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17 March 2008

**Source BioScience plc**

("Source BioScience" or "the Company" or "the Group", formerly known as Medical Solutions)

**PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007**

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 2007 prepared under International Financial Reporting Standards ("IFRS").

During the year the Company commenced its acquisition strategy, with the aim of growing revenue streams and achieving profitability. As well as boosting Source BioScience's service offering, this strategy has also helped to grow cross-selling opportunities and reduce the Group's cost base.

**Financial Highlights**

- Revenue from continuing operations up 25% to £7.5 million
- Gross profit improved to £3.1 million; gross profit margin improved to 42%
- Operating loss from continuing operations reduced by 50% to £1.2 million
- Loss for the year from continuing operations reduced by £1.8 million to £0.5 million
- Cash of £12.3 million

**Operational Highlights**

- Acquisition of Geneservice Limited ("Geneservice") on 3 July 2007 for £3.9 million, enhancing the Group's service offering by including genomic technologies and creating a "one-stop shop" for diagnostic and pharma biotech support services
- Appointment as exclusive UK distributor for OncotypeDX™; a cutting edge breast cancer diagnostic assay, by Genomic Health, Inc.
- Appointment by Applied Biosystems, Inc. as the UK service provider of its SNPLex™ Genotyping System
- Continued focus on cost control without detriment to our operational capability
- Acquisition of a 40% equity stake in Number One Health Group Limited ("Number One Health"), providing access to the private healthcare market

**Post year-end events**

- Acquisition of Autogen Bioclear UK Limited ("Autogen Bioclear") for £6.0 million enhancing the Group's product portfolio and customer base. Autogen Bioclear traded profitably prior to acquisition, generating a profit before tax of £0.82 million on turnover of £2.7 million for the year ended 30 June 2007

- Change of Company name to Source BioScience plc to more appropriately reflect the nature and scope of the Group's activities
- Addition of the FocalPoint™ location guided screening system for automated cytology screening to the existing exclusive distribution agreement with TriPath Imaging, Inc.
- 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
- Appointed by Empire Genomics, LLC as the exclusive UK distributor of the diagnostic and research genotyping technology ACCUArray™

Laurie Turnbull, Executive Chairman of Source BioScience, said:

“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.

“We will continue to focus on cost control, reducing costs where appropriate, improving our operational efficiency and investing in key resources and new technologies. The growth opportunities across the Group are strong and we expect the markets for services and products to continue to grow.”

# Chairman's Statement

## Introduction

I am delighted to be making my second 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 of the results for the year

<b>Continuing operations</b>	<b>2007 £'000</b>	2006 £'000	% growth/ (reduction)
Revenue	<b>7,531</b>	6,025	25
Gross profit	<b>3,127</b>	2,385	31
Operating expenses	<b>(4,344)</b>	(4,798)	(9)
Operating loss	<b>(1,217)</b>	(2,413)	(50)
Loss before tax	<b>(533)</b>	(2,332)	(77)
Year end cash and cash equivalents	<b>12,267</b>	15,229	-

## Board of Directors

Dr Nick Ash was appointed Managing Director on 1 February 2007, from his former position of Chief Financial Officer. Dr Tom Weaver was appointed Commercial Director on 3 July 2007 following the acquisition of Geneservice, Tom having been Chief Executive at Geneservice. Sir Gareth Roberts retired from the Board on 1 February 2007 on the grounds of ill health, after serving as a Director of the Company since 1999.

The revised Board represents 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 3 July 2007 we completed the acquisition of Geneservice Limited, a profitable and expanding private UK-based company, for total consideration of £3.9 million payable in cash and loan notes. Geneservice offers a portfolio of genomic products and technology services for applications mainly in life sciences and clinical research.

The acquisition was in line with the Group's strategy to grow its healthcare diagnostics and pharma biotech services business by enhancing the portfolio of products and services to include DNA- and RNA-based techniques.

The rapid and effective integration of Geneservice was a key priority for management during the second half of the year and this was successfully completed by the year end.

## Staff

Within the existing operations, 2007 was a stable year with respect to staff numbers and expertise. However, as a result of the acquisition of Geneservice, a further 35 people joined the Group which at the year end employed 80 people. As we now look forward to progressing with our strategy and objectives, we have skilled and motivated staff who will be instrumental in our achieving those objectives.

# Chairman's Statement

## Strategy

The Group's strategy remains to enhance our service offering across our Healthcare, Pharma Biotech and Life Science Research divisions. This will be achieved through both organic growth from these existing operations as well as selected acquisitions as we reinvest the proceeds from the disposal of our Dubai operations with the aim of broadening our portfolio of services and products.

The acquisition of Geneservice was a significant step in delivering this strategy, also enhancing our offering in molecular diagnostics and opening new markets in the life science research communities. Added to this, it enabled the Company to create a "one-stop shop" offering to pharma biotech customers for our tissue pathology to genomics expertise.

