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Source BioScience plc

Annual Report & Accounts

for the year ended 31 December 2012

Welcome to
Source BioScience plc

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

Our Strategy

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

Highlights

Financial Highlights

- Revenue increased by 8% to £16 4 million (2011 £15 2 million)
- Operating profit more than doubled to £1 2 million (2011 £0 5 million adjusted*)
- Profit before tax of £1 0 million (2011 £0 4 million adjusted*)
- EBITDA increased by 43% to £2 7 million (2011 £1 9 million adjusted*)
- Profit after tax of £3 5 million (2011 loss of £2 8 million)
- EPS 1 70 pence (2011 loss per share 1 37 pence)
- Cash generated from operating activities of £3 3 million (2011 £0 6 million)
- Cash balance of £2 2 million (2011 £1 1 million) and net debt of £0 9 million (2011 £2 3 million)

*Adjusted results are stated after eliminating non-recurring restructuring costs of £0 6 million and the £2 8 million charge to reflect the fair value of the Head Office premises following their purchase during 2011 The adjusted results have been included to present a fair comparison of the progress in the underlying business

Operational Highlights

- Rapid roll out of the BD FocalPoint™ automated imaging platform for cervical cancer screening, contracts signed with NHS worth at least £0 6 million per annum over three years
- Access to BD FocalPoint™ was instrumental in winning the University Hospital of North Staffordshire NHS Trust's liquid based cytology ('LBC') contract, the first time that an NHS Trust has switched LBC technology provider
- Launch of the Illumina MiSeq™ next generation sequencing platform, Source BioScience is the only commercial provider of this new technology in the UK
- Consolidation of operations and infrastructure to deliver enhanced gross margin and operating profitability across the Group

Post-period events

- Renewal of York Teaching Hospital NHS Foundation Trust LBC contract together with the implementation of BD FocalPoint™ automated imaging, contract worth £1 3 million over three years
- Launch of reSource™ own label products, high quality, cost effective products for life science research, significantly increasing the addressable market for our product portfolio

Inside this Report

For further information scan the QR code below with your smartphone or visit www sourcebioscience com/investor-relations

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 and Care Quality Commission, Source BioScience is well placed to serve the healthcare and life sciences sectors for the long term

Healthcare

The Healthcare division comprises our Cytology and Diagnostics activities including cervical cancer screening and diagnostic testing services for diseases such as cancer.

Highlights

- Demand for gene-based companion diagnostic testing increased by over 50% year on year
- Rapid roll-out of the BD FocalPoint™ automated imaging platform for cervical cancer screening
- Dominant market share in cervical cancer screening of over 50%, two million cytology tests delivered to the NHS

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

Highlights

- Continued success of Overnight Service for DNA sequencing, with increase of over 40% year on year
- Launch of Illumina MiSeq™ next generation sequencing platform, only commercial provider of this new technology in the UK
- Launch of reSource™ range of own branded products, significantly expanding addressable market for our products

Profile

Cytology

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

Diagnostics

- Expertise in cancer diagnostics
- Genetic testing and companion diagnostics
- Molecular diagnostic market estimated at £1 5 billion
- Global cancer diagnostic market estimated at £4 billion

Revenue Contribution

52%

Profile

Services

- Leading European provider of DNA sequencing
- Established in European markets with further expansion into Asia
- Largest outsourced provider of sequencing in the UK

Products

- Portfolio of over 20 million clones and 100,000 antibodies, largest in the world
- reSource™ own branded product range generates global reach
- GenomeCube® proprietary e-commerce platform for life science products, provides rapid access for researchers to entire portfolio

Revenue Contribution

48%

Chairman's Statement

Laurie Turnbull

"2012 was a year of consolidation and improvement of the business and its infrastructure Revenue and operating profits have increased again and the Group is in a robust financial and structural position to accelerate the organic growth of the business "

Overview

Over the past five years, the Group's focus has been on improving the financial performance and creating a robust business and financial platform to deliver enhanced shareholder value We are again pleased to report that Source BioScience has increased profit and cash generation during the year, in line with the Board's expectations

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 cohesion and commonality of our technology platforms and expertise is critical to driving the organic growth of the business and enables significant operational gearing This represents a "joined up" business built on common technology platforms, laboratory processes and intellectual capital

Summary results

	2012 £'000	2011 £'000	% change
Revenue	**16,431**	15,192	+8%
Gross profit	**7,418**	6,751	+10%
Operating profit	**1,150**	461*	+149%
Profit before tax	**963**	438*	+120%
EBITDA	**2,669**	1,860*	+43%
Profit/(loss) after tax	**3,471**	(2,795)	–

*Adjusted results for the year ended 31 December 2011 are stated after eliminating non-recurring restructuring costs of £0 6 million and the £2 8 million charge to reflect the fair value of the Head Office premises following their purchase during 2011 The adjusted results for 2011 have been included to present a fair comparison of the progress in the underlying business

Divisional performance

The Group's operating divisions, Healthcare and LifeSciences, performed well during 2012 and both divisions returned increased revenue and operating profits

Healthcare

In 2012 we achieved Healthcare revenue of £8 6 million (2011 £7 4 million), an increase of 16%, and divisional operating profit increased by 25% to £2 8 million (2011 £2 2 million) The robust performance was underpinned by our Cytology business which provides systems vital to the preparation and analysis of cervical smear samples in support of the NHS Cervical Cancer Screening Programme

2012 was a significant year for Cytology following the NHS approval of the BD FocalPoint™ system, our automated imaging platform for cervical cancer screening, at the end of the previous year The opportunity this approval presented was crystallised effectively, with a rapid roll out of the automated platform during the first half of the year As we move into 2013, demand for this technology continues and, in February, a further system has been ordered by York Teaching Hospital NHS Foundation Trust A number of other Trusts are holding discussions with the Company about 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 With the sophistication of modern targeted medicines, there is an increased requirement for patient stratification and companion diagnostics to match patients with the most effective treatment During 2012 we saw demand for gene-based companion diagnostic testing increase by over 50% With our expertise in both these areas, we believe Source BioScience is well placed to exploit such opportunities

LifeSciences

LifeSciences delivered broadly consistent revenue of £7 9 million (2011 £7 8 million) but an increased operating profit of £1 2 million (2011 £0 8 million)

Strong growth in our Overnight Service for DNA sequencing was tempered by technical issues that impacted the Illumina HiSeq™ next generation sequencing platforms These issues were rectified before the second half of the year Revenue from the products business, comprising our clone and antibody portfolio, was consistent with last year

The Overnight Service, supported by our network of UK and European laboratories, continues to be enormously successful and the number of samples sequenced for customers increased by over 40% compared with last year Extending the reach and customer base for our Overnight Service provides the commercial platform to deliver higher value services and products to the life science research communities

Staff

Our staff are fundamental to the success of our business 2012 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 as the business continues to grow

Outlook

We believe we have a very strong business model and opportunities for growth are apparent across both Healthcare and LifeSciences The Board's strategy is to enhance further the service and product offering, 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, building on the strong foundations now inherent in our business

Summary

2012 was a year of consolidation and improvement of the business and its infrastructure Revenue and operating profits have increased again and the Group is in a robust financial and structural position to accelerate the organic growth of the business

Significant opportunities are apparent across all areas of the Group, with customers seeking faster access to more efficient and more accurate molecular diagnostic testing, and to high quality genomic products and services We are also proactively exploring opportunities that are complementary to our existing activities and will further enhance the Company's portfolio and reputation

Laurie Turnbull
Chairman
25 April 2013

Business Review

Dr Nick Ash

"We are seeing continued growth across both divisions, which is in line with the strategic plan implemented for the Group, we expect demand for our services and products to continue to accelerate "

Cautionary statement

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

Overview

Source BioScience is an international diagnostic and genetic analysis services business serving the healthcare and life science research markets The commercial activities of the Group are organised into two divisions, Healthcare and LifeSciences The business activities and performance during 2012, and expectations for 2013, are described below

Healthcare

The Healthcare division comprises our Cytology and Diagnostics activities including cervical cancer screening and diagnostic testing services for diseases such as cancer

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

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 7 to 12 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 six 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, proprietary e-commerce infrastructure and automated BD FocalPoint™ imaging technology 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 associated infrastructure, 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 2012, generating cash from operating activities during the year with continued progress expected during 2013

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 In addition, the culture of the Group is to ensure that appropriate cross-training is undertaken and knowledge sharing is actively encouraged and rewarded

Business Review continued

Business Segment Performance Review

Healthcare

Healthcare achieved revenues of £8 6 million (2011 £7 4 million), an increase on last year of 16% Divisional operating profit increased by 25% to £2 8 million (2011 £2 2 million)

Cytology

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

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

Access to BD FocalPoint™ was instrumental in the University Hospital of North Staffordshire NHS Trust's decision to award the LBC supply contract to Source BioScience and represented the first time that an NHS Trust had switched its LBC technology provider Subsequent to the year end, the availability of the BD FocalPoint™ was a critical factor in York Teaching Hospital NHS Foundation Trust's decision in February 2013 to renew its LBC supply contract with Source BioScience The York platform is the seventh platform to be placed with the NHS

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

The Diagnostics operations provide expert histopathology (tissue analysis), molecular diagnostics (genetic analysis) and companion diagnostic testing services to public and private healthcare providers This operation has delivered good growth in 2012, with revenue up over 8% compared with the previous year and is expected to drive growth in the longer term

Demand from the NHS for gene-based companion diagnostic testing has risen by more than 50% in the year and demonstrates the increasing clinical importance of this type of diagnostic testing We believe this growing demand strengthens our commercial advantage, we are one of only a limited number of accredited laboratories in Europe with the capability to deliver this type of complex testing

