

# 1. CONSOLIDATED FINANCIAL STATEMENTS

## 1.1. Consolidated financial statements 2007-2006-2005

### Income statement

<b>Income statement</b>	<b>Note</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
'000 of € / year ended 31 December				
<b>Revenues</b>		<b>7,877</b>	<b>9,307</b>	<b>10,917</b>
Research and development services	1	5,657	6,827	9,397
Sales of goods	1	338	-	-
Government grant income	1	1,881	2,480	1,520
Cost of goods sold	1	(390)	-	-
<b>Gross profit</b>		<b>7,487</b>	<b>9,307</b>	<b>10,917</b>
Marketing and distribution expenses	2	(91)	-	-
Research and development expenses	3	(17,338)	(14,810)	(11,373)
General and administrative expenses	4	(5,241)	(4,657)	(3,206)
Other operating income	5	278	430	281
<b>Operating profit / (loss)</b>		<b>(14,905)</b>	<b>(9,730)</b>	<b>(3,381)</b>
Financial income	6	1,839	843	513
Financial expense	7	(808)	(603)	(624)
<b>Profit / (Loss) before taxes</b>		<b>(13,874)</b>	<b>(9,490)</b>	<b>(3,492)</b>
Income taxes	10	-	-	-
<b>Profit / (loss) for the year</b>		<b>(13,874)</b>	<b>(9,490)</b>	<b>(3,492)</b>
<b>Losses per share</b>	32			
Basic		(0.83)	(0.64)	(0.28)
Diluted		(0.82)	(0.62)	(0.27)

**Balance sheet**

<b>Consolidated balance sheet</b>	<b>Note</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
'000 of € / year ended 31 December				
<b>ASSETS</b>				
Goodwill	12	7,611	-	-
Intangible assets	13	9,353	135	194
Property plant and equipment	14	2,546	1,736	1,267
Building held under lease	14	7,122	7,351	7,580
Investment property	15	1,245	1,285	1,325
Deferred tax assets	25	-	-	-
Cash restricted in its use		4,980	1,820	1,960
Other long term receivables		196	-	-
<b>Non-current assets</b>		<b>33,053</b>	<b>12,327</b>	<b>12,326</b>
Inventory	16	2,518	-	-
Biological assets	17	38	-	-
Grants receivables	18	1,547	2,129	988
Trade receivables	19	2,429	1,972	868
Prepaid expenses and other current assets	20	2,416	1,395	1,295
Available-for-sale financial assets	21	5,029	-	-
Cash and cash equivalents	22	33,854	21,960	32,918
<b>Current assets</b>		<b>47,831</b>	<b>27,456</b>	<b>36,069</b>
<b>Total assets</b>		<b>80,884</b>	<b>39,783</b>	<b>48,395</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	26	1,339	1,129	1,107
Share premium Account	26	88,202	39,368	38,584
Translation reserves		31	(22)	2
Share-based payment	27	2,711	968	194
Accumulated losses		(27,498)	(13,624)	(4,134)
<b>Equity attributable to equity holders of the parent</b>		<b>64,786</b>	<b>27,819</b>	<b>35,753</b>
<b>Total equity</b>		<b>64,786</b>	<b>27,819</b>	<b>35,753</b>
Provisions		24	10	10
Long term debt	24	379	371	526
Long term lease debt	24	7,356	7,650	7,927
<b>Non-current liabilities</b>		<b>7,759</b>	<b>8,031</b>	<b>8,463</b>
Current portion of long term debt	24	388	416	585
Current portion of lease building	24	294	277	260
Short term debt	24	2,735	-	-
Trade payables	23	2,687	2,338	1,274
Current tax liabilities	30	140	0	0
Other current Liabilities	23	2,095	902	2,060
<b>Current liabilities</b>		<b>8,339</b>	<b>3,933</b>	<b>4,179</b>
<b>Total equity and liabilities</b>		<b>80,884</b>	<b>39,783</b>	<b>48,395</b>

**Cash flow statement**

<b>Cash flow statement</b>	<b>Note</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
'000 of € / year ended 31 December				
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Cash used in operations	11	(12,670)	(10,382)	(5,571)
Interest paid		(613)	(571)	(588)
<b>Net cash provided by (used in) operating activities</b>		<b>(13,283)</b>	<b>(10,953)</b>	<b>(6,159)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment		(1,052)	(1,204)	(666)
Purchases of intangible assets		0	0	(218)
Proceeds sales of property plant and equipment		13	1	-
Interest received		1,797	836	509
Acquisition of a business	30	(18,950)	-	-
Financial assets held for trading		(5,029)	-	-
<b>Net cash provided by (used in) investing activities</b>		<b>(23,220)</b>	<b>(367)</b>	<b>(375)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of long term debt		398	285	600
Proceeds from issuance of short term debt		2,732		
Capital increase		49,127	806	31,781
Principal payments debt		(694)	(869)	(1,624)
<b>Net cash provided by (used in) financing activities</b>		<b>51,563</b>	<b>222</b>	<b>30,757</b>
Net effect of currency translation on cash and cash equivalents		(6)		
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(15,054)</b>	<b>(11,098)</b>	<b>24,223</b>
<b>Cash and cash equivalents, beginning of period <sup>(1)</sup></b>		<b>23,780</b>	<b>34,878</b>	<b>10,655</b>
<b>Cash and cash equivalents, end of period <sup>(1)</sup></b>	22	<b>38,834</b>	<b>23,780</b>	<b>34,878</b>

(1) Balance includes cash restricted in its use classified as non-current assets.

**Consolidated statement of changes in shareholders' equity**

	Preferred stock		Common stock		Issuance premium	Accumulated profit (loss)	Share-based compensation	Cumulative translation adjustment	Total
	Shares	Carrying value	Shares	Carrying value					
Balance at 31 Dec. 2004	25,724,515	643	3,865,680	97	9,911	(3,383)	61	(17)	7,312
Net loss 2005						(3,491)			
Capital increase through incorporation of issue premium				2,740	(2,740)				
Capital decrease through incorporation of retained losses				(2,740)		2,740			
Reverse stock split	(25,724,515)	(643)	(3,865,680)	643					
Capital increase IPO			14,361,964	337	30,661				
Share-based payment							133		
Translation differences								19	
Capital increase through exercise of warrants			400,830	30	752				
Balance at 31 Dec. 2005	0	0	14,762,794	1,107	38,584	(4,134)	194	2	35,753
Net loss 2006						(9,490)			
Capital increase through exercise of warrants			295,508	22	784				
Share-based payment							775		
Translation differences								(24)	
Balance at 31 Dec. 2006	0	0	15,058,302	1,129	39,368	(13,624)	968	(22)	27,819
Net loss 2007						(13,874)			
Capital increases through issue of new shares			2,551,229	191	47,940				
Capital increases through exercise of warrants			246,820	19	894				
Share-based payment							1,743		
Translation differences								53	
Balance at 31 Dec. 2007	0	0	17,856,351	1,339	88,202	(27,498)	2,711	31	64,786

## 1.2. Accounting principles

The principal accounting policies adopted when preparing these consolidated financial statements are set out below.

### Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are presented in Euro.

These consolidated financial statements have been approved for issue by the board of directors on March 11, 2008.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

The consolidated financial statements have been established assuming the company in going concern. The company has generated losses since its incorporation, which is inherent to the current stage of Devgen's business life cycle as a biotech company. Sufficient funds have been raised since its incorporation in order to finance the cash needs of its operations. Since the company is currently able to satisfy all financial liabilities and is able to fulfill all payments, the board of directors believes that the continuity of the company is not threatened. Based on the current cash availability and anticipated revenues, the board of directors believes that the future of the research programs can be guaranteed at least for the following 24 months.

### Standards and interpretations effective and issued

In the current year, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 and the change to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue:

#### **Became applicable for 2007**

- IFRS 7 *Financial Instruments: Disclosures* (applicable for accounting years beginning on or after 1 January 2007)
- IAS 1 *Presentation of Financial Statements - Amendment - Capital Disclosures* (applicable for accounting years beginning on or after 1 January 2007)
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (applicable for accounting years beginning on or after 1 March 2006)
- IFRIC 8 *Scope of IFRS 2* (applicable for accounting years beginning on or after 1 May, 2006)
- IFRIC 9 *Reassessment of Embedded Derivatives* (applicable for accounting years beginning on or after 1 June 2006)
- IFRIC 10 *Interim Financial Reporting and Impairment* (applicable for accounting years beginning on or after 1 November 2006)

**Issued but not yet effective**

- IAS 1 Presentation of Financial Statements (annual periods beginning on or after 1 January 2009). This Standard replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005.
- Amendment to IAS 27 Consolidated and Separate Financial Statements (applicable for annual periods beginning on or after 1 July 2009). This Standard amends IAS 27 Consolidated and Separate Financial Statements (revised 2003).
- Amendment to IFRS 2 Vesting Conditions and Cancellations (applicable for annual periods beginning on or after 1 January 2009).
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation (annual periods beginning on or after 1 January 2009).
- IFRS 3 Business Combinations (applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). This Standard replaces IFRS Business Combinations as issued in 2004.
- IFRS 8 Operating Segments (applicable for accounting years beginning on or after 1 January 2009)
- Amendment to IAS 23 Borrowing Costs (applicable for accounting years beginning on or after 1 January 2009)
- IFRIC 11 IFRS 2 Group and Treasury share Transactions (applicable for accounting years beginning on or after 1 March 2007)
- IFRIC 12 Service Concession Arrangements (applicable for accounting years beginning on or after 1 January 2008)
- IFRIC 13 Customer Loyalty Programmes (applicable for accounting years beginning on or after 1 July 2008)
- IFRIC 14 'IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction' (applicable for accounting years beginning on or after 1 January 2008)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group in the period of initial application.

**Accounting policies****Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries. Per 31 December 2007, Devgen NV has five fully owned subsidiaries:

- (1) Devgen Pte Ltd in Singapore, incorporated on February 26, 2004
- (2) Devgen Seeds and Crop Protection Pvt Ltd in India, incorporated on March 28, 2007
- (3) Biodev NV in Belgium, incorporated on November 8, 2007
- (4) Devgen US Inc, incorporated on November 29, 2007
- (5) Devgen Pakistan Pte Ltd, incorporated on December 12, 2007

The results of its subsidiaries are included in the consolidated income statement from the effective date of incorporation. Where necessary, adjustments are made to the financial statements of the subsidiary to bring the accounting policies used in line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

## **Foreign currency translation**

### ***Functional and presentation currency***

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The consolidated financial statements are presented in euro, which is the company's presentation currency.

### ***Transactions and balances***

Transactions in currencies other than euro are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognized as income or as expense in the period in which the operation is disposed of.

## **Business combinations**

Acquisition of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (as per the date of exchange) of assets given, liabilities incurred or assumed, and equity instrument issued by the Group in exchange for control of the acquired subsidiaries and businesses, plus any costs directly attributable to the business combination. The acquired subsidiaries and businesses' identifiable assets, liabilities and contingent liabilities that meet the condition for recognition under IFRS 3 *Business Combinations* are recognized at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

## **Revenue recognition**

### ***Revenue derived from research collaboration agreements***

A substantial part of the company's revenues have been derived from research collaboration agreements. Pursuant to such collaborations, the group agrees to conduct research projects, as defined in the contract. Most of these agreements provide for up front fees for technology access fees, license fees, research & development payments and significant milestone and royalty payments.

- R&D payments are recognized as revenue over the life of the research agreement as the required services are provided and costs are incurred. These services are usually in the form of a defined number of the company's full-time equivalents (FTE) at a specified rate per FTE.
- Technology access and license fees related to research conducted will be recognized as revenue over the expected term of the customer relationship under the terms of the agreement.
- Milestone payments are recognized as revenue when the amount of the milestone payment is determinable and the earnings process relative to the milestone has been fully completed.
- Royalties will be generated by the sales of products incorporating the group's proprietary technology. Royalties are recognized once the amounts due can be reliably estimated based on the sale of the

underlying products and when collect ability is assured. Where there is insufficient historical data on sales and returns to fulfill these requirements, the royalties will not be recognized until the group can reliably estimate the underlying sales. This may be considerably later than when payment is received if subsequent adjustments for product returns are possible under the terms of the relevant contract. In situations where there is adequate financial information on sales, royalties are recorded based on the reports received from the licensee or based on estimated sales if the information has not been received.

Deferred revenue represents amounts received prior to revenue being earned.

### ***Sale of goods***

The revenue in the seed business is substantially all related to the sale of goods. Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is reported net of sales taxes, returns, discounts and rebates. Rebates to customers are provided for in the same period that the related sales are recorded based on the contract terms. Provisions for estimated returns and allowances are recorded at the time of the sale based on historical rates of returns as a percentage of sales.

Devgen periodically enters into prepayment contracts with customers and receives advance payments for goods to be delivered in future periods. These advance payments are recorded as liabilities and presented as part of trade accounts payable. Revenue associated with advance payments is recognized only from the moment that shipments are made and title, ownership, and risk of loss pass to the customer.

