Source BioScience

Annual Report and Accounts

for the year ended 31 December 2011

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

Our Strategy

To grow our LifeSciences and Healthcare business through the development and expansion of existing operations, and by way of selected acquisitions, to broaden the Group's portfolio of products and services as well as its geographic reach

For more information go to
www.sourcebioscience.com

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Highlights

Financial Highlights

Revenue
£m

+13%

09	12 7
10	13 5
11	**15.2**

Adjusted EBITDA*
£m

+48%

09	1 0
10	1 3
11	**1.9**

- Revenue increased by 13% to £15 2 million (2010 £13 5 million)
- Adjusted operating profit* of £0 5 million (2010 £0 2 million)
- Adjusted EBITDA* increased by 48% to £1 9 million (2010 £1 3 million)
- Adjusted profit after tax* of £0 6 million (2010 £0 3 million)
- Loss after tax of £2 8 million (2010 profit £0 1 million)
- Cash generated from operating activities of £0 6 million (2010 £0 9 million)
- Cash balance at 31 December 2011 of £1 1 million (2010 £4 2 million)
- Purchase of the freehold land and buildings of the Head Office premises in Nottingham, eliminating the 17 year lease obligation and increasing EBITDA by £0 5 million per annum from 2012
- Integration and associated restructuring of the imaGenes business was completed as planned, expected to deliver annualised cost savings in the region of £0 7 million

* Results are stated after eliminating non recurring restructuring costs of £0 6 million associated with the planned integration of the acquired imaGenes business and the impact of a charge of £2 8 million to reflect the fair value of the Head Office premises purchased during the year, as previously announced

Operational highlights

- Major developments in LifeSciences business driving growth
  - Overnight Service for DNA sequencing launched in the UK and Germany, providing the fastest available turnaround times to the life sciences research community
  - The world's largest integrated clone and antibody library is now available via GenomeCube®, our proprietary search engine and bioinformatics tool, positive feedback from customers and demand growing
- In the Healthcare business, contracts worth over £0 5 million per annum already signed with NHS Trusts following approval of the BD FocalPoint™ automated imaging platform for cervical cancer screening, further interest from other NHS Trusts expected

Post-period event

- Access to BD FocalPoint™ is the determining factor in winning the University Hospital of North Staffordshire NHS Trust's liquid based cytology contract, this is the first Trust to switch liquid based cytology technology and is worth £0 3 million per annum

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 and Oxford, and European facilities in Berlin and Dublin.

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

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. We also provide on-line access to the largest portfolio of cloned DNA, RNA and antibody products sold by any single provider worldwide.

Highlights

- Overnight Service launched for DNA sequencing, volume growth of over 30% in second half of year
- GenomeCube® launched providing an enhanced e-commerce solution, web traffic up 80%
- Next generation sequencing capacity doubled using Illumina technology

Profile

- Leading European player for DNA sequencing and genomics
- Cutting-edge next generation sequencing technologies
- Extensive bioinformatics capability
- Largest portfolio of over 20 million clones and linked antibodies, by any single provider globally
- Established geographic reach into European markets

Revenue Contribution

51%

Healthcare

The Healthcare division comprises our Cytology and Diagnostics activities including cervical cancer screening and diagnostic testing services for diseases such as cancer. The principal customer for our Healthcare services and products during 2011 was the UK NHS.

Highlights

- Dominant cervical cancer screening market share of 50%
- Increasing volume of companion diagnostic tests for cancer
- Molecular diagnostic testing gaining traction in the NHS, estimated market of £1 5 billion globally

Profile

Cytology

- Cervical cancer screening
- Provider of BD FocalPoint™, the only automated cervical screening technology approved for use by the NHS

Diagnostics

- Expertise in breast, lung, colorectal and gastric cancer diagnostics
- Genetic testing and companion diagnostics
- NHS £2 billion spend on diagnostics
- Global cancer diagnostic market estimated at £4 billion

Revenue Contribution

49%

Chairman's Statement
Laurie Turnbull

> "2011 was another year of improvements to the business and strategic progression for Source BioScience"

Introduction
Over the past five years, the Board has focused on improving the Group's financial performance and delivering on specific objectives articulated to shareholders, primarily to create a robust business and financial platform to deliver enhanced shareholder value We are again pleased to report that, before non-recurring items, Source BioScience has become increasingly profitable during the year, in line with the Board's expectations, and we are building a vibrant and sustainable business for the long term with attractive growth prospects

Summary results

	2011 £'000	2010 £'000	% change
Revenue	**15,192**	13,487	+13%
Gross profit	**6,751**	5,821	+16%
(Loss)/profit after tax	**(2,795)**	93	–
Adjusted operating profit*	**461**	170	+171%
Adjusted profit after tax*	**610**	267	+128%
Adjusted EBITDA*	**1,860**	1,256	+48%

* Results are stated after eliminating non recurring restructuring costs of £0 6 million associated with the planned integration of the acquired ImaGenes business and the impact of a charge of £2 8 million to reflect the fair value of the Head Office premises purchased during the year, as previously announced

Divisional performance
The Group's operating divisions, LifeSciences and Healthcare, performed well during 2011 and both divisions returned increased revenue and operating profits

LifeSciences
LifeSciences delivered growth in revenues of 18% to £7 8 million (2010 £6 6 million) with operating profit up to £1 1 million (2010 £1 0 million) The LifeSciences division continues to grow at a faster rate than our more mature Healthcare activities and now contributes just over 50% of Group revenue We expect this rapid growth to continue as the market increases its demand for high quality, high speed gene sequencing

A number of key initiatives were launched during the year to drive the growth of the business The first of these was our Overnight Service for DNA sequencing From our international network of laboratories we can now provide customers access to their DNA sequencing results by 9 am the next day, including Saturdays This enhanced service was launched in June and delivered a 30% increase in demand for our sequencing services in the second half of 2011, compared with the first

In June we also launched GenomeCube® which represented Phase II of the improvement programme to our LifeSciences e-commerce solution GenomeCube® is our proprietary search engine, database and bioinformatics tool enabling researchers access to the world's largest clone and antibody portfolio

During the year, we restructured and consolidated our commercial activities under the leadership of the Group's new Sales Director, Dr Khosrow Shami Dr Shami has over 20 years sales experience and for the last twelve years has worked for a number of Europe's major life science companies whose activities included genomic products and sequencing

Healthcare

In 2011 we achieved Healthcare revenue of £7 4 million (2010 £6 9 million), an increase of 8% and divisional operating profit increased by 13% to £2 3 million (2010 £2 0 million)

The robust performance of the Healthcare division continues to be underpinned by our Cytology business which provides the systems vital to the preparation and analysis of cervical smear samples in support of the NHS Cervical Cancer Screening Programme

Pictured
In 2011 the Group processed over 10,000 immunohistochemistry ('IHC') tests using robotic systems The majority of the tests were to determine the expression level of the HER2 protein which is correlated with the response of breast cancer to the drug Herceptin™

Chairman's Statement continued

2011 was a significant year for our Cytology business with the NHS finally approving the BD FocalPoint™ system, our automated imaging platform for cervical cancer screening. Following approval in early December, we have already signed multi-year agreements with three NHS Trusts worth in excess of £0 5 million per annum, with a number of other Trusts expressing interest in adopting the technology

Longer term, we believe the growth in this division will be driven by demand for our Diagnostics activities, in particular molecular (genetic) and companion diagnostic testing services There is an increasing trend in the healthcare sector, including the NHS, to outsource its diagnostic testing Further, with the sophistication of modern targeted medicines, there is an increased demand for patient stratification and companion diagnostics to match patients with the most effective treatment With our expertise in both these areas, we believe Source BioScience is well-placed to exploit such opportunities

Staff

Our staff are fundamental to the success of our business We have made a number of significant changes to the Group's operational and commercial structure and it is a great credit to the team that the changes have been so positively and enthusiastically embraced 2011 was another year of significant improvement in the performance of the business and I would like to thank everyone for their hard work and dedication We look forward to sharing continuing success together

Purchase of Head Office premises

The acquisition of the Head Office premises in December was an important element in positioning the business for further growth and expansion Under the terms of the lease agreement, the Group was committed for a further 17 years with no provision to terminate and the scheduled rent reviews were upwards only This was not an appropriate arrangement for the Group and was not aligned with the ongoing investment in the business and its infrastructure Acquiring the property has given rise to a charge of £2 8 million, to reflect the fair value of the Head Office premises, but will result in significant savings, improving EBITDA by £0 5 million, which will benefit the Group from 2012

Strategy and outlook

The focus of the Group remains on the provision of leading-edge diagnostic and sequencing services and products to life science research and healthcare communities The commercial and operational structure of the Group has been configured to reflect this The commonality of our technology platforms and expertise is key to driving the organic growth of the business and enables significant operational gearing without introducing financial or operational inefficiencies from duplication of platforms and processes This presents a 'joined up' business built on common technology platforms, laboratory processes and intellectual capital

We believe we have a very strong business model and opportunities for growth are apparent across both LifeSciences and Healthcare The Board's strategy is to enhance further the service and product offering across LifeSciences and Healthcare, enabling greater market penetration and delivering increasing returns for shareholders We aim to achieve this through both organic expansion from our existing operations and carefully selected acquisitions when the opportunities arise

Summary

2011 was another year of improvements to the business and strategic progression for Source BioScience Revenue and operating profit, before the impact of non-recurring items, have increased again and the Group is in a strong financial position

Key achievements have been the launch of the Overnight Service and GenomeCube® which give us a dominant position as a world class provider of sequencing services and genomic products In addition, our Healthcare division has the potential for significant growth with the approval of BD FocalPoint™ in the NHS Cervical Cancer Screening Programme

Significant opportunities are apparent across all areas of the Group in line with the increasing demands of the healthcare and life sciences markets for faster, more efficient and more accurate molecular diagnostics and gene sequencing services

Laurie Turnbull
Chairman
30 April 2012

Pictured
All tissue samples received in our laboratories are embedded in wax which stabilises the sample and allows thin preparations to be cut for future microscopic analysis

Business Review
Dr Nick Ash

"We have a very strong business model and significant opportunities for continued growth are apparent across both LifeSciences and Healthcare"

Cautionary statement

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

Overview

Source BioScience is an international diagnostic and genetic analysis business serving the healthcare and life science research markets The commercial activities of the Group are organised into two divisions, LifeSciences and Healthcare The business activities and performance during 2011, and expectations for 2012, are described below

LifeSciences

LifeSciences 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 We also provide on-line access to the largest portfolio of cloned DNA, RNA and antibody products sold by any single provider worldwide

Healthcare

The Healthcare division comprises our Cytology and Diagnostics activities including cervical cancer screening and diagnostic testing services for diseases such as cancer The principal customer for our Healthcare services and products during 2011 was the UK NHS

Resources available to the Group

The key resources available to Source BioScience to help it achieve its objectives include an outstanding reputation for delivery, quality and customer service across our activities, strong market position, an excellent customer base and a secure financial foundation In addition, we have an experienced, flexible and motivated work force which the Board holds in very high regard We have the cash resources available to invest prudently and appropriately in both our operational and commercial capability and also in the business growth opportunities that the Board has identified

Over the medium to long term, the Board strongly believes that Source BioScience has the potential to become Europe's leading provider of quality services and products to growing markets in life science research and healthcare thereby delivering superior value to shareholders

Key risks facing the business

As with any organisation, the Group faces certain risks which may adversely affect its business both now and in the future Many of these are general in nature and can affect all businesses Examples of such risks include the ability to win business on profitable and commercial terms in the face of significant competition, the reliance on key personnel, the ability to successfully integrate acquisitions, the ability to grow the business both organically and through acquisitions, the risk of interruption to operations and the continued ability of the Group to remain a viable and successful business

The Board operates a system of internal control and risk management to provide reasonable assurance regarding the effectiveness and efficiency of operations, internal financial control and compliance with laws and regulations The system of internal control is designed to manage rather than eliminate the risk of failure to observe business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

Within this Business Review, the key risks facing each of the Group's business activities, together with the Board's approach to managing and mitigating such risks, are set out on pages 9 to 16 In addition, the Board believes that the Group overall faces certain specific key risks as follows

That appropriate investment is made in activities that will generate competitive advantage and drive the success of the Group over the short, medium and long term

Within its available resources, and without increasing the overall financial risk to the Group, Source BioScience has invested in key acquisitions over the past five years to enhance the financial, operational and commercial performance of the Group

We have also continued to invest in specific projects to support the organic growth of the business During the year we have made additional investment in next generation DNA sequencing capability The Board has also ensured that intellectual capital and know how is suitably protected in support of the business objectives

Interruption to the Group's e-commerce platforms, or failure of laboratory infrastructure, could adversely affect quality and timeliness of service delivery

The Group has implemented a range of measures to mitigate the risk of interruption to the website and laboratory activities These include, but are not limited to, off site backup hosting arrangements, installation of backup power devices, duplicated inventory of biological materials stored in a secure second facility, telemetry and alarm systems for critical equipment, environmentally controlled premises and appropriate service and maintenance arrangements

The ability of the Group to maintain cash generation from operations on an ongoing basis and therefore not significantly impact our cash balance for ongoing working capital requirements or to service our financing obligations

The Board of Source BioScience has cash generation as a clearly stated objective and the Group has continued to be strongly cash generative during 2011, generating cash from operating activities during the year with continued progress expected during 2012

The loss of key employees could weaken the Group's management and operational capabilities, adversely affecting its ability to achieve its objectives

The Board endeavours to ensure that key members of the management and staff are suitably trained, incentivised and motivated

Business Review continued
Business segment performance review

"Our Overnight Service for DNA sequencing provides the fastest data delivery to customers in Europe"

LifeSciences

LifeSciences delivered double digit growth in revenues of 18% to £7 8 million (2010 £6 6 million) with operating profit up to £1 1 million (2010 £1 0 million)

DNA sequencing

During 2011 we launched the Source BioScience Overnight Service for DNA sequencing from our network of five laboratories in the UK, Ireland and Germany Using this Overnight Service, powered by our proprietary SpeedREAD™ automated data delivery platform, customers can receive DNA sequencing results by 9 am the next day, including Saturdays Following the launch in June, demand for our sequencing service increased by more than 30% in the second half of 2011, compared with the first half, and this growth has been sustained into 2012

In addition to conventional electrophoresis DNA sequencing delivered from our network of laboratories, we also offer what is widely known as 'next generation sequencing' Our next generation DNA sequencing service is based on the Illumina HiSeq 2000™ high throughput platform, which is the market leader We were the first UK provider with an Illumina HiSeq 2000™ and during 2011 we installed and commissioned our second HiSeq 2000™ platform, doubling our high throughput sequencing capacity

The global market for outsourced next generation sequencing has grown exponentially since these new technologies have been available Although we only launched our next generation sequencing service three years ago, revenue in 2011 exceeded £1 5 million and we are expecting this to increase further, led by the rapidly expanding market demand for this technology

Products and GenomeCube®

The launch of the LifeSciences website and e-commerce platform during 2010 was the critical Phase I step in enabling us to maximise the benefits of the enlarged product portfolio that the acquisition of imaGenes delivered The new website provided enhanced functionality and brought the Group's entire portfolio of services and products together on a single site

LifeSciences Revenue*

£7.8m

09	5 8
10	6 6
11	**7.8**

Segment Result

£1.1m

09	0 7
10	1 0
11	**1 1**

Source Company data/audited financial statements

Pictured
DNA samples received in our LifeSciences division are firstly arrayed in microtitre plates for quality testing The Group securely stores more than 50,000 DNA samples from many nationally important collections

In June 2011 we launched GenomeCube® which represented Phase II of the improvement programme to our LifeSciences e-commerce solution GenomeCube® is our proprietary search engine, database and bioinformatics tool enabling researchers access to the world's largest clone and antibody portfolio which extends to over 20 million individual products Following the launch of GenomeCube® activity across our e-commerce platform has increased significantly, the number of visits to the website is up over 80% and the number of on-line orders placed has increased by more than 50%

Phase III of the project is currently underway which will further enhance the functionality of GenomeCube®, enabling the platform to be rolled out across our distributor network This will accelerate the globalisation of our products business and allow our international distributors, and customers, access to the majority of our product portfolio utilising the power of GenomeCube®

Logistical constraints restrict the cost-effectiveness of distributing our products from the UK, potentially limiting our penetration of the life sciences research market outside of Europe High quality commercial partners have been identified in Asia and the Far East who will maintain a subset of our product portfolio locally and distribute products regionally, with customers using a local language GenomeCube® module to identify, research and purchase products

imaGenes integration

The integration of the imaGenes business was completed during the year The restructuring costs associated with the planned integration were £0 6 million, as anticipated A number of major operational and commercial initiatives were delivered during 2011 as a result of the acquisition, including the harmonisation of the Group's combined clone and antibody product portfolio onto a single site in the UK and the launch of our Overnight Service for DNA sequencing out of Berlin

Business Review continued

Our German facility, in Berlin, has established a local presence in the German life sciences market and extends the Group's geographical reach into Europe This represents the first step in our strategy to roll out the Source BioScience services and products to these new markets

PharmaBiotech

As we have referred to previously, we have restructured elements of our commercial and operational infrastructure As part of that restructuring, we have consolidated our PharmaBiotech commercial activities into our LifeSciences division The aim of the consolidation is to identify and exploit opportunities to cross sell our expertise in genomics into our existing key pharma and biotech accounts where we already possess a strong relationship based on our clinical trials support and diagnostics services

Interest in our 'one stop shop' enhanced pathology to genomics offering is increasing from a broad range of pharma and biotech customers We also expect to benefit from the significant changes in the pharma industry as it undergoes restructuring programmes requiring outsource partners and more cost effective and efficient ways to develop new drugs

This new approach is already producing results and we have a pipeline of contracts for clinical trial support and genomic services worth in excess of £2 0 million between 2012 and 2015 However, as with any clinical trial support contract, the value to the Group depends on successful recruitment of patients onto a trial and, to some extent, the efficacy of the therapy being trialled, both of which are outside our control

The key risks facing LifeSciences together with the Board's approach to managing such risks are set out below

The Group's technological platforms may be superseded by alternative, superior technologies which may provide enhanced analyses, higher throughput, greater sensitivity, lower cost or other sources of competitive advantage resulting in a reduction in revenue streams

We continually assess the technologies at our disposal and are conscious that, in targeting academic and other research institutions, there is an expectation that we are able to provide the latest generation of technology platforms and analyses to support current and future applications for these technologies We work in partnership with suppliers and customers to mitigate the risks associated with the introduction of any new technology platform During the year we have made additional significant investment in the Illumina HiSeq 2000™ next generation sequencing technology and remain one of the leading providers in Europe We also remain the only commercial service provider in the UK to have Illumina CSPro® certification for sequencing which underlines our commitment to deliver the highest possible level of service

The Group's portfolio of products with applications in life science research, including DNA clones and antibodies, may face competition from manufacturers of substitute products that enable new applications, represent new organisms, offer greater specificity or are more competitively priced