Our Diagnostics offering has been enhanced during 2012, including the development and validation of proprietary assays for the most important genetic tests for diseases, such as prostate cancer These proprietary assays improve our laboratory efficiency, reduce our costs and provide a competitive advantage, and we expect continuing growth during 2013

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 activities by our customers and may cease if 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 Diagnostics 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 The Group's CPA accreditation was renewed in January 2013 following a satisfactory audit inspection

Business Review continued

Business Segment Performance Review

LifeSciences

LifeSciences delivered consistent revenue in 2012 of £7 9 million (2011 £7 8 million) with operating profit up to £1 2 million (2011 £0 8 million)

Services

The launch of the Overnight Service for sequencing during 2011 has helped us to significantly increase our market share We are the only company offering a UK-based sequencing service and we have taken a leading position as an outsourced provider of DNA sequencing in Europe Our Overnight Service continues to power the growth of the sequencing business and volumes during the year increased by more than 40% compared with 2011 This growth has been sustained into 2013

As described in our half year report, during the first quarter of 2012 we experienced some issues with our high throughput next generation sequencing platforms which resulted in a period of machine down time and approximately 30% loss of production capacity As with all cutting edge technology services, there is the potential for technical issues to arise, however, these issues have been rectified The market for next generation sequencing is growing strongly and we continue to experience increasing demand for these services

In July we announced an extended next generation sequencing service using the new Illumina MiSeq™ technology platform The MiSeq™ platform has applications in both life sciences, where researchers might be focused on single gene studies rather than whole genome studies on the HiSeq™, and healthcare where it is positioned to be a powerful diagnostic tool In particular, the ability to test for multiple genetic biomarkers for cancer diagnostics is anticipated to have a significant positive impact on our companion diagnostic service offering in Healthcare

Source BioScience is the only commercial provider of the MiSeq™ technology in the UK, maintaining the Group's position at the forefront of sequencing services and the largest UK provider of Illumina sequencing

Products

GenomeCube®, our proprietary search engine and bioinformatics tool for our clone and antibody portfolio, has been further developed during the year The primary focus for 2012 was Phase III of the GenomeCube® project, enhancing the functionality of the platform and enabling its roll out across an international distributor network During the year, we announced the appointment of regional franchise distributors for the genomic products portfolio and we launched country-specific, local language GenomeCube® modules for Japan and Korea

Our partners in these countries provide the local research community with improved access to the largest publically available library of DNA clones, representing nearly every known human and mouse gene, in addition to many genes from most model organisms important for biological research

In addition to our DNA clone portfolio, we offer an extensive catalogue of antibodies for research applications Historically, Source BioScience has acted as a distributor of certain antibody and other products, limiting the geographies into which they could be marketed, constraining growth

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

All of these products will be available through GenomeCube® which we regard as a major element of the Group's growth strategy for the medium to longer term It will do this by accelerating the globalisation of our products business, enabling our distributors, and customers, fast and ready access to our entire product portfolio

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

The Group continually assesses the technologies available and is 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 MiSeq™ next generation DNA sequencing technology and remain one of the leading providers in Europe for next generation sequencing 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 In addition, we have launched reSource™, our own label product range, providing high quality, cost effective products for life science research, significantly increasing the addressable market for our product portfolio

Business Review continued

Business Segment Performance Review

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 decreased by £3 1 million to £2 8 million (2011 £5 9 million of which £2 8 million was the charge to reflect the fair value of the Head Office premises acquired in the year) Over the same period revenue has increased to £16 4 million and central costs (after adjusting for the non-recurring items identified above) represented 17% of revenue (2011 20% 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 Rules and the Disclosure and Transparency Rules of the new Financial Conduct 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 Issuers (and their advisors) can find information and resources that they need for interacting with us and for carrying out their various obligations under the FCA Listing Rules, Prospectus Rules and Disclosure and Transparency Rules

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 £16 4 million (2011 £15 2 million) of which £3 0 million was to overseas customers (2011 £3 0 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 8% to £16 4 million (2011 £15 2 million) Owing to the operational gearing generated within our laboratory infrastructure, coupled with close management of the cost base, gross margins improved to 45% (2011 44%) In the current economic environment with constant pressure on prices and rising input costs, this represents a satisfactory performance

Normal administrative expenses reduced as a proportion of revenue to 28% (2011 30%) Ongoing administrative expenses are largely fixed and appropriate to the scale of the business

Operating profit for the year was £1 2 million (2011 loss of £2 9 million) After net finance expense, profit before tax was £1 0 million (2011 loss of £3 0 million), in line with expectations

Included in the Consolidated Statement of Comprehensive Income are non-cash items, including depreciation and amortisation, of £1 5 million (2011 £4 2 million) After accounting for these non-cash items, non-recurring restructuring costs, net finance expense and taxation, EBITDA were £2 7 million (2011 £1 9 million), an increase of 43%

Source BioScience has reported underlying operating profits in each of the last four financial years, however, any profits chargeable to corporation tax have largely been offset against historic tax losses As the Group has become increasingly profitable it has been appropriate to review, and ultimately recognise, the value of the historic tax losses to the Group As a result, a deferred tax asset has been recognised at 31 December 2012 and, as a consequence, a tax credit of £2 5 million has been generated and reported in the Consolidated Statement of Comprehensive Income Profit after tax for the year was £3 5 million (2011 loss of £2 8 million)

Purchase of Head Office premises in the comparative period

In December 2011, the Group purchased the freehold land and buildings of its 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 were initially 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 was recognised as a one-off cost of £2 8 million in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

Restructuring costs

The integration of the acquired imaGenes business was completed as planned during 2011 This entailed significant commercial and operational changes to the acquired business, in addition to infrastructure modifications in the UK to support the enlarged Group The one-off costs associated with the integration amounted to £0 6 million

Financial position

At 31 December 2012 the Group net assets were £16 2 million (2011 £12 6 million)

Non-current assets increased by a net £3 1 million to £17 2 million at 31 December 2012 (2011 £14 1 million), the significant element of the increase comprising the deferred tax asset of £2 6 million Additionally, significant investment of £1 0 million was made in the BD FocalPoint™ platforms which were installed across the NHS during the year

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 2012 the Group had aggregate debt of £3 1 million (2011 £3 3 million) This debt represents the balance of £2 5 million on the term loan secured to purchase the premises in 2011 in addition to finance lease liabilities of £0 6 million, mainly in respect of BD FocalPoint™ financing

Cash flows and liquidity

Cash generated from operating activities was £3 3 million (2011 £0 6 million) and after financing and capital expenditure net cash inflow was £1 1 million (2011 £3 1 million outflow)

In aggregate we invested £2 4 million to support the growth of the business, including £1 0 million in BD FocalPoint™ automated imaging capability and £1 0 million on laboratory infrastructure and GenomeCube®

The Group's cash balance was £2 2 million as at 31 December 2012 (2011 £1 1 million) and net debt was £0 9 million (2011 £2 3 million)

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 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 2012, the Group had external borrowings of £3 1 million, of which £2 5m of bank loans were at variable rates, which have been fixed through the use of an interest rate swap, and £0 6m of finance lease liabilities were at fixed interest rates

Business Review continued

Business Segment Performance Review

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 2012 the Group had a total of 115 employees (31 December 2011 117 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 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 Singer (nominated advisor, sponsor and broker), College Hill Limited (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 (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

Information on key performance indicators

This Business Review includes eight 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

Healthcare

In Healthcare, the approval by the NHS of the BD FocalPoint™ automated imaging system was an important trigger to further growth of our Cytology business Demand is evident from a number of NHS Trusts and we expect further contracts to be signed during 2013

In Diagnostics, patient and disease stratification is becoming increasingly relevant With ongoing uncertainty surrounding NHS resourcing, we see this as a significant opportunity to provide a broader and cost effective diagnostic service to a wider clinical base including infectious disease, cardiovascular and metabolic disease, in addition to oncology

LifeSciences

In LifeSciences, our share of the UK market for DNA sequencing has continued to grow and we are now the largest outsourced provider of sequencing in the UK, a market worth an estimated £10 million per annum Our aim, ultimately, is to be recognised as Europe's leading sequencing provider

We are currently in Phase III of the business development of GenomeCube®, delivering the operational and commercial infrastructure to drive the globalisation of our products business The first priority is to establish a network of franchise distributors across South East Asia, representing an international expansion opportunity that has previously been limited We have already appointed franchise partners in Japan and South Korea and are in discussions with other potential partners in this region

In addition to these operational and commercial infrastructure improvements, the launch of the reSource™ brand for our LifeSciences products is another important step in harnessing the value inherent in our product portfolio The reSource™ products will eliminate existing geographical restrictions, attract potential new suppliers and expand our accessible market

Conclusion

The Group's strategy is to grow its Healthcare and LifeSciences 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 demand for our services and products to continue to strengthen 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
25 April 2013

The Board of Directors

(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

Executive Directors

Dr Nick Ash
Chief Executive Officer
(age 43) (a)

Nick joined Source BioScience in 2005 as CFO, becoming CEO in 2007 Nick oversaw the restructuring of the Group in 2006, determining and implementing the strategy to deliver the Group's current 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 a regional airline and spent nine years with KPMG

Dr Nick Leaves
Chief Operating Officer
(age 45) (a)

Nick joined the Company in 2007, becoming a Board member in 2008 Nick was a co-founder of Geneservice Limited in 2005 via a management buyout from the Medical Research Council ('MRC') 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 on the molecular methods used to characterise outbreaks of bacterial meningitis

Mr Robert Bakewell
Finance Director
(age 41) (a)

Rob joined Source BioScience in 2005, becoming Finance Director in 2011 and being appointed to the Board in August 2012 Rob converted the Group to IFRS and has overseen the consolidation of the finance function and associated systems as the Group has expanded Rob qualified as a Chartered Management Accountant in 1996 and has over ten years of regulatory compliance and corporate activity experience for listed companies Prior to joining the Group he was Financial Controller at DCS Group plc which provided software solutions to global freight organisations and European motor retailers from subsidiaries in Europe and the USA

