Capital reorganisation**

At a General Meeting of the Company held on 19 September 2008, the shareholders gave their consent for the Company to apply to the Court for the cancellation of the share premium account. The aim of the cancellation of the share premium account was to eliminate the deficit on the Company's profit and loss account and to create distributable reserves. The application for the cancellation of the share premium account received Court approval and became effective on 22 December 2008. The effect of this cancellation was the creation of a special reserve in the Company, giving the Company flexibility to purchase its own shares in the market to be held in treasury, or cancelled, and to pay dividends. These are options now open to the Board for consideration which, in the past, were denied due to the lack of distributable reserves arising from historic losses.

## **Staff**

We have a highly skilled and highly qualified staff who have responded positively to the many changes over the last two years and I would like to take the opportunity of thanking them for their hard work and dedication in another year of substantial improvement in the performance of the business. We welcome to the Group the addition of the staff of Autogen Bioclear, bringing the number employed at our year end to 102 people. As we now look forward to progressing with our strategy and objectives, we are confident that we have a skilled and motivated staff who will be instrumental in achieving our objectives.

## **Strategy**

The Group's strategy remains to enhance our product and service offering across our Healthcare, Pharma Biotech and Life Science Research divisions. This will be achieved through both organic growth from our existing operations and through carefully selected acquisitions when the opportunities arise. We will seek to broaden our portfolio of services and products, enhancing our offering with greater market penetration and profitability.

In our Healthcare division we see significant opportunities for growth in both our Cytology business, with the phased introduction of automated cytology screening technologies, and in Diagnostic Pathology as we extend the provision of our molecular diagnostic offering into the NHS.

We continue to support a number of clinical assessment trials on automated cytology screening in the UK and are working closely with screening laboratories and Trusts in improving the efficiency of the cervical cancer screening programme. We have expanded our portfolio of diagnostic tests targeted at the diagnosis and treatment of cancer and we will be identifying further opportunities to provide our services to both public and private healthcare with our molecular diagnostics portfolio. We continue to evaluate new technologies that can demonstrate utility in the clinical environment, or existing research technologies that can be migrated to a healthcare setting and provide us with growth in areas of scientific and clinical advancements.

Key to the continued growth of the Pharma Biotech division is the demand from pharmaceutical companies for our enhanced "one-stop shop" service offering to include a full range of services from tissue pathology to genetic analysis. The combination of our established pathology expertise combined with our biomaterials resource of human tissue, DNA and RNA libraries represents a powerful offering. Increasingly pharmaceutical and biotechnology companies are looking to target therapies to specific disease types within specific patient groups. We anticipate the demand for our pharmacogenomic and genotyping services, which identify the genetic differences between groups of patients and groups of diseases, to increase and we have the facilities and skills to grow in this important, rapidly expanding sector.

During the year we have seen increased demand for our expertise in clinical trials support and adoption of our CellSearch™ circulating tumour cell ('CTC') enumeration technology. This technology provides an extremely sensitive measure of cancer cells circulating in the blood and is being used by pharma companies during clinical trials to monitor response to therapy.

Our Life Science Research division presents significant opportunities for growth especially within the expanding market for next generation gene sequencing and genotyping services. Technologies within this sector are advancing rapidly and we recognise the need to stay at the forefront of genomic services. We have invested in new technology platforms manufactured by Illumina, Inc. and are the only commercial service provider in the UK to offer these next generation gene sequencing and genotyping technologies. We have continued to work in partnership with the supplier and end users to develop the market and applications for this service. In tandem with these new technologies there is increasing demand for bioinformatics analysis and the Group has the staff with the necessary expertise to deliver this supplementary service.

We have seen the continued success of our model to embed our services within academic centres and provide them with core genomic services. During the latter part of the year we replicated the model at University College London ('UCL'), establishing a new laboratory facility located in the prestigious UCL Cancer Institute. This creates a laboratory footprint in London and provides a platform for increased penetration of the London life science research market.

The acquisition of Autogen Bioclear was another significant step in delivering the Group's growth strategy. The business strengthens our existing Life Science Research product portfolio and 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 activities and enhances our Life Science Research offering.

## **Prospects**

The Board set out just over two years ago to reverse the extremely poor financial performance of the business and set short term objectives to deliver to shareholders firstly a company that generates, not consumes, cash and secondly a profitable company and in achieving those milestones build a business that has solid foundations and an exciting future which will enhance shareholder value.

During the year the Group generated £0.6 million of cash from operations and loss after tax was reduced by 57% to £0.2 million. It remains the short term objective to deliver profitability and we are on the threshold of doing so. We have achieved our goal of having a vibrant and sustainable business on which we are building for the long term benefit of our shareholders, clients and employees.

As highlighted above, we believe the growth opportunities across the Group remain strong and we will continue to drive value from the unique potential that exists for the Group where the expertise in each of our divisions interact and complement each other. In Healthcare, we will continue to expand our molecular diagnostic services, offering a range of genetic tests designed to diagnose disease, predict the risk of disease and predict and monitor the response to therapies.

With our Life Science Research expertise in genomics we are able to offer a full range of pharmacogenomic services to pharmaceutical and biotechnology companies. As drug development companies seek to develop increasingly targeted therapies, an understanding of an individual's genetic make up is necessary to predict how they will respond to drug treatments and to determine and understand patient metabolism of novel and existing therapies.

In parallel, our Pharma Biotech Services can offer the diagnostic techniques, molecular analysis and biomarker development platforms required to identify companion diagnostics for the targeted drug therapies. As the revenues from this service activity are not dependent on the success of an individual drug, the Group will benefit from increasing overall activity in this area.

