



Half Year Report 2011

Welcome



Source BioScience is an international genetic analysis and diagnostics business serving the healthcare and research markets

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About Source BioScience:

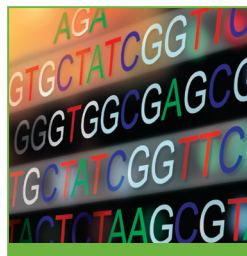


LifeSciences provides ultra-fast sequencing services and other genetic analyses to academic research groups. In addition, this division has a comprehensive portfolio of cloned DNA and RNA products and antibodies.



Revenue Contribution

48%

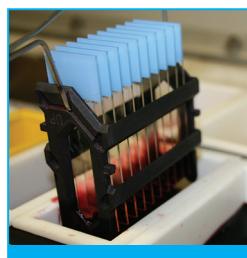


Healthcare comprises Cytology cancer screening activities and Diagnostics services including histopathology, genetic testing and companion diagnostic testing for the detection and classification of cancer and other diseases.



Revenue Contribution

47%

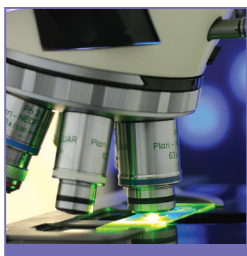


PharmaBiotech offers pharmaceutical and biotechnology companies reference laboratory testing services to aid drug discovery and development in conjunction with clinical trials support.



Revenue Contribution

5%



Highlights

Financial highlights

- Revenue increased by 10% to £7.6 million (2010: £6.9 million), with a major contribution from LifeSciences which showed a 31% increase in revenue in the period
- Loss before tax of £0.2 million (2010: £0.1 million profit) after £0.4 million of non-recurring and restructuring costs associated with the planned integration of the acquired imaGenes business
- EBITDA of £0.5 million (2010: £0.6 million)
- Annualised cost savings of approximately £0.5 million identified and will benefit the Group during H2 2011
- Cash balance of £3.0 million (31 December 2010: £4.2 million)

Operational highlights

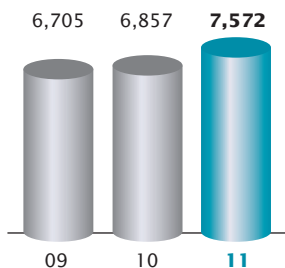
- Major developments in LifeSciences business driving growth:
 - Launch of the world's largest clone and antibody portfolio, combining over 20 million clones and integrated antibody library
 - Release of GenomeCube®, a proprietary search engine and bioinformatics tool enabling researchers to access the entire portfolio quickly and easily
 - SpeedREAD™ rapid data delivery service for DNA sequencing launched, providing the world's fastest turnaround times for sequencing data of less than three hours; also, leading Overnight Service launched
 - Installation and commissioning of the Company's second HiSeq2000™ high throughput sequencing platform in the Berlin facility to meet increasing customer demand for genetic sequencing services
- New competitive advantage created for the Healthcare outsourcing business through direct connection to the NHS' internal IT network
- Awarded European Union Framework 7 grant to study genetic causes of dementia in children, worth in excess of £0.2 million

Post period events

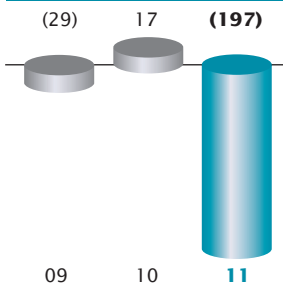
- Important revenue growth opportunity for Healthcare with NHS approval for the use of the BD FocalPoint™ "No Further Review" technology for cervical cancer screening in the UK with potential sales increase by up to 25% in the long term
- Won prestigious international competitive bid to provide DNA sequencing to Trinity College Dublin and University College Dublin – expected to generate revenue of at least £0.3 million per annum

Chairman's Statement

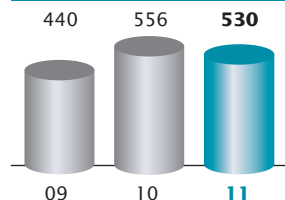
REVENUE £'000 Six months ended 30 June



OPERATING PROFIT/(LOSS) £'000 Six months ended 30 June



EBITDA £'000 Six months ended 30 June



"In this period, we have seen significant growth in our LifeSciences business, as well as longer term growth opportunities in the Healthcare division. As a leader in the provision of genetic and diagnostic services, the business is cost-efficient, restructured and well-positioned to meet the growing demands of the European healthcare and life sciences sectors"

Introduction

The first half of 2011 has been another period of sustained growth and development for Source BioScience. In our interim management statement issued on 17 May 2011 we reported a robust first quarter performance and this has been sustained for the full six months to 30 June 2011.