Non-Executive Directors

Mr Laurie Turnbull
Chairman and Chair of the Audit Committee
(age 63) (b, c & d)

Laurie 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
Senior Non-Executive Director and Chair of the Remuneration Committee
(age 60) (b, c, & d)

Sue has 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 also a Non-Executive Director of Vectura plc, BerGenBio AS, Evgen Ltd, Chair of Cizzle Biotech Ltd and of the Rainbow Seed Fund Sue is an advisory board member for CD3 (the joint initiative between EIF and the University of Leuven) She has an MA and DPhil from the University of Oxford

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 2012

Principal activities and business review

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

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 and Care Quality Commission

Healthcare comprises our Cytology and Diagnostics activities including cervical cancer screening and diagnostic testing services for diseases such as cancer

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

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 6 to 15

Results and dividends

Revenue for the year was £16 4 million (2011 £15 2 million) The Directors do not propose the payment of a dividend (2011 £nil)

Directors and their interests

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

Executive Directors
Dr N W Ash, Chief Executive Officer
Dr N I Leaves, Chief Operating Officer
Mr R Bakewell, Finance Director (appointed 21 August 2012)

Non-Executive Directors
Mr L A Turnbull, Chairman
Dr S E Foden, Senior Independent Director
Mr R Slinger (resigned 31 May 2012)

Biographical details of the Directors are given on page 17

Under the Company's Articles of Association, the longest serving Director at each AGM shall retire from office Accordingly, Dr Leaves will retire by rotation and, being eligible, will offer himself for re-election at the next AGM Mr Bakewell will offer himself for election, the next AGM being the first since his appointment on 21 August 2012 (for biographical details, please see page 17)

Dr Foden, Senior Independent Non-Executive Director, will be entering her tenth year on the Board The Chairman confirms that, following formal performance evaluation, Dr Foden's performance continues to be independent, effective and to demonstrate commitment to the role, supported by very strong connections within the medical and health research communities To comply with best practice, Dr Foden offers herself for re-election at the next AGM and will be subject to annual re-election thereafter

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 are provided in the Directors' Remuneration Report on page 29

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 25 April 2013, 31 December 2012 and 1 January 2012 were

	Beneficial Holding		
	25 April 2013 Number of shares	31 December 2012 or date of resignation Number of shares	1 January 2012 or date of appointment 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
Mr R Bakewell (appointed 21 August 2012)	**100,000**	100,000	–
Non-Executive Directors			
Mr L A Turnbull	**4,450,000**	4,450,000	4,450,000
Dr S E Foden	**244,340**	244,340	244,340
Mr R Slinger (resigned 31 May 2012)	**n/a**	500,000	500,000

The Directors' interests in share options are set out in the Directors' Remuneration Report on page 31

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
Legal & General Investment Management	16,637,876	8 12
Miton Group	13,816,376	6 75
Seren Capital Management	13,480,000	6 58
Henderson Global Investors	12,076,025	5 90
Directors and Senior Management	10,813,458	5 28
Blackrock Investment Management	10,715,000	5 23
Standard Life Investments	9,500,000	4 64
Killik & Co	9,465,256	4 62

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 22 to the consolidated financial statements

Annual General Meeting

The Annual General Meeting of the Company will be held at the registered office at 1 Orchard Place, Nottingham Business Park, Nottingham NG8 6PX at 10 30am on 12 June 2013 All ordinary and special resolutions to be proposed at that meeting are detailed in the Notice of Annual General Meeting sent to shareholders (see also pages 76 to 78 of this document)

The Directors believe that all the proposals to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders They recommend that you vote in favour of the proposed resolutions The Directors will be voting in favour of the proposed resolutions in respect of their own shareholdings in the Company

Directors' Report continued

Research and development
In order to further the Group's business objectives, it engages in research and development projects During 2012, 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 2 million (2011 £0 3 million)

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 indicates 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 (to the full extent of the meaning of the term), 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 (2011 £nil), nor any political donations (2011 £nil)

As part of its corporate and social responsibility activities, which the Group considers an important element of modern business, and as a means of promoting sporting activity among young people, Source BioScience has been pleased to support a number of local school football teams, by providing free football kits Some of these schools have also enjoyed a science-based visit to the head office facilities, as part of their school curriculum activities

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 2012 was 60 days (2011 54 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 continues to risk assess all the relevant procedures and processes, implementing and reinforcing the Group's 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 22 to 26 forms part of the Directors' Report

By order of the Board

Dr Nick Ash
Company Secretary
25 April 2013

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 issued 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 ten times a year, has a schedule of matters reserved for its approval

Specific responsibilities reserved to 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 three Executive and two Non-Executive Directors Biographical details of the Board of Directors are set out on page 17

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

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†	10	2	1	1
Dr N W Ash	10	–	–	–
Dr N I Leaves	10	–	–	–
Mr R Bakewell‡ (appointed 21 August 2012)	3	–	–	–
Dr S E Foden	10	3	2	1
Mr R Slinger (resigned 31 May 2012)	3	1	1	–

– indicates not a member of that Committee during 2012
† became a member of that Committee from May 2012
‡ became a member of that Committee upon appointment to the Board in August 2012

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 nor Dr Foden

- 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, or
- represents a significant shareholder,
- in addition, Mr Turnbull has not served on the Board for more than nine years from the date of his first election,
- Dr Foden was appointed to the Board in 2003 and has served nine years since the date of her first election Accordingly she will offer herself for re-election at the next AGM and annually thereafter as described on page 18

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 Senior Independent Non-Executive Director conducts 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

Corporate Governance Statement
continued

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 6 to 15

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 2012, the Audit Committee discharged its responsibilities by

- reviewing the Group's draft 2011 Annual Report and Accounts and 2012 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 2012 audit fee and reviewing non-audit fees payable to the Group's external auditor in 2012,
- reviewing the external auditor's plan for the audit of the Group's 2012 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 Turnbull (Committee Chairman and Director with recent and relevant financial experience) and Dr Foden

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 Company maintains an effective embedded system of internal controls and complies with the Guidance for Directors on the Combined Code 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 the 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,

Corporate Governance Statement
continued

- 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 27 to 31

Composition of the Remuneration Committee
The Remuneration Committee comprises Dr Foden (Committee Chairman) and Mr Turnbull

Nomination Committee
Source BioScience recognises the importance of diversity in the board room and currently has Dr Sue Foden as its Senior Independent Non-Executive Director The importance of achieving an appropriate gender balance throughout the Group is also recognised, the Senior Management Team currently comprises eleven members, five of whom are women

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

Composition of the Nomination Committee
The Nomination Committee comprises Dr Foden (Committee Chairman) and Mr Turnbull

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 2012

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 6 to 15

The financial position of the Group, its cash flows and liquidity position are also described in the Business Review In addition, the Business Review 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 17 and 19

The Group has significant financial resources available As at 31 December 2012, the Group had cash balances of £2 2 million with £0 8 million external debt due within one year In the year ended 31 December 2012 the Group generated cash from operations of £3 3 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 other Board members about its proposals as appropriate, 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 When determining the remuneration of the Executive Directors, the Committee takes into account the remuneration of comparable companies and organisations in the UK in the biotech, healthcare and life science sectors 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

Components of the current remuneration package

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 the comparator group

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

Directors' Remuneration Report
continued

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 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

Governance

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
Mr R Bakewell (appointed 21 August 2012)	21 August 2012	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 (resigned 31 May 2012)	14 January 2005[c]	6 months

[a] Updated 1 February 2007
[b] Updated 1 September 2012
[c] Updated 15 January 2008

Directors' Remuneration Report
continued

Audited Information
Directors' emoluments and compensation

	Fees/basic salary £'000	Bonus £'000	Other benefits £'000	**Total 2012 £'000**	Total 2011 £'000	**Pension 2012 £'000**	Pension 2011 £'000
Executive Directors							
Dr N W Ash	144	25	14	**183**	139	**17**	15
Dr N I Leaves	115	20	14	**149**	114	**14**	12
Mr R Bakewell (appointed 21 August 2012)	25	–	2	**27**	–	**2**	-
Non-Executive Directors							
Mr L A Turnbull	40	–	–	**40**	40	**30**	30
Dr S E Foden[†]	30	–	–	**30**	30	–	-
Mr R Slinger[‡] (resigned 31 May 2012)	28	–	-	**28**	30	–	–
				457	353	**63**	57
Money purchase pension contributions				**63**	57		
Aggregate remuneration				**520**	410		

[†] includes £5,000 as Chair of the Remuneration Committee
[‡] includes £5,000 pro rata as Chair of the Audit Committee

An element of Mr Turnbull's fees are made as additional contributions to his personal pension scheme

During the year ended 31 December 2012, the Committee awarded bonuses to Dr Ash and Dr Leaves of 17% of basic salary These reflected consideration of both the consistent improvement in the performance of the Company over several years, for which no bonus had been paid historically, and recognition of exceptional personal performance, particularly in relation to integration of new activities and successful development of key business areas

