Source BioScience

Interim Report 2009

Welcome

Source BioScience (LSE: SBS) is a highly focused healthcare and biotechnology company providing diagnostic and screening services to the healthcare community and genetic analyses and biomolecular tools and products to the life science research and pharma biotech sectors.

About Source BioScience

The Group has its headquarters in Nottingham, UK, where it operates state of the art reference laboratories, with additional facilities in London, Cambridge and Oxford.

With an unparalleled combination of expertise, technology platforms and laboratory accreditations, the Group is in a unique position to exploit the increasing demand for outsourced support services and specialist diagnostic capabilities.

Source BioScience is CPA, GLP and GCP accredited and is licensed by the Human Tissue Authority.

New Identity

Source BioScience has evolved and grown over the past few years. To reflect these changes we have updated the look, feel and tone of our identity.

Divisional Overview

Healthcare

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

Pharma Biotech Services

Pharma Biotech Services offers support for early stage therapeutic development, offering a 'one-stop shop' from tissue pathology, through biomarker assay development, to pharmacogenomic analysis.

Life Science Research

Life Science Research provides core laboratory research support from conceptualisation to implementation, calling upon a wide ranging set of technology platforms and an online catalogue of biomolecular tools.

Contents

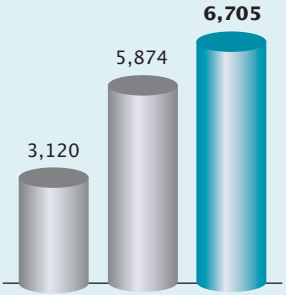
Highlights

Financial highlights

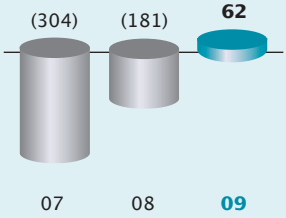
- Profitable and cash generative
- Profit before tax of £0.1 million (2008: £0.2 million loss)
- Revenue up 14% to £6.7 million
- Cash generated from operations of £0.9 million (2008: £33,000)
- Cash reserves of £7.7 million

Consolidated Group results

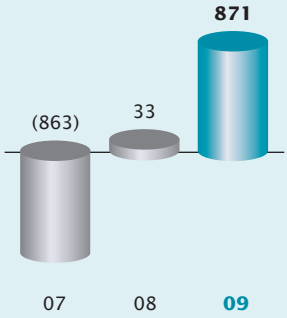
GROUP REVENUE
£'000
Six months ended 30 June



GROUP PROFIT/(LOSS)
BEFORE TAX £'000
Six months ended 30 June



GROUP CASHFLOW
FROM OPERATIONS £'000
Six months ended 30 June



Key events

- Agreement with the Northwest NHS Region to provide the FocalPoint™ automated imaging system for quality assurance; worth £0.5 million over two years
- CPA accreditation extended to include molecular genetics; underpins provision of next generation of molecular testing and companion diagnostics
- Addition of European distributors for our Life Science Research products and services

Post period event

- Extension to liquid based cytology agreement and FocalPoint™ automated cytology agreement with Cervical Screening Wales; worth £0.9 million over twelve months

Chairman's Statement

"This has been a very significant period for Source BioScience with the achievement of another important milestone for the Group. It was the short term objective of the Board to deliver profitability and cash generation, and I am delighted to report that both these key objectives have now been achieved"

Introduction

The first half of 2009 has been another period of continued growth and development for Source BioScience. In our interim management statement issued on 18 May 2009 we reported a strong first quarter performance and this has continued for the full six months to 30 June 2009. As a result, I am delighted to report that Source BioScience was both profitable and cash generative for the period.

Financial Review

Revenue for the six months ended 30 June 2009 increased by 14% to £6.7 million compared with the first half of 2008 (2008: £5.9 million). Strong revenue growth was apparent across all three divisions, with Pharma Biotech Services almost double the same period last year.

Cost of sales increased broadly in line with revenue and gross margin has remained robust at 43% (2008: 41% gross margin).