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 will continue to exploit the cross-selling opportunities we now have from our broad customer base and expanded portfolio.

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

**Laurie Turnbull**

Executive Chairman

17 March 2009

# Operating and Financial Review (abbreviated)

## **Cautionary statement**

*This Operating and Financial Review contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Source BioScience plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Nothing in this Operating and Financial Review should be construed as a profit forecast.*

## **Overview**

Source BioScience plc provides expert, quality services and products to the healthcare, pharma biotech and life science research sectors. The Group has its headquarters in Nottingham, UK, where it operates state of the art reference laboratories, with additional facilities in London, Cambridge and Oxford.

The Group's activities are structured into the three divisions of Healthcare, Pharma Biotech Services and Life Science Research as described below.

## **Healthcare**

Healthcare comprises Cytology and Diagnostic Pathology. The division provides the latest cytology screening equipment and techniques as well as reference laboratory diagnostic testing for cancer and other diseases, including predictive testing for treatment optimisation for clinicians and patients.

Our Cytology operation distributes and supports the SurePath™ liquid based cytology ('LBC') system and consumables for the preparation and analysis of cervical smear samples as part of the national cervical cancer screening programmes. SurePath™ is one of only two systems approved by the National Institute for Health and Clinical Excellence ('NICE') for use in England and Wales.

The Diagnostic Pathology operation provides expert pathology and reference laboratory services to public and private healthcare providers. Pathology services are an essential element of clinical services, making a contribution to the effective detection, diagnosis, treatment and management of disease, especially chronic disease, including cancer. The Group also offers a portfolio of diagnostic tests aimed at supporting clinicians and patients in determining the most appropriate treatment to achieve the best possible outcome for the patient. For example the OncotypeDX™ test is the first clinically validated test to quantify both the likelihood of distant recurrence of breast cancer and the magnitude of benefit from adjuvant chemotherapy. The K-RAS gene test is another molecular diagnostic test in our portfolio which indicates whether patients are unlikely to respond favourably to particular drug therapies for certain types of cancer. As new drugs come on stream this test, and other molecular diagnostic tests, will become increasingly important in determining whether a patient should be offered a particular drug and in assessing a patient's likely benefit from the therapy.

Source BioScience operates in a highly competitive market and competes for business against other service based organisations often, as in the case of large clients such as the NHS, against teams from within the client itself. Regulatory accreditation from relevant authorities is considered to be critical in ensuring the Group can offer its products and services to customers in a trusted manner. Source BioScience has maintained its Clinical Pathology Accreditation ('CPA') throughout 2008 and our Molecular Genetics services have recently been accredited in addition to our Pathology services.

## **Pharma Biotech Services**

Pharma Biotech Services offers diagnostic, prognostic and predictive testing services to support therapy discovery and development by pharmaceutical and biotechnology companies, also assisting in identifying and validating markers closely linked with response to therapy during clinical trials. Source BioScience provides support for early and late stage therapeutic development, offering a "one-stop shop" from tissue pathology, immunohistochemistry ('IHC'), sophisticated image analysis, biomarker determination and assay development to pharmacogenomics including genotyping and gene expression analysis.

Laboratory accreditations are key to generating growth, especially where services are provided in support of regulatory studies and clinical trials. We have enhanced our quality environment during the year, receiving accreditation for Good Clinical Practice ('GCP') in February 2008 and have maintained our Good Laboratory Practice ('GLP') status and Human Tissue Authority License throughout the year.

### ***Life Science Research***

Life Science Research 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 gene sequencing, genotyping, 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.

Genotyping and sequencing services enable the extraction, banking, typing and analysis of DNA. During the year, we brought in-house the latest in next generation gene sequencing and genotyping technologies by investing in the Illumina Genome Analyser™ and Beadstation™ platforms. Source BioScience is the only commercial service provider of these technologies in the UK.

Gene expression profiling determines how gene expression alters under experimental or pathological conditions using microarray and real time PCR technology platforms. Genomic DNA extraction, quantitation, amplification and biobanking are also provided for human DNA. In conjunction with whole genome amplification, Source BioScience can now provide the requisite technologies for the processing of minute quantities of DNA and RNA from difficult or rare samples which can subsequently be sequenced, genotyped or expression profiled.

Source BioScience is also an international distributor for a biological archive of more than 16 million DNA samples, antibodies and RNAi libraries. These resources represent essential tools for gene structure and function studies. The acquisition of Autogen Bioclear enhanced this portfolio of biomolecular tools and resources and is highly complementary with the full range of Life Science Research activities.

## **Business Segment Performance Review**

### **Healthcare**

Our Healthcare division generated revenue of £6.4 million, an increase of 11% on last year (2007: £5.7 million) and divisional profit increased by 31% to £1.4 million (2007: £1.1 million).

### ***Cytology***

Cytology continues to be a real success story for Source BioScience with the operations exceeding our original expectations in respect of market share. The majority of the revenues continue to be generated from the supply of SurePath™ LBC services and consumables to the NHS, predominantly in England and Wales. During 2007 we completed our LBC roll out programme to those regions that have selected the SurePath™ system to support the cervical screening programme and therefore expected revenues in 2008 to be broadly consistent with 2007.

Revenue increased marginally to £4.4 million (2007: £4.2 million) and the operating profit remained consistent at £1.1 million. Operating margins were affected by exchange rates, with certain consumable supplies being priced in US dollars and Euros.

### ***Opportunities***

We have identified the introduction of automated cervical cancer screening in the UK as a significant opportunity for the Group and during 2008 we recognised the first revenues from an NHS customer for our FocalPoint™ 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™ is highly complementary with our existing Cytology business and enables the automated screening of cytology slides produced using the SurePath™ 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. During February 2008 we announced the addition of the FocalPoint™ location guided screening system to our existing exclusive distribution agreement with BD.

