



nextgensciences

NEXTGEN GROUP PLC

(formerly Shendon Plc)

Report and Accounts for the year ended 31 DECEMBER 2005

Company registration number	5556404
Directors	Patrick Anthony Rhatigan, Non Executive Chairman James Gerard Heffernan, Chief Executive Officer David John Wigley, Director of Operations Frank Matthäi, Finance Director Klaus Gunter Erich Rosenau, Non Executive Director Kevin O'Donovan, Non Executive Director
Company secretary	Nigel Raymond Gordon
Registered Office	Building 56 Alconbury North Airfield Alconbury Huntingdon Cambridgeshire PE28 4DA
Nominated Adviser	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
Broker	Seymour Pierce Ellis Limited Talisman House Jubilee Walk Three Bridges Crawley West Sussex RH10 1LQ
Bankers	Barclays Bank Plc Mortlock House Vision Park Histon Cambridge CB4 9DE
Solicitors	Stringer Saul LLP 17 Hanover Square London W1S 1HU
Patent Agents	Greaves Brewster Indigo House Cheddar Business Park Wedmore Road Cheddar Somerset BS27 3EB
Registrar	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Auditors	Grant Thornton UK LLP Registered Auditors and Chartered Accountants Byron House Cambridge Business Park Cambridge CB4 0WZ

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Introduction

Having been appointed as Chairman of NextGen Group PLC after managing the process of admitting NextGen Group Plc on 30 December 2005 to AIM, I am pleased to present the first annual report to shareholders. In my introduction to the Group as a newly quoted company I will give a brief overview of the Groups' business and its products.

NextGen Group PLC is a holding company with two wholly owned operating subsidiaries; NextGen Sciences Ltd and Nextgen Sciences Inc. (USA), and, save as specifically indicated, the results referred to below were achieved primarily by NextGen Sciences Ltd prior to its merger with the holding company.

The Group is a provider of expert software based systems, services and reagents focussed on enabling enhanced access to, and understanding of the role of, proteins in diagnosis and drug discovery.

The expert systems are built out of NextGen's understanding of biological sciences and combine robotics, advanced engineering and rules-based software in systems that range from partial to fully automated. NextGen also uses its systems and instruments to provide fee-for-service products to the pharmaceutical and biotechnology industry as well as to those in academic research.

NextGen has developed a range of product families, targeted at the biopharmaceutical industry:

- The core technology is the OrchestratorIMS™ information management system, which provides a link between biology, software and hardware. This enables the user to plan, co-ordinate, monitor, track and execute a growing range of biological methodologies including cloning and protein expression strategies in a high-throughput manner. Further, OrchestratorIMS™ allows customers to choose the degree of information tracking and integration to third party systems through custom projects. OrchestratorIMS is priced to bring the lowest tier offering within the budget of academic institutions.
- The gene-to-protein product family is a suite of products, which accelerate gene cloning, and the production of recombinant proteins. The products include robotic systems driven by the OrchestratorIMS called the ExpressionFactory™ and the ExpressionWorkstation™. The latest member of this family is the BaculoWorkstation, a semi-integrated platform specifically targeted at insect cell expressed proteins.
- NextGen's 2D gel electrophoresis product, the a2DE Optimizer™ provides features enabling customers to customise the creation of 2D electrophoresis gels, thereby allowing enhanced separation of proteins.

The Group also markets and sells consumables for the product families including NextGen's proprietary reagents and in-licensed reagents.

Trading Review

Turnover of the consolidated group for the 12 months ended 31 December 2005 was £1,011,533 – an increase of 65.3% when compared to the £611,766 achieved in 2004 by NextGen Sciences Ltd.

The percentage gross profit achieved was 52.0% compared to 58.9% for the prior year. The reason for this reduction is due to the sale of consumables and reagents at a lower margin and the payment of sales commission to distributors in 2005.

Total operating costs increased from £2,586,726 to £3,075,115 an increase of 18.9%. This increase is mainly due to the inclusion of discounted share options granted to Dr James Heffernan and David Wigley, which attracted a charge of £428,496 in the profit and loss account for the year ended 31 December 2005. The Group also incurred exceptional costs in the year of £114,000 which relate to an accrual for compensation for loss of office for Kevin Auton (a former founder director of NextGen Sciences Limited).

Chairman's Statement

Operating loss of £2,663,269, compared to a loss of £2,226,524 in 2004.

Board Changes

The Board of the Group was appointed on 23 December 2005 prior to flotation on AIM. The Board consists of three executive directors and three non-executive directors.

Staff

Within the Group we are fortunate to have a talented and highly committed group of people, senior managers, managers and employees, who on behalf of the Board, I wish to thank for their continued commitment and hard work, which has been a major contribution to the continued development of the Group.

Future Prospects

The business of NextGen Group has grown and will continue to thrive on innovation. 2006 will see a number of new areas of growth opportunity and the Group expects the strengthened sales and marketing team, particularly in North America to add significantly to its performance.

P. Anthony Rhatigan
Chairman

23 May 2006

Chief Executive Officer's Report

Flotation on AIM

The Company was admitted to AIM on 30th December 2005 raising £1.8 million after expenses. The monies are being used primarily to finance pursuit of the objectives set out in the AIM Admission Document as referred to below and for general working capital.

Review of the business

In the AIM Admission Document published in December 2005 the Group outlined three major objectives it wished to achieve in 2006. These were

1. The establishment of a sales force in North America.
2. The commercialisation of developed products.
3. The further development and introduction of products and services to serve the drug discovery and diagnostics markets.

Taking each of these in turn.

US Sales Force

The Company is pleased to report that following interviews held in February and March, four experienced sales professionals were appointed covering the major geographical market centres of The North East US (centred round New York and New England); Mid Atlantic (Research Triangle Park); West Coast (San Diego and the Bay Area) and Mid West (Chicago). This sales team is led by Dr Geoff Alms, formerly of Upstate Inc, a seasoned sales director with considerable experience in the fee for service business. In addition, Gareth Thomson was appointed as Head of Marketing in late April 2006 and is based at the Group's headquarters in Cambridgeshire, UK. Gareth's first task has been to refine the Group's marketing programme and the results of this are expected to be fruitful.

Commercialisation of developed products

Sales of the A2DE Optimiser continued for the first three months of 2006 at previous levels. With the advent of the US sales force the Group is now seeing an increased demand for product demonstrations which, in turn, are expected to turn into firm sales.

Both the BaculoWorkstation[™] and the ExpressionWorkstation[™] were publicly unveiled for the first time at the Peptalk Conference held in January in San Diego, USA. The ExpressionWorkstation was successfully demonstrated live to an audience estimated at 150 drawn from a wide variety of biopharmaceutical companies. This resulted in the first sale of the product to a major multinational pharmaceutical company and the Group has now developed a pipeline of requests for demonstration and product pricing quotes to this same sector. The lower priced BaculoWorkstation[™] fills a gap in the emerging insect cell protein expression market. Following demonstration of this product to the same market group the Group has received several orders and received many further enquiries from potential purchasers.

OrchestratorIMS[™] is the information management system which interfaces with and controls the Group's larger instrument platforms. This software has been further developed such that it can be used in a standalone fashion. Following demonstration of the capabilities of this software discussions are underway with several pharmaceutical companies about installing this either as multiple user versions or indeed enterprise wide. Several customers have also requested a feasibility study of using OrchestratorIMS[™] to control 3rd party hardware and following market evaluation the Group is actively working with clients on this application.

As with all capital sales, the lead time from first speaking to a customer regarding possible purchase of one of the Group's products to receiving the order, delivering and invoicing, and finally receiving payment can be anywhere from six to twelve months and sometimes longer. This results in making forecasting of sales in any given period extremely difficult and in a very irregular revenue recognition pattern. To moderate this trend the Company has introduced ContractExpress[™], a fee for service business, where the Group rather than the customer carries out the scientific work in return for staged

Chief Executive Officer's Report

payment. Group scientists have now successfully completed several customer contracts and it is anticipated that successful completion of this type of contract will lead to repeat business.