Source BioScience works in close conjunction with quality manufacturers of antibodies and genomic products to ensure that we have access to, and act as distributors for, appropriate genomic reagents and related research tools from a range of model organisms and a range of applications We are committed to providing products that allow the customers to maximise their efficiency Our portfolio currently includes more than 20 million DNA clones and 100,000 antibodies

"Gene-based diagnostic testing and automated imaging are becoming increasingly important for Healthcare customers"

Healthcare achieved revenues of £7 4 million (2010 £6 9 million), an increase on last year of 8% Divisional operating profit increased by 13% to £2 3 million (2010 £2 0 million)

Cytology

Our Cytology (cell analysis) operation distributes and supports the BD SurePath™ liquid based cytology ('LBC') system and BD FocalPoint™ automated cytology imaging platform in the UK These systems are vital in the preparation and analysis of cervical smear samples as part of the NHS Cervical Cancer Screening Programme

Our Cytology business holds a dominant position in the UK cervical cancer screening sector The BD SurePath™ system is one of only two systems approved by the National Institute for Health and Clinical Excellence ('NICE') and we have secured approximately 50% of the LBC market in England and Wales During 2011 our Cytology operations delivered approximately 1 8 million tests to GP surgeries, clinics and NHS laboratories across England and Wales

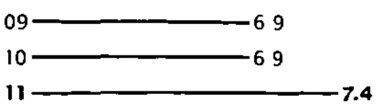
Cytology continues to be a real success story for Source BioScience Revenue in 2011 was £5 5 million, an increase of 10% (2010 £5 0 million) and during the year we renewed a number of our LBC supply agreements, for periods of up to seven years

As highlighted previously, cervical cancer screening lends itself to automation With around 3 8 million cytology slides screened manually every year in the UK, automation is an obvious next step to improve turnaround times and reduce costs An important milestone was achieved during the year with the decision by the NHS Cervical Cancer Screening Programme to approve the use of our BD FocalPoint™ automated imaging technology for cervical screening in the UK This is the only automated cervical screening technology which has been approved and is the only one of its kind 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

Following approval of this automated technology in early December, we have already signed multi-year agreements with three NHS Trusts worth over £0 5 million per annum, with a number of other Trusts expressing interest in adopting the technology Subsequent to the year end, University Hospital of North Staffordshire NHS Trust has awarded Source BioScience its LBC contract worth £0 3 million per annum This represents the first time that any NHS Trust has switched LBC technology provider and access to BD FocalPoint™ was a key driver in the decision

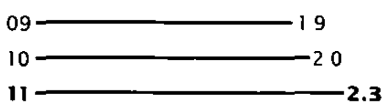
Healthcare Revenue

£7.4m



Segment Result

£2.3m



Source Company data/audited financial statements

Business Review continued

The key risks facing Cytology together with the Board's approach to managing such risks are set out below

Each of the Group's LBC agreements with NHS Trusts or NHS regions are for a three or five year term Over the medium term, this area of the business remains dependent upon the successful renewal of such agreements

The Board is not aware of any reason why such agreements would not be renewed, subject to agreement of commercial terms, and we continue to support and enhance our relationships with our NHS partners We have an ongoing dialogue with the commissioners, NHS Trusts and other stakeholders in support of their requirements of the cervical cancer screening programme

Over the short to medium term the Board believes that increased automation of the cervical cancer screening process will be introduced in to the UK Failure to invest in this area would severely restrict the Group's long term potential

The Group is actively investing in this area, including investment in capital equipment, reagents, consumables and training As noted above, following approval of our automated imaging technology by the NHS, a number of agreements have already been signed with NHS Trusts

Diagnostics

Our Diagnostics operations provide expert histopathology (tissue analysis), molecular diagnostics (genetic analysis) and companion diagnostic testing services to public and private healthcare providers These services are considered an essential element of clinical services, making a contribution to the effective detection, diagnosis, treatment and management of disease, especially chronic diseases such as cancer

Companion diagnostic testing provides information about how a patient might respond to a particular drug therapy An increasing number of these companion diagnostic tests have a genetic component and Source BioScience is uniquely placed to provide a full spectrum of diagnostic testing During the year we experienced growing demand for our diagnostic services, especially the K-RAS gene test for colorectal cancer treatment, demand in the second half of 2011 was nearly double that in the first half and overall up 50% compared with 2010

There are a number of other therapies approved by regulatory authorities that require a gene-based companion diagnostic test and Source BioScience is extremely well-placed to capitalise on this requirement

The key risks facing Diagnostics together with the Board's approach to managing such risks are set out below

A proportion of the revenue in Diagnostics is derived from outsourcing relationships and may cease as and when the customer develops sufficient internal resources to satisfy the demand

The Group has invested in research, development and marketing programmes that will provide continued sources of competitive advantage for our Diagnostic activities and deliver value added services to existing and new customers As demand for gene-based testing and molecular diagnostics increases, we believe this strengthens our commercial advantage as Source BioScience is one of only a handful of accredited laboratories in Europe with the capability to deliver this type of complex diagnostic testing We will continue with a rolling programme of service development to further grow this element of our business

The breadth of service offering in Diagnostics remains relatively narrow and is exposed to competition across all of its services

The Board has targeted the expansion of its offering in Diagnostics We have enhanced the range of diagnostic testing services during the year and have launched additional diagnostic tests in conjunction with tailored packages of diagnostic tests Our extended range of genetic testing also enables us to offer services in disease areas where previously we have had limited penetration For example, we offer a range of molecular diagnostic testing for metabolic, cardiac and central nervous system disease in addition to our core strength in oncology

Diagnostic activities for public healthcare applications are dependent upon the ability to maintain CPA accredited status

Source BioScience has a commitment to quality and has implemented clear policies and procedures throughout the business aimed at ensuring compliance with CPA requirements as well as other quality standards and the UK National External Quality Assessment Service ('NEQAS') scheme Whilst responsibility for compliance with such policies and procedures rests with operational management, the Group also employs a Quality Manager who oversees compliance The Group is also subject to regular audits and inspections from the regulatory bodies responsible for such accreditations

Pictured
A high throughput vacuum manifold is used to extract DNA from tissue samples The extracted material can then be used in DNA tests such as mutation status testing for diagnostic purposes K RAS gene mutation testing more than doubled during 2011 at Source BioScience

Business Review continued

Central Resources

Central resources include facilities, key support functions such as finance, HR and IT, in addition to the Group Board Other costs disclosed centrally include insurances, legal, professional and advisory fees and investor relations

Central costs have increased by £3 3 million to £6 3 million (2010 £3 0 million), of which £2 8 million was the charge to reflect the fair value of the Head Office premises acquired in the year and £0 6 million were one-off costs associated with the integration of the imaGenes business Over the same period revenue has increased to £15 2 million and central costs (after adjusting for the non-recurring items identified above) represented 19% of revenue (2010 21% of revenue) We will continue to monitor and control central costs tightly

The key risks in this area of the business together with the Board's approach to managing such risks are set out below

Source BioScience is subject to an increasing number of regulatory frameworks, and ongoing changes to existing frameworks, such as IFRS, the UK Corporate Governance Code, the Listing Requirements of the Financial Services Authority and company law There is also increasing regulatory burden in areas such as health and safety, employment law and data protection In addition, there is a requirement to invest in information technology to protect and improve the business

In order to comply with these requirements, Source BioScience has devoted significant resources to fulfilling these obligations, receiving guidance from external advisors where applicable and appropriate

Geographic Performance

During the year we have continued to focus our activities and operations mainly in the UK, but increasingly in Germany, Ireland and the rest of Europe The operations generated revenue of £15 2 million (2010 £13 5 million) of which £3 0 million was to overseas customers (2010 £2 1 million) The reasons for this growth in revenue are as described in the Business Review We have identified further opportunities to extend our geographic reach beyond the UK through a network of 'own' laboratory and commercial infrastructure, distributors and other commercial partnerships

Financial Review

Financial performance

Group revenue increased by 13% to £15 2 million (2010 £13 5 million) Owing to the operational gearing inherent in a laboratory services business, coupled with close management of the cost base, gross margins have remained consistent at 44% (2010 43%) In the current economic environment with constant pressure on prices and rising input costs, this represents a very robust performance

The level of normal administrative expenses increased in line with revenue to £4 5 million (2010 £4 0 million), the key area of increase being the additional premises and staff costs associated with imaGenes A significant element of these additional costs have been rationalised during the integration of imaGenes and the ongoing normal administrative expenses are largely fixed and appropriate to the scale of the business

Operating loss for the year was £2 9 million (2010 profit of £11,000) After adjusting for the non-recurring restructuring costs arising from the planned integration of imaGenes, in addition to the charge of £2 8 million to reflect the fair value of the Head Office premises acquired during the year, operating profit was £461,000 (2010 £170,000)

After net finance expense, loss before tax was £3 0 million (2010 profit of £0 1 million) After adjusting for the non-recurring restructuring costs and one-off expense associated with the property valuation, this was in line with expectations

Included in the Consolidated Statement of Comprehensive Income are non-cash items, including depreciation, amortisation and property charge totalling £4 2 million (2010 £1 1 million) After accounting for these non-cash items, net finance expense, taxation and adjusting for the restructuring costs, adjusted EBITDA were £1 9 million (2010 £1 3 million), an increase of 48%

Purchase of Head Office premises
In December 2011, the Group announced the purchase of the freehold land and buildings of its current business and Head Office premises in Nottingham, UK Prior to the purchase, the Group occupied the premises under a 25 year lease that had a remaining term of 17 years Over the remaining term there was no provision to terminate the lease and the scheduled rent reviews were upwards only The Directors recognised that this was not an appropriate arrangement for the Group and was not aligned with the ongoing investment in the business and its infrastructure

The purchase price of £5 2 million, including stamp duty land tax and fees, comprised the market value of the freehold land and buildings in conjunction with the attached lease with 17 years remaining In the Consolidated Statement of Financial Position, the premises have been recognised at their open market valuation of £2 4 million, without ascribing value to the lease The element of the purchase price attributable to the remaining term of the lease has been recognised as a one-off cost of £2 8 million in the Consolidated Statement of Comprehensive Income, as noted in the announcement on 28 December 2011

The Group secured a £3 0 million term loan facility provided by Royal Bank of Scotland, the Group's bankers This loan is repayable 50% in instalments over three years with the balance on the fourth anniversary of the draw down The purchase of the premises was part funded using this loan facility with the balance satisfied out of existing cash resources available to the Group There will be an incremental finance expense of £0 1 million per annum for the next four years, being the interest on the loan

As a direct result of the purchase, operating profit and EBITDA will be increased by £0 5 million per annum from 1 January 2012 onwards

Restructuring costs
The integration of the acquired imaGenes business was completed as planned during the year This entailed significant commercial and operational changes to the acquired business, in addition to infrastructure modifications in the UK to support the enlarged Group, which in combination will transform the efficiency of the Berlin-based operations The one-off costs associated with the integration amounted to £0 6 million which will generate annualised cost savings in the region of £0 7 million

Financial position
At 31 December 2011 the Group net assets were £12 6 million (2010 £15 4 million)

Non-current assets increased by a net £1 9 million to £14 1 million at 31 December 2011 (2010 £12 2 million) The significant elements of this increase are the £2 4 million valuation of the Head Office premises acquired in the year, the £0 4 million invested in our second HiSeq and £0 3 million invested in our GenomeCube® platform

Net current assets reduced by £2 6 million to £1 2 million (2010 £3 8 million) The main driver of this change was the net expenditure (after financing) of £2 9 million on the Head Office premises and other non-current assets described above

Business Review continued

The Group has historically been funded primarily through equity although debt has been raised as and when appropriate for the needs of the business At 31 December 2011 the Group had aggregate debt of £3 3 million (2010 £0 4 million) This debt represents the term loan funding of £3 0 million secured during the year in addition to finance lease liabilities of £0 3 million

Cash flows and liquidity

After investment in the Head Office premises and other capital expenditure, net cash outflow was £3 1 million (2010 £2 8 million outflow) The Group was able to secure a £3 0 million term loan facility during the year which was used, in part, to fund the £5 2 million purchase of the Head Office premises The loan is repayable 50% in instalments over three years with the balance on the fourth anniversary of the draw down

In aggregate we invested £1 8 million in our laboratory infrastructure including £0 9 million for next generation sequencing technology and £0 5 million on the laboratory information management systems and GenomeCube®

The Group's cash balance was £1 1 million as at 31 December 2011 (2010 £4 2 million) and borrowings were £3 3 million (2010 £0 4 million) largely representing funding for the Head Office premises purchase

Treasury and foreign exchange policy

The Group has significant costs arising in US Dollars, in addition to both costs and revenue arising in Euros, and is therefore exposed to movements in exchange rates To protect cash flows against a high level of exchange risk, the Group may adopt a number of mechanisms to mitigate the risk including making treasury deposits in foreign currencies and entering into forward exchange contracts to hedge foreign exchange exposures arising from forecast payments

The Group has substantial cash resources and, as noted above, has also secured a term loan facility to part fund the purchase of the Head Office premises The objective of the Group's treasury policy is to manage cash flows and banking, money market and capital market transactions with the aim of guaranteeing absolute capital security whilst securing the most favourable interest rates available commensurate with the risk Liquidity is a key consideration, and a rolling programme of short and long term (up to one year) investments enables access to maturing cash as required

The Group's treasury policy is also to maximise the percentage of any external borrowing at a fixed rate to provide protection against fluctuating interest rates At 31 December 2011, the Group had external borrowings of £3 3 million of which £3 0 million of bank loans were at variable rates which have been fixed through the use of an interest rate swap, and £0 3 million of finance lease liabilities were at fixed interest rates

People and work environment

Source BioScience's people are critical to the success of our Group Directors and management consult widely with staff on a variety of matters with a view to identifying and understanding staff concerns, and making the necessary improvements As a result, action is taken to address any matters arising The Board will continue to invest further in the training and development of everyone within the Group

As at 31 December 2011 the Group had a total of 117 employees (31 December 2010 129 employees) including Directors

The Board believes that employees require a work environment which is safe, encourages communication and is efficient in terms of the Group's working practices

The Board also considers that a focus on health and safety is an essential component of the Group's business success Source BioScience is committed to providing a safe environment for its employees and visitors and has a clear Health and Safety Policy The Board and Senior Management Team receive regular reports from the Health and Safety Committee and prompt action is taken where appropriate There have been no incidents at any of the Group's sites during the year which have required reporting to the Health and Safety Executive

Key business and corporate relationships

Source BioScience's business is dependent upon a number of key business relationships developed by employees and with external organisations

Pictured
In 2011 the Group purchased a second Illumina HiSeq2000™ DNA sequencer Each instrument can provide 600 billion DNA sequence bases in ten days which is sufficient to fully analyse two entire human genomes

and individuals We strive to operate the business in an ethical manner and this is made clear in the expectations of employees, advisors and other business partners

The key customer relationships within LifeSciences are academic laboratories throughout the UK and Europe in addition to government and charitably funded research institutions such as the Research Councils UK and the Medical Research Council ('MRC') In addition, this division has relationships with a broad spectrum of national and international biotechnology and pharmaceutical companies The key customer relationships for our Healthcare business are with those NHS Trusts or groups of Trusts who are Cytology and Diagnostics customers The key suppliers include Life Technologies, Affymetrix and Illumina for our LifeSciences activities, Becton Dickinson for our Cytology activities and Roche Diagnostics, Abbotts Laboratories and the external specialist consultant histopathology team for our Diagnostics activities

The Group's principal corporate relationships and advisors include N+1 Brewin (nominated advisor, sponsor and broker), College Hill Ltd (financial and investor relations), Giles Insurance Brokers Ltd (insurance and risk advisor), Browne Jacobson LLP (legal advisor), KPMG (auditor and tax advisor) and Royal Bank of Scotland plc (banking and treasury)

Environmental, social and community

The Board believes that the direct impact of Source BioScience's business upon the environment is relatively low Source BioScience remains committed to raising awareness of environmental issues which affect our business and minimising the impact of our activities upon the environment

Source BioScience aims to conduct its business activities in a socially responsible manner, maintaining integrity and professionalism in dealing with the requirements of investors, employees, suppliers and the local community

The Group has a Corporate and Social Responsibility Officer who reports directly to the Board on these matters and oversees conduct in accordance with our Corporate and Social Responsibility Policy

Business Review continued

Information on key performance indicators

This Business Review includes four KPIs which are viewed by the Board as being important factors by which the progress of the Group can be measured, which have been prepared on a consistent basis in accordance with section 417 of the Companies Act 2006, unless otherwise indicated against the relevant KPI chart

Outlook

We are seeing growth across both divisions which is in line with the strategic plan implemented for the Group

LifeSciences

We have forged a leading position in Europe for the provision of DNA sequencing services and genomic products With our international network of facilities, we are ideally placed to meet the growing demand for ultra-fast sequencing analysis Our share of the UK market for DNA sequencing has been boosted by the introduction of our Overnight Service and by the end of 2012 we aim to be the largest outsourced provider of DNA sequencing in the UK, a market worth an estimated £10 million per annum

In addition, we have doubled capacity on the high throughput Illumina HiSeq 2000™ platform during the year and in combination with our conventional sequencing service, it is our short term aim to become Europe's leading sequencing provider

The launch of GenomeCube® represented Phase II in the development of the commercial and operational infrastructure to drive sales of the product portfolio The global market for clones and antibodies exceeds $1 billion and during 2012 Phase III of the GenomeCube® development will enable the Group to establish a network of distributors across Asia, representing an international expansion opportunity that has previously been limited

Healthcare

The approval by the NHS of the BD FocalPoint™, our automated imaging system for cervical cancer screening, was an important trigger to further growth of our Cytology business Demand is apparent from NHS Trusts across the UK looking to reduce laboratory costs and improve turnaround times for cervical screening

In Diagnostics we are planning to take advantage of the increasing, but currently sub optimal, demand by the NHS for outsourced services With the UK government planning to reduce healthcare spending by £20 billion, the NHS is entering a period of considerable change and we believe this presents significant opportunities for our outsourcing model

The global market for cancer diagnostics is estimated to be in excess of £4 0 billion and the market for molecular diagnostics is estimated at £1 5 billion and growing at 10% per annum Our unique expertise in both these fields means that we are well-placed to capitalise on the increasing demand for genetic testing and companion diagnostic testing for cancer and other diseases

Patient stratification will become increasingly relevant and this will entail the use of genomic signatures for diagnostic and predictive purposes The ability to provide many of the new and anticipated genetic tests is outside of the capability of all but a few NHS laboratories and is unlikely to be resourced in the near term We see this as a significant opportunity to provide a broader diagnostic service to a wider customer base including infectious, cardiovascular and metabolic disease, in addition to oncology

Conclusion

The Group's strategy is to grow its LifeSciences and Healthcare businesses both organically through its existing operations combined with appropriate investment, and by way of selected acquisitions to broaden the Group's portfolio of products and services, including expansion of our core expertise into complementary areas

The Board remains confident that the opportunities for growth remain strong and we expect the markets for our services and products to improve As described above, we are exploring new markets and will continue to exploit the cross-selling opportunities we now have from our broad customer base, enhanced portfolio and extended geographical reach In order to match the demand for our services and products, we continue to equip the Group with the breadth and depth of service offering, technology platforms, expertise and products to deliver controlled growth and value to shareholders