We 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™ system within the clinical setting.

During the year we have added Human papillomavirus ('HPV') testing to our diagnostic portfolio. Infection with certain types of HPV has been shown to be causal in the vast majority of cervical cancers and, during the second half of 2008, the Government rolled out the HPV vaccination programme. The diagnostic testing that Source BioScience can undertake not only identifies whether HPV is present, but also identifies the specific type of the HPV infection. This molecular diagnostic testing service is an example of leveraging our expertise and technology platforms from Life Science Research and migration into the Healthcare arena.

Other opportunities for continued significant growth in Cytology are provided by extending the use of LBC systems for non-gynaecological applications and by the use of ProExC™ which helps diagnose pre-cancer in persistent borderline cervical smears.

### ***Diagnostic Pathology***

Revenue from Diagnostic Pathology increased by 28% to £1.9 million (2007: £1.5 million) and the operating profit improved to £0.3 million (2007: break even).

Diagnostic Pathology benefited from improved performance for both routine pathology and diagnostic services and, increasingly, for our molecular diagnostic offering. We saw increasing demand, primarily from the private healthcare sector, for our molecular diagnostic tests for cancer. This included significant growth in demand for the K-RAS gene test which indicates whether patients are unlikely to respond favourably for 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 that a patient is unsuitable for new anti-EGFR drugs such as Erbitux™ and Vectibix™.

During the year the Company has added the Roche Amplichip™ CYP450 gene-based diagnostic test to the portfolio of molecular diagnostics. The Roche Amplichip™ test provides comprehensive information on the genes which play a major role in the metabolism of an estimated 25% of all prescription drugs. The test will assist in breast cancer treatment by identifying patients who may be poor responders to the widely used therapy Tamoxifen. This will help ensure that treatment pathways are managed more effectively, positively impacting the clinical outcome and cost effectiveness of therapy.

### ***Opportunities***

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 diagnostic tests, when used in conjunction with a therapy, are referred to as companion diagnostic tests. Companion diagnostics 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 highlighted above is one example of such a companion diagnostic.

During 2009 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.

We are targeting modest growth in our core area of expertise in consultant histopathology services and our IHC and fluorescence in situ hybridisation ('FISH') laboratory services. We are investing in a number of IT solutions that will facilitate faster access to test results, generating real operational and clinical benefits for both the hospital and patient as diagnoses can be received, reviewed and acted upon more quickly.

## **Pharma Biotech Services**

The sales performance of Pharma Biotech Services improved modestly by 10%, to £0.6 million (2007: £0.5 million) but the operating result improved by 76% to a loss of £0.1 million (2007: £0.3 million).

During 2008 we witnessed increased interest in our Pharma Biotech Services from a broader spectrum of pharma biotech customers and, in particular, 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.

We have also commenced a number of projects with pharmaceutical companies in support of ongoing clinical trials. The demand has been for a broad range of our services but mainly for traditional pathology and IHC, molecular testing for mutation status and CTC enumeration. This is consistent with the increased 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; creating targeted therapies with a companion diagnostic and ensuring that the later phase clinical trials are as effective as possible.

### *Opportunities*

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 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.

Maintaining and enhancing our quality accreditation is key in generating growth, especially where we are performing work associated with regulatory studies and clinical trials. We maintained our GLP status throughout 2008 and in February 2008, following an external audit inspection by the Medicines and Healthcare products Regulatory Agency (‘MHRA’); we were accredited with GCP status. Source BioScience was licensed throughout 2008 by the Human Tissue Authority for the storage and use of human tissue and cells for research purposes, which is essential for providing a comprehensive service to the pharma biotech sector.

## **Life Science Research**

Life Science Research performed strongly during the year. Revenue increased nearly fourfold to £4.6 million (2007: £1.3 million) and divisional operating profit increased significantly to £0.4 million (2007: £0.1 million).

Technologies are developing rapidly within this sector and we recognise the need to stay at the front of the curve for the provision of genomic services. During the year we invested in the latest generation of DNA sequencing and genotyping technologies with the acquisition of the Illumina Genome Analyser™ and Beadstation™ platforms respectively. We are the only commercial provider of these technologies in the UK and we are working in partnership with Illumina and end users to continue to develop the market and applications for this service. The pipeline for next generation sequencing projects is robust, with capacity typically booked for three months.

We have seen the continued success of our model to embed our services within academic centres and provide them with core genomic services. One element of our strategy outlined last year was to identify further opportunities to replicate this model in other suitable academic centres. During the latter part of 2008 we replicated the model at University College London (‘UCL’), establishing a new laboratory facility located in the prestigious UCL Cancer Institute. In collaboration with UCL Genetics Institute, we will market our DNA sequencing and genotyping services across UCL. Source BioScience will provide infrastructure and technology platforms in addition to employing technical staff to operate the facility. This facility removes the significant barriers to entry to the London life science research market and enables us to expand our service offering across the South East. Under an agreement with UCL Genetics Institute, Source BioScience will provide DNA sequencing and genotyping services to customers within UCL for an initial period of three years. We will also provide UCL customers access to other services through the new facility, including access to our next generation sequencing and genotyping platforms.

On 10 March 2008 we completed the acquisition of Autogen Bioclear for consideration of up to £5.9 million (note 3). 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. The acquisition was in line with the Group’s strategy to grow the Healthcare and Life Science Research businesses by

enhancing our molecular diagnostic capability. The acquisition also brought sales and marketing expertise to Source BioScience which will enable us to continue our expansion strategy, both organically and through acquisition. Following the acquisition there was a rapid and effective integration of the Autogen Bioclear business into the Group. We consolidated the operations and embarked on realising the commercial opportunities, signing a number of new agreements with suppliers and manufacturers of genomic reagents and antibodies to enhance the portfolio of products in our catalogue.