Whilst revenue increased, the cost base of the enlarged Group remained tightly controlled. Administrative expenses of £2.1 million was consistent with the same period last year, but represents just 32% of revenue (2008: 36% of revenue). This improvement demonstrates the continued importance the Board places on cost control whilst ensuring the business has an appropriate infrastructure to support existing and planned activities.

Profit before and after tax was £0.1 million (2008: £0.2 million loss). The movement into profitability represented the achievement of another important milestone for the Company.

Cash generated from operations was £0.9 million (2008: £33,000). After payment of deferred consideration for acquisitions and capital expenditure, net cash inflow was £0.1 million (2008: £3.9 million outflow). The Group's cash balance was £7.7 million as at 30 June 2009 (30 June 2008: £8.3 million; 31 December 2008: £7.6 million).

Divisional Performance Review

For the first time, all three divisions were profitable, with Healthcare, Pharma Biotech Services and Life Science Research all demonstrating improved performance in the period.

Chairman's Statement continued

Healthcare

Revenue increased 9% to £3.6 million (2008: £3.3 million) and profitability improved by 20% to £0.9 million (2008: £0.8 million).

Cytology

The first half of 2009 was an exciting period for Cytology partially due to two major events.

There was a significant impact on demand for our liquid based cytology ('LBC') consumables following the publicity surrounding the death of Jade Goody from cervical cancer. Cervical cancer screening centres across the UK reported increased compliance with the cervical cancer screening programme, with more women attending scheduled appointments. The result was a 25% increase in demand for our LBC consumables. It was a credit to everyone within our Healthcare team, especially in distribution and logistics, that we were able to satisfy that demand whilst maintaining our high standards of customer service.

We have identified the introduction of automated cervical cancer screening in the UK as a significant opportunity for the Group. During the period we entered into an agreement with the Northwest NHS Region to provide our FocalPoint™ automated imaging platform for quality assurance applications for an initial period of two years. This agreement is worth £0.5 million over the two year period and demonstrates the intent of the NHS to adopt this technology into the cervical cancer screening programme. To fulfil this agreement, we have invested in additional FocalPoint™ automated imaging systems, doubling our capacity of this important technology.

In addition to the above agreement, on 23 July 2009 we announced an extension to our existing agreement to supply cytology services and automated imaging technology to Cervical Screening Wales ('CSW'). The agreements with CSW are worth £0.9 million over a twelve month period and underline the effectiveness and efficacy of the FocalPoint™ system.

In the second half of this year we will continue to collaborate with other NHS trusts to demonstrate the utility of the FocalPoint™ system within the clinical setting.

Diagnostic Pathology

The first half of 2009 has seen increasing demand for our molecular diagnostic tests, with a growing requirement for the K-RAS gene test in particular. This test indicates whether patients are unlikely to respond favourably to particular therapies for certain types of cancer, making treatment decisions more relevant and treatment regimes more cost effective. Current demand for K-RAS testing is mainly in relation to patients with colorectal cancer, where the presence of a mutated form of the K-RAS gene in the cancer cells may indicate that a patient is unsuitable for

"It is a credit to the entire team at Source BioScience that the Group has continued to deliver growth, especially in a trying economic climate. This demonstrates the determination of everyone involved with the business to continually improve performance and highlights the robustness of our business model"

new anti-EGFR drugs such as Erbitux™ and Vectibix™. We anticipate demand for K-RAS testing will increase further once Erbitux™ receives NICE approval for treating colorectal cancer.

Biomarker tests which can provide information about whether a drug or other therapy may, or may not work, are known as companion diagnostics. Testing for K-RAS mutations prior to making a decision on whether to prescribe a drug such as Erbitux™ is an example of companion diagnostic testing. As demand increases for targeted therapies which will improve treatment success and reduce costs, there is an increasing need for companion diagnostics to accompany those therapies.

Source BioScience has a commitment to quality. We view quality management and quality assurance to be essential in delivering a credible and robust diagnostic service to the NHS and private healthcare. Accordingly we take all appropriate steps to ensure we have necessary accreditations in place from the appropriate regulatory authorities. During the period we were inspected by the Clinical Pathology Accreditation ('CPA') and demonstrated compliance with their stringent requirements for approval. As a result we are now an accredited laboratory for molecular genetics, alongside our existing accreditations, which underpin the provision of our molecular diagnostic testing portfolio.

