SourceBio International plc

Half Year Report

For the six months ended 30 June

2022

8 September 2022

SourceBio International plc
('SourceBio', the 'Company' or the 'Group')

Half Year Report

Solid first half results, with significant growth in core business units

Transition away from non- core COVID-19 PCR business with the expectation that demand disappears

More than fourfold growth in Cellular Pathology revenues

Strong balance sheet with no borrowings

SourceBio International plc (AIM: SBI), a leading international provider of integrated state-of-the-art laboratory services, announces its unaudited half year results for the six months ended 30 June 2022, showing considerable growth in revenues from core business lines year-on-year.

Financial highlights

- Revenues from the three core business units of Healthcare Diagnostics, Genomics and Stability Storage (excluding Manufacturing) up 74% to £13.7 million (H1 2021: £7.9 million)
- Cellular Pathology and Digital Pathology revenues up more than fourfold to £6.8 million (H1 2021: £1.7 million) including the contribution from LDPath since acquisition in March
- Revenues above include organic Cellular Pathology revenues of £4.6 million, up 179% on a like-for-like basis
- Strong delivery from LDPath, with revenues of £2.2 million, up 82% on a like-for-like basis and 14% ahead of plan
- Total revenues of £20.5 million (H1 2021: £37.3 million), including COVID-19 PCR revenues of £6.6 million (H1 2021: £28.4 million) which is no longer considered a core business line
- Gross profit from the three core business units of Healthcare Diagnostics, Genomics and Stability Storage (excluding Manufacturing) up 58% to £5.9 million (H1 2021: £3.7 million) with gross margin at 43.1% (2021: 47.3%)
- Adjusted EBITDA[1] of £2.1 million (H1 2021: £11.2 million), largely reflecting the reduction in COVID-19 PCR volumes, as expected
- Cash at 30 June 2022 totalled £15.2 million (30 June 2021: £17.2 million). The Group remains free of borrowings and this amount is after having paid the initial net cash consideration of £15.6 million in relation to the acquisition of LDPath in March

1 Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation ('EBITDA') adjusted for exceptional items and share based payments (see note 3)

Operational highlights

- Successful integration of LDPath following acquisition in March, with LDPath trading 14% above plan
- Scale-up of Cellular Pathology and Digital Pathology throughput to record levels achieved in June 2022
- Ongoing planning to address the challenge to increase capacity to meet market demand for Cellular Pathology and Digital Pathology services

Post period end highlights

- Premises fit-out underway of a larger Cambridge site to support anticipated growth in the Genomics business unit. Larger premises in London identified to support greater throughputs of private Cellular Pathology and Digital Pathology work anticipated in SourceLDPath. Both facilities are expected to be up and running by Q4.

Jay LeCoque, Executive Chairman, commented: *"We are encouraged with progress and growth delivered in the three core business units in the first half. Our operational focus remains the continued further scale-up of Cellular Pathology and Digital Pathology volumes through the rest of the year and beyond. We expect a very busy second half and look forward to updating the market in due course."*

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014 as amended by The Market Abuse (Amendment) (EU Exit) Regulations 2019. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

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About SourceBio International plc www.sourcebiointernational.com

SourceBio is a leading international provider of integrated state-of-the-art laboratory services with clients in the pharmaceutical, healthcare, clinical, drug development and life sciences research industries, with a focus on improving patient diagnosis, management and care. Group revenues are derived from four business units:

●	**Healthcare Diagnostics** - Histopathology cancer screening, including Digital Pathology and clinical diagnostic services for the NHS and private healthcare providers across the UK
●	**Genomics** - DNA sequencing services and Precision Medicine offering for pharmaceutical and biotechnology industries, academia, contract research organisations (CROs) and other research groups in the UK, Europe and North America
●	**Stability Storage** Controlled environmental storage services and laboratory equipment validation services for pharmaceutical industry in the UK, Ireland and North America
●	**Infectious Disease Testing** - A range of COVID-19 testing services for commercial enterprises, private healthcare groups and the NHS, including PCR testing under ISO 15189 accreditation.

More details on Group operations can be found here: www.sourcebioscience.com

SourceBio International plc (SBI) is listed on the AIM market of the London Stock Exchange.

Executive Chairman's Review

Summary of the six months ended 30 June 2022
I am pleased to report a busy half year of significant achievement in the business.

The key performance indicators ("KPIs") currently used by the Group are revenue, gross profit, adjusted EBITDA and cash resources. During 2022, the focus for revenue and gross profits as KPIs have been on the core continuing business units as the Group has materially reduced its Infectious Disease Testing business as demand for COVID-19 PCR and associated services has significantly reduced.

In this regard, core revenues for the first half increased to £13.7 million, an increase of 74% on the prior first half revenues of £7.9 million. The associated gross profit increased to £5.9 million, an increase of 58% on the prior first half gross profit of £3.7 million. Total revenues for the first half, including COVID-19 PCR testing revenues, which declined fast in the half year as demand reduced, decreased to £20.5 million, a reduction of 45% on the prior first half revenues of £37.3 million. Total gross profit decreased to £7.0 million, a reduction of 56% on the prior first half gross profit of £16.0 million. Adjusted EBITDA decreased to £2.1 million compared to the prior first half adjusted EBITDA of £11.2 million, primarily driven by the lower contribution from reduced COVID-19 PCR testing volumes. Cash balances at 30 June totalled £15.2 million with no bank and shareholder borrowings, compared to cash of £33.3 million at 31 December 2021. The reduction in cash was primarily due to the acquisition of LDPath in March for an initial cash consideration of £15.3 million. Further details of the financial performance can be found in the Chief Financial Officer's Review and within the financial information.

The Group completed its acquisition of LDPath in March 2022 to further accelerate growth in Cellular Pathology and Digital Pathology, and this has proved a very timely transaction, as the demand for such services continues to increase significantly.

Recognising the material reduction in COVID-19 PCR testing revenues as demand falls away, the Group has been through a substantial re-organisation in the half year, with a significant reduction in both COVID-19 PCR laboratory staff, thus reducing variable costs, as well as sales, general and administrative roles, thus reducing the cost base going forward. Resources have continued to be added as required to fuel growth in the core business units.

The Board is very grateful for the significant hard work and dedication of the entire SourceBio team and for the many achievements in what has been a period of change but continues to be a period of significant opportunity.

Business review
The business comprises three core business units – Healthcare Diagnostics, Genomics and Stability Storage.

From acquisition in March 2022, LDPath's Cellular and Digital Pathology business joined the Healthcare Diagnostics business unit.

The Group established a dedicated Precision Medicine business line in response to attractive growth opportunities which, with effect from January 2022, became a discrete offering within the Genomics business unit. Comparative 2021 revenue and gross margin analyses have been adjusted to reflect this change.

A brief review of each business unit is detailed below.

