

Interim Report 2007

NextGen Group plc



NextGen Group Plc

Interim Results to 30th June 2007

NextGen Group Plc, the "gene-to-protein" company, announces its interim results for the six months ended 30th June 2007.

Highlights

- Sales increase 128% to £1,070,990
- **contractexpress™** service business grows to 23% of total revenue, with more customers and higher value contracts
- Successful integration of PRS
- Strategic alliance agreement with Kemp Biotechnologies Inc. to provide access to bulk protein manufacture and mammalian expression services
- Clinical Proteomics initiative continues to build momentum with increased numbers of enquiries and meetings with many major pharmaceutical companies

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Chairman's Statement

Overview

During the six month period to 30th June 2007 we have seen growth in sales and in the order book with invoiced sales of £1,071k (2006: £469k). This continues the trend in increased revenues that we have seen since the initial flotation of the Company in late 2005. From a period of uncertainty at this time last year we have seen an increasing confidence among our pharmaceutical and biotechnology clients and there have been sales of both **expressionworkstation™** and **baculoworkstation™**. In addition, the trend to outsource more parts of the drug development process by the large pharmaceutical and biotechnology companies has continued and the Company has benefited greatly from that in both the number of clients we service and an increasing value of contracts on repeat business.

The business of NextGen has evolved from being primarily a supplier of expert systems in the proteomics market to a company that has three distinct and growing revenue streams. These are, the original equipment business, the fee for service business and the expert IT business that has grown around the Company's novel rules engine **orchestratorIMS™** that drives its various proteomics systems.

NextGen continues to build its sales team in order speed up the full commercialisation of its range of products. During this period we have appointed a locally-based sales person for mainland Europe to complement the European team based in Cambridge, UK. The fee-for-service business continues to show good promise for growth particularly in the US where the training of the sales team has now been completed. The team are making good progress in raising awareness of NextGen's equipment portfolio and are expecting to secure some important orders during the coming months. In addition, we have seen significant growth in the sales of the **optigel™** range of pre-cast electrophoresis gels. During the period, we have also released an update of **orchestratorIMS™** which has been received very favourably by existing users as well as those organisations that are considering its installation.

All of the above enhances the standing of the Company as it establishes itself as a highly competent and credible provider of outsourced protein related research and development services using its biological experience, proprietary equipment and software.

Financial review

Turnover for the consolidated group for the six months ended June 2007 was £1,070,990, a substantial increase on the figure of £468,799 for the same period in 2006. The turnover figure included a contribution of £271,172 from PRS Inc., which was acquired in November 2006. The NextGen Sciences business excluding PRS represents £799,818, a substantial increase over both the 2006 figure and the figure of £607,038 in the first six months of 2005. A significant element of the growth in sales is represented by growth in **contractexpress™**. Sales of **contractexpress™** were about £14,000 in the first six months of 2006, about £69,000 in the six months ended 31 December 2006 and have risen to just over £244,000 in the most recent six months.

Gross profit margin was 73% compared with about 64% in the first half of 2006.

Total operating costs have increased to about £2,037,595 compared with £1,647,183, an increase of 24% but these costs include a full six months' overheads of PRS and the overheads as a percentage of sales have fallen from over 350% to 190%. The business continues to make cost reductions whilst also driving increased sales.

The operating loss for the six months ended 30 June 2007 was £1,256,559 (2006: £1,348,048).

NextGen raised approximately £250,000 in March 2007 and £450,000 in April 2007 by means of placings of ordinary shares to provide additional working capital. Cash balances had fallen to a small overdraft of about £119,000 by the end of June 2007 but the Company has since raised further funds amounting to £760,000 after expenses by means of a placing of ordinary shares in August 2007.

The Group has adopted International Financial Reporting Standards ("IFRS") in the presentation of the figures for the six months ended 30 June 2007. To the extent that there is a material difference between the figures previously issued for the six months ended 30 June 2006 and 31 December 2006 and the figures that would have been stated for those periods under IFRS, the comparative figures shown in this interim statement have been restated. Further details are given in the notes to the accounts.

