Source BioScience

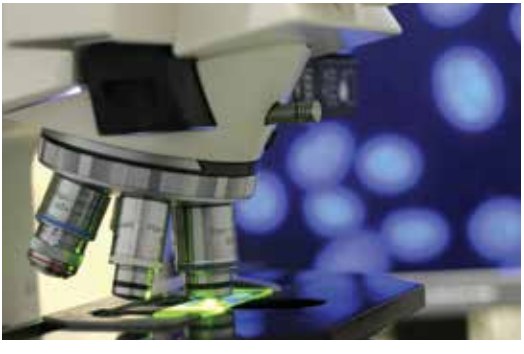
Half Year Report 2013

Welcome to
Source BioScience plc

Source BioScience is an international diagnostic and genetic analysis services business serving the healthcare and life science research markets.

Our Strategy

To grow our Healthcare and LifeSciences business through development of the Group's portfolio of products and services, and extension of its geographic reach, to become Europe's premier laboratory services and products business.



Commenting on the half year performance, Chairman, Laurie Turnbull said:

"We have delivered another period of progress across the business with revenue growth, additional products and services and significantly enhanced profitability compared with the first half of last year. We have also demonstrated, through our acquisition of Inverclyde Biologicals, our strategy to identify high quality businesses which we can integrate quickly and effectively into the Group, to generate immediate commercial benefits.

"The encouraging first half of the year represents a continuation of the strong growth and business performance achieved last year and reflects the substantial opportunities we see for further development across both our Healthcare and LifeSciences operations."

For further information scan the QR code below with your smartphone or visit:
www.sourcebioscience.com

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Highlights

Financial highlights

- Revenue increased by 4% to £8.8 million (2012: £8.4 million)
- Adjusted EBITDA* increased by 21% to £1.5 million (2012: £1.3 million)
- Adjusted operating profit* increased by 60% to £0.8 million (2012: £0.5 million)
- Profit before tax increased by 42% to £0.6 million (2012: £0.4 million)
- EPS of 0.14p basic (2012: 0.20p basic)
- Cash balance of £2.0 million (31 December 2012: £2.2 million)

* Adjusted results are stated after eliminating the acquisition costs of £0.1 million for Inverclyde Biologicals. The adjusted results have been included to present a fair comparison of the progress in the underlying business.

Operational highlights

- Advancement in the Healthcare business, delivering growth:
  - Acquisition of Inverclyde Biologicals for £1.4 million; bringing cross selling opportunities, expertise in designing and manufacturing clinical grade reagents and enabling geographic expansion into Scotland
  - Competitive tender won from Kent County and Medway Councils under the National Chlamydia Screening Programme ('NCSP'); contract worth in excess of £1.0 million over three years
  - Renewal of York Teaching Hospital NHS Foundation Trust cervical cancer screening contract together with the implementation of BD FocalPoint™; contract worth £1.3 million over three years
- Further developments in LifeSciences business:
  - Launch of Overnight Service for DNA sequencing for the Scottish life science market following Inverclyde Biologicals acquisition
  - DNA sequencing has grown by 60% year on year, driven by Overnight Service and expanded laboratory network
  - Launch of reSource™ own label products; high quality, cost effective products for life science research, significantly increasing addressable market for the Source BioScience product portfolio

Post period events

- On 7 August 2013 Source BioScience announced a £12.2 million recommended cash offer for Vindon Healthcare plc. The proposed acquisition is expected to bring multiple benefits including extended geographical reach, additional in-house expertise, and an enhanced offering of products and services to customers. Detailed information regarding the proposed acquisition can be found on the Company's website at www.sourcebioscience.com

Group at a Glance

Source BioScience is a vibrant, innovative and growing business with clear opportunities for expansion. The Group has its headquarters in Nottingham, UK, where it operates state of the art reference laboratories, with additional UK laboratory facilities in Cambridge, Oxford and Bellshill and European facilities in Berlin and Dublin.