In our Healthcare division we see significant opportunities for growth in our Cytology business with the phased introduction of automated screening technologies over the next few years. The UK Pathology Modernisation Programme is high on the Government's agenda and one important element of improving efficiency is automation. 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 screening programme.

We will continue to broaden our portfolio of diagnostic tests targeted at the diagnosis and treatment of cancer. In addition, we will be identifying further opportunities to penetrate both public and private healthcare with our molecular diagnostics portfolio. This represents a new market for Source BioScience and will enable us to provide services to genetics laboratories alongside our existing pathology customers.

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 spectrum of services from tissue pathology to genetic analysis. Increasingly pharmaceutical and biotechnology companies are looking to target therapies to specific disease types within specific patient groups. We therefore anticipate the demand for our genotyping services, which identify the genetic differences between groups of diseases and groups of patients, to increase.

Our Life Science Research division presents significant opportunities for growth especially within the expanding market for next generation gene sequencing and genotyping services. Source BioScience has invested in new technology platforms manufactured by Illumina, Inc. and will be the first commercial service provider in the UK to offer these next generation technologies. 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 will continue to focus on cost control, reducing costs where appropriate, improving our operational efficiency and investing in key research and development projects and new technologies.

Fundamental to the Group and the quality of our service offering, is the recruitment and retention of high calibre staff. To ensure we achieve our objectives, we need to employ the best people, train them thoroughly and keep them highly motivated.

## Prospects

Following the acquisition of Geneservice, the Group now has a "joined up" business comprising our Healthcare, Pharma Biotech and Life Science Research services. As highlighted above, there are significant growth opportunities across each of our divisions.

In addition, 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 be looking 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, through Pharma Biotech Services we 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 have already commenced the next stage in the growth of Source BioScience with the acquisition of Autogen Bioclear in March 2008. Autogen Bioclear is a profitable and cash generative business providing a wide range of products for

## **Chairman's Statement**

application in life sciences and clinical research. The products are highly complementary with the existing Source BioScience portfolio and the culture of Autogen Bioclear is aligned with that of the Group. The acquisition represents a significant step towards the profitability and cash generation for the Source BioScience group.

The growth opportunities across the Group are strong and we expect the markets for our services and products to continue to grow. We will 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 2008

# 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. During the year, our core activities were the provision of cytology and diagnostic pathology services and products to the healthcare sector. In addition, employing common technology platforms and laboratory expertise, we have provided laboratory support services to the pharma biotech sector. The acquisition of Geneservice midway through the year broadened our service and product offering to include genomic analysis and reagents, predominantly for the life science research community, but also for applications in the healthcare and pharma biotech markets.

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

## **Healthcare**

Healthcare comprises our cytology and diagnostic pathology services and products.

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 and Source BioScience has maintained its Clinical Pathology Accreditation ("CPA") throughout 2007.

## **Pharma Biotech Services**

Source BioScience 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. We have particular strengths in pathology, high throughput quantitative immunohistochemistry and in situ hybridisation, as well as sophisticated image analysis and biomarker determination capabilities.

## Operating and Financial Review (abbreviated)

The increasing demand from the pharma biotech sector for service providers that can offer a portfolio of services was the driver behind the Geneservice acquisition. This established a range of services from classical descriptive tissue pathology through to the latest DNA- and RNA-based techniques, including mutation testing and gene expression profiling. As a result, Source BioScience now provides a “one-stop shop” for diagnostic services from tissue analysis to genomic services including gene expression profiling and genotyping. The Group can offer molecular diagnostic analysis for pre- and early-stage clinical therapeutic development programmes as well as a full suite of pharmacogenomics services.

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

The Life Science Research division offers genomic technology services and products for applications in life sciences and clinical research and development. It also provides rapid access to high quality leading edge products essential for manipulating gene and protein function.

Genotyping and sequencing services enable the extraction, banking, typing and analysis of DNA for customers. 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 is 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.

At the start of 2007 the Board set out a plan aimed at delivering growth through a combination of organic expansion in our diagnostic pathology and cytology businesses, enhancing our reference laboratory portfolio to offer the latest diagnostic techniques including DNA- and RNA-based analyses, combined with prudent, appropriate investment in acquisition opportunities. Additionally, the plan maintained a focus on our core competency of service delivery, continued reduction in the cost base and improvement in operational efficiency to make significant strides toward profitability and cash generation.

The results for the year ended 31 December 2007 demonstrate that significant progress has been made in the operations of the Group and the Board remains committed to the achievement of profitability and cash generation.

### **Business Segment Performance Review**

#### **Healthcare**

Our Healthcare division generated revenue from continuing operations of £5.7 million in 2007 which was consistent with 2006. The highly competitive conditions experienced in Diagnostic Pathology resulted in a marginally reduced segment profit of £1.1 million (2006: £1.2 million).

#### ***Cytology***

Cytology is 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 the year we completed our LBC roll out programme to those regions that have selected the SurePath™ system to support the cervical screening programme.