Healthcare Diagnostics
Healthcare Diagnostics provides a complete histopathology service for the sectioning, processing, staining and analysing of tissue samples on self-prepared and pre-prepared slides, and reporting of results. SourceBio operates ISO 15189 accredited medical laboratories and has built a significant network of specialist consultant pathologists, all registered with the Royal College of Pathologists and the General Medical Council. SourceBio maintains service level agreements with over 130 NHS departments, private healthcare providers and pharma and biotech customers.

The revenue streams within Healthcare Diagnostics comprise Cellular Pathology and Digital Pathology testing and reporting, which involves the examination of patient tissue pre- and post-operative. This business had grown revenues in recent years at approximately 40% per annum prior to COVID-19, largely driven by a long-term shortage of pathology consultants in the UK. The sustained impact of the COVID-19 pandemic through 2020 and 2021 had a material effect on the quantity of elective surgeries in the UK and thus the value of Cellular Pathology revenues in 2020 and 2021. The growing size of the national elective surgery waiting lists, or backlog, has been very well publicised in the media and the Group has delivered a material scale-up in volumes and revenues since the second half of 2021. It is very welcome to see the levels of activity continue to increase in the half year as elective surgeries return at greater scale. Cellular Pathology activity generated £6.8 million of revenue in the first half of 2022 (H1 2021: £1.7 million), a more than fourfold increase and a gross profit of £2.7 million in the first half of 2022 (H1 2021: £0.4 million), a near sevenfold increase, with a gross margin of 40.2% in the first half of 2022 (H1 2021: 23.8%), the improvement driven by the increased scale.

Included in the above was LDPath, which contributed £2.2 million of revenue since acquisition in March. Excluding the LDPath acquisition, the existing organic business contributed £4.6 million of revenue in the first half of 2022 (H1 2021: £1.7 million), an increase of 179%. Both the organic Cellular Pathology and LDPath businesses traded above plan in the half year.

Genomics

Genomics is the study of genes to help progress research and clinical discovery for the pharmaceutical and healthcare industries. SourceBio offers both traditional Sanger Sequencing, which for many years has been the industry accepted standard for sequencing single strands of DNA at a time, and Next Generation Sequencing (“NGS”), which allows the sequencing of millions of strands of DNA at once. NGS sequencing projects are typically larger in scale and complexity but fewer in number. There has been a strategic decision to seek a greater proportion of NGS work. As mentioned above, the Genomics business unit now includes a dedicated Precision Medicine business line.

The mix of the business unit’s revenues comprised Sanger Sequencing 42% (2021: 50%), NGS 35% (2021: 28%) and Precision Medicine 23% (2021: 22%).

In aggregate, these services generated revenues totalling £3.7 million in the first half of 2022 (H1 2021: £3.3 million), an increase of 11%, and a gross profit of £1.1 million (H1 2021: £1.4 million), equating to a gross margin of 29.3% in the first half of 2022 (H1 2021: 41.1%). The reduction in gross margin was caused by the greater proportion of NGS and Precision Medicine, where internal focus is on improving gross margins.

Stability Storage

The Stability Storage business unit comprises two principal offerings: Stability Storage Services and Service and Validation. In-house manufacture of temperature and humidity-controlled equipment ceased in the half year as it was uneconomic to continue at modest volumes and the Group’s core skills are focused on delivering a high quality service, rather than low volume manufacture.

The larger of these offerings is Stability Storage Services, which generated £2.0 million of revenue in the first half of 2022 (H1 2021: £1.8 million), an increase of 13%. SourceBio delivers outsourced temperature and humidity-controlled environment storage services for stability trials at all ICH (International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use) specified conditions as well as at bespoke conditions as required. Environmentally controlled stability storage is the gateway for a number of products to be released and to stay on the market. These products range from drug products, medical devices, consumer products and packaging. The Group is well established in this market with accredited facilities in Rochdale, UK as well as in Tramore, Ireland and San Diego, USA. Business is secured on recurring contracts which are typically of three-year duration. By its nature, this business line therefore provides highly visible recurring revenue at gross margin levels typically exceeding 80%.

SourceBio also provides Service and Validation services to established clients which have previously purchased and installed SourceBio equipment. These services comprise regular and periodic servicing and testing of installed storage equipment at customer premises to ensure adherence to relevant regulatory standards. This activity generated £1.2 million of revenue in the first half of 2022 (H1 2021: £1.1 million).

In total, these activities generated revenues totalling £3.2 million in the first half of 2022 (H1 2021: £2.9 million) and a gross profit of £2.1 million (H1 2021: £2.0 million) equating to a gross margin of 65.2% in the first half of 2022 (H1 2021: 67.4%).

Manufacturing generated £0.2 million (2021: £0.6 million) of revenue prior to ceasing operations.

Non-core Infectious Disease Testing

These services generated revenues totalling £6.6 million in the first half of 2022 (H1 2021: £28.4 million) and a gross profit of £1.2 million in the first half of 2022 (H1 2021: £12.4 million), equating to a gross margin of 18.2% in the first half of 2022 (H1 2021: 43.6%). The decline in gross margin was driven by reduced volumes. Revenue included £1.1 million of revenue deferred from 2021 and now recognised (2021: £nil deferred from 2020).

Summary and Outlook

The Group delivered a solid first half of 2022, with attractive revenue growth in all three core business units. The highlight was the particularly strong growth in Cellular Pathology and Digital Pathology volumes and revenues as the continued shortfall in pathologists and return of elective surgeries drove increased demand for SourceLDPath services. The acquisition and successful integration of LDPath added to already buoyant growth.

The Board believes that the Group's three core business units, Healthcare Diagnostics, Genomics and Stability Storage all offer both near-term and longer-term sustained growth potential. In particular, the demand for our Cellular Pathology and Digital Pathology surgeries has grown very substantially in the half year and this demand appears to be increasing into the second half. The Healthcare Diagnostics business unit is operating at record-breaking levels and continues to focus on increasing its capacity and throughput further in the second half to meet unprecedented demand.

In response to declining demand to what now amount to only nominal levels, the Group continues to scale down its COVID-19 PCR testing operations as its focus is to drive growth from the three core business units.

Given the current market environment, the Board believes that SourceBio is well positioned to deliver further attractive growth in revenue and margin from these core business units in the second half of 2022. The Group is pleased to have strengthened its position in Cellular Pathology with the LDPath acquisition and will continue to seek further strategically attractive acquisition opportunities.

We look forward to updating shareholders further during the rest of the year.

Chief Financial Officer's Review

Revenue

Revenue from core operations for the half year 2022 was £13.7 million (H1 2021: £7.9 million), an increase of 74%. Including revenue from Infectious Disease Testing, which is no longer considered core, and Manufacturing which has now ceased, total revenue for the half year 2022 was £20.5 million (H1 2021: £37.3 million).