### ***Grants***

#### ***Research grants***

On certain specific research projects, the research costs incurred are partially reimbursed by IWT (Institute for the Promotion of Innovation by Science and Technology in Flanders) or EDB (Economic Development Board, Singapore). These grants are recognized under government grant income when there is a reasonable assurance the group will comply with the conditions attached to them and the grants will be received. The group considers the overall recognition criteria being met when an award letter has been received, the related project costs have been incurred, and grant specific milestones have been achieved or are assumed to be reliably achieved in the future.

#### ***Investment grants***

Grants from the Flemish Government relating to investments in property, plant and equipment and intangible assets are recognized when there is a reasonable assurance Devgen will comply with the conditions attached to them and the grant will be received. These grants are presented as a decrease in the cost of the related asset. Any outstanding receivables related to these grants are recorded under "grants receivable".

### **Property, plant and equipment**

Property, plant and equipment are carried at historical costs less accumulated depreciation and impairment. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains and losses on disposals of property, plant and equipment are included in other income or expense.

Depreciation is calculated using the straight-line method to allocate the cost of property, plant and equipment to their estimated residual values over their estimated useful lives as follows:

Buildings	15 years
Equipment	3 to 5 years
Hard and software	3 years
Furniture	5 years
Computer equipment under leasing	3 years
Leasehold improvements	in line with the term of the rental agreement
Vehicles	5 years

#### **Investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its historical costs less accumulated depreciation and impairment.

#### **Intangible assets**

##### **Internally-generated intangible assets**

Research expenses are charged to the income statement as incurred.

An internally generated intangible asset arising from the group's development is recognized only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortized on a straight-line basis over their useful lives. When no internally generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred.

The group considers that the regulatory, clinical or field trial risks inherent to the development of its products preclude it from capitalizing development costs.

As no internally generated intangible asset arising from the group's development is recognized, all costs incurred to protect certain know-how of Devgen are expensed as incurred.

##### **Purchased intangible assets**

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of three years.

Acquired knowledge in the form of licenses is recorded at cost less accumulated amortization and impairment. It is amortized over the shorter of the term of the license agreement and its estimated useful life.

##### **Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

##### **Goodwill**

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identified assets, liabilities and contingent

liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating or business units expected to benefit from the synergies of the business combination. Cash-generating or business units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating or business unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

## **Leases**

Leases are classified as financial leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### ***The group as lessee***

Assets held under financial leases are initially recognized as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. Initial direct costs incurred in connection with the lease are added to the amount recognized as an asset. The corresponding liability to the lessor is included in the balance sheet as a financial obligation. Lease payments are apportioned between financial charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financial charges are charged directly against income. If there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. Rentals payable under operating leases are charged to income on a straight-line basis over the relevant lease term.

### ***The group as lessor***

Lease income from operating leases shall be recognized as income on a straight-line basis over the lease term. Initial direct costs incurred by the lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

## **Inventory**

Purchased products are valued at acquisition cost, while own-produced products are valued at manufacturing cost including appropriate portion of fixed and variable overhead expenses.

In the balance sheet, inventory is valued at historical cost determined on a first-in-first-out basis, and this value is used for the cost of goods sold in the income statement.

Allowances have been made for inventories with a net realizable value less than cost, or which are slow moving. Unsalable inventory has been fully written off.

### ***Biological assets***

Inventories of biological assets, principally young plants and cuttings in the seeds flowers business, are valued at fair value less estimated point of sale costs.

### ***Non-current assets held for sale***

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and the fair value less costs to sell.

### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### **Income taxes**

Income tax expense represents the sum of the tax currently payable and the deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted on the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Investment deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

### **Provisions**

Provisions are recognized when the group has a present obligation (legal or constructive). As a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

## **Pension benefit plans**

### ***Pension obligations***

The group offers various pension schemes. The schemes are generally funded through payments to insurance companies. The major part of the pension obligations are defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The company also has some defined benefit plans for gratuity available only for employees with a seniority of minimum five years.

### ***Share-based compensation***

The group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the warrants is recognized as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the warrants granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market based vesting conditions are included in assumptions about the number of warrants that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of warrants that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (par value) and share premium when the warrants are exercised.

## **Financial instruments**

Financial assets and financial liabilities are recognized on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

### ***Loans and receivables***

Loans and receivables are initially recognized at their fair value plus transaction costs that are directly attributable to the acquisition of the loans and receivables. Subsequent to initial recognition loans and receivables are recognized at amortized cost using the effective interest method less any impairment losses.

### ***Available for sale financial assets***

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being available for sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in the profit or loss for the period.

### ***Financial liability and equity***

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 after deducting all of its liabilities.

### ***Bank borrowings***

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Financial charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are

added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**Trade payables**

Trade payables are not interest bearing and are stated at their nominal value.

**Equity instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The company has no derivative financial instruments to hedge interest rate and foreign currency risks.

**Impairment of assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For unlisted shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available for sale and finance lease receivables, objective evidence of impairment could include: significant financial difficulty of the issuer or counterparty; default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Earnings per share**

Basic net profit (loss) per share is computed based on the weighted average number of ordinary shares outstanding during the period.

Diluted net profit (loss) per share is computed based on the weighted-average number of ordinary shares outstanding including the dilutive effect of warrants.

The profit or loss attributable to the parent entity is adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

Ordinary shares should be treated as dilutive when their conversion to ordinary shares would decrease the net earnings per share from continuing ordinary operations.

### **Accounting for share-based payment transactions with parties other than employees**

For equity-settled share-based payment transactions with parties other than employees, the group measures the goods or services received, and the corresponding increase in equity, directly at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. In that case, goods or services received are measured at the fair value of the equity instruments granted.

## **1.3. Notes to consolidated financial statements for 2007**

### **1.3.1 Note 1: Segment reporting**

For management purposes, the group is currently organized into two operating business units: Devgen Crop Protection and Devgen Human Therapeutics. These business units are the basis on which the group reports its primary segment information. Devgen Pte Ltd (Singapore), Devgen Seeds and Crop Technology Pvt Ltd (India), Devgen US Inc (USA) and Devgen Seeds Pakistan Pte Ltd (Pakistan) are an integral part of Devgen Crop Protection. Biodev NV (Belgium) is an integral part of Human Therapeutics.

Principal activities are as follows:

- Crop protection: research and development in the agrochemical and the biotech crop area, research and development, sales, distribution and marketing in the crop seeds area.
- Human therapeutics: research and development in the pharmaceutical area

2007 ('000 of €)	Total	Crop Protection	Human therapeutics	Not allocated
<b>Revenues</b>	<b>7,877</b>	<b>7,284</b>	<b>593</b>	
Research and development services	5,657	5,657		
Sales of goods	338	338		
Government grant income	1,881	1,288	593	
Cost of goods sold	(390)	(390)		
<b>Gross profit</b>	<b>7,487</b>	<b>6,894</b>	<b>593</b>	
Marketing and distribution expenses	(91)	(91)		
Research and development expenses	(17,338)	(10,237)	(7,101)	
General, administrative and selling expenses	(5,241)	(143)	(1)	(5,097)
Other operating income	278	60	116	102
<b>Operating profit / (loss)</b>	<b>(14,905)</b>	<b>(3,517)</b>	<b>(6,393)</b>	<b>(4,995)</b>
Financial income	1,839	1		1,838
Financial expense	(808)	(60)		(748)
<b>Profit / (loss) before taxes</b>	<b>(13,874)</b>	<b>(3,576)</b>	<b>(6,393)</b>	<b>(3,905)</b>
Income taxes				
<b>Net profit / (loss)</b>	<b>(13,874)</b>	<b>(3,576)</b>	<b>(6,393)</b>	<b>(3,905)</b>

2006 ('000 of €)	Total	Crop Protection	Human therapeutics	Not allocated
<b>Revenues</b>	<b>9,307</b>	<b>8,859</b>	<b>448</b>	
Research and development services	6,827	6,827		
Government grant income	2,480	2,032	448	
Research and development expense	(14,810)	(9,230)	(5,580)	
General, administrative and selling expenses	(4,657)			(4,657)
Other operating income	430			430
<b>Operating profit / (loss)</b>	<b>(9,730)</b>	<b>(605)</b>	<b>(5,132)</b>	<b>(3,993)</b>
Financial income	843			843
Financial expense	(603)			(603)
<b>Profit / (loss) before taxes</b>	<b>(9,490)</b>	<b>(605)</b>	<b>(5,132)</b>	<b>(3,753)</b>
Income taxes	-	-	-	-
<b>Net profit / (loss)</b>	<b>(9,490)</b>	<b>(605)</b>	<b>(5,132)</b>	<b>(3,753)</b>

2005 ('000 of €)	Total	Crop Protection	Human therapeutics	Not allocated
<b>Revenues</b>	<b>10,917</b>	<b>10,366</b>	<b>551</b>	
Research and development services	9,397	9,397		
Government grant income	1,520	969	551	
Research and development expense	(11,373)	(6,824)	(4,549)	
General, administrative and selling expenses	(3,206)			(3,206)
Other operating income	281			281
<b>Operating profit / (loss)</b>	<b>(3,381)</b>	<b>3,542</b>	<b>(3,998)</b>	<b>(2,925)</b>
Financial income	513			513
Financial expense	(624)			(624)
<b>Profit / (loss) before taxes</b>	<b>(3,492)</b>			
Income taxes	-			
<b>Net profit / (loss)</b>	<b>(3,492)</b>			

2007 ('000 of €)	Crop Protection	Human therapeutics	Not allocated	Total
Segment assets <sup>(*)</sup>	25,422	950	54,512	<b>80,884</b>
Segment liabilities	5,833	829	9,436	<b>16,098</b>
2006 ('000 of €)	Crop Protection	Human therapeutics	Not allocated	Total
Segment assets <sup>(*)</sup>	4,044	742	34,997	<b>39,783</b>
Segment liabilities	365	216	11,383	<b>11,964</b>
2005 ('000 of €)	Crop Protection	Human therapeutics	Not allocated	Total
Segment assets <sup>(*)</sup>	1,387	276	46,732	<b>48,395</b>
Segment liabilities	1,405	237	11,000	<b>12,642</b>

*(\*)The majority of the property, plant and equipment in Belgium is used by both business units. Management considered these items as corporate assets for which no reasonable allocation can be made to the underlying business units.*

### Geographical Segments

Revenues according to geographic area were as follows:

('000 of €)	2007	2006	2005
Belgium	1,881	2,128	1,520
United States	2,831	3,849	5,964
Japan	2,827	2,978	3,433
Singapore	-	352	-
India	119	-	-
Pakistan	219	-	-
<b>Total</b>	<b>7,877</b>	<b>9,307</b>	<b>10,917</b>

Revenues are attributed to countries based on location of customer or grant institution.

#### 1.3.2 Note 2: Marketing and distribution expenses

('000 of €)	2007	2006	2005
Staff costs	43	-	-
Marketing	28	-	-
Distribution	4	-	-
Facilities	11	-	-
Corporate expenses	5	-	-
<b>Subtotal</b>	<b>91</b>	-	-
Depreciation and amortization	-	-	-
<b>Total marketing and distribution expenses</b>	<b>91</b>	-	-

#### 1.3.3 Note 3: Research and development expenses

('000 of €)	2007	2006	2005
Staff costs	6,291	5,713	5,498
Share based payment	254	305	133
Laboratory expenses	1,212	1,362	1,353
Outsourcing	5,698	4,360	1,729
Patent expenses	794	481	304
License expenses	38	308	216
Facilities	1,086	850	698
External advice	92	82	70
Corporate expenses	678	408	345
<b>Subtotal</b>	<b>16,143</b>	<b>13,869</b>	<b>10,346</b>
Depreciation and amortization	1,195	941	1,027
<b>Total research and development expenses</b>	<b>17,338</b>	<b>14,810</b>	<b>11,373</b>

**1.3.4 Note 4: General and administrative expenses**

('000 of €)	2007	2006	2005
Staff costs	2,521	2,694	2,071
Share based payment	1,489	470	-
Facilities	210	209	166
External advice	592	711	427
Corporate expenses	319	455	432
<b>Subtotal</b>	<b>5,131</b>	<b>4,540</b>	<b>3,096</b>
Depreciation and amortization	110	117	110
<b>Total general and administrative expenses</b>	<b>5,241</b>	<b>4,657</b>	<b>3,206</b>

**1.3.5 Note 5: Other operating income**

('000 of €)	2007	2006	2005
Rent income	173	172	166
Other operating income	105	258	115
<b>Total other operating income</b>	<b>278</b>	<b>430</b>	<b>281</b>

**1.3.6 Note 6: Financial income**

('000 of €)	2007	2006	2005
Interest income on financial assets	1,797	836	509
Other financial income	42	7	4
<b>Total</b>	<b>1,839</b>	<b>843</b>	<b>513</b>

**1.3.7 Note 7: Financial expenses**

('000 of €)	2007	2006	2005
Interest charges on financial liabilities	601	563	578
Other financial expenses	207	40	46
<b>Total</b>	<b>808</b>	<b>603</b>	<b>624</b>

**1.3.8 Note 8: Employee benefits**

('000 of €)	2007	2006	2005
Wages, salaries and bonuses	6,085	5,373	5,403
Social security costs	1,459	1,361	1,239
Share based compensation expense	1,621	578	95
Pension costs – defined contribution plans	330	334	305
Other	1		
<b>Total employee benefit costs</b>	<b>9,496</b>	<b>7,646</b>	<b>7,042</b>
Share warrants granted (in '000 of number)	294	117	175

The company has various defined contribution plans, some available to substantially all employees, some only available to a selected group of employees. Employees contribute from 0% up to 12% of their annual compensation while the company contributes from 4% up to 15% of the employees' annual compensation. The company also has some defined benefit plans for gratuity available only for employees with a seniority of minimum five years.