We have also extended our distributor network for our Life Science Research products by appointing a number of distributors in the important East Asia market including China, Hong Kong, Korea, Singapore and Malaysia. The Company has also appointed Moritex Corporation of Japan to be the exclusive distributor for our next generation DNA sequencing services in that country, services which will be fulfilled from the Company's main reference laboratory in Nottingham, UK.

### *Opportunities*

There is an increasing requirement within academic and research laboratories, and pharmaceutical and biotechnology companies, for genomic services including gene sequencing and, in particular, genotyping services to identify and quantify genetic differences between individuals or samples. As a result there is growing demand for our services, offering rapid access to this technology within quality accredited laboratories.

Source BioScience is ideally placed to meet this demand across our four laboratories in international centres of genomic research in London, Cambridge, Oxford and Nottingham and our sequencing and genotyping platforms represent the latest cutting-edge technologies.

However, technologies are developing rapidly and we believe that within a few years next generation sequencing will radically reduce the cost of gene sequencing, creating new markets for companies that offer this service. Growth can be seen from a number of markets. Academic and charitably funded research institutions will be looking to undertake large scale sequencing and re-sequencing projects. There will be further opportunities to embed our services within academic centres and provide them with core genomic services. Duplication of this model in other major genomic research centres can consolidate the existing service provision and secure volumes for our embedded technology.

Significantly, the market is already beginning to shift towards commercial applications with pharmaceutical and biotechnology companies looking for an understanding of the genetics of disease and genetic biomarkers as predictors of response by patients to new and existing therapies. There is also a growing awareness amongst private individuals of how an understanding of their genetic make up may influence their health and predisposition to certain diseases.

An additional benefit of our Illumina technology platforms is their molecular diagnostic, rather than just research, applications and this is extremely complementary with our Healthcare activities.

One consequence of these new technologies is that whilst they increase exponentially the speed with which genetic information can be determined, they generate vast amounts of data which need to be captured, stored, analysed and interpreted. Source BioScience offers a bioinformatics service to provide data analysis for projects we undertake and we plan to enhance this service to meet the demand for bioinformatics where sequencing has been conducted in-house. We find that in many genomics centres access to funding for capital investment can outstrip funding for support services including bioinformatics. As the volume of data generated increases we expect an increasing demand for a consultative bioinformatics service.

### **Central resources**

Central resources include facilities, key support services such as finance, HR and IT, together with related costs, and the plc Board costs. Other costs shown centrally include insurances, legal, professional and advisor fees in addition to investor relations.

Central costs have increased by £0.2 million to £2.5 million (2007: £2.3 million). However, over the same period, revenue has increased by more than 50% to £11.5 million and central costs now represent 22% of revenue compared with 33% in 2007. We will continue to monitor and control central costs tightly.

## **Financial review**

### ***Financial performance***

Revenue increased by 53% to £11.5 million (2007: £7.5 million) mainly driven by a full year of our Life Science Research activities and the acquisition of Autogen Bioclear during the year.

Cost of sales has increased in line with revenue, and gross margin has remained consistent at 42%.

Our laboratory staff are highly qualified, experienced and flexible. This provides for good operational gearing as revenue grows and assists in dealing with fluctuations in workload. Our laboratory infrastructure now encompasses four sites in London, Cambridge and Oxford in addition to the main reference laboratory at our head office site in Nottingham. The laboratory infrastructure is capable of handling increased volumes and is scalable with minimal additional investment.

We have expanded our operations in the year and have invested in our sales and marketing team to capitalise on the opportunities the enlarged group presents. Consequently, selling and distribution costs have been increased to £1.2 million, an increase of £0.5 million compared with 2007.

Normal administrative expenses were £3.9 million (2007: £3.7 million), an increase of 7%. However, over the same period, revenue has increased by more than 50% and normal administrative expenses represent 34% of revenue, compared with 49% of revenue in 2007. This relative reduction in expenses results from the focus on cost control that the Board and senior management have maintained throughout the year and demonstrates the operational gearing inherent within the laboratory operations and throughout the support functions in the business.

Included in the charge for total administrative expenses is a cost of £0.2 million (2007: £0.1 million) representing amortisation on the fair value uplift to intangible assets acquired with the Geneservice and Autogen Bioclear businesses. There is no ongoing cash cost associated with this amortisation charge. The Group also incurred restructuring expenses of £0.1 million (2007: £negligible) resulting from the consolidation of our Cambridge activities to a single site. During 2007 the Group realised a one-off exceptional credit of £0.2 million resulting from the settlement of a VAT claim with Her Majesty's Revenue and Customs, not repeated in 2008. In aggregate, and including the one-off costs and exceptional income, total administrative expenses for the year were £4.2 million (2007: £3.6 million) representing 37% of revenue (2007: 47%).

Research and development costs increased to £0.2 million (2007: £0.1 million) and largely result from including a full year of the Life Science Research activities when compared with 2007. The relatively low level of research and development expense results from our focus on being a quality service provider and not a discovery and development business.

Operating loss for the year ended 31 December 2008 was £0.7 million (2007: loss £1.2 million), a reduction of 41%. The continued year on year reduction in operating loss is a testament to the attitude of all the staff in the Group who have focused on maintaining our exceptionally high quality of service whilst managing costs in the business and increasing the efficiency of our operations.

After net finance income and taxation, the loss attributable to equity holders for 2008 was £0.2 million (2007: £0.5 million loss).