Outlook

The Group continues to expand its range of services and build strategic alliances with other companies in complementary sectors of its target markets. Of note in this period has been the signing of an agreement with Kemp Biotechnologies Inc., a recognised leader in the field of protein manufacturing and mammalian cell culture. Kemp are able to produce proteins using a variety of cell lines including mammalian, bacterial and yeasts and the alliance will extend NextGen's ability to produce proteins in volumes of up to about five litres to volumes of 100 litres. We have already seen a significant increase in the number of enquiries and new quotations to use the combined services of NextGen and Kemp.

The growth in sales of the **optigel**[™] range of catalogue and custom pre-cast gels for the 2D electrophoresis market has been very encouraging.

The building of an expert sales team in the US has had a beneficial impact on the number and progression of enquiries and requests for quotations for our range of equipment. The majority of quotations have been made on the **expressionworkstation**[™] and **baculoworkstation**[™] systems. What is very encouraging has been the marked increase in interest in the **expressionfactory**[™] which may lead to additional orders in the second half of the year. As we have said before, the ordering cycle on capital equipment can be very long.

The Clinical Proteomics initiative continues to build momentum as an increased number of enquiries from potential clients and advanced meetings have been held with multiple major pharmaceutical companies to discuss potential projects. Delivery and installation of the required instrumentation to PRS is expected to be completed by the end of October. We are hopeful and have good reason to expect that orders for this new service will start to arrive over the coming months.

The Group's software development team under the guidance of Ian Kelly, Chief Technology Officer have completed a number of upgrades to the **orchestrator**MS[™] system, which is used to control and monitor the equipment and biological processes they perform. The capabilities of this improved software package have been demonstrated to an increasing number of potential customers as well as to those existing major pharmaceutical customers who adopted the earlier versions. The upgrade has achieved broad acceptance and we look forward to a significant growth in the number of systems that will be installed. This will not only be for the installed base of our equipment and newly sold equipment, but also for legacy systems that can be improved by the biological process management tools that **orchestrator**MS[™] makes available to users.

The Board will continue to seek further opportunities to broaden the Company's range of services by commercial alliance with or acquisition of complementary businesses.

In conclusion on behalf of the Board I wish to thank former directors and former members of senior management, David Wigley and James Heffernan and all those presently employed by the Company for their good work and dedication in the development of the Company through the transition from its research and development phase into a blossoming commercial entity having a range of product offerings and forming the basis for a period of increasing sales and healthy growth in all areas of the business. We are pleased to welcome recently appointed directors Dr. Thomas Borscholte, Dr. Joerg Neerman and Simon Barton and look forward to having the benefit of their respective contributions to the growth of the Company.

P. Anthony Rhatigan
Chairman

28th September 2007

Condensed consolidated balance sheet

at 30 June 2007

		30 June 2007 Unaudited	30 June 2006 Unaudited	31 Dec 2006 Unaudited
Note	£	£	£	
ASSETS				
Non-current assets				
Property, plant and equipment	9	207,446	176,870	241,634
Intangible assets	8	543,885	-	546,441
		751,331	176,870	788,075
Current assets				
Inventories		394,162	440,133	472,154
Trade and other receivables		407,276	270,530	360,028
Tax receivable		-	-	312,631
Cash and cash equivalents		-	520,180	99,323
		801,438	1,230,843	1,244,136
Total assets		1,552,769	1,407,713	2,032,211
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	5	919,506	696,733	793,794
Share premium account		2,857,559	1,794,100	2,308,900
Merger reserve		5,731,082	5,731,082	5,731,082
Foreign currency translation reserve		13,051	-	7,954
Merger relief reserve		63,544	-	63,544
Retained losses		(9,704,166)	(7,814,622)	(8,657,533)
Total equity		(119,424)	407,293	247,741
LIABILITIES				
Current liabilities				
Trade and other payables		1,527,747	932,653	1,727,862
Bank overdraft		119,610	-	-
		1,647,357	932,653	1,727,862
Non-current liabilities				
Financial liabilities: Finance leases and long-term loans		24,836	67,767	56,608
Total liabilities		1,672,193	1,000,420	1,784,470
Total equity and liabilities		1,552,769	1,407,713	2,032,211