The number of average full time equivalents was (executive directors included):

In numbers	2007	2006	2005
Executive directors	2	2	2
R&D, Marketing and distribution	85	82	74
General and administrative staff	24	21	18
<b>Total average full time equivalents</b>	<b>111</b>	<b>105</b>	<b>94</b>

### 1.3.9 Note 9: Operating leases

('000 of €)	2007	2006	2005
Lease payments recognized as an expense (as lessee)	304	284	250
Lease payments recognized as income (as lessor)	173	171	166

### 1.3.10 Note 10: Income Taxes

('000 of €)	2007	2006	2005
Current taxes	0	0	0
Deferred taxes (see note 25)	0	0	0
<b>Total income taxes</b>	<b>0</b>	<b>0</b>	<b>0</b>

A reconciliation setting forth the difference between the expected income tax of the group and the actual tax charge is as follows:

('000 of €)	2007	2006	2005
Expected income tax credit, computed by applying the statutory tax rate to the book loss	(4,716)	(3,226)	(1,184)
Effect of tax incentives	(1,134)	(414)	0
Tax effects of costs directly recognized against equity under IFRS	(494)	0	(931)
Non recognized deferred tax assets on tax loss carry forward	5,852	2,953	2,270
Effect of expenses that are not deductible in determining taxable profit	700	329	111
Other	(208)	358	(266)
<b>Effective income taxes</b>	<b>0</b>	<b>0</b>	<b>0</b>

**1.3.11 Note 11: Cash used in operations**

('000 of €)	2007	2006	2005
Net loss	(13,874)	(9,490)	(3,492)
Adjustments for:			
Income taxes	-	-	-
Depreciation of intangible assets	304	55	44
Depreciation of property, plant and equipment	1,013	1,003	1,104
Profit / (loss) disposal on property, plant and equipment	-	-	-
Shared based payment expense	1,743	775	133
Interest expense	615	571	588
Interest income	(1,797)	(836)	(509)
Net movement in provisions	4	-	-
Net movement trade and other receivables	(1,244)	(2,342)	(1,416)
Net movement trade and other payables	418	(94)	(2,041)
Rental deposit	(4)	(3)	(2)
Net movement in inventory and biological assets	(222)		
Other	374	(21)	20
<b>Cash used in operations</b>	<b>(12,670)</b>	<b>(10,382)</b>	<b>(5,571)</b>

**1.3.12 Note 12: Goodwill**

('000 of €)	Goodwill
<b>At 31 December 2006</b>	
Cost	0
Accumulated impairments	0
Net carrying amount	0
<b>Year ended 31 December 2007</b>	
Recognized on business combination during the year	7,611
Impairment loss for the year	0
Exchange differences	0
Eliminated on disposal of a subsidiary	0
<b>At 31 December 2007</b>	
Cost	7,611
Accumulated impairment losses	0
Net carrying amount	7,611

The goodwill at 31 December 2007 amounted to 7,611 ('000) EUR (as compared to zero in 2006) and was integrally related to a business acquisition (see note 30).

The goodwill is allocated for impairment testing purposes to the crop protection unit. No impairment was recognized in 2007.

**1.3.13 Note 13: Intangible Assets**

('000 of €)	Licenses	Technical know-how	Trademarks	Dealer relationship	Other	Total
<b>At 1 January 2005</b>						
Cost	311					311
Accumulated depreciations	(291)					(291)
Net carrying amount	20					20
<b>Year ended 31 December 2005</b>						
Additions	218					218
Disposals	(35)					(35)
Movements from other category	0					0
Depreciation charge	(9)					(9)
Net carrying amount	194					194
<b>At 31 December 2005</b>						
Cost	529					529
Accumulated depreciations	(335)					(335)
Net carrying amount	194					194
<b>Year ended 31 December 2006</b>						
Additions	0					0
Disposals	0					0
Movements from other category	0					0
Depreciation charge	(55)					(55)
Net carrying amount	(135)					(135)
<b>At 31 December 2006</b>						
Cost	522					522
Accumulated depreciations	(387)					(387)
Net carrying amount	135					135
<b>Year ended 31 December 2007</b>						
Additions	0					0
Acquired through business acquisition	0	4.357	1.852	1.703	1.611	9.523
Disposals	(8)	0	0	0	0	(8)
Movements from other category	0	0	0	0	0	0
Depreciation charge	(49)	(73)	(33)	(109)	(32)	(296)
Net carrying amount	78	4.284	1.819	1.594	1.579	9,354
<b>At 31 December 2007</b>						
Cost	514	4.357	1.852	1.703	1.611	10,037
Accumulated depreciations	(436)	(73)	(33)	(109)	(32)	(683)
Net carrying amount	78	4.284	1.819	1.594	1.579	9,354

The intangible assets at 31 December 2007 amounted to 9,354 ('000) EUR (as compared to 135 ('000) EUR in 2006), comprising an amount of 9,276 ('000) of intellectual property rights integrally related to a business acquisition (see note 30).

Per 31 December 2007, the material individual intangible assets are (in '000 EUR):

- Technical know how	4,319
- Technical know how sublicenses	38
- Trademarks	1,840
- Trademark licenses	12
- Dealer relationship	1,703
- Vendor relationship	928
- Non compete fees	338
- Copyrights	295
- Licenses	49

No intangibles are restricted or pledged or classified as held for sale.

Per 31 December 2007, the most important intangible assets of the Group consist of the following categories with their respective useful lifetimes as used for the amortization:

- Technical know how	10 years
- Technical know how sublicense	10 years
- Trademarks	10 years
- Dealer relationship	1 to 3 years
- Vendor relationship	10 years
- Non compete fees	5 years
- Copyrights	10 years
- Licenses	10 years
- Trademark in license	1 year

The amortization of intangible assets is included in the research and development expense line of the income statement.

**1.3.14 Note 14: Property, plant and equipment**

('000 of €)	Building Under lease	Equipment	Hard & Software	Furniture	Vehicles	Computer Equipment under leasing	Leasehold Improvements	Assets under construction	Total
<b>At 1 January 2005</b>									
Cost	8,000	5,856	1,062	521	125	673	1,170		17,407
Accumulated depreciation	(193)	(5,092)	(955)	(404)	(122)	(353)	(1,043)		(8,162)
Net carrying amount	7,807	764	107	117	3	320	127		9,245
<b>Year ended 31 December 2005</b>									
Additions		326	14	22			284		646
Disposals		(6)	(65)		(3)	(3)	(3)		(80)
Movements from other category			(1)	1					
Depreciation charge	(227)	(522)	(70)	(51)		(193)	24		(1,128)
Net carrying amount	7,580	562	108	89	0	124	384		8,847
<b>At 31 December 2005</b>									
Cost	8,000	6,182	1,269	543	1	480	414		16,889
Accumulated depreciation	(420)	(5,620)	(1,161)	(454)	(1)	(356)	(30)		(8,042)
Net carrying amount	7,580	562	108	89	0	124	384		8,847
<b>Year ended 31 December 2006</b>									
Additions		654	4	48	6	285	207		1,204
Disposals									0
Movements from other category									0
Depreciation charge	(229)	(445)	(56)	(39)	(1)	(156)	(37)		(963)
Net carrying amount	7,351	771	56	98	5	253	555		9,089
<b>At 31 December 2006</b>									
Cost	8,000	6,836	1,273	591	7	765	621		18,094
Accumulated depreciation	(649)	(6,065)	(1,217)	(493)	(2)	(512)	(67)		(9,005)
Net carrying amount	7,351	771	56	98	5	253	555		9,089
<b>Year ended 31 December 2007</b>									
Additions		208	137	15	58	398	102	135	1,053
Acquired through business acquisition		470	8	3	20				501
Disposals		(52)							(52)
Movements from other category									
Depreciation charge	(229)	(370)	(56)	(35)	(12)	(167)	(51)	(0)	(921)
Net carrying amount	7,122	1,026	145	81	71	484	605	135	9,669
<b>At 31 December 2007</b>									
Cost	8,000	7,462	1,418	609	85	1,163	723	135	19,595
Accumulated depreciation	(878)	(6,436)	(1,273)	(528)	(14)	(679)	(118)	(0)	(9,926)
Net carrying amount	7,122	1,026	145	81	71	484	605	135	9,669

The property, plant and equipment at 31 December 2007 amounted to 9,669 ('000) EUR (as compared to 9,089 ('000) EUR in 2006), comprising an amount of 484 ('000) EUR integrally related to a business acquisition (see note 30).

No property, plant and equipment have been classified as held for sale.

The bank borrowing for the building is secured with the building. Vehicles and computer equipment under leasing are secured with their underlying assets.

**1.3.15 Note 15: Investment property**

('000 of €) / at 1 January	2007	2006	2005
Cost	1,400	1,400	1,400
Accumulated depreciation	(155)	(115)	(75)
<b>Net carrying amount</b>	<b>1,245</b>	<b>1,285</b>	<b>1,325</b>
Rental income recognized	171	171	166
<b>Fair value</b>	<b>1,125</b>	<b>1,125</b>	<b>1,125</b>

The investment property at 31 December 2007 amounted to 1,245 ('000) EUR (as compared to 1,285 ('000) in 2006). No investment property has been classified as held for sale.

**1.3.16 Note 16: Inventory**

('000 of €)	2007	2006	2005
Raw materials and auxiliaries	463	0	0
Work in progress	652	0	0
Finished goods	1,403	0	0
<b>Total inventory</b>	<b>2,518</b>	<b>0</b>	<b>0</b>

Costs of inventory recognized as an expense during the period ('000 of €)	2007	2006	2005
Costs of goods sold	390	0	0
Write-downs of inventory to net realizable value	0	0	0
Reversal of write-downs of inventory to net realizable value	0	0	0
<b>Total costs of goods sold</b>	<b>390</b>	<b>0</b>	<b>0</b>

The inventory at 31 December 2007 amounted to 2,518 ('000) EUR (as compared to zero EUR in 2006), comprising an amount of 2,530 ('000) EUR integrally related to a business acquisition (see note 30).

**1.3.17 Note 17: Biological assets**

('000 of €)	2007	2006	2005
Standing crops	38	0	0
<b>Total standing crops</b>	<b>38</b>	<b>0</b>	<b>0</b>

The biological assets at 31 December 2007 amounted to 38 ('000) EUR (as compared to zero EUR in 2006), integrally related to a business acquisition (see note 30).

**1.3.18 Note 18: Grants receivable**

('000 of €)	2007	2006	2005
Grants receivable	1,547	2,129	988
<b>Total</b>	<b>1,547</b>	<b>2,129</b>	<b>988</b>

No allowances for doubtful debts have been recognized relating to the grants receivable in current or prior years. Per 31 December 2007 and 31 December 2006, there are no material past due or impaired grants receivables.

The credit risk relating to the grants receivable is limited because of the debtors being public governmental institutions and the group's management considers all conditions fulfilled to collect the grants in the future.

### 1.3.19 Note 19: Trade receivables

('000 of €)	2007	2006	2005
Trade receivables	2,429	1,973	868
Allowance for doubtful debts	0	0	0
<b>Net trade receivables</b>	<b>2,429</b>	<b>1,973</b>	<b>868</b>

The trade receivables consist of 2 classes:

- Trade receivables relating to Indian seed business 178 ('000) EUR, consisting of a large number of small receivables from the sale of trade goods. The credit exposure is managed in accordance with standard business practice supported by consistent and regular credit worthiness checks for new and existing customers.
- Other trade receivables, mainly relating to the research collaborations agreements 1,899 ('000) EUR is due from the largest customer. There are no other customers who represent more than 10 % of the total balance of trade receivables per 31 December 2007. This risk is mitigated due to the customers being large established, and unrelated.

No allowance for doubtful debts has been recognized in current or prior year.

