



25 September 2007

Intercytex Group plc
Interim results for the six months ended 30 June 2007

Positive efficacy data emerging across regenerative medicine product portfolio

Intercytex Group plc (LSE: ICX), the regenerative medicine company developing innovative products to restore skin and hair, announces its interim results for the six months ended 30 June 2007.

Intercytex is a healthcare company developing regenerative medicine products for the woundcare and aesthetic medicine markets. It uses its expertise in cell therapy technology to develop innovative products that harness the innate ability of human cells to regenerate and repair the body.

Highlights

Products

- **Skin grafts** - clinical breakthrough in regenerative medicine announced in June with positive results from ICX-SKN Phase I trial for skin grafts in acute wounds
- **Facial rejuvenation** - Phase II trial of VAVELTA[®] underway; low dose treatments completed. VAVELTA introduced to UK market at FACE exhibition in London
- **Hair regeneration** - first 12 patients treated in Phase II trial of ICX-TRC
- **Chronic wounds** - safety review board (DSMB) recommends continuation of ICX-PRO Phase III trial and increase sample size, based on a review of data from the first 108 patients

Corporate

- Placing of new shares in May raised £12m gross
- Comprehensive supply agreement signed with Baxter Healthcare for use of Tisseel[®] in ICX-PRO and ICX-SKN

Financial

- Loss before tax for the six months ended 30 June 2007 of £6.04m (H1 2006: £4.04m)
- Cash and cash equivalents and liquid investments at 30 June 2007 of £17.55m (H1 2006: £15.10m)
- Milestone payment of US\$200,000 received from Bosley under ICX-TRC option

Post period-end highlights

- Preliminary data from Phase II trial of VAVELTA in facial rejuvenation shows very encouraging efficacy data and a good safety profile. Treatment of high dose group commenced
- Commencement of second VAVELTA trial in acne scars
- Preliminary data from Phase II trial of ICX-TRC for hair regeneration shows increased hair counts and good safety profile
- Recruitment completed for Phase II trial of ICX-PRO for diabetic foot ulcers

Nick Higgins, CEO commented: *"We announced a clinical breakthrough in regenerative medicine in June with the release of data from our skin repair trial and we are now seeing this success being repeated across our portfolio. Positive efficacy data is being generated on all of our regenerative medicine products, giving us great optimism for their commercial potential. With the additional funding we now have in place, Intercytex is in a very strong position to exploit the opportunities in the rapidly growing field of regenerative medicine."*

There will be an analyst meeting to discuss the interim results today at 11am at Financial Dynamics. For those unable to attend, there will be a live audio conference call, the details are as follows. This is a **listen only** number:

Dial in time: 11am
Dial in number: 020 7806 1966
Title: Intercytex

Slides: <http://www.intercytexas.com/icx/investors/rep/rep2007/2007-09-25/2007-09-25.pdf>

If you would like to participate in the question and answer session at the end of the call, please call Claire Rowell on 0207 269 7285 to get the relevant dial in number as it differs from the one above.

Enquiries

For more information, contact:

Intercytex Group plc

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Notes for Editors

Intercytex is a healthcare company developing regenerative medicine products for the woundcare and aesthetic medicine markets. It uses its expertise in cell therapy technology to develop innovative products that harness the innate ability of human cells to regenerate and repair the body. Intercytex has 4 products in development:

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- ICX-PRO, designed to stimulate active repair in chronic wounds - in a Phase III trial
- ICX-SKN, being developed as a durable and robust skin replacement - recently completed a Phase I trial
- VAVELTA® (ICX-RHY), a facial rejuvenation product already introduced to the UK market.
- ICX-TRC, a hair regeneration product - in a Phase II trial

All Intercytex' products are derived from unmodified human cells.

Intercytex commenced operations in 2000 and currently employs around 75 staff. In addition to its head office in Cambridge, UK, it has a GMP clinical production facility with research and development laboratories in Manchester, UK. Additional laboratories are located in Boston, USA.

Intercytex' shares trade on AIM, a market of the London Stock Exchange, under the ticker symbol ICX.L.

Additional information on the Company can be found at www.intercytexas.com

Statements contained within this press release may contain forward-looking information or statements with respect to the financial condition, results of operations and business achievements/performance of Intercytex and certain of the plans and objectives of management of Intercytex with respect thereto. By their nature, forward-looking statements involve risks and uncertainties that may cause actual results to vary from those contained in the forward-looking statements. In some cases, you can identify such forward-looking statements by terminology such as 'may', 'will', 'could', 'forecasts', 'expects', 'plans', 'anticipates', 'believes', 'estimates', 'predicts', 'potential', 'continue' or similar expressions. A number of factors, including the satisfactory progress of research and development, could cause Intercytex' actual financial condition, results of operations and business achievements/performance to differ materially from the estimates made or implied in such forward-looking statements and, accordingly, reliance should not be placed on such statements. Forward projections reflect management's best estimates based on information available at the time of issue and are not a guarantee of future performance. Other than as required by applicable law, Intercytex does not undertake any obligation to update or revise any forward-looking information or statements to reflect events or circumstances after the date of this release. The term "Intercytex" refers to Intercytex Group plc and its subsidiary undertakings.