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

Director and date of grant	Note	First exercisable date	Last exercisable date	Option price	1 January 2012	Granted	Lapsed	Exercised	31 December 2012
Executive Directors									
Dr N W Ash									
14 Mar 2006	2	14 Mar 2009	13 Mar 2016	9 00p	100,000	–	–	–	100,000
4 Sep 2006	2	4 Sep 2009	3 Sep 2016	6 63p	316,742	–	–	–	316,742
4 Sep 2006	1	4 Sep 2009	3 Sep 2016	6 63p	683,258	–	–	–	683,258
8 Jun 2007	1	8 Jun 2010	7 Jun 2017	7 25p	500,000	–	–	–	500,000
3 Jul 2007	1	3 Jul 2010	2 Jul 2017	7 75p	1,000,000	–	–	–	1,000,000
31 Mar 2008	1	31 Mar 2011	30 Mar 2018	7 88p	500,000	–	–	–	500,000
31 Mar 2009	1	31 Mar 2012	30 Mar 2019	4 63p	400,000	–	–	–	400,000
26 Apr 2010	1	26 Apr 2013	25 Apr 2020	8 25p	400,000	–	–	–	400,000
					3,900,000	**–**	**–**	**–**	**3,900,000**
Dr N I Leaves									
3 Jul 2007	2	3 Jul 2010	2 Jul 2017	7 75p	387,097	–	–	–	387,097
3 Jul 2007	1	3 Jul 2010	2 Jul 2017	7 75p	112,903	–	–	–	112,903
31 Mar 2008	1	31 Mar 2011	30 Mar 2018	7 88p	200,000	–	–	–	200,000
31 Mar 2009	1	31 Mar 2012	30 Mar 2019	4 63p	300,000	–	–	–	300,000
26 Apr 2010	1	26 Apr 2013	25 Apr 2020	8 25p	300,000	–	–	–	300,000
24 Mar 2011	1	24 Mar 2014	23 Mar 2021	6 25p	300,000	–	–	–	300,000
					1,600,000	**–**	**–**	**–**	**1,600,000**
Mr R Bakewell									
(appointed 21 August 2012)									
8 Jun 2007	2	8 Jun 2010	7 Jun 2017	7 25p	100,000	–	–	100,000	–
31 Mar 2008	2	31 Mar 2011	30 Mar 2018	7 88p	100,000	–	–	100,000	–
31 Mar 2009	2	31 Mar 2012	30 Mar 2019	4 63p	100,000	–	–	100,000	–
26 Apr 2010	2	26 Apr 2013	25 Apr 2020	8 25p	100,000	–	–	–	100,000
24 Mar 2011	2	24 Mar 2014	23 Mar 2021	6 25p	31,840	–	–	–	31,840
24 Mar 2011	1	24 Mar 2014	23 Mar 2021	6 25p	68,160	–	–	–	68,160
					500,000	**–**	**–**	**300,000**	**200,000**
Non-Executive Director									
Mr L A Turnbull									
8 Jun 2007	1	8 Jun 2010	7 Jun 2017	7 25p	1,750,000	–	–	–	1,750,000
3 Jul 2007	1	3 Jul 2010	2 Jul 2017	7 75p	2,000,000	–	–	–	2,000,000
31 Mar 2008	1	31 Mar 2011	30 Mar 2018	7 88p	500,000	–	–	–	500,000
31 Mar 2009	1	31 Mar 2012	30 Mar 2019	4 63p	400,000	–	–	–	400,000
26 Apr 2010	1	26 Apr 2013	25 Apr 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

One Director 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 2012 was 10 50p and the range during the year was 5 38p to 12 25p

On behalf of the Board

Dr Sue Foden
Chairman of the Remuneration Committee
25 April 2013

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
25 April 2013

Dr Nick Ash
Chief Executive Officer
25 April 2013

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 2012 set out on pages 35 to 75 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 32, 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 Financial Reporting Council's web-site at www frc org uk/auditscopeukprivate

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 2012 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

Independent Auditor's Report
continued

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 26, 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

TM Widdas

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
25 April 2013

Consolidated Statement of **Comprehensive Income**

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Revenue	2	**16,431**	15,192
Cost of sales		**(9,013)**	(8,441)
Gross profit		**7,418**	6,751
Selling and distribution expenses		**(1,324)**	(1,243)
Research and development		**(154)**	(281)
Administrative expenses			
– normal		**(4,599)**	(4,521)
– amortisation of intangibles arising from acquisitions		**(191)**	(245)
– restructuring costs	3	**–**	(559)
– property impairment	3	**–**	(2,846)
Administrative expenses		**(4,790)**	(8,171)
Operating profit/(loss)	2	**1,150**	(2,944)
Finance income	4	**8**	20
Finance costs	4	**(195)**	(43)
Profit/(loss) on ordinary activities before tax	6	**963**	(2,967)
Taxation	7	**2,508**	172
Profit/(loss) attributable to equity holders of the Company		**3,471**	(2,795)
Other comprehensive income			
Exchange differences on translation of foreign operations		**19**	18
Total comprehensive income/(expense) attributable to equity holders of the Company		**3,490**	(2,777)
Earnings per share			
Basic profit/(loss) per ordinary share	5	**1 70p**	(1 37)p
Diluted profit/(loss) per ordinary share	5	**1 68p**	(1 37)p

Statements of **Changes in Shareholders' Equity**

For the year ended 31 December 2012

	Attributable to equity holders of the parent company						
Group	Share capital £'000	Share premium £'000	Merger and other reserves £'000	Special reserve £'000	Translation reserve £'000	Profit and loss reserve £'000	**Total equity £'000**
Balance at 1 January 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**
Balance at 1 January 2012	4,075	–	2,408	10,788	17	(4,657)	**12,631**
Currency translation adjustments	–	–	–	–	19	–	**19**
Profit for the year	–	–	–	–	–	3,471	**3,471**
Total comprehensive income for the year	–	–	–	–	19	3,471	**3,490**
Transactions with owners, recorded directly in equity							
Employee share option scheme							
– value of services provided	–	–	–	–	–	54	**54**
– proceeds from shares issued	21	39	–	–	–	–	**60**
Balance at 31 December 2012	4,096	39	2,408	10,788	36	(1,132)	**16,235**

Company	Share capital £'000	Share premium £'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 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**
Balance at 1 January 2012	4,075	–	2,408	10,788	2,410	**19,681**
Profit for the year	–	–	–	–	1,849	**1,849**
Total comprehensive income for the year	–	–	–	–	1,849	**1,849**
Transactions with owners, recorded directly in equity						
Employee share option scheme						
– value of services provided	–	–	–	–	43	**43**
– proceeds from shares issued	21	39	–	–	–	**60**
Balance at 31 December 2012	4,096	39	2,408	10,788	4,302	**21,633**

Statements of **Financial Position**

As at 31 December 2012

		Group		Company	
	Note	**As at 31 December 2012 £'000**	As at 31 December 2011 £'000	**As at 31 December 2012 £'000**	As at 31 December 2011 £'000
Non-current assets					
Goodwill	8	**8,343**	8,343	**–**	–
Other intangible assets	9,10,11	**884**	1,128	**–**	–
Financial assets	13	**50**	40	**50**	40
Property, plant and equipment	12	**5,309**	4,572	**–**	–
Investments in subsidiary undertakings	14	**–**	–	**17,661**	17,647
Deferred tax	21	**2,564**	–	**935**	–
		17,150	14,083	**18,646**	17,687
Current assets					
Inventories	15	**644**	709	**–**	–
Trade and other receivables	16	**2,558**	3,163	**4,356**	4,631
Cash and cash equivalents	17	**2,217**	1,094	**1,407**	637
		5,419	4,966	**5,763**	5,268
Current liabilities					
Trade and other payables	18	**3,214**	3,024	**256**	312
Financial liabilities					
– borrowings	19	**754**	628	**500**	500
Deferred consideration	20	**–**	77	**–**	–
		3,968	3,729	**756**	812
Net current assets		**1,451**	1,237	**5,007**	4,456
Total assets less current liabilities		**18,601**	15,320	**23,653**	22,143
Non-current liabilities					
Financial liabilities					
– borrowings	19	**2,316**	2,689	**1,970**	2,462
– derivative financial instruments	19	**50**	–	**50**	–
		2,366	2,689	**2,020**	2,462
Net assets		**16,235**	12,631	**21,633**	19,681
Equity					
Issued share capital	22	**4,096**	4,075	**4,096**	4,075
Share premium	24	**39**	–	**39**	–
Special reserve	25	**10,788**	10,788	**10,788**	10,788
Other reserves	25	**2,444**	2,425	**2,408**	2,408
Profit and loss reserve	26	**(1,132)**	(4,657)	**4,302**	2,410
Total equity		**16,235**	12,631	**21,633**	19,681

The financial statements on pages 35 to 75 were approved by the Board on 25 April 2013 and signed on its behalf by