We have been asked to undertake a number of new 'duty of care' reviews during the period which demonstrates the faith NHS trusts have in our CPA accredited histopathology reporting service. These reviews will continue into the second half of this year.

During the second half of 2009 we will continue to strengthen our molecular diagnostic and companion diagnostic portfolio and leverage our experience and credibility as a provider of expert, quality laboratory services as the foundation for the increased penetration of our molecular diagnostic services into the NHS. We are working closely with key opinion leaders in the oncology and pathology community, and with a number of biotechnology and pharmaceutical companies, to increase awareness and utilisation of molecular pathology techniques in public healthcare.

Pharma Biotech Services

Pharma Biotech Services has delivered a much improved performance during the first half of 2009 with revenue of £0.4 million (2008: £0.2 million) and a profit of £0.1 million (2008: loss of £0.1 million).

We have seen increased interest from a broader spectrum of pharma biotech customers in our enhanced 'one-stop shop' pathology to genomics offering, particularly from the top tier pharmaceutical companies. The combination of our established pathology expertise combined

Chairman's Statement continued

with our cutting-edge genomics capability represents a powerful offering, particularly with accelerating interest in targeted therapies and pharmacogenomics.

Pharmacogenomics is the study of how a patient may respond to a therapy based upon their genetic make up. It is therefore a powerful tool in predicting how a patient may respond to an existing or novel therapy. Such an understanding can decrease the use of expensive therapies and invasive procedures. Additionally, knowledge of the likely effectiveness of a therapy makes it more reliable and represents progress towards targeted therapies for individual patients. Analysis with our Illumina next generation sequencing platform represents a cutting-edge way of revealing those genetic variants that may influence drug response.

We will continue to promote our genomic capability to pharmaceutical companies requiring molecular analysis as part of their pre-clinical research and development programmes as well as emerging pharmacogenomic analysis supporting clinical development of therapeutics, especially targeted therapeutics. We are also exploring opportunities with a number of pharmaceutical companies to determine the genetics of diseases such as diabetes and cardiovascular disease. These are disease areas complementary to our expertise in oncology and are likely to be areas of focus for pharmaceutical companies looking to make use of pharmacogenomic analysis.

Life Science Research

Life Science Research performed in line with expectations in the period; revenue was £2.7 million (2008: £2.4 million) and the division delivered an operating profit of £0.4 million (2008: £0.3 million).

We have seen significant growth in our DNA sequencing service, with revenue increasing 80% compared with last year. Of this growth, over 20% represents organic growth of our traditional sequencing business, driven mainly by our new sequencing facility at University College London. However, the greatest part represents delivery of next generation sequencing using our Illumina Genome Analyzer. Significant investment, both capital and staff resources, was made in commissioning this technology during 2008. The pipeline of customer projects now extends well into the second half of the year and the platform is operating at near capacity.

During the period we relocated our Cambridge laboratory facility to a new site within Cambridge to take advantage of reductions in commercial property lease rentals. The relocation has also enabled us to restructure the operations on the site to further improve efficiencies and was conducted with minimal interruption to our business.

We continue to examine routes to overseas markets for both our life science products and

services. In 2008 we appointed distributors in East Asia and the Far East and during the first half of this year we added distributors in Germany, France and Italy. We already operate an extensive on line catalogue for our entire portfolio of genomic reagents and antibodies and we will exploit this through local distributor networks where appropriate.

We have seen the continued success of our model to embed our services within academic centres and provide them with core genomics services. We continue to explore and identify further opportunities to replicate this model in other suitable academic centres.

Prospects

We stated at the beginning of 2007 that it was the objective of the Board to deliver profitability and cash generation. The Group was cash generative for the year ended 31 December 2008 and was both cash generative and profitable for the six months ended 30 June 2009.

The Group has continued to demonstrate growth during the first half of the year with strong performance across all three divisions. This robust first half performance underpins confidence in the continued improvement in the financial performance of the Group for the full year.

