

# **NextGen Group PLC**

**Interim Report 2008**

# NextGen Group PLC

## Interim Results to 30 June 2008

NextGen Group plc, (AIM: NGG, 'the Group', 'NextGen'), a provider of biomarker testing services, announces its interim results for the six months ended 30 June 2008.

### Highlights

- Repositioned to focus Group on biomarker market
  - Biomarker services launched, including testing, discovery and assay development
  - Multiple biomarker discovery and assay development projects underway
  - Recognised revenues for biomarker services
- Divesting of non core businesses initiated
- Substantially reduced cost base
- Sales in the period were £1,028,709

For further details please contact:

Dr Michael Pisano  
CEO, NextGen Group PLC

+1 734 973 7914

Adrian Duffield  
College Hill Associates Ltd

+44 20 7457 2815

Nicola Marrin  
Seymour Pierce Limited

+44 20 7107 8018

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## CEO's Statement

### Overview

NextGen is now focussed on biomarker services (discovery, assay development and testing) for pharmaceutical and biotechnology customers.

NextGen has been focussing on growing its biomarker service business since April of 2008. The Group is in final negotiations for divestiture of the electrophoresis business and the automation and software division. The Group's headquarters are now Ann Arbor, Michigan, USA. With effect from 1 July 2008 the reporting currency for all of its businesses is now in US dollars.

### Financial review

Group turnover for the six months ended 30 June 2008 was £1.029 million (H1 2007: £1.071 million), a decrease of 4%. Gross margin remained at 74% before sales commissions (H1 2007: 74%) and 65% after sales commissions. Total operating charges decreased by 5% to £1.931 million (H1 2007: £2.037 million). The operating loss was £1.262 million after exceptional costs (H1 2007: £1.257 million). After a net interest charge of £0.34 million, the Group reported a pre-tax loss of £1.296 million (H1 2007: loss £1.272 million) and a loss per share of 0.1p (H1 2007: loss 0.2p).

In the six months ended 30 June 2008 the Company undertook a placing of Ordinary Shares that raised approximately £1.5 million before expenses.

### Market

The far-reaching benefits to R&D of biomarkers are evident. Biomarkers have moved to the front-line of medical research. The undeniable need for classifying molecular markers based on the understanding of disease mechanisms has received immense emphasis owing to the significant challenges encumbering the drug development pipeline. It has been recognised that integration of biomarkers through the different phases of drug development can yield safer drugs with enhanced therapeutic efficacy in a cost-effective manner. Biomarker-based tests have been in existence for a few decades now but their relevance to drug development applications in particular has gained momentum only recently. This is apparent from the increased research interest, and patent and regulatory activity with regards to biomarkers.

The biomarker market is estimated to be about \$21 billion (COMMERCIAL OPPORTUNITIES FROM BIOMARKERS: Transforming drug discovery, clinical development and molecular diagnostics By Dr CL Barton; 2006 Business Insights Ltd). The biomarker market is segmented into three main sections: biomarker discovery, molecular diagnostics and clinical trials. Of these, biomarker discovery for applications in drug discovery, preclinical studies of drug development and diagnostics research are the largest and accounted for nearly 48 per cent of the total market in 2007. This market segment is expected to grow to a

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compounded average growth rate (CAGR) of about 17 per cent year on year. The second largest segment was the use of biomarkers in molecular diagnostics applications which was estimated to be worth \$2 billion in 2007. It is predicted to grow at a CAGR of about 17 per cent year on year. This market will provide the point-of-care and laboratory based diagnostic tools that enable a more informed ability to choose the right drug for a disease and patient. Currently the smallest business segment, having been valued at around \$612 million in 2007, is the clinical trials market. This segment has been predicted to see the largest growth rate with a CAGR of about 23 per cent.

## **Biomarker business operating review**

The Group has already made good progress with its biomarker business, with projects in therapeutic areas such as oncology and Alzheimer's disease for pharmaceutical and biotechnology customers due for delivery in early Q3 2008. The biomarker business has already had revenue recognition in this area for the first half of 2008.