In addition to the focus in the US and Europe, a distributor training and business development trip to the Far East was also accomplished in March 2006. Distributors have been appointed in Japan, Korea, Taiwan, China and Singapore. A growing requirement for our products and services is anticipated from this market, but as with Western markets, lead times are significant and may indeed be longer than those detailed above.

Development of new products and services

Initial focus has concentrated on further development of the OrchestratorIMS platform adding substantial new features and capabilities to the software. These additions have been very heavily influenced by customer input and the results are referred to above, where a number of pharmaceutical companies are in discussion with the Group regarding the widespread adoption of IMS as a multi user or enterprise wide solution.

As mentioned above the Group has further developed the services offered under ContractExpress and with the addition of the services available from Proteomic Research Services Inc, Michigan, USA, "PRS", following the January announcement of the commercial alliance with PRS, has significantly strengthened this portfolio. In addition, this relationship with PRS has allowed the Group to facility share and establish a base for the Group in the US. This capability allows the Group to receive orders, store and ship products and provides an ability to demonstrate products to customers in the US. The company has plans to introduce jointly developed new products as a result of this relationship later in 2006.

James Gerard Heffernan
Chief Executive Officer

23 May 2006

Directors' Report

The Directors present their report together with the financial statements for the year ended 31 December 2005.

Principal activity

The Group's principal activities are research and development in the protein research arena and the manufacture and sale of products and technology for use within the protein research industry.

Business review

The Company was incorporated on 7 September 2005. It changed its name to NextGen Group PLC on 5 December 2005. On 9 December 2005 it merged with NextGen Sciences Ltd.

There was a loss for the year after taxation of £2,479,556 (2004: loss £2,281,870), which was within the expected range.

An error has been found within the Placing and Admission document which needs to be made known to our shareholders. On page 17 of the Placing and Admission document 'Share Option Schemes' paragraph 6 '.... (and including Dr Heffernan's option)...' should read '.... (and excluding Dr Heffernan's option)...'.

Dividends

The Directors do not recommend the payment of a dividend to the ordinary shareholders.

Directors

The Directors who served during the period are shown below:

Patrick Anthony Rhatigan (appointed 18 November 2005)
James Gerard Heffernan (appointed 18 November 2005). Also a director of NextGen Sciences Limited (appointed 25 July 2005)
David John Wigley (appointed 2 December 2005). Also a director of NextGen Sciences Limited throughout the review period
Klaus Gunter Erich Rosenau (appointed 18 November 2005). Also a director of NextGen Sciences Limited throughout the review period.
Frank Matthäi (appointed 23 December 2005). Also a director of NetGen Sciences Limited (appointed 5 January 2005)
Kevin O'Donovan (appointed 2 December 2005). Also a director of NextGen Sciences Limited throughout the review period.
Waterlow Securities Limited (appointed 7 September 2005) (resigned 18 November 2005)
Waterlow Nominees Limited (appointed 7 September 2005) (resigned 18 November 2005)

Directors' interests

The interests of the Directors who served during the year ended 31 December 2005 and their families are detailed in the Directors' Remuneration Report on pages 11 to 12.

Substantial shareholders

Directors' Report

At 12 May 2006 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's ordinary shares.

Name	0.1p ordinary shares	%
Perfekt Beteiligungsmanagement GmbH	225,406,806	32.34
The Create East of England Partnership	112,930,756	16.21
OAR Kommunikation und Outsourcing Beratungsgesellschaft (OAR)	102,319,337	14.69
Patrick Anthony Rhatigan	35,957,445	5.15
Seymour Pierce Ellis Limited	40,687,178	5.83
Credit Suisse Zurich	27,202,668	3.90
RM Beteiligungsverwaltung GmbH	26,000,820	3.73
Andrew Perloff	22,112,500	3.17
E-Trade Clients	21,643,663	3.11

Supplier payment policy

Whilst it does not follow any specific published code or standard, the Group and Company's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier. The number of days' purchases outstanding for payment at 31 December 2005 was 27 days. (2004: 150 days)

Employee involvement

The Group recognises its responsibilities towards keeping employees informed of matters affecting the company and their role as employees including significant initiatives and economic factors affecting the performance of the Group. To this end consultations take place at appropriate times throughout the year with employees.

Disabled employees

The Group recognises its obligations towards disabled people and endeavours to provide employment where possible having regard to the physical demands of the Group's operations and the abilities of the disabled persons. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Group may continue. It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

Funding

During the year the Company undertook a share placing of Ordinary Shares that raised approximately £2.4 million before expenses of flotation, and £1.8 million after expenses. Refer to Called Up Share Capital note 18. Prior to the flotation NextGen Sciences Ltd raised £1.5 million on 30 June 2005 and £0.6 million on 30 November 2005

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (UK GAAP).

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent

Directors' Report

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the Directors have taken all relevant steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

International Financial Reporting Standards

As an AIM-listed company, the current proposals would require the Company to prepare consolidated financial statements in accordance with International Accounting Standards from 2007. The Company is currently undertaking a detailed review of the conversion from UK GAAP to International Financial Reporting Standards (IFRSs). The first financial results prepared in accordance with IFRSs will be for the six months ended 30 June 2007.

Annual General Meeting

The Annual General Meeting will be held on 28 June 2006 at 10.00am at the offices of Seymour Pierce Limited, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL. Notice is sent to shareholders with this report together with an explanation of any special business to be considered at the meeting and are detailed on pages 35 to 38.

Auditors

The auditors, Grant Thornton UK LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment as auditors in accordance with section 385 of the Companies Act 1985 will be proposed at the Annual General Meeting.

ON BEHALF OF THE BOARD

James Gerard Heffernan
Chief Executive Officer

23 May 2006

Corporate Governance

The Board take their corporate governance responsibilities seriously, and the following statements set out the principles and methods to which they adhere.

The Board

The Board comprises three Executive Directors and three Non-executive Directors. The Group recognises the benefit of Non-executive Directors who bring independent judgement on issues of strategy, resources, performance and standards of conduct. The Board meets regularly and has adopted a schedule of matters specifically reserved for its approval or review, including strategic operating plans, annual operating budgets, major capital expenditure and financial performance.

Management reports are produced monthly and distributed in advance of the Board meetings and include strategy papers and summaries of the key features of the Groups financial position and operating performance.

Remuneration Committee

The Remuneration Committee comprises the Non-executive Directors and is under the chairmanship of Mr K O'Donovan. It meets and approves the remuneration and terms and conditions of employment for the Executive Directors. Share option scheme plans are reviewed and approved by the committee.

Audit Committee

The audit committee comprises the Non-executive Directors and is under the chairmanship of Mr A Rhatigan. It meets at least twice a year to review the draft interim and full accounts. It discusses the scope and planning of the audit with the auditors before the audit and agrees their remuneration.

Specific responsibilities also include the reviewing of effectiveness of internal controls; reviewing the scope and results of the external audit; and the reviewing of key management judgements and risk assessments.

Directors' Remuneration

Details of the Directors' remuneration policy and related disclosures are contained in the Directors' Remuneration Report.

Internal Control

The Directors are responsible for the system of internal control and reviewing its effectiveness. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The key elements of the Group's system of internal control are as follows:

- The Board has adopted a risk-based approach to establishing the system of internal control. The risk management approach is used to focus available resources on the Group's most significant areas of risk and to determine key control objectives. In particular the processes for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed and have been reviewed.
- The Executive Directors are closely involved in the management of the business at a detailed level. This is supported by reviews of daily, weekly and monthly detailed analyses of the performance of the business and key performance indicators associated with the trading risks facing the Group.