Financial Review

Revenue for the six months ended 30 June 2011 increased by 10% to £7.6 million (2010: £6.9 million) and the aggregate gross margin has remained consistent at 43% (2010: 43%).

A key component of the increase in revenue was from LifeSciences which grew by more than 30% to £3.7 million (2010: £2.8 million) and benefited from the positive impact of the acquired imaGenes business. Healthcare revenue of £3.6 million was consistent with the same period last year (2010: £3.5 million) whereas PharmaBiotech revenue decreased slightly to £0.4 million (2010: £0.5 million).

Chairman's Statement continued

All three divisions continue to be profitable and the aggregate operating profit for the three divisions, before central costs, increased by 6% to £1.6 million (2010: £1.5 million).

The cost base remained tightly controlled. 'Normal' administrative expenses were £2.3 million (2010: £2.1 million) and represented 30% of revenue (2010: 31% of revenue). In addition, £0.4 million of non-recurring and restructuring costs were incurred associated with the planned integration of the acquired imaGenes business. Following a review of the acquisition, annualised cost savings of approximately £0.5 million have been identified and the benefit should be seen during the second half of the year.

After adjusting for these non-recurring and restructuring costs, unallocated central costs were £1.5 million, representing 19% of revenue which compares favourably with the prior year (2010: 22% of revenue).

EBITDA remained broadly consistent at £0.5 million (2010: £0.6 million) and loss before, and after, tax was £0.2 million (2010: £0.1 million profit).

The financial position of the Company remains strong with net assets of £15.2 million (31 December 2010: £15.4 million). The Group's cash balance was £3.0 million at 30 June 2011 (31 December 2010: £4.2 million) and borrowings were £0.4 million (31 December 2010: £0.4 million) which were acquired with imaGenes. Deferred consideration of £0.1 million remains on the acquisition and is due for settlement in March 2012.

Net cash outflow in the period was £1.2 million (2010: £1.5 million) and this was after capital expenditure of £1.3 million. This expenditure

reflected enhancements to our technology platforms and e-commerce infrastructure and included the investment in the HiSeq2000™ and GenomeCube®.

LifeSciences

In LifeSciences, we provide ultra-fast sequencing services and products to academic research groups either as a standalone service or via our international network of laboratories. The division delivered the greatest growth with revenue increasing by more than 30% to £3.7 million (2010: £2.8 million) and delivered an operating profit of £0.5 million (2010: £0.3 million).

A primary focus for the first half of 2011 was the integration of the imaGenes business acquired at the end of 2010 to create one of Europe's strongest and most comprehensive businesses for genetic services and products. This process has progressed to plan with non-recurring and restructuring costs to date of approximately £0.4 million incurred as expected in delivering the integrated business. The programme of planned investment in the Berlin operation has progressed well, including the installation and commissioning of the Company's second HiSeq2000™ high throughput sequencing platform. The market for next generation sequencing is growing strongly and we continue to experience increasing demand for our services. In the first half of 2011, revenue from this activity was more than double the same period last year.

The launch of our new LifeSciences website during 2010 has been key in supporting and promoting growth in the life sciences market. This is now delivering tangible benefits and commercial advantage. The Company's online portfolio of products now extends to a unique offering of over

20 million DNA clones and integrated antibody library. Each of these products is provided with comprehensive scientific and technical support, both online and via the technical helpdesk. Our e-commerce solution was enhanced further in June with the launch of GenomeCube®, a proprietary search engine and bioinformatics tool enabling researchers to access the world's largest clone and antibody portfolio. GenomeCube® represents a significant investment by the Company, with over £1.0 million committed to the platform since its inception. These initiatives, and the consolidation of the existing imaGenes website, has resulted in web traffic increasing by over 100% compared with the period immediately prior to launch.

SpeedREAD™ was also launched at the start of the year; this is the fastest data delivery service for DNA sequencing with a turnaround time for sequencing data in under three hours. Uptake by customers was strong, with over 95% selecting automated data delivery. On this foundation, our Overnight Service was launched in June, enabling customers to drop-off samples at the end of their working day and receive their results before 9am the following morning.

In July, Source BioScience was selected by Trinity College Dublin and University College Dublin as a preferred supplier of DNA sequencing following a competitive tender process. The terms of the agreement, worth an expected minimum of £0.3 million per year, are to provide DNA sequencing for two years with an option to extend the contract for a further year. This service will be delivered from our Dublin-based DNA sequencing laboratory, the only commercial sequencing facility of its kind in Ireland.

As other companies have reported, there is evidence of more cautious spending amongst academic researchers in the UK and the rest of Europe, most likely due to uncertainty around government plans for publicly funded research expenditure. We do not believe this has impacted our sales growth to date nor in the near future, due to the services and product offering we provide, and the projects we have in our pipeline.

