

SAGENTIA GROUP



Annual Report and
Financial Statements

Sagentia Group was formerly The Generics Group

2006

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2006 Highlights



- Revenue increased by 8% to £23.6m (2005: £21.9m)
- Consultancy and IP exploitation fee income increased by 6% to £18m (2005: £17m)
- After a strong first half, consulting was loss making in the second half and, together with IP exploitation, made an overall operating loss of £0.4m for the full year (2005: profit £0.5m)
- Significant investment of £0.6m in extensive rebranding exercise including change of name from The Generics Group to Sagentia Group
- Group loss from continuing activities before taxation of £2.5m (2005: profit £1.2m). Losses include £0.6m investment in rebranding, £0.9m reduction in fair value of venture portfolio and £0.6m net costs incurred in maintaining or increasing our holdings in majority held ventures
- CMR Fuel Cells plc, Sagentia Group's fuel cell spin-out listed in December 2005, published key relationships with Solvay SA and Xaar plc, and after its first full year of trading on AIM announced the achievement of a key technical milestone, demonstrating stack performance of 500 watts/litre. Sagentia Group retains an 11% stake in CMR, which had a gross value of £33m at the year-end
- Sphere Medical Holding Ltd, Sagentia Group's medical device spin-out, completed a significant £6.2m financing in H1 2006, including £0.6m investment from Sagentia Group at a post money valuation of £14m
- Atraverda Ltd, an advanced bipolar battery company, completed a £2m financing in December 2006 supported by all principal shareholders, including £0.2m investment from Sagentia Group at a post money valuation for Atraverda of £8m
- Sale of the Group's equity interest in Vibration Technology Ltd for £0.5m
- Period end cash balance of £2m (2005: £3.6m) with an increase in bank facility from £6.6m to £11m, of which £4.5m remains unutilised at year-end
- Adjusted loss per share of 1.1 pence (2005 earnings of 0.6 pence)
- Shareholders' funds per share of 9.7 pence (2005: 10.7 pence)
- Appointment of Chris Masters as Group Chairman during the second half of the year
- Management restructuring and cost reduction measures started at the year-end to pave the way for a return to profitability in 2007

Chairman's Statement

After a strong start to 2006, the full year financial performance of Sagentia Group was ultimately disappointing. While the Group grew revenues and continued to see good progress in a number of its portfolio companies, sales in the core technology consulting business were below expectations in the second half leading to a full year loss of £0.4m (2005: £0.5m profit). This, together with the one-off cost of rebranding, reduction in value of the venture portfolio, principally reflecting the 7% movement in the share price of CMR Fuel Cells plc since listing in December 2005, and continued investment in spin-out subsidiaries, led to the Group making an overall loss of £2.5m, compared to a profit of £1.2m in 2005.

Actions have already been taken to correct the second half performance. Dan Flicos has been appointed Managing Director of the Group's technology consulting business. This followed the resignation of Simon Davey in November. Under Dan's leadership the business has been restructured and ongoing annual costs reduced by £1.3m. The one-off cost of this reorganisation is £0.3m which will be borne in Q1 2007. Over the last two years the Group's turnover has risen by 35% and with a simplified management structure and reduced cost base we are now in a strong position to return to profitable growth in 2007.

Our strategy regarding ventures remains the same, namely to create one or two businesses a year from both Sagentia and its corporate network, and to be in a position to retain a significant equity position in such businesses through to exit. Over the last two to three years, we have demonstrated, in CMR Fuel Cells, Sphere and Atraverda, that we are capable of creating companies with substantial value. During the year Sphere and Atraverda successfully completed large refinancings, in which the Group invested £0.8m at a cumulative post money valuation for these companies of £23m. The financing characteristics of an early stage venture business are however very different from a core technology consulting business and the Board is currently examining potential alternative ways of financing this activity more effectively going forwards.

During the year the Group underwent a significant rebranding exercise, ultimately leading to a change of name from The Generics Group AG to Sagentia Group AG. Scientific Generics, the technology consulting company, has been renamed Sagentia. Venture management activities are carried out through Sagentia Group's FSA regulated fund manager, Chord Capital. This represents the most extensive restructuring since the Company's formation in 1986 and supports the core competencies of the technology consulting business in building both businesses and capabilities for and with our clients. The investment in brand after a period of good growth in the business will reposition Sagentia Group for many years to come and eliminate the previous confusion in the market associated with the word 'generic'. The cost of this exercise was £0.6m, which was treated as an expense in 2006.