Corporate Governance

- Detailed annual budgets are prepared, reviewed in detail and agreed by the Board and actual performance is reported against these budgets on a regular basis. Major commercial, technological and financial risks are assessed as part of this process.
- The Group has established controls and procedures over the security of the data held on its computer systems.

The Group has in place an organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements.

Directors' Remuneration Report

Procedures for developing policy and fixing remuneration

The Committee consists of the Non-executive Directors, and is chaired by Kevin O'Donovan.

Policy on Executive Director's remuneration

The Group's policy is to attract, motivate and retain high calibre individuals and to reward them for enhancing shareholder value.

The implementation of this policy is achieved by:

- An annual review of the salaries for the Executive Directors.
- Periodic review of other benefits such as the provision of Company cars and medical insurance.
- Where considered appropriate, the participation in an annual bonus scheme based on the achievement of profit and individual performance targets.
- Where considered appropriate, the provision of share options.
- The exercise of share options is geared to the earnings per share of the Group.
- A contribution of 5% of basic salary to the Company pension scheme or a personal pension scheme held by the relevant Executive Director.

Service contracts

Each of the Executive Directors has a full-time service contract with the Group. The service agreements with James Heffernan and David Wigley are terminable by the Director on not less than six months notice in writing and twelve months by the Company, and that with Frank Matthäi on not less than three months notice by the Director and three months notice by the Company.

In addition to their salaries, each of the Executive Directors is entitled private medical cover and pension contributions outlined above. In addition James Heffernan is entitled to a company car.

The Non-executive Directors' contracts for provision of services are terminable based on two months notice by either party. Their level of remuneration is determined by the Board based on the level of fees paid to non-executive directors of similar companies.

Directors' Remuneration Report

AUDITED INFORMATION

Directors' remuneration

	Salary	Benefits	2005 Total (exc.pension)	2004 Total (exc.pension)	2005 Pension	2004 Pension
	£	£	£	£	£	£
P A Rhatigan	-	-	-	-	-	-
J G Heffernan	50,456	13,499	63,955	-	2,523	-
D J Wigley	90,000	307	90,307	60,472	2,500	2,500
F Matthai	37,013	-	37,013	-	-	-
K G Rosenau	-	-	-	-	-	-
K O'Donovan	12,000	-	12,000	9,000	-	-
	189,469	13,806	203,275	69,472	5,023	2,500

Directors' Interest

The interests of the Directors in the shares of the Company at 31 December 2005 were as follows:

	As at 31 Dec.2005	As at 31 Dec.2004 interest in NextGen Sciences Ltd.
P A Rhatigan (i)	35,957,445	-
J G Heffernan	332,978	-
D Wigley	4,732,829	163,201
F Matthai (ii)	1,877,750	-
K G Rosenau (iii)	124,319,337	-
K O'Donovan	148,219	5,000

- (i) 2,937,500 of these shares will be held in the name of Oakley Securities Limited, a company owned and controlled by P A Rhatigan.
- (ii) 1,877,750 of the ordinary shares registered in the name of OAR are held in trust for F Matthai.
- (iii) These shares are registered in the name of OAR, a company which is wholly owned by K G Rosenau's mother and of which he is a director and includes the ordinary shares referred to in note (ii) and 1,450,000 ordinary shares which are held on trust for an unrelated third party.

Directors' Remuneration Report

Share options

Options and warrants to subscribe for Ordinary Shares of 1p prior to Admission on to the London Stock Exchange

	As at 1 Jan.2005	Granted during the year	As at 29 Dec.2005	Exercise Price	Expiry Date
P A Rhatigan (i)	-	28,705	28,705	£0.87	31 Dec.2008
J G Heffernan	-	11,482	11,482	£0.87	31 Dec.2008
D Wigley	-	50,000	50,000	£0.80	9 Mar.2015
D Wigley	-	1,858,012	1,858,012	£0.01	6 Jul.2010
D Wigley	35,000	-	35,000	£0.80	23 Sep.2014
D Wigley	8,444	-	8,444	£5.00	16 Apr.2013
D Wigley	2,778	-	2,778	£3.00	16 Apr.2013
D Wigley	8,444	-	8,444	£0.01	16 Apr.2013
F Matthai	-	-	-	-	-
K G Rosenau (ii)	-	80,000	-	£0.01	-
K G Rosenau (ii)	-	100,000	-	£0.87	-
K O'Donovan	-	1,875	1,875	£8.00	30 Jun.2008
K O'Donovan	-	111	111	£0.87	31 Dec.2008

Options and warrants to subscribe for Ordinary Shares of 0.1p after Admission on to the London Stock Exchange

	As at 29 Dec.2005	Uplift in Share for Share Exchange	Granted on 30 Dec.2005	As at 31 Dec.2005	Exercise Price	Expiry Date
P A Rhatigan (i)	28,705	29 times	832,445	832,445	£0.030	31 Dec.2008
J G Heffernan	11,482	29 times	332,978	332,978	£0.030	31 Dec.2008
J G Heffernan	-	-	34,836,662	34,836,662	£0.030	30 Dec.2010
D Wigley	50,000	29 times	-	1,450,000	£0.028	9 Mar.2015
D Wigley	1,858,012	29 times	-	53,882,348	£0.001	6 Jul.2010
D Wigley	35,000	29 times	-	1,015,000	£0.028	23 Sep.2014
D Wigley	8,444	29 times	-	244,876	£0.172	16 Apr.2013
D Wigley	2,778	29 times	-	80,562	£0.103	16 Apr.2013
D Wigley	8,444	29 times	-	244,876	£0.001	16 Apr.2013
F Matthai	-	-	-	-	-	-
K G Rosenau (ii)	-	-	2,320,000	2,320,000	£0.001	31 Dec. 2008
K G Rosenau (ii)	-	-	2,900,000	2,900,000	£0.028	28 Oct. 2006
K O'Donovan	1,875	29 times	54,375	54,375	£0.028	30 Jun. 2008
K O'Donovan	111	29 times	3,219	3,219	£0.030	31 Dec.2008

(i) these share options are held in the name of Oakley Securities Limited, a company owned and controlled by P A Rhatigan.

(ii) these share options are registered in the name of OAR, a company which is wholly owned by K G Rosenau's mother and of which he is a director.

Save as set out above, no share options or warrants to subscribe for shares in any other body corporate in the Group were granted to or exercised by a director or his immediate family in the period ended 31 December 2005.

Report of the Independent Auditors to the members of NEXTGEN GROUP PLC

We have audited the group and parent company financial statements (the "financial statements") of NextGen Group Plc for the year ended 31 December 2005 which comprise the principal accounting policies, the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, other information contained in the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive Officer's Report, the Corporate Governance Report and the Directors' Remuneration Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Report of the Independent Auditors to the members of NEXTGEN GROUP PLC

Emphasis of matter - Going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the Group's ability to meet its liabilities as they fall due. The financial statements have been prepared on the going concern basis, the validity of which depends on receipt of orders and the related sales revenue or injection of funds into the business from further fundraising. If these sales revenues are not received or additional funds are not raised, the Group may be unable to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

**GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
CAMBRIDGE**

23 May 2006

The maintenance and integrity of the NextGen Group PLC website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from the legislation in other jurisdictions.

Principal Accounting Policies

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The principal accounting policies of the group are set out below. The policies remained unchanged from the previous year, except the group has implemented FRS21 Events After Balance Sheet Date, FRS22 Earnings Per Share, the presentational aspects of FRS 25 Financial Instruments: Disclosure and Presentation, and FRS28 Corresponding Amounts. With the exception of FRS25, the implementation of these new standards has had no significant effect on the group's existing disclosures.

The adoption of FRS25 has resulted in the reclassification of convertible loan stock from a liability to an equity instrument. In accordance with the transitional rules for FRS25, the exemption regarding comparatives has been taken. Accordingly there are no comparative figures given, only the disclosure required for the current year.