As highlighted above, we believe the growth opportunities across the Group are strong. There is demand for our services and products, and we expect that demand to continue to grow. Our excellent reputation for quality, enhanced by the extension of our CPA accreditation, along with our high levels of customer service, robust market position and excellent customer base place Source BioScience in an ideal position to weather the prevailing economic conditions and maintain the momentum generated over the last couple of years.

In addition to the organic growth opportunities identified above, the Group also has significant cash resources to support further growth through acquisition, as well as selected, appropriate investment in our technology platforms.

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

Laurie Turnbull
Executive Chairman
25 August 2009

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Note	**Six months ended 30 June 2009 £'000**	Six months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Revenue	2	**6,705**	5,874	11,520
Cost of sales		**(3,842)**	(3,444)	(6,651)
Gross profit		**2,863**	2,430	4,869
Selling and distribution expenses		**(676)**	(592)	(1,165)
Administrative expenses:				
– normal		**(2,013)**	(2,059)	(3,924)
– amortisation of intangibles arising from acquisitions		**(102)**	(67)	(226)
– restructuring costs		**–**	–	(75)
Administrative expenses		**(2,115)**	(2,126)	(4,225)
Research and development		**(101)**	(109)	(196)
Operating loss		**(29)**	(397)	(717)
Finance income		**92**	195	363
Finance costs		**(1)**	(6)	(19)
Share of results of associate		**–**	27	27
Profit/(loss) on ordinary activities before tax		**62**	(181)	(346)
Taxation		**16**	–	119
Profit/(loss) attributable to equity holders of the Company		**78**	(181)	(227)
Total comprehensive income/(expense) attributable to equity holders of the Company		**78**	(181)	(227)
Earnings per share:				
Basic profit/(loss) per ordinary share	3	**0.04p**	(0.09)p	(0.11)p
Diluted profit/(loss) per ordinary share	3	**0.04p**	(0.09)p	(0.11)p

There are no items of other comprehensive income.

All results derive from continuing operations.

Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity

As at 30 June 2009

	Attributable to equity holders of the Parent Company					
	Share capital £'000	Share premium £'000	Merger and other reserves £'000	Special reserve £'000	Profit and loss reserve £'000	**Total equity £'000**
Balance at 1 January 2008	4,075	32,284	2,408	–	(23,803)	**14,964**
Loss for the period	–	–	–	–	(181)	**(181)**
Total comprehensive expense for the period	–	–	–	–	(181)	**(181)**
Transactions with owners, recorded directly in equity						
Employee share option scheme:						
– value of services provided	–	–	–	–	58	**58**
Balance at 30 June 2008	4,075	32,284	2,408	–	(23,926)	**14,841**
Balance at 1 July 2008	4,075	32,284	2,408	–	(23,926)	**14,841**
Loss for the period	–	–	–	–	(46)	**(46)**
Total comprehensive expense for the period	–	–	–	–	(46)	**(46)**
Transactions with owners, recorded directly in equity						
Employee share option scheme:						
– value of services provided	–	–	–	–	45	**45**
Capital reorganisation	–	(32,284)	–	10,788	21,496	**–**
Balance at 31 December 2008	4,075	–	2,408	10,788	(2,431)	**14,840**
Balance at 1 January 2009	4,075	–	2,408	10,788	(2,431)	**14,840**
Profit for the period	–	–	–	–	78	**78**
Total comprehensive income for the period	–	–	–	–	78	**78**
Transactions with owners, recorded directly in equity						
Employee share option scheme:						
– value of services provided	–	–	–	–	41	**41**
Balance at 30 June 2009	4,075	–	2,408	10,788	(2,312)	**14,959**