Outlook

The markets for technology consulting remain strong across Europe. While the dollar exchange rate makes it more difficult to sell into the USA, there is no reason why the business should not regain the momentum it experienced during the first half of 2006. Our immediate target is to return the technology consulting business to profitability, while creating a strong platform from which the company can deliver consistent profitable growth in the years ahead. The focus in 2007 will therefore be very much on margins and profitability. Within the venturing activity, the prospects for Sphere and Atraverda in particular are strong and improving and, overall, we look to the future with confidence.

Chris Masters
Chairman
 28 February 2007

Chief Executive's Review

Analysis of segmental results

The following table includes an analysis of the sources of revenue and operating profits and losses on ordinary activities across the Group, and is extracted from the segmental information set out in Note 4 to this report.

£000s	2006 Revenue	2005 Revenue	2006 Profit/(Loss)	2005 Profit/(Loss)
Consulting and IP exploitation	21,472	20,284	(409)	493
Venture subsidiaries	531	288	(657)	(767)
Asset management	485	516	64	(77)
Property and centre	1,158	858	(495)	(1,106)
Revenues: Gross loss	23,646	21,946	(1,497)	(1,457)
Profit on disposals of investments			392	1,573
Change in fair value on financial assets			(876)	1,808
Related bonus accrual			384	(320)
Rebranding costs			(632)	-
Cost of options			(235)	(107)
Operating (loss) profit			(2,464)	1,497

Consulting and intellectual property ('IP') exploitation

The Group's international technology consulting and IP exploitation activities are carried out through its wholly owned subsidiary, Sagentia Ltd ('Sagentia') and overseas subsidiaries in the US, Sweden, Hong Kong and Germany. The technology and business consulting services offer customised product and process solutions as well as advice on new technology opportunities to a wide range of international clients, from start-ups to multinationals. Sagentia's wide and interdisciplinary skill base means that the business can take a broad approach to issues surrounding new business development, including technological, financial, marketing and strategic aspects.

During the course of 2006 the consulting and IP activities grew fee income by 6% to £18m (2005: 17m) and revenues by 6% to £21.5m (2005: £20.3m). Top-line growth was driven in the first half of the year by a robust sales performance in the US, Europe and UK, on the back of significant growth in 2005, albeit with sales growth not being sustained into H2. The UK market for the Group's technology consulting services remained significant, although all regions increased year on year. Operating expenses increased by 9% to £18.5m (2005: £17m) driven mainly by a 7.5% headcount growth, resulting in 5% increase in employee costs for permanent and temporary staff. Sagentia returned a loss for the year of £0.4m following a profitable H1 (2005: profit £0.5m).

Sagentia retains significant licences which should start to generate income over the next few years. These include the Autosheath™ licence, for which \$0.5m is due pending grant of the US patent, expected 2007. Patent fees of £0.34m were incurred during the year (2005: £0.35m) and have been expensed through the profit and loss account.

Overseas expansion has been driven through the offices in Baltimore, Frankfurt and Hong Kong, with significant increases in both the selling and operating capacity made during the year. In February 2006, Sagentia's Hong Kong subsidiary SGA Tech Ltd, Rolls-Royce plc and Arup were named as the first winners of the Cathay Pacific Awards, a scheme designed to recognise and reward UK business dynamism and success in Hong Kong and China. The scheme was launched in September 2005 and the three winners beat 33 other applicants from a variety of sectors ranging across manufacturing, retail and academia.

During 2006 Sagentia completed a number of landmark projects. This included a multi-year project stimulating wealth and innovation with Yorkshire Forward in the advanced engineering and metals sector. Over 18 months, 450 jobs were created and safeguarded and public money was invested with an 800 per cent return. The company also completed a large breakthrough bathroom appliance development project for a European leader.

Sagentia also continues to selectively exploit proprietary intellectual property and technology. During 2006 Sagentia agreed a deal with Honeywell's First Technology business to explore the commercial potential of its proprietary liquid level-sensing technology Cap-Track. Cap-Track is an electronic dipstick and is the latest in a line of innovative sensing technologies developed by Sagentia over the past ten years. Unlike other capacitive sensors, which rely on a two-sensor approach, this is a single sensor solution. Cap-Track also offers the prospect of locating a fuel sensor outside the fuel tank – an industry first. This has long been regarded as the 'Holy Grail' of fuel sensing and its expected to have a major impact on the automotive industry.