Dr Nick Ash
Chief Executive Officer
30 April 2012

Executive Directors

Dr Nick Ash (age 42) (a)
CHIEF EXECUTIVE OFFICER

Dr Ash joined Source BioScience in 2005 as CFO becoming Chief Executive Officer in 2007 Nick oversaw the disposal of the Group's Dubai operations in 2006 and refocused the Group's activities He has led the expansion of the Group through acquisitions and organic growth, investing in the technologies and expertise necessary to deliver the Group's business plan, creating a profitable and cash generative business Nick is a Chartered Accountant and holds a PhD in Mycology Prior to joining Source BioScience, he was Finance Director at Eastern Airways and spent nine years with KPMG

Dr Nick Leaves (age 44) (a)
CHIEF OPERATING OFFICER

Dr Leaves joined the Group in 2007, becoming a Board member in June 2008 Nick was a co-founder of Geneservice Limited in 2005 via a management buyout of the Company from the Medical Research Council Prior to this, Nick worked for over ten years in complex genetics and genomics, first for Oxford University on asthma and eczema gene-hunting projects and then for the MRC in Cambridge on the mouse genome project Nick qualified as a microbiologist and worked in the NHS completing a PhD in 1995 on the molecular methods used to characterise outbreaks of bacterial meningitis

(a) Member of the Senior Management Team
(b) Member of the Audit Committee
(c) Member of the Remuneration Committee
(d) Member of the Nomination Committee

Non-Executive Directors

Laurie Turnbull (age 62)
CHAIRMAN

Mr Turnbull was appointed Chairman in 2006, and has extensive experience in a senior capacity in both public and private companies Laurie has enjoyed a 30 year career as a CEO and senior executive Former Chairman of the venture capital company Texas Group plc, where he was previously CEO for 15 years, he was responsible for numerous acquisitions and flotations He has served on the boards of several listed companies in executive and non-executive capacities and has considerable experience in M&A

Dr Sue Foden (age 58)
(b, c and d)
SENIOR NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE REMUNERATION COMMITTEE

Dr Foden joined the Board in 2003, bringing a background in venture capital, technology transfer and life sciences Sue was an Investor Director with Merlin Biosciences from 2000 to 2003, following 13 years as CEO of Cancer Research Technology Prior to that she was Head of Academic Liaison at Celltech Ltd She is a Non-Executive Director of Vectura plc, BerGenBio AS, Chair of Cizzle Biotech Ltd and of the seed fund Rainbow, and is an advisory board member for CD3 She has an MA and DPhil from the University of Oxford

Robin Slinger (age 58)
(b, c and d)
NON EXECUTIVE DIRECTOR AND CHAIRMAN OF THE AUDIT COMMITTEE

Mr Slinger joined the Board in 2005 Until June 2004 Robin had worked for 34 years at the Royal Bank of Scotland plc, as a Director of Corporate Banking He had specific responsibilities for corporate clients active within the London, New York and Amsterdam exchanges, gaining broad experience in public listings, placements and general corporate activity in acquisitions and disposals He is a Non-Executive Director of Texas Group plc and an Associate of The Chartered Institute of Bankers

Directors' Report

The Directors present their Annual Report and Accounts on the affairs of the Group, including the financial statements and auditor's report for the year ended 31 December 2011

Principal activities and business review

Source BioScience is an international diagnostics and genetic analysis business serving the healthcare and life science research markets The commercial activities of the Group are organised into two divisions – LifeSciences and Healthcare

The Group has its headquarters in Nottingham, UK where it operates state of the art reference laboratory facilities, with additional UK laboratory facilities in Cambridge and Oxford and European facilities in Berlin and Dublin Source BioScience is CPA, GLP and GCP accredited and is licensed by the UK Human Tissue Authority

LifeSciences 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 We also provide on-line access to the largest portfolio of cloned DNA, RNA and antibody products sold by any single provider worldwide

Healthcare comprises our Cytology and Diagnostics activities including cervical cancer screening and diagnostic testing services for diseases such as cancer The principal customer for our Healthcare services and products during 2011 was the UK NHS

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

A review of the operations of the Group, business risks and KPIs by operating segment together with future prospects is included in the Business Review on pages 8 to 21

Results and dividends

Revenue for the year was £15 2 million (2010 £13 5 million) The Directors do not propose the payment of a dividend (2010 £nil)

Directors and their interests

The Directors of the Company who held office during the year, and at the year end, are as follows

Non-Executive Chairman
Mr L A Turnbull

Executive Directors
Dr N W Ash
Dr N I Leaves

Non-Executive Directors
Dr S E Foden
Mr R Slinger

Biographical details of the Directors are given on pages 22 to 23

Under the Company's Articles of Association, the longest serving Director at each AGM shall retire from office Accordingly, Mr Turnbull, Dr Ash and Mr Slinger will retire by rotation and, being eligible, will offer themselves for re-election at the next AGM

Other than as disclosed in note 33 to the consolidated financial statements, no contract existed during the year, or at the year end, in which any Director of the Company was interested, other than service contracts

None of the Directors have a service contract with the Company requiring more than twelve months' notice of termination to be given The details of the Directors' contracts and remuneration are provided in the Directors' Remuneration Report on pages 33 to 36

The interests (including the interests of their immediate families and persons connected with the Directors) of the Directors who held office during the year in the ordinary shares of the Company at 30 April 2012, 31 December 2011 and 1 January 2011 were

	Beneficial Holding		
	30 April 2012 Number of shares	31 December 2011 Number of shares	1 January 2011 Number of shares
Executive Directors			
Dr N W Ash	**500,000**	500,000	500,000
Dr N I Leaves	**1,028,557**	1,028,557	1,028,557
Non Executive Directors			
Mr L A Turnbull	**4,450,000**	3,650,000	3,650,000
Dr S E Foden	**244,340**	244,340	244,340
Mr R Slinger	**500,000**	500,000	500,000

The Directors' interests in share options are set out in the Directors' Remuneration Report on page 36

Substantial shareholdings

At the date of preparing this Report, the Company had been notified of the following interests of 3% or more in the Company's ordinary share capital

	Number of shares	Percentage of Ordinary share capital
Henderson Global Investors	22,035,138	10 81
Mr S Varkey	17,635,457	8 65
Directors and Senior Management	14,438,458	7 09
Legal & General Investment Management	9,700,000	4 76
Blackrock Investment Management	9,465,000	4 65
Killik & Co	8,100,000	3 98
Swedbank Robur	6,250,000	3 07

Share capital

The Company has in issue only one class of ordinary share The Directors were authorised at the last AGM to allot and issue ordinary shares up to a nominal amount representing up to 33% of the Company's existing issued share capital

Details of the movements in share capital are given in note 23 to the consolidated financial statements

Research and development

In order to further the Group's business objectives, it engages in research and development projects During 2011, the nature of this research and development was primarily focused on the development of diagnostic techniques for cancer and other therapeutic areas, methodologies for the extraction and analysis of genomic material from fully consented clinical specimens and the development of software products designed for both internal use and use by third parties

Dr Foden and Professor Ellis (Medical Director and member of the Senior Management Team) have very strong connections with the medical and health research community

Total research and development expenditure in the year was £0 3 million (2010 £0 2 million)

Directors' Report continued

Employees and equal opportunities

The Group places considerable importance on involving its employees in the evolution of the Group's policies and procedures and matters affecting them as employees The Board strives to keep employees informed on such matters to the extent plc regulations and good practice allows Participation of employees in contributing to the growth of the Group is encouraged through meetings between management and staff who have an opportunity to discuss progress, plans, performance and issues affecting them or the Group

The Group is committed to the principle of equal opportunity in the employment of its employees and applicants for employment, regardless of their age, race, gender, marital status, sexual orientation, religious belief, ethnic origin, nationality, national origin or disability All applications for employment are treated equally in accordance with the Group's Staff Recruitment and Selection Policy and Equal Opportunities Policy In the event of members of staff becoming disabled, every effort will be made to ensure their ongoing employment with the Group and an assessment will be undertaken to determine appropriate adjustments to their work place All employees are treated in exactly the same way in respect of consideration for training endeavours, career development and/or promotion

Charitable and political donations

The Group made no charitable donations during the year (2010 £nil), nor any political donations (2010 £nil)

Supplier payments

The Group is committed to obtaining the best terms for all types of business Consequently there is no single policy as to the terms used It is the Group's policy to confirm the terms of payment with suppliers when agreeing the terms of the transaction to ensure that suppliers are aware of these terms and abide by them The number of days purchases represented by Group trade creditors at 31 December 2011 was 54 days (2010 97 days)

Contractual relationships or other arrangements

The Group has a number of significant agreements with customers and suppliers However none of these are considered to be critical to the Group The bank loans taken out for the purposes of the acquisition of the Group's Head Office premises include change of control provisions

Financial risk management

Details of the Group's policy for the management of financial risk are given in note 29 to the consolidated financial statements

Bribery Act

In response to the Bribery Act 2010, the Board has conducted a risk assessment of the relevant procedures and processes This review has resulted in the implementation and reinforcement of our Anti Bribery and Corruption policy with employees, suppliers and customers

Disclosure of information to auditor

The Directors who held office at the date of approval of this report confirm that so far as they are each aware, there is no relevant information of which the Group's auditor is unaware, and each Director has taken all steps that ought to be taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting

Corporate governance

The Corporate Governance Statement on pages 27 to 32 forms part of the Directors' Report

By order of the Board

Dr Nick Ash
Company Secretary
30 April 2012

1 Orchard Place
Nottingham Business Park
Nottingham NG8 6PX

Corporate Governance Statement

Principles statement

The Board of Directors as a whole is collectively accountable to the Company's shareholders for good corporate governance and is committed to achieving compliance with the principles of corporate governance set out in the UK Corporate Governance Code as published in June 2010 by the Financial Reporting Council ('FRC')

Set out below is a statement of how the principles of the UK Corporate Governance Code were applied

Board of Directors

Board responsibilities

The Group is controlled through its Board of Directors The Board's main responsibilities are to provide leadership of the Company and Group within a framework of controls for managing risk, to approve the strategic objectives and to ensure the necessary financial and other resources are made available to enable the Group to meet those objectives The Board, which meets approximately twelve times a year, has a schedule of matters reserved for its approval

Specific responsibilities reserved for the Board include

- setting Group strategy and approving an annual budget and medium term projections,
- reviewing operational and financial performance,
- approving major acquisitions, divestments and capital expenditure,
- reviewing the Group's systems of financial control and risk management,
- ensuring that appropriate management development and succession plans are in place,
- reviewing the quality management, environmental and health and safety performance of the Group,
- approving appointments to the Board, appointment of the Company Secretary, policies relating to Directors' remuneration and the severance of Directors' contracts,
- ensuring that a satisfactory dialogue takes place with shareholders, and
- approval of interim and annual financial statements

Board composition

The Board of Directors currently comprises two Executive and three Non-Executive Directors Biographical details of the Board of Directors are set out on pages 22 to 23

The roles of Chairman and Chief Executive Officer are separate and this is documented and reviewed annually The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda It is the Chief Executive Officer's responsibility to ensure delivery of the strategic and financial objectives

Between them, the Directors have a considerable breadth of experience and a range of complementary skills Each brings an independent judgement to bear on matters of strategy, performance, research and development, resources and standards of conduct

Appropriate training and resources are made available to assist the Directors in the discharge of their duties and each has access to the advice and services of the Company Secretary All Directors have access to independent professional advice at the expense of the Company, where they deem it necessary to discharge their responsibilities as Directors Each Director receives a full and tailored induction on joining the Board

Board papers contain sufficient information to enable the Directors to form a balanced overview of all significant matters to be considered Such papers are prepared and distributed in advance of the meetings at which these matters are to be discussed

Corporate Governance Statement continued

Board and Committee meetings

The number of full scheduled Board and Committee meetings and the attendance records of each Director during the year is indicated below

	Scheduled Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
Number held	10	3	2	1
Number attended				
Mr L A Turnbull (Chairman)	10	-	-	-
Dr N W Ash	10	-	-	-
Dr N J Leaves	10	-	-	-
Dr S E Foden	10	3	2	1
Mr R Slinger	10	3	2	1

- indicates not a member of that Committee during 2011

Commitment of the Chairman

Details of the Chairman's professional commitments are included in his biography and are summarised above The Board is satisfied that these other commitments are not such as to interfere with the performance of his duties as Chairman of the Company which are based around a commitment of approximately 50 days per annum

Independence of Non-Executive Directors

The Board considers each of the Non-Executive Directors to be independent in character and judgement Neither Mr Turnbull, Dr Foden nor Mr Slinger

- has been an employee of the Group within the last five years,
- has, or has had within the last three years, a material business relationship with the Group,
- receives remuneration other than Director's remuneration,
- has close family ties with any of the Group's advisors, Directors or senior employees,
- holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies,
- represents a significant shareholder

Evaluation of the Board and its Committees

The Board has established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its principal Committees and individual Directors The Non-Executive Directors, led by the Senior Independent Non-Executive Director, conduct the annual performance evaluation of the Chairman, taking into account the views of all Directors

Dialogue with key shareholders

The Directors seek to build on a mutual understanding of objectives between the Group and its key shareholders, in particular by communicating regularly throughout the year and encouraging them to participate in the AGM, which all the Directors normally attend The Non-Executive Directors are available to meet with shareholders, should this be desired, and each communicates regularly with the Group's financial advisor and broker The Chairman ensures that the views of shareholders are communicated to the Board as a whole

The Board has made disclosures regarding the Group's strategy, objectives, resources, risks and financial performance and position within the Business Review as set out on pages 8 to 21

Committees of the Board

Certain Board responsibilities are delegated to Committees of the Board

Senior Management Team

The Senior Management Team comprises the Executive Directors together with the divisional and functional heads The Senior Management Team is chaired by Dr Ash and normally meets once a month to discuss the performance of the Group's business units and other issues as they arise in the course of the Group's activities

The Board has delegated the following responsibilities to the Senior Management Team

- implementation of the strategies and policies of the Company as determined by the Board,
- development and recommendation of strategic plans for consideration by the Board that reflect the longer term objectives and priorities established by the Board,
- monitoring of the operational and financial results against plans and budgets,
- prioritising the allocation of financial, technical and human resources, and
- developing and implementing risk management systems

Audit Committee

Role of the Audit Committee

Under the terms of reference, the Audit Committee monitors the integrity of the Group's financial statements including its Annual and Half Year Reports, preliminary results announcements and any other formal announcement relating to financial performance, reviewing significant financial reporting issues and judgements which they contain It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees It also reviews the Group's systems of internal control (including financial controls) and risk management

In 2011, the Audit Committee discharged its responsibilities by

- reviewing the Group's draft 2010 Annual Report and Accounts and 2011 Half Year Report (including the preliminary announcement relating to each) prior to Board approval and reviewing the external auditor's detailed reports thereon,
- reviewing the appropriateness of the Group's accounting policies,
- reviewing regularly the potential impact on the Group's financial statements of certain matters such as impairments of non-current asset values and changes in the financial reporting environment,
- reviewing and approving the 2011 audit fee and reviewing non-audit fees payable to the Group's external auditor in 2011,
- reviewing the external auditor's plan for the audit of the Group's 2011 Annual Report and Accounts, which included key areas of extended scope work, key risks on the accounts, confirmations of auditor independence and the proposed audit fee, and approving the terms of engagement for the audit,
- reviewing and approving the internal financial control framework, and
- reviewing the Group's internal control and risk management systems

The Audit Committee meets at least three times each year, including meetings before the announcement of the Group's annual and half yearly results The Audit Committee meets with Executive Directors and management as well as independently with the external auditor The Audit Committee also ensures that arrangements are in place for reporting, by staff, of financial irregularities by providing the opportunity for staff to communicate directly with members of the Committee The Audit Committee's terms of reference are available from the Company Secretary

Composition of the Audit Committee

The Audit Committee comprises Mr Slinger (Committee Chairman) and Dr Foden

Corporate Governance Statement continued

Internal control and risk management systems

In applying Principle C 2 of the UK Corporate Governance Code, which states that the Board should maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets, the Directors recognise that they have overall responsibility for ensuring that the Group maintains a system of internal control and risk management to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations The system of internal control and risk management is designed to manage rather than eliminate the risk of failure to observe business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

The Group views the careful management of risk as a key management activity Managing business risk to deliver opportunities is a key element of all activities

The Directors have continued to review the effectiveness of the Group's system of internal controls, including strategic, commercial, operational, compliance and financial controls and risk management systems These reviews have included an assessment of internal controls, and in particular internal financial controls, management assurance of the maintenance of control and reports from the external auditor on matters identified in the course of its statutory audit work The Directors believe that the Group maintains an effective embedded system of internal controls and complies with the Turnbull Report guidance Procedures are in place to take action if any significant failings or weaknesses are identified in the Board's review of internal controls

There is a clearly defined organisational structure The Group operates a comprehensive annual planning and budgeting process Corporate objectives are defined at the start of each year and cascaded throughout the organisation The performance of each part of the business is reviewed by the Senior Management Team and the Board Corrective actions are taken where performance does not meet internal expectations

The Group does not have an independent internal audit department However, it is felt that the financial record keeping is robust and capable of highlighting significant departures from procedures Other areas of risk review and management that may normally be conducted by an internal audit department are covered by the Board and its Committees as highlighted in this Corporate Governance Statement

External auditor

The Audit Committee monitors the effectiveness of the external audit process and oversees the relationship with the external auditor making recommendations to the Board in relation to the appointment and re-appointment of the external auditor

The Audit Committee has the specific task of keeping under review the nature and extent of non-audit services provided by the external auditor in order to ensure that objectivity and independence are maintained

The external auditor has in place processes to ensure its independence is maintained including safeguards to ensure that where it does provide non-audit services, its independence is not threatened The external auditor has written to the Audit Committee confirming that, in its opinion, it is independent

Remuneration Committee

Role of the Remuneration Committee

The Remuneration Committee meets at least twice each year to review the Group's policy on Directors' remuneration and advise the Board on the salaries and benefits of Executive Directors and Senior Management Team Non-Executive Directors' remuneration is a matter for the Board as a whole

The terms of reference of the Remuneration Committee have been documented and agreed by the Board of Directors and are available from the Company Secretary The key terms are as follows

- determine and agree the policy for the remuneration of the Company's Chairman, Chief Executive Officer, the Executive Directors, the Company Secretary and members of the Senior Management Team The Remuneration Committee shall also review the ongoing appropriateness and relevance of the remuneration policy,
- the Committee shall review the size of the annual cash bonus to be awarded to staff as a whole and the specific amounts of any bonus (whether in cash or any other form) to Executive Directors and designated senior management,
- review annually the remuneration trends across the Group,
- approve all proposals for allocations of share options or share-based payment,
- ensure that all provisions regarding disclosure of remuneration including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the UK Corporate Governance Code, are fulfilled,
- the Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, and
- the Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval

The Board has discussed the composition of the Remuneration Committee and is satisfied that the Directors who are members of this Committee are those who are best able to contribute to the Committee's objectives

The Directors' Remuneration Report, which includes details of the Group's remuneration policy is set out on pages 33 to 36

Composition of the Remuneration Committee

The Remuneration Committee comprises Dr Foden (Committee Chairman) and Mr Slinger

Nomination Committee

Role of the Nomination Committee

The Nomination Committee recommends the appointment of new Directors to the Board and makes recommendations on Board composition and balance The Nomination Committee meets as often as necessary to fulfil this function

The terms of reference of the Nomination Committee have been documented and agreed by the Board of Directors and are available from the Company Secretary The key terms are as follows

- to review and evaluate the Board structure, size, balance of skills and composition and to make recommendations to the Board with regard to adjustments that are deemed necessary,
- consider succession planning for Directors, in particular the Chairman and Chief Executive Officer, other senior management and membership of Audit and Remuneration Committees, and
- prepare a description of the roles and capabilities required for a particular appointment, and be responsible for identifying and nominating candidates for approval of the Board to fill Board vacancies

Corporate Governance Statement continued

Composition of the Nomination Committee

The Nomination Committee comprises Dr Foden (Committee Chairman) and Mr Slinger

Statement of compliance with the UK Corporate Governance Code

The Board is pleased to report full compliance with the UK Corporate Governance Code for the year ended 31 December 2011

Going concern

Information on the business environment Source BioScience operates in, including the factors underpinning the markets' growth prospects, are included in the Business Review on pages 8 to 21

The financial position of the Group, its cash flows and liquidity position are also described in the Business Review In addition, the Business Review also describes the Group's policies and processes for managing its treasury and foreign exchange risk Further details of the Group's cash balances and borrowings are included in notes 18 and 20

The Group has significant financial resources available As at 31 December 2011, the Group had cash balances of £1 1 million with £0 6 million external debt due within one year In the year ended 31 December 2011 the Group generated cash from operations of £0 6 million The Group has a wide diversity of customers and suppliers across the healthcare and life sciences sectors and, in the short term at least, demand for the Group's products and services is relatively unaffected by changes in the global economy

In accordance with the guidance for Directors of listed companies 'Going Concern and Financial Reporting' and, after making appropriate enquiries, the Directors have a reasonable expectation that the Parent Company and the Group have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts

Directors' Remuneration Report

Introduction

This report is made by the Board and prepared on its behalf, and for its approval, by the Remuneration Committee It provides the Company's statement of how it has applied the principles of good governance as set out in the UK Corporate Governance Code and those required by the Companies Act 2006 and the large and medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the '2008 Regulations')

Further, the Directors' Remuneration Report Regulations require the Company's auditor to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether in their opinion that part of the Report has been properly prepared in accordance with the Companies Act 2006 and the 2008 regulations This Report has therefore been divided into sections for audited and unaudited information

Unaudited information

Remuneration Committee

None of the Remuneration Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business The Remuneration Committee is responsible for setting Group policy on remuneration for Executive Directors and other members of the Senior Management Team Fees paid to Non-Executive Directors are determined by the Board as a whole No Director is involved in discussions about his or her own remuneration In determining the Directors' remuneration for the year, the Committee consulted Mr Turnbull and Dr Ash about its proposals, except those concerning their own remuneration and obtained benchmarking information from internal and external sources The Remuneration Committee seeks to give full consideration to the UK Corporate Governance Code including the provisions set out in Schedule A to the Code

Remuneration policy

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the high calibre needed to improve the Group's position and to reward them for enhancing value to shareholders There are four main elements of the remuneration package for Executive Directors and senior management

- basic annual salary,
- annual discretionary bonus payments,
- other customary benefits such as pension contributions, private health insurance, life assurance and, in certain situations, company car benefits, and
- long term incentive arrangements in the form of share options

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related This performance related element is designed to align the Directors' interests with those of the shareholders Executive Directors may earn annual incentive payments at the discretion of the Remuneration Committee together with the benefits of participation in share option schemes

Executive Directors are entitled to accept appointments outside the Company providing that the Chairman's permission is sought

Basic salary

An Executive Director's basic salary is determined by the Committee at the beginning of each year and when an individual changes position or responsibility In deciding appropriate levels, the Committee considers performance and aims to ensure that remuneration remains competitive with similar companies in terms of size and complexity

Directors' Remuneration Report continued

Annual bonus payments
Each Executive Director is eligible for a discretionary annual bonus in recognition of their personal and collective contribution to the success of the Group and the achievement of specified performance targets As a matter of current policy, the maximum cash bonus for Executive Directors is 50% of basic salary

Share options
Share options are granted to Executive Directors and other employees to encourage them to identify with shareholder interests Share options are granted and exercised under the rules of the Inland Revenue approved executive share option scheme and the unapproved executive share option scheme

The policy is to grant options at the discretion of the Remuneration Committee, taking into account individual performance, up to a maximum of four times salary over a three-year period It is the policy to phase the granting of share options rather than to award them in a single large block to any individual, except where specific circumstances exist

The exercise of options granted may be subject to performance conditions, at the discretion of the Remuneration Committee Historic and recent share option grants have been made in order to motivate staff and as such there are no performance criteria applicable to grants made to date The Remuneration Committee expects to review the issue at the time of any future share option grants and is mindful of ABI guidelines in this area

The Group also operated an Inland Revenue approved savings related scheme which was open to all employees and full-time Directors who were UK income tax resident and ordinarily resident This scheme was closed to new entrants during 2004

Pension
Executive Directors along with all employees are eligible to be members of the Group's defined contribution pension scheme The Group contributes a sum equal to a fixed percentage of basic salary, currently between 3% and 12% Members' dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service

Other benefits
Employees are also covered by permanent health insurance, providing 50% of salary after six months' absence from work due to a permanent disability The Group funds the provision of private medical insurance cover for Executive Directors and their immediate families and life assurance cover Executive Directors are provided with a car allowance and are provided with a mobile phone for business and personal use

Performance graph
The following graph shows the Company's share price performance compared with the share price performance of the FTSE 350 Pharmaceuticals & Biotechnology Index also measured by total shareholder return The Directors are of the opinion that the FTSE 350 Pharmaceuticals & Biotechnology Index provides an appropriate comparative based on the Group's operations

Directors' contracts

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to Non-Executive Directors of similar companies Non-Executive Directors cannot participate in any of the Group's share option schemes and are not eligible to join the Group's pension scheme

The details of the service contracts or letters of appointment for all Directors who served during the year are shown in the table below

	Original date of contract/ letter of appointment	Notice period
Executive Directors		
Dr N W Ash	31 August 2006 [a]	12 months
Dr N I Leaves	27 June 2008	12 months
Non-Executive Directors		
Mr L A Turnbull	23 November 2006 [a]	12 months
Dr S E Foden	1 September 2003 [b]	6 months
Mr R Slinger	14 January 2005 [c]	6 months

a Updated 1 February 2007
b Updated 1 September 2009
c Updated 15 January 2008

Audited information

Directors' emoluments and compensation

	Fees/basic salary £'000	Bonus £'000	Other benefits £'000	**Total 2011 £'000**	Total 2010 £'000	**Pension 2011 £'000**	Pension 2010 £'000
Executive Directors							
Dr N W Ash	125	–	14	**139**	133	**15**	14
Dr N I Leaves	100	–	14	**114**	106	**12**	11
Non-Executive Directors							
Mr L A Turnbull	40	–	–	**40**	40	**30**	30
Dr S E Foden	30	–	–	**30**	30	–	–
Mr R Slinger	30	–	–	**30**	30	–	–
				353	339	**57**	55
Money purchase pension contributions				**57**	55		
Aggregate remuneration				**410**	394		

The aggregate remuneration of the Directors has been established at a level that is appropriate for the Group's current size and nature of operations, and this has been applied consistently over the past five years

Mr Turnbull has elected to sacrifice an element of his fees in exchange for the Company making additional contributions to his personal pension scheme

Directors' Remuneration Report continued

Directors' emoluments and compensation continued

The Directors who held office during the year and held options under the Group's share option schemes were as follows

Director and date of grant	Note	First exercisable date	Last exercisable date	Option price	1 January 2011	Granted	Lapsed	31 December 2011
Executive Directors								
Dr N W Ash								
14 Mar 2006	2	14 Mar 2009	13 Mar 2016	9 00p	100,000	–	–	100,000
4 Sept 2006	2	4 Sept 2009	3 Sept 2016	6 63p	316,742	–	–	316,742
4 Sept 2006	1	4 Sept 2009	3 Sept 2016	6 63p	683,258	–	–	683,258
8 June 2007	1	8 June 2010	7 June 2017	7 25p	500,000	–	–	500,000
3 July 2007	1	3 July 2010	2 July 2017	7 75p	1,000,000	–	–	1,000,000
31 March 2008	1	31 March 2011	30 March 2018	7 88p	500,000	–	–	500,000
31 March 2009	1	31 March 2012	30 March 2019	4 63p	400,000	–	–	400,000
26 April 2010	1	26 April 2013	25 April 2020	8 25p	400,000	–	–	400,000
					3,900,000	**–**	**–**	**3,900,000**
Dr N I Leaves								
3 July 2007	2	3 July 2010	2 July 2017	7 75p	387,097	–	–	387,097
3 July 2007	1	3 July 2010	2 July 2017	7 75p	112,903	–	–	112,903
31 March 2008	1	31 March 2011	30 March 2018	7 88p	200,000	–	–	200,000
31 March 2009	1	31 March 2012	30 March 2019	4 63p	300,000	–	–	300,000
26 April 2010	1	26 April 2013	25 April 2020	8 25p	300,000	–	–	300,000
24 March 2011	1	24 March 2014	23 March 2021	6 25p	–	300,000	–	300,000
					1,300,000	**300,000**	**–**	**1,600,000**
Non-Executive Director								
Mr L A Turnbull								
8 June 2007	1	8 June 2010	7 June 2017	7 25p	1,750,000	–	–	1,750,000
3 July 2007	1	3 July 2010	2 July 2017	7 75p	2,000,000	–	–	2,000,000
31 March 2008	1	31 March 2011	30 March 2018	7 88p	500,000	–	–	500,000
31 March 2009	1	31 March 2012	30 March 2019	4 63p	400,000	–	–	400,000
26 April 2010	1	26 April 2013	25 April 2020	8 25p	400,000	–	–	400,000
					5,050,000	**–**	**–**	**5,050,000**

Note 1 granted under the 1999 unapproved share option scheme
Note 2 granted under the 2001 approved share option scheme

No Directors exercised share options during the year There have been no variations to the terms and conditions or performance criteria for share options during the financial year

The mid-market price of the Company's ordinary shares at 31 December 2011 was 5 38p and the range during the year was 4 88p to 8 13p

On behalf of the Board

Dr Sue Foden
Chairman of the Remuneration Committee
30 April 2012

Statements of Directors' Responsibilities

In respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations The parent company of the Group is Source BioScience plc (the 'Company')

Company law requires the Directors to prepare Group and parent company financial statements for each financial year Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period

In preparing each of the Group and parent company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Required under the Disclosure and Transparency Rules

The Directors confirm, to the best of their knowledge, that

- these financial statements, prepared in accordance with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and the undertakings included in the consolidation as a whole, and
- the management report, which comprises the Chairman's Statement and the Business Review, includes a fair review of the development and performance of the business and of the position of the parent company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

Approved by the Board and signed on its behalf by

Laurie Turnbull
Chairman
30 April 2012

Dr Nick Ash
Chief Executive Officer
30 April 2012

Independent Auditor's Report

to the members of Source BioScience plc

We have audited the financial statements of Source BioScience plc for the year ended 31 December 2011 set out on pages 40 to 77 The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 37, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a corporate governance statement has not been prepared by the Company

Under the Listing Rules, we are required to review

- the Directors' statement, set out on page 32, in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration

Tim Widdas (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St Nicholas House
Park Row
Nottingham NG1 6FQ
30 April 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

Continuing operations	Note	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Revenue	2	**15,192**	13,487
Cost of sales		**(8,441)**	(7,666)
Gross profit		**6,751**	5,821
Selling and distribution expenses		**(1,243)**	(1,231)
Research and development		**(281)**	(220)
Administrative expenses			
– normal		**(4,521)**	(4,024)
– amortisation of intangibles arising from acquisitions		**(245)**	(176)
– restructuring costs	4	**(559)**	–
– property impairment	4	**(2,846)**	–
– acquisition costs	3	**–**	(159)
Administrative expenses		**(8,171)**	(4,359)
Operating (loss)/profit from continuing operations	2	**(2,944)**	11
Finance income	5	**20**	72
Finance costs	5	**(43)**	(9)
(Loss)/profit before tax from continuing operations	7	**(2,967)**	74
Taxation	8	**172**	34
(Loss)/profit after tax but before loss from discontinued operations		**(2,795)**	108
Discontinued operations			
Loss from discontinued operations		**–**	(15)
(Loss)/profit attributable to equity holders of the Company		**(2,795)**	93
Other comprehensive income/(expense)			
Exchange differences on translation of foreign operations		**18**	(1)
Total comprehensive (expense)/income attributable to equity holders of the Company		**(2,777)**	92
Earnings per share:			
Basic (loss)/profit per ordinary share	6	**(1.37)p**	0 05p
Diluted (loss)/profit per ordinary share	6	**(1 37)p**	0 04p

Statements of Changes in Shareholders' Equity

For the year ended 31 December 2011

Group	Share capital £'000	Merger and other reserves £'000	Special reserve £'000	Translation reserve £'000	Profit and loss reserve £'000	**Total equity £'000**
	Attributable to equity holders of the parent company					
Balance at 1 January 2010	4,075	2,408	10,788	–	(2,072)	**15,199**
Currency translation adjustments	–	–	–	(1)	–	**(1)**
Profit for the year	–	–	–	–	93	**93**
Total comprehensive (expense)/ income for the year	–	–	–	(1)	93	**92**
Transactions with owners, recorded directly in equity						
Employee share option scheme – value of services provided	–	–	–	–	77	**77**
Balance at 31 December 2010	4,075	2,408	10,788	(1)	(1,902)	**15,368**
Balance at 1 January 2011	4,075	2,408	10,788	(1)	(1,902)	**15,368**
Currency translation adjustments	–	–	–	18	–	**18**
Loss for the year	–	–	–	–	(2,795)	**(2,795)**
Total comprehensive income/ (expense) for the year	–	–	–	18	(2,795)	**(2,777)**
Transactions with owners, recorded directly in equity						
Employee share option scheme – value of services provided	–	–	–	–	40	**40**
Balance at 31 December 2011	4,075	2,408	10,788	17	(4,657)	**12,631**

Company	Share capital £'000	Merger and other reserves £'000	Special reserve £'000	Profit and loss reserve £'000	**Total equity £'000**
	Attributable to equity holders of the Company				
Balance at 1 January 2010	4,075	2,408	10,788	892	**18,163**
Profit for the year	–	–	–	640	**640**
Total comprehensive income for the year	–	–	–	640	**640**
Transactions with owners, recorded directly in equity					
Employee share option scheme – value of services provided	–	–	–	77	**77**
Balance at 31 December 2010	4,075	2,408	10,788	1,609	**18,880**
Balance at 1 January 2011	4,075	2,408	10,788	1,609	**18,880**
Profit for the year	–	–	–	761	**761**
Total comprehensive income for the year	–	–	–	761	**761**
Transactions with owners, recorded directly in equity					
Employee share option scheme – value of services provided	–	–	–	40	**40**
Balance at 31 December 2011	4,075	2,408	10,788	2,410	**19,681**

Statements of Financial Position

As at 31 December 2011

		Group		Company	
	Note	**As at 31 December 2011 £'000**	As at 31 December 2010 £'000	**As at 31 December 2011 £'000**	As at 31 December 2010 £'000
Non-current assets					
Goodwill	9	**8,343**	8,345	–	–
Other intangible assets	10,11,12	**1,128**	992	–	–
Financial assets	14	**40**	–	**40**	–
Property, plant and equipment	13	**4,572**	2,818	–	–
Investments in subsidiary undertakings	15	–	–	**17,647**	12,421
		14,083	12,155	**17,687**	12,421
Current assets					
Inventories	16	**709**	716	–	–
Trade and other receivables	17	**3,163**	2,527	**4,631**	2,212
Cash and cash equivalents	18	**1,094**	4,170	**637**	4,425
		4,966	7,413	**5,268**	6,637
Current liabilities					
Trade and other payables	19	**3,024**	3,522	**312**	178
Financial liabilities					
– borrowings	20	**628**	130	**500**	–
Deferred consideration	21	**77**	–	–	–
		3,729	3,652	**812**	178
Net current assets		**1,237**	3,761	**4,456**	6,459
Total assets less current liabilities		**15,320**	15,916	**22,143**	18,880
Non-current liabilities					
Financial liabilities					
– borrowings	20	**2,689**	302	**2,462**	–
Deferred consideration	21	–	77	–	–
Deferred tax	22	–	169	–	–
		2,689	548	**2,462**	–
Net assets		**12,631**	15,368	**19,681**	18,880
Equity					
Issued share capital	23	**4,075**	4,075	**4,075**	4,075
Special reserve	25	**10,788**	10,788	**10,788**	10,788
Other reserves	25	**2,425**	2,407	**2,408**	2,408
Profit and loss reserve	26	**(4,657)**	(1,902)	**2,410**	1,609
Total equity		**12,631**	15,368	**19,681**	18,880

The financial statements on pages 40 to 77 were approved by the Board on 30 April 2012 and signed on its behalf by

Laurie Turnbull
Chairman
30 April 2012

Dr Nick Ash
Chief Executive Officer
30 April 2012

Company registration number 79136

Statements of Cash Flows

For the year ended 31 December 2011

		Group		Company	
	Note	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Cash flows from operating activities					
(Loss)/profit for the year		**(2,795)**	93	**761**	640
Adjustments for					
Depreciation of tangible fixed assets		**992**	792	–	–
Recognition of grant income		**(13)**	(13)	–	–
Amortisation of capitalised development costs		**116**	40	–	–
Amortisation of other intangibles		**251**	177	–	–
Impairment of assets held for sale		–	223	–	173
Impairment of property, plant and equipment		**2,846**	–	–	–
Loss/(profit) on sale of property, plant and equipment		**102**	(39)	–	–
Profit on sale of discontinued operation		–	(224)	–	(224)
Fair value loss on investments		**5**	–	**5**	–
Finance costs		**43**	9	**7**	–
Finance income		**(20)**	(72)	**(1,241)**	(1,158)
Taxation		**(172)**	(34)	–	–
Share-based payments – value of employee service		**40**	77	**20**	50
Decrease/(increase) in inventories		**7**	(119)	–	–
(Increase)/decrease in trade and other receivables		**(668)**	502	**(1,230)**	(878)
(Decrease)/increase in creditors		**(73)**	(486)	**131**	15
Cash generated from/(used in) operations		**661**	926	**(1,547)**	(1,382)
Interest paid		**(40)**	(9)	**(4)**	–
Net cash generated from/(used in) operating activities		**621**	917	**(1,551)**	(1,382)
Cash flows from investing activities					
Acquisition of subsidiaries	3	–	(2,449)	–	(750)
Cash acquired with subsidiaries	3	–	(111)	–	–
Share purchases		**(45)**	–	**(45)**	–
Investment in subsidiaries		–	–	**(5,206)**	(22)
Purchases of property, plant and equipment		**(7,028)**	(872)	–	–
Proceeds from sale of property, plant and equipment		**939**	10	–	–
Purchases of intangible assets		**(512)**	(265)	–	–
Interest received		**52**	49	**52**	49
Net cash used in investing activities		**(6,594)**	(3,638)	**(5,199)**	(723)
Cash flows from financing activities					
Repayment of borrowings		**(373)**	(107)	–	–
Proceeds from borrowings		**2,962**	–	**2,962**	–
Proceeds from finance leases		**350**	–	–	–
Finance lease principal repayments		**(54)**	(4)	–	–
Net cash generated from/(used in) financing activities		**2,885**	(111)	**2,962**	–
Net decrease in cash and cash equivalents		**(3,088)**	(2,832)	**(3,788)**	(2,105)
Cash and cash equivalents at beginning of year		**4,170**	7,014	**4,425**	6,530
Exchange gains/(losses) on cash and cash equivalents		**12**	(12)	–	–
Cash and cash equivalents at end of year		**1,094**	4,170	**637**	4,425