Revenue across the business units is summarised below:

Business unit	**Unaudited Six months ended 30 June 2022 £'000**	Unaudited Six months ended 30 June 2021 £'000	Audited Year ended 31 December 2021 £'000
Healthcare Diagnostics	**6,823**	1,658	4,866
Genomics	**3,656**	3,290	6,505
Stability Storage	**3,190**	2,927	6,059
Core operations	**13,669**	7,875	17,430
Infectious Disease Testing	**6,639**	28,376	73,567
Manufacturing, now wound down	**166**	638	978
Non-core operations, now wound down	**-**	371	472
Total	**20,474**	37,260	92,397

Note the comparable data for 2021 above has been adjusted to reflect the move of Precision Medicine from Healthcare Diagnostics to Genomics as if that move had occurred on 1 January 2021 and Manufacturing revenues have all been excluded from Stability Storage and shown as non-core.

The Group comprises three core business units, Healthcare Diagnostics, Genomics and Stability Storage. A fourth business unit, Infectious Disease Testing, was established to commercialise COVID-19 PCR testing services which peaked during 2021 and is no longer considered core.

- The Healthcare Diagnostics business unit, consisting of Cellular Pathology and Digital Pathology under the integrated SourceLDPath umbrella, delivered revenues of £6.8 million in the first half of 2022 (H1 2021: £1.7 million and 2021: £4.9 million), representing growth of 312%. The organic Cellular Pathology business delivered revenues of £4.6 million in the first half of 2022 (H1 2021: £1.7 million and 2021: £4.9 million), representing a growth of 179%. LDPath delivered revenues of £2.2 million from 8 March to 30 June and traded 14% ahead of plan.
- Genomics comprises traditional Sanger Sequencing, which delivered revenues of £1.5 million in the first half of 2022 (H1 2021: £1.6 million, 2021: £2.9 million), representing a reduction of 7%, NGS, which delivered revenues of £1.3 million in the first half of 2022 (H1 2021: £0.9 million, 2021: £2.0 million), representing growth of 38%, and Precision Medicine which delivered revenues of £0.9 million in the first half of 2022 (H1 2021: £0.7 million, 2021: £1.5 million), representing growth of 17%. Strategically the Company is consciously targeting a greater proportion of higher value NGS project work over the more routine Sanger Sequencing work, and the mix continues to trend in that direction.
- Stability Storage comprises Stability Storage Services which delivered revenues of £2.0 million in the first half of 2022 (H1 2021: £1.8 million, 2021: £3.8 million), representing growth of 13% and Service and Validation which delivered revenues of £1.1 million in the first half of 2022 (H1 2021: £1.1 million, 2021: £2.3 million), representing growth of 3%. Stability Storage Services are sold via long-term contracts on a recurring revenue model, providing strong forward visibility. The Group's unprofitable manufactured products offering was closed in the second quarter after delivering revenues of £0.2 million in the first half of 2022 (H1 2021: £0.6 million, 2021: £0.9 million) and is now shown as non-core.

Gross profit

Gross profit for the three core business units, Healthcare Diagnostics, Genomics and Stability Storage was £5.9 million in the first half of 2022 (H1 2021: £3.7 million, 2021: £8.0 million), representing a gross margin of 43.1% in the first half of 2022 (H1 2021: 47.3%, 2021: 46.1%). Of note is the improved Healthcare Diagnostics gross margin of 40.2% in the first half of 2022 (H1 2021: 23.8%, 2021: 34.6%), which was driven by scale. The Genomics gross margin decreased to 29.2% in the first half of 2022 (H1 2021: 41.1%, 2021: 36.4%), which was driven by the change in mix towards more NGS business. This decrease is expected to be countered with price increases, initiated in the latter end of the first half, higher equipment utilisation and better project selection.

Including non-core revenues, overall gross profit was £7.0 million in the first half of 2022 (H1 2021: £16.0 million, 2021: £36.2 million), representing a gross margin of 34.1% in the first half of 2022 (H1 2021: 43.0%, 2021: 39.2%).

Expenses

Excluding exceptional costs and non-cash depreciation, amortisation and share based payments, expenses in the first half of 2022 were £5.5 million (H1 2021: £4.8 million, 2021: £12.2 million). Expenses in the first half of 2022 reduced 26% from £7.4 million in the second half of 2021. The Group's expense base was subject to significant scrutiny during the half year as the COVID-19 PCR revenues declined fast and the Group had less need or justification for the same level of cost base. The full financial benefits of a slimmed down sales, general and administrative team cost base will benefit the second half of 2022 and beyond.

Depreciation of tangible fixed assets increased to £1.5 million in the first half of 2022 (H1 2021: £1.2 million, 2021: £2.8 million), consistent with the charge incurred in the second half of 2021.

Amortisation of intangible fixed assets increased to £0.3 million in the first half of 2022 (H1 2021: £0.1 million, 2021: £0.1 million) due to the inclusion of the amortisation of the assets acquired with LDPath.

Total expenses in the first half of 2022 were £9.9 million (H1 2021: £6.0 million, 2021: £15.2 million). Excluding exceptional costs, expenses in the first half of 2022 were £7.4 million (H1 2021: £6.0 million, 2021: £15.2 million). Such total expenses less exceptional costs in the first half of 2022 reduced 19% from £9.2 million in the second half of 2021.

Adjusted EBITDA

The Board's key measure of underlying business profitability and assessing trends across periods is adjusted earnings before interest, tax, depreciation and amortisation, share based payments and exceptional items (adjusted EBITDA). The Group achieved an adjusted EBITDA of £2.1 million in the first half of 2022 (H1 2021: £11.2 million, 2021: £24.1 million). This translated to an adjusted EBITDA percentage in the first half of 2022 of 10.2% (H1 2021: 30.1%, 2021: 26.1%), in line with plan and an expected consequence as the Group transitions from its reliance on the results of COVID-19 PCR testing in 2021.

Exceptional costs

Total exceptional costs were £2.5 million in the first half of 2022 (H1 2021 and 2021: nil).

Professional fees relating to the acquisition of LDPath amounted to £650,000.

The Group has responded to a material and swift reduction in market demand for COVID-19 related testing, reducing its laboratory-based team by approximately 150 roles in the period. Recognising the need for lesser infrastructure post COVID-19, material reductions in sales, general and administration headcount have also been made to right-size the Group's expense base. These cost savings were largely achieved towards the end of the half year and are expected to materially benefit the second half year and beyond. Reorganisation costs totalled £0.7 million.

The COVID-19 inventory provision of £0.9 million relates to the rapid reduction in demand for COVID-19 PCR and travel related lateral flow tests. The Manufacturing inventory provision of £0.2 million relates to provisions against inventory relating to the discontinued but immaterial business line of Manufacturing and supply of Storage equipment.

Finance costs
Total finance costs were £0.3 million in the first half of 2022 (H1 2021: £0.2 million, 2021: £0.4 million). The Group inherited £0.6 million of Coronavirus Business Interruption Loan Scheme (CBILS) loans through its acquisition of LDPath, all of which were repaid by the half year date.

The bulk of the finance costs relate to finance leases charges. At the end of the first half the Group had no borrowings other than leases.