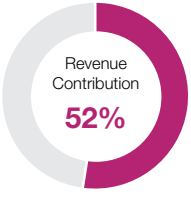
GCP GLP CPA

With the highest standard quality accreditations including CPA, GLP and GCP for diagnostics and clinical trials, and licensing by the Human Tissue Authority and Care Quality Commission, Source BioScience is well placed to serve the healthcare and life sciences sectors for the long term.

Healthcare

The Healthcare division comprises our Cytology and Diagnostics operations including cervical cancer screening and diagnostic testing services for cancer and other diseases.

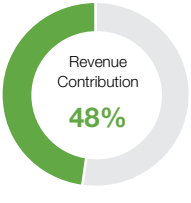
Source BioScience Healthcare



LifeSciences

The LifeSciences division provides ultra-fast DNA sequencing services and related products, delivered by our international network of laboratories and distributors to academic research groups, biotechnology and pharmaceutical companies.

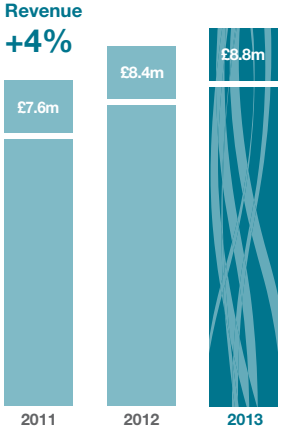
Source BioScience LifeSciences

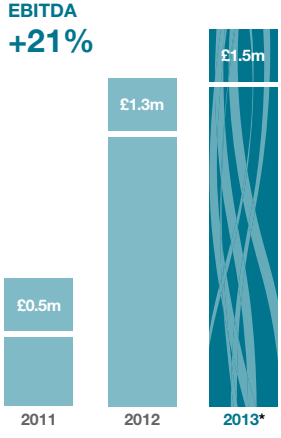


Chairman's Statement

Introduction

Source BioScience has continued its growth and development throughout the first half of 2013. In our Interim Management Statement issued on 16 May 2013 we reported a robust first quarter performance and this has been sustained for the full six months to 30 June 2013.





Financial Review

Revenue for the six months ended 30 June 2013 increased by 4% to £8.8 million (2012: £8.4 million) and the gross margin improved to 47% (2012: 45%).

Healthcare grew by 3% to £4.6 million (2012: £4.4 million) and LifeSciences revenue grew by 6% to £4.2 million (2012: £4.0 million). Both divisions delivered improved profitability and the combined divisional operating profit, before central costs, increased by 22% to £2.3 million (2012: £1.9 million).

The Group's cost base has remained tightly controlled; normal administrative expenses were broadly consistent at £2.4 million (2012: £2.3 million) and represented 27% of revenue (2012: 28% of revenue).

As a result of the improved divisional performance and the management of the cost base, adjusted EBITDA* increased by over 20% to £1.5 million (2012: £1.3 million). Profit before tax improved by 42% to £0.6 million (2012: £0.4 million) even after recognising the transaction costs associated with the acquisition of Inverclyde Biologicals.

The financial position of the Group remains strong with net assets of £16.5 million (31 December 2012: £16.2 million). The Group's cash balance was £2.0 million at 30 June 2013 (31 December 2012: £2.2 million) and borrowings were £2.7 million (31 December 2012: £3.1 million).

Cash generated from operating activities was £1.9 million in the period (2012: £1.9 million) and net cash outflow was £0.2 million (2012: £0.8 million inflow) after the acquisition of Inverclyde Biologicals for net £1.4 million (including transaction costs) and capital expenditure of £0.4 million.

* Adjusted results are stated after eliminating the acquisition costs of £0.1 million for Inverclyde Biologicals. The adjusted results have been included to present a fair comparison of the progress in the underlying business.

Chairman's Statement continued

Healthcare Division

The Healthcare division comprises our Cytology and Diagnostics operations including cervical cancer screening and diagnostic testing services for cancer and other diseases.

The division has delivered a strong performance in the period. Revenue of £4.6 million was ahead of the same period last year (2012: £4.4 million) and divisional operating profit increased by 6% to £1.5 million (2012: £1.4 million).

Our Cytology (cell analysis) operation provides essential systems to the NHS for the preparation and analysis of cervical smear samples as part of the NHS Cervical Screening Programme and underpins approximately 50% of the cervical cancer screening programme in England and Wales.