BASIS OF CONSOLIDATION

NextGen Group Plc was incorporated for the purpose of achieving admission to trading on AIM of the existing business of NextGen Sciences Limited. This was effected by the acquisition of the entire share capital of NextGen Sciences Limited by way of a share for share exchange.

The financial statements have been prepared using merger accounting principles on the basis that the formation of NextGen Group Plc as the Parent of NextGen Sciences Limited on 9 December 2005 qualifies as a group reconstruction and the financial statements should be prepared as if the companies have always been one entity. The financial information for the year ended 31 December 2005 therefore represents NextGen Sciences Limited.

The Group financial statements consolidate the financial statements of NextGen Sciences Limited (the "Company") and its subsidiary undertaking (collectively the "Group"), drawn up to 31 December each year. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting except for those qualifying as group reconstructions where merger accounting is permitted. All inter company balances and transactions have been eliminated on consolidation.

TURNOVER

Turnover is the total amount receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts.

Revenue is recognised 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 for product service and upgrades 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.

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

RESEARCH AND DEVELOPMENT

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

Principal Accounting Policies

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life as follows:

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

LEASE AND HIRE PURCHASE COMMITMENTS

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the term of the lease and their expected useful lives. The capital elements of future lease obligations are recorded as liabilities, while the finance elements are charged to the profit and loss account over the period of the lease so as to produce a constant rate of charge on the balance of the capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

STOCKS

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow moving or defective items where appropriate.

RETIREMENT BENEFITS

The Group operates a defined contribution scheme under which the amount charged to the profit and loss account is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either creditors, accruals or prepayments in the balance sheet.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Principal Accounting Policies

FOREIGN CURRENCY

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange prevailing at that date. Exchange differences are taken into account in arriving at the operating loss.

EMPLOYEE SHARE OPTION SCHEMES

In accordance with Urgent Issues Task Force Abstract 17 "Employee Share Schemes" the cost of awards to employees that take the form of shares or rights to shares is recognised as a charge to the profit and loss account. The amount charged to profit and loss is the difference between the "market value" at the time of grant (as agreed with the Inland Revenue) and the exercise price and a corresponding credit is made to reserves.

FINANCIAL INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where contractual terms of a financial instrument do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

In accordance with the transitional rules for FRS 25, the exemption regarding comparatives has been taken. Accordingly there are no comparative figures given, only the disclosure required for the current year.

Previously the convertible loan stock was recognised as a liability of the group.

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Income and expenditure arising on financial instruments is recognised on the accruals basis and credited or charged to the profit and loss account in the financial period to which it relates.

Consolidated Profit and Loss Account

For the year ended 31 DECEMBER 2005

	Note	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Turnover	2	1,011,533	611,766
Cost of sales		<u>(485,687)</u>	<u>(251,564)</u>
Gross profit		525,846	360,202
Other operating charges		(3,075,115)	(2,586,726)
Other operating charges - exceptional items	3	<u>(114,000)</u>	<u>-</u>
Operating loss	4	(2,663,269)	(2,226,524)
Interest receivable		12,221	3,899
Interest payable	5	<u>(54,974)</u>	<u>(59,245)</u>
Loss on ordinary activities before taxation		(2,706,022)	(2,281,870)
Tax on loss on ordinary activities	7	226,466	-
Loss for the financial year deducted from reserves	20	<u>(2,479,556)</u>	<u>(2,281,870)</u>
Basic Loss per share	9	1.4p	4.6p

There were no recognised gains or losses other than the loss for the financial year.
All activities of the Group are classed as continuing.
The accompanying accounting policies and notes are an integral part of these financial statements.

Consolidated Balance Sheet

AT 31 DECEMBER 2005

	Note	At 31 December 2005 £	At 31 December 2004 £
Fixed assets			
Tangible assets	10	207,481	192,269
Current assets			
Stocks	12	188,779	284,567
Debtors: due within one year	13	2,669,095	332,583
Cash at bank and in hand		151,588	598,146
		<u>3,009,462</u>	<u>1,215,296</u>
Creditors: amounts falling due within one year	14	<u>(1,458,985)</u>	<u>(2,583,225)</u>
Net current assets/(liabilities)		<u>1,550,477</u>	<u>(1,367,929)</u>
Total assets less current liabilities		<u>1,757,958</u>	<u>(1,175,660)</u>
Creditors: amounts falling due after more than one year	15	<u>(142,907)</u>	<u>(228,017)</u>
		<u>1,615,051</u>	<u>(1,403,677)</u>
Capital and reserves			
Called up share capital	18	693,400	74,193
Share premium account	20	1,697,433	-
Other reserve	20	508,503	80,007
Merger reserve	20	5,731,082	2,977,934
Profit and loss account	20	<u>(7,015,367)</u>	<u>(4,535,811)</u>
Shareholders' funds/(deficit)		<u>1,615,051</u>	<u>(1,403,677)</u>

The financial statements were approved by the Board of Directors on 23 May 2006

..... Director

..... Director

The accompanying accounting policies and notes are an integral part of these financial statements.

Company Balance Sheet

AT 31 DECEMBER 2005

	Note	At 31 December 2005 £
Fixed assets		
Investments	11	613,400
Current assets		
Debtors: due within one year	13	2,688,142
Creditors: amounts falling due within one year	14	<u>(654,481)</u>
Net current assets		<u>2,033,661</u>
Total assets less current liabilities		<u><u>2,647,061</u></u>
Capital and reserves		
Called up share capital	18	693,400
Share premium account	20	1,697,433
Other reserve	20	508,503
Profit and loss account	20	<u>(252,275)</u>
Shareholders' funds		<u><u>2,647,061</u></u>

The financial statements were approved by the Board of Directors on 23 May 2006

..... Director

..... Director

The accompanying accounting policies and notes are an integral part of these financial statements.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Net cash outflow from operating activities	21	(2,204,947)	(1,510,489)
Returns on investments and servicing of finance			
Interest received		12,221	3,899
Interest paid		(23,380)	(25,011)
Finance lease interest paid		(31,594)	(34,234)
Net cash outflow from returns on investments and servicing of finance		(42,753)	(55,346)
Taxation		226,466	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(81,693)	(10,510)
Sale of tangible fixed assets		-	950
Net cash outflow from capital expenditure and financial investment		(81,693)	(9,560)
Financing			
(Repayment)/receipt from borrowing		(62,500)	(46,875)
Capital elements of finance lease rentals		(90,472)	(91,348)
Issue of convertible loan stock		95,413	860,447
Issue of shares/debentures		2,336,495	1,443,736
Expenses paid in connection with share issues		(622,567)	-
Net cash inflow from financing		1,656,369	2,165,960
(Decrease)/increase in cash	22	(446,558)	590,565

The accompanying accounting policies and notes are an integral part of these financial statements.

Notes to the Accounts

1 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 year the Group incurred losses after taxation of £2,479,556 and had a profit and loss account in deficit by £7,015,367.

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 are considering 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.

2 TURNOVER

The turnover is attributable to geographical area as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
	£	£
United Kingdom	158,910	604,000
United States of America	629,732	-
Rest of World	222,891	7,766
	<u>1,011,533</u>	<u>611,766</u>

3 OTHER OPERATING CHARGES - EXCEPTIONAL ITEMS

	Year ended 31 December 2005	Year ended 31 December 2004
	£	£
Compensation for loss of office for a former director of NextGen Sciences Limited	<u>114,000</u>	<u>-</u>

Notes to the Accounts

4 OPERATING LOSS

The operating loss is stated after charging:

	Year ended 31 December 2005	Year ended 31 December 2004
	£	£
Auditors' remuneration:		
Audit services	28,000	20,921
Non-audit services – tax services	14,785	8,455
Depreciation:		
Tangible fixed assets owned	60,899	52,048
Tangible fixed assets held under finance leases and hire purchase contracts	73,928	112,750
Research and development expenditure	859,874	1,000,581
Operating leases:		
Plant and machinery	2,652	940
Land and buildings	74,549	70,476

Non-audit services in respect of flotation costs of £76,958 incurred in 2005 have been taken to the Share Premium Account (Note 20).