Revenue improved significantly as a consequence of the roll out programme increasing to £4.2 million compared with £3.5 million in 2006, an increase of 20%. The Cytology business unit also improved its operating result for the year to a profit of £1.1 million from £0.7 million in 2006.

#### ***Opportunities***

The key 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 smears; but by far the greatest potential opportunity remains the introduction of automated cervical screening in the UK.

## Operating and Financial Review (abbreviated)

On 15 February 2008 we announced the addition of the FocalPoint™ location guided screening system for automated cytology screening to the existing exclusive distribution agreement with TriPath Imaging, Inc. The FocalPoint™ technology is highly complementary with our existing cytology business. This platform enables the automated screening of cytology slides produced using the SurePath™ system.

The UK Pathology Modernisation Programme, which is being overseen by Lord Carter, is high on the Government's agenda and one important aspect of improving efficiency is automation. With over 3.5 million cytology slides manually screened for cervical cancer every year in the UK, and with each screener looking at a maximum of 30 slides per day, cytology lends itself to automation. The Government is currently assessing FocalPoint™ as a primary screening tool as part of a Health Technology Assessment trial in Manchester. Meanwhile other centres in the UK are also assessing FocalPoint™ as a quality control technology for cytology.

FocalPoint™ will extend Source BioScience's penetration into the cervical screening market and enable it to work more closely with laboratories and Trusts in improving the efficiency of their cervical screening programme.

### ***Diagnostic Pathology***

Revenue from our continuing Diagnostic Pathology business unit fell by 32% to £1.5 million (2006: £2.2 million) and operating result was break even (2006: profit of £0.5 million).

The main factors in the decline in the revenue from this area of the business were twofold. Firstly, and as reported previously, a significant element of the capacity constraint within NHS pathology laboratories has been addressed over recent years as the number of qualified consultant histopathologists has increased. Secondly, certain diagnostic testing services provided by the Group have become more routine in nature where once they were considered specialist services. As a result, an increasing number of hospital pathology laboratories have been performing these diagnostic tests in-house rather than outsourcing this requirement.

As a response to these anticipated pressures, we have sought to enhance our diagnostic portfolio and increase our market penetration both into the NHS and private healthcare. In April we announced the acquisition of 40% of the ordinary share capital of the private healthcare provider Number One Health Group Limited ("Number One Health"), based in Harley Street, London. This opens up a new channel for Source BioScience to market its portfolio of diagnostics tests directly to the public.

In June we announced our exclusive distribution agreement with Genomic Health, Inc. to distribute the OncotypeDX™ breast cancer test in the UK and this represents a key strategic relationship for the Group. The addition of OncotypeDX™ to our portfolio significantly strengthens our position as a leading provider of cutting edge diagnostic and prognostic cancer testing in the UK.

### ***Opportunities***

The market drivers for this business remain sound but we have seen ongoing change in the dynamics of the NHS requirement for outsourced pathology services. The shortfall in the number of consultant histopathologists that we have historically seen in the UK has largely been addressed. This was always anticipated and Source BioScience has moved to broaden its portfolio of diagnostic services. However, whilst there has been a reduction in the demand for histology support due to capacity constraint in the NHS, there is ongoing pressure from the Department of Health for the increased involvement of the private sector in the provision of healthcare and, as noted above, the UK Pathology Modernisation Programme is an important component of this.

We are targeting modest growth in this area of our business during 2008 and aim to introduce a number of new products and services during the course of the year. These will be in our core areas of expertise in histopathology and reference laboratory diagnostic services and will be targeted at a range of cancers in addition to our existing breast cancer expertise. We are exploring opportunities to expand our existing offering, which is largely tissue based, to include blood and other fluids. This will also enable us to respond to the anticipated increased demand for pathology services from the primary care arena and national screening initiatives. In addition, we are making significant improvements to our electronic reporting capability with the introduction of online diagnostic reporting. This will facilitate faster access to diagnostic pathology results by hospitals and rapid assimilation of that information with the existing patient records. This will have real operational and clinical benefits for both the hospital and patient as diagnoses can be received, reviewed and acted upon more quickly.

# Operating and Financial Review (abbreviated)

## Pharma Biotech Services

The sales performance of Pharma Biotech Services improved by 70%, with revenues of £0.5 million compared with £0.3 million in 2006. Similarly, the operating result for this division improved by £0.2 million from a loss of £0.5 million during 2006 to a loss of £0.3 million in 2007.

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 and the credibility we have established in this sector is being increasingly recognised by the larger, global pharma companies.

### *Opportunities*

During 2008, we are forecasting further growth as we build on the growth in 2007 and continue to roll out the enhanced “one-stop shop” offering, following the acquisition of Geneservice, to a broader spectrum of pharma biotech customers. During the second half of 2007 we were able to present to pharma biotech customers our genomics capability alongside our established strengths in immunohistochemistry (“IHC”), fluorescence in situ hybridisation (“FISH”) and image analysis. The combination of this, our extensive tissue bank and DNA and RNA clone libraries represents a powerful offering particularly with accelerating interest in “targeted” therapies which require quantitative evaluation of relevant biomarkers as part of the drug development process.