Implementation of our BD FocalPoint™ automated imaging solution for cervical cancer screening continues. This is the only automated cervical screening technology which has been approved for use by the NHS in England and Wales and is the only one of its kind available. The technology can analyse and identify up to 25% of screening samples that require no primary manual examination, representing a significant reduction in laboratory workload and improved turnaround times for reporting to patients.

In February we announced the renewal of the York Teaching Hospital NHS Foundation Trust liquid based cytology contract, together with the installation of the seventh BD FocalPoint™ platform. The contract is worth £1.3 million over three years.

Our Diagnostics operations provide expert histopathology (tissue analysis), molecular diagnostics (gene-based analysis) and companion diagnostic testing services to public and private healthcare providers.

We continually evaluate our Diagnostics offering to ensure it meets the requirements of our customers and addresses unmet demand in the healthcare market. For example, the Group has successfully developed and validated proprietary gene-based assays for use as diagnostic tests for cancer and other diseases and launched a range of new services based on our existing expertise and technology platforms.

This expansion of the portfolio of assays, coupled with continued growth in the core expert histopathology service, generated an increase in Diagnostics revenue of 40% in the period compared with the same period last year. We believe the growing demand for gene-based testing for disease strengthens our commercial advantage as we are one of only a limited number of accredited laboratories in Europe with the capability to deliver this type of complex testing.

Our expertise in gene-based testing, and significant experience of supporting the UK Cervical Cancer Screening Programme, was instrumental in Source BioScience winning the tender to provide testing services to Kent County and Medway Councils under the National Chlamydia Screening Programme. The contract, which commenced in August, is for the delivery of over 40,000 tests per annum and is worth more than £1.0 million over three years. This contract award is an example of the Group crystallising commercial opportunities which are complementary to our existing activities and capabilities.

In April, the Group acquired Inverclyde Biologicals, based in Bellshill, Scotland. Inverclyde Biologicals is a market leading manufacturer of high quality diagnostic kits and blood group serology reagents; a product portfolio which is complementary with the existing Source BioScience healthcare products business. The acquisition creates cross selling opportunities, brings expertise in designing and manufacturing clinical grade reagents and also enables geographic expansion into Scotland, providing the opportunity to establish an Overnight Service for DNA sequencing locally. Substantial progress has already been made towards crystallising a number of these new opportunities.

LifeSciences Division

The LifeSciences division provides ultra-fast DNA sequencing services and related products, delivered by our international network of laboratories and distributors to academic research groups, biotechnology and pharmaceutical companies.

LifeSciences revenue increased by 6% to £4.2 million (2012: £4.0 million) and divisional operating profit increased by 73% to £0.8 million (2012: £0.5 million) as a result of the increased revenue and operational enhancement of technology platforms and laboratory processes.

Our ambition is to become Europe's leading commercial provider of DNA sequencing and our Overnight Service, supported by our network of UK and European laboratories, is instrumental in achieving this. The number of samples sequenced for customers increased by over 30% compared with the same period last year. This momentum is being sustained by the introduction of new services and the expansion of our laboratory network including the launch of the Overnight Service from our facilities in Bellshill, Scotland.

In March, we launched the reSource™ range of own branded products, initially focused on the critical life science research work flow requirements for DNA extraction and preparation. It is our intention to migrate the majority of our product portfolio across to the reSource™ branding, which will eliminate existing geographical commercial restrictions and expand our addressable market.

GenomeCube®, our proprietary search engine and bioinformatics tool for our clone and antibody portfolio, has been very successful during the period. Website traffic has increased and internet orders are up compared with the same period last year. We regard GenomeCube® as a major element of the growth strategy for the medium to longer term and all of the Group's products, including the reSource™ range, will be available through GenomeCube®. This will enable the accelerated globalisation of the products business, enabling our distributors, and customers, fast and ready access to the enhanced product portfolio.

Outlook

The Group's strategy is to grow its Healthcare and LifeSciences businesses both organically and by way of selected acquisitions to broaden the portfolio of products and services. Acquisition opportunities must enhance the financial performance of the Group, be readily integrated into existing operations and provide realisable commercial benefits to deliver long term value.