5 INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2005	Year ended 31 December 2004
	£	£
Loans from employees	-	2,772
Bank loans and overdrafts	21,715	20,537
Hire purchase interest	31,594	34,234
Other interest	1,665	1,702
	54,974	59,245

6 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
	£	£
Wages and salaries	1,232,154	1,192,535
Social security costs	138,102	133,594
Other pension costs	115,848	114,927
Share options awarded at a discount to "market value"	428,496	-
	1,914,600	1,441,056

The average number of employees of the Group during the year was:

Notes to the Accounts

	Year ended 31 December 2005 Number	Year ended 31 December 2004 Number
Technical	22	22
Sales and marketing	7	6
Administration	3	3
	<u>32</u>	<u>31</u>

Remuneration in respect of Directors was as follows:

	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Emoluments	183,044	69,472
Pension contributions to money purchase pension schemes	5,023	2,500
Share options awarded at a discount to "market value"	428,496	-
Compensation for loss of office	114,000	-
	<u>730,563</u>	<u>71,972</u>
Highest paid director – emoluments	90,307	60,472
- pension costs	2,500	2,500
	<u>92,807</u>	<u>62,972</u>

7 TAX ON LOSS ON ORDINARY ACTIVITIES

The tax credit for the year is £226,466 in relation to research and development tax credits (2004: £nil). The tax credit is based on the loss for the year and represents:

	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Loss before taxation	<u>(2,706,022)</u>	<u>(2,281,870)</u>
Expected corporation tax on loss at 19 % (2004: 19%)	(514,144)	(433,555)
Effects of:		
Expenses not deductible for tax purposes	130,802	32,284
Depreciation in (arrears)/excess of capital allowances	(6,978)	3,114
Tax losses carried forward	378,665	393,043
Other timing differences	11,655	5,114
Research and development tax credit	<u>(226,466)</u>	-
Current tax charge for the period	<u>(226,466)</u>	<u>-</u>

Unrelieved tax losses of approximately £7 million (2004: approximately £4 million) remain available to offset against future taxable trading profits. A deferred tax asset of approximately £1,224,084 (2004: £791,609) calculated at 19% in respect of trading losses has not been recognized as an asset as the future benefit cannot be determined at 31 December 2005.

Notes to the Accounts

8 DIVIDENDS

No dividends have been declared or paid in respect of 2005 and 2004.

9 LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

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

	Year ended 31 December 2005	Year ended 31 December 2004
Loss attributable to ordinary shareholders	£2,479,556	£2,281,870
Weighted average number of shares	178,102,563	49,132,216
Loss per share	1.4p	4.6p

By virtue of the loss incurred in 2005 and 2004, a diluted loss per share calculation is not appropriate.

10 TANGIBLE FIXED ASSETS

Group	Plant and machinery £	Office equipment fixtures and fittings £	Computer Equipment £	Motor Vehicle £	Total £
Cost					
At 1 January 2005	509,331	64,070	111,712	-	685,113
Additions	98,969	1,656	19,722	29,692	150,039
Disposals	-	-	-	-	-
At 31 December 2005	<u>608,300</u>	<u>65,726</u>	<u>131,434</u>	<u>29,692</u>	<u>835,152</u>
Depreciation					
At 1 January 2005	332,409	57,825	102,610	-	492,844
Provided in the year	117,891	3,761	10,162	3,013	134,827
Disposals	-	-	-	-	-
At 31 December 2005	<u>450,300</u>	<u>61,586</u>	<u>112,772</u>	<u>3,013</u>	<u>627,671</u>
Net book amount at 31 December 2004	<u>176,922</u>	<u>6,245</u>	<u>9,102</u>	<u>-</u>	<u>192,269</u>
Net book amount at 31 December 2005	<u><u>158,000</u></u>	<u><u>4,140</u></u>	<u><u>18,662</u></u>	<u><u>26,679</u></u>	<u><u>207,481</u></u>

The net book value of tangible fixed assets includes £165,871(2004: £166,899) in respect of assets held under finance lease or hire purchase contracts. The depreciation charge in respect of such assets is £73,928 (2004: £112,750) for the year.

Notes to the Accounts

11 FIXED ASSET INVESTMENTS

Company	At 31 December 2005
Subsidiary undertakings	£
Cost and net book value additions during the period	<u>613,400</u>

The company holds 20% or more of the share capital of the following companies:

Company	Country of registration	Class of share capital held	Proportion held	Nature of business
NextGen Sciences Ltd.	England and Wales	Ordinary	100%	Develop, manufacture and sale of products for the protein research industry
NextGen Sciences Inc.	United States of America	Ordinary	100%	Sales and service of products for the protein research industry

The 100% shareholding in NextGen Inc. is actually held by NextGen Sciences Limited. NextGen Group Plc is the controlling party by virtue of its 100% shareholding in NextGen Sciences Limited.

The loss for the financial year dealt with in the financial accounts of the Company was £252,275 (2004: £nil). As provided by section 230 of the Companies Act 1985, no Company profit and loss account is presented in respect of the Company.

12 STOCKS

Group	At 31 December 2005	At 31 December 2004
	£	£
Raw materials and consumables	35,670	34,586
Work in progress	145,650	244,250
Finished goods	7,459	5,731
	<u>188,779</u>	<u>284,567</u>

The Company has no stocks

13 DEBTORS

Group	At 31 December 2005	At 31 December 2004
	£	£
Amounts falling due within one year		
Trade debtors	144,999	267,577
VAT	53,505	-
Other debtors	-	3,881
Prepayments and accrued income	70,591	61,125
Debtors – share issue proceeds	2,400,000	-
	<u>2,669,095</u>	<u>332,583</u>

Notes to the Accounts

Company	At 31 December 2005
Amounts falling due within one year	£
Trade debtors	-
Amounts owed by group undertakings	247,228
VAT	40,914
Other debtors (includes called up share capital not paid)	2,400,000
Prepayments and accrued income	-
	<u>2,688,142</u>

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Group	At 31 December 2005	At 31 December 2004
	£	£
Convertible loan stock	-	860,447
Bank loan	62,500	62,500
Trade creditors	199,013	598,170
Net obligations under finance leases and hire purchase contracts	91,587	91,103
Other taxation and social security	39,151	215,954
Other creditors	63,014	114,032
Accruals and deferred income	1,003,720	641,019
	<u>1,458,985</u>	<u>2,583,225</u>
Company	£	
Amounts owed to group undertaking	57,646	
Accruals and deferred income	596,835	
	<u>654,481</u>	

Bank loan

See note 15 for details of the bank loan.

Convertible loan stock

Pursuant to an agreement dated 23 December 2004 the Company agreed to issue units of convertible non—interest bearing non-redeemable unsecured loan stock. Each unit of nominal value 80p carried the right to convert into one ordinary share at the option of the holder or in certain circumstances or in any event on 7 April 2005. At the year end 2004 a total of £860,447 had been received and a further £95,344 was committed but not received.

15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Group	At 31 December 2005	At 31 December 2004
	£	£
Net obligations under hire purchase contracts	64,782	87,392
Bank loan	78,125	140,625
	<u>142,907</u>	<u>228,017</u>

Notes to the Accounts

Bank loan

The bank loan was issued under the Small Firms Loan Guarantee Scheme and £250,000 was drawn down on 17 April 2003. It is being repaid in 48 equal monthly instalments, which commenced in April 2004. The amount outstanding at 31 December 2005 was £140,625 of which £62,500 is shown as falling due within one year (note 14). Interest is payable at 7.6% per annum and the loan is secured by a debenture guaranteeing:

- legal mortgage and first fixed charge over all freehold and leasehold property of the Company together with all plant and machinery from time to time thereon;
- first fixed charge over all book debts now and from time to time owing to the Company; and
- first floating charge over the undertaking and assets of the Company.