### Ageing of past due but not impaired trade receivables

('000 of €)	2007
Not overdue	2,392
60 – 90 days	1
90 – 120 days	27
120 – 180 days	5
More than 180 days	4
<b>Total past due but not impaired trade receivable</b>	<b>37</b>

### Movement in the allowance for doubtful debts

('000 of €)	2007
<b>Balance at the beginning of the year</b>	<b>0</b>
Impairment losses recognized on receivables	0
Amounts written off as uncollectible	0
Amounts recovered during the year	0
Impairment losses reversed	0
Unwind of discount	0
<b>Balance at end of the year</b>	<b>0</b>

### Ageing of impaired trade receivables

('000 of €)	2007
60 – 90 days	0
90 – 120 days	0
120 – 180 days	0
More than 180 days	0
<b>Total impaired trade receivables</b>	<b>0</b>

**1.3.20 Note 20: Prepaid expenses and other current assets**

('000 of €)	2007	2006	2005
Taxes receivable	496	400	566
Interest income receivable	297	88	0
Social expenses prepaid	247	223	162
Deferred charges	1,316	667	485
Accrued income	0	2	70
Guarantees paid	19	15	12
Other receivables	40	0	0
<b>Total</b>	<b>2,415</b>	<b>1,395</b>	<b>1,295</b>

**1.3.21 Note 21: Available-for-sale financial assets**

('000 of €)	2007	2006	2005
Floating rate note	5,029	0	0
<b>Total</b>	<b>5,029</b>	<b>0</b>	<b>0</b>

The available-for-sale financial assets are valued at fair value through equity and relate to a floating rate note, with a variable interest rate of Euribor 6M + 2 bps. The initial term to maturity of the floating rate note is 7 years, with the possibility to liquidate the asset every 6 months a pari and possibility to liquidate biweekly at market value minus step-out costs of 12,5 bps. The underlying assets of this floating rate note consist of an internationally spread bond portfolio with AAA rating. The interest, exchange rate and credit risk are covered by a Total Return Swap which is concluded with an investment bank (AA-). The underlying mark-to-market variances in the underlying portfolio are covered by collateral of the investment bank.

**1.3.22 Note 22: Cash and cash equivalents**

('000 of €)	2007	2006	2005
Cash on hand	7	8	12
Cash at bank	22,552	14,018	22,956
Short term bank deposits	0	0	0
Highly liquid commercial paper	11,295	7,934	9,950
<b>Total</b>	<b>33,854</b>	<b>21,960</b>	<b>32,918</b>

The group has developed an appropriate risk management framework for the management of its short, medium and long-term funding and liquidity requirements. The group makes use of liquid investments in currency or term accounts, commercial paper and treasury notes. Each instrument in this balanced portfolio possesses high grade credit ratings, capital reimbursement guarantees and limited time horizons up to maximum 3 months.

**1.3.23 Note 23: Trade payables and other current liabilities**

('000 of €)	2007	2006	2005
Trade payables	2,687	2,338	1,274
Taxes other than income taxes payable	0	0	0
Employee benefits	708	745	797
Accrued charges	54	106	159
Deferred income	50	51	956
Amounts payable for the acquisition of a business	1,007	0	0
Other	275	0	148
<b>Total trade payables and other current liabilities</b>	<b>4,781</b>	<b>3,240</b>	<b>3,334</b>

The trade payables and other current liabilities at 31 December 2007 amounted to 4.781 ('000) EUR (as compared to 3.240 ('000) EUR in 2006), comprising an amount of 1,134 ('000) related to a business acquisition (see note 30).

**1.3.24 Note 24: Borrowings**

('000 of €)	2007	2006	2005
<b>Non-current</b>			
Secured	7,735	7,821	7,953
Non-secured	0	200	500
<b>Total</b>	<b>7,735</b>	<b>8,021</b>	<b>8,453</b>
<b>Current</b>			
Secured	3,217	393	407
Non-secured	200	300	438
<b>Total</b>	<b>3,417</b>	<b>693</b>	<b>846</b>

The building, vehicles and computer equipment under leasing borrowings are secured with their underlying assets.

The current borrowings include a bank loan of 2,734,693 EUR secured by a cash pledge of 3,300,000 EUR.

The other borrowings are non-secured but are subject to the following covenants:

- The irrevocable obligation to keep the solvency ratio at a minimum level of 20%;
- The irrevocable obligation to obtain prior permission from the bank in case the assets of the company would be pledged in favor of another institution;
- The irrevocable obligation to grant the same guarantees to the bank in the same rang and in the same proportion to the granted or to be granted guarantees, as the company would grant to this other institution.

The carrying amounts of short-term borrowings approximate their fair value.

The group has no un-drawn borrowing facilities at December 31, 2005, 2006 and 2007.

**Obligations under financial leases**

('000 of €)	Minimum lease payments		
	2007	2006	2005
Amounts payable under finance lease (capital and interests portions included)			
Within one year	990	906	965
In the second to fifth year	3,489	3,262	3,111
After five years	7,798	8,566	9,334
	<b>12,277</b>	<b>12,734</b>	<b>13,410</b>
Less future finance charges	4,059	4,506	4,996
Present value of lease obligations	8,218	8,228	8,414
Less amount due for settlement within 12 months	507	507	517
<b>Amount due for settlement after 12 months</b>	<b>7,711</b>	<b>7,721</b>	<b>7,897</b>

Financial leases relate to the financing of computer equipment and building.

Devgen has a purchase option at the end of each finance lease contract to acquire the leased assets. For the computer equipment, this purchase option amounts to 1% of the acquisition value of the leased assets, which matches the amount of the finance lease at inception. For the building lease the purchase option amounts to 3,000,000 EUR in 2019.

The fair value of the finance lease liabilities is approximately equal to their carrying amounts.

**1.3.25 Note 25: Deferred Income Taxes**

Due to the uncertainty surrounding the group's ability to realize taxable profits in the near future the company did not recognize any deferred tax assets.

The group has net tax loss carry forwards, available to reduce future corporate income taxes, if any. These carry forwards can be offset against future income of the group for an indefinite period and can be summarized as follows:

('000 of €)	2007	2006	2005
Net tax loss carry forwards	59.111	41.896	33,979
Non recognized deferred tax	20.092	14.240	11,549

Other deductible temporary differences for which no deferred tax assets are recognized:

('000 of €)	2007	2006	2005
Tax credits	6.444	4,326	2,804
Other temporary differences	(729)	240	429
<b>Non recognized deferred tax assets</b>	<b>1.943</b>	<b>1.552</b>	<b>1.099</b>

Tax credits include notional interest deduction credit for an amount of € 3,335 ('000), which can be offset against future income for a period of 7 years, and € 3,305 ('000) R&D investment related tax credits which can also be offset against future income (and of which € 196 ('000) could become cash collectible after 5 years if offset against future income is not realized). Other temporary differences include € 469 ('000) related to the fair value revaluation of the seed inventory acquired in the business combination.

### 1.3.26 Note 26: Share Capital

The various components of Shareholders' equity for the periods December 31, 2005, December 31, 2006 and December 31, 2007 are presented in the Consolidated Statement of Shareholders' Equity. During the year 2007, the share capital increased as follows:

- On February 20, 2007, Devgen raised € 31,245,951.75 through a private placement by issuance of 1,505,829 new shares placed with institutional investors at a price of € 20.75 per share.
- Exercise of 141,858 existing warrants into the same number of new shares on April 5, 2007 with a resulting capital increase of € 545,092.74.
- Exercise of 104,962 existing warrants into the same number of new shares on October 3, 2007 with a resulting capital increase of € 367,292.57.
- On October 31, 2007, Devgen raised € 18,001,788.00 through a private placement by issuance of 1,045,400 new shares placed with Monsanto at a price of € 17.22 per share.

All new shares are listed on Eurolist by Euronext Brussels.

	2007	2006	2005
<i>Class Common Stock</i>			
- issued and outstanding	17,856,351	15,058,302	14,762,794
- par value	0.075	0.075	0.075
- issuance premium	4.940	2.614	2.820

At the end of 2007, the issued share capital of Devgen amounted to € 1,339,225 represented by 17,856,351 common shares without nominal value. The statutory share premium amounted to € 92,365,311.99. The reconciliation is shown in the Consolidated Statement of Shareholders' Equity.

*Voting rights* – each share of Devgen is entitled to one vote per share.

*Dividends* – Devgen has never declared or paid dividends on its shares and does not anticipate paying any dividends in the foreseeable future. Under Belgian law, the company is required to set aside at least 5% of its net profits during each financial year and contribute such sum to the legal reserve until such reserve has reached an amount equal to 10% of the company's share capital. As of 31 December 2007, there were no profits available for distribution under Belgian law.

*Liquidation rights* – In the event of a dissolution of the company, the assets and the proceeds from the sale of the assets remaining after payment of all debts, liquidation expenses and preferences, and taxes are to be distributed among the shareholders on a pro rata basis to their shareholding, after deduction of any amounts that are still to be paid up with regard to preferential rights, if any.

*Preferential subscription rights* – On the occasion of any capital increase in cash, or issue of convertible bonds or warrants, the company's shareholders have a preferential subscription right. Such preferential subscription right is proportionate to the shareholder's participation in the company's capital at the time of the capital increase or the issuance of convertible bonds or warrants.

The preferential subscription right can be restricted or cancelled by a resolution approved by 75% of the votes validly cast at a shareholders' meeting where, in principle, at least 50% of the company's share capital is present or represented.

### 1.3.27 Note 27: Share based payment schemes

The company has created several pools of warrants for grant to employees, directors, consultants and research institutions.

All amounts mentioned take into account the combination of shares and warrants at a ratio of one new share/warrant for 3 existing shares/warrants (as decided by the general shareholder's meeting on April 29, 2005).

*Summary table of warrants granted*

Creation date of plan	Total number created	Grant date	Total number granted	Total number canceled	Exercise price (in €)	Beneficiary
27/09/1999	296,107	30/09/1999	119,167	133,181	1.14	Employees
		31/08/2000	31,250		3.18	Employees
		12/07/2000	12,500		2.79	Employees
27/09/1999	162,004	27/09/1999	4,934	5,666	1.14	Consultants
		30/09/1999	89,448		1.14	Directors and consultants
		18/09/2000	17,622		3.18	Directors and consultants
		17/07/2003	44,334		1.47	Directors
22/09/2000	550,000	20/12/2000	148,479	102,009	3.18	Employees, Directors and consultants
		12/10/2000	11,364		3.18	Employees, Directors and consultants
		28/01/2002	81,918		2.91	Employees, Directors and consultants
		17/07/2003	43,507		1.47	Employees and Directors
		26/07/2004	187,004		1.23	Employees and Directors
21/12/1999	8,938	21/12/1999	8,938	0	3.025	Research institution
21/12/1999	132,223	21/12/1999	105,778	0	1.143	Research institution
01/06/2004	64,667	29/06/2005	32,000	0	1.23	Research institution
12/12/2005	643,334	12/12/2005	187,000	5,016	9.49	Employees and Directors
		1/02/2006	39,320		11.54	Employees and Directors
		3/02/2006	42,832		11.67	Employees and Directors
		30/06/2006	20,016		14.00	Employees and Directors
		3/07/2006	15,000		14.25	Employees and Directors
		23/3/2007	10,008		21.57	Employees
		26/3/2007	19,992		21.57	Employees
		28/3/2007	54,756		21.61	Employees and Directors
		1/6/2007	209,016		20.73	Directors

**1.3.27.1 Note 27.1: Warrant pool 1999 for employees**

By a decision of the extraordinary shareholders' meeting on 27 September 1999, the company was allowed to issue a maximum of 296,107 warrants to its employees under its 1999 stock option plan, to purchase ordinary shares. The warrants were granted with an exercise price equal to the fair market price of the underlying class shares at the date of grant, as determined by the board of directors.

The warrants are granted to selected beneficiaries by decision of the nomination and remuneration committee or the board of directors. Under this plan, the warrants vest rateably over four years: 25% of the warrants vest after one year, after that date the remaining 75% become vested on a monthly basis (2.083% per month). All warrants are granted for free.

The duration of the warrants is ten years from the date of creation of the warrants. Except in the event of liquidation, the exercise of the warrants may only take place during an exercise period (16 to 31 March and 16 to 30 September of each year). All vested warrants under this plan have become exercisable, except for these warrants subject to lock-up arrangements.

As of 31 December 2007, there are no warrants available for future grants to employees under this plan. As of 12 December 2005, 133,181 existing warrants which were no longer exercisable or which have never been granted have been cancelled.

All warrants offered to employees from these 1999 plans were granted before November 7, 2002.

**1.3.27.2 Note 27.2: Warrant pool 1999 for directors, consultants and research institutions**

By decisions of the extraordinary shareholders' meeting on 27 September 1999 and 21 December 1999, the company was allowed to issue a maximum of 162,004 warrants to directors and consultants and 141,161 warrants to two specific research institutions.

The warrants granted to directors and consultants have an exercise price equal to the fair market price of the underlying class C shares at the date of grant, as determined by the board of directors, and vest ratably over 4 years: 25% of the warrants vest after one year, after that date the remaining 75% become vested on a monthly basis (2,083% per month). The warrants for specific research institutions are granted at the occasion of the achievement of certain specific milestones as defined in the individual contracts. All warrants are granted for free.

The warrants are granted to selected beneficiaries by decision of the nomination and remuneration committee or the board of directors. The duration of the warrants for directors and consultants is ten years from the date of creation of the warrants. Except in the event of liquidation the exercise of the warrants may only take place during an exercise period (16 to 31 March and 16 to 30 September of each year). All vested warrants under this plan have become exercisable, except for these warrants subject to lock-up arrangements.