Within our Healthcare division, the acquisition of Inverclyde Biologicals has delivered enhanced financial performance and added blood banking and serology products into the Healthcare portfolio. This acquisition has also afforded us the opportunity to cross sell into existing customers as well as exploit our existing international distribution network for the Inverclyde Biologicals product portfolio. The integration of Inverclyde Biologicals operations is now substantially complete.

In Healthcare, the ability to provide many of the new and anticipated genetic tests is outside the capability of all but a few hospital and commercial laboratories, not just in the UK but across Europe. With ongoing uncertainty surrounding healthcare resourcing, we see a significant opportunity within Diagnostics to provide a broader and cost effective diagnostic service to a wider customer base including infectious disease, cardiovascular and metabolic disease, in addition to oncology.

The addition of serology products into the Healthcare portfolio affords us opportunities to cross sell into existing customers as well as the opportunity to exploit our existing international distribution network for these new products.

In LifeSciences we have forged a leading position in Europe for the provision of DNA sequencing services

Chairman's Statement continued

and genomic products. With our international network of laboratories, we are ideally placed to meet the growing demand for genetic analysis. Our share of the UK market for DNA sequencing has continued to grow during the first half of 2013 and we have launched our Overnight Service from our new facilities in Bellshill, Scotland.

The launch of the reSource™ range of products in March, has eliminated many of the geographical commercial restrictions on our product portfolio and significantly expanded the addressable market. Utilising the power of our GenomeCube® platform, we will accelerate the globalisation of our products business enabling distributors, and customers, fast and ready access to the enhanced product portfolio.

The second half of the year has begun well and is trading in line with the Board's expectations. We expect the excellent momentum that we saw in the first half to continue through the remainder of the year.

Laurie Turnbull
Chairman
29 August 2013

Unaudited Condensed Consolidated Statement of **Comprehensive Income**

For the six months ended 30 June 2013

	Note	**Six months ended 30 June 2013 £'000**	Six months ended 30 June 2012 £'000	Year ended 31 December 2012 £'000
Revenue	2	**8,773**	8,411	16,431
Cost of sales		**(4,653)**	(4,664)	(9,013)
Gross profit		**4,120**	3,747	7,418
Selling and distribution expenses		**(843)**	(725)	(1,324)
Research and development		**(26)**	(106)	(154)
Administrative expenses:				
– normal		**(2,404)**	(2,346)	(4,599)
– amortisation of intangibles arising from acquisitions		**(90)**	(96)	(191)
– acquisition costs		**(138)**	–	–
Administrative expenses		**(2,632)**	(2,442)	(4,790)
Operating profit		**619**	474	1,150
Finance income		**5**	3	8
Finance costs		**(52)**	(75)	(195)
Profit on ordinary activities before tax		**572**	402	963
Taxation		**(279)**	–	2,508
Profit attributable to equity holders of the Company		**293**	402	3,471
Other comprehensive income/(expense)				
Exchange differences on translation of foreign operations		**(58)**	13	19
Total comprehensive income attributable to equity holders of the Company		**235**	415	3,490
Earnings per share:				
Basic profit per ordinary share	3	**0.14p**	0.20p	1.70p
Diluted profit per ordinary share	3	**0.14p**	0.20p	1.68p

Unaudited Condensed Consolidated Statement of **Changes in Shareholders' Equity**