Tax
An income tax credit of £0.5 million arose in the first half of 2022 (H1 2021: charge of £1.9m, 2021: charge of £4.0 million). The vast majority of the taxable profits were generated in the UK, where the Group is liable to corporation tax.

Loss/earnings per share
The basic and diluted earnings per share in the first half of 2022 amounted to a loss of 2.8 pence per share (H1 2021: earnings 10.7 pence per share, 2021: earnings 22.5 pence per share).

Adjusted earnings per share is an Alternative Performance Measure and is calculated by dividing the result for the period attributable to ordinary shareholders, excluding expenses related to exceptional items and share based payments, as well as the tax effect of these items, by the weighted average number of ordinary shares in issue during the period. The adjusted earnings per share in the first half of 2022 amounted to 0.1 pence per share (H1 2021: 10.7 earnings pence per share, 2021: 22.6 earnings pence per share).

Intangible assets
Goodwill at the half year increased to £25.8 million (H1 2021: £10.0 million, 2021: £10.0 million), with no impairment charged in the half year and other intangible assets had a net book value of £8.4 million (H1 2021: £0.2 million, 2021: £0.2 million). The increases were driven by the intangible assets acquired through the LDPath acquisition. Further analysis of the assets acquired, including intangible assets, are detailed in note 13.

Property, plant and equipment
Net book value of property, plant and equipment at the half year amounted to £8.8 million (H1 2021: £8.0 million, 2021: £8.2 million), an overall increase of £0.8 million. Additions in the first half of 2022 totalled £1.2 million, comprising assets acquired through LDPath of £0.4 million and other additions of £0.8 million.

Right-of-use assets
As a result of the implementation of IFRS 16 Leases, the Group recorded at the half year £13.3 million of right-of-use assets (H1 2021: £10.5 million, 2021: £10.3 million). The increase in the half year was due to the inclusion of a new property in Cambridge to support the expected growth in the Genomics business unit, as well as newly leased laboratory equipment.

Inventories
Inventories at the half year amounted to £1.6 million (H1 2021: £5.1 million, 2021: £5.0 million), with the decrease caused primarily by the reduced stockholding requirements to support materially lower levels of forecasted COVID-19 PCR testing. No new COVID-19 PCR consumables were acquired in the period. In addition, the ceasing of in-house manufacture of Storage equipment caused a £0.2 million reduction in inventory.

Trade and other receivables
Trade and other receivables at the half year amounted to £6.6 million (H1 2021: £11.5 million, 2021: £7.2 million), the decrease driven by the reduced levels of COVID-19 PCR testing. Overall, debtor days outstanding at the half year were 52 days (H1 2021: 40 days, 2021: 34 days) and during the half year averaged 48 days (H1 2021: 43 days, 2021: 43 days).

Trade and other payables
Current trade and other payables at the half year amounted to £11.6 million (H1 2021: £8.5 million, 2021: £13.4 million), the increase in the year being driven largely by the inclusion of £1.8 million of deferred consideration in relation to the LDPath acquisition completed in March 2022 and the increase in contract liabilities, being revenue in relation to PCR tests sold but not yet returned to the laboratory for analysis, thus deferred from revenue. As set out

in note 12, there is an element of uncertainty as to the precise quantum and timing of the potential recognition of this deferred revenue into revenue.

Non-current trade and other payables at the half year amounted to £4.7 million (H1 2021: £0.3 million, 2021: £0.3 million), the increase being the inclusion of £4.4 million of deferred consideration in relation to the LDPath acquisition completed in March 2022.

Lease liabilities
Total lease liabilities at the half year amounted to £16.1 million (H1 2021: £13.4 million, 2021: £13.0 million). The increase in the half year was primarily driven by the new Cambridge facility.

Cash and working capital
Net cash generation from operations in the half year was £0.3 million (H1 2021: £10.2 million, 2021: £28.8 million). Whilst significantly reduced from 2021 levels, largely due to the reduction in COVID-19 PCR testing services, this also included exceptional costs in the half year.

Cash and cash equivalents at the half year amounted to £15.2 million (H1 2021: £17.2 million, 2021: £33.3 million). Borrowings (excluding leases) at the half year 2022 remained £nil (H1 2021: £nil) as the Group repaid the debt acquired though the LDPath acquisition. The Group currently has no bank borrowing or debt facilities.

Net assets
Net assets at the half year amounted to £45.9 million (H1 2021: £39.6 million, 2021: £48.3 million).

Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the six months ended 30 June 2022

Continuing operations:	Note	**Unaudited six months ended 30 June 2022 £'000**	Unaudited six months ended 30 June 2021 £'000	Audited year ended 31 December 2021 £'000
Revenue	3, 4	**20,474**	37,260	92,397
Cost of sales		**(13,488)**	(21,236)	(56,184)
Gross profit	3	**6,986**	16,024	36,213
Distribution costs		**(1,535)**	(1,602)	(3,651)
Administrative expenses		**(8,351)**	(4,421)	(11,573)
Other operating income	5	**576**	-	118
Adjusted EBITDA	3	**2,097**	11,218	24,115
Depreciation		**(1,497)**	(1,158)	(2,843)
Amortisation	9	**(305)**	(59)	(88)
Share based payments		**(153)**	-	(77)
Exceptional costs	6	**(2,466)**	-	-
Operating (loss)/profit		**(2,324)**	10,001	21,107
Finance income		**-**	-	21
Finance costs		**(258)**	(209)	(442)
(Loss)/profit before tax		**(2,582)**	9,792	20,686
Taxation	7	**491**	(1,860)	(3,971)
(Loss)/profit attributable to equity shareholders of the Company		**(2,091)**	7,932	16,715
Other comprehensive income				
Items that may be subsequently reclassified to profit or loss:				
- Exchange differences on translation of foreign operations		**(446)**	(119)	(318)
Total comprehensive income attributable to equity shareholders of the Company		**(2,537)**	7,813	16,397
(Loss)/earnings per share:				
Basic and diluted (loss)/earnings per ordinary share	8	**(2.8)p**	10.7p	22.5p

Consolidated Statement of Financial Position
As at 30 June 2022

	Note	**Unaudited as at 30 June 2022**	Unaudited as at 30 June 2021	Audited as at 31 December 2021
		£'000	£'000	£'000
Assets				
Non-current assets				
Intangible assets – goodwill	9	**25,820**	9,993	9,993
Intangible assets - other	9	**8,369**	203	192
Property, plant and equipment		**8,766**	7,973	8,226
Right-of-use assets		**13,337**	10,516	10,347
Deferred tax asset		**-**	395	79
Total non-current assets		**56,292**	29,080	28,837
Current assets				
Inventories	10	**1,601**	5,089	4,999
Trade and other receivables		**6,609**	11,453	7,242
Corporation tax receivable		**934**	-	777
Cash and cash equivalents		**15,209**	17,186	33,304
Total current assets		**24,353**	33,728	46,322
Total assets		**80,645**	62,808	75,159
Equity attributable to equity shareholders of the Company				
Share capital	11	**111**	111	111
Share premium account		**33,189**	33,189	33,189
Foreign exchange reserve		**(593)**	52	(147)
Share option reserve		**230**	-	77
Retained earnings		**12,987**	6,295	15,078
Total equity		**45,924**	39,647	48,308
Liabilities				
Non-current liabilities				
Trade and other payables	12	**4,749**	317	339
Lease liabilities		**14,921**	12,193	11,946
Deferred tax		**2,140**	-	-
Provisions		**137**	138	137
Total non-current liabilities		**21,947**	12,648	12,422
Current liabilities				
Trade and other payables	12	**11,560**	8,492	13,362
Corporation tax payable		**-**	791	-
Lease liabilities		**1,196**	1,212	1,049
Provisions		**18**	18	18
Total current liabilities		**12,774**	10,513	14,429
Total liabilities		**34,721**	23,161	26,851
Total equity and liabilities		**80,645**	62,808	75,159