Chairman's Statement

I am very pleased to report Intercytex' 2007 interim results. Efficacy data is being generated on all of our products which gives us great optimism for their commercial potential and therefore the prospects for Intercytex and its shareholders.

Product development

Healing of chronic wounds - ICX-PRO

ICX-PRO comprises allogeneic human fibroblasts embedded in a human fibrin matrix and is being developed to stimulate wound healing and closure in chronic wounds.

As predicted we completed the initial recruitment target of 216 patients for the Phase III venous leg ulcer trial in March. Around the same time we received the DSMB advice that the trial should be increased to 396 patients to achieve a statistically significant result. To meet this increased number various measures have been taken including the opening of a number of new trial centres and rationalising of existing ones. Recruitment is accelerating and we hope to be fully recruited around the end of the year as indicated previously.

Separately we have completed recruitment of the Phase II trial in the UK in diabetic foot ulcers and expect to announce results in the first half of 2008.

Skin grafts for acute wounds - ICX-SKN

ICX-SKN comprises allogeneic human fibroblasts set in a natural human collagen matrix, which mimics the structure of natural skin, and is intended as a skin graft replacement.

In June we announced a clinical breakthrough in regenerative medicine with release of data from the ICX-SKN Phase I trial. After 28 days both visual and histological analysis showed that in all volunteers the ICX-SKN grafts were rapidly vascularised and overgrown with the hosts' own cells, resulting in a fully integrated skin graft that had closed and healed the wound site. This remarkable result contrasts with all other living skin graft alternatives which biodegrade *in situ* after a matter of weeks.

The next stages of clinical development will comprise an extension of the Phase I trial in volunteers to assess the longer term benefits of ICX-SKN, planned to start at the end of the year, and a Phase II trial in which larger pieces of ICX-SKN will be applied to patients who are undergoing skin cancer excisions (eg basal cell carcinomas) which will start in 2008. We anticipate that this will generate data that would enable rapid progress to pivotal trials.

Facial rejuvenation -VAVELTA® (ICX-RHY)

VAVELTA comprises a suspension of young allogeneic human fibroblasts which are injected superficially to rejuvenate older skin.

VAVELTA is undergoing clinical trials to support marketing authorisations which will be sought in various global territories. At the same time it is being made available to a selected group of experienced aesthetic practitioners in the UK where it falls outside the scope of regulations governing the licensing of medicines.

During the period we treated the first 6 subjects in a Phase II dose-escalation clinical trial of VAVELTA in nasolabial folds. The study is being conducted at the Cranley Clinic for Dermatology in London with Prof. Nicholas Lowe MD FRCP, who is also Clinical Professor of Dermatology, UCLA School of Medicine, Los Angeles. In order to make a preliminary safety assessment a dose was used which was substantially lower than our initial expectation of the therapeutic dose. After 12 weeks no serious adverse events had been observed. At this time point, the earliest at which a response was expected, the average satisfaction scores for the treatment as assessed separately

by both patients and the investigator on a scale of 1-10 (10 being the highest), was over 8. In addition, the investigator measured a noticeable improvement in wrinkle severity in all patients.

The quantitative data will be announced in due course when the full 6-month results are available.

Since the period end we have also begun to treat subjects with a high dose in both the existing trial in nasolabial folds and in a second trial in acne scars. Data from these patients should be available in the first half of 2008.

In addition to the two Phase II trials already underway we are planning to start a further Phase II trial in patients with skin contractures caused by burns in the first half of 2008. The addition of this trial reflects our belief that VAVELTA could be used in a number of different applications. The outcome of all these trials will be reviewed in identifying the optimal Phase III trial design planned to be discussed with the FDA next year.

In June we introduced VAVELTA at the Facial Aesthetic Conference and Exhibition (FACE) held in London. FACE is the largest medical aesthetic conference in the UK for practitioners and clinics that deliver predominantly non-surgical medical aesthetic treatments. The product was very well received by delegates, a number of whom expressed interest in offering VAVELTA to their patients.

VAVELTA is being administered by a small group of selected physicians who have significant experience in the use of cell therapy for facial rejuvenation. As the knowledge base of the benefit of VAVELTA builds both from the clinical trials and its commercial use we intend to expand the number of clinicians offering the product and charge the commercial rate during 2008.

Hair regeneration - ICX-TRC

ICX-TRC consists of a suspension of autologous dermal papilla (DP) cells. These cells are able to stimulate the generation of new hairs when injected into the scalp in close proximity to the epithelial cells which generate the hair. The purpose of the ongoing Phase II study being conducted by Dr Bessam Farjo in Manchester is to optimise the delivery of the DP cells.