Laurie Turnbull
Chairman
25 April 2013

Dr Nick Ash
Chief Executive Officer
25 April 2013

Company registration number 79136

Statements of **Cash Flows**

For the year ended 31 December 2012

	Group		Company	
	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000	**Year ended 31 December 2012 £'000**	Year ended 31 December 2011 £'000
Cash flows from operating activities				
Profit/(loss) for the year	**3,471**	(2,795)	**1,849**	761
Adjustments for				
Depreciation of tangible fixed assets	**1,098**	992	**-**	-
Recognition of grant income	**(13)**	(13)	**-**	-
Amortisation of capitalised development costs	**204**	116	**-**	-
Amortisation of other intangibles	**191**	251	**-**	-
Impairment of property, plant and equipment	**-**	2,846	**-**	-
(Profit)/loss on sale of property, plant and equipment	**(36)**	102	**-**	-
Fair value (gain)/loss on investments	**(12)**	5	**(12)**	5
Finance costs	**195**	43	**177**	7
Finance income	**(8)**	(20)	**(1,507)**	(1,241)
Taxation	**(2,508)**	(172)	**(918)**	-
Share based payments – value of employee service	**26**	40	**12**	20
Decrease in inventories	**65**	7	**-**	-
Decrease/(increase) in trade and other receivables	**605**	(668)	**1,774**	(1,230)
Increase/(decrease) in creditors	**198**	(73)	**(55)**	131
Cash generated from/(used in) operations	**3,476**	661	**1,320**	(1,547)
Interest paid	**(146)**	(40)	**(128)**	(4)
Net cash generated from/(used in) operating activities	**3,330**	621	**1,192**	(1,551)
Cash flows from investing activities				
Share purchases	**(52)**	(45)	**(52)**	(45)
Investment in subsidiaries	**-**	-	**-**	(5,206)
Purchases of property, plant and equipment	**(2,257)**	(7,028)	**-**	-
Proceeds from sale of property, plant and equipment	**450**	939	**-**	-
Proceeds from sale of investments	**54**	-	**54**	-
Purchases of intangible assets	**(222)**	(512)	**-**	-
Interest received	**8**	52	**8**	52
Net cash (used in)/generated from investing activities	**(2,019)**	(6,594)	**10**	(5,199)
Cash flows from financing activities				
Proceeds from issue of shares	**60**	-	**60**	-
Repayment of borrowings	**(492)**	(373)	**(492)**	-
Proceeds from borrowings	**-**	2,962	**-**	2,962
Proceeds from finance leases	**414**	350	**-**	-
Finance lease principal repayments	**(169)**	(54)	**-**	-
Net cash (used in)/generated from financing activities	**(187)**	2,885	**(432)**	2,962
Net increase/(decrease) in cash and cash equivalents	**1,124**	(3,088)	**770**	(3,788)
Cash and cash equivalents at beginning of year	**1,094**	4,170	**637**	4,425
Exchange (losses)/gains on cash and cash equivalents	**(1)**	12	**-**	-
Cash and cash equivalents at end of year	**2,217**	1,094	**1,407**	637

Notes to the **Consolidated Financial Statements**

For the year ended 31 December 2012

1. Accounting policies

Accounting policies for the year ended 31 December 2012

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 European Union (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 12) 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 8, 9, 10, and 11) 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 16 A number of accounting estimates and judgements are incorporated within the provisions for share-based payments These are described in more detail in note 23

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 6 to 15 The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Business Review on pages 12 to 13 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 2012 The Group's financial statements have had no significant impact from 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 2013 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

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

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

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 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 Healthcare and LifeSciences 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

Healthcare comprises our Cytology and Diagnostics activities including cervical cancer screening and diagnostic testing services for diseases such as cancer

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

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

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 as the value of 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

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

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 (2011 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 2012	Healthcare £'000	LifeSciences £'000	Unallocated £'000	**Group £'000**
Continuing operations				
Revenue	8,564	7,867	–	**16,431**
Segment result	2,752	1,167	(2,769)	**1,150**
Finance income			8	**8**
Finance costs			(195)	**(195)**
Profit before tax			(2,956)	**963**
Taxation			2,508	**2,508**
Profit/(loss) for the year	2,752	1,167	(448)	**3,471**
Segment assets	3,578	11,029	–	**14,607**
Unallocated assets				
– property, plant and equipment			2,706	**2,706**
– financial assets			50	**50**
– deferred tax asset			2,564	**2,564**
– debtors and prepayments			425	**425**
– cash and cash equivalents			2,217	**2,217**
Total assets	3,578	11,029	7,962	**22,569**
Segment liabilities	836	1,358	–	**2,194**
Unallocated liabilities				
– borrowings			3,070	**3,070**
– derivative financial instruments			50	**50**
– creditors and accruals			1,020	**1,020**
Total liabilities	836	1,358	4,140	**6,334**
Other segment items				
Capital expenditure				
– tangible assets	1,143	538	524	**2,205**
– intangible assets	31	191	–	**222**
Depreciation	283	545	270	**1,098**
Amortisation of intangible assets	60	335	–	**395**
Other non-cash expenses				
– share option scheme	–	–	26	**26**

Notes to the **Consolidated Financial Statements** continued

2. Operating segments (continued)

Year ended 31 December 2011	Healthcare £'000	LifeSciences £'000	Unallocated £'000	Group £'000
Continuing operations				
Revenue	7,403	7,789	-	15,192
Segment result	2,203	768	(5,915)	(2,944)
Finance income			20	20
Finance costs			(43)	(43)
Loss before tax			(5,938)	(2,967)
Taxation			172	172
Profit/(loss) for the year	2,203	768	(5,766)	(2,795)
Segment assets	2,600	11,864	–	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	2,600	11,864	4,585	19,049
Segment liabilities	408	1,550	–	1,958
Unallocated liabilities				
– borrowings			2,962	2,962
– creditors and accruals			1,498	1,498
Total liabilities	408	1,550	4,460	6,418
Other segment items				
Capital expenditure				
– tangible assets	173	841	5,318	6,332
– intangible assets	59	453	–	512
Depreciation	109	578	305	992
Amortisation of intangible assets	55	312	-	367
Impairment of tangible assets	–	–	2,846	2,846
Other non-cash expenses				
– share option scheme	–	–	40	40

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**	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
UK	**13,410**	12,235	**21,480**	17,398	**2,205**	5,915
Europe (excluding UK)	**2,282**	2,396	**1,089**	1,651	**–**	417
Americas	**523**	248	**–**	–	**–**	–
Middle East, Asia and Australasia	**216**	313	**–**	–	**–**	–
Total	**16,431**	15,192	**22,569**	19,049	**2,205**	6,332

Analysis of revenue by category

The Group's revenue is analysed as follows

	2012 £'000	2011 £'000
Revenue from the provision of services	**6,937**	6,512
Revenue from sales of goods	**8,275**	7,915
Revenue from operating lease rentals	**1,219**	765
Total	**16,431**	15,192

Notes to the **Consolidated Financial Statements** continued

3. Non-recurring administrative items

Restructuring costs

The integration of the acquired imaGenes business was completed as planned during 2011 This entailed significant commercial and operational changes to the acquired business, in addition to infrastructure modifications in the UK to support the enlarged Group The one-off costs associated with the integration amounted to £0 6 million

Purchase of Head Office premises

On 28 December 2011, the Group announced the purchase of the freehold land and buildings of its 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 were initially 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 was recognised as a one-off cost of £2 8 million in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

4. Finance (costs)/income – net

	Group		**Company**	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Finance income				
Interest receivable on deposits	**8**	20	**8**	20
Interest receivable on intra-group loans	**-**	-	**1,499**	1,221
Finance income	**8**	20	**1,507**	1,241
Finance costs				
Interest payable on bank loans	**(127)**	(37)	**(127)**	(7)
Interest payable on finance leases	**(18)**	(6)	**-**	-
Net loss on derivative financial instruments	**(50)**	-	**(50)**	-
Finance costs	**(195)**	(43)	**(177)**	(7)
Finance (costs)/income – net	**(187)**	(23)	**1,330**	1,234

5. 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 profit attributable to ordinary shareholders of £3,471,000 (2011 £2,795,000 loss) and 203,973,846 ordinary shares (2011 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 profit attributable to ordinary shareholders of £3,471,000 (2011 £2,795,000 loss) and the weighted average number of ordinary shares in issue, adjusted for 2,899,581 dilutive options (2011 nil dilutive options), of 206,873,427 (2011 203,765,232)

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

	2012			2011		
	Earnings £'000	**Weighted average number of shares £'000**	**Per share amount (pence)**	Earnings £'000	Weighted average number of shares £'000	Per share amount (pence)
Basic EPS						
Earnings/(loss) attributable to ordinary shareholders	**3,471**	**203,974**	**1 70**	(2,795)	203,765	(1 37)
Diluted EPS						
Earnings/(loss) attributable to ordinary shareholders	**3,471**	**206,873**	**1 68**	(2,795)	203,765	(1 37)

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Notes to the **Consolidated Financial Statements** continued

6. Profit/(loss) before taxation

Group	2012 £'000	2011 £'000
The following items have been included in arriving at operating profit/(loss)		
Staff costs (note 27)	**4,187**	4,525
Depreciation of property, plant and equipment		
- owned assets	**933**	922
- under finance leases	**165**	70
Amortisation of intangibles (included in administrative expenses)	**395**	367
Other operating lease rentals payable		
- property	**121**	509
Repairs and maintenance expenditure on property, plant and equipment	**28**	29
Research and development expenditure	**154**	281
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

	2012 £'000	2011 £'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	**18**	13
- advisory services	**-**	4
	67	66

7. Taxation

Group	2012 £'000	2011 £'000
Current tax		
- continuing operations	**33**	-
- prior year adjustment	**(1)**	(3)
Deferred tax (note 21)		
- continuing operations	**(2,540)**	(169)
Taxation credit	**(2,508)**	(172)

The tax charge for the year is lower (2011 lower) than the standard rate of corporation tax in the UK of 24 49% (2011 26 49%) The charge for the year can be reconciled to the profit/(loss) per the Statement of Comprehensive Income as follows

Group	2012 £'000	2011 £'000
Profit/(loss) on ordinary activities before tax from continuing operations	**963**	(2,967)
Profit/(loss) on ordinary activities multiplied by rate of corporation tax of 24 49% (2011 26 49%)	**236**	(786)
Effects of		
Expenses not deductible for tax purposes	**52**	842
Deferred tax temporary differences not recognised	**149**	(276)
Over provided in prior years	**(1)**	(3)
Other temporary timing differences	**(2,944)**	51
Total taxation credit	**(2,508)**	(172)

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively This will reduce the company's future current tax charge accordingly The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the reporting date

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax asset accordingly

8. Intangible fixed assets – goodwill

Group	2012 £'000	2011 £'000
Cost		
At 1 January	**10,634**	10,636
Exchange adjustments	**-**	(2)
At 31 December	**10,634**	10,634
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**	8,343

Notes to the **Consolidated Financial Statements** continued

8. Intangible fixed assets – goodwill continued

The Company has £nil (2011 £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 Diagnostics CGU (part of our Healthcare division) and LifeSciences CGU