Chief Executive's Review continued

Under the terms of the one year agreement, First Technology, now owned by Sensata, has exclusive rights to capitalise on Cap-Track in the automotive industry. Honeywell has indicated it will focus on promoting the technology as an alternative to existing fuel-level sensing systems. With at least one sensor per vehicle, the potential application exceeds 65 million new vehicles being built globally each year.

During 2006 Dan Flicos was appointed Managing Director of Sagentia Ltd following the resignation of Simon Davey. Dan Flicos joined the business in 1993. He spent three years in the US and during this period was responsible for Sagentia's US operations and the successful growth of this business, including the integration of a strategically important acquisition, Genesis Medical, into Sagentia Inc. Dan returned to the UK in 2003, most recently as Group Commercial Director. He has a masters degree in Electrical and Electronic Engineering from Bath University.

Fundamental to the success of Sagentia's business model is a growing and profitable international technology consulting activity. In the consulting business, the quality of our innovation, delivery and people is validated by real customers; our technology is developed in the context of a real market place rather than a laboratory; a profitable consulting business is able to support a world-class technology engine at no cost. Finally the corporate culture fosters the conditions for the next CMR or Sphere without the business having to commit large amounts of capital to create the opportunity.

Venture subsidiaries

Venture subsidiaries are majority owned spin-out companies created by Sagentia Group for the purpose of exploiting a particular technology, intellectual property or business opportunity. Sagentia Group's goal with its venture portfolio is ultimately to realise value through IPO or trade sale. Under IFRS, controlled investments are consolidated as subsidiaries, therefore all costs incurred by the venture subsidiaries are expensed through the profit and loss account. Consequently, the fair value of controlled investments is not shown on the balance sheet. Controlled investments being actively exploited include Sensopad Ltd, Atranova Ltd and now Intrasonics Ltd.

The net costs of venture subsidiaries in 2006 were £0.7m (2005: £0.8m). The main three of these venture subsidiaries are as follows:

Intrasonics

Within the portfolio of IP assets, the Group has accelerated the planned commercialisation programme for its wholly-owned Intrasonics™ acoustic data communications technology. Intrasonics addresses opportunities in the interactive media sector and is currently in commercial discussions to raise funding which will allow the next stage of development. As well as operating costs, all expenditure on the creation and development of intellectual property has been written off as incurred, in line with the Group's accounting policies.

Sagentia Group owns 93% of the equity in Intrasonics, and currently funds the company via a loan facility.

Sensopad

Sensopad obtained the rights to non-automotive applications for a contact-less inductive sensing technology from Sensopad Technologies when Sensopad Technologies was sold by the Group to a subsidiary of TT electronics plc in March 2005. Sensopad Limited has added new sensor IP to its portfolio, and is currently exploiting all its IP under a new management team. Sensopad was operating at close to breakeven at the end of 2006 with the benefit of orders and licences already secured in the aerospace, financial kiosks and games markets.

Sagentia Group owns 77% of the equity in Sensopad, and currently funds the company via a loan facility.

Atranova

Atranova obtained the rights to non-battery applications to commercialise Ebonex™, a titanium oxide ceramic, when Sagentia Group's portfolio company, Atraverda Ltd, obtained funding for its battery applications. Atranova has been operating a £0.4m contract to supply water treatments sub-systems in Israel, and is currently looking at other opportunities within the water treatment industry.

Sagentia Group owns 91% of the equity in Atranova, and currently funds the company via a loan facility.

The fair value of Intrasonics, Sensopad and Atranova is not shown in the consolidated balance sheet. The combined BVCA value of the Group holdings in these venture subsidiaries is £1m.

Asset management

Chord Capital, the Group's FSA registered subsidiary, manages both investments within the Group, and advises on investments for two separate funds (2005: three). Fees earned for funds under management was £0.5m (2005: £0.5m) and generated a gross profit of £0.1m (2005: gross loss £0.1m) following a restructuring of its cost base. The portfolio capitalised on Sagentia Group's balance sheet at 31 December 2006 (Note 15) is valued at £11.3m (2005: £11m).

Chief Executive's Review continued

The net result for the venture operations (being profit on disposals of investments, change in fair value on financial assets and the related bonus accrual) generated a profit of £0.1m (2005: profit £3.1m) which was disappointing. This reflected only one investment disposal and no external refinancing of our venture subsidiaries.