For the six months ended 30 June 2013

	Attributable to equity holders of the parent company						
	Share capital £'000	Share premium £'000	Merger and other reserves £'000	Special reserve £'000	Translation reserve £'000	Profit and loss reserve £'000	**Total equity £'000**
Balance at 1 January 2012	4,075	–	2,408	10,788	17	(4,657)	**12,631**
Currency translation adjustments	–	–	–	–	13	–	**13**
Profit for the period	–	–	–	–	–	402	**402**
Total comprehensive income for the period	–	–	–	–	13	402	**415**
Transactions with owners, recorded directly in equity							
Employee share option scheme:							
– value of services provided	–	–	–	–	–	22	**22**
Balance at 30 June 2012	4,075	–	2,408	10,788	30	(4,233)	**13,068**
Balance at 1 July 2012	4,075	–	2,408	10,788	30	(4,233)	**13,068**
Currency translation adjustments	–	–	–	–	6	–	**6**
Profit for the period	–	–	–	–	–	3,069	**3,069**
Total comprehensive income for the period	–	–	–	–	6	3,069	**3,075**
Transactions with owners, recorded directly in equity							
Employee share option scheme:							
– value of services provided	–	–	–	–	–	32	**32**
– proceeds from shares issued	21	39	–	–	–	–	**60**
Balance at 31 December 2012	4,096	39	2,408	10,788	36	(1,132)	**16,235**
Balance at 1 January 2013	4,096	39	2,408	10,788	36	(1,132)	**16,235**
Currency translation adjustments	–	–	–	–	(58)	–	**(58)**
Profit for the period	–	–	–	–	–	293	**293**
Total comprehensive (expense)/ income for the period	–	–	–	–	(58)	293	**235**
Transactions with owners, recorded directly in equity							
Employee share option scheme: – value of services provided	–	–	–	–	–	8	**8**
Balance at 30 June 2013	4,096	39	2,408	10,788	(22)	(831)	**16,478**

Unaudited Condensed Consolidated Statement of **Financial Position**

As at 30 June 2013

	As at 30 June 2013 £'000	As at 30 June 2012 £'000	As at 31 December 2012 £'000
Non-current assets			
Goodwill	**9,564**	8,341	8,343
Other intangible assets	**761**	1,066	884
Financial assets	**91**	60	50
Property, plant and equipment	**5,156**	4,938	5,309
Deferred tax	**2,294**	–	2,564
	17,866	14,405	17,150
Current assets			
Inventories	**867**	586	644
Trade and other receivables	**3,037**	3,163	2,558
Cash and cash equivalents	**1,959**	1,848	2,217
	5,863	5,597	5,419
Current liabilities			
Trade and other payables	**4,527**	3,921	3,214
Financial liabilities			
– borrowings	**755**	629	754
	5,282	4,550	3,968
Net current assets	**581**	1,047	1,451
Total assets less current liabilities	**18,447**	15,452	18,601
Non-current liabilities			
Financial liabilities			
– borrowings	**1,936**	2,384	2,316
Derivative financial instruments	**33**	–	50
	1,969	2,384	2,366
Net assets	**16,478**	13,068	16,235
Equity			
Issued share capital	**4,096**	4,075	4,096
Share premium	**39**	–	39
Special reserve	**10,788**	10,788	10,788
Other reserves	**2,386**	2,438	2,444
Profit and loss reserve	**(831)**	(4,233)	(1,132)
Total equity	**16,478**	13,068	16,235

Unaudited Condensed Consolidated Statement of **Cash Flows**

For the six months ended 30 June 2013

	Six months ended 30 June 2013 £'000	Six months ended 30 June 2012 £'000	Year ended 31 December 2012 £'000
Cash flows from operating activities			
Profit for the period	**293**	402	3,471
Adjustments for:			
Depreciation of tangible fixed assets	**534**	542	1,098
Recognition of grant income	**(6)**	(6)	(13)
Amortisation of capitalised development costs	**124**	114	204
Amortisation of other intangibles	**90**	98	191
Profit on sale of property, plant and equipment	**(11)**	(33)	(36)
Fair value gain on investments	**(19)**	(22)	(12)
Finance costs	**52**	75	195
Finance income	**(5)**	(3)	(8)
Taxation	**279**	–	(2,508)
Share-based payments – value of employee service	**8**	22	26
(Increase)/decrease in inventories	**(189)**	123	65
(Increase)/decrease in trade and other receivables	**(370)**	–	605
Increase in creditors	**1,207**	674	198
Cash generated from operations	**1,987**	1,986	3,476
Interest paid	**(69)**	(78)	(146)
Tax received	**2**	–	–
Tax paid	**(1)**	–	–
Net cash generated from operating activities	**1,919**	1,908	3,330
Cash flows from investing activities			
Acquisition of subsidiaries	**(1,600)**	–	–
Cash acquired with subsidiaries	**313**	–	–
Share purchases	**(34)**	(52)	(52)
Purchases of property, plant and equipment	**(341)**	(690)	(2,257)
Proceeds from sale of property, plant and equipment	**11**	–	450
Proceeds from sale of investments	**12**	54	54
Purchases of intangible assets	**(78)**	(163)	(222)
Interest received	**5**	3	8
Net cash used in investing activities	**(1,712)**	(848)	(2,019)
Cash flows from financing activities			
Proceeds from issue of shares	**–**	–	60
Repayment of borrowings	**(243)**	(245)	(492)
Proceeds from finance leases	**–**	–	414
Finance lease principal repayments	**(136)**	(59)	(169)
Net cash used in financing activities	**(379)**	(304)	(187)
Net (decrease)/increase in cash and cash equivalents	**(172)**	756	1,124
Cash and cash equivalents at beginning of period	**2,217**	1,094	1,094
Exchange losses on cash and cash equivalents	**(86)**	(2)	(1)
Cash and cash equivalents at end of period	**1,959**	1,848	2,217

Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed consolidated interim financial statements for the six months ended 30 June 2013 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
29 August 2013

Dr Nick Ash
Chief Executive Officer
29 August 2013

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

For the six months ended 30 June 2013

1. Basis of preparation

Source BioScience plc is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements of Source BioScience plc as at and for the six months ended 30 June 2013 comprise those of Source BioScience plc 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 2012, 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 Group's published consolidated financial statements for the year ended 31 December 2012 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 2013 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 2012 are not the Group's statutory consolidated accounts for that financial year but represent an extract from those accounts. Statutory accounts for the year ended 31 December 2012 were approved by the Board on 25 April 2013 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 2012 are available on request from the Group's registered office at 1 Orchard Place, Nottingham Business Park, Nottingham NG8 6PX or at www.sourcebioscience.com.

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

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key source of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2012.

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 2013 were approved by the Board of Directors on 29 August 2013.

2. Operating segments
Information about reporting segments

For the purposes of management reporting to the chief operating decision maker, the commercial activities of the Group are organised into two divisions:

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

During the period there were immaterial sales between business segments (six months ended 30 June 2012: immaterial; year ended 31 December 2012: immaterial) and where these do occur they are at arm's length pricing.

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

Notes to the Condensed Consolidated **Interim Financial Statements** continued

2. Operating segments continued

Six months ended 30 June 2013	Healthcare £'000	Life Sciences £'000	Unallocated £'000	**Group £'000**
Revenue	4,568	4,205	–	**8,773**
Segment result	1,492	791	(1,664)	**619**
Finance income			5	**5**
Finance costs			(52)	**(52)**
Profit before tax			(1,711)	**572**
Taxation			(279)	**(279)**
Profit/(loss) for the period	1,492	791	(1,990)	**293**
Segment assets	4,830	10,965	–	**15,795**
Unallocated assets				
– property, plant and equipment			2,787	**2,787**
– financial assets			91	**91**
– deferred tax asset			2,294	**2,294**
– debtors and prepayments			803	**803**
– cash and cash equivalents			1,959	**1,959**
Total assets	4,830	10,965	7,934	**23,729**
Segment liabilities	1,117	1,901	–	**3,018**
Unallocated liabilities				
– borrowings			2,691	**2,691**
– derivative financial instruments			33	**33**
– creditors and accruals			1,509	**1,509**
Total liabilities	1,117	1,901	4,233	**7,251**
Other segment items				
Capital expenditure				
– tangible assets	43	198	100	**341**
– intangible assets	–	78	–	**78**
Depreciation	177	217	140	**534**
Amortisation of intangible assets	35	179	–	**214**
Other non-cash expenses				
– share option scheme	–	–	8	**8**

All results derive from continuing operations.