In this study, hair counts are obtained by shaving and photographing a small section of scalp, injecting it and then applying a specialised image analysis system to provide a total hair count. Two sub-groups were each injected with autologous DP cells using different delivery techniques. The first group focussed on delivery of the hair inductive DP cells, and in the second group resident hair producing (epithelial) cells were also stimulated at the time of delivery.

Although it is too early to determine fully the differences between the sub-groups, the preliminary data are encouraging. In the first sub-group 2 patients out of 5 showed substantial increases in hair count (21 & 55%) at 24 weeks. In the second sub-group (5 patients in total) injected more recently, all patients showed substantial and visible increased hair counts at 6 and/or 12 weeks (13-105%). We believe this increased hair production is attributable to the interaction between the injected DP cells and the stimulated resident hair producing cells.

A further 8 subjects will be treated with variations in delivery technique. The full data set on all subjects at 24 weeks will be available in the middle of 2008. This detailed analysis will form the basis of further Phase II or Phase III trials as appropriate.

At the end of the trial photographic data will be analysed from a much larger area of treated scalp on all subjects at 12 months. Currently 2 patients have been lost to follow up.

Corporate & commercial

In May we raised £12m (gross) of additional funding despite difficult market conditions. I am very pleased with this outcome and the additional financial strength it gives us, and would like to thank those investors who participated in the fund raising.

The Company has initiated an investor relations programme in Germany and Switzerland where it is believed there will be interest in holding the Company's shares. To support potential investor activity in these countries and enhance overall liquidity, the Company's shares are being registered for trading on both the Open Market and Xetra, the electronic trading platform, of the Frankfurt Stock Exchange. The Company's designated sponsor is Lang & Schwarz Wertpapierhandelsbank AG, a German bank active in such sponsoring activity. Trading on the Open Market commenced on 24th September and trading on Xetra is expected to commence on 26th September 2007.

We signed a supply agreement in March with Baxter Healthcare which assures our supply of Tisseel[®], a key raw material in the production of ICX-PRO and ICX-SKN. The agreement contains clauses which fix the price and provide Intercytex with a period of exclusivity in the use of Tisseel with allogeneic fibroblast products.

Financial results

The financial results have been prepared under IFRS for the first time. The impact of presenting prior year periods under IFRS and the accounting policies applied are set out in the Appendix to this interim report. The application of IFRS to prior year periods has resulted in the addition of a holiday pay accrual of £44k to the 2006 interim financial statements, and no other changes.

£11.44m of net proceeds were received in June 2007 from the share placing in which 23.1m new ordinary shares were issued at a price per share of 52p.

Net cash flows from operations for the period were £5.76m (H1 2006: £4.32m). The net increase in cash and cash equivalents and liquid investments was £6.57m (H1 2006: £9.42m) resulting in cash and cash equivalents and liquid investments of £17.55m at the end of June (H1 2006: £15.10m).

Income in the period relates to receipt of the third milestone from Bosley under the ICX-TRC option agreement (£111k) and other operating income represents further receipts under our DTI grant (£175k). The pre-tax loss for the period was £6.04m (H1 2006: £4.04m). Research & development costs have increased by £1.59m on 2006 as a consequence of the increased clinical trial activity, especially faster recruitment to Topical II and the movement of VAVELTA into Phase II trials. General and administrative expenses are £0.53m higher reflecting the creation of a commercial department to support the VAVELTA launch and enhanced Programme Management activities.

Outlook

We have now reported positive clinical efficacy data on all of our products over the past few months. This data validates our underlying strategy of using human cells to regenerate skin and hair. It also reinforces our position as a major player in the exciting field of regenerative medicine with near term commercial opportunities.

Over the next 12 months a number of additional trial results are anticipated, including data for ICX-PRO in its Phase III venous leg and Phase II diabetic foot ulcer trials. We expect final data on three Phase II trials for VAVELTA indications and further data from the ongoing Phase II trial of ICX-TRC, as well as the ICX-SKN extension study. Finally, we look forward to seeing VAVELTA establish itself in the UK market as a new approach to facial rejuvenation.

I F Kent
Chairman
25 September 2007

Intercytex Group plc
Consolidated income statement
for the six months ended 30 June 2007
(unaudited)

	<i>Note</i>	Six months to 30 June 2007	Six months to 30 June 2006	Audited year to 31 December 2006
		£'000	£'000 <i>Restated</i>	£'000 <i>Restated</i>
Revenue				
Licensing & option income		111	83	83
Research & development costs		(5,179)	(3,594)	(8,566)
General and administrative expenses		(1,290)	(764)	(1,260)
Other operating income: grants receivable	4	175	-	51
Total expenses		<u>(6,294)</u>	<u>(4,358)</u>	<u>(9,775)</u>
Operating loss		<u>(6,183)</u>	<u>(4,275)</u>	<u>(9,692)</u>
Finance revenue		163	248	525
Finance costs		(19)	(15)	(67)
		<u>144</u>	<u>233</u>	<u>458</u>
Loss before taxation		<u>(6,039)</u>	<u>(4,042)</u>	<u>(9,234)</u>
Taxation		520	570	1,029
Loss for the period attributable to equity holders		<u>(5,519)</u>	<u>(3,472)</u>	<u>(8,205)</u>
Loss per share:				
Basic and diluted	2	<u>(9.3p)</u>	<u>(6.5p)</u>	<u>(15.0p)</u>

All results are from continuing activities.