The following investee companies now comprise 67% of the fair/BVCA value of the portfolio capitalised on Sagentia Group's balance sheet at 31 December 2006:

Investee company	Group fully diluted equity interest * %	BVCA valuation of Group interest £m
CMR Fuel Cells plc	11	3.7
Sphere Medical Holding Ltd	10	1.5
Atraverda Ltd	14	1.3
Sensortec Ltd	12	1.2
Total		7.7

* Fully diluted interest assumes that granted options have been exercised, with the exception of CMR Fuel Cells

Progress during the year in the above investee companies was as follows:

CMR Fuel Cells ('CMR')

CMR was spun out of Sagentia in 2003 to exploit a revolutionary flow-through fuel cell utilising mixed reactants developed at Sagentia. CMR's patented technology involves electrochemical devices, which convert fuel directly into electricity at higher efficiency rates and have the potential for higher power storage capacity. Commercial fuel cell revenues are projected to grow to over \$14 billion by 2010. CMR will address this market with what is widely recognised as one of the industry's leading commercial mass-market technology propositions. CMR's technology has the potential to lead to a ten-fold increase in power density, a five-fold reduction in cost with reduced dependence on precious metals, such as platinum, and can be mass-produced cheaply using existing processes.

CMR was admitted to AIM in December 2005. Sagentia Group retains an 11% equity stake in CMR post IPO. The mid-market share price of CMR at year-end was £1.645. Sagentia Group's shares in CMR are therefore held in the balance sheet at year-end at a fair value of £3.7m.

CMR made good technical progress during the year and in February 2007 confirmed that it met the key performance milestone in its research and development programme on time and in accordance with the targets outlined in the company's AIM admission document. The milestone of producing a fuel cell stack consistently delivering a power density of greater than 500 watts per litre is a tangible and important step towards producing a commercially viable product. During the year CMR also progressed commercial relationships with leading consumer electronics OEMs, entered into a porous MEA development programme with Solvay SA and increased staff members to 27. The company further entered into a second generation 'printed stack' collaboration with Xaar plc and Solvay SA. The company closed the year with a strong cash position.

Sphere Medical Holding ('Sphere')

Sphere, a medical microtech spin-out from Sagentia, is developing micro-analysers which can measure simultaneously numerous important clinical parameters in real time. The disposable micro-analyser platform, which is based on technology originally acquired from Siemens and Sagentia, can be applied to numerous clinical needs at very cost effective price points. The initial commercial application of the micro-analyser will be the real time measurement of glucose levels, blood gas concentrations and electrolyte levels in a number of clinical application areas. Sphere is also developing novel receptor technology, enabling the measurement of drugs and disease markers, as part of its strategy to increase the commercial applications of its patented micro-analyser system.

During 2006, Sphere closed a funding round of £6.2m, £0.6m of which was invested by Sagentia Group to maintain its equity share. In addition to existing shareholders, new shares were issued to Schroders Investment Management Limited, Oxford Capital and Fritas A/S. The company has engaged with a number of the world's leading device companies in commercial discussions, and the product development programme has progressed well demonstrating integrated sensor function. Sphere is now beginning to invest in manufacturing scale-ups.

During the year Sphere announced important relationships with AMI Semiconductor, Analogic Devices and latterly Olivetti to manufacture Sphere's proprietary micro-sensor chips.

Atraverda

Atraverda has developed an innovative lead-acid battery design using Ebonex™ bipolar membranes. Atraverda's plates are based on a novel ceramic material, which enables a performance increase of over 30% compared with standard lead-acid batteries, while reducing weight by at least 25%. Atraverda's patented Ebonex technology is the first commercially viable bipolar product to enter the market that makes lead-acid batteries smaller, lighter, longer lasting and more reliable.

Chief Executive's Review continued

During the year Atraverda announced that it had entered into a commercial agreement with East Penn Manufacturing Company Inc, the world's largest battery manufacturer, to develop bipolar batteries. In 2005 the company announced a similar agreement with Yuasa. Atraverda completed a £2m financing in December 2006 supported by all principal shareholders, including £0.2m investment from Sagentia Group at a post money valuation for Atraverda of £8m.

Target markets for Atraverda include standby power, mobility, telecoms and automotive including hybrid electric vehicles. Ebonex bipolar batteries use significantly less lead while being recyclable like conventional lead-acid batteries, delivering a dependable, environmentally-friendly technology.

Sensortec

Sensortec has developed a platform technology for use in disposable bio-sensors, based on immuno-assay techniques. Sensortec's proprietary technology enables the miniaturisation of a wide range of common format assays traditionally performed at clinical reference laboratories, all in a simplified form and at a competitive price. The unique design of the Sensortec sensor chips means that low cost materials and methods can be used to produce the disposable cartridge incorporating the sensors and fluidics required to manipulate the blood sample and perform the tests.