Consolidated Statement of Changes in Equity
For the six months ended 30 June 2022

	Share capital	Share premium account	Foreign exchange reserve	Share option reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2021	111	33,189	171	-	(1,637)	31,834
Profit for the period	-	-	-	-	7,932	7,932
Other comprehensive income	-	-	(119)	-	-	(119)
Total comprehensive income for the period	-	-	(119)	-	7,932	7,813
Unaudited balance at 30 June 2021	**111**	**33,189**	**52**	**-**	**6,295**	**39,647**
Profit for the period	-	-	-	-	8,783	8,783
Other comprehensive income	-	-	(199)	-	-	(199)
Total comprehensive income for the period	-	-	(199)	-	8,783	8,584
Transactions with owners recorded directly in equity:						
- Employee share options	-	-	-	77	-	77
Total transactions with owners	-	-	-	77	-	77
Audited balance at 31 December 2021	**111**	**33,189**	**(147)**	**77**	**15,078**	**48,308**
Loss for the period	-	-	-	-	(2,091)	(2,091)
Other comprehensive income	-	-	(446)	-	-	(446)
Total comprehensive income for the period	-	-	(446)	-	(2,091)	(2,537)
Transactions with owners recorded directly in equity:						
- Employee share options	-	-	-	153	-	153
Total transactions with owners	-	-	-	153	-	153
Unaudited balance at 30 June 2022	**111**	**33,189**	**(593)**	**230**	**12,987**	**45,924**

Consolidated Statement of Cash Flows
For the six months ended 30 June 2022

	Note	**Unaudited six months ended 30 June 2022**	Unaudited six months ended 30 June 2021	Audited year ended 31 December 2021
		£'000	£'000	£'000
Cash flows from operating activities				
(Loss)/profit for the period		**(2,091)**	7,932	16,715
Adjustments for:				
Depreciation of property, plant and equipment and right-of-use assets		**1,497**	1,158	2,843
Amortisation		**305**	59	88
Profit on disposal of fixed assets		**(3)**	(134)	(147)
Finance costs		**258**	209	442
Finance income		**-**	-	(21)
Taxation		**(491)**	1,860	3,971
Other operating income		**(50)**	-	(118)
Share based payment charges		**153**	-	77
Working capital adjustments:				
Decrease/(increase) in inventories		**3,439**	(1,491)	(1,401)
(Decrease) in provisions		**-**	(1)	(2)
(Increase)/decrease in trade and other receivables		**1,993**	(1,021)	3,228
(Decrease)/increase in trade and other payables		**(5,750)**	2,813	7,618
Cash (outflow from)/inflow from operations		**(750)**	11,384	33,293
Income tax received/(paid)		**712**	(1,197)	(4,509)
Net cash (outflow from)/inflow from operating activities		**(28)**	10,187	28,784
Cash flows from investing activities				
Purchase of subsidiary, net of cash acquired	13	**(15,636)**	-	-
Purchase of property, plant and equipment		**(795)**	(1,515)	(2,975)
Purchase of intangible assets		**(218)**	(20)	(40)
Proceeds on disposal of property, plant and equipment		**8**	645	647
Net cash (outflow from) investing activities		**(16,641)**	(890)	(2,368)
Cash flows from financing activities				
Repayment of CBILs borrowings acquired with LDPath		**(675)**	-	-
Interest paid		**(34)**	(17)	(56)
Payment of lease liabilities		**(779)**	(507)	(1,445)
Net cash (outflow from) financing activities		**(1,488)**	(524)	(1,501)
Net (decrease)/increase in cash and cash equivalents		**(18,157)**	8,773	24,915
Net foreign exchange difference on cash and cash equivalents		**62**	(22)	(46)
Cash and cash equivalents at the beginning of the period		**33,304**	8,435	8,435
Cash and cash equivalents at the end of the period		**15,209**	17,186	33,304

Notes to the Unaudited Consolidated Financial Statements
For the six months ended 30 June 2022

1. General information
SourceBio International plc (the "Company" or "SourceBio") is a public limited company, incorporated in England and Wales and domiciled in the UK. The ordinary shares of the Company are traded on the AIM Market of the London Stock Exchange. The address of the registered office is 1 Orchard Place, Nottingham Business Park, Nottingham, NG8 6PX.

SourceBio is the ultimate parent Company of a number of subsidiaries whose principal activity is as an international provider of integrated state-of-the-art laboratory services to the healthcare and clinical, life and applied sciences and biopharma industries.

The financial information in these interim results is that of the parent Company and all of its subsidiaries. It has been prepared in accordance with UK adopted International Accounting Standards (IFRS). The accounting policies applied by the Group in this financial information are the same as those applied by the Group in its financial statements for the year ended 31 December 2021 and which will form the basis of the 2022 financial statements except for a number of new and amended standards which have become effective since the beginning of the previous financial year. These new and amended standards are not expected to materially affect the Group.

The financial information presented herein does not constitute full statutory accounts under Section 434 of the Companies Act 2006 and was not subject to a formal review by the auditors. The financial information in respect of the year ended 31 December 2021 has been extracted from the statutory accounts which have been delivered to the Registrar of Companies. The Group's Independent Auditor's report on those accounts was unqualified, did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006. The financial information for the half years ended 30 June 2022 and 30 June 2021 is unaudited.

2. Summary of significant accounting policies

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 periods presented, unless otherwise indicated.

Basis of preparation
The consolidated financial statements have been prepared under the historical cost convention. The consolidated financial statements are presented in Sterling which is the functional and presentational currency of the Group and are rounded to the nearest thousand, £'000, except where otherwise indicated.

Going concern
The Directors have prepared detailed budgets and rolling forecasts covering the period to 31 December 2024. These plans take into account all reasonably foreseeable circumstances and include consideration of trading results and cash flows on a month-by-month basis.

The Group is expected to generate cash and operating profits sufficient to meet its day-to-day operating needs and to support its planned capital expenditure. Taking into account the current level of cash balances and based on their enquiries and the information available to them in respect of the other risks and uncertainties set out herein, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. Thus, they have adopted the going concern basis of accounting in preparing these financial statements.