Intercytex Group plc
Consolidated balance sheet
at 30 June 2007 (unaudited)

	<i>Note</i>	At 30 June 2007	At 30 June 2006	Audited at 31 December 2006
		£'000	<i>Restated</i> £'000	<i>Restated</i> £'000
ASSETS				
Property, plant & equipment	4	943	562	672
Non-current assets		943	562	672
Inventories		63	34	27
Trade and other receivables		656	268	572
Current tax asset		443	1,318	970
Available for sale liquid investments		16,086	-	8,681
Cash and cash equivalents		1,468	15,103	2,306
Current assets		18,716	16,723	12,556
Total assets		19,659	17,285	13,228
LIABILITIES				
Obligations under finance leases		184	159	165
Non-current liabilities		184	159	165
Trade and other payables		1,742	1,080	1,487
Obligations under finance leases		195	199	172
Current liabilities		1,937	1,279	1,659
Total liabilities		2,121	1,438	1,824
NET ASSETS		17,538	15,847	11,404
Equity attributable to equity holders of the parent				
Share capital	5	792	557	561
Share premium		32,500	21,117	21,289
Capital redemption reserve		229	229	229
Merger reserve		18,902	18,902	18,902
Profit & loss account		(34,949)	(24,958)	(29,577)
Unrealised gains reserve		64	-	-
TOTAL EQUITY		17,538	15,847	11,404

Intercytex Group plc
Consolidated statement of changes in equity
for the six months ended 30 June 2007 (unaudited)

	Share capital	Share premium account	Capital redemption reserve	Merger reserve	Unrealised gains reserve	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2006 (restated)	419	7,580	229	18,902		(21,625)	5,505
Loss for the period						(3,472)	(3,472)
Total income & expense for period	-	-	-	-	-	(3,472)	(3,472)
Issue of ordinary shares	138	14,862					15,000
Expenses on issue of ordinary shares		(1,325)					(1,325)
Share-based compensation						139	139
At 30 June 2006 (restated)	557	21,117	229	18,902	-	(24,958)	15,847
Loss for the period						(4,733)	(4,733)
Total income & expense for period	-	-	-	-	-	(4,733)	(4,733)
Issue of ordinary shares	4	172					176
Share-based compensation						114	114
At 31 December 2006 (restated)	561	21,289	229	18,902	-	(29,577)	11,404
Net gains on available for sale investments					64		64
Total income & expense for period recognised directly in equity	-	-	-	-	64	-	64
Loss for the period						(5,519)	(5,519)
Total income & expense for period	-	-	-	-	64	(5,519)	(5,455)
Issue of ordinary shares	231	11,770					12,001
Expenses on issue of ordinary shares		(559)					(559)
Share-based compensation						147	147
At 30 June 2007	792	32,500	229	18,902	64	(34,949)	17,538

Intercytex Group plc
Unaudited consolidated cash flow statement
for the six months ended 30 June 2007 (unaudited)

	<i>Note</i>	Six months to 30 June 2007	Six months to 30 June 2006 <i>Restated</i>	Audited year to 31 December 2006 <i>Restated</i>
		£'000	£'000	£'000
Net cash flows from operations	3	(5,757)	(4,323)	(9,173)
R&D tax credits received		1,049	-	723
Net cash flows from operating activities		(4,708)	(4,323)	(8,450)
Investing activities				
Interest received		232	248	446
Purchase of property, plant & equipment	5	(274)	(15)	(213)
Purchase of available for sale liquid investments		(6,527)	-	(9,559)
Net cash flows used in investing activities		(6,569)	233	(9,326)
Financing activities				
Proceeds from issue of shares	6	12,000	15,000	15,178
Share issue costs		(559)	(1,325)	(1,327)
Payment of finance lease liabilities		(105)	(154)	(267)
Interest paid on finance leases		(19)	(15)	(67)
Net cash flows generated from financing activities		11,317	13,506	13,517
Net increase/(decrease) in cash and cash equivalents		40	9,416	(4,259)
Cash and cash equivalents at beginning of period		1,428	5,687	5,687
Cash and cash equivalents at end of period		1,468	15,103	1,428

Notes to the financial information

1. Basis of preparation and accounting policies

Intercytex will prepare consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') and applicable interpretations as adopted by the European Union, and those parts of the Companies Act 1985 applicable to companies reporting under IFRS, for the first time for the year ending 31 December 2007. The Group has established IFRS accounting policies which it expects to apply in its financial statements for the year ending 31 December 2007 based on those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these interim statements (September 2007).