Six months ended 30 June 2012	Healthcare £'000	Life Sciences £'000	Unallocated £'000	Group £'000
Revenue	4,431	3,980	–	8,411
Segment result	1,410	457	(1,393)	474
Finance income			3	3
Finance costs			(75)	(75)
Profit before tax			(1,465)	402
Taxation			–	–
Profit/(loss) for the period	1,410	457	(1,465)	402
Segment assets	3,405	11,273	–	14,678
Unallocated assets				
– property, plant and equipment			2,784	2,784
– financial assets			60	60
– debtors and prepayments			632	632
– cash and cash equivalents			1,848	1,848
Total assets	3,405	11,273	5,324	20,002
Segment liabilities	1,254	1,589	–	2,843
Unallocated liabilities				
– borrowings			3,013	3,013
– creditors and accruals			1,078	1,078
Total liabilities	1,254	1,589	4,091	6,934
Other segment items				
Capital expenditure				
– tangible assets	666	224	40	930
– intangible assets	–	163	–	163
Depreciation	116	293	133	542
Amortisation of intangible assets	30	182	–	212
Other non-cash expenses				
– share option scheme	–	–	22	22

All results derive from continuing operations.

Notes to the Condensed Consolidated **Interim Financial Statements** continued

2. Operating segments continued

Year ended 31 December 2012	Healthcare £'000	Life Sciences £'000	Unallocated £'000	Group £'000
Revenue	8,564	7,867	–	16,431
Segment result	2,752	1,167	(2,769)	1,150
Finance income			8	8
Finance costs			(195)	(195)
Profit before tax			(2,956)	963
Taxation			2,508	2,508
Profit/(loss) for the year	2,752	1,167	(448)	3,471
Segment assets	3,578	11,029	–	14,607
Unallocated assets				
– property, plant and equipment			2,706	2,706
– financial assets			50	50
– deferred tax asset			2,564	2,564
– debtors and prepayments			425	425
– cash and cash equivalents			2,217	2,217
Total assets	3,578	11,029	7,962	22,569
Segment liabilities				
Unallocated liabilities	836	1,358	–	2,194
– borrowings			3,070	3,070
– derivative financial instruments			50	50
– creditors and accruals			1,020	1,020
Total liabilities	836	1,358	4,140	6,334
Other segment items				
Capital expenditure				
– tangible assets	1,143	538	524	2,205
– intangible assets	31	191	–	222
Depreciation	283	545	270	1,098
Amortisation of intangible assets	60	335	–	395
Other non-cash expenses				
– share option scheme	–	–	26	26

All results derive from continuing operations.

3. Earnings per share

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

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

	Six months ended 30 June 2013	Six months ended 30 June 2012	Year ended 31 December 2012
Earnings (£'000)	**293**	402	3,471
Basic earnings per share			
Weighted average number of shares ('000s)	**204,783**	203,765	203,974
Earnings per share (pence)	**0.14**	0.20	1.70
Diluted earnings per share			
Weighted average number of shares ('000s)	**204,783**	203,765	203,974
Dilutive options adjustment ('000s)	**3,951**	1,703	2,899
Weighted average number of shares adjusted for dilutive options ('000s)	**208,734**	205,468	206,873
Diluted earnings per share (pence)	**0.14**	0.20	1.68

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

4. Acquisition of subsidiary

On 26 April 2013 the Company completed the acquisition of the entire ordinary share capital of Inverclyde Biologicals Limited for gross consideration of £1.6 million. Transaction costs were £0.1 million and £0.3 million of cash was acquired with the business, resulting in a net investment of £1.4 million. The principal activity of Inverclyde Biologicals is the manufacture and distribution of high quality diagnostic kits and blood group serology reagents.

The acquired business contributed revenue of £128,000 and net profit of £44,000 to the Group for the period from 26 April 2013 to 30 June 2013. If the acquisition had occurred on 1 January 2013, Group revenue would have been £375,000 higher and the net profit would have increased by £129,000 on a pro forma basis.