Included in the income statement are non-cash items totalling £1.2 million (2007: £0.8 million). After accounting for these, net finance income and taxation, adjusted EBITDA was £0.5 million (2007: £0.5 million adjusted loss).

### ***Financial position***

At 31 December 2008 the Group had net assets of £14.8 million (31 December 2007: £15.0 million).

Non-current assets increased by £3.6 million to £9.6 million at 31 December 2008 (31 December 2007: £6.0 million). The significant components of this increase are goodwill of £2.9 million arising on the acquisition of Autogen Bioclear (note 3); intangible assets of £0.7 million acquired with Autogen Bioclear (note 3) and the £0.8 million invested in Illumina next generation genomic platforms and the FocalPoint™ automated cytology screening system.

Net current assets reduced by £3.1 million to £6.2 million (31 December 2007: £9.3 million). The main driver of this change is the acquisition of Autogen Bioclear for cash (below and note 3) and the scheduled deferred payments for the Geneservice acquisition.

The Group has historically been funded primarily through equity although debt has been raised as and when appropriate for the needs of the business. As at 31 December 2008, the Group's balance sheet included finance lease obligations of £36,000 of which £32,000 is repayable within one year.

Autogen Bioclear was acquired in March 2008 for a total consideration of up to £5.9 million, excluding transaction costs, payable as cash. Initial consideration of £3.9 million plus transaction costs of £0.3 million was paid upon completion. Scheduled deferred payments are due in March 2009 (up to £1.0 million) and March 2010 (up to £1.0 million). Cash acquired with the business amounted to £1.5 million. At 31 December 2008 deferred consideration of £1.5 million has been recognised representing the best estimate of amounts due in 2009 and 2010.

At a General Meeting of the Company held on 19 September 2008, the shareholders gave their consent for the Company to apply to the Court for the cancellation of the share premium account. The aim of the cancellation of the share premium account was to eliminate the deficit on the Company's profit and loss account and to create distributable reserves. The application for the cancellation of the share premium account received Court approval and became effective on 22 December 2008. The effect of this cancellation was the creation of a special reserve in the Company, giving the Company flexibility to purchase its own shares in the market to be held in treasury, or cancelled, and to pay dividends.

### ***Cash flows and liquidity***

The Group generated cash from operating activities of £0.6 million (2007: £1.1 million used in operating activities).

After acquisitions, and other non-trading items, net cash outflow was £4.6 million (2007: £3.0 million outflow). Initial consideration for Autogen Bioclear was £2.7 million (net of cash in the business) and deferred consideration paid for Geneservice was £2.1 million. We also invested £0.8 million in our new technology platforms including the Illumina next generation gene sequencing and genotyping platforms and the FocalPoint™ automated cytology screening system. Proceeds of £0.6 million were realised on the planned disposal of certain fixed assets acquired with Autogen Bioclear that were not required by the Group. Interest received was £0.3 million (2007: £0.7 million), the result of reduced funds on deposit.

The Group's cash balance was £7.6 million as at 31 December 2008 (31 December 2007: £12.3 million).

### **Prospects**

It has been the short term objective of the Board to deliver profit before tax and cash generation. The Group generated cash from operations of £0.6 million in the year. It remains a short term objective to deliver profitability and this will be achieved through a combination of organic growth and prudent, appropriate investment in acquisition opportunities.

There have been further significant and positive changes across the Group during 2008 and the business has continued the momentum generated over the previous two years, with strong performance across each of the divisions. The Group has a closely knit team of Directors and senior management, which the Board are confident provides the right blend of skills, experience and expertise to deliver the strategic objectives and move the business forward financially and operationally.

The focus of the Group remains on the provision of expert, quality services and products to the healthcare, pharma biotech and life science research communities and the commercial and operational structure of the Group has been configured to reflect this.

The activities of the Group are now clearly structured into three divisions, as defined by the relevant customer base, namely Healthcare, Pharma Biotech Services and Life Science Research. This presents a "joined up" business built on common technology platforms, laboratory processes and intellectual capital. The commonality of technology platforms and expertise across the Group is key in driving the organic growth of the business and enables significant operational gearing without introducing financial or operational inefficiencies from duplication of platforms and processes.

Opportunities for growth are apparent across all three divisions and these have been highlighted above. Additionally, significant opportunities for growth lie in our ability to realise our unique potential that exists where the expertise in each of our divisions interact and complement each other.

### ***Molecular diagnostics***

The interaction between our diagnostic pathology expertise in Healthcare and genomics capability in our Life Science Research division creates the opportunity to offer a range of gene-based tests designed to diagnose disease, predict the risk of disease and predict and monitor the response to therapies. Our strategy is to continue to build a portfolio of molecular diagnostic tests, with proven clinical utility, which positions the Group as an essential service provider of diagnostic testing for healthcare applications.

We already offer a comprehensive range of molecular diagnostic tests. These include the *OncotypeDX*<sup>™</sup> gene-based prognostic test for breast cancer; the K-RAS gene mutation test and the Roche *Amplichip*<sup>™</sup> CYP450 gene-based diagnostic test which can be used to predict a patient's response to certain therapies.

The molecular diagnostics service offering will extend our penetration into the NHS and private healthcare beyond histopathology and cytology into genetics and cytogenetics, increasing the size of our potential market. Our experience and credibility as a provider of expert, quality reference laboratory services into the NHS will be used as the platform for the introduction of our molecular diagnostic services.