As of 31 December 2007, there are no warrants available for future grants to directors and consultants. As of 12 December 2005, 5,666 existing warrants which have never been granted have been canceled.

As of 31 December 2007 the company had issued 141,161 warrants for 2 research institutions, which will vest upon reaching certain milestones under the research agreement of which 114,716 warrants under this plan were granted and fully vested as of 31 December 2007. There are 26,445 warrants available for future vesting granted to these research institutions.

The duration of the warrants granted to research institutions is ten years from the date of creation of the warrants. Except in the event of liquidation the exercise of the warrants may only take place during an exercise period (16 to 31 March and 16 to 30 September of each year). All vested warrants under this plan have become exercisable.

The warrants granted to the research institutions have a fixed exercise price, which may differ from the fair market price of the underlying class shares at the date of grant, as determined by the board of directors.

All warrants granted to directors, consultants and research institutions from these 1999 plans were granted before November 7, 2002, except for 44,333 warrants which were granted to directors on July 17, 2003.

**1.3.27.3 Note 27.3: Warrant pool 2000 for employees, directors and consultants**

By a decision of the extraordinary shareholders' meeting of 22 September 2000, the company was allowed to issue a maximum of 550,000 warrants to its employees, directors and consultants under this 2000 warrant plan, to purchase ordinary shares. These warrants have an exercise price equal to the fair market price of the underlying class shares at the date of offer, as determined by the board of directors and vest ratably over 4 years: 25% of the warrants vest after one year, after that date the remaining 75% become vested on a monthly basis (2,083% per month), except if decided otherwise by the company. All warrants are granted for free.

As of 31 December 2007, there are no warrants available for future grants to employees, board members and consultants under this 2000 plan. As of 31 December 2007, 102,009 warrants have been cancelled.

The warrants under this 2000 warrant plan are granted to selected beneficiaries by decision of the nomination and remuneration committee or the board of directors. The duration is ten years from the date of creation of the warrants, respectively 22 September 2000. Except in the event of liquidation the exercise of the warrants may only take place during an exercise period (16 to 31 March and 16 to 30 September of each year).

From this plan, 232,500 warrants were granted after 7 November 2002.

### 1.3.27.4 Note 27.4: Warrant pool Temasek Life Sciences Laboratory

By a decision of the extraordinary shareholders' meeting of 1 June 2004, the company was allowed to issue 64,667 warrants for the benefit of a specific research institution, to purchase ordinary shares. As of 31 December 2007, 32,000 warrants were granted under this plan.

The duration of the warrants is five years from the date of creation of the warrants. Except in the event of liquidation the exercise of the warrants may only take place during an exercise period (16 to 31 March and 16 to 30 September of each year). All granted warrants under this plan have been exercised in December 2005. All warrants are granted for free.

As of 31 December 2007, there are 32,667 warrants available for future grant to this research institution.

### 1.3.27.5 Note 27.5: Warrant pool 2005 for employees, directors and consultants

By a decision of the extraordinary shareholders' meeting of December 12, 2005 the company was allowed to issue a maximum of 643,334 warrants to its employees, directors and consultants under this 2005 warrant plan, to purchase ordinary shares. These warrants have an exercise price equal to the fair market price of the underlying shares at the date of offer, as determined by the board of directors and vest ratably over 3 years starting from the grant date, on a monthly basis (1/36 per month), except if decided otherwise by the board of directors. All warrants are granted for free.

As of 31 December 2007, there are 45,394 warrants available for future grants to employees, directors and consultants under this 2005 plan. As of 31 December 2007, 5,016 warrants have been cancelled.

The warrants from this 2005 warrant plan are granted to selected beneficiaries by decision of the nomination and remuneration committee or the board of directors. The duration is ten years from the date of creation of the warrants, respectively 12 December 2005. Except in the event of liquidation the exercise of the warrants may only take place during an exercise period (16 to 31 March and 16 to 30 September of each year).

### 1.3.27.6 Note 27.6: Accounting for share-based payment

IFRS 2 Share-based payment has become effective as of 1 January 2005. In order to avoid a restatement of its 2005 consolidated financial statements, the group decided to early adopt as of 1 January 2004 IFRS 2 for all warrants granted after 7 November 2002 which were not vested as of 31 December 2004.

The share-based compensation expense recognized in the income statement as such is given below:

('000 of €)	2007	2006	2005
Share based compensation	1,743	775	133

The fair value of each option is estimated on the date of grant using the binomial model by Cox-Ross-Rubinstein (warrants granted in 2003 and 2004) or the Black & Scholes model (warrants granted in 2005, 2006 and 2007) with the following assumptions:

	Warrants 1999 granted 17 July 2003	Warrants 2000 granted 17 July 2003	Warrants 2000 / 2004 granted 26 July 2004 29 June 2005	Warrants 2005 granted 12 Dec. 2005
Number of warrants granted	44,333	43,500	219,004	187,000
Number of warrants not vested at 31/12/04	28,633	28,094	219,004	-
Exercise price	€1.47	€1.47	€1.23	€9.49
Expected dividend yield	0	0	0	0
Expected stock price volatility	90%	90%	90%	26.73%
Risk-free interest rate	3.45%	3.73%	3.68%	3.43%
Expected duration	4 years	5 years	4 years	5 years
Forfeiture rate	10%	10%	10%	0%
Fair value	€ 0.72	€ 0.78	€ 0.66	€ 3.26

	<b>Warrants 2006</b> granted 1 Feb. 2006	<b>Warrants 2006</b> granted 3 Feb. 2006	<b>Warrants 2006</b> granted 30 June 2006	<b>Warrants 2006</b> granted 3 July 2006
Number of warrants granted	39,320	42,832	20,016	15,000
Exercise price	€11.54	€11.67	€14.00	€14.25
Expected dividend yield	0	0	0	0
Expected stock price volatility	26.11%	26.40%	44.31%	44.21%
Risk-free interest rate	3.33%	3.29%	3.86%	3.88%
Expected duration	4.93 years	4.93 years	4.73 years	4.73 years
Forfeiture rate	0%	0%	0%	0%
Fair value	€ 4.63	€ 4.28	€ 6.18	€ 6.17

	<b>Warrants 2007</b> granted 23 March 2007	<b>Warrants 2007</b> granted 26 March 2007	<b>Warrants 2007</b> granted 28 March 2007	<b>Warrants 2007</b> granted 1 June 2007
Number of warrants granted	10,008	19,992	54,756	209,016
Exercise price	€21.57	€ 21.57	€ 21.61	€ 20.73
Expected dividend yield	0	0	0	0
Expected stock price volatility	39.61%	39.62%	39.54%	38.08%
Risk-free interest rate	3.96%	3.96%	3.99%	4.46%
Expected duration	4.37 years	4.36 years	4.36 years	4.27 years
Forfeiture rate	0%	0%	0%	0%
Fair value	€ 8.82	€ 8.43	€ 8.46	€ 7.42

In 2007, the average share price of the warrants was € 21.83 during the exercise period 16 to 31 March, and € 17.82 during the exercise period 16 to 30 September.

The weighted average risk-free interest rates used are based on Belgian strip-yields at the date of grant with a term equal to the expected life of the warrants.

Movements in the number of share warrants outstanding and their related weighted average exercise prices are as follows:

	<b>2007</b>		<b>2006</b>		<b>2005</b>	
	<b>Warrants (‘000)</b>	<b>Average exercise price in €</b>	<b>Warrants (‘000)</b>	<b>Average exercise price in €</b>	<b>Warrants (‘000)</b>	<b>Average exercise price in €</b>
At Jan. 1	521	7.00	725	3.93	907	1.92
Granted	294	20.98	117	12.35	219	8.28
Forfeited	5	9.80	25	1.26	0	-
Exercised	246	3.50	296	2.73	401	1.95
<b>At Dec. 31</b>	<b>564</b>	<b>15.11</b>	<b>521</b>	<b>7.00</b>	<b>725</b>	<b>3.93</b>

Share warrants outstanding (in thousands) at the end of the year, have the following earliest exercise dates, expiry dates and exercise prices:

Earliest exercise date	Expiry date	Exercise price	2007 ('000)
2002 (plan 1999, grant 1999)	2009	1.14	9
2003 (plan CSHL, grant 2000)	2009	3.03	9
2003 (plan GHC, grant 2000)	2009	1.14	0
2003 (plan 1999, grant 2000)	2009	2.79	0
2003 (plan 1999, grant 2000)	2009	3.18	0
2005 (plan 1999, grant 2003)	2009	1.47	0
2003 (plan 2000, grant 2000)	2010	3.18	13
2005 (plan 2000, grant 2002)	2010	2.91	1
2005 (plan 2000, grant 2003)	2010	1.47	2
2005 (plan 2000, grant 2004)	2010	1.23	26
2005 (plan 2005, grant 2005)	2015	9.49	134
2005 (plan TLL, grant 2005)	2009	1.23	0
2006 (plan 2005, grant 2006)	2015	11.54	26
2006 (plan 2005, grant 2006)	2015	11.67	16
2006 (plan 2005, grant 2006)	2015	14.00	20
2006 (plan 2005, grant 2006)	2015	14.25	15
2008 (plan 2005, grant 2007)	2015	21.57	10
2008 (plan 2005, grant 2007)	2015	21.57	20
2007 (plan 2005, grant 2007)	2015	21.61	54
2007 (plan 2005, grant 2007)	2015	20.73	209
2007 (plan GHC, grant 1999)	2009	1.14	0
<b>Total</b>			<b>564</b>

The following table summarizes the status of the granted and exercisable (vested) warrants as of December 31, 2007:

	Warrants outstanding ('000)	Weighted average exercise price (in €)	Warrants vested ('000)	Weighted average exercise price (in €)
Balance at Dec. 31, 2007	564	15.11	302	11.85

### 1.3.28 Note 28: Significant agreements, commitments and contingencies

#### 1.3.28.1 Note 28.1: Grants related to research and development projects

Certain research projects of the company are partially funded by grants from government agencies. In 2007, the company had 2 research grants from I.W.T. ongoing: one agreement of 22 December 2005 ('RNA and PBD pest control project'); and one agreement of 18 January 2007 ("Kinases – Prototype new targets for the treatment of obesity project"). The grants are determined as a percentage of the actual direct costs incurred by the company to execute the project, during the period as defined in the fund agreement. Costs including payroll, consumables and small equipment, outsourcing, depreciation of machinery and equipment, direct general and administrative expense (or a defined fixed overhead allocation percentage), are reimbursed up to 60% of actual project costs incurred during periods ranging from 16 to 36 months.

The "Ion Channel project" was successfully completed in May 2006 and received the maximum funding of € 2,430,000 over the grant period.

The "PPN control project", with a maximum funding of € 843.357, received a positive evaluation in 2005, after reaching certain milestones, as defined in the agreement. The project has been completed in 2007.

The 'RNA and PBD pest control project', with a maximum of € 3,289,718 IWT-funding was completed in 2007, one year ahead of planning. IWT will perform a final evaluation of the project in 2008.

The 'Kinases – Prototype new targets for the treatment of obesity', with a maximum funding of € 867,060, was also completed in 2007. IWT will perform a final evaluation of the project in 2008.

On 22 December 2005, EDB (Economic Development Board, Singapore) agreed to provide a grant with a maximum funding of S\$ 3,301,000 to Devgen Pte. Ltd. for the development of fungus resistant GMO plants. EDB will evaluate the progress throughout the project, at which time funding could be terminated if certain milestones, as defined in the agreement, have not been reached or alternatively, continued according to the pre-agreed schedule. To this date, it is uncertain if these milestones will be met in the future. Nevertheless, EDB has informed the Company that claw back of subsidies on diligently incurred expenses will not occur, proven the Company will have performed throughout the project on a best effort basis. Claw back of subsidies would only occur in the event of fraud.

The following table summarizes the financial impact of these grants pursuant to these agreements:

('000 of €)	<b>2007</b>
Grants recognized (cumulative)	6.939
Grants received (cumulative)	5.535
Recognized as accrued income	1,547
Recognized as deferred income	0

### **1.3.28.2 Note 28.2: Collaborative Research Agreements**

#### ***Sumitomo Chemical Company***

On 1 March 2006, Devgen entered into a two-year extension of the research agreement with Sumitomo Chemical Company. Under the terms of the agreement, following successful completion of earlier collaborations since 2001, Devgen selects and validates novel insecticidal targets, formats high-throughput assays and uses its expertise in computational chemistry to deliver insect active leads, which Sumitomo further develops into marketed products. In addition to research funding fees, Devgen is eligible for performance-based milestone payments and royalty payments.

#### ***Monsanto Company***

On 6 February 2007, Devgen entered into a five-year research and development agreement and a five-year technology exchange agreement with Monsanto Company with retroactive application from September 1, 2006 onwards. Monsanto and Devgen already worked together under an earlier collaboration signed in 2004. Under the terms of the new agreement, Monsanto Company obtains exclusive commercial rights under Devgen's technology to control specific categories of insect pests in its core crops of interest such as corn, cotton and soybeans. Devgen obtains exclusive rights to leverage Monsanto's work in rice and small cereal grains, especially in Asia. In addition to license fee payments, Devgen is eligible for significant performance-based milestone and royalty payments.