Notes to the Condensed Consolidated **Interim Financial Statements** continued

4. Acquisition of subsidiary continued

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

	Acquiree's carrying amount £'000	Fair value £'000
Tangible assets – property, plant and equipment	24	24
Inventories	34	34
Other current assets	422	422
Current liabilities	(101)	(101)
Value of net assets acquired	379	379
Goodwill arising on acquisition	1,221	1,221
Consideration	1,600	1,600
Consideration is made up as follows:		
Initial cash consideration		1,600
		1,600

Cash flow:	
Consideration paid, satisfied in cash	(1,600)
Cash balance acquired	313
Net cash outflow of acquisition	(1,287)

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

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

5. Half Year Report

Copies of the Half Year Report for the six months ended 30 June 2013 will be posted on the Group's website at www.sourcebioscience.com.

Glossary

Antibodies
Proteins that are found in blood or other bodily fluids; they are naturally used by the immune system to identify and neutralise foreign objects, such as bacteria and viruses. Experimentally, 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.

BD FocalPoint™ ('FP')
An automated imaging system for screening BD SurePath™ liquid based cytology slides. Using complex algorithms it interprets the images of each slide using the same morphologic features used during screening with the human eye. It can archive up to 25% of cases as requiring "no further review" ('NFR') which then do not need to be manually primary screened.

BRAF
The BRAF gene encodes a signalling protein. Somatic 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.

Blood bank
A cache or bank of blood or blood components, gathered as a result of blood donation or collection, stored and preserved for later use.

Blood group serology reagents
A group of reagents which are used to test for the presence or absence of antigens in the blood and determine the blood group.

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 best way of inexpensively analysing large numbers of small sets of samples (see also Next Generation DNA Sequencing below).

Care Quality Commission ('CQC')
As a provider of healthcare laboratory and pathology services to the NHS, which is a regulated activity under the Health and Social Care Act 2008, we are required to be registered with the CQC, a government body established to regulate and inspect health and social care services in England, and ensure organisations maintain good standards and follow appropriate procedures.

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 in the UK. 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 section of DNA sequence, such as a gene, that is isolated from an organism and can be endlessly 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™.

Deoxyribo Nucleic Acid (DNA) and complementary DNA (cDNA)
DNA 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 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 surface of 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.

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 cells. 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 within the issue. 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).

GenomeCube®
Source BioScience's proprietary database, search engine and e-commerce tool for Life Science products. GenomeCube® contains over 20 million clones and over 100,000 antibodies all of which contain downloadable annotation. GenomeCube® is available in foreign language and foreign currency versions.

Genomics
The study of an organism's 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.

Glossary continued

Genotyping and sequencing
DNA sequencing is the process of precisely determining the order of 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')
GCP 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')
GLP 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').

Human Epidermal Growth Factor Receptor 2 (HER2)
HER2 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.

Human Papilloma Virus ('HPV')
HPV is a family of viruses that commonly infect human tissues. Several members of this family in particular genotype 16 & 18 are sexually transmitted and persistent infection with these subtypes plays 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 HTA 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')
IHC 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')
LBC is a process for collecting and processing cervical 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 scientists to determine genotypes or gene expressions levels.

Next Generation DNA Sequencing ('NGS'), Illumina HiSeq 2000™and Illumina MiSeq™
NGS refers generically to a set of recent technologies, in our case Illumina HiSeq 2000™ and Illumina MiSeq™, 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 ten days.

No further review ('NFR')
A unique feature of the BD FocalPoint™ automated cytology imaging platform that can identify up to 25% of cytology slides that are considered to be negative. These slides do not require further primary manual review, thereby improving the turnaround time and efficiency in the laboratory operations, saving time and cost for the NHS.

Polymerase Chain Reaction ('PCR')
PCR is a laboratory technique which specifically and exponentially amplifies a single or a few copies of a segment of DNA. The resulting product is an indicator of the presence of the original segment of DNA or the product can be used as the material for further experiments, for example genotyping or DNA sequencing.

Proteomics
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).

reSource™
Brand name carried by the Source BioScience LifeSciences product portfolio.

RiboNucleic Acid ('RNA')
RNA 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
A process to measure the activity of a 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. Testing of genome-wide RNA expression levels have been performed by microarray analysis but the experiments are now as likely to be performed by NGS.

Serology
The study of general antigen-antibody reactions in a laboratory setting and the specific blood test conducted to test for the presence of antibodies. A serology test is performed to determine a patient's blood type and to test for and identify an infection.

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