Healthcare

The Healthcare division comprises our diagnostic and screening activities including cervical cancer screening and cancer diagnostic testing services. Revenue of £3.6 million was broadly consistent with the same period last year (2010: £3.5 million) with divisional operating profit also maintained at £1.0 million (2010: £1.0 million), which was in line with management expectations.

Demand for our liquid based cytology ('LBC') consumables, which underpin 48% of the cervical cancer screening programme in England and Wales, was strong during the period, with opportunities presenting themselves for the medium to longer term growth of this business.

From a business development focus, Source BioScience has been approved by the NHS for direct connection to the N3 network, the NHS national IT infrastructure which links hospitals, medical centres and GPs in England and Scotland. We are the first company of its kind to be granted such a connection and this provides a significant advantage over our competitors.

For the long term growth of this division, an important milestone was the recently announced decision by the NHS Cancer Screening Programme to approve the use of the BD FocalPoint™ "No

Chairman's Statement continued

"The first half of the year has been another period of sustained growth and development, underpinning confidence in the maintained improvement in the performance of the Group for the full year"

Further Review" automated imaging technology for cervical screening in the UK. This is the only automated cervical screening technology which has been approved and is the only one of its kind. The "No Further Review" technology can analyse and identify up to 25% of screening samples that can be reported as "all clear", requiring no human examination. With over 3.6 million tests per annum being undertaken across England and Wales during 2009/10, this represents a significant reduction in laboratory workload and full adoption of this technology by our existing customers could increase the annual revenue from our cytology activities by up to 25%. The NHS expects to be in a position to begin the roll out of this technology into the screening programme towards the end of this year; therefore we anticipate generating revenue from this opportunity during 2012.

In diagnostics, as anticipated, we are seeing a shift in demand away from the more traditional histopathology-based services towards gene-based diagnostic testing which, with our expertise in this arena, is growing strongly. During the first half of this year, gene-based testing represented around 20% of our diagnostic activity, compared with just over 10% for the same period last year. The significant majority of these gene-based

tests are being used as companion diagnostics, testing to provide information about whether a particular therapy may, or may not, work. Demand is primarily in relation to breast cancer, testing for the HER2 gene to determine whether a patient may respond to Herceptin™. However, there is growing demand for K-RAS mutation testing in relation to patients with colorectal cancer and their suitability for anti-EGFR drugs such as Erbitux™ and Vectibix™.

Demand is increasing for targeted therapies with accompanying companion diagnostics. In response to the demand for greater information about the genetics of a disease, we have enhanced our portfolio of companion diagnostic testing services and have been working to develop, and validate, proprietary assays for the most important genetic tests. These proprietary assays improve our laboratory efficiency, reduce our costs and provide a competitive advantage. As part of this, Source BioScience, in partnership with Barts Cancer Institute and Illumina Inc. is collaborating to develop a novel approach to cancer diagnosis and personalised treatment for patients. The collaboration has won a grant of £0.5m through the Technology Strategy Board's 'Tumour Profiling and Data Capture to Improve Cancer Care' funding competition.

PharmaBiotech

PharmaBiotech is the smallest division and offers reference laboratory testing services and clinical trials support to the pharma and biotech industry to help with the discovery and development of new therapies. In the first half of 2011, it had revenue of £0.4 million (2010: £0.5 million); divisional operating profit remained consistent with last year at £0.1 million (2010: £0.1 million).

We have entered into a number of new agreements with large pharma companies to provide laboratory services in support of clinical trials and have a pipeline of clinical trial contracts worth in excess of £1.0 million over the next 12 to 18 months. However, as with any clinical trial support contract, the value to the Company depends on successful recruitment of patients onto a trial and, to some extent, early indications of the efficacy of the therapy being trialled, both of which are outwith our control.

As we have referred to previously, we have restructured elements of our commercial and operational infrastructure, and have been working to align our PharmaBiotech and LifeSciences activities more closely. In future we will present our PharmaBiotech activities as part of our LifeSciences division.

Outlook

The Group has demonstrated sustained growth during the first half of the year which has continued to the date of this report. This underpins confidence in the ongoing improvement in the performance of the Group for the full year, in line with management expectations.

In LifeSciences, we believe that we have significant untapped potential within our product portfolio, with our unique portfolio of clones and antibodies. With the launch of our improved e-commerce platform and, most recently, GenomeCube® we have made access to our entire portfolio more straightforward, significantly enhanced the technical information available to researchers and made the sales process more user friendly for customers. We expect to report further progress in marketing and sales in the second half of the year.