Marketing materials have been prepared and the website is undergoing a redesign to reflect the biomarker business as our core business. Nextgen will attend several conferences and continue to meet via invitation with large pharmaceutical companies to present the biomarker services. A number of these companies have requested proposals for work in the biomarker area.

Taking an advanced technical approach to protein identification has enabled the group to be able to publish catalogues of proteins from a variety of biological fluids, tissues and cell lines which accelerates and informs discussions with customers as to the proteins that are available for testing.

In June 2008, the Group announced a key Commercial Alliance with Expression Pathology Inc. This enables the Group to extend its service offering to identifying and quantifying protein biomarkers in archived tissue samples. This moves the Group into a further market by extending the offering into pathology and pre-clinical research in drug development.

## **Outlook**

In Q3 2008 Nextgen has completed multiple biomarker projects in the area of oncology and a large project in Alzheimer's disease. A number of pre-defined assay panels are being prepared for launch in Q4 2008 and early 2009 which will fulfil certain needs in the market and allow easy entrance to biomarker testing to many of the Group's present and future customers. The panels will address a number of therapeutic arenas such as the cardiovascular, oncology and neurodegenerative areas.

However, because of the nature and stage of the Group's business and the services it seeks to provide, the timing of cash inflows continues to be unpredictable. This, together with the Group's plans for growth, may necessitate alternative funding levels and the directors constantly review the need for such additional funds.

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Dr Michael Pisano (CEO) 25 September 2008

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## Condensed consolidated income statement

for the six months ended 30 June 2008

	Note	Six months ended 30 June 2008 Unaudited £	Six months ended 30 June 2007 Unaudited £	Year ended 31 December 2007 Audited £
<b>Revenue</b>	6	1,028,709	1,070,990	1,683,859
Cost of sales		(359,810)	(289,954)	(742,005)
<b>Gross profit</b>		<b>668,899</b>	<b>781,036</b>	<b>941,854</b>
Other operating charges		(1,930,646)	(2,037,595)	(4,214,674)
<b>Operating loss</b>	6	<b>(1,261,747)</b>	<b>(1,256,559)</b>	<b>(3,272,820)</b>
Finance income		187	271	362
Finance costs		(34,426)	(15,823)	(45,629)
<b>Loss before taxation</b>		<b>(1,295,986)</b>	<b>(1,272,111)</b>	<b>(3,318,087)</b>
Income tax income /(expense)		82,172	(7,404)	(509)
<b>Net loss attributable to shareholders' equity</b>		<b>(1,213,814)</b>	<b>(1,279,515)</b>	<b>(3,318,596)</b>
<b>Basic loss per share</b>	5 (a)	<b>(0.1p)</b>	<b>(0.2p)</b>	<b>(0.3p)</b>

All of the above relates to continuing activities.

## Condensed statement of recognised income and expense

For the six months ended 30 June 2008

	Six months ended 30 June 2008 Unaudited £	Six months ended 30 June 2007 Unaudited £	Year ended 31 December 2007 Audited £
Currency retranslation gains/(losses) net of tax recognised directly in equity	2,307	5,097	(1,107)
Net loss attributable to shareholders' equity	(1,213,814)	(1,279,515)	(3,318,596)
<b>Total recognised income and expense attributable to shareholders' equity</b>	<b>(1,211,507)</b>	<b>(1,274,418)</b>	<b>(3,319,703)</b>

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## Condensed consolidated balance sheet at 30 June 2008