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. Accounting policies

Accounting policies for the year ended 31 December 2011

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below These policies have been applied consistently to all the years presented, unless otherwise stated

Basis of preparation

The parent company and consolidated accounts have been prepared in accordance with IFRS issued by the International Accounting Standards Board ('IASB') that have been adopted by the EU

The preparation of accounts in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reporting amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

A number of accounting estimates and judgements are incorporated in relation to the Group's property, plant and equipment (note 13) Useful economic lives and residual values of assets have been established using historical experience and an assessment of the nature of the assets involved Impairment tests have been undertaken with respect to goodwill and intangible assets (notes 9, 10, 11, 12) using commercial judgement and a number of assumptions and estimates have been made to support their carrying amounts Estimating a value in use amount requires management to make an estimate of the future expected cash flows from each cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows

A number of accounting estimates and judgements are incorporated within the impairment provisions for trade receivables which are described in more detail in note 17 A number of accounting estimates and judgements are incorporated within the provisions for share-based payments These are described in more detail in note 24

The Group is required to estimate its corporation tax This requires an estimate of the current tax liability together with an assessment of the temporary differences which arise as a result of different accounting and tax treatments These temporary differences result in deferred tax assets or liabilities Deferred tax assets are only recognised to the extent that it is more likely than not that the asset will be realised in the future This evaluation requires judgements to be made including the forecast of future taxable income

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 8 to 21 The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Business Review on pages 16 to 18 In addition, note 29 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk

The Group has financial resources together with long term contracts with a number of customers and suppliers across different geographic areas and industries As a consequence, the Directors believe that the Group is well-placed to manage its business risks successfully despite the current uncertain economic outlook and has managed certain interest rate related risks in relation to its borrowing

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

On publishing the parent company financial statements here together with the Group financial statements the Company is taking advantage of the exemption in section 401 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income and related notes which form a part of these approved financial statements

The IFRS adopted by the EU applied by the Group in the preparation of these financial statements are those that were effective at 31 December 2011 The Group's financial statements have had no significant impact from the new IFRS and amendments to International Accounting Standards ('IAS') which became effective during the year

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods and which the Group has decided not to adopt early The Group has considered the impact of these new standards and interpretations in future periods on profit, earnings per share and net assets None of these new standards or interpretations are expected to have a material impact

Consolidation
The Group's consolidated financial statements include the results of the Company and all its subsidiaries A subsidiary is an entity controlled by the Company Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to derive benefits from its activities The results of subsidiaries acquired or sold are included in the financial statements for the periods from or to the date on which the transaction became unconditional Intra-group sales, profits and balances are eliminated fully on consolidation

Investments in associates represent interests carrying significant influence in an entity but without overall control They are initially recorded at cost and adjusted thereafter on consolidation for the post-acquisition share of the associate's profit or loss

Business Combinations
From 1 January 2010 the Group accounts for business combinations by applying IFRS 3 Business Combinations (revised) Transaction costs that the Group incurs in connection with a business combination are expensed as incurred

The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquired party

The acquired party's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss

Discontinued Operations
The Group classifies cash generating units as discontinued where they have been disposed of and represent a separate major line of business or geographical area of operation When an operation is classified as a discontinued operation, the Consolidated Statement of Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative year

Intangible assets
Goodwill
Goodwill represents the excess of fair value of the purchase consideration over the Group's share of the fair value of the identifiable net assets acquired Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indicator of impairment Goodwill is carried at cost less accumulated impairment losses Any impairment is recognised in the period in which it is identified On disposal, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

1. Accounting policies continued

Development costs and acquired computer software

Development costs are written off as incurred except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects In such cases, the identifiable expenditure is deferred and amortised from the point of sale or use of the product on a straight-line basis over the period during which the Group is expected to benefit, usually four years Development costs on projects in progress are not amortised Provision is made for any impairment in the carrying value of such development costs Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring into use the specific software and is amortised over its operational life

Biological assets

Biological assets are primarily valued at fair value and are amortised on a straight-line basis over ten years which is considered to be the expected period over which economic benefits will principally flow

Distribution agreements and customer contracts

Distribution agreements and customer contracts have been valued at fair value and are amortised on a reducing balance basis in accordance with the expected flow of future economic benefits, typically between four and six years

Financial assets at fair value through profit or loss

Financial assets are valued at fair value through profit or loss when classified as held for trading or designated as such on initial recognition They are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss Financial assets comprise equity securities

Tangible assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected operational life as follows

- Freehold buildings 50 years
- Leasehold improvements lower of 10 years and remaining lease term
- Plant and machinery 5-15 years
- Fixtures, fittings and computer software 3-10 years
- Motor vehicles 4 years

Freehold land is not depreciated

Impairment of assets

Assets that have an indefinite useful economic life are not subject to amortisation and are tested at least annually or whenever there is an indicator of impairment Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis Impairment losses are recognised in the Statement of Comprehensive Income

Government grants

Government grants of a capital nature are released to the Statement of Comprehensive Income by equal annual instalments over the expected useful economic lives of the relevant assets

Leasing and hire purchase commitments

As lessee

Assets obtained under finance leases and hire purchase contracts that transfer substantially all the risks and rewards of ownership to the Group are capitalised in the Statement of Financial Position and depreciated over the shorter of the lease term and their useful economic lives The interest element of the rental obligation is charged to the Statement of Comprehensive Income over the period of the lease and represents a constant proportion of the balance of the capital repayments outstanding

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease

As lessor

Amounts receivable under operating leases are included in revenue on a straight-line basis

Inventories

Inventories are stated at the lower of cost and net realisable value Cost is determined on a first-in, first-out basis and includes transport and handling costs In the case of manufactured products cost includes all direct expenditure and production overheads based on a normal level of activity Net realisable value is the price at which inventory can be sold in the normal course of business after allowing for the cost of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition The Group capitalises certain external costs in relation to processed human tissue Such costs are averaged over the number of samples acquired and written off to the Statement of Comprehensive Income as the samples are utilised within the business or after a period of three years from acquisition if not used during that period Provision is made where necessary for obsolete, slow-moving and defective inventory

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable for goods and services provided in the normal course of business, net of discounts and VAT It comprises the value of sales of contract pathology, sequencing and contract research services, processed human tissue and genomic reagents and antibodies, the sale of telepathology hardware systems and associated software, support services and the sales of LBC systems and testing kits together with lease rentals of certain equipment

Amounts received or receivable for services, typically provided under contract pathology and sequencing services, are recognised as revenue when tests are complete and any obligations are fulfilled The nature and duration of the services being provided does not require the adoption of long term accounting rules

Revenue from sales of processed human tissue, genomic reagents and antibodies, LBC systems and telepathology hardware systems is recognised when goods are delivered and accepted by the customer

Where equipment is leased out and the Group owns and has the responsibility to maintain the respective components the revenue is recognised over the period of the rental on a straight-line basis

LBC testing kits

The price charged by the Group for the LBC testing kits is specified in the Supply Agreements (which are typically for five years) negotiated with each customer

The price for the testing kits comprises an amount for laboratory consumables and reagents required to perform the tests and, where the LBC systems are supplied on a rental basis, an equipment premium, which is equivalent to a rental charge, and an amount for maintenance of the systems during the term of the Supply Agreement

Revenue from the laboratory consumables and reagents is recognised when the testing kits are delivered and accepted by the customer Revenue from the equipment premium and maintenance element is recognised over the period in which the customer is expected to benefit from the provisions of these elements of the supply

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

1. Accounting policies continued

Prepaid vouchers

Vouchers are supplied to customers who purchase them in advance in return for the right to receive certain services in the future The revenue associated with these voucher sales is recognised when the services are performed and our obligations met with an estimate made for a proportion of vouchers that are not expected to be redeemed which is based on prior period redemption rates

Employee benefits

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income as incurred Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position

Share-based compensation

The Group operates a number of share option and share save schemes For all grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes option pricing model and the corresponding expense is recognised on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions

Upon exercise of the options the proceeds received are credited to share capital

Share options granted to subsidiary employees

The parent company grants share options over its own ordinary shares to employees of subsidiary companies These employees provide services to the subsidiary companies The cost of these shares is not recharged and therefore the fair value of the share options granted is recognised as a capital contribution to the subsidiary companies This is accounted for as an increase in investments with a corresponding increase in a non-distributable component of equity

Interest

Interest receivable/payable is credited/charged to the Statement of Comprehensive Income using the effective interest method

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the reporting date

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised Their carrying amount is reviewed at each reporting date on the same basis

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, on a non-discounted basis, and is charged in the Statement of Comprehensive Income

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date All differences are taken to the Statement of Comprehensive Income

The results of overseas operations are translated at the monthly average rate of exchange and their assets and liabilities at the rate ruling at the reporting date Exchange differences arising on the translation of opening net assets and results of overseas operations are reported in the foreign currency translation reserve Similarly, exchange differences arising on the translation of intercompany balances with overseas subsidiaries are reported in the foreign currency translation reserves to the extent that such balances are considered to form part of the net investments in that overseas subsidiary

Segmental reporting
In accordance with IFRS 8 Operating Segments, a breakdown of certain data in the financial statements is given by segment The segments are the same as those used for internal reporting The aim is to provide users of the financial statements with information regarding the profitability and future prospects of the Group's various activities

Source BioScience is organised into two primary business segments LifeSciences and Healthcare The Group's reportable segments are strategic business units that offer different services and products for which monthly financial information is provided to the Board and senior management

LifeSciences 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 We also provide on-line access to the largest portfolio of cloned DNA, RNA and antibody products sold by any single provider worldwide

Healthcare comprises our Cytology and Diagnostics activities including cervical cancer screening and diagnostic testing services for diseases such as cancer The principal customer for our Healthcare services and products during 2011 was the UK NHS

All directly attributable costs are charged to the business segments These predominantly represent costs of sales and establishment costs Costs relating to central activities and shared services are not allocated to the business units but are controlled centrally and reported separately

Provisions
A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument The principal financial assets and liabilities of the Group are as follows

Trade and other receivables
Trade and other receivables are measured at amortised cost less any provision for impairment Trade and other receivables are discounted when the time value of money is considered material

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less

Bank borrowings
Interest bearing bank loans and overdrafts are initially recorded at fair value, net of direct issue costs Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

1. Accounting policies continued

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method where material

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received net of direct issue costs

Derivative financial instruments and hedging activities

The Group from time to time holds derivative financial instruments to hedge its exposure to foreign currency exchange rates and interest rates Derivative financial instruments are recognised at fair value The gain or loss on re-measurement to fair value is recognised immediately in the Statement of Comprehensive Income

The Group does not apply hedge accounting

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

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

Financial information for each operating division is also available in a disaggregated form in line with the identified cash generating units

During the year there were immaterial sales between business segments (2010 immaterial) and where these do occur they are at arm's length pricing

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

Year ended 31 December 2011	LifeSciences £'000	Healthcare £'000	Unallocated £'000	**Group £'000**
Continuing operations				
Revenue	7,789	7,403	–	**15,192**
Segment result	1,101	2,277	(6,322)	**(2,944)**
Finance income			20	**20**
Finance costs			(43)	**(43)**
Loss before tax			(6,345)	**(2,967)**
Taxation			172	**172**
Profit/(loss) for the year	1,101	2,277	(6,173)	**(2,795)**
Segment assets	11,864	2,600	–	**14,464**
Unallocated assets				
– property, plant and equipment			2,883	**2,883**
– financial assets			40	**40**
– debtors and prepayments			568	**568**
– cash and cash equivalents			1,094	**1,094**
Total assets	11,864	2,600	4,585	**19,049**
Segment liabilities	1,550	408	–	**1,958**
Unallocated liabilities				
– borrowings			2,962	**2,962**
– creditors and accruals			1,498	**1,498**
Total liabilities	1,550	408	4,460	**6,418**
Other segment items				
Capital expenditure				
– tangible assets	841	173	5,318	**6,332**
– intangible assets	453	59	–	**512**
Depreciation	578	109	305	**992**
Amortisation of intangible assets	312	55	–	**367**
Impairment of tangible assets	–	–	2,846	**2,846**
Other non-cash expenses				
– share option scheme	–	–	40	**40**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

2. Operating segments continued

Year ended 31 December 2010	LifeSciences £'000	Healthcare £'000	Unallocated £'000	Group £'000
Continuing operations				
Revenue	6,621	6,866	–	13,487
Segment result	1,004	2,011	(3,004)	11
Finance income			72	72
Finance costs			(9)	(9)
(Loss)/profit before tax			(2,941)	74
Taxation			34	34
Profit/(loss) for the year from continuing operations	1,004	2,011	(2,907)	108
Discontinued operations				
Segment result		(15)		(15)
Loss before tax		(15)		(15)
Loss for the year from discontinued operations		(15)		(15)
Net profit/(loss) for the year	1,004	1,996	(2,907)	93
Segment assets	11,693	2,300	–	13,993
Unallocated assets				
– property, plant and equipment			675	675
– debtors and prepayments			730	730
– cash and cash equivalents			4,170	4,170
Total assets	11,693	2,300	5,575	19,568
Segment liabilities	1,126	809	–	1,935
Unallocated liabilities				
– creditors and accruals			2,265	2,265
Total liabilities	1,126	809	2,265	4,200
Other segment items				
Capital expenditure				
– tangible assets	571	66	337	974
– intangible assets	88	177	–	265
Depreciation	339	229	224	792
Amortisation of intangible assets	195	22	–	217
Other non-cash expenses				
– share option scheme	–	–	77	77

Geographical segments
The Group manages its business segments on a global basis The operations are based primarily in the UK with additional facilities in Europe

The revenue analysis in the table below is based on the location of the customer, with the segment assets owned and capital expenditure made by Group companies located in that area/country

	Revenue		Segment assets		Capital expenditure	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
UK	**12,235**	11,425	**17,398**	18,353	**5,915**	974
Europe (excluding UK)	**2,396**	1,436	**1,651**	1,215	**417**	–
Americas	**248**	423	–	–	–	–
Middle East, Asia and Australasia	**313**	203	–	–	–	–
Total	**15,192**	13,487	**19,049**	19,568	**6,332**	974

Analysis of revenue by category
The Group's revenue is analysed as follows

	2011 £'000	2010 £'000
Revenue from the provision of services	**6,512**	6,105
Revenue from sales of goods	**7,915**	6,509
Revenue from operating lease rentals	**765**	873
Total	**15,192**	13,487

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

3. Acquisition of subsidiary

Prior year acquisition

On 30 November 2010 Source BioScience completed the acquisition of the entire ordinary share capital of imaGenes GmbH for total consideration of £1 8 million, excluding transaction costs of £0 2 million The principal activities of imaGenes are the distribution of a portfolio of genomic clone products and libraries in addition to genotyping, proteomics, next generation sequencing and bioinformatics

The book and 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	407	407
Intangible assets – biological resources and software	114	114
Intangible assets – customer database and relationships	-	245
Inventories	88	88
Other current assets	373	373
Current financial liabilities	(210)	(210)
Other current liabilities	(407)	(407)
Non-current financial liabilities	(440)	(440)
Deferred tax	-	(66)
Value of net assets acquired	(75)	104
Goodwill arising on acquisition	1,851	1,672
Consideration	1,776	1,776

Consideration is made up as follows	
Initial cash consideration	1,699
Deferred consideration	77
	1,776

Cashflow	
Consideration paid, satisfied in cash	(1,699)
Cash balance acquired	(111)
Net cash outflow of acquisition	(1,810)

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 imaGenes' service and product portfolio

Deferred consideration is payable on 14 June 2012 based on a completion accounts mechanism (see note 21) This represents the best estimate at the date of acquisition of the present value of the consideration payable There has been no change to this estimate during the current year

4. Non-recurring administrative items

Restructuring Costs

The integration of the acquired imaGenes business was completed as planned during the year This entailed significant commercial and operational changes to the acquired business, in addition to infrastructure modifications in the UK to support the enlarged Group, which will transform the efficiency of the Berlin-based operations The one-off costs associated with the integration amounted to £0 6 million which will generate annualised cost savings in the region of £0 7 million

Purchase of Head Office premises

On 28 December 2011, the Group announced the purchase of the freehold land and buildings of its current business and Head Office premises in Nottingham, UK The Group occupied the premises under a 25 year lease that, at the date of the purchase, had a remaining term of 17 years

The purchase price of £5 2 million, including stamp duty land tax and fees, comprised the market value of the freehold land and buildings in conjunction with the attached lease with 17 years remaining In the Consolidated Statement of Financial Position, the premises have been recognised at their open market valuation of £2 4 million, without ascribing value to the lease The element of the purchase price attributable to the remaining term of the lease has been recognised as a one-off cost of £2 8 million in the Consolidated Statement of Comprehensive Income

5. Finance (costs)/income – net

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Finance income				
Interest receivable on deposits	**20**	72	**20**	72
Interest receivable on intra-group loans	**-**	–	**1,221**	1,086
Finance income	**20**	72	**1,241**	1,158
Finance costs				
Interest payable on other bank loans	**(37)**	(8)	**(7)**	-
Interest payable on finance leases	**(6)**	(1)	**-**	-
Finance costs	**(43)**	(9)	**(7)**	–
Finance (costs)/income – net	**(23)**	63	**1,234**	1,158

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

6. Earnings per share

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

The calculation of basic earnings per share for the year was based on the loss attributable to ordinary shareholders of £2,795,000 (2010 £93,000 profit) and 203,765,232 ordinary shares (2010 203,765,232 ordinary shares) being the weighted average number of ordinary shares in issue

The calculation of diluted earnings per share for the year is based on the loss attributable to ordinary shareholders of £2,795,000 (2010 £93,000 profit) and the weighted average number of ordinary shares in issue, adjusted for nil dilutive options (2010 6,620,959 dilutive options), of 203,765,232 (2010 210,386,191)