These interim financial statements are part of the period covered by the Group's first IFRS financial statements and have therefore been prepared in accordance with the accounting principles that are expected to be applied in the annual financial statements and in compliance with IAS 34. The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments, which have been valued on an available-for-sale basis, in accordance with IAS39.

The interim consolidated financial statements of Intercytex Group plc and its subsidiaries have been prepared in accordance with IAS 34.

The comparative financial information previously reported in accordance with UK General Accepted Accounting Practice (UK GAAP) for the year ended 31 December 2006 and for the six months ended 30 June 2006 has been restated to conform to the same basis of presentation, as detailed in the Appendix to this report. Subject to there being no further changes from the IASB, the information presented is expected to form the basis for comparatives when reporting financial results for the year ending 31 December 2007 and subsequent reporting periods. The date of the Group's transition to IFRS is 1 January 2006.

In preparing these statements the Directors have elected to apply the first-time adoption provision allowed by IFRS 1 that precludes the full retrospective application of IFRS 3: Business combinations. Hence no restatement has been made in respect of business combinations prior to 1 January 2006.

These interim statements, which were approved by the Board on 18 September 2007, do not constitute statutory accounts within the meaning of Section 240(5) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2006, prepared in accordance with UK GAAP, have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under sections 237(2) or (3) of the Companies Act 1985 or any emphasis of matter.

The results for the six month periods ended 30 June 2007 and 30 June 2006 have not been audited nor reviewed by the Group's auditors.

The principal accounting changes required as a result of the adoption of IFRS are set out in the Appendix together with a summary of the IFRS accounting policies used in compiling these interim financial statements.

2. Loss per share

The calculations of loss per ordinary share are based on the following losses and weighted average number of shares in issue during the period:

		Unaudited six months to 30 June 2007	Unaudited six months to 30 June 2006	Audited year to 31 December 2006
			<i>Restated</i>	<i>Restated</i>
Loss for the period	(£'000)	(5,519)	(3,472)	(8,205)
Weighted average number of ordinary shares	('000)	59,495	53,201	54,595
Loss per share		(9.3p)	(6.5p)	(15.0p)

The exercise of outstanding share options in the periods would have the effect of reducing the loss per ordinary share, and are not therefore dilutive under the terms of IAS 33.

3. Reconciliation of group operating loss to net cash flow from operating activities:

	Unaudited six months to 30 June 2007	Unaudited six months to 30 June 2006	Audited year to 31 December 2006
		<i>Restated</i>	<i>Restated</i>
	£'000	£'000	£'000
Total operating loss	(6,183)	(4,275)	(9,692)
Depreciation and amortisation charges	149	196	377
Share-based compensation	147	138	252
(Increase)/decrease in inventory	(36)	16	22
(Increase)/decrease in debtors	(153)	141	-
Increase/(decrease) in creditors	319	(539)	(132)
Net cash flows from operations	(5,757)	(4,323)	(9,173)

4. Government grants

Government grant claims amounting to £293k (6 months to 30 June 2006: nil; year to 31 December 2006: £116k) were made in the period of which £175k was taken to income (6 months to 30 June 2006: nil; year to 31 December 2006: £51k). The balance is included as accrued income in creditors.

5. Fixed asset additions

During the period the Company completed the acquisition of the Compact Cellbase from The Automation Partnership. This is an automated cell processor which is being part-funded under the DTI grant to develop an automated manufacturing process for ICX-TRC. Payments totalling £207k were made in respect of this asset during the period.

6. Share issues

In April 2007 the Company allotted and issued 291,182 fully paid new ordinary shares to the Intercytex Group plc Employee Benefit Trust in order to satisfy conditional share awards made to employees under the Intercytex Group plc Share Incentive Plan (an HMRC approved all employee share purchase plan adopted by the Company on 20th June 2006).

In June 2007 the Company completed a placing of 23,076,924 new ordinary shares. The shares were issued to new and existing shareholders fully paid at a price of 52p per share raising £12m gross. Net proceeds after all issue expenses were £11.44m.

7. Liquid investments and cash and cash equivalents

The Group's liquid investments comprise holdings in money market funds and investment grade short term debt instruments. These investments may be liquidated on 24 hours notice and are traded in highly liquid markets.

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

	Unaudited six months to 30 June 2007	Unaudited six months to 30 June 2006	Audited year to 31 December 2006
		<i>Restated</i>	<i>Restated</i>
	£'000	£'000	£'000
Cash and cash equivalents	1,468	15,103	2,306
Available for sale liquid investments	16,086	-	8,681
Total cash and cash equivalents and liquid investments	17,554	15,103	10,987

8. Segmental analysis and seasonality

The Group is currently organised into one business segment, which is the development of cell-based therapies. The Group has a US branch which is involved in research and development activities within this single business segment.