### ***Pharmacogenomics***

The genomic services we can provide with our Life Science Research technology platforms are particularly relevant to pharmaceutical companies which require molecular analysis as part of their pre-clinical research and development programmes as well as the emerging pharmacogenomic analysis supporting clinical development of therapeutics. Pharmacogenomics is the study of how a patient's genetic make-up affects response to drug treatments and can be used to determine and understand the patient's metabolism of novel and existing drug therapies and therefore how their disease will respond to a drug treatment. Such an understanding can decrease the use of expensive therapies and invasive procedures. In addition, knowledge of the likely effectiveness of a drug makes it more reliable, improves its efficacy and therefore reduces its cost, improving the chances that the drug will gain regulatory approval. Current information 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 analyses.

Pharmacogenomics will have a major impact on the future of healthcare and the cornerstone of the analysis is the ability to identify genetic variations that alter an individual's response to a drug. The Group already operates a number of cutting-edge genotyping platforms including the Illumina next generation sequencing and genotyping platforms. This places Source BioScience in an ideal position to be the service provider of choice to pharmaceutical and biotechnology companies looking to undertake pharmacogenomic analysis and those looking to develop and commercialise pharmacogenomics applications.

### ***Companion diagnostics and personalised medicine***

Personalised medicine and companion diagnostics will result from an ability to use pharmacogenomic and other analyses to identify biomarkers in patient populations and disease types that indicate likely response, or non-response, to therapies and manufacture targeted therapies for these stratified patient groups. Ultimately, the result of personalised medicine will be the development of therapies by pharma biotech companies that are tailored for each individual patient. We aim to exploit our diagnostic pathology expertise in Healthcare and biomarker development platforms within Pharma Biotech Services to work with pharmaceutical and biotechnology companies to provide fee for service laboratory support for the identification and development of companion diagnostics.

Companion diagnostics are simply biomarkers which, when tested for alongside a therapy, can be used to predict response to that therapy. As demand increases for targeted therapies which will improve treatment success and reduce costs, there is increasing demand for companion diagnostics to accompany those therapies.

Source BioScience is in a prime position to provide the diagnostic techniques, molecular analyses and biomarker development platforms required to identify and develop companion diagnostics. As the revenues from this service activity are not dependent on the success of individual drug programmes, the Group will benefit from increasing overall activity in this area.

The Group's strategy is to grow its Healthcare, Pharma Biotech and Life Science Research businesses through organic growth from existing operations combined with selected appropriate investment and acquisitions to broaden the Group's portfolio of products and services, expanding our core expertise into complementary areas.

Over the medium to long term, the Board remains confident that the opportunities for growth are strong and we expect the markets for our services and products to grow significantly. We continue to equip the Group with the breadth and depth of service offering, technology platforms, expertise and products to deliver controlled growth and value to shareholders.

**Dr Nick Ash**

Managing Director

17 March 2009

## Consolidated Income Statement

For the year ended 31 December 2008

	Note	Unaudited Year ended 31 December 2008 £'000	Unaudited Year ended 31 December 2007 £'000
Revenue	2	11,520	7,531
Cost of sales		(6,651)	(4,404)
<b>Gross profit</b>		<b>4,869</b>	<b>3,127</b>
Selling and distribution expenses		(1,165)	(680)
Administrative expenses:			
- normal		(3,924)	(3,668)
- amortisation of intangibles arising from acquisitions		(226)	(63)
- restructuring costs		(75)	(29)
- exceptional credit		-	206
Administrative expenses		(4,225)	(3,554)
Research and development		(196)	(110)
<b>Operating loss</b>		<b>(717)</b>	<b>(1,217)</b>
Finance income		363	728
Finance costs		(19)	(24)
Share of results of associate		27	(20)
<b>Loss on ordinary activities before tax</b>		<b>(346)</b>	<b>(533)</b>
Taxation		119	-
<b>Loss attributable to equity holders of the Company</b>		<b>(227)</b>	<b>(533)</b>
<b>Loss per share:</b>			
Basic and diluted total loss per ordinary share	5	(0.11)p	(0.26)p

All results derive from continuing operations

## Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2008

Group	Attributable to equity holders of the Parent Company					Unaudited Total equity £'000
	Share capital £'000	Share premium £'000	Merger and other reserves £'000	Special reserve £'000	Profit and loss reserve £'000	
Balance at 1 January 2007	4,075	32,284	2,408	-	(23,340)	<b>15,427</b>
Loss for the year	-	-	-	-	(533)	<b>(533)</b>
Total recognised expense for the year	-	-	-	-	(533)	<b>(533)</b>
Employee share option scheme:						
– value of services provided	-	-	-	-	70	<b>70</b>
<b>Balance at 31 December 2007</b>	<b>4,075</b>	<b>32,284</b>	<b>2,408</b>	<b>-</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 year	-	-	-	-	(227)	<b>(227)</b>
Total recognised expense for the year	-	-	-	-	(227)	<b>(227)</b>
Employee share option scheme:						
– value of services provided	-	-	-	-	103	<b>103</b>
Capital reorganisation (note 4)	-	(32,284)	-	10,763	21,521	-
<b>Balance at 31 December 2008</b>	<b>4,075</b>	<b>-</b>	<b>2,408</b>	<b>10,763</b>	<b>(2,406)</b>	<b>14,840</b>