### **1.3.28.3 Note 28.3: Other collaborations**

The company has entered into several agreements with universities, academic institutions and consultants in Belgium and abroad to conduct research. Under these collaboration agreements, Devgen's policy is to obtain or acquire patent rights or other rights to technology and discoveries, as they become patentable.

**1.3.28.4 Note 28.4: The group acting as a lessor in operating leases**

<b>Future minimum lease payments ('000 of €)</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Within one year	68	149	164
In the second to fifth year	0	49	209
After five years	0	0	0
	68	198	373
<b>Total contingent rents recognized as income</b>	<b>0</b>	<b>0</b>	<b>0</b>

On 1 June 2004, Devgen entered into an operating lease agreement with the Ghent University to sub rent 597 m<sup>2</sup> in the building facilities at Technologiepark 30, 9052 Zwijnaarde. The rental agreement has a term of maximum 7 years, cancellable by both parties after 4 years taking into account a notice period of 18 months.

On 1 September 2004, Devgen entered into an operating lease agreement with Porthus NV to sub rent 367 m<sup>2</sup> in the building facilities at Technologiepark 30, 9052 Zwijnaarde. The rental agreement has a term of 3 years, extendable with mutual consent from both parties for another 3 years, and only cancelable by Porthus NV if a notice period of 6 months has been accounted for.

**1.3.28.5 Note 28.5: The group acting as a lessee in operating leases**

Over the years, the group has entered into several operating lease agreements for rent of facilities, land, warehouses, company cars and computer equipment.

At the balance sheet date, the group had outstanding commitments for future minimum rent payments, which fall due as follows:

<b>('000 of €)</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Within one year	444	221	201
In the second to fifth year	159	109	119
After five years	453	465	535
<b>Total contingent rents recognized as expense</b>	<b>1,056</b>	<b>795</b>	<b>855</b>

Included in these operating lease commitments is the annual lease fee of € 27,340 for the long lease of the land on which the new building has been constructed. The building is established on the grounds of the University of Ghent. The land was given in long lease by the Ghent University to Devgen for a period of 54 years, terminable by Devgen only once after the first period of 27 years.

**1.3.28.6 Note 28.6: Lease of the building**

On 21 October 2002, Devgen signed a global agreement with ING Lease Belgium and Dexia Lease Services ("the lessors") which incorporated an agreement on the transfer of Devgen's land use rights to the lessors, an agreement on the construction and financing of the building during its construction and a lease agreement on the building once the building was finalized (March 2004).

The agreement is accounted for in accordance with IAS 17 – Leases.

Based upon the finance agreement with the lessors, the outstanding debt after 15 years will amount to € 3 million. If at that time, Devgen would like to obtain the legal title to the building it will have to exercise its purchase option and pay an additional € 3 million. If the purchase option is not exercised, it can either decide to extend the agreement or it will have to return the building to the lessors. Devgen did not receive any fee under this agreement.

**1.3.28.7 Note 28.7: Litigations**

The company currently has no material litigations ongoing, except for three disputes with former employees of the company. An adequate provision has been accounted for to cover this risk, based on the management's best estimate.

**1.3.28.8 Note 28.8: Capital commitments**

The group had no commitments to capital expenditures on December 31, 2005, 2006 and 2007.

**1.3.28.9 Note 28.9: Other commitments**

The company has entered into various license agreements which require the company to pay royalties either based upon a set percentage of certain product sales and license fee revenue subject, in some cases, to certain minimum amounts, either based on a fixed royalty amount upon signature of the contract, first sale of certain products and/or filing of a new drug application for each subsequent product. Total royalty expense amounted to € 0 for all years until 31 December 2007.

**1.3.29 Note 29: Financial instruments****1.3.29.1 Note 29.1: Capital risk management**

The group manages its capital in order to generate sufficient cash and cash equivalents in order to finance the ongoing research and development projects and the development of its newly acquired seed business.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Under Belgian Corporate Law, 5% of the profit of the year per statutory books of Devgen needs to be allocated to the reserves (legal reserve) until the legal reserve equals 10% of the issued capital.

The adjusted debt-to-equity ratio was as follows:

('000 of €)	2007	2006	2005
Debts	11,151	8,714	9,298
Cash and cash equivalents (1)	43,863	23,780	34,878
Net debts	-	-	-
Equity attributable of the shareholders	64,786	27,819	35,753
Net debt to equity ratio	-	-	-

(1) Including cash restricted in its use and available-for-sale financial assets.

**1.3.29.2 Note 29.2: Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurements and the basis on which income and expenses are recognized, in respect of each class of financial assets, financial liability and equity instruments are disclosed in note 1.2 to the financial statements.

**1.3.29.3 Note 29.3: Categories of financial instruments**

('000 of €)	2007	2006	2005
<b>Financial assets</b>			
Loans and receivables	41,263	25,753	35,746
Cash restricted in its use	4,980	1,820	1,960
Trade receivable Seed business	178	0	0
Other trade receivables	2,251	1,973	868
Cash on hand	7	9	12
Cash at bank	22,552	14,018	22,956
Highly liquid commercial paper	11,295	7,934	9,950
Available-for-sale financial assets	5,029	0	0
Floating rate note	5,029	0	0
<b>Financial liabilities</b>			
At amortized cost	14.847	11.052	10.572
Secured	10,953	8,214	8,360
Long term debt and lease debts	7,735	7,821	7,953
Current portion of long term debt and lease debts	483	393	407
Short term bank debts	2,735	0	0
Non secured	3.894	2,838	2,212
Long term bank loans	0	200	500
Current portion of long term bank loans	200	300	438
Trade payables	2,687	2,338	1,274
Other financial payables	1.007	0	0

Details of the financial instruments are available in the relevant notes.

The fair value of the financial instruments is approximately equal to their carrying amounts.

**1.3.29.4 Pledged financial assets as collateral**

In 2004, Devgen placed a cash pledge of € 2,100,000 in favor of the lessors of the building in Zwijnaarde, to cover the V.A.T. recoverability risk of the lessors on the construction cost of the building. This cash pledge is being released on a straight-line basis over 15 years, at the rate of 1/15 per year, starting on 1 April 2005. This amount is classified as a non-current asset (cash restricted in its use) and amounts to 1,680,000 EUR at 31 December 2007 (as compared to 1,820,000 EUR in 2006).

In 2007, Devgen placed a cash pledge of € 3,300,000 in favor of a bank to guarantee a short-term bank loan provided to Devgen Seeds and Crop Technology Pvt Ltd in India to finance a portion of a business acquisition (see note 30). The bank loan amounts to 2,734,693 EUR per 31 December 2007. The cash pledge will be released upon repayment of the bank loan.

No other financial assets are pledged as collateral.

**1.3.29.5 Note 29.5: Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's activities expose it primarily to changes in foreign currency exchange rates and interest rates.

**1.3.29.6 Note 29.6: Foreign currency risk management**

The Group is exposed to foreign currency risks primarily through its operating activities. Certain purchase transactions of the Group are undertaken in USD. The extent of use of other foreign currencies in the Group is limited. Exchange rate exposure towards the USD can be managed through the use of forward exchange contracts, based upon management's decisions. The extent of use of these forward exchange contracts for the purchase of USD has been focused on managing material USD exposure during 2007.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

('000 of €)	2007
Assets denominated in USD	498
Assets denominated in other foreign currencies	5
Liabilities denominated in USD	1,203
Liabilities denominated in other foreign currencies	0

The group is managing its foreign currency risk by matching foreign currency cash inflows with foreign cash outflows or use forward currency exchange contracts to hedge its material foreign currency exposure.

Therefore the sensitivity to certain potential changes in, especially the USD/EUR exchange, is limited. A reasonably possible increase or decrease of the USD/EUR rate with 10% would have an impact on the income statement of +2 ('000) EUR (in case of 10% increase) or -2 ('000) EUR (in case of 10% decrease) based upon the assets and liabilities denominated in USD per 31/12/2007.

The Group does not apply hedge accounting.

At 31 December 2007, no material forward exchange contracts were held by the Group.

**1.3.29.7 Note 29.7: Interest rate risk management**

The Group can be exposed to interest rate risk as entities in the Group can borrow funds at both fixed and floating interest rates. The interest rate risk is managed by the Group by concluding preferably borrowings at fixed interest rates. Per 31 December 2007, substantially all of the outstanding loans have a fixed interest rate, except for the building loan (financial lease debt) which is subject to a variable interest rate, revisable at each fifth anniversary date of the loan agreement based on the average weighted interest rate swap 1 to 5 years (IRS ask) with a duration of 15 years, with a margin of 2,5%. The next revise of the interest rate on this loan will take place in 2009. The current interest rate on this loan is 6.277%.

The Group does not use interest rate swap contracts and forward interest rate contracts.

**1.3.29.8 Note 29.8: Credit risk management**

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. Therefore, the Group has credit policies in place and the exposure to counterparty credit risk is monitored.

Credit exposure with regard to R&D partnering activities is concentrated with a limited number of creditworthy partners. Credit exposure in the Indian seed business – dealing with a large number of local distributors – is managed in accordance with standard business practice supported by consistent and regular credit worthiness checks for new and existing customers.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The group did not receive any collateral or alter credit enhancements relating to its financial assets.

See also Note 20 for additional information on the credit risk management.

### 1.3.29.9 **Note 29.9: Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements.

The group has developed an appropriate risk management framework for the management of its short, medium and long-term funding and liquidity requirements. The group makes use of liquid investments in currency or term accounts, commercial paper and treasury notes. Each instrument in this balanced portfolio possesses high grade credit ratings, capital reimbursement guarantees and limited time horizons up to maximum 12 months.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table included both interest and principal cash flows.

<b>2007</b>	Less than 1 year	1-5 years	More than 5 years	Total
(‘000 of €)				
Secured	3,946	3,071	8,216	15,233
Long term debt and lease debts	0	3,071	8,216	11,287
Current portion of long term debt and lease debts	990	0	0	990
Short term bank debts	2,956	0	0	2,956
Non secured	3.898	0	0	3.898
Long term bank loans	0	0	0	0
Current portion of long term bank loans	204	0	0	204
Trade payables	2,687	0	0	2,687
Other financial payables	1.007	0	0	1.007
<b>Total</b>	<b>7.844</b>	<b>3,071</b>	<b>8,216</b>	<b>19.131</b>

At the year end of 2007, it was not probable that the counterparty to the financial contracts will make any claim on financial guarantees under the contract. Consequentially, the amount include above is nil.

**1.3.29.10 Note 29.10: Gains and losses per category of financial assets and liabilities**

The following table provides an overview of the gains and losses per category of financial assets and liabilities recognized in the income statement.

('000 of €)	2007
<b>Financial assets</b>	<b>0</b>
Loans and receivables	0
Available-for-sale financial assets	1
<b>Financial liabilities</b>	<b>0</b>
At amortized cost	0

No gains and losses on the financial assets and liabilities have been recognized directly in equity.

**1.3.30 Note 30: Business combinations**

On October 31, 2007, the group has acquired a seed business from certain Asian subsidiaries of Monsanto. Under the terms of the acquisition agreements, Devgen group entities have purchased the assets associated with Monsanto's hybrid rice, sunflower, sorghum, and pearl millet businesses and certain other assets in India, Pakistan and the Philippines, for approximately € 20.2 million payable in cash, of which approximately € 19.9 million as opening balance for the acquisition per October 31, 2007 and € 0.3 million capitalized advisory and other expenses per December 31, 2007 directly related to the business acquisition.

The following assets and liabilities have been acquired:

'000 of € / per 31 October 2007	Book value	Fair value
Intellectual property and other intangible assets	17,067	9,523
Property, plant and equipment	510	504
<b>Total non-current assets</b>	<b>17,577</b>	<b>10,027</b>
Inventory	2,334	2,803
<b>Total current assets</b>	<b>2,334</b>	<b>2,803</b>
Social liabilities	-	54
Deferred tax liabilities	-	139
<b>Total non-current liabilities</b>	<b>-</b>	<b>193</b>
<b>Total acquisition value</b>	<b>19,911</b>	<b>12,637</b>
<b>Acquisition price per 31/10/2007</b>	<b>19,911</b>	<b>19,911</b>
Capitalized acquisition expenses per 31/12/2007	337	337
<b>Total acquisition price per 31/12/2007</b>	<b>20,248</b>	<b>20,248</b>
Total goodwill on acquisition per 31/12/2007	-	7,611

The cost of the acquisition of the Seed Business is paid in cash. The net cash outflow on acquisition was the following:

('000 of €)	2007
Total purchase consideration	20,248
Less non-cash considerations	0
Consideration paid in cash	20,248
Less: cash and cash-equivalents balances acquired	0
Less: part of consideration payable per 31.12.2007	(1,298)
<b>Net cash outflow on acquisition</b>	<b>18,950</b>

Per 31 December 2007, the full acquisition prices had been paid except for 1,298 ('000) EUR, which is included in the line Other Current Liabilities of the consolidated balance sheet.