		30 June 2008 Unaudited £	30 June 2007 Unaudited £	31 December 2007 Audited £
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill		519,877	519,877	519,877
Intangible assets		-	24,008	-
Property, plant and equipment	7	428,903	207,446	547,505
		<b>948,780</b>	<b>751,331</b>	<b>1,067,382</b>
<b>Current assets</b>				
Inventories		28,695	394,162	78,808
Trade and other receivables		577,144	407,276	223,617
Tax receivable		82,172	-	-
Cash and cash equivalents		-	-	129,432
		<b>688,011</b>	<b>801,438</b>	<b>431,857</b>
<b>Total assets</b>		<b>1,636,791</b>	<b>1,552,769</b>	<b>1,499,239</b>
<b>EQUITY</b>				
Called up share capital	8	1,910,977	919,506	1,394,753
Share premium account		5,157,333	2,857,559	4,187,559
Merger relief reserve		63,544	63,544	63,544
Merger reserve		5,731,082	5,731,082	5,731,082
Other reserves		603,203	930,421	571,057
Foreign currency translation reserve		9,154	13,051	6,847
Profit and loss account		(13,400,659)	(10,634,587)	(12,186,845)
<b>Equity shareholders' funds</b>		<b>74,634</b>	<b>(119,424)</b>	<b>(232,003)</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Financial liabilities: finance leases and long term loan		245,664	24,836	341,132
<b>Current liabilities</b>				
Trade and other payables		849,259	1,245,830	1,114,264
Financial liabilities		394,327	256,005	200,751
Provisions		72,907	145,522	75,095
		<b>1,316,493</b>	<b>1,647,357</b>	<b>1,390,110</b>
<b>Total liabilities</b>		<b>1,562,157</b>	<b>1,672,193</b>	<b>1,731,242</b>
<b>Total equity and liabilities</b>		<b>1,636,791</b>	<b>1,552,769</b>	<b>1,499,239</b>

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## Condensed consolidated interim cash flow statement

for the six months ended 30 June 2008

	Note	Six months ended 30 June 2008 Unaudited £	Six months ended 30 June 2007 Unaudited £	Year ended 31 December 2007 Audited £
Cash flows from operating activities	10	(1,691,037)	(838,709)	(2,234,441)
Taxation received		-	109,197	115,728
<b>Net cash flows from operating activities</b>		<b>(1,691,037)</b>	<b>(729,512)</b>	<b>(2,118,713)</b>
<b>Cash flows from investing activities</b>				
Interest received		187	271	362
Purchases of property, plant and equipment		(262)	(64,278)	(174,803)
Sale of property, plant and equipment		12,000	-	12,465
<b>Net cash flow from investing activities</b>		<b>11,925</b>	<b>(64,007)</b>	<b>(161,976)</b>
<b>Cash flows from financing activities</b>				
Interest paid		(34,426)	(15,823)	(45,629)
Repayment of borrowing		(15,625)	(31,250)	(62,000)
Capital elements of finance lease rentals		(108,601)	(43,902)	(61,191)
Issue of shares/debentures		1,485,998	665,561	2,479,618
<b>Net cash flows from financing activities</b>		<b>1,327,346</b>	<b>574,586</b>	<b>2,310,798</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(351,766)</b>	<b>(218,933)</b>	<b>30,109</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>129,432</b>	<b>99,323</b>	<b>99,323</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>(222,334)</b>	<b>(119,610)</b>	<b>129,432</b>

## Cash and cash equivalents included in the cash flow statement

	Six months ended 30 June 2008 Unaudited £	Six months ended 30 June 2007 Unaudited £	Year ended 31 December 2007 Audited £
Cash and cash equivalents as per balance sheet	-	-	129,432
Bank overdraft	(222,334)	(119,610)	-
<b>Cash and cash equivalents as per cash flow statement</b>	<b>(222,234)</b>	<b>(119,610)</b>	<b>129,432</b>

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## Condensed consolidated interim statement of changes in equity for the six months ended 30 June 2008