# Consolidated Balance Sheet

As at 31 December 2008

	Unaudited As at 31 December 2008 £'000	Unaudited As at 31 December 2007 £'000
<b>Non-current assets</b>		
Goodwill	6,602	3,729
Other intangible assets	812	347
Investment in associate	180	128
Loan to associate	127	130
Property, plant and equipment	1,835	1,709
	<b>9,556</b>	<b>6,043</b>
<b>Current assets</b>		
Inventories	478	435
Trade and other receivables	2,373	1,903
Cash and cash equivalents	7,647	12,267
	<b>10,498</b>	<b>14,605</b>
<b>Current liabilities</b>		
Trade and other payables	3,154	3,034
Financial liabilities		
– borrowings	32	166
– deferred consideration	1,065	2,133
	<b>4,251</b>	<b>5,333</b>
<b>Net current assets</b>	<b>6,247</b>	<b>9,272</b>
<b>Total assets less current liabilities</b>	<b>15,803</b>	<b>15,315</b>
<b>Non-current liabilities</b>		
Financial liabilities		
– borrowings	4	51
– deferred consideration	750	300
Deferred tax	209	-
	<b>963</b>	<b>351</b>
<b>Net assets</b>	<b>14,840</b>	<b>14,964</b>
<b>Equity</b>		
Issued share capital	4,075	4,075
Share premium	4	32,284
Special reserve	4	-
Other reserves	2,408	2,408
Profit and loss reserve	4	(23,803)
<b>Total equity</b>	<b>14,840</b>	<b>14,964</b>

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	Unaudited Year ended 31 December 2008 £'000	Unaudited Year ended 31 December 2007 £'000
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	6	601	(1,126)
Interest paid		(19)	(22)
Tax paid on behalf of acquired subsidiaries		(144)	(40)
Net cash generated from/(used in) operating activities		438	(1,188)
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries	3	(5,978)	(1,503)
Cash acquired with subsidiaries	3	1,474	269
Transaction costs in relation to acquisitions	3	(342)	(497)
Investment in associate		(25)	(148)
Loan to associate		7	(125)
Purchases of property, plant and equipment		(895)	(347)
Proceeds from sale of property, plant and equipment		553	15
Proceeds from sale of investments		17	-
Interest received		312	726
Net cash used in investing activities		(4,877)	(1,610)
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(105)	(108)
Finance lease principal repayments		(76)	(56)
Net cash used in financing activities		(181)	(164)
<b>Net decrease in cash and cash equivalents</b>		<b>(4,620)</b>	<b>(2,962)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(4,620)</b>	<b>(2,962)</b>
Cash and cash equivalents at beginning of year		12,267	15,229
<b>Cash and cash equivalents at end of year</b>		<b>7,647</b>	<b>12,267</b>

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

For the year ended 31 December 2008

## **1. Basis of preparation**

From 1 January 2005 Source BioScience plc has been required to prepare consolidated financial statements, including comparative data, in accordance with IFRS as adopted by the European Union. Accordingly, financial information for the year 2008, and comparative information, has been prepared on this basis.

The financial information contained in this announcement of preliminary financial statements does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985. Neither the Directors of the Company, nor our auditors, have as yet approved the statutory financial statements for the financial year ended 31 December 2008. These financial statements are therefore unaudited. The financial statements for the year ended 31 December 2007 have been delivered to the Registrar of Companies. The auditors reported on those accounts and their report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2008 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

## 2. Segmental reporting

### Primary reporting format – operating divisions

At 31 December 2008, the Group's 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 acquired activities of Autogen Bioclear.

During the year there were immaterial sales between business segments (2007: immaterial), and where these do occur, 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.

### Year ended 31 December 2008

	Healthcare		Pharma Biotech Services	Life Science Research	Unallocated	Group
	Diagnostic Pathology	Cytology				
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	1,922	4,432	558	4,608	-	<b>11,520</b>
Segment result	311	1,137	(65)	415	(2,488)	<b>(690)</b>
Finance costs					(19)	<b>(19)</b>
Finance income					363	<b>363</b>
Loss before tax					(2,144)	<b>(346)</b>
Taxation					119	<b>119</b>
Loss for the year					(2,025)	<b>(227)</b>
Segment assets	1,346	1,111	199	8,602	-	<b>11,258</b>
Unallocated assets						
- property, plant and equipment					561	<b>561</b>
- debtors and prepayments					588	<b>588</b>
- cash and cash equivalents					7,647	<b>7,647</b>
<b>Total assets</b>	<b>1,346</b>	<b>1,111</b>	<b>199</b>	<b>8,602</b>	<b>8,796</b>	<b>20,054</b>
Segment liabilities	182	728	142	2,245	-	<b>3,297</b>
Unallocated liabilities						
- creditors and accruals					1,917	<b>1,917</b>
<b>Total liabilities</b>	<b>182</b>	<b>728</b>	<b>142</b>	<b>2,245</b>	<b>1,917</b>	<b>5,214</b>
<b>Other segment items</b>						
Capital expenditure (tangibles)	-	239	5	564	87	<b>895</b>
Depreciation	37	357	66	226	134	<b>820</b>
Amortisation of intangible assets	-	-	21	236	-	<b>257</b>
Other non-cash expenses						
- share option scheme	-	-	-	-	103	<b>103</b>

## Year ended 31 December 2007

	Healthcare				Unallocated £'000	Group £'000
	Diagnostic Pathology	Cytology	Pharma Biotech Services	Life Science Research		
	£'000	£'000	£'000	£'000		
Revenue	1,501	4,242	509	1,279	-	<b>7,531</b>
Segment result before exceptional credit	31	1,072	(272)	71	(2,345)	<b>(1,443)</b>
Exceptional credit	-	-	-	-	206	<b>206</b>
Segment result	31	1,072	(272)	71	(2,139)	<b>(1,237)</b>
Finance costs					(24)	<b>(24)</b>
Finance income					728	<b>728</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 (tangibles)	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>

## Secondary 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 orders are received.

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

## Year ended 31 December 2008 and 31 December 2007

	Revenue		Segment assets		Capital expenditure	
	2008	2007	2008	2007	2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000
UK	<b>10,426</b>	7,126	<b>20,054</b>	20,648	<b>895</b>	347
Europe (excluding UK)	<b>726</b>	245	-	-	-	-
North America	<b>276</b>	80	-	-	-	-
Middle East, Asia and Australasia	<b>92</b>	80	-	-	-	-
<b>Total</b>	<b>11,520</b>	7,531	<b>20,054</b>	20,648	<b>895</b>	347

### 3. 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 £1.6 million and net profit of £122,000 to the Group for the period from 10 March 2008 to 31 December 2008. The net profit is after charging £100,000 of amortisation resulting from the fair value uplift to intangible assets acquired with the business. 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 £273,000 on a pro forma basis. These amounts have been calculated by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets required by IFRS had applied from 1 January 2008.