Basis of consolidation
The Group's consolidated financial statements include the results of the Company and all its subsidiaries. Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intangible assets

Goodwill

Goodwill is initially measured at fair value, being the excess of the aggregate of the consideration transferred over the fair value of the net assets acquired, and any previous interest held over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The goodwill is tested annually for impairment irrespective of whether there is an indication of impairment.

For the purposes of impairment testing, goodwill is allocated to the cash generating units ("CGUs") expected to benefit from the acquisition. CGUs to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Intangible assets (other than goodwill)

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	-	5 years
Development costs	-	4 years
Customer relationships	-	4 to 6 years
Brands		10 years

Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated. Development costs relate to a laboratory information management system that was developed internally by the Group.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Cost comprises purchase cost together with any incidental cost of acquisition.

Depreciation is provided to write down the cost less estimated residual value of all tangible fixed assets by equal instalments over their expected useful economic lives on a straight-line basis. The following useful lives are applied:

- Freehold buildings: 50 years
- Leasehold improvements: remaining lease term
- Plant, fixtures, fittings and equipment: 3 to 15 years
- Motor vehicles: 4 years

Right-of-use assets (included within property, plant and equipment) relate to leasehold buildings and office equipment and are depreciated over the lease term.

Impairment of non-current assets
At each reporting period-end date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in the Statement of Comprehensive Income.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories
Inventory is stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first-in, first-out basis and includes costs associated with bringing the items to their present location and condition. Net realisable value is the estimated selling price less costs to complete and sell.

Financial instruments
The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial instruments are recognised on the date the Group becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value plus, in the case of a financial instrument not a fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Financial instruments are derecognised on the trade date when the Group is no longer a party to the contractual provisions of the instrument.

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, lease liabilities and trade and other payables.

Trade and other receivables and trade and other payables
Trade and other receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days. The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Trade and other payables are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any expected credit losses in the case of trade receivables. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Contract assets
Contract assets are recognised when revenue is recognised but payment is conditional on a basis other than the passage of time. Contract assets are included in trade and other receivables.

Contract liabilities
Contract liabilities are recognised when payment from a customer is received in advance of performance obligations being satisfied. Contract liabilities are recognised in trade and other payables.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised costs using the effective interest method, less any impairment losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only on the cash flow statement.

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, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

Employee benefits
The Group operates a number of defined contribution money purchase pension schemes under which it pays contributions based upon a percentage of the members' basic salary. Contributions to defined contribution pension schemes are charged to the Statement of Comprehensive Income and differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments.

Finance income and expenses
Finance expenses comprise interest payable (including lease liability interest) and is recognised in the profit or loss using the effective interest method.

Finance income is recognised in the profit or loss as it accrues.

Leases
The Group leases various office and laboratory facilities as well as certain laboratory, IT and office equipment and a number of vehicles. Rental contracts are typically made for fixed periods of variable lengths. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- variable lease payments based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases held by the Group, the Group uses an estimated incremental borrowing rate, being the rate that the individual lessee is estimated to have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- any potential restoration costs.

In addition, the carrying amount of lease liabilities and right-of-use asset is measured if there is a modification, a change in the lease term or a change in the fixed lease payments. The remeasured lease liability (and corresponding right-of-use asset) is calculated using a revised discount rate, based upon a revised incremental borrowing rate at the time of the change.

The Group leases properties in Nottingham and Cambridge in the UK, San Diego in the USA, as well as Tramore in Ireland. All such leases are accounted for by recognising a right-of-use asset and a lease liability.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office equipment.

Revenue recognition
Revenue is recognised when control of a service or product provided by the Group is transferred to the customer, in line with the Group's performance obligations in the contract, and at an amount reflecting the consideration the Group expects to receive in exchange for the provision of services.

The Group recognised revenue from the following activities:

Laboratory testing services
Revenues received or receivable for services, typically provided under contract pathology, Sanger Sequencing services and COVID-19 PCR testing are recognised when the services are provided, which is when a test result is delivered.

Products
During the year the Group ceased its final product offering, the manufacture of storage equipment. Up to this point, revenue from sales of certain products was recognised when goods are delivered to and accepted by the customer.

Service agreements
Revenue relating to service contracts invoiced at the inception of the agreements is deferred such that the income is recognised over the contract life.

Contracts recognised over time and with multiple elements

The Group enters into certain contracts that are performed over time. These include Genomics and Validation Services.

Under these contracts, revenue is recognised based on the stage of completion. The assets created do not have an alternative use and the Group has an enforceable right to payment for performance completed to date on such contracts.

Where the Group has historically entered into contracts for the supply and installation of Storage equipment, revenue has been recognised based on the specific terms of each contract. In some instances, this requires the allocation of the transaction price between the supply of the product and the installation and commissioning. Where contracts require separation, the revenue is allocated based on the fair values attributable to the separate elements and the performance obligations being met.

Testing kits

The price charged for the testing kits is specified in agreements 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 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 agreement. All contracts are for a fixed price and do not include variable consideration.

Revenue associated with 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 provision of these elements of the supply.

Where there is a delay in returning a testing kit to the laboratory for the testing service to be performed, the revenue is deferred until the likelihood of it not being returned is highly probable or if the testing kit reaches the end of its period of shelf-life.

Pre-paid vouchers

Vouchers are sold to customers in advance in return for the right to receive certain sequencing services in the future. These are not cash refundable. The revenue associated with these voucher sales is recognised when the services are performed and obligations met with an estimate made for a proportion of vouchers that are not expected to be redeemed, based on prior period redemption rates.

Taxes

Corporation tax, where payable, is provided on taxable profits at the current rate.

Deferred tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currency translation
Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on 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. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

The functional currency of the Group is Sterling. Exchange differences arising from the translation of foreign operations are recognised in other comprehensive income and accumulated in a foreign currency translation reserve within equity.

Exceptional costs
The Group presents as exceptional items on the face of the Statement of Comprehensive Income those material items of income and expense which, because of the nature, expected infrequency and materiality of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the period, so as to facilitate comparison with prior periods.

Equity instruments
Equity instruments issued by the Group are recorded as the value of the proceeds received net of direct issue costs.

Share based payments
The cost of equity settled transactions with employees is measured by reference to the fair value on the date they are granted. Where there are no market conditions attaching to the exercise of the options, the fair value is determined using a range of inputs into a Black-Scholes pricing model. Where there are market conditions attaching to the exercise of the options a Monte Carlo model is used to determine fair value based on a range of inputs. The value of equity-settled transactions is charged to the Statement of Comprehensive Income over the period in which the service conditions are fulfilled with a corresponding credit to the share option reserve in equity.

On the exercise of share options, an amount equal to the fair value of the option at the date it was granted is transferred from the share option reserve into retained earnings.