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 Good Laboratory Practice (“GLP”) status throughout 2007 and in February 2008, following an external audit inspection by the Medicines and Healthcare products Regulatory Agency (“MHRA”), we were accredited with Good Clinical Practice (“GCP”) status. During 2007 Source BioScience was also licensed 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

Our Life Science Research activities commenced with the acquisition of Geneservice in July. During the second half of 2007 the focus was on integrating the Geneservice operations as quickly as possible with minimal interruption to the business. Consolidation of a significant element of the laboratory operations into our Nottingham reference facility and closure of one of the Cambridge sites was an important part of our strategy to streamline the cost base and this was completed by the end of the year.

Despite the disruption to the laboratory operations, and some cost inherent in the relocation, revenue was £1.3 million in the six months following acquisition and operating profit was £0.1 million. This profit is after charging an additional £0.1 million in depreciation and amortisation in the period following the fair value accounting exercise required under IFRS, which resulted in an increase in the carrying value of the fixed assets acquired. There is no cash impact of the fair value accounting exercise.

### *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. With this increasing requirement is an increasing demand for service providers who can offer rapid access to this technology within quality accredited laboratories.

Source BioScience is ideally placed to meet this demand across our three laboratories in international centres of genomic research in 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 technologies will radically reduce the cost of gene sequencing, creating new markets for companies that offer this next generation sequencing 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 are real opportunities to embed our services within academic centres and provide them with core genomic services. This is a model that is proving very successful with our Oxford laboratory which is based within the Department of Biochemistry at

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Oxford University. 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 toward 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.

Finally there is a growing awareness amongst private individuals of how an understanding of their genetic make up may influence their health and predisposition to certain diseases.

Recognising the need to stay at the forefront of genomic services, Source Bioscience announced in February 2008 that it would be acquiring the latest in next generation sequencing and genotyping technologies. The Group has invested in the Illumina Genome Analyser™ next generation gene sequencing platform and Illumina Beadstation™ next generation genotyping platform and Source BioScience will be the first commercial service provider of these technologies in the UK. In adopting this technology we are working in partnership with the supplier and end users to develop the market and the service. An additional benefit of the Illumina systems 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 needs to be analysed and interpreted. Source BioScience currently offers a bioinformatics service to provide data analysis for projects we undertake. We are looking to enhance this service so that bioinformatics can be provided as a stand alone service 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 quantity 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, human resources 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 been reduced by £1.0 million to £2.1 million (2006: £3.1 million). Even after eliminating exceptional restructuring costs of £0.2 million in 2006 and an exceptional credit of £0.2 million in 2007, like for like central costs have been reduced by £0.6 million during a year in which the business has expanded and revenues have increased 25% from £6.0 million to £7.5 million. We will continue to monitor and control central costs tightly.

### Financial review

#### *Financial performance*

Turnover from continuing operations has increased by 25% to £7.5 million (2006: £6.0 million) mainly driven by the acquisition of Geneservice and the establishment of our Life Sciences Research activities.

Cost of sales have increased broadly in line with turnover, although there has been an improvement in gross margin to 42% in 2007 compared with 40% in 2006.

Our laboratory staff are highly qualified, experienced and flexible. This provides good operational gearing as revenue grows and assists in dealing with fluctuations in workload. Our laboratory infrastructure now encompasses three sites in 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.

Selling and distribution costs of £0.7 million have increased by £0.1 million compared with 2006 reflecting the expanded nature of our activities.

Administrative expenses, excluding restructuring costs and exceptional credits, were £3.7 million (2006: £3.8 million), representing a reduction of 3%. This reduction in administrative expenses is apparent despite the expansion in the Group's activities during the year. This reduction results from the focus on cost control that the Board has maintained throughout the year and demonstrates the operational gearing inherent within the laboratory operations and throughout the support functions in the business.

Administrative expenses included an exceptional credit of £0.2 million. During the first half of 2007, agreement was reached with Her Majesty's Revenue and Customs ("HMRC") to settle the liability outstanding in relation to the quantum

## Operating and Financial Review (abbreviated)

of input VAT the Company had reclaimed prior to 2006. An accrual for £0.4 million had been made at 31 December 2006 to the amount anticipated to satisfy the claim made by HMRC. Following a negotiated settlement during the first half of 2007, £0.2 million was credited back to the income statement.

Total administrative expenses, including the exceptional credit in the current year and restructuring costs, were £3.6 million compared with £4.0 million in 2006, representing a reduction of 12%.

Research and development costs of £0.1 million were broadly consistent with 2006 (£0.2 million) which reflects the nature and focus of the Group's activities as a service provider rather than a developer of new technologies.

Operating losses from continuing operations for the year ended 31 December 2007 were £1.2 million compared with £2.4 million in 2006. This reduction in operating losses is a testament to the attitude of all of the staff in the Group who have focused on maintaining our exceptionally high quality of service whilst driving costs out of the business and increasing operational efficiency.