In Healthcare, we continue to hold a dominant position in England and Wales in support of the cervical cancer screening programme. This is a mature market which is highly cash generative and the barriers to entry are significant. As noted earlier, opportunities exist with the adoption, and roll out of automated imaging in the UK, which will be additive to our existing offering. In addition, the NHS plans to introduce HPV testing within the screening programme before the end of 2011. Source BioScience already offers HPV testing and this service can be adapted to suit the demands of the NHS. We anticipate that initially up to 20% of screening samples will be referred for HPV testing which equates to approximately 700,000 additional HPV tests per annum in England and Wales. In addition, with our unique offering of histopathology and increased outsourcing by the NHS, plus cutting-edge genomics, we are well placed to capitalise on the increasing demand for genetic testing and companion diagnostics.

The solid first half performance, and initiatives underway, underpins confidence in the maintained improvement in the performance of the Group for the full year.



Laurie Turnbull
Chairman

23 August 2011

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Note	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
Continuing operations				
Revenue	2	7,572	6,857	13,487
Cost of sales		(4,315)	(3,888)	(7,666)
Gross profit		3,257	2,969	5,821
Selling and distribution expenses		(555)	(675)	(1,231)
Research and development		(125)	(95)	(220)
Administrative expenses:				
– normal		(2,286)	(2,092)	(4,024)
– amortisation of intangibles arising from acquisitions		(135)	(90)	(176)
– non-recurring and restructuring costs		(353)	–	–
– acquisition costs		–	–	(159)
Administrative expenses		(2,774)	(2,182)	(4,359)
Operating (loss)/profit from continuing operations		(197)	17	11
Finance income		13	37	72
Finance costs		(15)	–	(9)
(Loss)/profit before tax from continuing operations		(199)	54	74
Taxation		20	16	34
(Loss)/profit after tax but before loss from discontinued operations		(179)	70	108
Discontinued operations				
Loss from discontinued operations		–	–	(15)
(Loss)/profit attributable to equity holders of the Company		(179)	70	93
Other comprehensive income				
Exchange differences on translation of foreign operations		(5)	–	(1)
Total comprehensive (expense)/income attributable to equity holders of the Company		(184)	70	92
Earnings per share:				
Basic (loss)/profit per ordinary share	3	(0.09)p	0.03p	0.05p
Diluted (loss)/profit per ordinary share	3	(0.09)p	0.03p	0.04p

Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity

As at 30 June 2011

Attributable to equity holders of the Parent Company

	Share capital £'000	Merger and other reserves £'000	Special reserve £'000	Translation reserve £'000	Profit and loss reserve £'000	Total equity £'000
Balance at 1 January 2010	4,075	2,408	10,788	–	(2,072)	15,199
Profit for the period	–	–	–	–	70	70
Total comprehensive income for the period	–	–	–	–	70	70
Transactions with owners, recorded directly in equity						
Employee share option scheme: – value of services provided	–	–	–	–	49	49
Balance at 30 June 2010	4,075	2,408	10,788	–	(1,953)	15,318
Balance at 1 July 2010	4,075	2,408	10,788	–	(1,953)	15,318
Currency translation adjustments	–	–	–	(1)	–	(1)
Net expense recognised directly in equity	–	–	–	(1)	–	(1)
Profit for the period	–	–	–	–	23	23
Total comprehensive (expense)/income for the period	–	–	–	(1)	23	22
Transactions with owners, recorded directly in equity						
Employee share option scheme: – value of services provided	–	–	–	–	28	28
Balance at 31 December 2010	4,075	2,408	10,788	(1)	(1,902)	15,368
Balance at 1 January 2011	4,075	2,408	10,788	(1)	(1,902)	15,368
Currency translation adjustments	–	–	–	(5)	–	(5)
Net expense recognised directly in equity	–	–	–	(5)	–	(5)
Loss for the period	–	–	–	–	(179)	(179)
Total comprehensive expense for the period	–	–	–	(5)	(179)	(184)
Transactions with owners, recorded directly in equity						
Employee share option scheme: – value of services provided	–	–	–	–	24	24
Balance at 30 June 2011	4,075	2,408	10,788	(6)	(2,057)	15,208

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	As at 30 June 2011 £'000	As at 30 June 2010 £'000	As at 31 December 2010 £'000
Non-current assets			
Goodwill	8,346	6,617	8,345
Other intangible assets	1,154	661	992
Investment in associate	–	223	–
Property, plant and equipment	2,697	2,304	2,818
	12,197	9,805	12,155
Current assets			
Inventories	747	490	716
Trade and other receivables	3,356	2,841	2,527
Cash and cash equivalents	2,987	5,518	4,170
	7,090	8,849	7,413
Current liabilities			
Trade and other payables	3,450	3,209	3,522
Financial liabilities			
– borrowings	135	3	130
Deferred consideration	77	–	–
	3,662	3,212	3,652
Net current assets	3,428	5,637	3,761
Total assets less current liabilities	15,625	15,442	15,916
Non-current liabilities			
Financial liabilities			
– borrowings	268	–	302
Deferred consideration	–	–	77
Deferred tax	149	124	169
	417	124	548
Net assets	15,208	15,318	15,368
Equity			
Issued share capital	4,075	4,075	4,075
Special reserve	10,788	10,788	10,788
Other reserves	2,402	2,408	2,407
Profit and loss reserve	(2,057)	(1,953)	(1,902)
Total equity	15,208	15,318	15,368