3. Operating segments

Operating segments description
IFRS 8 requires that operating segments be identified on the basis of internal reporting and decision-making. Management has determined the Group's operating segments based on the monthly management reports presented to the Chief Operating Decision Maker ("CODM"). The CODM is the Executive Chairman and the monthly management reports are used by the Group to make strategic decisions and allocate resources. For the purposes of management reporting to the CODM, the commercial activities of the Group are organised into four business segments of which Healthcare Diagnostics, Genomics and Stability Storage are considered core. Since the reduction in COVID-19 PCR testing, Infectious Disease Teasing is now considered non-core.

Revenue and gross profit by business segment
Revenues and gross profits are presented for each business segment but, due to the shared nature of many expenses, expenses are not separately allocated across the business segments.

There have been immaterial sales between business segments, and where these do occur, they are at arm's length pricing.

	Six months ended 30 June 2022		Six months ended 30 June 2021		Year ended 31 December 2021	
	Revenue £'000	**Gross profit £'000**	Revenue £'000	Gross profit £'000	Revenue £'000	Gross profit £'000
Healthcare Diagnostics	**6,823**	**2,743**	1,658	395	4,866	1,685
Genomics	**3,656**	**1,067**	3,290	1,352	6,505	2,367
Stability Storage	**3,190**	**2,079**	2,927	1,974	6,059	3,979
Core business units	**13,669**	**5,889**	7,875	3,721	17,430	8,031
Infectious Disease Testing, non core	**6,639**	**1,205**	28,376	12,378	73,567	28,509
Manufacturing, now wound down	**166**	**(108)**	638	(178)	978	(419)
Other, now wound down	**-**	**-**	371	103	422	92
Total	**20,474**	**6,986**	37,260	16,024	92,397	36,213

Comparative revenue and gross margin analyses for 2021 have been restated to reflect (1) the transfer of the Reference Laboratory from the Healthcare Diagnostics business unit to the Precision Medicine business line within the Genomics business unit and (2) the exclusion of Manufacturing from Stability Storage and transfer to non-core.

Due to the shared nature of many assets, assets and liabilities for both 2021 and 2022, are not able to be separately allocated across the business segments but are reported to the CODM on an aggregate basis.

The Infectious Disease Testing revenue included £1,111,000 from the recognition of revenue in relation to COVID-19 PCR tests that was carried forward and deferred from 2021.

Adjusted EBITDA (Alternative Performance Measure)

The CODM, Board and Executive Management team primarily use a measure of adjusted earnings before interest, tax, depreciation and amortisation, share based payments and exceptional items (EBITDA before share based payments and exceptional items, or adjusted EBITDA) to assess the performance of the overall business. This is an Alternative Performance Measure. The reconciliation of adjusted EBITDA to operating profit is shown on the face of the Consolidated Statement of Profit and Loss. Exceptional items are summarised in note 6.

4. Revenue

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 and the USA. The revenue analysis in the table below is based on the location of the customer.

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
United Kingdom	**18,768**	35,244	88,727
Europe	**1,186**	1,047	2,285
USA	**509**	969	1,337
Rest of world	**11**	-	48
Total	**20,474**	37,260	92,397

The Group details below significant customers who have contributed to more than 10% of Group revenue in any of the periods shown:

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
Customer A	**296**	12,269	14,453
Customer B	**2,808**	2,122	12,750
Customer C	**265**	-	12,151

5. Other income

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
Settlement in relation to dispute with former employee	**526**	-	-
Research & development expenditure credit	**50**	-	118
	576	-	118

6. Exceptional items

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
Professional fees in relation to the acquisition of LDPath Limited	**650**	-	-
Reorganisation costs	**682**	-	-
Inventory provision on closure of Manufacturing business line	**246**	-	-
Inventory provision on ceasing to supply COVID-19 travel related lateral flow tests	**888**	-	-
	2,466	-	-

The reorganisation costs relate to reductions in headcount, principally in relation to COVID-19 PCR testing as the throughput declined significantly from its peak in 2021, as well as reductions in sales, general and administration headcount as the business right-sized its expense base as COVID-19 PCR testing declined.

The Manufacturing inventory provisions relate to provisions against inventory relating to the discontinued but immaterial business line of Manufacturing and supply of Storage equipment.

The COVID-19 inventory provision relates to the rapid reduction in demand for COVID-19 PCR and travel related lateral flow tests.

7. Taxation

The tax charge in the half years have been calculated based on the estimated tax rate that is expected to apply to the full year.

8. (Loss)/earnings per share

Basic earnings per share is calculated by dividing the result for the period attributable to ordinary shareholders of the Company by the weighted average number of shares in issue during the period.

Diluted earnings per share is calculated by dividing the result for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period adjusted for the effects of dilutive options. The weighted average number of shares and the loss for the period for the purposes of calculating diluted loss per share for the half year are the same as for the basic loss per share calculation. This is because the outstanding share options would have the effect of reducing the loss per share and would not, therefore, be dilutive under the terms of IAS 33. There were no share options in issue in during the six months ended 30 June 2021.

Adjusted earnings per share, an Alternative Performance Measure, is calculated by dividing the result for the period attributable to ordinary shareholders, which adds or deducts items that are typically adjusted for by users of financial statements. These items comprise expenses related to exceptional items and share based payments as well as the tax effect of these items, by the weighted average number of ordinary shares in issue during the period.

The calculation of adjusted earnings, which includes any impact of taxation is as below:

	Six months ended 30 June 2022 £'000	Six months ended 30 June 2021 £'000	Year ended 31 December 2021 £'000
(Loss)/profit for the period	**(2,091)**	7,932	16,715
Exceptional items	**2,466**	-	-
Share based payments	**153**	-	77
Tax effect of the above	**(469)**	-	-
Adjusted profit for the period	**59**	7,932	16,792

The reconciliation of the earnings and weighted average number of shares used in the calculations for the six months ended 30 June 2022 and 30 June 2021 is set out below:

	Six months ended 30 June 2022			Six months ended 30 June 2021		
	Earnings £'000	**Weighted average number of shares 000's**	**Per share amount (pence)**	Earnings £'000	Weighted average number of shares 000's	Per share amount (pence)
Basic and Diluted EPS						
(Loss) / earnings attributable to ordinary shareholders of the Company	**(2,091)**	**74,183**	**(2.8)p**	7,932	74,183	10.7p
Adjusted EPS						
Adjusted earnings attributable to ordinary shareholders of the Company	**59**	**74,183**	**0.1p**	7,932	74,183	10.7p

The reconciliation of the earnings and weighted average number of shares used in the calculations for the year ended 31 December 2021 is set out below:

	Year ended 31 December 2021		
	Earnings £'000	Weighted average number of shares 000's	Per share amount (pence)
Basic EPS			
Earnings attributable to ordinary shareholders of the Company	16,715	74,183	22.5p
Effect of diluted share options	-	37	
Diluted EPS			
Earnings attributable to ordinary shareholders of the Company	16,715	74,220	22.5p
Adjusted EPS			
Adjusted earnings attributable to ordinary shareholders of the Company	16,792	74,183	22.6p