16 BORROWINGS

Borrowings are repayable as follows:

Group	At 31 December 2005	At 31 December 2004
	£	£
Convertible Loan Stock		
Within one year	<u>-</u>	<u>860,447</u>
Bank loans		
Within one year	62,500	62,500
After one and within two years	62,500	62,500
After two and within five years	15,625	78,125
	<u>140,625</u>	<u>203,125</u>
Finance leases		
Within one year	91,587	91,103
After one and within two years	41,056	66,309
After two and within five years	23,726	21,083
	<u>156,369</u>	<u>178,495</u>
Employee loans		
Employee loans repayable when funds allow (including interest)	<u>-</u>	<u>13,082</u>

Borrowing facility

An overdraft facility of £200,000 was available at 31 December 2005 (2004: £100,000). The interest rate is 4 per cent. per annum above the Barclays base rate. The amount drawn down on this facility at 31 December 2005 was £nil (2004: £nil). The facility is secured over trade debtors of the Group.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and currency risk. The Directors review and agree policies for managing each of these risks and they are summarised below:

Interest rate risk – the Group finances its operations through a mixture of bank borrowings and leasing. The Group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities. For obligation under a bank loan, the fixed rate interest rate is 7.6%. (2004: 7.6%). For obligation under finances leases, the weighted average fixed interest rate is 9.57% (2004: 16.08%), and the weighted average period for which the rate is fixed is 1.78 years (2004: 2.25 years).

Notes to the Accounts

Liquidity risk – the Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Surplus cash is invested in overnight deposit accounts.

The carrying values of financial instruments represent the fair values of those instruments. At 31 December 2005 the Group owed £140,625 (2004: £203,125) under the bank loan detailed in note 15. In addition the Group also owed £156,369 (2004: £178,495) under ongoing finance lease agreements, which have fixed interest rates.

Currency risk – the Group is exposed to translation and transaction foreign exchange risk primarily from inter company transactions between its UK and US companies. The table below shows the extent to which Group companies have monetary assets and liabilities other than their local currency. Foreign exchange differences on retranslation of those assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

Net foreign currency monetary assets:

	2005	2004
	Sterling	Sterling
	£	£
Functional currency of operation		
US dollar	<u>107,401</u>	<u>1,015</u>

Of the net monetary assets £107,401 relates to intercompany balances

Short-term debtors and creditors are excluded from the above statements, other than currency risk disclosures.

17 DEFERRED TAXATION

No deferred taxation is provided for at 31 December 2005 (2004: nil). Deferred taxation, which has not been provided for in the financial statements, is set out below.

Group	At 31	At 31
	December	December
	2005	2004
	£	£
Accelerated capital allowances	13,640	25
Other timing differences	-	13,989
Tax losses carried forward	<u>1,210,444</u>	<u>777,595</u>
Unprovided deferred tax asset	<u>1,224,084</u>	<u>791,609</u>

The Company had no unprovided deferred tax (see note 7).

18 CALLED UP SHARE CAPITAL

The Group	At 31	At 31
	December	December
	2005	2004
	£	£
Authorised		
2,000,000,000 Ordinary Shares of 0.1p each	<u>2,000,000</u>	<u>2,000,000</u>
Allotted, called up and fully paid		
693,399,909 (2004: 74,193,000 Ordinary Shares of 0.01p each)		
Ordinary Shares of 0.1p each	<u>693,400</u>	<u>74,193</u>

The Company

Notes to the Accounts

Authorised

2,000,000,000 Ordinary Shares of 0.1p each **2,000,000**

Allotted, called up and fully paid

693,399,909 Ordinary Shares of 0.1p each **693,400**

(a) Share for share exchange with NextGen Sciences Limited

- On 7 September 2005, two of the Company's ordinary shares were issued to the subscribers to the Memorandum of Association, Waterloo Nominees Limited and Waterloo Securities Limited
- On 18 November 2005, the subscriber shares were transferred to David Wigley and Anthony Rhatigan respectively in consideration of the assumption of the liability to pay the Company the sum of £1.00
- On 2 December 2005 a written resolution of the members of the Company subdivided the 50,000 ordinary shares of £1.00 each in the Company into 50,000,000 shares of 0.1p each and increased the authorised share capital to 2,000,000 ordinary shares of 0.1p each by the creation of a further 1,950,000,000 ordinary shares of 0.1p each ranking pari passu with the existing ordinary shares. In accordance with merger accounting, the authorised share capital at 31 December 2004 has been restated.
- Pursuant to the Share Exchange Agreement and the Drag Along the holders of 100 percent of the issued share capital of NextGen Sciences Limited transferred their shares in NextGen Sciences Limited in consideration of initial consideration of a total of £613,397.91 to be satisfied by the issue of a total of 613,397,909 Ordinary Shares and the right to receive the Additional Share Exchange Consideration if the performance condition relating thereto is satisfied.

(b) Share Placing

- On 30 December 2005 80,000,000 Placing Shares and Warrants were issued raising an estimated £1.8m after expenses.

(c) Warrants

- The Warrants are exercisable at any time before 31 December 2008. The Warrants that are in issue give the Warrantheolders collectively the right to subscribe for 53,929,164 Ordinary Shares at 3p per share. The Warrants are freely transferable. The Warrants may be exercised in whole or in part at anytime before 31 December 2008.

19 SHARE OPTIONS

Employee

Date of Grant	Expiry Date	Nos. of Options prior to Admission on the LSE	Exercise Price prior to Admission on the LSE	Nos. of Options after Admission on the LSE	Exercise Price after Admission on the LSE
12 Dec.2001	12 Dec.2011	23,833	£3.00	691,157	£0.1034
16 Apr.2003	16 Apr.2013	19,625	£0.01	569,125	£0.0010
16 Apr.2003	16 Apr.2013	10,997	£3.00	318,913	£0.1034
16 Apr.2003	16 Apr.2013	28,000	£3.00	812,000	£0.1034
16 Apr.2003	16 Apr.2013	19,625	£5.00	569,125	£0.1724
3 Feb.2004	3 Feb.2014	2,917	£0.01	84,593	£0.0010
3 Feb.2004	3 Feb.2014	3,719	£8.00	107,851	£0.2759
23 Sep.2004	23 Sep.2014	59,892	£0.80	1,736,868	£0.0276
23 Sep.2004	23 Sep.2014	63,253	£0.80	1,834,337	£0.0276
9 Mar.2005	9 Mar.2015	50,000	£0.80	1,450,000	£0.0276
31 Mar.2005	31 Mar.2010	1,981	£3.00	57,449	£0.1034
6 Jul.2005	6 Jul.2010	1,858,012	£0.01	53,882,348	£0.0010
7 Jul.2005	7 Jul.2010	1,513	£3.00	43,877	£0.1034

Non Employee

Notes to the Accounts

Date of Grant	Expiry Date	Nos. of Options prior to Admission on the LSE	Exercise Price prior to Admission on the LSE	Nos. of Options after Admission on the LSE	Exercise Price after Admission on the LSE
Feb.2004	30 Dec.2007	12,499	£8.00	362,471	£0.2759
Dec.2005	28 Oct.2006	100,000	£0.80	2,900,000	£0.0276
Dec.2003	23 Dec.2005	80,000	£0.01	2,320,000	£0.0010