The Group's activities are neither seasonal nor cyclical.

9. Estimates

Estimates used in calculating the charge for share-based payments in the period under IFRS 2 have been reviewed and no adjustments made.

Adoption of International Financial Reporting Standards (IFRS)

The Group's financial statements for the year ended 31 December 2007 will be the first annual financial statements that comply with IFRS, as amended for changes due to IFRS, as adopted by the European Union. The Group's date of transition is 1 January 2006 and the opening IFRS balance sheet has been prepared as of that date. These interim financial statements are therefore the first to be prepared under IFRS. The commentary below highlights the key changes that have arisen due to the transition from reporting under UK GAAP to reporting under IFRS. The comparative figures have been prepared on the same basis and are therefore restated for the impact of IFRS from those previously reported under UK GAAP.

Because the Group had already effectively implemented IFRS 2 in 2006 when FRS 20 was applied, and due to the election made under IFRS 1 in respect of first time adoption, the net effect of presenting the financial statements since transition under IFRS rather than UK GAAP is small. For the six month period ended 30 June 2006 the net loss after tax was reduced by the holiday pay accrual of £44k with an equivalent impact on net assets. There is no impact on the cash flows previously reported or the opening balance sheet.

A summary of the principal IFRS accounting policies adopted in these financial statements is set out at the end of this appendix. The impact of the IFRS transition is set out below:

First-time adoption

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the approach to be followed when IFRS are applied for the first time. Whilst IFRS 1 generally requires that the accounting policies are to be applied retrospectively it provides a number of optional exemptions.

Intercytex Group plc has elected to apply the exemption that precludes the full retrospective application of IFRS 3: Business combinations. Hence no restatement has been made in respect of business combinations prior to 1 January 2006, and in particular, no adjustment has been made to the accounting for the acquisition of Intercytex Limited by Intercytex Group plc as part of the IPO preparatory work, which was accounted for using the merger method.

The Group has not elected to apply the exemption in relation to fair value of Property, Plant & Equipment (PPE) being deemed cost at the date of transition under IFRS, nor has it applied any exemptions contained in IFRS 2.

Holiday pay

Under IAS 19 "Employee Benefits" a provision for holiday to which employees are entitled, but have not yet taken, is required. This charge was not required under UK GAAP. Accordingly an accrual has been made at each half year (but not at the year end since significant carry-over of holiday entitlement is not permitted).

The following unaudited reconciliations have been included in this Appendix to provide a quantification of the impact of the transition to IFRS:

Intercytex Group plc
Reconciliation of consolidated balance sheet as at 1 January 2006
(Unaudited)

	<i>As previously reported under UK GAAP</i>	<i>Restated under IFRS</i>
	<i>£'000</i>	<i>£'000</i>
ASSETS		
Property, plant & equipment	587	587
Non-current assets	<u>587</u>	<u>587</u>
Inventory	49	49
Trade and other receivables	492	492
Current tax asset	665	665
Cash and cash equivalents	5,687	5,687
Current assets	<u>6,893</u>	<u>6,893</u>
Total assets	<u>7,480</u>	<u>7,480</u>
LIABILITIES		
Obligations under finance leases	108	108
Non-current liabilities	<u>108</u>	<u>108</u>
Trade and other payables	1,619	1,619
Obligations under finance leases	248	248
Current liabilities	<u>1,867</u>	<u>1,867</u>
Total liabilities	<u>1,975</u>	<u>1,975</u>
NET ASSETS	<u>5,505</u>	<u>5,505</u>
EQUITY		
Share capital	419	419
Share premium	7,580	7,580
Capital redemption reserve	229	229
Merger reserve	18,902	18,902
Retained loss	(21,625)	(21,625)
TOTAL EQUITY	<u>5,505</u>	<u>5,505</u>

No changes were required as a result of restatement under IFRS.

Intercytex Group plc
Reconciliation of consolidated balance sheet as at 30 June 2006
(Unaudited)

	<i>As previously reported under UK GAAP</i>	<i>Holiday pay accrual</i>	<i>Restated under IFRS</i>
	£'000	£'000	£'000
ASSETS			
Property, plant & equipment	562		562
Non-current assets	<u>562</u>		<u>562</u>
Inventory	34		34
Trade and other receivables	268		268
Current tax asset	1,318		1,318
Cash and cash equivalents	15,103		15,103
Current assets	<u>16,723</u>		<u>16,723</u>
Total assets	<u>17,285</u>		<u>17,285</u>
LIABILITIES			
Obligations under finance leases	159		159
Non-current liabilities	<u>159</u>		<u>159</u>
Trade and other payables	1,036	44	1,080
Obligations under finance leases	199		199
Current liabilities	<u>1,235</u>	44	<u>1,279</u>
Total liabilities	<u>1,394</u>	44	<u>1,438</u>
NET ASSETS	<u>15,891</u>	(44)	<u>15,847</u>
EQUITY			
Share capital	558		558
Share premium	21,117		21,117
Capital redemption reserve	229		229
Merger reserve	18,902		18,902
Retained loss	(24,915)	(44)	(24,959)
TOTAL EQUITY	<u>15,891</u>	(44)	<u>15,847</u>