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
Cash flows from operating activities			
(Loss)/profit for the period	(179)	70	93
Adjustments for:			
Depreciation of tangible fixed assets	524	390	792
Recognition of grant income	(6)	(6)	(13)
Amortisation of capitalised development costs	44	9	40
Amortisation of other intangibles	135	91	177
Impairment of assets held for sale	–	–	223
Profit on sale of property, plant and equipment	(24)	–	(39)
Profit on sale of discontinued operations	–	–	(224)
Interest payable	15	–	9
Interest receivable	(13)	(37)	(72)
Share-based payments – value of employee service	24	49	77
Change in working capital	(690)	(404)	(137)
Cash (used in)/generated from operations	(170)	162	926
Interest paid	(15)	–	(9)
Net cash (used in)/generated from operating activities	(185)	162	917
Cash flows from investing activities			
Acquisition of subsidiaries	–	(750)	(2,449)
Cash acquired with subsidiaries	–	–	(111)
Purchases of property, plant and equipment	(918)	(788)	(872)
Proceeds from sale of property, plant and equipment	304	–	10
Purchases of intangible assets	(336)	(123)	(265)
Interest received	7	4	49
Net cash used in investing activities	(943)	(1,657)	(3,638)
Cash flows from financing activities			
Repayment of borrowings	(24)	–	(107)
Finance lease principal repayments	(5)	(1)	(4)
Net cash used in financing activities	(29)	(1)	(111)
Net decrease in cash and cash equivalents	(1,157)	(1,496)	(2,832)
Cash and cash equivalents at beginning of period	4,170	7,014	7,014
Exchange losses on cash and cash equivalents	(26)	–	(12)
Cash and cash equivalents at end of period	2,987	5,518	4,170

Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed consolidated interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and
- the half year report includes a fair review of the information required by:
 - DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year)
 - DTR 4.2.8R (disclosure of related party transactions and charges therein)

By order of the Board



Laurie Turnbull
Chairman



Nick Ash
Chief Executive Officer

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

1. Basis of preparation

Source BioScience plc is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the Group).

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed and adopted for use in the European Union. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2010, which have been prepared in accordance with IFRS adopted by the European Union.

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies consistent with those applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2010 except as noted below.

The Group has adopted improvements to various standards within the 'Improvements to IFRS' programme, none of which have had a significant effect on the reported results or financial position of the Group.

The condensed consolidated interim financial statements for the six months ended 30 June 2011 have neither been audited nor reviewed by the Group's auditor in accordance with International Standard on Review Engagements 2410 issued by the Auditing Practices Board.

The comparative figures for the financial year ended 31 December 2010 are not the Company's statutory consolidated accounts for that financial year but represent an extract from those accounts. Statutory accounts for the year ended 31 December 2010 were approved by the Board on 28 April 2011 and delivered to the Registrar of Companies. The report of the auditor on those financial statements was (i) unqualified, (ii) did not include reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The consolidated financial statements of the Group as at and for the year ended 31 December 2010 are available on request from the Company's registered office at 1 Orchard Place, Nottingham Business Park, Nottingham NG8 6PX or at www.sourcebioscience.com.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

1. Basis of preparation continued

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

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key source of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2010.

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

The condensed consolidated interim financial statements for the six months ended 30 June 2011 were approved by the Board of Directors on 23 August 2011.

2. Operating segments

Information about reporting segments

At 30 June 2011, the Group's trading operations were organised into three main operating divisions:

- LifeSciences
- Healthcare (comprising the business units of Cytology and Diagnostics)
- PharmaBiotech

During the period there were immaterial sales between business segments (six months ended 30 June 2010: immaterial; year ended 31 December 2010: immaterial) and where these do occur they are at arm's length pricing.

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

Six months ended 30 June 2011	Life Sciences £'000	Healthcare £'000	Pharma Biotech £'000	Unallocated £'000	Group £'000
Revenue	3,650	3,554	368	–	7,572
Segment result	484	1,027	106	(1,814)	(197)
Finance income				13	13
Finance costs				(15)	(15)
Loss before tax				(1,816)	(199)
Taxation				20	20
Profit/(loss) for the period	484	1,027	106	(1,796)	(179)
Segment assets	11,808	2,626	101	–	14,535
Unallocated assets					
– property, plant and equipment				643	643
– intangible assets				45	45
– debtors and prepayments				1,077	1,077
– cash and cash equivalents				2,987	2,987
Total assets	11,808	2,626	101	4,752	19,287
Segment liabilities	1,328	778	31	–	2,137
Unallocated liabilities					
– creditors and accruals				1,942	1,942
Total liabilities	1,328	778	31	1,942	4,079
Other segment items					
Capital expenditure					
– tangible assets	473	89	–	69	631
– intangible assets	247	44	–	45	336
Depreciation	339	57	2	126	524
Amortisation of intangible assets	149	30	–	–	179
Other non-cash expenses					
– share option scheme	–	–	–	24	24