Condensed consolidated income statement

for the six months ended 30 June 2007

	Note	Six months ended 30 June 2007 Unaudited £	Six months ended 30 June 2006 Unaudited £	Year ended 31 Dec 2006 Unaudited £
Revenue		1,070,990	468,799	1,421,504
Cost of sales		(289,954)	(169,664)	(457,589)
Gross profit		781,036	299,135	963,915
Administrative expenses		(2,037,595)	(1,647,183)	(3,854,941)
Operating loss		(1,256,559)	(1,348,048)	(2,891,026)
Investment income		271	14,898	15,905
Finance costs		(15,823)	(13,243)	(36,578)
Loss before taxation		(1,,272,111)	(1,346,393)	(2,911,699)
Income tax (expense)/ income		(7,404)	-	301,414
Loss for the financial year		(1,279,515)	(1,346,393)	(2,610,285)
Attributable to equity holders of the Company		(1,279,515)	(1,346,393)	(2,610,285)
Basic and diluted loss per share - total and continuing operations				
Basic loss per share	4(a)	(0.2p)	(0.2p)	(0.4p)

All of the activities of the group are classed as continuing.

Condensed consolidated interim cash flow statement

for the six months ended 30 June 2007

	6 months to 30 June 2007 Unaudited	6 months to 30 June 2006 Unaudited	Year to 31 Dec 2006 Unaudited
	£	£	£
Cash flows from operating activities			
Loss after taxation	(1,279,515)	(1,346,393)	(2,911,699)
Adjustments for:			
Other taxation	-	7	-
Depreciation	77,650	73,750	164,788
Share based payment reserve	237,979	38,634	465,707
Finance costs	15,823	13,243	36,578
Finance Income	(271)	(14,898)	(15,905)
Decrease / (increase) in inventory	77,992	(251,351)	(255,256)
(Increase) / decrease in receivables	265,383	(2,458)	(185,827)
Decrease in payables	(233,750)	(531,542)	(258,097)
Net cash used by operations	(838,709)	(2,021,008)	(2,959,711)
Interest paid	(15,823)	(13,243)	(36,578)
Income taxes refunded/(paid)	109,197	(7)	185,177
Net cash used by operating activities	(745,335)	(2,034,258)	(2,811,112)
Cash flows used by investing activities			
Purchases of property, plant and equipment	(64,278)	(43,142)	(45,186)
Acquisition of PRS net of cash acquired	-	-	(105,341)
Purchases of intangible assets	-	-	(26,564)
Interest received	271	14,898	15,905
Net cash used by investing activities	(64,007)	(28,244)	(161,186)
Cash flows generated from financing activities			
Repayment of borrowing	(31,250)	(31,250)	(63,000)
Capital elements of finance lease rentals	(43,902)	(37,656)	(46,967)
Issue of shares	699,998	2,500,000	3,030,000
Expenses paid in connection with share issues	(34,437)	-	-
Net cash generated from financing activities	590,409	2,431,094	2,920,033
Net increase/(decrease) in cash and cash equivalents	(218,933)	368,592	(52,265)
Cash and cash equivalents at beginning of period	99,323	151,588	151,588
Cash and cash equivalents at end of period	(119,610)	520,180	99,323

Condensed consolidated interim statement of changes in equity

for the six months ended June 2007

	Share Capital	Share Premium	Merger Relief Reserve	Merger Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total
	£	£	£	£	£	£	£
Balance at 31 December 2005	693,400	1,697,433	-	5,731,082	-	(6,506,864)	1,615,051
Changes in equity for 2006							
Loss for the period	-	-	-	-	-	(1,346,392)	(1,346,392)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-
Total income / (expense) recognised for the period	-	-	-	-	-	(1,346,392)	(1,346,392)
Share issue	3,333	96,667	-	-	-	-	100,000
Share based payment charge	-	-	-	-	-	38,634	38,634
	3,333	96,667	-	-	-	(1,307,758)	(1,207,758)
At 30 June 2006	696,733	1,794,100	-	5,731,082	-	(7,814,622)	407,293
Changes in equity for 2006							
Loss for the period	-	-	-	-	-	(1,262,029)	(1,262,029)
Exchange differences on translation of foreign operations	-	-	-	-	7,954	(7,954)	-
Total income / (expense) recognised for the period	696,733	1,794,100	-	5,731,082	7,954	(9,084,605)	(854,736)