	Share Capital £	Share Premium £	Merger Relief Reserve £	Merger Reserve £	Other Reserve £	Foreign Currency Translation Reserve £	Profit and loss £	Total £
<b>At 31 December 2006</b>	793,794	2,308,900	63,544	5,731,082	930,421	7,954	(9,587,954)	247,741
Total recognised income and expense for the period	-	-	-	-	-	5,097	(1,279,515)	(1,274,418)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(5,097)	(5,097)
Allotments during the period	125,712	574,284	-	-	-	-	-	699,996
Share issue costs	-	(25,625)	-	-	-	-	-	(25,625)
Share based payments	-	-	-	-	-	-	237,979	237,979
<b>At 30 June 2007</b>	<b>919,506</b>	<b>2,857,559</b>	<b>63,544</b>	<b>5,731,082</b>	<b>930,421</b>	<b>13,051</b>	<b>(10,634,587)</b>	<b>(119,424)</b>
Total recognised income and expense for the period	-	-	-	-	-	(6,204)	(2,033,984)	(2,040,188)
Allotments during the period	475,247	1,425,000	-	-	-	-	-	1,900,247
Share issue costs	-	(95,000)	-	-	-	-	-	(95,000)
Share based payments	-	-	-	-	(359,364)	-	481,726	122,362

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<b>At 31 December 2007</b>	<b>1,394,753</b>	<b>4,187,559</b>	<b>63,544</b>	<b>5,731,082</b>	<b>571,057</b>	<b>6,847</b>	<b>(12,186,845)</b>	<b>(232,003)</b>
Total recognised income and expense for the period	-	-	-	-	-	2,307	(1,213,814)	(1,211,507)
Allotments during the period	516,224	1,044,774	-	-	-	-	-	1,560,998
Share issue costs	-	(75,000)	-	-	-	-	-	(75,000)
Share based payments	-	-	-	-	32,146	-	-	32,146
<b>At 30 June 2008</b>	<b>1,910,977</b>	<b>5,157,333</b>	<b>63,544</b>	<b>5,731,082</b>	<b>603,203</b>	<b>9,154</b>	<b>(13,400,659)</b>	<b>74,634</b>

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## Notes to the interim statement

for the six months ended 30 June 2008

### 1. Nature of Operations and General Information

NextGen Group plc ("the Company"), a United Kingdom resident, and its subsidiaries (together "the Group") provide research and development services in the protein research arena and the manufacture and sale of products and technology for use within the protein research industry. The Company's shares are listed on the Alternative Investment Market of the London Stock Exchange ("AIM"). The address of the Company's registered office is Building 56, Alconbury North Airfield, Alconbury, Huntingdon, Cambridgeshire, PE28 4DA.

The condensed consolidated interim financial information was approved by the board of directors on 24 September 2008.

### 2. Basis of preparation

These interim condensed consolidated financial statements are for the six months ended 30 June 2008. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2007.

These condensed consolidated interim financial statements (the interim financial statements) have been prepared under the historical cost convention and in accordance with the Group accounting policies which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union ("EU") although this interim financial statement does not itself comply with IAS 34 "Interim Financial Reporting". The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements and are the same as those set out in the Group's annual report and accounts for the year ended 31 December 2007.

The interim statements are unaudited. The financial information for the year ended 31 December 2007 does not constitute the full financial statements within the meaning of Section 240 of the Companies Act 1985. The full financial statements for that year have been reported on by the Group's auditors and filed with the Registrar of Companies. The audit report was unqualified and did not contain a statement under sections 237(2) or 237(3) of the Companies Act 1985.

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## 3. Basis of consolidation

The Group's financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 30 June 2008. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

## 4. Going Concern

The financial statements have been prepared on a going concern basis, which assumes that the Group will continue to trade for the foreseeable future. During the period the Group incurred losses after taxation of £1,213,814 and had an accumulated profit and loss account loss of £13,400,659 at 30 June 2008.

The nature and stage of the Group's business are such that there can be considerable unpredictable variations in the timing of cash inflows. The Group's plans for growth may necessitate alternative funding levels and the directors constantly review the need for such additional funds. The directors have prepared projected cash flow information, which incorporates their best estimate of the timing and value of sales revenue and consequential external funding requirements. On the basis of these forecasts the directors expect the Group to continue to meet its liabilities as they fall due. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements. This assumes that required levels of sales revenue and forecast external funding are achieved by the Group. The financial statements do not include any adjustments that would result should the Group not generate forecast sales revenue or raise adequate funding.

## 5. Loss Per Share

### (a) Basic Loss per share

Basic loss per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average of ordinary shares in issue during the period.