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

Reconciliation of the earnings and weighted average number of shares used in the calculations are set out below

	2011			2010		
	Earnings £'000	**Weighted average number of shares '000s**	**Per share amount (pence)**	Earnings £'000	Weighted average number of shares '000s	Per share amount (pence)
Basic EPS						
(Loss)/Earnings attributable to ordinary shareholders	**(2,795)**	**203,765**	**(1.37)**	93	203,765	0 05
Diluted EPS						
(Loss)/Earnings attributable to ordinary shareholders	**(2,795)**	**203,765**	**(1.37)**	93	210,386	0 04

7. (Loss)/profit before taxation

Group	2011 £'000	2010 £'000
The following items have been included in arriving at operating (loss)/profit		
Staff costs (note 27)	**4,525**	3,859
Depreciation of property, plant and equipment		
– owned assets	**922**	789
– under finance leases	**70**	3
Amortisation of intangibles (included in administrative expenses)	**367**	217
Other operating lease rentals payable		
– property	**509**	592
– fixtures and fittings	**–**	6
Repairs and maintenance expenditure on property, plant and equipment	**29**	34
Research and development expenditure	**281**	220
Amortisation of government grant income	**(13)**	(13)

Services provided by the Group's auditor and network firms
During the year the Group obtained the following services from the Group's auditor as detailed below

	2011 £'000	2010 £'000
Audit services		
– statutory audit of Company's financial statements	**10**	10
– statutory audit of financial statements of subsidiaries	**39**	39
Tax services		
– compliance services	**13**	13
– advisory services	**4**	–
	66	62

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

8. Taxation

Group	2011 £'000	2010 £'000
Current tax		
– continuing operations	–	3
– prior year adjustment	(3)	–
Deferred tax (note 22)		
– continuing operations	(169)	(37)
Taxation credit	(172)	(34)

The tax charge for the year is lower (2010 lower) than the standard rate of corporation tax in the UK of 26 49% (2010 28%) The charge for the year can be reconciled to the (loss)/profit per the Statement of Comprehensive Income as follows

Group	2011 £'000	2010 £'000
(Loss)/profit on ordinary activities before tax from continuing operations	(2,967)	74
(Loss)/profit on ordinary activities multiplied by rate of corporation tax of 26 49% (2010 28%)	(786)	21
Effects of:		
Expenses not deductible for tax purposes	842	144
Deferred tax temporary differences not recognised	(276)	(159)
Under/(over) provided in prior years	(3)	–
Tax rate difference of foreign subsidiary	–	(3)
Other temporary timing differences	51	(37)
Total taxation credit	(172)	(34)

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011

The effect of these rate reductions on the deferred tax balance has therefore been included in the figures above

If applied to the deferred tax balance at 31 December 2011 the further reductions from 25% to 22%, of which a reduction to 24% (effective from 1 April 2012) was substantively enacted on 30 March 2012, would not have a material effect on the closing deferred tax position

9. Intangible fixed assets - goodwill

Group	2011 £'000	2010 £'000
Cost		
At 1 January	**10,636**	8,908
Acquisitions - through business combinations	–	1,726
Exchange adjustments	**(2)**	2
At 31 December	**10,634**	10,636
Aggregate amortisation and impairment		
At 1 January	**2,291**	2,291
At 31 December	**2,291**	2,291
Net book amount at 31 December	**8,343**	8,345

The Company has £nil (2010 £nil) intangible fixed assets - goodwill

In accordance with the requirements of IAS 36, Impairment of assets, goodwill is allocated to the Group's Cash Generating Units ('CGUs') that are expected to benefit from the synergies of the business combination that give rise to the goodwill

The goodwill within the Group relates to the LifeSciences CGU and the Diagnostics CGU (part of our Healthcare division)

The carrying value of goodwill attributable to each CGU at 31 December 2011 is as follows

	LifeSciences £'000	Diagnostics £'000	Group £'000
Goodwill	7,760	583	**8,343**

Goodwill has been tested for annual impairment based on an assessment of value in use and the key assumptions applied in the value in use calculations are set out below

- Cash flow projections
  Management prepare three year cash flow forecasts derived from the most recent annual financial budgets, approved by the Board with an appropriate extrapolation of these cash flows to give a three-year time horizon with an adjustment for the terminal value The projections represent the best estimate of future performance based on past performance and expectations for market development The key assumptions include expected changes to demand for products and services, selling prices and direct costs

- Discount rate
  A weighted average cost of capital of 15 1% (2010 13 5%) on a pre-tax basis is used to discount the cash flow forecasts from each CGU based on the Group's adjusted cost of capital to reflect a market participant's discount rate The same discount rate has been applied across both CGUs as management consider this rate to be an appropriate reflection of the risks and rewards inherent to each CGU as the principal operations of each CGU are located in the UK and the end markets which each CGU are supplying are not significantly different

  A sensitivity analysis has been performed whereby the impairment calculations have been reworked using a high discount rate This analysis shows that with a 2% increase in the discount rate there is no impairment

- Growth rates
  Growth rates commensurate with the expected increase in demand in each CGU have been used The CGUs are at different stages of maturity and consequently the assumed growth rates differ across each CGU with LifeSciences having a higher assumed level of growth in the first three years Subsequently a growth rate of 2 5% into perpetuity has been assumed for both CGUs Sensitivity analysis has been carried out which demonstrates that if the assumed growth rates beyond 2012 were reduced by 40% there would be no impairment

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

9. Intangible fixed assets – goodwill continued

No impairment arose as a result of the valuations Management believe that the valuations are sufficiently robust such that variations in the key assumptions would not result in significant changes to the results of the impairment tests

The estimates and assumptions made in connection with impairment testing could differ from future actual results of operations and cash flows Further, future events could cause the Group to conclude that impairment indicators exist and that the asset values associated with a given operation have become impaired Any resulting impairment loss could have a significant impact on the Group's financial condition and results of operations The carrying value of goodwill and other intangible assets will continue to be reviewed at least annually for impairment and adjusted to the recoverable amount if required

10. Intangible fixed assets – development costs

Group	2011 £'000	2010 £'000
Cost		
At 1 January	**2,474**	2,190
Additions	**486**	265
Acquisitions – through business combinations	**-**	18
Exchange adjustments	**(8)**	1
At 31 December	**2,952**	2,474
Aggregate amortisation and impairment		
At 1 January	**2,158**	2,118
Charge for the year	**116**	40
At 31 December	**2,274**	2,158
Net book amount at 31 December	**678**	316

Intangible fixed assets – development costs represent the costs, and associated amortisation, of internally generated software All amortisation charges in the year have been charged through administrative expenses

The Company has £nil (2010 £nil) intangible fixed assets – development costs

11. Intangible fixed assets – biological assets

Group	2011 £'000	2010 £'000
Cost		
At 1 January	**42**	–
Additions	**26**	–
Exchange adjustments	**(1)**	–
Acquisitions – through business combinations	**-**	42
At 31 December	**67**	42
Aggregate amortisation and impairment		
At 1 January	**-**	–
Charge for the year	**6**	–
At 31 December	**6**	–
Net book amount at 31 December	**61**	42

Intangible fixed assets – biological assets represent the costs, and associated amortisation, of assets acquired with the acquisition of imaGenes, together with those acquired subsequently through on-going trading All amortisation charges in the year have been charged through administrative expenses

The Company has £nil (2010 £nil) intangible fixed assets – biological assets

12. Intangible fixed assets – distribution agreements and customer contracts

Group	2011 £'000	2010 £'000
Cost		
At 1 January	**1,310**	1,065
Acquisitions – through business combinations	–	245
At 31 December	**1,310**	1,310
Aggregate amortisation and impairment		
At 1 January	**676**	499
Charge for the year	**245**	177
At 31 December	**921**	676
Net book amount at 31 December	**389**	634

Intangible fixed assets – distribution agreements and customer contracts represent the costs, and associated amortisation, of agreements and relationships acquired with the acquisitions of Geneservice, Autogen Bioclear and imaGenes All amortisation charges in the year have been charged through administrative expenses

The Company has £nil (2010 £nil) intangible fixed assets – distribution agreements

13. Property, plant and equipment

Group

2011	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost or valuation						
At 1 January	–	947	2,048	5,244	45	8,284
Additions at cost	5,206	41	173	912	–	6,332
Transfers	–	(906)	–	906	–	–
Exchange adjustments	–	–	–	1	–	1
Disposals	–	–	–	(1,246)	(14)	(1,260)
At 31 December	5,206	82	2,221	5,817	31	13,357
Accumulated depreciation and impairment charges						
At 1 January	–	611	1,688	3,140	27	5,466
Depreciation charge for the year	–	101	54	832	5	992
Impairment charge for the year	2,846	–	–	–	–	2,846
Transfers	–	(644)	–	644	–	–
Disposals	–	–	–	(505)	(14)	(519)
At 31 December	2,846	68	1,742	4,111	18	8,785
Net book amount at 31 December	2,360	14	479	1,706	13	4,572

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

13. Property, plant and equipment continued

2010	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January	901	2,015	4,207	72	7,195
Additions at cost	46	33	895	–	974
Acquisitions	–	–	404	3	407
Exchange adjustments	–	–	8	–	8
Disposals	–	–	(270)	(30)	(300)
At 31 December	947	2,048	5,244	45	8,284
Accumulated depreciation					
At 1 January	504	1,518	2,638	43	4,703
Charge for the year	107	170	52	13	792
Disposals	–	–	–	(29)	(29)
At 31 December	611	1,688	3,140	27	5,466
Net book amount at 31 December	336	360	2,104	18	2,818

Assets held under finance leases have the following net book amount

	2011 Fixtures and fittings £'000	2010 Fixtures and fittings £'000
Cost	**425**	75
Aggregate depreciation	**(81)**	(11)
Net book amount	**344**	64

Plant and machinery includes

	2011 £'000	2010 £'000
Assets held for use in operating leases		
Cost	**2,132**	1,959
Aggregate depreciation	**(1,599)**	(1,429)
Charge for year	**(54)**	(170)
Net book amount	**479**	360

Plant and machinery held for use in operating leases relate to LBC and auto screening cytology systems together with ancillary equipment supplied to Health Authorities and hospitals in England and Wales under consumable supply, rental and maintenance agreements The LBC agreements are typically for a period of five years At the year end there were 49 (2010: 50) LBC systems held for use under such agreements

The Company has £nil (2010 £nil) property, plant and equipment

14. Other investments

Investment in associate

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
At 1 January	–	223	–	173
Impairment	–	(223)	–	(173)
At 31 December	–	–	–	–

During 2010 the Company made the decision to dispose of its investment in Number One Health Group Limited, of which it owned 40%, and the investment was fully written down

Financial assets

During 2011 the Company invested in shares that were valued at the market price as at 31 December 2011 of £40,000 (2010 £nil)

15. Investments in subsidiary undertakings

Fixed asset investments

Company

2011	**Shares in Group undertakings £'000**	**Long term loans £'000**	**Total £'000**
Cost at 1 January	**21,943**	**11,796**	**33,739**
Additions in year	**20**	**5,206**	**5,226**
Cost at 31 December	**21,963**	**17,002**	**38,965**
Impairment at 1 January and 31 December	**(21,318)**	–	**(21,318)**
Net book amount at 31 December	**645**	**17,002**	**17,647**

2010	Shares in Group undertakings £'000	Long term loans £'000	Total £'000
Cost at 1 January	21,894	10,097	31,991
Additions in year	49	1,699	1,748
Cost at 31 December	21,943	11,796	33,739
Impairment at 1 January and 31 December	(21,318)	–	(21,318)
Net book amount at 31 December	625	11,796	12,421

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

15. Investments in subsidiary undertakings continued

The subsidiary undertakings of Source BioScience plc and their respective activities were as follows at 31 December 2011

	Country of incorporation	Principal activity	Percentage held
Source BioScience UK Limited	England	Provision of diagnostic and genomic services and distribution of diagnostic and genomic products	100%
imaGenes GmbH	Germany	Provision of genomic services and distribution of genomic products	100%[a]
Source BioScience Germany GmbH	Germany	Intermediate holding company	100%
Source BioScience (Orchard Place) Limited	England	Property rental	100%
Geneservice Limited	England	Dormant	100%
Autogen Bioclear UK Limited	England	Dormant	100%
Fairfield Imaging Limited	England	Dormant	100%
Fairfield Telepathology Limited	England	Dormant	100%[b]
Histological Solutions Limited	England	Dormant	100%
Kinetic Imaging Limited	England	Dormant	100%
Source BioScience (Directors) Limited	England	Dormant	100%
Medical Solutions Limited	England	Dormant	100%
Medical Solutions (Leeds) Limited	England	Dormant	100%
Medical Solutions London Limited	England	Dormant	100%
Pathlore Ltd	England	Dormant	100%[b]
Quinoderm Limited	England	Dormant	100%[c]

[a] Held indirectly via Source BioScience Germany GmbH
[b] Held indirectly via Fairfield Imaging Limited
[c] Held indirectly via Medical Solutions (Leeds) Limited

All of the above entities are included in the consolidated results of the Group and have an accounting reference date of 31 December

16. Inventories

Group	**2011 £'000**	2010 £'000
Raw materials	**432**	390
Work in progress	**10**	40
Finished goods	**267**	286
	709	716

The Group consumed £4,160,000 (2010 £3,446,000) of inventories during the year

The Company has £nil (2010 £nil) inventories

17. Trade and other receivables

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Amounts falling due within one year:				
Trade receivables	**2,626**	1,819	**-**	-
Less Provision for impairment of receivables	**(31)**	(22)	**-**	-
Trade receivables net	**2,595**	1,797	**-**	
Amounts owed by subsidiary undertakings	**-**	-	**4,614**	2,078
Other receivables	**98**	171	**-**	82
Prepayments and accrued income	**470**	559	**17**	52
	3,163	2,527	**4,631**	2,212

Credit risk is assessed by reference to the customer base and is considered low Trade receivables, net of impairment provisions, are due from

	2011 £'000	2010 £'000
Health authorities	**857**	652
Research institutions	**738**	866
Pharmaceutical companies	**894**	267
Other	**106**	12
Total	**2,595**	1,797

Any trade receivables that are overdue are assessed for impairment and provision made where applicable Historically low default levels give rise to specific provision only where responses to collection methods have given rise to such a view An analysis of receivables is as follows

	2011 Gross £'000	**2011 Net of impairment £'000**	2010 Gross £'000	2010 Net of impairment £'000
Not past due	**1,866**	**1,866**	1,377	1,377
Past due 0-30 days	**480**	**480**	313	313
Past due 31-60 days	**108**	**108**	54	54
Past due 61-90 days	**46**	**46**	21	21
Past due 90+ days	**126**	**95**	54	32
Total	**2,626**	**2,595**	1,819	1,797

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

18. Cash and cash equivalents

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents				
Cash at bank and in hand	**1,094**	4,170	**637**	4,425

The weighted average interest rate on short term deposits at the year end was 0 5% (2010 1 5%) and these deposits have an average maturity of nil days (2010 90 days)

19. Trade and other payables

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Trade payables	**1,413**	2,481	**45**	64
Other tax and social security	**220**	178	**136**	3
Other payables	**–**	3	**–**	–
Accruals	**371**	330	**131**	111
Deferred income	**1,020**	530	**–**	–
	3,024	3,522	**312**	178

20. Financial liabilities – borrowings

	Group		Company	
	2011	2010	**2011**	2010
Current	**£'000**	£'000	**£'000**	£'000
Bank loans	**500**	115	**500**	–
Finance lease obligations	**128**	15	**–**	–
	628	130	**500**	–

	Group		Company	
	2011	2010	**2011**	2010
Non-Current	**£'000**	£'000	**£'000**	£'000
Bank loans – repayable in two to five years	**2,462**	193	**2,462**	–
Bank loans – repayable in more than five years	**–**	65	**–**	–
Finance lease obligations	**227**	44	**–**	–
	2,689	302	**2,462**	–

Bank loans and overdrafts of the Group are secured by floating charges over certain assets of the Company and Source BioScience UK Limited

In December 2011 the Group secured a £3 0 million term loan facility provided by Royal Bank of Scotland, to part fund the purchase of the Head Office premises The loan is repayable 50% over three years in equal quarterly instalments with the balance on the fourth anniversary of the draw down, in December 2015

The outstanding loans at 31 December 2010 were settled in full during 2011 Finance lease agreements for £350,000 repayable over a three year term, were entered into during the year ended 31 December 2011

The weighted average interest rates at the reporting date were as follows

	2011		2010	
	Fixed	**Variable**	Fixed	Variable
	%	**%**	%	%
Bank loans	**4.5**	**–**	4 4	–
Finance leases	**4.3**	**–**	5 7	–

21. Deferred consideration

Current	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Deferred consideration	**77**	–	**–**	–

Non-current (all due within five years)	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Deferred consideration	**–**	77	**–**	–

Deferred consideration is payable on 14 June 2012 based on a completion accounts mechanism This represents the best estimate at the date of acquisition of the present value of the consideration payable There has been no change to this estimate during the current year

22. Deferred tax

The following are the deferred tax balances recognised by the Group and movements thereon during the year

Deferred tax assets/(liabilities)	Tax losses £'000	Intangible assets £'000	Total £'000
At 1 January 2011	–	(169)	(169)
Credited to profit and loss account	106	63	169
At 31 December 2011	**106**	**(106)**	**–**

The following are the major deferred tax assets not recognised by the Group and movements thereon during the current and prior year

Deferred tax assets and liabilities	Accelerated tax depreciation £'000	Tax losses £'000	Total £'000
At 1 January 2010	(232)	(3,570)	(3,802)
Movement in the year	(334)	517	183
At 31 December 2010	(566)	(3,053)	(3,619)
At 1 January 2011	(566)	(3,053)	(3,619)
Movement in the year	88	373	461
At 31 December 2011	**(478)**	**(2,680)**	**(3,158)**

At the reporting date, the Group has unused tax losses of £10 7 million (2010 £11 1 million) available for offset of future profits

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

23. Share capital of the Company

	2011		2010	
	Number	**£'000**	Number	£'000
Ordinary shares of 2p each	**350,000,000**	**7,000**	350,000,000	7,000

	2011		2010	
Issued and fully paid	**Number**	**£'000**	Number	£'000
Ordinary shares of 2p each				
At 1 January and 31 December	**203,765,232**	**4,075**	203,765,232	4,075

All ordinary shares carry equal rights in all respects including rights to vote, receive dividends and participate in any distribution on a winding up

Potential issues of ordinary shares

Certain Directors and employees hold options to subscribe for shares in the Company at prices ranging from 4 63p to 34 25p under the share option schemes approved by shareholders in 1999 and 2001 No options on shares were exercised in 2011 (2010 nil) The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below