After taking account of tax and interest, the net loss from continuing operations for 2007 was £0.5 million compared with a loss of £2.3 million in 2006.

Geneservice was acquired in July 2007 for a total consideration of £3.9 million, excluding costs of the transaction, payable in cash and loan notes. An initial payment of £1.9 million was made on completion in July, including £0.4 million of transaction expenses. The second scheduled payment of £1.4 million was made in January 2008 with subsequent scheduled payments due in July 2008 (£0.7 million) and July 2009 (£0.3 million). Cash acquired with the business amounted to £0.3 million. At 31 December 2007 deferred consideration of £2.4 million has been recognised representing the value of the loan notes due for payment in 2008 and 2009.

### ***Financial position***

At 31 December 2007 the Group had net assets of £15.0 million compared with £15.4 million at 31 December 2006. Of the net assets, £12.3 million (31 December 2006: £15.2 million) was represented by cash.

Non-current assets have increased to £6.0 million at 31 December 2007 from £2.3 million at 31 December 2006. The main drivers for this are the non-current assets acquired with Geneservice of £0.7 million and the goodwill of £3.1 million arising on that acquisition (note 3). The Group invested £0.3 million in capital equipment during the year, mainly relating to the configuration of the Nottingham laboratory for Geneservice and automated imaging technology for applications in Diagnostic Pathology and Pharma Biotech Services.

The Group also invested £0.3 million, including a loan of £0.1 million, for 40% of the ordinary share capital of Number One Health Group Limited ('Number One Health') during April 2007. Number One Health is a private healthcare provider based in Harley Street, London. The investment provides a channel through which Source BioScience can market its existing, and planned, portfolio of diagnostic tests directly to the public.

Net current assets reduced by £4.0 million to £9.3 million (31 December 2006: £13.3 million) and this change is a result of the acquisition of Geneservice for cash and loan notes (note 3).

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 2007, the Group's balance sheet included bank and finance lease obligations of approximately £0.2 million, £166,000 of which is repayable within one year and £51,000 after more than one year but less than three years.

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

The Group had a cash balance of £12.3 million as at 31 December 2007 (31 December 2006: £15.2 million) and utilised cash of £2.9 million during the year. Of this amount £2.0 million was invested in the acquisitions of Geneservice and Number One Health, £0.3 million was invested in capital expenditure, settlement of the historic VAT liability consumed £0.2 million, repayment of borrowings amounted to £0.2 million and £0.2 million was paid in transaction and restructuring expenses following the Dubai disposal.

Interest received was significant, mainly arising from funds placed on deposit, amounting to £0.7 million compared with £0.2 million during 2006.

# Operating and Financial Review (abbreviated)

## **Prospects**

There have been significant and positive changes across the Group during 2007. The Group now 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 short term objective remains to return the Group to profitability and cash generation. This will be achieved through a combination of organic growth and prudent, appropriate investment in acquisition opportunities.

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 operational structure of the Group has been configured to reflect this.

The activities of the Group are now structured into the three divisions that have been discussed above, namely Healthcare, Pharma Biotech Services and Life Science Research which represents a "joined up" business built on common technology platforms and laboratory activities and expertise. The sharing of the technology platforms and intellectual capital 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 in the Group and these have been highlighted above. However, significant opportunities for growth lie in the 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 enables us to offer a range of genetic tests designed to diagnose disease, predict the risk of disease and predict and monitor the response to therapies. Our strategy is to build a portfolio of molecular diagnostic tests that positions the Group as an essential service provider of diagnostic testing for healthcare applications.

The Group already offers a range of molecular diagnostic tests including the *OncotypeDX*<sup>TM</sup> gene based 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.

The exclusive agreement signed in February 2008 with Empire Genomics, LLC for the Group to act as distributor and service provider for the *ACCUArray*<sup>TM</sup> genotyping technology is further evidence of our strategy to develop our molecular diagnostic capability. This technology has a range of applications but is particularly relevant in the identification, classification and monitoring of disease. It can be used to determine whether subjects have chromosomal abnormalities and identify whether there is a genetic cause of diseases and other conditions.

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 offer 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 and has recently acquired the next generation of genotyping platform from Illumina,

## Operating and Financial Review (abbreviated)

Inc. 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 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 in providing laboratory services for the identification and development of companion diagnostics.

Source BioScience was one of the original reference laboratories in the UK accredited by Roche to undertake companion diagnostic testing to determine whether patients could benefit from their breast cancer drug Herceptin™. To date, Herceptin™ and its companion diagnostic is probably the only case study in the development of personalised medicine and a commercial application of a companion diagnostic. However, there is increasing demand for targeted therapies to improve treatment success and reduce costs. Accordingly, there is increasing demand for companion diagnostics to accompany those therapies.

Source BioScience is in a prime position to provide the diagnostic techniques, molecular analysis and biomarker development platforms required to identify and develop companion diagnostics. As the revenues from this service activity are not dependant 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 business 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.