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2009

	As at 30 June 2009 £'000	As at 30 June 2008 £'000	As at 31 December 2008 £'000
Non-current assets			
Goodwill	**6,617**	7,558	6,602
Other intangible assets	**694**	266	812
Investment in associate	**180**	180	180
Loan to associate	**111**	134	127
Property, plant and equipment	**2,078**	2,044	1,835
	9,680	10,182	9,556
Current assets			
Inventories	**592**	576	478
Trade and other receivables	**2,881**	2,828	2,373
Cash and cash equivalents	**7,716**	8,341	7,647
	11,189	11,745	10,498
Current liabilities			
Trade and other payables	**4,631**	3,884	3,154
Financial liabilities			
– borrowings	**3**	111	32
– loan notes	**330**	734	315
Deferred consideration	**750**	1,000	750
	5,714	5,729	4,251
Net current assets	**5,475**	6,016	6,247
Total assets less current liabilities	**15,155**	16,198	15,803
Non-current liabilities			
Financial liabilities			
– borrowings	**3**	19	4
– loan notes	**–**	338	–
Deferred consideration	**–**	1,000	750
Deferred tax	**193**	–	209
	196	1,357	963
Net assets	**14,959**	14,841	14,840
Equity			
Issued share capital	**4,075**	4,075	4,075
Share premium	**–**	32,284	–
Special reserve	**10,788**	–	10,788
Other reserves	**2,408**	2,408	2,408
Profit and loss reserve	**(2,312)**	(23,926)	(2,431)
Total equity	**14,959**	14,841	14,840

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	Six months ended 30 June 2009 £'000	Six months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Cash flows from operating activities			
Profit/(loss) for the period	**78**	(181)	(227)
Adjustments for:			
Depreciation of tangible fixed assets	**310**	386	821
Recognition of grant income	**(6)**	(17)	(29)
Amortisation of capitalised development costs	**15**	14	29
Amortisation of other intangibles	**103**	67	227
Share of associate's result	**–**	(27)	(27)
Profit on sale of property, plant and equipment	**(7)**	(24)	(30)
Profit on sale of investments	**–**	–	(3)
Interest payable	**1**	6	19
Interest receivable	**(92)**	(195)	(363)
Share-based payments – value of employee service	**41**	58	103
Change in working capital	**428**	(54)	81
Cash generated from operations	**871**	33	601
Interest paid	**(1)**	(6)	(19)
Tax received/(paid) on behalf of acquired subsidiaries	**40**	(144)	(144)
Net cash generated from/(used in) operating activities	**910**	(117)	438
Cash flows from investing activities			
Acquisition of subsidiaries	**(750)**	(5,244)	(5,978)
Cash acquired with subsidiaries	**–**	1,474	1,474
Transaction costs in relation to acquisitions	**–**	(335)	(342)
Investment in associate	**–**	(25)	(25)
Receipts from associate	**16**	–	7
Purchases of property, plant and equipment	**(196)**	(280)	(895)
Proceeds from sale of property, plant and equipment	**13**	546	553
Proceeds from sale of investments	**–**	–	17
Interest received	**106**	142	312
Net cash used in investing activities	**(811)**	(3,722)	(4,877)
Cash flows from financing activities			
Repayment of borrowings	**–**	(57)	(105)
Finance lease principal repayments	**(30)**	(30)	(76)
Net cash used in financing activities	**(30)**	(87)	(181)
Net increase/(decrease) in cash and cash equivalents	**69**	(3,926)	(4,620)
Net increase/(decrease) in cash and cash equivalents	**69**	(3,926)	(4,620)
Cash and cash equivalents at beginning of period	**7,647**	12,267	12,267
Cash and cash equivalents at end of period	**7,716**	8,341	7,647

Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed consolidated interim financial statements for the six months ended 30 June 2009 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and
- the interim report includes a fair review of the information required by:
  - DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year)
  - DTR 4.2.8R (disclosure of related party transactions and charges therein)

By order of the Board

Laurie Turnbull
Executive Chairman

By order of the Board

Nick Ash
Managing Director

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2009

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 2009 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interests in associates.

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 2008, which have been prepared in accordance with IFRS adopted by the European Union.

As required by the Disclosure and Transparency Rules of the Financial Services Authority, these condensed consolidated interim financial statements have been prepared applying the accounting policies that we applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2008. The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year ending 31 December 2009:

- IAS 1 Presentation of Financial Statements (revised 2007) which has introduced a number of terminology changes and has resulted in a number of changes in presentation and disclosure
- IFRS 8 Operating Segments which has introduced a management approach to segment reporting

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

The condensed consolidated interim financial statements for the six months ended 30 June 2009 have neither been audited nor reviewed by the Group's auditor. The comparative figures for the financial year ended 31 December 2008 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 2008 were approved by the Board on 30 April 2009 and delivered to the Registrar of Companies. The report of the Auditor on those financial statements was (i) unqualified, (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The consolidated financial statements of the Group as at and for the year ended 31 December 2008 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.