20 RECONCILIATION OF SHAREHOLDERS FUNDS AND MOVEMENT ON RESERVES

Group	Share Capital	Share premium	Merger reserve	Other reserve	Profit and loss	Total shareholders funds
	£	£	£	£	£	£
At 1 January 2004	10,025	1,900,725	-	80,007	(2,253,941)	(263,184)
Share issue	15,559	1,148,981	-	-	-	1,164,540
Share issue costs	-	(23,163)	-	-	-	(23,163)
Retained loss for the year	-	-	-	-	(2,281,870)	(2,281,870)
Share for share exchange	74,193	-	-	-	-	74,193
Merger adjustment	(25,584)	(3,026,543)	2,977,934	-	-	(74,193)
At 31 December 2004	74,193	-	2,977,934	80,007	(4,535,811)	(1,403,677)
Reclassification of convertible loan stock	-	-	-	860,447	-	860,447
At 1 January 2005 restated	74,193	-	2,977,934	940,454	(4,535,811)	(543,230)
Additional convertible loan stock issued	-	-	-	95,413	-	95,413
Conversion of loan stock to share capital	11,947	943,913	-	(955,860)	-	-
Allotment during the year	173,988	-	-	-	-	173,988
Premium on allotment	-	2,162,507	-	-	-	2,162,507
Share for share exchange	539,205	-	-	-	-	539,205
Proceeds from issue of shares	80,000	2,320,000	-	-	-	2,400,000
Share issue costs	-	(622,567)	-	-	-	(622,567)
Share options awarded at discount to market value	-	-	-	428,496	-	428,496
Merger adjustment	(185,933)	(3,106,420)	2,753,148	-	-	(539,205)
Retained loss for the year	-	-	-	-	(2,479,556)	(2,479,556)
At 31 December 2005	693,400	1,697,433	5,731,082	508,503	(7,015,367)	(1,615,051)
Company	Share Capital	Share premium	Other reserve	Profit and loss	Total shareholders funds	
	£	£	£	£	£	
Share for share exchange	613,400	-	-	-	-	613,400
Proceeds from issue of shares	80,000	2,320,000	-	-	-	2,400,000
Share issue costs	-	(622,567)	-	-	-	(622,567)
Share options awarded at discount to market value	-	-	261,275	-	-	261,275
Transfer Other Reserves from NextGen Sciences Limited	-	-	247,228	-	-	247,228
Retained loss for the year	-	-	-	(252,275)	-	(252,275)
At 31 December 2005	693,400	1,697,433	508,503	(252,275)	2,647,061	

The share for share exchange occurred on 9 December 2005 when the share capital and share premium account of NextGen Sciences Limited amounted to £6,344,480 of which £3,292,353 related to shares issued during the year ended 31 December 2005. The shares issued in the share for share exchange allocated to the year ended 31 December 2004 are based on the number of shares that would have been required to be issued by NextGen Group PLC to acquire all of the shares in NextGen Sciences Limited as of that date.

The shares issued in the share for share exchange allocated to the year ended 31 December 2005 are based on the number of shares that would have been required to be issued by NextGen Group

Notes to the Accounts

PLC to acquire the shares in NextGen Sciences Limited that had been issued by NextGen Sciences Limited during that year.

The merger adjustment for the years ended 31 December 2004 and 31 December 2005 therefore represents the difference between the value of the shares issued in the share for share exchange and the value of shares in NextGen Sciences Limited. This has been allocated based on the shares issued by NextGen Sciences Limited at 31 December 2004 and the shares issued during the year ended 31 December 2005 by NextGen Sciences Limited.

21 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Year ended 31 December 2005	Year ended 31 December 2004
	£	£
Operating loss	(2,663,269)	(2,226,524)
Depreciation	134,827	164,798
Loss on sale of tangible fixed assets	-	376
Share option charge	428,496	-
Decrease/(increase) in stock	95,788	(264,474)
Decrease/(increase) in debtors	63,488	(230,529)
(Decrease)/increase in creditors	(264,277)	1,045,864
Net cash outflow from operating activities	<u>(2,204,947)</u>	<u>(1,510,489)</u>

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Year ended 31 December 2005	Year ended 31 December 2004
	£	£
(Decrease) /increase in cash in the year	(446,558)	590,565
Cash outflow from financing (i.e. debt)	62,500	46,875
Cash inflow from convertible loan stock	(95,413)	(860,447)
Cash inflow from finance leases	90,472	91,348
Change in net debt resulting from cash flows	<u>(388,999)</u>	<u>131,659</u>
Conversion of convertible loan stock	955,860	-
Inception of finance leases	(68,346)	(49,799)
Movement in net debt in the year	<u>887,514</u>	<u>(49,799)</u>
Movement in net debt	<u>498,515</u>	<u>(181,458)</u>
Net debt at start of year	<u>(643,921)</u>	<u>(462,463)</u>
Net debt at end of year	<u>(145,406)</u>	<u>(643,921)</u>

23 ANALYSIS OF CHANGES IN NET DEBT

At 1 January 2005	Cash flow	Non cash items	At 31 December 2005
£	£	£	£

Notes to the Accounts

Cash in hand	598,146	(446,558)	-	151,588
Debts	(203,125)	62,500	-	(140,625)
Convertible loan stock	(860,447)	(95,413)	955,860	-
Finance leases	<u>(178,495)</u>	<u>90,472</u>	<u>(68,346)</u>	<u>(156,369)</u>
	<u>(643,921)</u>	<u>(388,999)</u>	<u>887,514</u>	<u>(145,406)</u>

Major non-cash transactions

During the year, £955,860 of convertible loan stock was converted into 11,947,000 shares.

	At 1 January 2004	Cash flow	Non cash items	At 31 December 2004
	£	£	£	£
Cash in hand	7,581	590,565	-	598,146
Debts (loans etc)	(250,000)	46,875	-	(203,125)
Convertible loan stock	-	(860,447)	-	(860,447)
Finance leases	<u>(220,044)</u>	<u>91,348</u>	<u>(49,799)</u>	<u>(178,495)</u>
	<u>(462,463)</u>	<u>(131,659)</u>	<u>(49,799)</u>	<u>(643,921)</u>

24 CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2005 or 31 December 2004.

25 CONTINGENT LIABILITIES

The Group had no contingent liabilities at 31 December 2005 or 31 December 2004.

26 PENSIONS

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amount to £115,848 (2004: £114,927). Contributions totalling £7,528 (2004: £33,771) were payable to the fund at the period end and are included in creditors.

27 LEASING COMMITMENTS

Operating lease payments amounting to £77,201 (2004: £73,990) are due in the year in respect of the Company's premises at Alconbury and a forklift truck. The leases to which these amounts relate expire as follows:

Notes to the Accounts

	At 31 December 2005		At 31 December 2004	
	Plant & Machinery	Other	Plant & Machinery	Other
	£	£	£	£
In one year or less	-	-	-	-
Between one and five years	2,652	74,549	-	73,990
In five years or more	-	-	-	-
	<u>2,652</u>	<u>74,549</u>	<u>-</u>	<u>73,990</u>

Notice of Annual General Meeting

NextGen Group Plc

Notice is hereby given that an Annual General Meeting of NextGen Group Plc will be held at Seymour Pierce Limited, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL on 28 June 2006 at 10.00am which the following matters will be dealt with:

Ordinary business

To consider and if thought fit pass the following resolutions as ordinary resolutions:

1. That the Directors' Report, the Audited Statement of Accounts and Independent Auditors' Report for the financial period that commenced on the date of incorporation and ended on 31 December 2005 are hereby received and approved.
2. That Patrick Anthony Rhatigan who is retiring in accordance with the Articles of Association of the Group and being eligible be and he is re-elected as a director.
3. That James Gerard Heffernan who is retiring in accordance with the Articles of Association of the Group and being eligible be and he is re-elected as a director.
4. That David John Wigley who is retiring in accordance with the Articles of Association of the Group and being eligible be and he is re-elected as a director.
5. That Frank Matthäi who is retiring in accordance with the Articles of Association of the Group and being eligible be and he is re-elected as a director.
6. That Klaus Gunter Erich Rosenau who is retiring in accordance with the Articles of Association of the Group and being eligible be and he is re-elected as a director.
7. That Kevin O'Donovan who is retiring in accordance with the Articles of Association of the Group and being eligible is offering himself for re-election.
8. That Grant Thornton UK LLP be and are hereby re-appointed as auditors to the Company and that the Directors be and are hereby authorised to determine the auditors' remuneration.