Intercytex Group plc
Reconciliation of consolidated balance sheet as at 31 December 2006
(Unaudited)

	<i>As previously reported under UK GAAP</i>	<i>Restated under IFRS</i>
	<i>£'000</i>	<i>£'000</i>
ASSETS		
Property, plant & equipment	672	672
Non-current assets	<u>672</u>	<u>672</u>
Inventory	27	27
Trade and other receivables	572	572
Current tax asset	971	971
Available for sale liquid investments	8,681	8,681
Cash and cash equivalents	2,306	2,306
Current assets	<u>12,557</u>	<u>12,557</u>
Total assets	<u>13,229</u>	<u>13,229</u>
LIABILITIES		
Obligations under finance leases	165	165
Non-current liabilities	<u>165</u>	<u>165</u>
Trade and other payables	1,488	1,488
Obligations under finance leases	172	172
Current liabilities	<u>1,660</u>	<u>1,660</u>
Total liabilities	<u>1,825</u>	<u>1,825</u>
NET ASSETS	<u>11,404</u>	<u>11,404</u>
EQUITY		
Share capital	561	561
Share premium	21,289	21,289
Capital redemption reserve	229	229
Merger reserve	18,902	18,902
Retained loss	(29,577)	(29,577)
TOTAL EQUITY	<u>11,404</u>	<u>11,404</u>

No changes were required as a result of restatement under IFRS.

Intercytex Group plc
Reconciliation of consolidated income statement for the 6 months to 30 June 2006
(Unaudited)

	<i>As previously reported under UK GAAP</i>	<i>Holiday pay accrual</i>	<i>Restated under IFRS</i>
	£'000	£'000	£'000
Revenue	83		83
Research & development costs	(3,565)	(29)	(3,594)
General and administrative expenses	(749)	(15)	(764)
Total expenses	<u>(4,314)</u>	<u>(44)</u>	<u>(4,358)</u>
Operating loss	<u>(4,231)</u>	<u>(44)</u>	<u>(4,275)</u>
Finance revenue	248		248
Finance costs	(15)		(15)
	<u>233</u>		<u>233</u>
Loss before taxation	(3,998)	(44)	(4,042)
Taxation	570		570
Loss for the period attributable to equity holders	<u>(3,428)</u>	<u>(44)</u>	<u>(3,472)</u>
Loss per share:			
Basic and diluted	<u>(6.4p)</u>		<u>(6.5p)</u>

Intercytex Group plc
Reconciliation of consolidated income statement for the 12 months to 31 December 2006
(Unaudited)

	<i>As previously reported under UK GAAP</i>	<i>Restated under IFRS</i>
	£'000	£'000
Revenue	83	83
Research & development costs	(8,566)	(8,566)
General and administrative expenses	(1,260)	(1,260)
Other operating income: grants receivable	51	51
Total expenses	<u>(9,775)</u>	<u>(9,775)</u>
Operating loss	<u>(9,692)</u>	<u>(9,692)</u>
Finance revenue	525	525
Finance costs	(67)	(67)
	<u>458</u>	<u>458</u>
Loss before taxation	(9,234)	(9,234)
Taxation	1,029	1,029
Loss attributable to equity holders	<u>(8,205)</u>	<u>(8,205)</u>
Loss per share:		
Basic and diluted	<u>(15.0p)</u>	<u>(15.0p)</u>

No changes were required as a result of restatement under IFRS.

Accounting policies

The accounting policies adopted in the preparation of the Group's IFRS statements are set out below:

Basis of consolidation

The consolidated annual financial statements comprise the financial statements of Intercytex Group plc and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All inter-company balances and transactions have been eliminated in full.

The creation of Intercytex Group plc in 2005 was accounted for using the merger method of accounting. Since the Group has taken advantage of the transitional provisions of IFRS 3 in relation to business combinations the profit and loss accounts, balance sheets and cash flow statements, along with the related notes have been prepared as if the Group had always been in existence in its current form

Revenue recognition

Revenue represents the amount receivable for goods and services provided and royalties earned, net of trade discounts, VAT and other sales-related taxes. Revenue is recognised as follows:

Sales income

Income from product sales is recognised when the significant risks and rewards of ownership have passed to the buyer, usually when the product has been invoiced and dispatched to the customer.