The carrying value of goodwill attributable to each CGU at 31 December 2012 is as follows

	Diagnostics £'000	LifeSciences £'000	**Group £'000**
Goodwill	583	7,760	**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 detailed 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 20 1% (2011 15 1%) 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

  Sensitivity analysis as at 31 December 2012 has indicated that no reasonable, foreseeable change to the key assumptions used in the impairment model will result in a significant impairment charge being recorded in the financial statements

- 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 A growth rate of 1 5% into perpetuity has been assumed for both CGUs which does not exceed the long term growth rate for the markets to which each CGU is dedicated

  Sensitivity analysis as at 31 December 2012 has indicated that no reasonable, foreseeable change to the key assumptions used in the impairment model will result in a significant impairment charge being recorded in the financial statements

No impairment arose as a result of the valuations

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

9. Intangible fixed assets – development costs

Group	2012 £'000	2011 £'000
Cost		
At 1 January	**2,952**	2,474
Additions	**222**	486
Exchange adjustments	**(6)**	(8)
At 31 December	**3,168**	2,952
Aggregate amortisation and impairment		
At 1 January	**2,274**	2,158
Charge for the year	**204**	116
At 31 December	**2,478**	2,274
Net book amount at 31 December	**690**	678

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 (2011 £nil) intangible fixed assets – development costs

10. Intangible fixed assets – biological assets

Group	2012 £'000	2011 £'000
Cost		
At 1 January	**67**	42
Additions	**–**	26
Exchange adjustments	**–**	(1)
Asset transfer	**(67)**	–
At 31 December	**–**	67
Aggregate amortisation and impairment		
At 1 January	**6**	–
Charge for the year	**–**	6
Transfer	**(6)**	–
At 31 December	**–**	6
Net book amount at 31 December	**–**	61

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 ongoing trading Following a review of this classification, these assets have been transferred to property, plant and equipment during the year

The Company has £nil (2011 £nil) intangible fixed assets – biological assets

Notes to the **Consolidated Financial Statements** continued

11. Intangible fixed assets – distribution agreements and customer contracts

Group	2012 £'000	2011 £'000
Cost		
At 1 January	**1,310**	1,310
Exchange adjustments	**(4)**	-
At 31 December	**1,306**	1,310
Aggregate amortisation and impairment		
At 1 January	**921**	676
Charge for the year	**191**	245
31 December	**1,112**	921
Net book amount at 31 December	**194**	**389**

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 (2011 £nil) intangible fixed assets – distribution agreements

12. Property, plant and equipment

Group

2012	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	5,206	82	2,221	5,817	31	13,357
Additions at cost	–	2	2,097	106	–	2,205
Transfers	–	–	67	(4)	4	67
Exchange adjustments	–	–	(17)	–	–	(17)
Disposals	–	–	(463)	–	–	(463)
At 31 December	5,206	84	3,905	5,919	35	15,149
Accumulated depreciation and impairment charges						
At 1 January	2,846	68	1,742	4,111	18	8,785
Depreciation charge for the year	24	5	971	92	6	1,098
Transfers	–	–	6	–	–	6
Disposals	–	–	(48)	(1)	–	(49)
At 31 December	2,870	73	2,671	4,202	24	9,840
Net book amount at 31 December	**2,336**	**11**	**1,234**	**1,717**	**11**	**5,309**

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

Assets held under finance leases have the following net book amount

	2012 Fixtures and fittings £'000	2011 Fixtures and fittings £'000
Cost	**797**	425
Aggregate depreciation	**(204)**	(81)
Net book amount	**593**	344

Plant and machinery includes

	2012 £'000	2011 £'000
Assets held for use in operating leases		
Cost	**3,275**	2,132
Aggregate depreciation brought forward	**(1,653)**	(1,599)
Charge for year	**(231)**	(54)
Net book amount	**1,391**	479

Notes to the **Consolidated Financial Statements** continued

12. Property, plant and equipment continued
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 50 (2011 49) LBC systems and six autoscreening systems (2011 nil) held for use under such agreements

The Company has £nil (2011 £nil) property, plant and equipment

13. Other investments
Financial assets
During 2012 the Company invested in shares that were valued at the market price as at 31 December 2012 of £50,000 (2011 £40,000)

14. Investments in subsidiary undertakings
Fixed asset investments

Company

2012	**Shares in Group undertakings £'000**	**Long term loans £'000**	**Total £'000**
Cost at 1 January	**21,963**	**17,002**	**38,965**
Additions in year	**14**	**-**	**14**
Cost at 31 December	**21,977**	**17,002**	**38,979**
Impairment at 1 January and 31 December	**(21,318)**	**-**	**(21,318)**
Net book amount at 31 December	**659**	**17,002**	**17,661**

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

The subsidiary undertakings of Source BioScience plc and their respective activities were as follows at 31 December 2012

	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

15. Inventories

Group	**2012 £'000**	2011 £'000
Raw materials	**320**	432
Work in progress	**10**	10
Finished goods	**314**	267
	644	709

The Group consumed £4,172,000 (2011 £4,160,000) of inventories during the year

The Company has £nil (2011 £nil) inventories

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Notes to the **Consolidated Financial Statements** continued

16. Trade and other receivables

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Amounts falling due within one year:				
Trade receivables	**2,089**	2,626	**–**	–
Less Provision for impairment of receivables	**(40)**	(31)	**–**	–
Trade receivables net	**2,049**	2,595	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**4,275**	4,614
Other receivables	**2**	98	**–**	–
Prepayments and accrued income	**507**	470	**81**	17
	2,558	3,163	**4,356**	4,631

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

	2012 £'000	2011 £'000
Health authorities	**874**	857
Research institutions	**802**	738
Pharmaceutical companies	**329**	894
Other	**44**	106
Total	**2,049**	2,595

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

	2012 Gross £'000	**2012 Net of impairment £'000**	2011 Gross £'000	2011 Net of impairment £'000
Not past due	**1,263**	**1,263**	1,866	1,866
Past due 0–30 days	**579**	**579**	480	480
Past due 31–60 days	**115**	**115**	108	108
Past due 61–90 days	**35**	**35**	46	46
Past due 90+ days	**97**	**57**	126	95
Total	**2,089**	**2,049**	2,626	2,595

17. Cash and cash equivalents

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents				
Cash at bank and in hand	**2,217**	1,094	**1,407**	637

The weighted average interest rate on short term deposits at the year end was 0 5% (2011 0 5%) and these deposits have an average maturity of nil days (2011 nil days)

18. Trade and other payables

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Trade payables	**1,588**	1,413	**41**	45
Other tax and social security	**200**	220	**99**	136
Accruals	**430**	371	**116**	131
Deferred income	**996**	1,020	**–**	–
	3,214	3,024	**256**	312

19. Financial liabilities

	Group		Company	
	2012	2011	**2012**	2011
Current	**£'000**	£'000	**£'000**	£'000
Bank loans	**500**	500	**500**	500
Finance lease obligations	**254**	128	**–**	–
	754	628	**500**	500

	Group		Company	
	2012	2011	**2012**	2011
Non-current	**£'000**	£'000	**£'000**	£'000
Bank loans – repayable in two to five years	**1,970**	2,462	**1,970**	2,462
Finance lease obligations	**346**	227	**-**	-
Derivative financial liability	**50**	–	**50**	-
	2,366	2,689	**2,020**	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 derivative financial liability represents the fair value at the reporting date of an interest rate swap instrument held to swap variable for fixed interest on the Group's term loan facility

Notes to the **Consolidated Financial Statements** continued

19. Financial liabilities continued

Finance lease agreements for £414,000 repayable over a three year term, were entered into during the year ended 31 December 2012

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

	2012		2011	
	Fixed %	**Variable %**	Fixed %	Variable %
Bank loans	**4 6**	–	4 5	–
Finance leases	**3 8**	–	4 3	–

20. Deferred consideration

	Group		Company	
Due within one year	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Deferred consideration	–	77	–	–

Deferred consideration was payable on 14 June 2012 based on a completion accounts mechanism This represented the best estimate at the date of acquisition of the present value of the consideration payable No consideration was payable

21. Deferred tax

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

Group **Deferred tax assets/(liabilities)**	Tax losses £'000	Accelerated tax depreciation £'000	Intangible assets £'000	Other £'000	Total £'000
At 1 January 2012	106	–	(106)	–	–
Credited to profit and loss account	2,045	381	44	70	2,540
Credited to equity	–	–	–	24	24
At 31 December 2012	**2,151**	**381**	**(62)**	**94**	**2,564**

Company **Deferred tax assets**	Tax losses £'000	Other £'000	Total £'000
At 1 January 2012	–	–	–
Credited to profit and loss account	869	49	918
Credited to equity	–	17	17
At 31 December 2012	**869**	**66**	**935**

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	Accelerated tax depreciation £'000	Tax losses £'000	Total £'000
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 1 January 2012	478	2,680	3,158
Movement in the year	(478)	(2,351)	(2,829)
At 31 December 2012	**-**	**329**	**329**

22. Share capital of the Company

	2012		2011	
Authorised	**Number**	**£'000**	Number	£'000
Ordinary shares of 2p each	**350,000,000**	**7,000**	350,000,000	7,000

	2012		2011	
Issued and fully paid	**Number**	**£'000**	Number	£'000
Ordinary shares of 2p each				
At 1 January	**203,765,232**	**4,075**	203,765,232	4,075
Issues	**1,018,034**	**21**	–	–
At 31 December	**204,783,266**	**4,096**	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

During the period, 1,018,134 ordinary shares were issued for cash consideration to satisfy the exercise of share options at various prices, with a share premium of £39,000 arising