All results derive from continuing operations.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

2. Operating segments continued

	Life Sciences £'000	Healthcare £'000	Pharma Biotech £'000	Unallocated £'000	Group £'000
Six months ended 30 June 2010					
Continuing operations					
Revenue	2,782	3,549	526	–	6,857
Segment result	346	1,036	140	(1,505)	17
Finance income				37	37
Finance costs				–	–
(Loss)/profit before tax				(1,468)	54
Taxation				16	16
Profit/(loss) for the period from continuing operations	346	1,036	140	(1,452)	70
Discontinued operations					
Profit for the year from discontinued operations		–			–
Net profit/(loss) for the year	346	1,036	140	(1,452)	70
Segment assets	8,757	2,672	281	–	11,710
Unallocated assets					
– property, plant and equipment				482	482
– debtors and prepayments				714	714
– cash and cash equivalents				5,518	5,518
– discontinued operations				230	230
Total assets	8,757	2,672	281	6,944	18,654
Segment liabilities	598	827	66	–	1,491
Unallocated liabilities					
– creditors and accruals				1,621	1,621
– discontinued operations				224	224
Total liabilities	598	827	66	1,845	3,336
Other segment items					
Capital expenditure					
– tangible assets	106	14	–	82	202
– intangible assets	25	98	–	–	123
Depreciation	186	122	2	80	390
Amortisation of intangible assets	95	–	5	–	100
Other non-cash expenses					
– share option scheme	–	–	–	49	49

Year ended 31 December 2010	Life Sciences £'000	Healthcare £'000	Pharma Biotech £'000	Unallocated £'000	Group £'000
Continuing operations					
Revenue	5,596	6,866	1,025	–	13,487
Segment result	727	2,011	277	(3,004)	11
Finance income				72	72
Finance costs				(9)	(9)
(Loss)/profit before tax				(2,941)	74
Taxation				34	34
Profit/(loss) for the year from continuing operations	727	2,011	277	(2,907)	108
Discontinued operations					
Segment Result		(15)			(15)
Loss before tax		(15)			(15)
Loss for the year from discontinued operations		(15)			(15)
Net profit/(loss) for the year	727	1,996	277	(2,907)	93
Assets					
Segment assets	11,500	2,300	193	–	13,993
Unallocated assets					
– property, plant and equipment				675	675
– debtors and prepayments				730	730
– cash and cash equivalents				4,170	4,170
Total assets	11,500	2,300	193	5,575	19,568
Liabilities					
Segment liabilities	1,084	809	42	–	1,935
Unallocated liabilities					
– creditors and accruals				2,265	2,265
Total liabilities	1,084	809	42	2,265	4,200
Other segment items					
Capital expenditure					
– tangible assets	571	66	–	337	974
– intangible assets	88	177	–	–	265
Depreciation	335	229	4	224	792
Amortisation of intangible assets	190	22	5	–	217
Other non-cash expenses					
– share option scheme	–	–	–	77	77

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

3. Earnings/(loss) per share

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

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

	Six months ended 30 June 2011	Six months ended 30 June 2010	Year ended 31 December 2010
(Loss)/earnings (£'000)	(179)	70	93
Basic EPS			
Weighted average number of shares	203,765,232	203,765,232	203,765,232
(Loss)/earnings per share	(0.09)p	0.03p	0.05p
Diluted EPS			
Weighted average number of shares	203,765,232	203,765,232	203,765,232
Dilutive options adjustment	-	6,638,536	6,620,959
Weighted average number of shares adjusted for dilutive options	203,765,232	210,403,768	210,386,191
Diluted (loss)/earnings per share	(0.09)p	0.03p	0.04p

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)/earnings per share for out of the money share options.

4. Half year report

Copies of the half year report for the six months ended 30 June 2011 will be sent to all shareholders and will be posted on the Company's website at www.sourcebioscience.com. In addition, copies may be obtained from the Company Secretary at Source BioScience plc, 1 Orchard Place, Nottingham Business Park, Nottingham NG8 6PX.

Glossary

Antibodies

Antibodies are proteins that are found in blood or other bodily fluids; they are used by the immune system to identify and neutralise foreign objects, such as bacteria and viruses. Antibodies are also used as highly specific probes for detecting proteins of interest in tissues. A wide range of antibodies with a large variety of cellular targets is available to research scientists through distributors such as Source BioScience.