Year of grant	Exercise price (pence)	Exercise period	**2011 Number**	2010 Number
2002	27 75	25 March 2005 to 24 March 2012	**25,000**	25,000
2003	22 00	13 January 2006 to 12 January 2013	**4,509,091**	4,509,091
2003	32 50	22 September 2006 to 21 September 2013	**50,000**	200,000
2004	34 25	16 October 2011 to 15 October 2014	**-**	41,751
2005	6 25	3 May 2008 to 2 May 2015	**350,000**	475,000
2006	9 00	14 March 2009 to 13 March 2016	**200,000**	400,000
2006	6 63	4 September 2009 to 3 September 2016	**1,000,000**	1,000,000
2007	7 25	8 June 2010 to 7 June 2017	**2,950,000**	3,050,000
2007	7 75	3 July 2010 to 2 July 2017	**3,500,000**	3,500,000
2008	7 88	31 March 2011 to 30 March 2018	**1,900,000**	2,000,000
2009	4 63	31 March 2012 to 30 March 2019	**1,950,000**	2,025,000
2010	8 25	26 April 2013 to 25 April 2020	**2,050,000**	2,125,000
2011	6 25	24 March 2014 to 23 March 2021	**1,000,000**	-
			19,484,091	19,350,842

24. Share-based compensation

The Group has two share-related schemes in place, being the 1999 unapproved share option scheme and the 2001 Inland Revenue approved share option scheme

Under both the 1999 unapproved and 2001 Inland Revenue approved schemes (collectively the 'share option schemes'), the Remuneration Committee can grant options over shares in the Company to employees of the Group Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant The contractual life of an option is ten years Awards under the share option schemes are generally reserved for employees at senior management level and above and 15 employees are currently eligible to participate There are no reload features The Group does not make annual grants on a fixed date, but rather at the discretion of the Remuneration Committee

Options granted under the share option schemes will become exercisable on the third anniversary of the date of grant Exercise of an option is subject to continued employment Options were valued using the Black-Scholes option-pricing model with modifications to take account of any respective performance criteria The fair value per option granted and the assumptions used in the calculation are as follows for the options granted in the current and preceding financial year

Grant date	**24 March 2011**	26 April 2010
Share price at grant date (pence)	**6.25p**	8 25
Exercise price (pence)	**6.25p**	8 25
Number of employees	**15**	15
Shares under option	**1,050,000**	2,125,000
Vesting period (years)	**3**	3
Expected volatility	**35.2%**	36 8%
Option life (years)	**7**	7
Expected life (years)	**4**	4
Risk free rate	**2.17%**	2 49%
Expected dividends expressed as a dividend yield	**0.0%**	0 0%
Expectation of options vesting at 31 December 2010	**n/a**	90%
Expectation of options vesting at 31 December 2011	**90%**	n/a
Expectations of meeting performance criteria	**n/a**	n/a
Fair value per option (pence)	**1.92**	2 67

The expected life is the average expected period to exercise and the expected volatility is based on historical volatility over the same timeframe The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life A reconciliation of option movements over the year to 31 December 2011 is shown below

	2011		2010	
	Number	**Weighted average exercise price (pence)**	Number	Weighted average exercise price (pence)
Outstanding at 1 January	**19,350,842**	**11 00**	17,628,031	11 68
Granted	**1,050,000**	**6.25**	2,125,000	8 25
Forfeited	**(916,751)**	**12.74**	(402,189)	26 00
Exercised	**–**	**–**	–	–
Outstanding at 31 December	**19,484,091**	**10.67**	19,350,842	11 00
Exercisable at 31 December	**14,484,091**	**12.13**	13,159,091	12 83

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

24. Share-based compensation continued

	2011				2010			
			Weighted average remaining life (years)*				Weighted average remaining life (years)	
Range of exercise prices (pence)	**Weighted average exercise price (pence)**	**Number of shares**	**Expected**	**Contractual**	Weighted average exercise price (pence)	Number of shares	Expected	Contractual
>0 00 – 5 00	**4.63**	**1,950,000**	**1.25**	**7 25**	4 63	2,025,000	2 25	8 25
>5 00 – 20 00	**7.51**	**12,950,000**	**0.96**	**6 21**	7 63	12,550,000	1 09	6 43
>20 00 – 30 00	**22.03**	**4,534,091**	**0.52**	**1.03**	22 03	4,534,091	1 02	2 03
>30 00	**32.50**	**50,000**	**0.22**	**1.73**	32 80	241,751	1 46	2 91

No share options have been exercised during the year (2010 nil)

The total charge (pre and post-deferred tax) for the year relating to employee share-based payment plans was £40,000 (2010 £77,000), all of which related to equity-settled share-based payment transactions

25. Other reserves

	Merger reserve £'000	Other reserve £'000	Capital redemption reserve £'000	Special reserve £'000	Translation reserve £'000	Total £'000
Balance at 1 January 2010	1,267	1,136	5	10,788	–	13,196
Currency translation adjustments	–	–	–	–	(1)	(1)
Balance at 31 December 2010	1,267	1,136	5	10,788	(1)	13,195
Balance at 1 January 2011	1,267	1,136	5	10,788	(1)	13,195
Currency translation adjustments	–	–	–	–	18	18
Balance at 31 December 2011	**1,267**	**1,136**	**5**	**10,788**	**17**	**13,213**

Merger reserve

Under the provisions of the Companies Act, the premium on shares in the Company issued in consideration for the acquisition of subsidiaries, where an interest greater than 90% was acquired, has been credited to a merger reserve The transactions giving rise to the merger reserve were the acquisitions during 1999 of Fairfield Imaging Limited (£700,000) and Cellpath plc (£567,000)

Other reserve

On 31 January 2001 the Court made an order confirming the reduction in the Company's share capital following a resolution to cancel the deferred shares in issue The rights attaching to those deferred shares, which were not listed or quoted on any recognised stock exchange, were minimal thereby rendering them effectively valueless The cancelled nominal value of the shares of £1,136,000 was credited to a non-distributable other reserve

Capital redemption reserve EBT

During 2003, 250,000 ordinary shares with a nominal value of £5,000 were bought by the Company and were used for the Company's Employee Benefit Trust ('EBT') The consideration paid for the shares was debited to the EBT reserve On 30 July 2004 the 250,000 shares were cancelled and the nominal value of the shares was credited to a capital redemption reserve

Special reserve

On 22 December 2008, the Court made an order approving the cancellation of the Company's share premium account which at that date stood at £32,284,000 (the 'capital reorganisation') The deficit on the Company's profit and loss reserve was eliminated and the balance of £10,788,000 was credited to a special reserve The special reserve may be distributed subject to discharging the obligations imposed by the Court

Foreign currency translation reserve

As detailed in the Group Statement of Changes in Shareholders' Equity, at 31 December 2011 the Group had a foreign currency translation reserve surplus of £17,000 (2010 deficit of £1,000) As described in note 1, exchange differences arising on the translation of opening net assets and results of overseas operations are reported in the foreign currency translation reserve

The Company has £nil (2010 £nil) foreign currency translation reserves

26. Profit and loss reserve

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Retained earnings at 1 January	**(1,902)**	(2,072)	**1,609**	892
(Loss)/profit for the year	**(2,795)**	93	**761**	640
Share option scheme – value of employee service	**40**	77	**40**	77
Retained earnings at 31 December	**(4,657)**	(1,902)	**2,410**	1,609

In accordance with the exemption allowed by section 401 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income

27. Employees and Directors

	Group		Company	
Staff costs during the year	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
Wages and salaries	**4,163**	3,290	**396**	378
Social security costs	**501**	344	**46**	43
Pension costs (note 28)	**166**	148	**58**	56
Share based compensation	**40**	77	**20**	50
	4,870	3,859	**520**	527
Less amounts capitalised	**(345)**	–	**–**	–
	4,525	3,859	**520**	527

	Group		Company	
Average number of people employed during the year	**2011 Number**	2010 Number	**2011 Number**	2010 Number
By operating segment				
LifeSciences	**70**	48	**–**	–
Healthcare	**32**	32	**–**	–
Central services	**25**	26	**7**	8
	127	106	**7**	8

Key management compensation	**2011 £'000**	2010 £'000
Salaries and short term employee benefits	**801**	755
Pensions and other post-employment benefits	**80**	79
Share-based compensation	**33**	71
	914	905

The key management figures given above include Executive and Non-Executive Directors together with six senior managers (2010 six)

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

27. Employees and Directors continued

Directors	2011 £'000	2010 £'000
Aggregate emoluments	**353**	339
Company contributions to money purchase pension schemes	**57**	55
	410	394

At the year end three Directors (2010 three) have retirement benefits accruing under money purchase pension schemes

28. Pension commitments

The Group operates a defined contribution pension scheme and makes payments to other, personal defined contribution pension scheme arrangements on behalf of certain employees The charges in the year amounted to

Group	2011 £'000	2010 £'000
Defined contribution schemes	**166**	148

The year end creditor amounted to £39,000 (2010 £53,000)

29. Financial instruments

Fair value of financial assets and liabilities

The fair values of financial assets and financial liabilities are not materially different to the carrying values shown in the Statement of Financial Position

The following summarises the major methods and assumptions used in estimating the fair values of the financial instruments

Trade and other receivables
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date if the effect is material

Trade and other payables
The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date if the effect is material

Cash and cash equivalents
The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date

Interest-bearing borrowings
Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date For finance leases the market rate of interest is determined by reference to similar lease agreements

Derivative financial instruments
The fair value of forward exchange contracts is based on their listed market price, if available If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on UK government bonds

Financial assets
The fair value of financial assets is based on their listed market price

Credit risk
Financial risk management
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers

The Group has no significant concentrations of credit risk The Group has implemented policies that require appropriate credit checks on potential customers before sales commence which is augmented with standard contractual terms and conditions where appropriate

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure Therefore, the maximum exposure to credit risk at the reporting date was £3,689,000 (2010 £5,967,000) being the total of the carrying amount of financial assets

The maximum exposure to credit risk for trade receivables at the reporting date is disclosed in note 17

The allowance account for trade receivables is used to record impairment losses unless the Group or Company is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivables directly

No further analysis has been provided for cash and cash equivalents, trade receivables from Group companies, other receivables and other financial assets as there is limited exposure to credit risk and no provision for impairment has been made

Liquidity risk
Financial risk management
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due

The Group has previously maintained a mixture of cash balances and short to medium term treasury deposits designed to ensure that the Group had sufficient available funds for operations and planned capital expenditure As referred to in the Business Review and note 20, the Group secured a term loan facility which was used to part fund the purchase of the Head Office premises To minimise the exposure to varying cash flows an interest rate swap was taken out over the term of the loan facility to effectively fix the contracted cash flows

The undiscounted contracted cash flows and maturities of financial liabilities together with their carrying amounts and average effective interest rates at the reporting date are detailed further in the tables overleaf

Exposure to liquidity risk
The Group has contractual liabilities in relation to its bank loan and finance lease liabilities and deferred consideration Such liabilities are scheduled to mature as described in notes 20 and 21 respectively, with deferred consideration due to be settled in full by 14 June 2012, as described in note 3

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

29. Financial instruments continued

As at 31 December 2011

Group	Effective rate %	Carrying amount £'000	Contractual cash flows Total £'000	Within one year £'000	Over one year less than two years £'000	Over two years less than five £'000	Over five years £'000
Non-derivative financial liabilities							
Bank loans	4.5	2,962	3,366	627	602	2,137	–
Finance leases	4.3	355	377	141	141	95	–
		3,317	3,743	768	743	2,232	–
Trade and other payables	0.0	1,413	1,413	1,413	–	–	–
		4,730	5,156	2,181	743	2,232	–

Company	Effective rate %	Carrying amount £'000	Contractual cash flows Total £'000	Within one year £'000	Over one year less than two years £'000	Over two years less than five £'000	Over five years £'000
Non-derivative financial liabilities							
Bank loans	4.5	2,962	3,366	627	602	2,137	–
Finance leases		–	–	–	–	–	–
		2,962	3,366	627	602	2,137	–
Trade and other payables	0.0	45	45	45	–	–	–
		3,007	3,411	672	602	2,137	–

As at 31 December 2010

Group	Effective rate %	Carrying amount £'000	Contractual cash flows Total £'000	Within one year £'000	Over one year less than two years £'000	Over two years less than five £'000	Over five years £'000
Non-derivative financial liabilities							
Bank loans	4 4	373	418	128	97	124	69
Finance leases	5 7	59	66	18	18	30	–
		432	484	146	115	154	69
Trade and other payables	0 0	2,481	2,481	2,481	–	–	–
		2,913	2,965	2,627	115	154	69

Company	Effective rate %	Carrying amount £'000	Contractual cash flows Total £'000	Within one year £'000	Over one year less than two years £'000	Over two years less than five £'000	Over five years £'000
Non-derivative financial liabilities							
Bank loans		–	–	–	–	–	–
Finance leases		–	–	–	–	–	–
		–	–	–	–	–	–
Trade and other payables	0 0	64	64	64	–	–	–
		64	64	64	–	–	–

Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings in financial instruments

The Group's operations expose it to a variety of financial risks that include foreign currency exchange rates, credit risks and interest rates The Group has in place a risk management programme that continually assesses the potential adverse effects of these risks on the financial performance of the Group Appropriate action is taken to mitigate the impact of such risks as necessary

The Group does not have any exposure to commodities price risk

Foreign exchange risk

The Group is exposed to transactional foreign exchange risk on US Dollar and Euro purchases and cash balances held and following the acquisition of imaGenes translational foreign exchange risk with respect to the Euro net assets of foreign subsidiaries At the reporting date this exposure was not assessed as significant enough for the Group to enter into forward foreign exchange contracts to hedge any risk This position is continually reviewed and appropriate hedging transactions will be entered into where deemed appropriate During the year Euro and US Dollar cash deposits were made to act as a hedge against foreign exchange transactional risk

The Group's exposure to foreign currency risk is as follows

31 December 2011	Sterling £'000	Euro £'000	US Dollar £'000	Total £'000
Trade receivables	**2,134**	**467**	**25**	**2,626**
Cash and cash equivalents	**760**	**294**	**40**	**1,094**
Trade payables	**(944)**	**(219)**	**(250)**	**(1,413)**
Other payables	**–**	**(43)**	**–**	**(43)**
Balance sheet exposure	**1,950**	**499**	**(185)**	**2,264**
31 December 2010				
Trade receivables	1,492	288	39	1,819
Cash and cash equivalents	3,794	4	372	4,170
Trade payables	(1,673)	(439)	(369)	(2,481)
Other payables	–	(509)	–	(509)
Balance sheet exposure	3,613	(656)	42	2,999

Sensitivity analysis

A 5% weakening of the following currencies against the pound sterling at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant The analysis is performed on the same basis for 2010

	Equity		Profit or loss	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Euro	**11**	(31)	**(1)**	(3)
US Dollar	**–**	2	**(12)**	2

A 5% strengthening of the above currencies against the pound sterling at the reporting date would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

29. Financial instruments continued

Interest rate risk

The Group has both interest-bearing assets and liabilities and the Group's strategy is to minimise any exposure to adverse changes in interest rates on borrowing over the medium term Surplus cash is invested in a combination of overnight and short term treasury deposits and advantage is taken of the best interest rates available

The variable rate loans that were taken out to fund the purchase of the Head Office premises bear interest at LIBOR plus a margin of 2 51% and 3 51% respectively An interest rate swap bearing LIBOR was entered into over the period of the loans to effectively fix the interest rates at a rate of 1 53%

At the reporting date the profile of the Group's interest-bearing financial instruments was as follows

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Fixed rate				
Fixed rate debt	**(355)**	(432)	-	-
Financial instruments	-	-	-	-
Total fixed rate	**(355)**	(432)	-	-
Variable rate				
Variable rate debt	**(2,962)**	-	**(2,962)**	-
Financial instruments	-	-	-	-
Total variable rate	**(2,962)**	-	**(2,962)**	-
Total interest-bearing net debt and financial instruments	**(3,317)**	(432)	**(2,962)**	-

Sensitivity analysis

A change of 100 basis points in interest rates would not have a material effect on equity given that the variable rate instrument was taken out on 23 December 2011, so close to the year end, with only £3,000 of interest charged to the Statement of Comprehensive Income

Capital risk management

The Group's objective when managing capital is to maintain a strong capital base (total equity) to safeguard the ability to continue as a going concern and to maintain investor, creditor and market confidence to sustain the future development of the business

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions or business needs In recent years the Group has operated with negligible debt and has had surplus cash balances which it has utilised to make acquisitions and invest in the organic growth of the business In the current year the capital structure has changed with the introduction of bank debt to part fund the purchase of the Group's Head Office premises The level of net debt however remains modest and the Group will continue to maintain an appropriate balance between the advantages and security provided by a sound capital position and the higher returns that might be possible with higher levels of borrowings

The table below presents the quantitative data for the components the Group manages as capital

	2011 £'000	2010 £'000
Shareholders' funds	**12,631**	15,368
Finance leases	**355**	59
Bank loans	**2,962**	373
	15,948	15,800

30. Operating lease commitments – minimum lease payments

Group	2011 Property £'000	2010 Property £'000
Commitments under non-cancellable operating leases		
– within one year	**113**	619
– later than one year and less than five years	**271**	2,120
– after five years	**166**	6,338

The Group leases laboratory facilities and a warehouse under non-cancellable operating lease agreements The leases have various terms, escalation clauses and renewal rights

There were no significant commitments under non-cancellable operating leases in the Company

31. Financial commitments

Group and Company

Contracted, but not provided, capital commitments as at 31 December 2011 were £124,000 (2010 £453,000)

32. Contingent liabilities

Company

Under the terms of the Group's current banking facilities, the Company was liable for the repayment and discharge of all monies owing in respect of the bank borrowings of certain subsidiary undertakings At 31 December 2011 this amounted to £nil (2010 £334,000)

33. Related party disclosures

The aggregated balances with subsidiaries are shown in notes 17 and 19 These amounts are all due within one year and only certain balances bear interest There are no material sales to, or purchases from, subsidiary companies The aggregated balances with subsidiaries have arisen from corporate acquisition or disposal activities by the Company and Group, together with recharges of Group personnel costs and legal and professional fees incurred by the Company

Key management compensation is disclosed in note 27

For the year ended 31 December 2011, the Group was charged an amount of £190,000 (2010 £200,000) by CBG Insurance Brokers Limited in respect of insurances, of which the broker's commission was £32,000 (2010 £31,000)

Prior to his resignation on 5 September 2011, Mr Slinger was a director of CBG Group Plc, the parent company of CBG Insurance brokers Limited There were no amounts outstanding at 31 December 2011 in respect of insurances

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Source BioScience plc will be held at 1 Orchard Place, Nottingham Business Park, Nottingham, NG8 6PX on 13 June 2012 at 10 30am for the following purposes and all resolutions will be proposed as ordinary resolutions save for resolutions 8, 9 and 10 which will be proposed as special resolutions

1 To receive the Company's annual accounts for the financial year ended 31 December 2011 together with the last Directors' Report, the last Directors' Remuneration Report and the auditor's report on those accounts

2 To re-elect Mr Turnbull, who retires by rotation pursuant to the Articles of Association of the Company and provision B 7 1 of the UK Corporate Governance Code and who, being eligible, offers himself for re-election as a Director