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

	Fair value	Acquiree's carrying amount
	£'000	£'000
Tangible assets - property, plant and equipment	575	575
Intangible assets - customer database and relationships	721	-
Financial assets	14	14
Cash and cash equivalents	1,474	1,474
Inventories	113	198
Other current assets	577	577
Other current liabilities	(370)	(370)
Deferred tax	(275)	(97)
Value of net assets acquired	2,829	2,371
Goodwill arising on acquisition	2,873	3,331
Consideration	5,702	5,702

Consideration is made up as follows:

Initial cash consideration	3,860
Deferred consideration	1,500
	5,360
Transaction costs	342
	5,702

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.

Deferred consideration is payable in two tranches; up to £1,000,000 was payable on 10 March 2009 of which £250,000 was 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 targets will not be achieved and the deferred consideration will be limited to the non-performance related element only. This represents the best estimate at the date of acquisition of the present value of the consideration payable.

#### 4. Capital reorganisation

At a General Meeting of the Company held on 19 September 2008, the shareholders gave their consent for the Company to apply to the Court for the cancellation of the share premium account. The aim of the cancellation of the share premium account was to eliminate the deficit on the Company's profit and loss account and to create distributable reserves. The application for the cancellation of the share premium account received Court approval and became effective on 22 December 2008. The effect of this cancellation was the creation of a special reserve in the Company, giving the Company flexibility to purchase its own shares in the market to be held in treasury, or cancelled, and to pay dividends.

#### 5. Loss per share

The calculation of basic and diluted earnings per share for the year was based on the loss attributable to ordinary shareholders of £227,000 (2007: loss of £533,000) on 203,765,232 ordinary shares (2007: 203,765,232 ordinary shares) being the weighted average number of ordinary shares in issue.

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.

#### 6. Reconciliation of operating cash flows

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
<b>Loss for the year</b>	<b>(227)</b>	(533)
Depreciation of tangible fixed assets	820	628
Amortisation of capitalised development costs	29	74
Amortisation of other intangibles	228	65
Recognition of grant income	(29)	(34)
Share of associate's result	(27)	20
(Profit)/loss on sale of property, plant and equipment	(30)	1
Profit on sale of investments	(3)	-
Interest payable	19	24
Interest receivable	(363)	(728)
Share based payments – value of employee service	103	70
Decrease in inventories	70	160
Decrease/(increase) in trade and other receivables	154	(249)
Decrease in creditors	(143)	(624)
<b>Cash generated from/(used in) operating activities</b>	<b>601</b>	(1,126)

-- ENDS --

## 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 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. Life Science Research services provide core laboratory research support from conceptualization 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 UK laboratory facilities in London, Cambridge and Oxford. Source BioScience is CPA, GLP and GCP accredited and is licensed by the Human Tissue Authority.

## GLOSSARY

The following terms are used in this document:

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. A wide range of antibodies with a large variety of cellular targets are available to research scientists through distributors such as Autogen Bioclear.
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.
CYP2D6	Women with genetic variations in the CYP2D6 gene may be slow metabolisers of tamoxifen to its active metabolite endoxifen. In this case changes to the treatment regime may be indicated.
circulating tumour cells ('CTC')	A method for identifying small numbers of cancer cells circulating in the blood. 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 mechanism of accreditation for clinical pathology services. It involves an external audit of the ability of a laboratory to provide a service of high quality by declaring a defined standard of practice, which is confirmed by peer review.
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) is a simplified version of the original DNA, synthesised artificially using an RNA template (see below).

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 and RNA in tissue sections. The technique uses short synthetic sequences of DNA or RNA which will bind 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 & sequencing	DNA sequencing is the process of looking at the precise order in which the building blocks of the patient's DNA are linked together. Genotyping, in turn, is the process whereby an individual's DNA is tested for mutations (single changes in the building block sequence) which might give rise to disease or other abnormalities. This is normally carried out by sequencing.
Good Clinical Practice ('GCP')	GCP accreditation provides further assurance beyond GLP (see below) that all regulatory studies involving human tissue are conforming to the principles of good clinical practice. GCP and GLP compliance is monitored by the Medicines and Healthcare products Regulatory Agency ('MHRA'), a governmental agency.
Good Laboratory Practice ('GLP')	A set of principles that provides a framework within which laboratory studies are planned, performed, monitored, recorded and reported.
HER2	Over-expression of HER2 receptor molecules on their tumour may indicate a breast cancer 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 process.
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	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 cytology samples from tissues such as the cervix or the lung, which provides purer populations of cells, without the other materials which frequently contaminate the sample such as blood or mucus.
Location guided screening ('LGS')	A microscope with an automated stage linked to a computer which takes data from the FocalPoint™ automated imaging system to guide the screener to areas on the slide where there are likely to be abnormal cells. This cuts the number of 'fields of view' which need to be screened from 60 down to 10.
RNA	RNA (RiboNucleic Acid) is chemically quite 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 genes at once 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.

**-- ENDS --**

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