BRAF

The BRAF gene encodes a signalling protein. Mutations of the BRAF gene are quite common in melanoma and colorectal cancer. In colorectal cancer, such mutations make a tumour resistant to inhibitors of the EGFR signalling pathway.

Bioinformatics

The application of information technology, and computer science, to the field of molecular biology. Common activities in bioinformatics include mapping and analysing DNA and protein sequences, aligning different DNA sequences to compare them and handling and analysing huge data sets generated by the latest sequencing technologies.

Biomarkers

Biomarkers often refer to substances found in blood, urine or tissue, changes in which may be used to indicate presence of disease or response to treatment. More generally the term biomarker refers to any molecule that can be used to monitor a particular cellular process and may be a protein, DNA or RNA molecule.

Capillary Electrophoresis DNA Sequencing (also known as Sanger sequencing or conventional sequencing)

DNA sequences are determined using a chemical reaction that results in an array of products that terminate in a different fluorescent coloured dye, which vary in size by one nucleotide. The products are separated, like the rungs of a ladder, by passing them through a capillary with an electric current and determining the order in which they emerge. This method was used for the large DNA sequencing projects of the last 15 years and remains the only way of inexpensively analysing large numbers of small sets of samples (see also Next Generation DNA Sequencing – below).

CYP2D6

Breast cancer patients with certain genetic variations in the CYP2D6 gene may be slow metabolisers of the drug tamoxifen to its active metabolite endoxifen. In this case changes to the treatment regime may be indicated because the efficacy of the drug is reduced.

Circulating Tumour Cells ('CTC')

The identification of small numbers of cancer cells circulating in the blood has been shown to be of potential prognostic significance in breast cancer, colorectal or prostate cancer, and useful for monitoring response to drug therapy.

Clinical Pathology Accreditation ('CPA')

CPA is the accreditation body for clinical pathology services. Accreditation involves audit of the ability of a laboratory to provide a service of high and consistent quality by declaring a defined standard of practice, which is performed by the CPA accreditation body.

Clone

A DNA sequence, such as a gene, that is transferred from one organism to another and can be replicated by genetic engineering techniques.

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 (Deoxyribo Nucleic Acid) is a large, complex molecule which, by virtue of a unique sequence of building blocks, contains all the genetic information required to create a cell or organism. cDNA (complementary DNA) can be made from all the genes in a genome, from a single gene, or from part of a gene. cDNA is DNA that has been synthesised artificially using an RNA template (see below) from the gene(s) selected.

Duty of Care Review

An audit of a specific pathologist's practice. Pathology departments have a duty of care to patients whose treatment or clinical management may need to be changed in the light of revised opinions arising from a review of a pathologist's or team's work. Where good practice is suspected to have broken down it may be necessary to arrange a systematic review of cases to fulfil a department's duty of care to their patients. Source BioScience offers a full duty of care review service to pathology departments that need specialist second opinion in these circumstances.

EGFR mutation testing

Human EGFR is a cellular transmembrane receptor found on the cell surface of tumour cells. Clinicians wishing to prescribe Gefitinib™ (Iressa) for lung cancer patients are required to confirm the presence of any mutations found in the tyrosine kinase domain on the EGFR gene.

FocalPoint™ ('FP')

An automated imaging system for screening SurePath™ liquid based cytology slides. It uses complex algorithms to interpret the images of each slide and decide the 10 'fields of view' most likely to have any abnormal cells. It can archive up to 25% as "no further review" ('NFR') which then do not need to be manually screened.

Fluorescence In Situ Hybridisation ('FISH')

In situ hybridisation ('ISH') is a powerful technique, not unlike immunohistochemistry (below), for visualising the presence of specific sequences of DNA or RNA in tissue sections. The technique uses short synthetic sequences of DNA or RNA which will bind, or hybridise, to the tissue with high specificity for the DNA or RNA of interest. Fluorescent 'tags' are attached to these synthetic sequences, allowing them to be visualised with a special microscope, even when present at very low levels (FISH).

Genomics

Genomics is the study of an organism's entire genome, where the genome of an organism is its whole hereditary information and is encoded in the DNA (see above) and RNA (see below). This includes both the genes and the non-coding sequences of the DNA.

Glossary continued

Genomic clone libraries

A clone library is a collection of clones containing complementary DNA (cDNA) (see above) and is often intended to represent the genes that are expressed within a given cell or tissue type at a given period.

Genomic products and reagents

In this instance, DNA or RNA extracted and purified from a range of species and provided in a variety of forms for research purposes.

Genotyping and sequencing

DNA sequencing is the process of precisely ordering the building blocks, or nucleotides, of an organism's DNA. The method can be used to determine short sequences of DNA or, in larger experiments, to sequence the entire genome of an organism. Genotyping, in turn, is the process whereby DNA is characterised and then compared to reference data or, if large numbers of samples are genotyped, the data can be examined for patterns which might lead to discoveries of the fundamental causes of inherited diseases. Genotyping is commonly performed by PCR (below) or DNA sequencing.