3 To re-elect Dr Ash, who retires by rotation pursuant to the Articles of Association of the Company and provision B 7 1 of the UK Corporate Governance Code and who, being eligible, offers himself for re-election as a Director

4 To re-elect Mr Slinger, who retires by rotation pursuant to the Articles of Association of the Company and provision B 7 1 of the UK Corporate Governance Code and who, being eligible, offers himself for re-election as a Director

5 To re-appoint KPMG Audit Plc as auditor of the Company to hold office from the conclusion of the meeting until the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the Directors to fix their remuneration

6 To approve the Directors' Remuneration Report for the financial year ended 31 December 2011

7 That, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and they are hereby generally and unconditionally authorised for the purpose of section 551 Companies Act 2006 (the 'Act')

(a) to exercise all or any of the powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into, shares of the Company (such shares and rights being together referred to as 'Relevant Securities') up to an aggregate nominal value of £1,344,851 to such persons at such times and generally on such terms and conditions as the Directors may determine (subject always to the Articles of Association of the Company), and further

(b) to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £1,344,851 in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any territory

Provided that (in each case) this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is six months after the next accounting reference date of the Company (if earlier) save that the Directors of the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted or rights to subscribe for or convert securities into shares to be granted after the expiry of such period and the Directors of the Company may allot relevant securities or equity securities or grant rights to subscribe for or convert securities into shares (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired

8 That, subject to and conditional upon the passing of the resolution numbered 7 in the notice convening the meeting at which this resolution was proposed and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred upon them by resolution 7 as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to

(a) the allotment of equity securities in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any territory, and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) is of equity securities up to an aggregate nominal amount of £407,530, representing approximately 10% of the current share capital of the Company

and shall expire at the conclusion of the next annual general meeting or on the date which is six months after the next accounting reference date of the Company (if earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired

9 That, for the purposes of section 701 of the Act, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 2p each in the capital of the Company ('Ordinary Shares') provided that

(a) the maximum number of Ordinary Shares which may be purchased is 20,376,523 (representing 10% of the Company's current share capital),

(b) the minimum price which may be paid for each Ordinary Share is 2p,

(c) the maximum price which may be paid for each Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from the Daily Office List of the London Stock Exchange plc for the five business days immediately preceding the day on which the Ordinary Share in question is purchased,

(d) unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company to be held in 2013 or, if earlier, on the date which is twelve months after the date of the passing of this resolution, and

(e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which contract or contracts will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts

Notice of Annual General Meeting continued

10 That

(a) the Articles of Association of the Company be amended to take account of certain new requirements and authorisations provided for in the Act and that these new Articles of Association be adopted to the exclusion of, and in substitution for, the existing Articles of Association of the Company, (and accordingly those provisions which, immediately before 1 October 2009, were contained in the Company's Memorandum of Association and by virtue of section 28 of the Act would otherwise be treated as provisions of the Company's Articles of Association shall no longer apply to the Company, and

(b) as contemplated in such altered Articles of Association

(i) the Company may send or supply any document or information that is required or authorised to be sent or supplied to a member or another person by the Company under the Companies Acts (as defined in section 2 of the Act), or pursuant to the Company's Articles of Association or to any other rules or regulations to which the Company may be subject, by making it available on a website, and

(ii) the provisions of the Act which apply to sending or supplying a document or information required or authorised to be sent or supplied by the Companies Acts (as defined in section 2 of the Act) by making it available on a website shall also apply, the necessary changes having been made, to sending or supplying any document or information required or authorised to be sent by the Company's Articles of Association or other rules or regulations to which the Company may be subject by making it available on a website

An explanation of the main changes to the Company's Articles of Association, and the reasons for adopting the electronic communications regime, is set out in the explanatory notes at the end of this notice A full copy of the amended Articles of Association is available for inspection on request

By order of the Board

Dr Nick Ash
Company Secretary
30 April 2012

Registered Office
1 Orchard Place
Nottingham Business Park
Nottingham NG8 6PX

Notes

1 A member of the Company entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to exercise any of his rights to attend, speak and vote at that meeting on his behalf If a member appoints more than one proxy, each proxy must be entitled to exercise the rights attached to different shares You may appoint more than one proxy to exercise rights attaching to any one share A proxy need not be a member of the Company

2 A proxy may only be appointed using the procedures set out in these notes and the notes to the proxy form To appoint a proxy, a member may complete, sign and date the enclosed proxy form and deposit it at the office of the Company's Registrar, Equiniti, at Aspect House, Spencer Road, Lancing BN99 6DA no later than 48 hours before the start of the meeting Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form

3 In order to revoke a proxy appointment, a member must sign and date a notice clearly stating their intention to revoke their proxy appointment and deposit it at the office of the Company's Registrar, Equiniti, at Aspect House, Spencer Road, Lancing BN99 6DA no later than 48 hours before the start of the meeting

4 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST manual (available via www euroclear com/CREST) CREST personal members or other CREST sponsored members, and those CREST sponsors who have appointed a voting service provider(s), should refer to their CREST sponsors or voting service providers, who will be able to take the appropriate action on their behalf In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (CREST Proxy Instruction) must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited (Euroclear UK & Ireland) and must contain the information required for such instructions as described in the CREST manual (available via www euroclear com/CREST) The message must be transmitted so as to be received by the Company's agent (ID RA19) by the latest time for receipt of proxy appointments specified in the Notice For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST CREST members and, where applicable, their CREST sponsors and voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001

5 Any corporation which is a member of the Company may authorise one or more persons (who need not be a member of the Company) to attend, speak and vote at the meeting as the representative of that corporation, provided that they do not do so in relation to the same shares A certified copy of the Board resolution of the corporation appointing the relevant person as the representative of that corporation in connection with the meeting must be deposited at the office of the Company's Registrar prior to the commencement of the meeting

6 The right to vote at the meeting shall be determined by reference to the register of members of the Company Only those persons whose names are entered on the register of members of the Company at 6pm on 11 June 2012 or, if the meeting is adjourned, at 6pm on the date falling two days prior to the date of the adjourned meeting, shall be entitled to attend and vote in respect of the number of shares registered in their names at that time Changes to entries on the register of members after the times specified above shall be disregarded in determining the rights of any person to attend and/or vote at the relevant meeting

Notice of Annual General Meeting continued

7 Completion of the form of proxy does not preclude attendance at the meeting If you wish to attend the meeting in person, only those persons whose names are entered on the register of members of the Company at 6pm on 11 June 2012 or, if the meeting is adjourned, at 6pm on the date falling two days prior to the date of the adjourned meeting, shall be entitled to attend and vote in respect of the number of shares registered in their names at that time Changes to entries on the register of members after the times specified above shall be disregarded in determining the rights of any person to attend and/or vote at the relevant meeting

8 Members who wish to communicate with the Company by electronic means in connection with the matters set out in this notice may do so by contacting the Company at companysecretary@sourcebioscience com on or before 6pm on 12 June 2012

9 It is not permissable to use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated

10 As at 12 00pm on 30 April 2012 the Company's issued share capital comprised 203,765,232 ordinary shares of 2p each Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 12 00pm on the 30 April 2012 is 203,765,232

11 Copies of the service contracts and letters of appointment of the Directors of the Company will be available at the place of the meeting

11 1 for at least 15 minutes prior to the meeting, and

11 2 during the meeting

12 If you are a person who has been nominated under section 146 of the Act to enjoy information rights (a 'Nominated Person') you may, under an agreement between you and the member of the Company who has nominated you, have a right to be appointed (or have someone else appointed) as a proxy for the meeting If you do not have such a proxy appointment right, or you do but do not wish to exercise it, you may have a right to give instructions to the member who has nominated you as to the exercise of voting rights If you are a Nominated Person, the statements of the rights of members in relation to notes 1 to 8 above do not apply The rights described in those notes can only be exercised by a registered member of the Company

13 The information which the Company is required to publish in advance of the meeting by virtue of section 311A of the Act can be accessed via www sourcebioscience com

14 Subject to the provisions of section 319A of the Act, at the meeting the Company must cause to be answered any question relating to the business being dealt with at the meeting put by a member attending the meeting An answer need not be given if

14 1 answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information,

14 2 the answer has already been given on a website in the form of an answer to a question, or

14 3 it is undesirable in the interests of the Company or the good order of the meeting that the question be answered

15 Subject to the provisions of sections 338 and 338A of the Act, members representing at least 5% of the total voting rights of all members (or at least 100 members who have the right to vote at the meeting and who hold shares on which there has been paid up an average sum per member of at least £100) may

15 1 require the Company to give, to members of the Company entitled to receive notice of the annual general meeting, notice of a resolution which may properly be moved and is intended to be moved at that meeting, and

15 2 request the Company to include in the business to be dealt with at the annual general meeting any matter (other than a proposed resolution) which may properly be included in the business

16 Subject to the provisions of Chapter 5 of Part 16 of the Act, members representing at least 5% of the total voting rights of all members (or at least 100 members who have the right to vote at the meeting and who hold shares on which there has been paid up an average sum per member of at least £100) may require the Company to publish on a website a statement setting out any matter that such members propose to raise at the meeting relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting Where the Company is required to publish such a statement on its website

16 1 it may not require the members making the request to pay any expenses incurred by the Company in complying with the request,

16 2 it must forward the statement to the Company's auditor no later than the time the statement is made available on the Company's website, and

16 3 the statement may be dealt with as part of the business of the meeting

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000

If you have sold or transferred all of your shares in the Company, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares

Explanatory Notes to the Notice of Annual General Meeting

Resolution 7 — Directors' power to allot relevant securities

Under section 551 of the Act, relevant securities may only be issued with the consent of the shareholders, unless the shareholders pass a resolution generally authorising the Directors to issue shares without further reference to the shareholders This resolution authorises the general issue of shares up to an aggregate nominal value of £1,344,851, which is equal to 33% of the nominal value of the current ordinary share capital of the Company and a further issue of shares up to an aggregate nominal value of £1,344,851, which is equal to a further 33% of the nominal value of the current share capital of the Company for the purposes of fully pre-emptive rights issues Such authorities will expire at the conclusion of the next annual general meeting of the Company or the date which is six months after the next accounting reference date of the Company (whichever is the earlier)

Resolution 8 — Disapplication of pre-emption rights on equity issues for cash

Section 561 of the Act requires that a company issuing shares for cash must first offer them to existing shareholders following a statutory procedure which, in the case of a rights issue, may prove to be both costly and cumbersome This resolution excludes that statutory procedure as far as rights issues are concerned It also enables the Directors to allot shares up to an aggregate nominal value of £407,530, which is equal to 10% of the nominal value of the current ordinary share capital of the Company, subject to resolution 7 being passed The Directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility Unless previously revoked or varied, the disapplication will expire on the conclusion of the next annual general meeting of the Company or on the date which is six months after the next accounting reference date of the Company (whichever is the earlier)

Resolution 9 — Market purchases of own shares

A company may only purchase its own shares by either an off-market purchase, in pursuance of a contract approved in advance in accordance with section 694 of the Act or by a market purchase, authorised in accordance with section 701 of the Act A 'market purchase' is one made through a 'recognised investment exchange' Although the Act only requires an ordinary resolution, LR12 4 7 of the Listing Rules requires the resolution to be passed as a special resolution (the ABI also recommend that the resolution should be passed as a special resolution) This resolution 9 authorises market purchases of the Company's own shares to be made but only within the limitations specified In accordance with ABI guidelines the maximum number of shares purchased under this authority must not exceed 10% of the Company's current share capital The resolution also states the maximum and minimum prices which may be paid, being no more than 5% above the average market value of the Company's shares for the five business days prior to the purchase As recommended by the ABI the Company renews this authority on an annual basis at each annual general meeting

Resolution 10 — Adoption of new Articles of Association

It is proposed in resolution 10 that the Company adopts new Articles of Association (the 'New Articles') in order to update the Company's current Articles of Association (the 'Current Articles') primarily to take account of the implementation of the Act and the Companies (Shareholders' Rights) Regulations 2009 (the 'Shareholders' Rights Regulations')

The principal changes introduced in the New Articles are summarised below Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect minor changes made by the Act or the Shareholders' Rights Regulations, or conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills have not been noted below The New Articles are available for inspection upon request

Explanatory Notes of Principal Changes to the Company's Articles of Association

1 The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's Memorandum and Articles of Association The Company's Memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake This is drafted to give a wide scope

The Act significantly reduces the constitutional significance of a company's memorandum and provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company Under the Act the objects clause and all other provisions which are contained in a company's memorandum, for existing companies at 1 October 2009, are deemed to be contained in a company's articles of association but a company can remove these provisions by special resolution

Further the Act states that unless a company's articles provide otherwise, a company's objects are unrestricted This abolishes the need for companies to have objects clauses For this reason the Company is proposing to remove its objects clause together with all other provisions of its Memorandum which, by virtue of the Act, are treated as forming part of the Company's Articles of Association as of 1 October 2009 Resolution 10 confirms the removal of these provisions for the Company As the effect of this resolution will be to remove the statement currently in the Company's Memorandum of Association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of shareholders

2 Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Act are in the main amended to bring them into line with the Act

3 Change of name

Under the Companies Act 1985, a company could only change its name by special resolution Under the Act a company will be able to change its name by other means provided for by its articles To take advantage of this provision, the New Articles enable the directors to pass a resolution to change the Company's name

4 Authorised share capital and unissued shares

The Act abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Act, save in respect of employee share schemes

5 Redeemable shares

Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption The Act enables directors to determine such matters instead provided they are so authorised by the articles The New Articles contain such an authorisation The Company has no plans to issue redeemable shares but if it did so the directors would need shareholders' authority to issue new shares in the usual way

Explanatory Notes of Principal Changes to the Company's Articles of Association continued

6 Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital

Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action The Current Articles include these enabling provisions Under the Act a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions Accordingly the relevant enabling provisions have been removed in the New Articles

7 Provision for employees on cessation of business

The Act provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the company's articles or by the company in general meeting The New Articles provide that the directors may exercise this power

8 Use of seals

Under the Companies Act 1985, a company required authority in its articles to have an official seal for use abroad Under the Act, such authority will no longer be required Accordingly, the relevant authorisation has been removed in the New Articles

The New Articles provide an alternative option for execution of documents (other than share certificates) Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve

9 Suspension of registration of share transfers

The Current Articles permit the directors to suspend the registration of transfers Under the Act share transfers must be registered as soon as practicable The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement Accordingly, this power has been removed in the New Articles

10 Vacation of office by directors

The Current Articles specify the circumstances in which a director must vacate office The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Innovation and Skills

11 Electronic conduct of meetings

Amendments made to the Act by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings The Current Articles have been amended to reflect more closely the relevant provisions

12 Electronic communications

The New Articles have been updated to allow the Company to apply the new electronic communications rules to documents and information to be sent under its Articles of Association, as well as documents and information required or permitted to be sent under the Act and under other rules or regulations such as the Listing Rules The Act requires certain conditions to be met before a company can take advantage of the new rules, including that the Company must notify shareholders by post or electronically that the relevant document is available on the website The New Articles allow the Company to use electronic communications with shareholders as the default position by placing any documents or information, including the Annual Report and Accounts, on a website rather than sending such documents or information to shareholders in hard copy Shareholders may also ask for a hard copy of any document at any time

Subject to Resolution 10 being passed the Company will be asking each shareholder individually to agree that the Company may send or supply documents or information by means of a website This request will come by letter after the Annual General Meeting and explain that, if the Company has not received a response within 28 days beginning with the day of the request, the shareholder will be taken to have agreed This request will be sent to all shareholders (including those who have already agreed to website publication), so that in the future the Company has a single regime applicable to all shareholders Even if a shareholder fails to respond, and is taken to agree to website publication, he or she can ask for a hard copy of any document from the Company at any time

The Company will send a notification to shareholders to alert them to the publication of the relevant document when a document or information is made available on the website Shareholders may choose to receive this notification in hard copy form or by email The new arrangements are expected to save considerable administrative, printing and postage costs, while preserving shareholders' rights to receive hard copy documents if they wish

13 General

Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills

Glossary

The following terms are used in this document

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

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

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

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

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

Capillary Electrophoresis DNA Sequencing
(also known as Sanger sequencing or conventional sequencing)
DNA sequences are determined using a chemical reaction that results in an array of products that terminate in a different fluorescent coloured dye, which vary in size by one nucleotide The products are separated, like the rungs of a ladder, by passing them through a capillary with an electric current and determining the order in which they emerge This method was used for the large DNA sequencing projects of the last 15 years and remains the only way of inexpensively analysing large numbers of small sets of samples (see also Next Generation DNA Sequencing – page 90)

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

Circulating Tumour Cells ('CTC')
The identification of small numbers of cancer cells circulating in the blood has been shown to be of potential prognostic significance in breast cancer, colorectal or prostate cancer, and useful for monitoring response to drug therapy

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

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

Companion Diagnostic
A test based on a biomarker (which might be a protein, DNA or RNA molecule), the presence or absence of which is associated with the likely efficacy of a drug or other treatment Companion diagnostics are useful in stratifying patients into groups which are known to respond in a particular way to a drug A good example of such a test from the Source BioScience breast cancer portfolio is the HER2 test, which assesses levels of the HER2 protein, expression of which is correlated with response to Herceptin™

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 page 90) from the gene(s) selected

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

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

Fluorescence In Situ Hybridisation ('FISH')
In situ hybridisation ('ISH') is a powerful technique, not unlike immunohistochemistry (see page 90), for visualising the presence of specific sequences of DNA or RNA in tissue sections The technique uses short synthetic sequences of DNA or RNA which will bind, or hybridise, to the tissue with high specificity for the DNA or RNA of interest Fluorescent 'tags' are attached to these synthetic sequences, allowing them to be visualised with a special microscope, even when present at very low levels (FISH)

Genomics
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 page 88) and RNA (see page 90) 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 page 88) and is often intended to represent the genes that are expressed within a given cell or tissue type at a given period

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

Genotyping and sequencing
DNA sequencing is the process of precisely ordering the building blocks, or nucleotides, of an organism's DNA The method can be used to determine short sequences of DNA or, in larger experiments, to sequence the entire genome of an organism Genotyping, in turn, is the process whereby DNA is characterised and then compared to reference data or, if large numbers of samples are genotyped, the data can be examined for patterns which might lead to discoveries of the fundamental causes of inherited diseases Genotyping is commonly performed by PCR (see page 90) 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

Glossary continued

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 is believed to play a key role in the development of cervical intraepithelial neoplasia (CIN) and invasive cancer of the cervix HPV infection is also associated with other cancers, including those of the head and neck

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

Human Tissue Authority ('HTA')
The 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 you to determine the sample nucleic acid sequence

Next Generation DNA Sequencing ('NGS'), Illumina GAIIx™ and Illumina HiSeq 2000™
NGS refers generically to a set of recent technologies, in our case Illumina GAIIx™ and Illumina HiSeq 2000™, in which extremely large numbers of short sequences can be determined in a single experiment, for example the Illumina HiSeq 2000™ selected by Source BioScience can sequence two human genomes in 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 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) 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)

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

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