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.

Notes to the Condensed Consolidated Interim Financial Statements continued

1. Basis of preparation continued

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 2008.

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 2009 were approved by the Board of Directors on 25 August 2009.

2. Operating segments

Information about reporting segments

At 30 June 2009, the Group's trading operations were organised into three main operating divisions:

- Healthcare
- Pharma Biotech Services
- Life Science Research

Healthcare comprises the business units of Diagnostic Pathology and Cytology. Following adoption of IFRS 8 Operating Segments, the results of these business units are aggregated and reported as one segment which more accurately reflects the way management monitors the business. There is no impact on any other segments.

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

2. Operating segments continued

Information about reporting segments continued

Six months ended 30 June 2009

	Healthcare £'000	Pharma Biotech Services £'000	Life Science Research £'000	Unallocated £'000	**Group £'000**
Revenue	3,595	418	2,692	–	**6,705**
Segment result	911	107	374	(1,421)	**(29)**
Finance income				92	**92**
Finance costs				(1)	**(1)**
Profit before tax				(1,330)	**62**
Taxation				16	**16**
Profit for the period				(1,314)	**78**
Segment assets	3,189	211	8,616	–	**12,016**
Unallocated assets					
– property, plant and equipment				522	**522**
– debtors and prepayments				615	**615**
– cash and cash equivalents				7,716	**7,716**
Total assets	3,189	211	8,616	8,853	**20,869**
Segment liabilities	1,735	156	1,701	–	**3,592**
Unallocated liabilities					
– creditors and accruals				2,318	**2,318**
Total liabilities	1,735	156	1,701	2,318	**5,910**
Other segment items					
Capital expenditure – tangible fixed assets	403	–	126	30	**559**
Depreciation	114	10	111	75	**310**
Amortisation of intangible assets	–	11	107	–	**118**
Other non-cash expenses					
– share option scheme	–	–	–	41	**41**

Notes to the Condensed Consolidated Interim Financial Statements continued

2. Operating segments continued

Information about reporting segments continued

Six months ended 30 June 2008

	Healthcare £'000	Pharma Biotech Services £'000	Life Science Research £'000	Unallocated £'000	**Group £'000**
Revenue	3,288	211	2,375	–	**5,874**
Segment result	758	(120)	339	(1,347)	**(370)**
Finance income				195	**195**
Finance costs				(6)	**(6)**
Loss before tax				(1,158)	**(181)**
Taxation				–	**–**
Loss for the period				(1,158)	**(181)**
Segment assets	2,732	187	12,141	–	**15,060**
Unallocated assets					
– property, plant and equipment				594	**594**
– debtors and prepayments				670	**670**
– cash and cash equivalents				5,603	**5,603**
Total assets	2,732	187	12,141	6,867	**21,927**
Segment liabilities	851	140	4,135	–	**5,126**
Unallocated liabilities					
– corporate borrowings				48	**48**
– creditors and accruals				1,912	**1,912**
Total liabilities	851	140	4,135	1,960	**7,086**
Other segment items					
Capital expenditure – tangible fixed assets	215	–	425	44	**684**
Depreciation	193	33	90	70	**386**
Amortisation of intangible assets	–	10	71	–	**81**
Other non-cash expenses					
– share option scheme	–	–	–	58	**58**