Product option and license income

Product option and licensing income represents amounts earned for options and licenses granted. Revenues are recognised where they are non-refundable, the Group's obligations related to the revenues have been discharged and they have been received.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Government grants

Income from government grants is recognised as set out below in the paragraph regarding government grants.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

Intellectual property

Intellectual property comprises patents, trade marks, brands, know-how and other similarly identified rights. These are recorded at their fair value at the date the related costs are incurred and are amortised on a straight line basis over their estimated useful economic lives from the time they are available for use, subject to there being a reasonable probability that the Group will derive economic benefit from the asset at the time the expenditure is incurred.

Research and development expenditure

Research expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is capitalised when the criteria for recognition as an asset are met – when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Regulatory and other uncertainties generally mean that such criteria are not met; in particular, the Group will not recognise the R&D costs attributable to a product development programme prior to grant of a marketing license for the product.

Computer software

The Group writes off software costs as incurred except in respect of major systems. In such cases, these are capitalised and written off over a period of three years from the date of purchase.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost of each asset, less its estimated residual value, on a straight line basis over its expected useful life, as follows:

Laboratory equipment	20%-33% per annum
Fixtures & fittings	20-33% per annum
Computer equipment	33% per annum

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. Impairment losses on continuing operations are recognised in the income statement in those categories consistent with the function of the impaired asset.

Further details of the impairment policy relating to available for sale investments is set out in the relevant paragraph of 'Financial assets'.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Leases and hire purchase contracts

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2006, the date of inception is deemed to be 1 January 2006 in accordance with the transitional requirements of IFRIC4.

Assets held under finance leases and hire purchase contracts, which confer risks and rewards similar to those attaching to owned assets, are capitalised at fair value of the assets, or if lower the present value of the minimum lease payments. Property, plant and equipment are depreciated over the shorter of the lease terms and their useful economic lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged through the income statement over the period of the lease to produce a constant rate of interest on the capital repayments outstanding. Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

Pension costs

The Group operates a defined contribution pension scheme. Contributions are charged in the profit and loss account to research and development or general and administrative costs as appropriate as they become payable in accordance with the rules of the scheme. Differences between contributions payable in the year and contributions actually paid are shown either as prepayments or accruals in the balance sheet.

Foreign currencies

The consolidated financial statements are presented in pounds sterling which is the Group's functional and presentational currency.

Transactions in foreign currencies are recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the functional currency rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

Taxation

Credit is taken in the accounting period for research and development tax credits, which will be claimed from Her Majesty's Revenue & Customs (HMRC), in respect of qualifying research and development costs incurred in the same accounting period. The resultant amount is measured at the amount expected to be recovered from HMRC.

UK corporation tax is provided on taxable profits at amounts expected to be paid, or recovered, applying the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis. Deferred tax is measured on an undiscounted basis, and at the tax rates that are expected to apply in the period in which the asset or liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised when there is a reasonable expectation that the grant will be received and that all the attaching conditions will be complied with. Grants in respect of capital expenditure are treated as deferred income and released to profit and loss over the expected useful life of the relevant asset, estimated to be three years, by equal annual amounts. Grants of a revenue nature are credited to income so as to match them on a systematic basis with the expenditure to which they relate.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale – purchase cost on a first-in, first-out basis.

Work in progress and finished goods – cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Share-based payments

The Group operates a number of executive and employee share and share option schemes. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using the Black Scholes pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date the cumulative expense recognised for equity-based transactions reflects the extent to which the vesting period has expired and the number of awards that, in the directors' opinion, will ultimately vest in respect of non market-related conditions. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

Segmental information

For management purposes the Group is currently organised into one business segment, which is the development of cell-based therapies. The Group has a US branch which is involved in research and development activities within this single business segment. Since this is the only primary reporting segment no further information is included.

Financial assets

The Group's liquid investments, which comprise holdings in money market funds and investment grade short term debt instruments, all of which are actively traded in organised financial markets, are designated as 'Available for sale' financial assets and are carried at fair value. Unrealised gains and losses are recognised in equity until the asset is derecognised, at which point the cumulative gain or loss previously recognised in equity is taken to the profit and loss account. Interest earned on investments is reported as interest income using the effective interest rate.

The fair value of available for sale investments is determined by reference to quoted market bid process at close of business on the balance sheet date.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- The Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments and hedging

The Group uses no derivative or hedging instruments other than share options which are accounted for under IFRS 2.

Significant accounting judgements, estimates and assumptions

The key judgements, estimates and assumptions that have a significant risk of causing material

adjustment to the carrying amounts of assets and liabilities within the next financial year are the estimation of share-based payment costs and the estimation of the R&D tax credit. The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market conditions and the continuing participation of employees.

Estimation of the R&D tax credit requires a judgement of which expenditures are likely to be accepted by HMRC as qualifying expenditure for tax credits, and an assessment of the total income tax and national insurance liability for the period. The R&D tax credit is based on the lower of the latter and the appropriate HMRC approved percentage of qualifying expenditure.