The loss and weighted average number of shares used in the calculations are set out below:

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	<b>Six months ended 30 June 2008 Unaudited</b>	<b>Six months ended 30 June 2007 Unaudited</b>	<b>Year ended 31 December 2007 Unaudited</b>
Loss attributable to equity holders of the Company	£ 1,213,814	£ 1,279,515	£ 3,318,596
Weighted average number of ordinary shares in issue	1,779,568,997	766,478,712	1,004,555,014
Basic loss per share	<b>0.1 p</b>	<b>0.2 p</b>	<b>0.3 p</b>

## (b) Diluted Loss per share

A number of shares existed in the period that could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share since they are antidilutive for all periods.

## 6. Segment information

The Group operates in two geographical segments, being the United Kingdom, and the United States of America. Whilst there are a number of products within the business segment, management reporting is principally based on location of origin. Accordingly the Group presents its primary segment analysis on this basis:

### Six months ended 30 June 2008

	<b>United Kingdom £'000</b>	<b>United States £'000</b>	<b>Total £'000</b>
Total segment revenue	513	516	1,029
Segment result	(782)	(480)	(1,262)

### Six months ended 30 June 2007

	<b>United Kingdom £'000</b>	<b>United States £'000</b>	<b>Total £'000</b>
Total segment revenue	602	469	1,071
Segment result	(987)	(270)	(1,257)

### Year ended 31 December 2007

	<b>United Kingdom £'000</b>	<b>United States £'000</b>	<b>Total £'000</b>
Total segment revenue	794	890	1,684
Segment result	(2,686)	(587)	(3,273)

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## 7. Additions and disposals of property, plant and equipment

During the period, additions of £nil (Six months ended 30 June 2007: £68k, Year ended 31 December 2007: £631k) were made. Disposals were made during the period with costs of £30k and accumulated depreciation of £30k. (Six months ended 30 June 2007 £nil, Year ended 31 December 2007: cost £66k, accumulated depreciation £65k).

## 8. Share Capital

516,226,060 ordinary shares were issued during the period (Year ended 31 December 2007: 600,958,875; Six months ended 30 June 2007: 125,714,000), yielding £1,560,998 (Year ended 31 December 2007: £2,600,243; Six months ended 30 June 2007: £699,996) in cash and increasing ordinary share capital by £516,224 (Year ended 31 December 2007: £600,959; Six months ended 30 June 2007: £125,714).

## 9. Deferred Taxation

No deferred taxation asset has been provided for during the period as it is uncertain as to when future profits will be made. However, had the deferred taxation been recognised, an asset of £2.2 million (Year ended 31 December 2007: £2.0 million) would arise.

## 10. Note to the cash flow statement

	<b>Six months ended 30 June 2008 Unaudited</b>	<b>Six months ended 30 June 2007 Unaudited</b>	<b>Year ended 31 December 2007 Unaudited</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Net loss	(1,213,814)	(1,279,515)	(3,318,596)
Taxation	(82,172)	7,404	509
Finance income	(187)	(271)	(362)
Finance cost	34,426	15,823	45,629
Depreciation of property, plant and equipment	118,864	75,094	235,975
Impairment of property, plant and equipment	-	-	86,370
Profit on sale of property, plant and equipment	(12,000)	-	(11,347)
Amortisation of intangible assets	-	2,556	4,687
Impairment of intangible assets	-	-	21,877
Changes in working capital	(568,300)	102,221	340,476
Share option charge	32,146	237,979	360,341
<b>Cash flow from operating activities</b>	<b>(1,691,037)</b>	<b>(838,709)</b>	<b>(2,234,441)</b>

## 11. Seasonal fluctuations

The business is not subject to discernable trends in any seasonal fluctuations. However, the timing of the sales of high value services is unpredictable and can fluctuate significantly.

In the prior year, interim revenue for the six months ended 30 June 2007 was 75% of total revenue for the financial year ended 31 December 2006. In the current year, interim revenue for the six months ended 30 June 2008 is 61% of total revenue for the financial year ended 31 December 2007.