The acquired business contributed 346 ('000) to the loss of the period ended per 31 December 2007. Due to the seasonal effects of the acquired business, no reliable estimate can be made of the contribution that this business combination would have had on the consolidated income statement in case the acquisition had taken place per January 1, 2007.

In accordance with the provisions of IFRS 3, the fair value of the acquisition related to Pakistan, which represents a minor part of the total acquisition, was determined on a provisional basis since not all required information to measure the fair values of the acquired assets and liabilities were available at the date of establishment of the financials. The final purchase consideration of inventory acquired in India will be determined in the course of 2008, and can impact the total acquisition consideration.

### 1.3.31 Note 31: Related party transactions

Apart from transactions with key management personnel there were no other transactions with related parties.

#### 1.3.31.1 Note 31.1: Remuneration of key management personnel

The remuneration of the key management, including the executive directors, can be summarized as follows:

<b>Executive management</b> ('000 of €)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Short-term benefits*	1,916	2,355	1,773
Post-employment benefits – defined contributions	24	39	29
Share-based compensation	1,496	486	80
Expense reimbursement	149	39	14
<b>Total benefits</b>	<b>3,585</b>	<b>2,919</b>	<b>1,896</b>
# of warrants & shares offered ('000)	268	40	175
# cumulative outstanding warrants & shares ('000)	450	534	95
Warrants exercised ('000)	29	35	157
Weighted average exercise price (€)	7.53	4.27	1.37
Average stock price during exercise periods (16 to 31 March and 16 to 30 Sept., 2007) (€)	19.83	18.39	9.98
Outstanding receivables	0	0	0
Outstanding payables	0	278	178

\* In aggregate: the company cost of the group as mentioned on the individual account

The retirement benefits for the key management are part of the retirement benefit scheme to which all qualified personnel is entitled. The contributions are paid as a percentage of the gross annual salary. No loans, quasi-loans or other guarantees have been given to a member of the executive management.

**1.3.31.2 Note 31.2: Transactions with non-executive directors**

<b>Non-executive directors</b> ('000 of €)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Short-term employee benefits*	0	0	0
Post-employment benefits – defined contributions	0	0	0
Share-based compensation	123	74	35
Expense reimbursement	77	63	75
<b>Total benefits</b>	<b>200</b>	<b>137</b>	<b>110</b>
# of warrants & shares offered ('000)	9	15	12
# cumulative outstanding warrants & shares ('000)	48	104	114
Warrants exercised ('000)	20	78	29
Weighted average exercise price (€)	5.48	1.27	1.31
Average stock price during exercise periods (16 to 31 March and 16 to 30 Sept., 2007) (€)	19.83	18.39	9.98
Outstanding receivables	0	0	0
Outstanding payables	12	8	35

(\*) In aggregate: the company cost of the group as mentioned on the individual account.

**1.3.32 Note 32: Disclosures earnings per share**

(in €)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Basic earnings per share (in €)	(0.83)	(0.64)	(0.28)
Diluted earnings per share (in €)	(0.82)	(0.62)	(0.27)

The calculation of the basic and diluted earnings per share is based on the following data:

<b>Earnings</b> ('000 of €)	<b>2007</b>	<b>2006</b>	<b>2005</b>
Earnings for the purpose of basic earnings per share (net loss of the year)	(13,874)	(9,489)	(3,492)
Effect of dilutive potential ordinary shares	-	-	-
Earnings for the purpose of diluted earnings per share	(13,874)	(9,489)	(3,642)
<b>Number of shares</b>			
Weighted average number of shares for the purpose of dilutive potential shares	16,658,968	14,914,169	12,378,302
Effect of dilutive potential ordinary shares	-	-	-
Share warrants	213,179	380,246	650,866
Weighted average number of ordinary shares for the purpose of diluted earnings per share	16,872,147	15,294,415	13,029,167

Warrants that would result in the issue of ordinary shares for more than the average market price of the underlying ordinary shares during the period are considered anti-dilutive and have not been included in the calculation of the diluted earnings per share. At year-end 2007 no warrants were outstanding that have been excluded from the calculation of diluted earnings per share.

**1.3.33 Note 33: Subsidiaries**

Details of the Company's subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest	Proportion of voting power held	Principal activities
Devgen Pte Ltd	Singapore	100%	100%	R&D
Devgen Seeds and Crop Technology Pvt Ltd	India	100%	100%	Seed business
Devgen Seeds Pakistan Pte Ltd	Pakistan	100%	100%	Seed business
Devgen US Inc	U.S.A.	100%	100%	Nematicides
Biodev NV	Belgium	99%	99%	R&D

**1.3.34 Note 34: Subsequent events**

No subsequent events took place after December 31, 2007.

**1.3.35 Note 35: Services performed by the auditor**

The statutory audit fees amount to 41,000 € for Devgen NV (including IFRS statements), approximately 8,000 € (16,000 Singapore \$) for Devgen PTE Ltd (Singapore) and approximately 16,000 € (900,000 Indian Rupees) for Devgen Seeds and Crop Technology Pvt Ltd (India), totaling 65,000 € for the group.

The non audit services in 2007 amounted to approximately € 119 ('000) and were related to:

- Tax advice: approximately € 60 ('000)
- General accounting advices and consultations: approximately € 40 ('000)
- Audits related to EDB subsidies granted in Singapore: approximately € 14 ('000)
- Legal missions in Belgium: approximately € 5 ('000)

## **1.4 ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF DEVGEN**

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Dear Madam / Sir Shareholder,

We are pleased to present you the consolidated financial statements for the fiscal year ended December 31, 2007.

### **1) Strategic highlights**

In 2007 Devgen laid the cornerstones to become a forward integrated traits and seeds company with a focus on important Asian food crops. Devgen combined its in house technology with newly acquired technology and obtained direct market access through the acquisition of a hybrid seed business in India. Devgen accelerated its nematocide programme worldwide and prepares itself for submission of regulatory dossiers in 2008 and 2009 in South Africa, the US and Europe. The company is working on a plan to allow the pharma unit to further develop independently and focus entirely on its agro division.

These strategic moves will allow Devgen to fulfil important societal needs by helping farmers to increase their productivity in an environmental friendly way and is as such creating a sustainable growth path to generate value for its shareholders.

The acquisition of a hybrid rice, sunflower, sorghum and pearl millet businesses in India, Pakistan and the Philippines represents a forward integration step allowing Devgen to capture a larger amount of the value chain created by its technology. Next to immediate market access with a range of high quality products for the above mentioned crops, this acquisition enables the company to make full use of its formerly built-up breeding capacity.

Nematicide field trials showed further positive results allowing Devgen to accelerate its nematocide development program for the US and Europe as well as for tropical countries. The business and product development team was strengthened in EMEA (Europe, Middle East, and Africa) and the US. Operational issues such as product sourcing, trademarks and implementation of the distribution strategy were addressed to ensure maximum value creation for the company. Devgen expects to finalise data packages for submission in Europe and US for a number of core crops in 2008. The company plans additional field tests in 2008 and to prepare registration dossiers for more crops and new mixtures and formulations to further grow the business.

Devgen and Monsanto entered into a five-year research and development (R&D) agreement and a five-year technology exchange agreement. These agreements enable the parties to identify potential product candidates derived from technologies being developed by both companies. The new R&D agreement commits additional funding from Monsanto for Devgen's research and is coupled with an agreement which will broaden the relationship so that both companies can explore technology applications in their crop areas of interest. Devgen will leverage Monsanto's work in rice and small cereal grains, especially in Asia. Monsanto intends to initially leverage Devgen's technologies to its core crops of interest such as corn, cotton and soybeans.

Monsanto and Devgen scientists described a novel application of RNAi technology to provide farmers with a new in-the-seed option to protect crop yields. The results of the companies' research were published in the November edition of the peer-reviewed scientific journal Nature Biotechnology.

Devgen's Human Therapeutics division has made significant progress in 2007 in developing first-in-class therapies derived from an innovative inflammation platform. The company is in intense contact with third parties in order to spin-off its pharma unit.

### **2) Discussion and analysis of the consolidated financial statements of 2005, 2006 and 2007**

The consolidated accounts are drawn up in accordance with IFRS and have been approved for issue by the board of directors on March 11, 2008.

## Revenues

The company's revenues have been derived from research collaboration agreements, sales of goods (seeds) and government grants.

- Devgen's revenues have decreased from € 9.3 million in 2006 to 7.9 million in 2007, a decrease with 15.4%.
- Earnings before amortization, interest and taxes (EBITDA) decreased from € -8.7 million in 2006 to € -13.6 million in 2007.
- Net loss for the year amounted to € 13.9 million, an increase of 46.2 % compared to the net loss of € 9.5 million in 2006.
- The cash position of Devgen increased from € 23.8 million by year end 2006 to € 38.8 million by year end 2007 (including € 5 million cash restricted in its use but excluding € 5 million financial assets available for sale). The cash position in 2007 was marked by a total capital increase of € 49.1 million (€ 31.1 million on February 20, 2007 by institutional investors and € 18 million on October 31, 2007 by Monsanto) and by the cash settlement for the Monsanto seed business acquisition in India and Pakistan for € 19.5 million.

'000 of € / year ended 31 December	2007	2006	2005
Partnering income			
Crop division	5,657	6,827	9,397
Human therapeutics division	-	-	-
<b>Total partnering income</b>	<b>5,657</b>	<b>6,827</b>	<b>9,397</b>
Sales of goods			
Crop division	338	-	-
Human therapeutics division	-	-	-
<b>Total sales of goods</b>	<b>338</b>	<b>-</b>	<b>-</b>
Government grant income			
Crop division	1,288	2,032	969
Human therapeutics division	593	448	551
<b>Total government grant income</b>	<b>1,881</b>	<b>2,480</b>	<b>1,520</b>
<b>Total income</b>	<b>7,876</b>	<b>9,307</b>	<b>10,917</b>

Of the total revenue in 2007, € 7.3 million was generated by Devgen's Crop Protection division, as compared to € 8.9 million in 2006, a decline with €1.6 million:

This revenue decline stems from the decrease in contract income payments in the crop protection division mainly due to the completion of the collaboration with Pioneer in 2006 accounting for € 0.9 million revenue in that same year. Also the collaborations with Monsanto and Sumitomo saw a decline of € 0.2 million in revenue as compared to 2006 due to the completion of anterior collaborations with both of these parties in 2006 where certain license fee payments were still included. Moreover, on February 6, 2007, Devgen and Monsanto signed a new five-year research and development agreement and a five-year technology exchange agreement with start date September 1, 2006. Part of the income resulting from this new collaboration was already booked for € 0.9 million in 2006.

On the other hand, the crop protection division saw its first sales of seeds for € 0.3 million in 2007. Sales of seeds are a seasonal business. The main sales season, the kharif season, has yet to start running from April to September followed by the rabi season from November to February.

Crop protection division grants amounted to € 1.3 million in 2007 as compared to € 2 million in 2006. This decline of € 0.7 million mainly stems from:

- The IWT (Institute for the Promotion of Innovation by Science and Technology in Flanders) grant completion for the development of nematicides in 2006 accounting for € 0.2 million grant income in 2006.
- The IWT grant for the development of technology to make plants with intrinsic defense mechanisms against pests, based on Devgen's RNAi and PBDi technology, amounted to € 1.3 million in 2007 as compared to € 1.4 million in 2006.
- In 2007, no EDB grant (Economic Development Board, Singapore) income was recognized, as compared to € 0.4 million in 2006.

In Devgen's Human Therapeutics division, revenue of € 0.6 million was generated in 2007, as compared to € 0.4 million in 2006. Government grants have been the main source of income for the last three years. In January 2007, Devgen obtained the approval for a new research grant from IWT of € 0.9 million over 16 months, starting September 1<sup>st</sup> 2006, for the development of new targets for the treatment of obesity. This grant generated € 0.6 million in 2007 as compared to € 0.3 million in 2006. On the other hand, the IWT grant for the development of ion channels as disease targets was completed in 2006 and resulted into € 0.1 million grant income in that same year.

### Gross profit

'000 of € / year ended 31 December	2007	2006	2005
Revenues	7,877	9,307	10,917
Including Sales of goods	338	-	-
Cost of goods sold	(390)	-	-
<b>Total gross profit</b>	<b>7,487</b>	<b>9,307</b>	<b>10,917</b>

The gross profit decreased from € 9.3 million in 2006 to € 7.5 million in 2007, a decrease with € 1.8 million or 19.6%. This decline mainly stems from the decrease in revenue as explained above. In 2007, Devgen recorded its first seed sales in India and Pakistan for € 0.3 million. The cost of goods amounted to € 0.4 million. Cost of goods sold is negatively impacted by both obligatory revaluation of inventories at fair value under IFRS 3 (business combinations) and seasonal effects. IFRS does not allow for alignment of time related fluctuations between the costs of the production and the effective sales of the produced seeds. Both are temporary effects and will fade out over time.