2. Operating segments continued

Information about reporting segments continued

Year ended 31 December 2008

	Healthcare £'000	Pharma Biotech Services £'000	Life Science Research £'000	Unallocated £'000	**Group £'000**
Revenue	6,354	558	4,608	–	**11,520**
Segment result	1,448	(65)	415	(2,488)	**(690)**
Finance income				363	**363**
Finance costs				(19)	**(19)**
Loss before tax				(2,144)	**(346)**
Taxation				119	**119**
Loss for the year				(2,025)	**(227)**
Segment assets	2,457	199	8,602	–	**11,258**
Unallocated assets					
– property, plant and equipment				561	**561**
– debtors and prepayments				588	**588**
– cash and cash equivalents				7,647	**7,647**
Total assets	2,457	199	8,602	8,796	**20,054**
Segment liabilities	910	142	2,245	–	**3,297**
Unallocated liabilities					
– creditors and accruals				1,917	**1,917**
Total liabilities	910	142	2,245	1,917	**5,214**
Other segment items					
Capital expenditure – tangible fixed assets	239	5	564	87	**895**
Capital expenditure – intangible fixed assets	–	–	3,594	–	**3,594**
Depreciation	394	66	227	134	**821**
Amortisation of intangible assets	–	21	235	–	**256**
Other non-cash expenses					
– share option scheme	–	–	–	103	**103**

Notes to the Condensed Consolidated Interim Financial Statements continued

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 earnings per share for the six months ended 30 June 2009 is based on the profit attributable to ordinary shareholders of £78,000 (six months ended 30 June 2008: loss of £181,000; year ended 31 December 2008: loss of £227,000) and on the weighted average number of ordinary shares in issue in the period of 203,765,232.

The calculation of diluted earnings per share for the six months ended 30 June 2009 is based on the profit attributable to ordinary shareholders of £78,000 (six months ended 30 June 2008: loss of £181,000; year ended 31 December 2008: loss of £227,000) and on the weighted average number of ordinary shares in issue in the period, adjusted for 1,092,818 dilutive options, of 204,858,050 (six months ended 30 June 2008 and year ended 31 December 2008: 203,765,232; no dilutive options in either comparative period).

IAS 33 Earnings Per Share requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. Net loss per share in a loss-making company would only be increased by the exercise of share options which were out of the money. Assuming that option holders will not exercise out of the money options, no adjustment has been made to the diluted loss per share for out of the money share options for the six months ended 30 June 2008 and the year ended 31 December 2008. No adjustment has been made to the diluted earnings per share for out of the money options for the six months ended 30 June 2009.

4. Acquisition of subsidiary

The fair value of the assets and liabilities in relation to the acquisition of Autogen Bioclear UK Limited on 10 March 2008 were determined in the consolidated financial statements of the Group for the year ended 31 December 2008 and no adjustment to these values has been deemed necessary.

5. Interim results

Copies of the interim results for the six months ended 30 June 2009 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

The following terms are used in this document:

antibodies	Antibodies are proteins that are found in blood or other bodily fluids; they are used by the immune system to identify and neutralise foreign objects, such as bacteria and viruses. Antibodies also form the basis of a number of anti cancer drugs such as Herceptin™ and Erbitux™.
biomarkers	Biomarkers often refer to substances found in blood, urine or tissue, changes in which may be used to indicate presence of disease or response to treatment. More generally the term biomarker refers to any molecule that can be used to monitor a particular cellular process.
CYP2D6	Women with genetic variations in the CYP2D6 gene may be slow metabolisers of tamoxifen to its active metabolite endoxifen. In this case changes to the treatment regime may be indicated.
circulating tumour cells ('CTC')	A method for identifying small numbers of cancer cells circulating in the blood. Shown to be of potential prognostic significance in breast cancer, colorectal or prostate cancer, and useful for monitoring response to drug therapy.
Clinical Pathology Accreditation ('CPA')	CPA is the mechanism of accreditation for clinical pathology services. It involves an external audit of the ability of a laboratory to provide a service of high quality by declaring a defined standard of practice, which is confirmed by peer review.
companion diagnostic	A test based on a biomarker (which might be a protein, DNA or RNA molecule), the presence or absence of which is associated with the likely efficacy of a drug or other treatment. Companion diagnostics are useful in stratifying patients into groups which are known to respond in a particular way to a drug. A good example of such a test from the Source BioScience breast cancer portfolio is the HER2 test, which assesses levels of the HER2 protein, expression of which is correlated with response to Herceptin.
DNA and cDNA	DNA (DeoxyriboNucleic Acid) is a large, complex molecule which, by virtue of a unique sequence of building blocks, contains all the genetic information required to create a cell or organism. cDNA (complementary DNA) is a simplified version of the original DNA, synthesised artificially using an RNA template (see below).
fluorescence in situ hybridisation ('FISH')	In situ hybridisation ('ISH') is a powerful technique, not unlike immunohistochemistry (below), for visualising the presence of specific sequences of DNA and RNA in tissue sections. The technique uses short synthetic sequences of DNA or RNA which will bind to the tissue with high specificity for the DNA or RNA of interest. Fluorescent 'tags' are attached to these synthetic sequences, allowing them to be visualised with a special microscope, even when present at very low levels (FISH).
genomics	Genomics is the study of an organism's entire genome, where the genome of an organism is its whole hereditary information and is encoded in the DNA (see above) and RNA (see below). This includes both the genes and the non-coding sequences of the DNA.
genomic clone libraries	A clone library is a collection of clones containing complementary DNA (cDNA) (see above) and is often intended to represent the genes that are expressed within a given cell or tissue type at a given period.