Good Clinical Practice (GCP)

Good Clinical Practice is an international ethical and scientific quality standard for designing, conducting, recording and reporting clinical trials that involve the participation of human subjects. Compliance with this standard provides public assurance that the rights, safety and well-being of trial subjects are protected, consistent with principles that have their origin in the Declaration of Helsinki. Compliance with the principles of GCP is assured via monitoring by a governmental agency, the Medicines and Healthcare products Regulatory Agency (MHRA).

Good Laboratory Practice (GLP)

Good Laboratory Practice is a set of principles that provides a framework within which laboratory studies are planned, performed, monitored, recorded, reported and archived. These studies are undertaken to generate data by which the hazards and risks to users can be assessed for pharmaceuticals (only preclinical studies). GLP helps assure regulatory authorities that data submitted is a true reflection of the results obtained during the study and can therefore be relied upon when making risk/safety assessments. Compliance with the principles of GLP is assured via monitoring by the Medicines and Healthcare products Regulatory Agency (MHRA).

HER2

Human Epidermal Growth Factor Receptor 2 is a protein the over-expression of which within a breast or gastric/gastro-oesophageal tumour sample may indicate a patient is suitable for treatment with Herceptin™. A test for such over-expression is carried out on all new breast cancer patients or patients with advanced stomach cancer.

HPV

Human Papilloma Virus (HPV) is a family of viruses that commonly infect human tissues. Several members of this family are sexually transmitted and persistent infection with these subtypes is believed to play a key role in the development of cervical intraepithelial neoplasia (CIN) and invasive cancer of the cervix. HPV infection is also associated with other cancers, including those of the head and neck.

Histopathology

The study of changes in tissues and cells as a consequence of some disease or toxic processes.

Human Tissue Authority (HTA)

The Human Tissue Authority licenses organisations that store and use human tissue for purposes such as research, patient treatment, post-mortem examination, teaching and public exhibitions. The HTA also inspect organisations to check that they maintain good standards and follow appropriate procedures against the legislation of the Human Tissue Act 2004.

Immunohistochemistry (IHC)

Immunohistochemistry is a technique for visualising proteins and other molecules in thin sections of tissue. This technique uses antibodies raised in other species against the protein of interest as a tool, and exploits their exquisite sensitivity and specificity for binding to that protein.

K-RAS

K-RAS is a gene that produces an important cell signalling protein responsible for cell growth. The presence of a mutated form of the K-RAS gene in colorectal cancer may indicate that a patient is unsuitable for new anti-EGFR drugs such as Erbitux™ and Vectibix™.

Liquid based cytology (LBC)

Liquid based cytology is a process for collecting and processing cytology samples from epithelial tissues such as the cervix. It produces a cleaner preparation of cells, without the other materials which frequently contaminate the sample such as blood or mucus.

Microarray

Microarrays are a microscopic series of nucleic acid spots of known sequence which are deposited in a regular array typically onto a glass slide. A DNA or RNA probe can then be hybridised to the slide which results in a DNA or RNA fingerprint of the sample in the probe enabling you to determine the sample nucleic acid sequence.

Next Generation DNA Sequencing ('NGS'), Illumina GAlIx™ and Illumina HiSeq 2000™

Next Generation DNA Sequencing refers generically to a set of recent technologies, in our case Illumina GAlIx™ and Illumina HiSeq 2000™, in which extremely large numbers of short sequences can be determined in a single experiment; for example the Illumina HiSeq 2000™ selected by Source BioScience can sequence two human genomes in approximately one week.

No further review ('NFR')

A unique feature of the FocalPoint™ automated cytology imaging platform that can identify up to 25% of cytology slides where there are no abnormal cells present. These slides do not require further manual review, thereby improving the turnaround time and efficiency in the laboratory operations, saving time and cost for the NHS.

Proteomics

Proteomics is the study of specific amino acids, proteins or the entire proteome (a complete translated genome, see above) of an organism. Proteomic techniques include, for example, surveying complex biological samples for protein content, or determining the level of specific proteins in tissues using techniques like immunohistochemistry (IHC, see above)

RNA

RNA (RiboNucleic Acid) is a molecule similar to DNA, but is an intermediate product between the DNA of the gene, and the ultimate protein product of that gene. The level of expression of a gene can be gauged by the amount of RNA synthesised from that gene, a process usually measured by quantitative real-time polymerase chain reaction ('Q-PCR').

RNA expression analysis

RNA expression analysis measures the activity of a large number of genes simultaneously, generating a global picture of cellular function. The expression analyses, or profiles, can distinguish between cells that are actively dividing, for example, or show how the cells react to a particular treatment.

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