As another significant step in the implementation of this strategy, the Board announced on 10<sup>th</sup> March 2008 the completion of the acquisition of Autogen Bioclear UK Limited ("Autogen Bioclear"). Autogen Bioclear is a profitable, cash generative UK business distributing a wide range of products for application in life sciences, clinical research and development. It offers its customers rapid access to high quality, leading-edge genomic products, antibodies, cell culture, diagnostic kits and related research tools. Its customers include academic and research institutions, government and NHS laboratories and biotechnology and pharmaceutical companies based mainly in the UK.

Both the Autogen Bioclear product range and customer base is complementary with Source Bioscience, especially in genomic based products. Moreover, Autogen Bioclear distributes diagnostic kits, antibodies and other genomic products that the Group employs in its reference laboratory and contract research services. The combination will create new cross-selling opportunities and better utilisation of the existing infrastructure. There will also be opportunities for the Group to enhance margins by utilising Autogen Bioclear products in our laboratories.

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 2008

# Consolidated Income Statement

For the year ended 31 December 2007

	Note	Unaudited Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
<b>Continuing operations</b>			
Revenue	2	7,531	6,025
Cost of sales		(4,404)	(3,640)
<b>Gross profit</b>		<b>3,127</b>	<b>2,385</b>
Selling and distribution expenses		(680)	(609)
Administrative expenses:			
– normal		(3,731)	(3,837)
– restructuring costs		(29)	(185)
– exceptional credit	7	206	-
Administrative expenses		(3,554)	(4,022)
Research and development		(110)	(167)
<b>Operating loss from continuing operations</b>		<b>(1,217)</b>	<b>(2,413)</b>
Finance income		728	186
Finance costs		(24)	(105)
Share of loss of associate	4	(20)	-
<b>Loss before tax from continuing operations</b>		<b>(533)</b>	<b>(2,332)</b>
Income tax expense		-	-
Loss after tax but before profit from discontinued operations		(533)	(2,332)
<b>Discontinued operations</b>			
Profit from discontinued operations		-	946
<b>Loss for the year</b>		<b>(533)</b>	<b>(1,386)</b>
<b>Attributable to:</b>			
Equity holders of the parent company		(533)	(1,386)
<b>Loss for the year</b>		<b>(533)</b>	<b>(1,386)</b>
Basic and diluted loss per ordinary share from continuing operations	5	(0.26)p	(1.14)p
Basic and diluted total loss per ordinary share	5	(0.26)p	(0.68)p

# Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Parent Company				<b>Unaudited Total equity £'000</b>
	Share capital £'000	Share premium £'000	Merger and other reserves £'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>(23,803)</b>	<b>14,964</b>

# Consolidated Balance Sheet

As at 31 December 2007

	Unaudited As at 31 December 2007 £'000	As at 31 December 2006 £'000
<b>Non-current assets</b>		
Goodwill	3,729	583
Other intangible assets	347	117
Investment in associate	128	-
Loan to associate	130	-
Property, plant and equipment	1,709	1,634
	<b>6,043</b>	<b>2,334</b>
<b>Current assets</b>		
Inventories	435	533
Trade and other receivables	1,903	1,172
Cash and cash equivalents	12,267	15,229
	<b>14,605</b>	<b>16,934</b>
<b>Current liabilities</b>		
Trade and other payables	3,034	3,473
Financial liabilities		
– borrowings	166	162
– loan notes	2,133	-
	<b>5,333</b>	<b>3,635</b>
<b>Net current assets</b>	<b>9,272</b>	<b>13,299</b>
<b>Total assets less current liabilities</b>	<b>15,315</b>	<b>15,633</b>
<b>Non-current liabilities</b>		
Financial liabilities		
– borrowings	51	206
– loan notes	300	-
	<b>351</b>	<b>206</b>
<b>Net assets</b>	<b>14,964</b>	<b>15,427</b>
<b>Equity</b>		
Issued share capital	4,075	4,075
Share premium	32,284	32,284
Other reserves	2,408	2,408
Profit and loss reserve	(23,803)	(23,340)
<b>Total equity</b>	<b>14,964</b>	<b>15,427</b>