Share issue	90,000	540,000	-	-	-	-	630,000
Share issue costs	-	(25,200)	-	-	-	-	(25,200)
Shares issued to acquire PRS	70,605	-	63,544	-	-	-	70,60
Share based payment charge	-	-	-	-	427,072	-	427,072
At 31 December 2006	793,794	2,308,900	63,544	5,731,082	7,954	(8,657,533)	247,741
Changes in equity for 2007							
Loss for the period	-	-	-	-	-	(1,279,515)	(1,279,515)
Exchange differences on translation of foreign operations	-	-	-	-	5,097	(5,097)	-
Total income / (expense) recognised for the period	793,794	2,308,900	63,544	5,731,082	13,051	(9,942,145)	(1,031,774)
Share based payment charge	-	-	-	-	-	237,979	237,979
Share issue	125,712	574,284	-	-	-	-	699,996
Share issue costs	-	(25,625)	-	-	-	-	(25,625)
At 30 June 2007	919,506	2,857,559	63,544	5,731,082	13,051	(9,704,166)	(119,424)

Notes to the interim statement

for the six months ended 30 June 2007

1. Nature of operations and general information

NextGen Group plc (formerly NextGen Group Limited) ("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 28 September 2007.

The condensed consolidated financial information has been prepared under the historical cost convention.

2. Basis of preparation

These interim condensed consolidated financial statements are for the six months ended 30 June 2007. They have been prepared in accordance with the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" relevant to interim reports, because they are part of the period covered by the Group's first IFRS financial statements for the year ended 31 December 2007. 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 2006.

These financial statements have been prepared under the historical cost convention.

These condensed consolidated interim financial statements (the interim financial statements) have been prepared in accordance with the accounting policies set out below 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 are effective at 31 December 2007 or are expected to be adopted and effective at 31 December 2007, the first annual reporting date at which the Group is required to use IFRS accounting standards adopted by the EU.

NextGen's consolidated financial statements were prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 31 December 2006. The date of transition to IFRS was 1 January 2006. The comparative figures in respect of 2006 have been restated to reflect changes in accounting policies as a result of adoption of IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules, presented and explained in note 8.

The group has taken advantage of certain exemptions available under IFRS1. The exemptions are explained under the respective accounting policy.

Basis of consolidation

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements .

The Group's financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 30 June 2007. 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.

The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to 1 January 2006.

Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

3. Summary of Significant Accounting Policies

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity share.
- "Share premium" represents the excess over nominal value of the fair value of the consideration received for equity shares, net of expenses of the share issue.
- "Merger reserve" is a reserve arising from the merger accounting of NextGen Sciences Limited on acquisition by NextGen Group Plc.
- "Foreign currency translation reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Loss Reserve" represents accumulated losses.
- "Merger Relief Reserve" represents excess raised over the nominal value of the share capital issued on acquisition of PRS.

Financial Assets

Financial assets are divided into the following categories: loans and receivables; financial assets at fair value through profit or loss; available-for-sale financial assets; and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, trade payables and loans are classified as loans and receivables. Where the difference is material, these are measured subsequent to initial recognition at amortised cost using the effective interest rate method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision is made against trade receivables where there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Regular way purchases and sales are accounted for on trade date.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the income statement. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer, that is, when the contracted services have been fulfilled. Where completion of a sale is conditional upon customer acceptance, recognition is deferred until such acceptance is received.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

1. the Group has transferred to the buyer the significant risks and rewards of ownership of the goods which is generally when goods are shipped,
2. the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
3. the amount of revenue can be measured reliably
4. it is probable that the economic benefits associated with the transaction will flow to the Group, and
5. the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Royalties are recognised over the period to which such royalties relate.

Revenue for product services is recognised over the period during which the service is provided. Where service and upgrades are included in the price of the product, they are unbundled and treated separately for purposes of revenue recognition.

Research and development

Research costs are recognised as expenses in the period in which it is incurred.

Development costs are also expensed in the period in which they are incurred unless they satisfy the criteria as set out in IAS 38 "Intangible Assets", in which case they are capitalised as an intangible asset. The standard requires that the Group demonstrates the following to enable such capitalisation:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate resources to complete the development and to use the asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets – Licences

Licences are included at cost and amortised on a straight line basis over their useful economic lives. The amortisation charge is shown within administrative expenses.

Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement.

Deferred Taxation

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet.

Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity.

Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date the asset is initially recognised.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in the statement of recognised income and expenses to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of recognised income and expenses, otherwise such gains and losses are recognised in the income statement.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at the actual rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the "Foreign currency translation reserve" in equity. On disposal of a foreign operation the cumulative translation differences (including, if applicable, gains and losses on related hedges) are transferred to the income statement as part of the gain or loss on disposal.