### Operating costs and expenses

'000 of € / year ended 31 December	2007	2006	2005
Marketing and distribution expenses	91	-	-
R & D expenses	17,338	14,810	11,373
General, administrative and selling expenses	5,241	4,657	3,206
Other operating income	(278)	(430)	(281)
<b>Total operating costs</b>	<b>22,392</b>	<b>19,037</b>	<b>14,298</b>

Due to the successful progression and acceleration of Devgen's research and development programs in previous years, it was further decided to increase investments in R&D. As Devgen's activities are either aimed at conducting research and development programs for third parties or for its own account, the expenses related to these R&D activities are the main cost driver.

Total R&D expenses in 2007 were € 17.3 million as compared to € 14.8 million in the same period of 2006, an increase of € 2.5 million or 17 %, mainly due to the increase of outsourcing expenses with € 1.3 million (mainly related to nematicide field trial expenses and crop breeding activities), the increase of staff costs with € 0.6 million, patent expenses with € 0.3 million, and research facilities with € 0.2 million.

Selling, general and administrative expenses in 2007 increased to € 5.2 million as compared to € 4.7 million in 2006, an increase of € 0.6 million or 13%. Staff costs decreased with € 0.2 million, excluding an increase of € 1 million in share based compensation. The expenses for external advisory services and other corporate expenses decreased with € 0.3 million.

Marketing and distribution expenses amounted to € 0.1 million and relate to Devgen's seed business in India and Pakistan, which have been accounted for since October 31, 2007, the date of Devgen's seed business acquisition from Monsanto.

Other operating income, mainly related to rent income, decreased to € 0.3 million in 2007 as compared to € 0.4 million in 2006.

### Net results

The net loss for 2007 was € 13.9 million, compared to the loss of € 9.5 million for the same period in 2006, an increase with € 4.4 million or 46%. The result has been impacted by reduced contract income (mainly from the Pioneer contract completion in 2006), a newly started income source (seed sales in India and Pakistan) resulting from the Monsanto seed business acquisition on October 31, 2007, which still has to reach its full potential, and a substantial increase in operating expenses as explained in the revenue and expense sections above.

### Cash flow

The cash used in operations in 2007 was € 12.7 million, as compared to € 10.4 million in 2006. This is due to the net operating cash drain (operating loss + amortization and depreciations + share based compensation) of € 12 million, and € 0.7 million changes in working capital including:

- Increase of trade receivables of € 0.7 million, mainly from Monsanto, Sumitomo and seed sales
- Decrease of grant (IWT) receivables of € 0.5 million
- Increase of prepaid expenses of € 0.7 million and other current assets of € 0.3 million (mainly interest receivables)
- Increase of trade and other current payables of € 0.4 million
- Net decrease of other assets of € 0.1 million related to inventory movement and fair value restatement of inventory

Cash used in investing activities amounted to € 23.2 million in 2007 as compared to € 0.4 million in 2006. This includes € 18.9 million cash paid for the seed business acquisition in 2007, mainly consisting of intellectual property rights and other intangible assets, inventory and equipment. Other investing activities included € 1.1 million purchases of property, plant and equipment in the research facilities in Ghent, and a short term cash investment of € 5 million (classified as financial assets for sale)<sup>1</sup>.

Cash flow from financing activities amounted to € 51.6 million in 2007 as compared to € 0.2 million in 2006. This cash flow in 2007 included the net proceeds from capital increases of € 49.1 million in 2007 as compared to € 0.8 million in 2006, and the net proceeds from financial debt of € 2.4 million in 2007 as compared to net financial debt payments of € 0.6 million in 2006.

As a result from these operational, investing and financing cash flows, a net increase of € 15.1 million in cash and cash equivalents was recorded during 2007<sup>1</sup>.

Devgen's cash and cash equivalents, including restricted cash of € 5 million amounted to € 38.9 million on December 31, 2007, as compared to € 23.8 million on December 31, 2006<sup>1</sup>.

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<sup>1</sup> A € 5 million investment in a short term product with a lifetime of 6 months with guaranteed payback of the invested amount has an unfavorable effect on the reported cash flow as per IFRS and the amount of cash and cash equivalents available. By including this amount, cash flow increases from € 15.1 million up to € 20.1 million and the amount of available cash increases from € 38.9 million to € 43.9 million. Devgen's board is convinced that these two numbers are better reflecting the actual situation.

## Balance sheet

The balance sheet at December 31, 2007 remains very solid, with a strengthened solvency ratio (equity vs. total assets) of 80 % (versus 70% at December 31, 2006) and a broad cash position of € 38.9 million<sup>1</sup>, allowing the company to fulfill all its existing financial obligations and to continue its research programs.

2007 was exceptionally marked by the seed business acquisition from Monsanto in India and Pakistan:

- Intangible assets increased from € 0.1 million in 2006 to € 9.4 million in 2007, mainly related to the acquisition of a portfolio of technical know how, dealer and vendor relationships and intellectual property rights such as trademarks, licenses, copyrights and non-compete arrangements
- Inventory of seeds acquisition of € 2.6 million in 2007.
- Seed production and breeding equipment acquisition of € 0.5 million in 2007.

Total property, plant (including the building lease) and equipment increased from € 10.4 million in 2006 to € 10.9 million in 2007.

Total available cash and cash equivalents increased from € 22 million in 2006 to € 33.9 million in 2007<sup>1</sup>. Cash restricted in its use increased from € 1.8 million in 2006 to € 5 million in 2007 due to an additional cash pledge of € 3.3 million provided as guarantee for a short term bank loan of € 2.7 million, mainly to finance the seed business inventory and equipment takeover in India.

Total net equity increased from € 27.8 million in 2006 to € 64.8 million in 2007, an increase of € 37 million, mainly due to an increase of share capital and premiums of € 49 million, and an increase of share-based payments of € 1.7 million and the impact of the net loss increase of € 13.9 million.

On the liabilities side of the balance sheet, the building lease resulted in a financial debt of € 7.7 million at year end 2007. Other financial debt of € 0.8 million is related to the financing of investments in research and computer equipment, furniture and leasehold improvements.

## Taxation

The negative results of the company over the last three years imply that no income taxes were payable. On 31 December 2007, the company had net tax losses carried forward amounting to € 59 million, implying potential deferred tax assets of € 20 million. However, due to the uncertainty surrounding Devgen's ability to realize taxable profits in the near future, the company did not recognize any deferred tax assets on the balance sheet.

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### **3) Business acquisition**

On October 31, 2007, the group has acquired a seed business from certain Asian subsidiaries of Monsanto. Under the terms of the acquisition agreements, Devgen group entities have purchased the assets associated with Monsanto's hybrid rice, sunflower, sorghum, and pearl millet businesses and certain other assets in India, Pakistan and the Philippines, for approximately € 20.2 million payable in cash, of which approximately € 19.9 million as opening balance for the acquisition per October 31, 2007 and € 0.3 million capitalized advisory and other expenses per December 31, 2007 directly related to the business acquisition.

The following assets and liabilities have been acquired:

'000 of € / per 31 October 2007	Fair value
Intellectual property and other intangible assets	9,523
Property, plant and equipment	504
<b>Total non-current assets</b>	<b>10,027</b>
Inventory	2,803
<b>Total current assets</b>	<b>2,803</b>
Social liabilities	54
Deferred tax liabilities	139
<b>Total non-current liabilities</b>	<b>193</b>
<b>Total acquisition value</b>	<b>12,637</b>
<b>Acquisition price per 31/10/2007</b>	<b>19,911</b>
Capitalized acquisition expenses per 31/12/2007	337
<b>Total acquisition price per 31/12/2007</b>	<b>20,248</b>
Total goodwill on acquisition per 31/12/2007	7,611

### **4) Capital increases and issuance of financial instruments**

**Following capital increases took place in 2007:**

- On February 20, 2007, Devgen raised € 31,245,951.75 through a private placement by issuance of 1,505,829 new shares placed with institutional investors at a price of € 20.75 per share.
- Exercise of 141,858 existing warrants into the same number of new shares on April 5, 2007 with a resulting capital increase of € 545,092.74.
- Exercise of 104,962 existing warrants into the same number of new shares on October 3, 2007 with a resulting capital increase of € 367,292.57.
- On October 31, 2007, Devgen raised € 18,001,788.00 through a private placement by issuance of 1,045,400 new shares placed with Monsanto at a price of € 17.22 per share.

All new shares are listed on Eurolist by Euronext Brussels.

On November 22, 2005, Devgen NV created a pool of 643,334 new warrants mainly for employees but also for directors and consultants of Devgen NV and its subsidiary. Of this pool 293,772 warrants have been granted in 2007.

### **5) Risks**

In application of the Belgian Company Law, the group informs the shareholders of the risk factors involved in the company's business. In 2007, the group was potentially subjected to the following inherent risks:

- Early stage of development both in the drug development and crop protection activities
- Business environment that is characterized by rapid technological change, complexity and severe competition
- Reliance on collaborative partners to generate short to medium term revenues, and in the long-term to assure the expertise relating to manufacturing, sales and marketing, licenses and technology rights

- Dependence on key personnel, both principal management and scientific personnel;
- Potential liability relating to products, testing, sales and marketing, and use of future products based thereon
- Negative reaction, public opinion, to the use of genetic technology and animal testing
- Ability to obtain and maintain adequate patents and proprietary rights to its technologies and products
- National and international government regulation relating to biotechnological, agrochemical and pharmaceutical research and development
- Use of potentially harmful materials in the research and development activities
- Lack of operating profitability due to the significant research and development expenditures since 1997
- Additional financing requirements and access to capital that might be needed to fund future activities
- Potential government interference with regard to pricing for hybrid and biotech seeds on the Indian market

In 2007, financial risk management was focused on:

#### *Capital risk*

The group manages its capital in order to generate sufficient cash and cash equivalents in order to finance the ongoing research and development projects and the development of its newly acquired seed business.

#### *Credit risk*

Credit exposure with regard to R&D partnering activities is concentrated with a limited number of creditworthy partners. Credit exposure in the Indian seed business – dealing with a large number of local distributors – is managed in accordance with standard business practice supported by consistent and regular credit worthiness checks for new and existing customers.

#### *Interest risk*

All borrowings and leases have fixed interest rates, except for the building loan which is subject to a variable interest rate, revisable at each fifth anniversary date of the loan agreement based on the average weighted interest rate swap 1 to 5 years (IRS) with a duration of 15 years, plus a margin of 2,5%. The group does not use interest rate swap or forward interest rate contracts.

#### *Currency risk*

The group is managing its foreign currency risk by matching foreign currency cash inflows with foreign currency cash outflows or use forward currency exchange contracts to hedge its material foreign currency exposure.

#### *Translation risk*

Translation exposure arises from the consolidation of the foreign currency denominated financial statements of the Group's foreign subsidiaries. The effect on the Group's consolidated equity is shown as a cumulative translation adjustment.

#### *Liquidity risk*

The group has developed an appropriate risk management framework for the management of its short, medium and long-term funding and liquidity requirements. The group makes use of liquid investments in currency or term accounts, commercial paper and treasury notes. Each instrument in this balanced portfolio possesses high grade credit ratings, capital reimbursement guarantees and limited time horizons up to maximum 12 months.

### **6) Listing of elements which by their nature would have consequences in case of a public take-over bid on the company.**

The elements which by their nature would have consequences in case of a public take-over bid on the company are listed below. Outside the elements listed below, the Company has no knowledge of any other elements which by their nature would have consequences in case of a public take-over bid on the company required to be disclosed by law.

Important agreements which would undergo changes or would be terminated in case of a change of control of the company after a public take-over bid:

Under the February 6, 2007 Research and License Option Agreement between Devgen NV and Monsanto Company, Monsanto has a right to terminate the Agreement in the event that certain companies acquire a controlling interest in Devgen NV, except that existing licenses already granted by either party under the Agreement prior to the termination would remain unaffected by the change of control.

### **7) Use of Authorized Capital**

Below is an overview of the use of the authorized capital under the authorization given by the extraordinary general shareholders' meeting of April 29, 2005:

<b>Date</b>	<b>Capital increase (€)</b>	<b>Issued shares</b>	<b>Percentage</b>	<b>purpose</b>
12-Dec-05	45,575.05	607,667	4.38%	Creation warrant plan 2005
20-Feb-07	112,937.18	1,505,829	10.86%	Private offering of shares
31-Oct-07	78,405.00	1,045,400	7.54%	Issuance of shares to the benefit of Monsanto Company in the framework of a collaboration and acquisition
<b>Remaining</b>	<b>881,241.99</b>	<b>11,749,893</b>	<b>77.21%</b>	

### **8) Subsequent events**

No subsequent events to report.

### **9) R&D**

Total R&D expenses represent nearly 80% of total operating costs and amounted to € 17.4 million in 2007. Of this number 59% was dedicated to the crop protection activities and 41% to the human therapeutics activities. Total R&D expenses increased with 18% as compared to 2006 (€ 14.8 million). This is mainly due to the increase of staff costs with approximately € 0.7 million and outsourcing expenses with approximately € 1.3 million. The latter expenses relate to nematicide field trials and crop breeding activities. Other R&D expense increases relate to patent expenses and the research facilities in Ghent.

Done on March 11, 2008,  
On behalf of the Board of Directors,