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	Unaudited Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
<b>Cash flows from operating activities (continuing operations)</b>			
Cash used in operations	6	(1,125)	(841)
Interest paid		(22)	(45)
Tax paid		(40)	-
<b>Net cash used in operating activities (continuing operations)</b>		<b>(1,187)</b>	<b>(886)</b>
<b>Cash flows from investing activities (continuing operations)</b>			
Acquisition of subsidiaries, net of cash acquired	3	(1,234)	-
Transaction costs in relation to acquisition	3	(444)	-
Investment in associate	4	(148)	-
Loan to associate	4	(125)	-
Purchases of property, plant and equipment		(348)	(255)
Purchases of intangible assets		-	(12)
Proceeds from sale of property, plant and equipment		15	2
Proceeds from sale of intangible assets		-	-
Proceeds from sale of subsidiary		-	13,963
Transaction costs relating to sale of subsidiary		(53)	(748)
Cash remaining in disposal group		-	(1,623)
Interest received		726	180
<b>Net cash (used in)/generated from investing activities (continuing operations)</b>		<b>(1,611)</b>	<b>11,507</b>
<b>Cash flows from financing activities (continuing operations)</b>			
Repayment of borrowings		(108)	(277)
Finance lease principal repayments		(56)	(37)
<b>Net cash used in financing activities (continuing operations)</b>		<b>(164)</b>	<b>(314)</b>
<b>Net (decrease)/increase in cash and cash equivalents (continuing operations)</b>		<b>(2,962)</b>	<b>10,307</b>
<b>Cash flows from operating activities (discontinued operations)</b>			
Cash generated from operations		-	2,744
<b>Net cash generated from operating activities (discontinued operations)</b>		<b>-</b>	<b>2,744</b>
<b>Cash flows from investing activities (discontinued operations)</b>			
Purchases of property, plant and equipment		-	(83)
<b>Net cash used in investing activities (discontinued operations)</b>		<b>-</b>	<b>(83)</b>
<b>Cash flows from financing activities (discontinued operations)</b>			
Payment of accrued minority interest		-	(52)
<b>Net cash used in financing activities (discontinued operations)</b>		<b>-</b>	<b>(52)</b>
<b>Net increase in cash and cash equivalents (discontinued operations)</b>		<b>-</b>	<b>2,609</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,962)</b>	<b>12,916</b>
Cash and cash equivalents at beginning of year		15,229	2,313
<b>Cash and cash equivalents at end of year</b>		<b>12,267</b>	<b>15,229</b>

# Notes to the Consolidated Preliminary Financial Statements

For the year ended 31 December 2007

## 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 2007, 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 2007. These financial statements are therefore unaudited. The financial statements for the year ended 31 December 2006 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 2007 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 2007, 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. These revised segments reflect the management reporting structure and customer base of the Group following the acquisition of Geneservice.

During 2007 there were immaterial sales between business segments (2006: immaterial), and where these do occur, are at arm's length pricing. Unallocated costs represent corporate expenses and common operating costs. Segment assets include 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. Capital expenditure comprises additions to plant and equipment and capitalised development costs.

#### Year ended 31 December 2007

	Healthcare		Pharma Biotech Services	Life Science Research	Unallocated	Group
	Diagnostic Pathology	Cytology				
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Continuing operations</b>						
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 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 from continuing operations					(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	132	<b>348</b>
Depreciation	40	325	82	55	126	<b>628</b>
Amortisation of intangible assets	48	-	21	68	-	<b>137</b>
Other non-cash expenses						
- share option scheme	-	-	-	-	70	<b>70</b>

Year ended 31 December 2006

	Healthcare			Pharma Biotech Services	Life Science Research	Unallocated	Group
	UK Diagnostic Pathology	Cytology	Dubai Diagnostic Pathology				
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Continuing operations</b>							
Revenue	2,200	3,526		299	-	-	<b>6,025</b>
Segment result	529	658		(516)	-	(3,084)	<b>(2,413)</b>
Finance costs						(105)	<b>(105)</b>
Finance income						186	<b>186</b>
Loss before tax						(3,003)	<b>(2,332)</b>
Taxation						-	<b>-</b>
Loss for the year from continuing operations						(3,003)	<b>(2,332)</b>
<b>Discontinued operations</b>							
Revenue			6,004				<b>6,004</b>
Segment result			2,064				<b>2,064</b>
Loss on disposal of operation			(1,089)				<b>(1,089)</b>
Profit before tax			975				<b>975</b>
Taxation			-				<b>-</b>
Profit for the year from discontinued operations			975				<b>975</b>
Profit attributable to minority interests			(29)				<b>(29)</b>
<b>Net loss attributable to equity shareholders</b>							<b>(1,386)</b>
Segment assets	1,021	1,655		382	-	-	<b>3,058</b>
Unallocated assets							
- property, plant and equipment						611	<b>611</b>
- debtors and prepayments						370	<b>370</b>
- cash and cash equivalents						15,229	<b>15,229</b>
<b>Total assets</b>	<b>1,021</b>	<b>1,655</b>		<b>382</b>	<b>-</b>	<b>16,210</b>	<b>19,268</b>
Segment liabilities	139	818		303	-	-	<b>1,260</b>
Unallocated liabilities							
- corporate borrowings						213	<b>213</b>
- creditors and accruals						2,368	<b>2,368</b>
<b>Total liabilities</b>	<b>139</b>	<b>818</b>		<b>303</b>	<b>-</b>	<b>2,581</b>	<b>3,841</b>
<b>Other segment items</b>							
Capital expenditure (tangibles)	38	185		88	-	115	<b>426</b>
Capital expenditure (intangibles)	-	-		12	-	-	<b>12</b>
Depreciation	54	296		95	-	203	<b>648</b>
Amortisation of intangible assets	53	-		23	-	-	<b>76</b>
Other non-cash expenses							
- share option scheme	-	-		-	-	47	<b>47</b>

## Secondary format – geographical segments

The Group manages its business segments on a global basis. The continuing operations are based in the UK which is the home country of the parent company.