Glossary continued

genomic products and reagents	In this instance, DNA or RNA extracted and purified from a range of species and provided in a variety of forms for research purposes.
genotyping & sequencing	DNA sequencing is the process of looking at the precise order in which the building blocks of the patient's DNA are linked together. Genotyping, in turn, is the process whereby an individual's DNA is tested for mutations (single changes in the building block sequence) which might give rise to disease or other abnormalities. This is normally carried out by sequencing.
Good Clinical Practice ('GCP')	GCP accreditation provides further assurance beyond GLP (see below) that all regulatory studies involving human tissue are conforming to the principles of good clinical practice. GCP and GLP compliance is monitored by the Medicines and Healthcare products Regulatory Agency ('MHRA'), a governmental agency.
Good Laboratory Practice ('GLP')	A set of principles that provides a framework within which laboratory studies are planned, performed, monitored, recorded and reported.
HER2	Over-expression of HER2 receptor molecules on their tumour may indicate a breast cancer patient is suitable for treatment with Herceptin. A test for such over-expression is carried out on all new breast cancer patients.
histopathology	The study of changes in tissues and cells as a consequence of some disease or toxic process.
immunohistochemistry ('IHC')	Immunohistochemistry is a technique for visualising proteins and other molecules in thin sections of tissue. This technique uses antibodies raised in other species against the protein of interest as a tool, and exploits their exquisite sensitivity and specificity for binding to that protein.
K-RAS	The presence of a mutated form of the K-RAS gene in colorectal cancer may indicate that a patient is unsuitable for new anti-EGFR drugs such as Erbitux™ and Vectibix™.
liquid based cytology ('LBC')	Liquid based cytology is a process for collecting cytology samples from tissues such as the cervix or the lung, which provides purer populations of cells, without the other materials which frequently contaminate the sample such as blood or mucus.
location guided screening ('LGS')	A microscope with an automated stage linked to a computer which takes data from the FocalPoint™ automated imaging system to guide the screener to areas on the slide where there are likely to be abnormal cells. This cuts the number of 'fields of view' which need to be screened from 60 down to 10.
molecular diagnostics	Tests involving the measurement of DNA, RNA, proteins or metabolites, which can provide information about (a) the presence of a disease or condition, (b) the likelihood of the disease or condition occurring, (c) the prognosis of a disease or (d) the likely response of a disease to a particular treatment.
pharmacogenomics	The science of how a person's genetic make up influences the way in which their body responds to drugs.
RNA	RNA (RiboNucleic Acid) is chemically quite similar to DNA, but is an intermediate product between the DNA of the gene, and the ultimate protein product of that gene. The level of expression of a gene can be gauged by the amount of RNA synthesised from that gene, a process usually measured by quantitative real-time polymerase chain reaction ('Q-PCR').
RNA expression analysis	RNA expression analysis measures the activity of genes at once generating a global picture of cellular function. The expression analyses, or profiles, can distinguish between cells that are actively dividing, for example, or show how the cells react to a particular treatment.

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