Notes to the Consolidated Financial Statements continued

22. Share capital of the Company continued

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 32 50p under the share option schemes approved by shareholders in 1999 and 2001 1,018,034 options on shares were exercised in 2012 (2011 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	2012 Number	2011 Number
2002	27 75	25 March 2005 to 24 March 2012	-	25,000
2003	22 00	13 January 2006 to 12 January 2013	**3,709,091**	4,509,091
2003	32 50	22 September 2006 to 21 September 2013	**25,000**	50,000
2005	6 25	3 May 2008 to 2 May 2015	**250,000**	350,000
2006	9 00	14 March 2009 to 13 March 2016	**100,000**	200,000
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	**2,750,000**	2,950,000
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	**1,600,000**	1,900,000
2009	4 63	31 March 2012 to 30 March 2019	**1,250,000**	1,950,000
2010	8 25	26 April 2013 to 25 April 2020	**1,800,000**	2,050,000
2011	6 25	24 March 2014 to 23 March 2021	**850,000**	1,000,000
			16,834,091	19,484,091

23. 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 14 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 respective financial year

Grant date	24 March 2011
Share price at grant date (pence)	6 25
Exercise price (pence)	6 25
Number of employees	15
Shares under option	1,050,000
Vesting period (years)	3
Expected volatility	35 2%
Option life (years)	7
Expected life (years)	4
Risk free rate	2 17%
Expected dividends expressed as a dividend yield	0 0%
Expectation of options vesting at 31 December 2011	90%
Expectation of options vesting at 31 December 2012	86%
Expectations of meeting performance criteria	n/a
Fair value per option (pence)	1 92

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 2012 is shown below

	2012		2011	
	Number	**Weighted average exercise price (pence)**	Number	Weighted average exercise price (pence)
Outstanding at 1 January	**19,484,091**	**10 67**	19,350,842	11 00
Granted	**-**	**-**	1,050,000	6 25
Forfeited	**(1,631,966)**	**15 12**	(916,751)	12 74
Exercised	**(1,018,034)**	**5 90**	-	-
Outstanding at 31 December	**16,834,091**	**10 52**	19,484,091	10 67
Exercisable at 31 December	**14,184,091**	**11 07**	14,484,091	12 13

Notes to the **Consolidated Financial Statements** continued

23. Share-based compensation continued

	2012				2011			
Range of exercise prices (pence)	**Weighted average exercise price (pence)**	**Number of shares**	**Weighted average remaining life (years) Expected**	**Weighted average remaining life (years) Contractual**	Weighted average exercise price (pence)	Number of shares	Weighted average remaining life (years) Expected	Weighted average remaining life (years) Contractual
>0 00 - 5 00	**4 63**	**1,250,000**	**0 25**	**6 25**	4 63	1,950,000	1 25	7 25
>5 00 - 20 00	**7 50**	**11,850,000**	**0 71**	**5 13**	7 51	12,950,000	0 96	6 21
>20 00 - 30 00	**22 00**	**3,709,091**	**0 04**	**0 04**	22 03	4,534,091	0 52	1 03
>30 00	**32 50**	**25,000**	**0 36**	**0 73**	32 50	50,000	0 22	1 73

During the year 1,018,034 share options have been exercised (2011 nil)

The total charge for the year, pre-deferred tax, relating to employee share-based payment plans was £26,000 (2011 £40,000), post-deferred tax, the net credit was £44,000 (2011 £40,000 charge) All charges related to equity-settled share-based payment transcations

24. Share premium account

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
At 1 January	**–**	–	**–**	–
On share issues	**39**	–	**39**	–
At 31 December	**39**	–	**39**	–

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 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
Balance at 1 January 2012	1,267	1,136	5	10,788	17	13,213
Currency translation adjustments	–	–	–	–	19	19
Balance at 31 December 2012	**1,267**	**1,136**	**5**	**10,788**	**36**	**13,232**

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 account 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 2012 the Group had a foreign currency translation reserve surplus of £36,000 (2011 £17,000) 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 (2011 £nil) foreign currency translation reserves

26. Profit and loss reserve

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Retained earnings at 1 January	**(4,657)**	(1,902)	**2,410**	1,609
Profit/(loss) for the year	**3,471**	(2,795)	**1,849**	761
Share option scheme – value of employee service	**54**	40	**43**	40
Retained earnings at 31 December	**(1,132)**	(4,657)	**4,302**	2,410

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	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Wages and salaries	**3,806**	4,163	**489**	396
Social security costs	**451**	501	**60**	46
Pension costs (note 28)	**140**	166	**64**	58
Share-based compensation	**26**	40	**12**	20
	4,423	4,870	**625**	520
Less amounts capitalised	**(236)**	(345)	**-**	-
	4,187	4,525	**625**	520

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Notes to the **Consolidated Financial Statements** continued

27. Employees and Directors continued

	Group		Company	
Average number of people employed during the year	**2012 Number**	2011 Number	**2012 Number**	2011 Number
By operating segment				
Healthcare	**28**	32	**-**	-
LifeSciences	**65**	70	**-**	-
Central services	**26**	25	**7**	7
	119	127	**7**	7

Key management compensation	**2012 £'000**	2011 £'000
Salaries and short term employee benefits	**928**	801
Pensions and other post-employment benefits	**81**	80
Share-based compensation	**20**	33
	1,029	914

The key management figures given above include Executive and Non-Executive Directors together with five senior managers (2011 six)

Directors	**2012 £'000**	2011 £'000
Aggregate emoluments	**457**	353
Company contributions to money purchase pension schemes	**63**	57
	520	410

At the year end four Directors (2011 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	**2012 £'000**	2011 £'000
Defined contribution schemes	**140**	166

The year end creditor amounted to £32,000 (2011 £39,000)

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 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

Notes to the **Consolidated Financial Statements** continued

29. Financial instruments continued

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 £4,266,000 (2011 £3,689,000) 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 16

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 19, the Group secured a term loan facility in 2011 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 following tables

Exposure to liquidity risk

The Group has contractual liabilities in relation to its bank loan and finance lease liabilities Such liabilities are scheduled to mature as described in note 19

As at 31 December 2012

			Contractual cash flows			
Group	**Effective rate %**	**Carrying amount £'000**	**Total £'000**	**Within one year £'000**	**Over one year less than two years £'000**	**Over two years less than five £'000**
Non-derivative financial liabilities						
Bank loans	4 6	2,470	2,739	602	576	1,561
Finance leases	3 8	600	629	272	226	131
		3,070	3,368	874	802	1,692
Trade and other	0 0	1,588	1,588	1,588	-	-
		4,658	4,956	2,462	802	1,692

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
Non-derivative financial liabilities						
Bank loans	4 6	2,470	2,739	602	576	1,561
Finance leases	-	–	–	-	–	–
		2,470	2,739	602	576	1,561
Trade and other	0 0	41	41	41	-	-
		2,511	2,780	643	576	1,561

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
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	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
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	0 0	45	45	45	–	–
		3,007	3,411	672	602	2,137

Notes to the **Consolidated Financial Statements** continued

29. Financial instruments continued

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 revenues, purchases and cash balances held and 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 2012	Sterling £'000	Euro £'000	US Dollar £'000	Total £'000
Trade receivables	**1,810**	**242**	**37**	**2,089**
Cash and cash equivalents	**1,798**	**293**	**126**	**2,217**
Trade payables	**(1,188)**	**(242)**	**(158)**	**(1,588)**
Other payables	**-**	**(28)**	**-**	**(28)**
Balance sheet exposure	**2,420**	**265**	**5**	**2,690**
31 December 2011				
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

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 2011

	Equity		Profit or loss	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Euro	**(3)**	11	**3**	(1)
US Dollar	**–**	–	**(7)**	(12)

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

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	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Fixed rate				
Fixed rate debt	**(600)**	(355)	**–**	–
Financial instruments	**–**	–	**–**	–
Total fixed rate	**(600)**	(355)	**–**	–
Variable rate				
Variable rate debt	**(2,470)**	(2,962)	**(2,470)**	(2,962)
Financial instruments	**(50)**	–	**(50)**	–
Total variable rate	**(2,520)**	(2,962)	**(2,520)**	(2,962)
Total interest-bearing net debt and financial instruments	**(3,120)**	(3,317)	**(2,520)**	(2,962)

Sensitivity analysis
A change of 100 basis points in interest rates would have no effect on equity, given that the variable rate elements of interest were effectively fixed by the interest rate swap instrument

Notes to the Consolidated Financial Statements continued

29. Financial instruments continued

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 previous 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 2011 the capital structure 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

	2012 £'000	2011 £'000
Shareholders' funds	**16,235**	12,631
Finance leases	**600**	355
Bank loans	**2,470**	2,962
	19,305	15,948

30. Operating lease commitments – minimum lease payments

Group	2012 Property £'000	2011 Property £'000
Commitments under non-cancellable operating leases		
– within one year	**95**	113
– later than one year and less than five years	**265**	271
– after five years	**99**	166

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 2012 were £124,000 (2011 £124,000)

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 2012 this amounted to £nil (2011 £nil)

33. Related party disclosures

The aggregated balances with subsidiaries are shown in notes 16 and 18 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

Notice of **Annual General Meeting**

Notice is hereby given that the Annual General Meeting of Source BioScience plc ('the Company') will be held at 1 Orchard Place, Nottingham Business Park, Nottingham, NG8 6PX on 12 June 2013 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 2012 together with the last Directors' Report, the last Directors' Remuneration Report and the auditor's report on those accounts

2 To re-elect Dr Leaves, 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 Foden, 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 herself for re-election as a Director

4 To elect Mr Bakewell, who was appointed as a Director during the year (for biographical details please see page 17)

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 2012

7 That, pursuant to section 551 of the Companies Act 2006 (the 'Act') the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot Relevant Securities