9. Goodwill and other intangible assets

Consolidated	Goodwill £'000	Software £'000	Development costs £'000	Customer relationships £'000	Brands £'000	Total other intangible assets £'000	Total £'000
Cost							
At 1 January 2021	61,331	34	1,303	185	-	1,522	62,853
Additions	-	-	20	-	-	20	20
Disposals	-	-	-	-	-	-	-
At 30 June 2021	61,331	34	1,323	185	-	1,542	62,873
Additions	-	-	20	-	-	20	20
Disposals	-	-	(512)	-	-	(512)	(512)
At 31 December 2021	61,331	34	831	185	-	1,050	62,381
Additions	-	168	50	-	-	218	218
Acquisition of LDPath	15,827	3,511	-	1,290	3,481	8,282	24,109
Disposals	-	-	(18)	-	-	(18)	(18)
At 30 June 2022	**77,158**	**3,713**	**863**	**1,475**	**3,481**	**9,532**	**86,690**
Amortisation and impairment							
At 1 January 2021	51,338	6	982	185	-	1,173	52,511
Amortisation charge	-	4	55	-	-	59	59
At 30 June 2021	51,338	10	1,037	185	-	1,232	52,570
Amortisation charge	-	5	24	-	-	29	29
Disposals	-	-	(403)	-	-	(403)	(403)
At 31 December 2021	51,338	15	658	185	-	858	52,196
Amortisation charge	-	126	20	43	116	305	305
Disposals	-	-	-	-	-	-	-
At 30 June 2022	**51,338**	**141**	**678**	**228**	**116**	**1,163**	**52,501**
Net book value							
At 31 December 2020	9,993	28	321	-	-	349	10,342
At 30 June 2021	9,993	24	286	-	-	310	10,303
At 31 December 2021	9,993	19	173	-	-	192	10,185
At 30 June 2022	**25,820**	**3,572**	**185**	**1,247**	**3,365**	**8,369**	**34,189**

Amortisation is charged within administrative expenses in the Statement of Comprehensive Income.

Following initial recognition, goodwill is subject to impairment reviews, at least annually, and measured at cost less accumulated impairment losses. Any impairment is recognised immediately in the Consolidated Statement of Comprehensive Income and is not subsequently reversed.

A business unit summary of the allocation of goodwill is shown below:

	30 June 2022	30 June 2021	31 December 2021
	£'000	£'000	£'000
Healthcare Diagnostics	**15,292**	1,458	1,458
Genomics	**2,596**	2,596	2,596
Stability Storage	**5,939**	5,939	5,939
Total	**23,827**	9,993	9,993

10. Inventories

	30 June 2022	30 June 2021	31 December 2021
	£'000	£'000	£'000
Raw materials	**1,601**	5,089	4,616
Finished goods and goods for resale	**-**	-	383
Total	**1,601**	5,089	4,999

11. Share capital

There have been no share movements in 2021 or in the half year. There are 74,183,038 ordinary shares of 0.15p each in issue, all fully paid. No further share options have been issued in the half year.

12. Trade and other payables

	30 June 2022	30 June 2021	31 December 2021
Current	**£'000**	£'000	£'000
Trade payables	**4,084**	4,606	4,740
Other tax and social security	**548**	421	483
Accruals	**812**	1,027	2,933
Contract liabilities	**4,305**	2,438	5,206
Deferred consideration in relation to LDPath acquisition	**1,811**	-	-
Total current	**11,560**	8,492	13,362
Non-current			
Contract liabilities	**389**	317	339
Deferred and contingent consideration in relation to LDPath acquisition	**4,360**	-	-
Total non-current	**4,749**	317	339

Included within contract liabilities is certain revenue in relation to PCR test kits sold to a high street pharmacy chain during the height of the pandemic in late 2021 which was treated as deferred revenue as the tests were not yet returned to the Group's laboratory for processing. Due to errors in the high street pharmacy chain's tracking of its website sales data, it advised the Group in May 2022 that they believed that they had been "overcharged" by the Group a total of £2,673,000. The Group acted in accordance with the agreed commercial contract. The Group has requested, and is awaiting, full details of the customer's relevant data to review prior to continuing discussions with the customer to resolve the matter. There is a risk, therefore, that some revenues that are currently deferred may not ultimately be recognised as (non core) revenue.

13. Business Combination

On 8 March 2022 the Group purchased the entire issued share capital of LDPath Limited ("LDPath"), a London based leader in Digital Pathology testing services.

The goodwill of £13,834,000 arising from the acquisition is attributable to the expected future benefits arising from the acquired business.

The following table summarises the provisional fair values of the consideration paid for LDPath and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date. Acquisition costs of £650,000 have been written off against income and disclosed as an exceptional item.

	Provisional fair values £'000
Consideration	
Cash	16,167
Deferred cash consideration re warranty retention	1,779
Deferred cash consideration re receivables retention	460
Contingent consideration on revenue performance to 31 December 2024 (potential earn-out payments)	4,299
Total consideration	22,705
Recognised amounts of identifiable assets and liabilities acquired assumed	
Trade name – see note 9	3,481
Customer relationships – see note 9	1,290
Website and software – see note 9	3,511
Plant, property and equipment	1,105
Cash	899
Inventories	41
Trade and other receivables	1,358
CBILS loans	(675)
Lease liabilities	(579)
Trade and other payables	(1,336)
Deferred tax	(2,217)
Total identifiable net assets	6,878
Goodwill	15,827

The contingent consideration on revenue performance is based on measures of LDPath revenue and any Digital Pathology revenue generated in the periods to 31 December 2022, 31 December 2023 and 31 December 2024, compared to agreed targets. Any amounts payable will be payable in the April following the relevant year-end date, based on audited results. The amount of deferred and contingent consideration has been discounted to take account of the time value of money. The revenue included in the Consolidated Statement of Comprehensive Income since 8 March 2022 contributed by LDPath was £2,200,000. LDPath also contributed an adjusted EBITDA of £228,000 over the same period.

Outflow of cash to acquire subsidiary, net of cash acquired	**30 June 2022** **£'000**
Cash consideration	**16,167**
Deferred cash consideration	**368**
Less: Balances acquired	
Cash	**(899)**
Net outflow of cash – investing activities	**15,636**

14. Contingent liabilities

HMRC

As previously reported, in December 2021, HMRC issued a letter to the Group that challenged the Group's VAT treatment of COVID-19 PCR testing services provided. On professional advice, the Group treated the accounting for COVID-19 PCR services as VAT exempt. HMRC suggested that some of those services should have been treated as standard rated for VAT purposes. The Group took advice, which supported the accounting treatment adopted. Should all arguments presented by HMRC be held and based on draft calculations, the maximum potential cash liability payable by the Group would be £5.0 million. HMRC have since reverted to its policy team and its solicitors office and on 25 July, HMRC verbally informed the Group's tax advisors that it did not intend to pursue its claim for VAT to be chargeable on COVID-19 PCR services. The Group has been told that this decision is expected to be put in writing in September. The Board continues to conclude that no provision should be made in its financial statements.