Special business

To consider and if thought fit pass the following resolutions of which the resolutions numbered 9 and 11 will be proposed as ordinary resolutions and the resolution numbered 10 will be proposed as a special resolution:

9. That:
 - a. the Directors shall have unconditional authority to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (as defined in section 80(2) of the Companies Act 1985 (the "Act")) of the Company up to an aggregate nominal amount of £1,303,266.76 to such persons at such times and generally on such terms and conditions as the Directors may determine;
 - b. the authority hereby conferred shall expire at the earlier of the conclusion of the Annual General Meeting of the Company following the passing of this resolution and the date that is 15 months after the passing of this resolution unless previously renewed, varied or revoked save that the Company may prior to such expiry make an offer or agreement which would, or might, require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the power conferred hereby had not expired; and
 - c. the authority hereby conferred shall be in substitution for all previous authorities pursuant to Section 80 of the Act, which are hereby revoked without prejudice to any allotment of securities pursuant thereto.

Notice of Annual General Meeting

10. That subject to the passing of ordinary resolution 9 above, the Directors be and are hereby authorised pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94 of the Companies Act 1985) as if Section 89(1) of the Companies Act 1985 did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:

- a. where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of Ordinary Shares in the capital of the Company and, if in accordance with their rights the Directors so determine, holders of other equity securities of any class, in proportion (as nearly as may be) to their existing holdings of Ordinary Shares or (as the case may be) other equity securities of the class concerned so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such an offer and, failing which, shall be on the basis that their holdings have been converted into or that they had subscribed for Ordinary Shares on the basis then applicable, but subject to the Directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient:
 - i to deal with equity securities representing fractional entitlements; and
 - ii to deal with legal or practical problems under the law of, or the requirements of any recognised regulatory body or stock exchange in, any territory;
- b. the allotment of equity securities up to an aggregate nominal amount of £53,929.16 pursuant to warrants granted by the Company;
- c. the grant or allotment of equity securities up to an aggregate nominal amount of £121,928.32 pursuant to the NextGen Group Plc 2006 Share Option Plan;
- d. the allotment of equity securities up to an aggregate nominal amount of £69,673.33 pursuant to an option agreement with James Heffernan;
- e. the grant or allotment of equity securities of up to an aggregate nominal amount of £5,220.00 pursuant to option agreements with OAR Kommunikations-Und-Outsourcing-Beratungsgesellschaft MBH; and
- f. otherwise than pursuant to paragraphs (a) and (e) above for cash up to aggregate nominal amount of £100,000

and such authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company following the date of the passing of this resolution and the date that is 15 months after the passing of this resolution save that the Company may prior to such expiry make an offer or agreement which would or might require securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if power conferred hereby had not expired.

11. That:

- a. Rule 5.1 of the NextGen Group PLC Share Option Plan 2006 ("the Plan") be and it is hereby deleted and the following be substituted in its place:

"No Option shall in any circumstances be exercisable later than midnight on the day before the tenth anniversary of its Date of Grant and (save to the extent that earlier or lapse is provided for in these rules) at midnight"; and

- b. the grant of any option under the Plan prior to the date of the passing of this resolution which are exercisable later than midnight on the day before the fifth anniversary of their respective dates of grant be and they are hereby approved, confirmed and ratified."

Notice of Annual General Meeting

By Order of the Board

Nigel Raymond Gordon

31 May 2006

Building 56
Alconbury North Airfield
Alconbury
Huntingdon
Cambridgeshire PE28 4DA

Notes

1. The holders of Ordinary Shares in the Company are entitled to attend and to speak at the Annual General Meeting and at any adjournment thereof and to vote on all of the resolutions to be proposed at such meeting.
2. A member is entitled to attend and vote at the meeting (or at any adjournment thereof) on any resolution and is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Group.
3. To be valid, a duly completed Form of Proxy must be deposited, together with the power of attorney or other authority (if any) under which it is signed (or a notarially copy thereof), at the offices of the Company's Registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR so as not to arrive not later than 48 hours before the time fixed for the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used.
4. A white Form of Proxy is attached. Completion and return of a Form of Proxy will not preclude a member from attending and voting in person at the meeting.
5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members of the Company in order to have the right to attend or vote at the meeting is 10.00am on 26 June 2006. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
6. Copies of the Directors' service agreements with the Group and the register of Directors' interests will be available for inspection during normal business hours on each business day at the registered office of the Group from the date of this notice until the date of the meeting and also at the place of the meeting for 15 minutes prior to and during the meeting.

Form of Proxy

NEXTGEN GROUP PLC ANNUAL GENERAL MEETING FORM OF PROXY

I/We
(FULL NAMES IN BLOCK CAPITALS)

of.....

.....
(ADDRESS IN BLOCK CAPITALS)

being member(s) of the above named company, hereby appoint the Chairman of the meeting

or failing him.....as my/our proxy to vote for me/us and my/our behalf at the Annual General Meeting of the Company to be held at Seymour Pierce Limited, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL on 28 June 2006 at 10.00am.

Please indicate with an "X" in the space below how you wish your vote to be cast. If the form is returned without any indication as to how the proxy shall vote on any particular matter the proxy will vote as he or she thinks fit or abstain from voting at his or her discretion.

Signature..... Date.....2006

		For	Against	Vote with held *	Discretio nary **
Ordinary Business					
1.	To receive the director's report and the audited accounts for the period ended 31 December 2005 and the report of the Auditors				
2.	To elect Patrick Anthony Rhatigan as a Director				
3.	To elect James Gerard Heffernan as a Director				
4.	To elect David John Wigley as a Director				
5.	To elect Frank Matthäi as a Director				
6.	To elect Klaus Gunter Erich Rosenau as a Director				
7.	To elect Kevin O'Donovan as a Director				
8.	To re-appoint Grant Thornton UK LLP as auditors of the Group and to authorise the directors to fix their remuneration				

Special Business

9.	To renew the authority pursuant to allot relevant securities pursuant to section 80 of the Companies Act 1985				
10.	To grant authority to the Company to allot shares pursuant to section 95 of the Companies Act 1985				
11.	To amend the Share Option Plan and to ratify the grant of options under that Plan				

* The "Vote withheld" option is to enable you to abstain on any of the specified resolutions. Please note that a "Vote withheld" has no legal effect and will not be counted in the votes "For" and "Against" a resolution.

** If you select "Discretionary" or fail to select any given options, the proxy is authorised to vote (or abstain from voting) at his or her discretion on the specified resolutions. The proxy is also authorised to vote (or abstain from voting) on any other business, which may properly come before the meeting.

Notes

1. If you wish to appoint some other person or persons please insert his/her/their name(s), initial the insertion and strike out the words "the Chairman of the meeting".
2. Unless otherwise instructed above, the proxy will exercise his or her discretion both as to how he or she votes and as to whether or not he or she abstains from voting on any resolutions proposed at the meeting.
3. The proxy covers all shares held by a Member unless the Member indicates otherwise on this form. If more than one proxy is appointed, the number of shares covered by each proxy must be stated.
4. To be valid this form duly signed, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the offices of the registrars no later than 10.00am on 26 June 2006.
5. In the case of a corporation this form must be under its Common Seal or otherwise executed in accordance with Section 36A Companies Act 1985 as amended it must be signed by an officer or attorney duly authorised in writing.
6. Any alterations to this form must be initialled.

7. In the case of joint holders only one need sign but the names of all joint holders must be stated. The vote of the senior bidder who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority shall be determined by the order in which names stand in the register of members

Third fold and tuck in

BUSINESS REPLY SERVICE
Licence No. MB122



Capita Registrars
The Registry
34 Beckenham Road
BECKENHAM
Kent BR3 4BR

First fold

Second fold