(a) comprising equity securities (as defined in section 560(1) of the Act) up to an aggregate nominal amount of £2,703,140 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph 7(b) of this resolution) in connection with a rights issue (as defined in the Listing Rules published by the Financial Conduct Authority)

i to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them, and

ii to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange, and

(b) otherwise than pursuant to paragraph 7(a) of this resolution, up to an aggregate nominal amount of £1,351,570 (such amount to be reduced by the aggregate nominal amount of Relevant Securities allotted pursuant to paragraph 7(a) of this resolution in excess of £1,351,570), provided that (unless previously revoked, varied or renewed) these authorities shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, on the date 15 months from the date of the passing of this resolution (whichever is the earlier), save that, in each case, the Company may make an offer or agreement before the authority expires which would or might require Relevant Securities to be allotted after the authority expires and the Directors may allot Relevant Securities pursuant to any such offer or agreement as if the authority had not expired

In this resolution, "Relevant Securities" means shares in the Company or rights to subscribe for or to convert any security into shares in the Company, a reference to the allotment of Relevant Securities includes the grant of such a right, and a reference to the nominal amount of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount of the shares which may be allotted pursuant to that right

These authorities are in substitution for and shall replace all existing authorities (which, to the extent unused at the date of this resolution, are revoked with immediate effect)

8 That, subject to the passing of resolution 7 above, and pursuant to section 570 of the Act, the Directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authorities granted by resolution 7 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited

(a) to the allotment of equity securities in connection with an offer of equity securities (but, in the case of an allotment pursuant to the authority granted by paragraph 7(a) of resolution 7, such power shall be limited to the allotment of equity securities in connection with a rights issue (as defined in the Listing Rules published by the Financial Conduct Authority))

i to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them, and

ii to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange, and

(b) in the case of an allotment pursuant to the authority granted by paragraph 7(b) of resolution 7, to the allotment of equity securities (otherwise than pursuant to paragraph 8(a) of this resolution) up to an aggregate nominal amount of £409,566, representing approximately 10% of the current share capital of the Company, and (unless previously revoked, varied or renewed) this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the date 15 months from the date of the passing of this resolution (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired

This power is in substitution for and shall replace all existing powers (which, to the extent unused at the date of this resolution, are revoked with immediate effect)

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 20,478,326 (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, varied or renewed, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the date 15 months from the date of the passing of this resolution (whichever is the earlier), 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, as permitted by section 307A of the Act any general meeting of the Company (other than an Annual General Meeting of the Company) shall be called by notice of not less than 14 clear days in accordance with the provisions of the Articles of Association of the Company provided that the authority of this resolution shall expire at the conclusion of the next Annual General Meeting of the Company

By order of the Board

Dr Nick Ash
Company Secretary
25 April 2013

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 not 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

You may, if you wish, register the appointment of proxy electronically by logging on to www sharevote co uk To use this service you will need your Voting ID, Task ID and Shareholder Reference Number, printed on the proxy form Full details of the procedure are given on the website

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 10 June 2013, 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

7 Completion of the proxy form 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 10 June 2013 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 11 June 2013

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 25 April 2013, the Company's issued share capital comprised 204,783,266 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 25 April 2013 is 204,783,266

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

Notice of **Annual General Meeting**

continued

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 advisor 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

Generally, the Directors may only allot shares in the Company (or grant rights to subscribe for, or to convert any security into, shares in the Company) if they have been authorised to do so by shareholders

In line with guidance issued by the ABI, if passed, part one of resolution 7 in paragraph 7(a) will authorise the Directors to allot ordinary shares in the Company (and to grant rights to subscribe for, or to convert any security into, ordinary shares in the Company) in connection with a rights issue only up to an aggregate nominal amount of £2,703,140 (as reduced by the aggregate nominal amount of any shares allotted or rights granted under paragraph 7(b) of resolution 7) This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital of the Company as at 25 April 2013, being the last practicable date before the publication of this document The Directors intend to follow emerging best practice as regards the use of this authority, including as to the requirement for Directors to stand for re-election

If passed, part two of resolution 7 in paragraph 7(b) will authorise the Directors to allot shares in the Company (and to grant rights to subscribe for, or to convert any security into, shares in the Company) up to an aggregate nominal amount of £1,351,570 (as reduced by the aggregate nominal amount of any shares allotted or rights granted under paragraph 7(a) of resolution 7 in excess of £1,351,570) This amount (before any reduction) represents approximately one-third of the issued ordinary share capital of the Company as at 25 April 2013, being the last practicable date before the publication of this document

If given, these authorities will expire at the conclusion of the Company's next Annual General Meeting or 15 months from the passing of the resolution (whichever is earlier) It is the Directors' intention to renew the allotment authority each year

The Directors have no current intention to exercise either of the authorities sought under resolution 7 However, the Directors consider that it is in the best interests of the Company to have the authorities available so that they have the maximum flexibility permitted by institutional shareholder guidelines to allot shares or grant rights without the need for a general meeting should they determine that it is appropriate to do so to respond to market developments or to take advantage of business opportunities as they arise

Resolution 8 — Disapplication of pre-emption rights on equity issues for cash
Resolution 8, if passed, would enable the Directors to allot shares for cash on a non pre-emptive basis in limited circumstances It is proposed to authorise the Directors to issue shares for cash up to an aggregate nominal amount of £409,566 (which represents approximately 10% of the Company's issued share capital as at 25 April 2013), without having to first offer them to shareholders in proportion to their existing holdings In addition, in accordance with normal practice, the resolution would enable the Board to deal with overseas shareholders and fractional entitlements as it thinks fit in the context of any rights issue or open offer

If given, this authority will expire at the conclusion of the Company's next Annual General Meeting or 15 months from the passing of the resolution (whichever is earlier) It is the Directors' intention to renew this authority each year

There are no present plans to exercise this authority

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

The Directors have no current intention of exercising this authority to purchase the Company's ordinary shares The Company will only exercise this authority to make such a purchase in the market if the Directors consider it is in the best interests of the shareholders generally to do so

The Company is permitted to hold shares it has purchased in treasury, as an alternative to cancelling them Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy options exercised under any of the Company's share schemes Whilst held in treasury, the shares are not entitled to receive any dividend or dividend equivalent (apart from any issue of bonus shares) and have no voting rights The Directors believe it is appropriate for the Company to have the option to hold its own shares in treasury if, at a future date, the Directors exercise this authority The Directors will have regard to investor group guidelines which may be in force at the time of any such purchase, holding or re-sale of shares held in treasury

If given, this authority will expire at the conclusion of the Company's next Annual General Meeting or 15 months after the passing of the resolution (whichever is earlier) It is the Directors' intention to renew this authority each year

Resolution 10 — Notice period of 14 days for general meetings
The Shareholder Rights Directive was implemented in the UK in August 2009 One of the requirements of the Directive is that all general meetings must be held on 21 clear days' notice unless shareholders agree to a shorter notice period

The shareholders of the Company approved a resolution to call general meetings (other than Annual General Meetings) on 14 clear days' notice at last year's Annual General Meeting Resolution 10 seeks approval to renew this right until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed

The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole and the matter to be considered is time sensitive The Company meets the requirements for electronic voting under the Directive

Glossary

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

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

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

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

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

Capillary Electrophoresis DNA Sequencing
(also known as Sanger sequencing or conventional sequencing)
DNA sequences are determined using a chemical reaction that results in an array of products that terminate in a different fluorescent coloured dye, which vary in size by one nucleotide The products are separated, like the rungs of a ladder, by passing them through a capillary with an electric current and determining the order in which they emerge This method was used for the large DNA sequencing projects of the last 15 years and remains the best way of inexpensively analysing large numbers of small sets of samples (see also Next Generation DNA Sequencing page 84)

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

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

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

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

Clone
A section of DNA sequence, such as a gene, that is isolated from an organism and can be endlessly replicated by genetic engineering techniques

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

Glossary

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 84) from the gene(s) selected

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

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

Fluorescence *In Situ* Hybridisation ('FISH')
In situ hybridisation ('ISH') is a powerful technique, not unlike immunohistochemistry (see page 84), for visualising the presence of specific sequences of DNA or RNA in cells The technique uses short synthetic sequences of DNA or RNA which will bind, or hybridise, to the tissue with high specificity for the DNA or RNA of interest within the issue Fluorescent 'tags' are attached to these synthetic sequences, allowing them to be visualised with a special microscope, even when present at very low levels (FISH)

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

Genomics
The study of an organism's genome, where the genome of an organism is its whole hereditary information and is encoded in the DNA (see above) and RNA (see page 84) This includes both the genes and the non-coding sequences of the DNA

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

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

Genotyping and sequencing
DNA sequencing is the process of precisely determining the order of the building blocks, or nucleotides, of an organism's DNA The method can be used to determine short sequences of DNA or, in larger experiments, to sequence the entire genome of an organism Genotyping, in turn, is the process whereby DNA is characterised and then compared to reference data or, if large numbers of samples are genotyped, the data can be examined for patterns which might lead to discoveries of the fundamental causes of inherited diseases Genotyping is commonly performed by PCR (see page 84) 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 plays a key role in the development of cervical intraepithelial neoplasia (CIN) and invasive cancer of the cervix HPV infection is also associated with other cancers, including those of the head and neck

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

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

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

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

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

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

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

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

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

Proteomics
The study of specific amino acids, proteins or the entire proteome (a complete translated genome) 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)

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

RNA expression analysis
A process to measure the activity of a number of genes simultaneously, generating a global picture of cellular function The expression analyses, or profiles, can distinguish between cells that are actively dividing, for example, or show how the cells react to a particular treatment Testing of genome-wide RNA expression levels have been performed by microarray analysis but the experiments are now as likely to be performed by NGS (see above)

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