The sales analysis in the table below is based on the location of the customer, which is not materially different from the location where the order is received and where the assets are located.

	Revenue		Segment assets		Capital expenditure	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
<b>Continuing operations</b>						
UK	<b>7,126</b>	5,981	<b>20,648</b>	19,268	<b>348</b>	355
Europe (excluding UK)	<b>245</b>	21	-	-	-	-
North America	<b>80</b>	2	-	-	-	-
Middle East, Asia and Australasia	<b>80</b>	21	-	-	-	-
Total	<b>7,531</b>	6,025	<b>20,648</b>	19,268	<b>348</b>	355

### 3. Acquisition of subsidiary

On 3 July 2007 Source BioScience plc completed the acquisition of the entire ordinary share capital of Geneservice Limited for total consideration of £3.9 million, excluding transaction costs.

The acquired business contributed revenue of £1,279,000 and net profit of £71,000 to the Group for the period from 3 July 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007 group revenue would have been £1,332,000 higher and the net loss would have increased by £92,000 on a pro forma basis. These amounts have been calculated by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets required by IFRS had applied from 1 January 2007.

The assets and liabilities as of 3 July 2007 arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
	£'000	£'000
Property, plant and equipment	375	181
Distribution agreements and internally generated software	366	44
Cash and cash equivalents	269	269
Inventories	62	62
Other current assets	487	487
Borrowings	(14)	(14)
Other current liabilities	(311)	(311)
Value of net assets acquired	1,234	718
Goodwill arising on acquisition	3,146	3,662
Consideration	4,380	4,380

Consideration is made up as follows:

	£'000
Initial cash consideration	1,503
Loan notes	2,433
	3,936
Transaction costs	444
	4,380

The goodwill is attributable to the workforce, expected synergies and life science research customers which cannot be separately reliably measured. Deferred consideration, in the form of loan notes, is payable in three stages; £1,383,000 on 3 January 2008, £750,000 on 3 July 2008 and £300,000 on 3 July 2009.

### 4. Investment in Associate

On 3 April 2007 Source BioScience plc acquired 40% of the ordinary share capital of the private healthcare provider Number One Health Group Limited for £125,000 cash consideration in addition to £23,000 of associated transaction costs. A further amount of £125,000 was loaned to Number One Health following the acquisition, secured by means of a debenture.

The Group's share of the result for Number One Health, for the period from 3 April to 31 December 2007, is disclosed in the Income Statement. The balance of the loan outstanding, including accrued interest to 31 December 2007, is disclosed in the Balance Sheet together with the carrying value of the investment.

## 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 £533,000 (2006: loss of £1,386,000) on 203,765,232 ordinary shares (2006: 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 (continuing operations)

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
<b>Loss for the year from continuing operations</b>	<b>(533)</b>	<b>(2,332)</b>
Depreciation of tangible fixed assets	628	600
Recognition of grant income	(34)	(55)
Amortisation of capitalised development costs	73	76
Amortisation of other intangibles	64	-
Share of associates loss	20	-
Loss/(profit) on sale of property, plant and equipment	1	(2)
Interest payable	24	105
Interest receivable	(728)	(186)
Share based payments – value of employee service	70	47
Decrease in inventories	160	146
(Increase)/decrease in trade and other receivables	(249)	522
(Decrease)/increase in creditors	(621)	238
<b>Cash used in continuing operating activities</b>	<b>(1,125)</b>	<b>(841)</b>

Cash used in the year in continuing operating activities was £1,125,000. Cash used in the year ended 31 December 2006 in continuing operating activities was £841,000 (discontinued operating activities generated £2,744,000).

## 7. Exceptional Administrative Items

### VAT liability settlement

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 has been credited back to the income statement as an exceptional item in the year.

## 8. Events after the balance sheet date

### Acquisition of subsidiary

On 10 March 2008 Source BioScience plc acquired the entire issued share capital of Autogen Bioclear UK Limited for a total consideration of up to £6.0 million payable in cash, excluding transaction costs of £0.4 million. Initial consideration was £4.0 million and deferred consideration of £1.0 million is payable on each of the first and second annual anniversaries, totalling £2.0 million, of which £0.5 million is subject to performance criteria. The acquisition includes net current assets of £2.0 million, mainly present as cash; any shortfall against this will be adjusted £ for £ from the initial consideration.

**-ENDS-**

## About Source BioScience

Source BioScience plc (LSE: SBS) is a leading provider of 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 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.
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.
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	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.
histopathology	The study of changes in tissues and cells as a consequence of some disease or toxic process.
immunohistochemistry	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.
liquid based cytology	Liquid based cytology ("LBC") 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.
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.