The Group has taken advantage of the exemption in IFRS 1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS and includes later translation differences.

Employee benefits - defined contribution pension scheme

The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

The Group participates in a multi-employer defined benefit scheme but the scheme actuary is unable to identify the Group's share of the underlying assets and liabilities. The pension costs charged against operating profit are the contributions payable to the scheme in respect of the accounting period.

Share-based payment - Equity settled share-based payment

All share-based payment arrangements granted after 7 November 2002 are recognised in the financial statements. IFRS 2 has been applied to grants before 7 November 2002 only where the Group has disclosed publicly the fair value of those equity instruments, determined as at the grant date in accordance with IFRS 2.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to the revenue reserve.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment by equal annual instalments over their estimated useful economic lives. The periods generally applicable are:

Plant, machinery and office equipment	3 years
Fixtures and fittings	1 to 5 years
Computer equipment	3 years
Motor Vehicles	3 years

Material residual value estimates are updated as required, but at least annually.

4. 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.

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

	Six months ended 30 June 2007 Unaudited £	Six months ended 30 June 2006 Unaudited £	Year ended 31 Dec 2006 Unaudited £
Numerator:			
Loss attributable to equity holders of the Company	1,279,515	1,346,393	2,614,599
Reconciliation of the denominator:			
Shares in issue at beginning of period	712,074,800	693,399,909	696,177,687
Weighted average of shares issued during the year	54,403,912	2,777,778	15,897,114
Weighted average number of ordinary shares in issue	766,478,712	696,177,687	712,074,800
Basic loss per share	0.2p	0.2p	0.4p

(b) Diluted loss per share

Due to the number of anti-dilutive share options, the diluted loss per share is consistent with the basic loss per share.

5. Share capital

125,714,000 ordinary shares were issued during the period (Year to 31 December 2006: 100,394,333; Six months to 30 June 2006: 3,333,333), yielding £665,561 (Year to 31 December 2006: £704,800; Six months to 30 June 2006: £100,000) in cash and increasing ordinary share capital by £125,714 (Year to 31 December 2006: 97,061; Six months to 30 June 2006: 3,333).

6. 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 £2million (Year ending 31 December 2006: £1.8million) would arise.

7. Seasonal fluctuations

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

In the prior year, interim revenue was 46% of total revenue for the financial year ended 31 December 2005. In the current year, interim revenue is 75% of total revenue for the financial year ended 31 December 2006.

8. Application of IFRS 1 "First-time Adoption of International Financial Reporting Standards"

In applying IFRS 1 "First-time adoption of International Financial Reporting Standards" the following effect has been determined on the financial reporting:

Goodwill

UK GAAP permitted the amortisation of goodwill. This is not permitted by IAS 38 "Intangible Assets". Goodwill was recognised on acquisition of PRS as a 100% subsidiary in November 2006. This change will not affect the interim report up to 30 June 2006, but the effect on the subsequent periods is as follows:

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£	£	£
Shareholders' funds (UK GAAP)	(128,052)	407,293	243,427
Write back of amortisation of goodwill	8,628	-	4,314
Shareholders' equity (IFRS)	(119,424)	407,293	247,741
Profit after tax (UK GAAP)	(1,283,829)	(1,346,393)	(2,614,599)
Write back of amortisation of goodwill	4,314	-	4,314
Profit after tax(IFRS)	(1,279,515)	(1,346,393)	(2,610,285)

9. Additions and disposals of property, plant and equipment

During the period, additions of £68k (Period to June 2006: £43k, Year to December 2006: 68k) were made.

10. Segment analysis

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 2007

	United Kingdom	United States	Group	Total
	£'000	£'000	£'000	£'000
Total segment revenue	602	469	-	1,071
Segment result	(715)	(313)	(79)	(1,071)

Six months ended 30 June 2006

	United Kingdom	United States	Group	Total
	£'000	£'000	£'000	£'000
Total segment revenue	206	263	-	469
Segment result	(1,323)	15	(38)	(1,346)

Year to 31 December 2006

	United Kingdom	United States	Group	Total
	£'000	£'000	£'000	£'000
Total segment revenue	338	933	-	1,422
Segment result	(2,490)	(120)	-	(2,610)

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