In 2006 Sensortec entered into an exclusive global agreement with DxTech LLC, a private US company formed by XL TechGroup Inc, an AIM listed company. DxTech is developing a unique fluidic-based medical diagnostic platform that will initiate the transition from centralised to distributed diagnostics. The deal assigns the exclusive global rights of the point of care clinical diagnostic instrument to DxTech, to be used in the development of a multi-analyte micro-fluidic cartridge that forms an integral part of the DxTech diagnostic platform.

Under the terms of the agreement, DxTech will be granted an exclusive worldwide licence for all medical and veterinary applications of the Sensortec technology, in return for which Sensortec will receive an equity stake of up to 12% in DxTech. Universal Sensors, the Cambridge based arm of Sensortec, has been contracted to transfer the selected diagnostic tests to the sensors and to help develop the multi-analyte, micro-fluidic cartridge that forms an integral part of the point of care diagnostics platform. It is anticipated that the device will be the first of many diagnostic panels or cartridges to enter product demonstrations in 2007.

Other investments

During the year Sagentia Group announced the sale of its entire equity stake in Vibration Technology ('Vibtech') to the French company Sercel for cash consideration of £0.5m and a

profit of £0.3m. Based in Scotland, Vibtech, founded in 1996, pioneered the use of advanced wireless technologies for seismic recording. This technology has now reached a new stage with the recent release of the Unite system, and field trials of this new generation equipment have attracted interest from both oil companies and seismic contractors.

Sagentia Group holds circa 11% of the equity in TurfTrax Ltd. TurfTrax primarily provides data on horse racing to the media and consumer betting markets. In particular the company has developed (with Sagentia) and introduced the TurfTrax Tracking System which captures a horse race as data and broadcasts this data to multiple clients in real time.

Our strategy regarding ventures remains the same, namely to create one or two businesses a year from both Sagentia and its corporate network, and to be in a position to retain a significant equity position in such businesses through to exit. Over the last two to three years, we have demonstrated, in CMR Fuel Cells, Sphere and Atraverda, that we are capable of creating companies with substantial value. The financing characteristics of a venture business are however very different from a core technology consulting business and the Board is currently examining alternative ways of financing this activity more effectively going forwards.

Property and central services

Property comprises the Group's 77,000 square feet freehold headquarters in Harston, England. The principal tenant remains the Group's consulting business, Sagentia Limited, which occupies 40,000 square feet on arms length terms. The remaining space is let on short to medium term leases.

The net cost of property and central services comprise £0.5m (2005: £1.1m), the decrease resulting in a reduction in the depreciation charge (see Note 14). The remaining costs result from the cost of property; Group central costs, relating to the Swiss quoted company Sagentia Group AG and its management; and the Group's IT services company Manage5Nines Limited. Costs remain under review, although 2006 closes in a better position with the building fully let, and Manage5Nines revenues increasing, including the non Group share of its customer base.

During 2006 the Board appointed Guy McCarthy to the role of Group Director of Finance. He has taken over the financial management responsibilities previously fulfilled by the Chief Executive.

Martin Frost
Chief Executive
 28 February 2007

Financial Review

The following table includes an analysis of the operating profits and losses on ordinary activities across the Group, and is extracted from the Consolidated Income Statement in this report.

	2006	2005
	£000s	£000s
Core operations	23,115	21,658
Venture subsidiaries	531	288
Revenue	23,646	21,946
Core operations	(840)	(402)
Venture subsidiaries	(657)	(1,055)
Gross Loss	(1,497)	(1,457)
Profit on disposals of investments	392	1,573
Change in fair value on financial assets	(876)	1,808
Related bonus accrual	384	(320)
Rebranding costs	(632)	-
Cost of options	(235)	(107)
Operating (loss) profit	(2,464)	1,497
Finance charges (net)	(59)	(286)
(Loss) profit on continuing operations before income tax	(2,523)	1,211

Revenue: Note 4

Revenue is stated net of inter-company activity. Total revenues increased by 7.7% to £23.6m (2005: £21.9m) due primarily to growth within technology consulting services. Revenues from technology consulting including recharged expenses represents 91% of Group revenue (2005: 92%).

Gross loss: Note 5

Gross loss before gains from venture disposals and fair value adjustments ended similar to 2005 at £1.5m (2005: £1.5m) due to a reduction in the cost of venture subsidiaries offsetting a reduction in profit in the consulting operations.

Analysis of the revenue and gross loss by segment are further analysed in the Chief Executive's Review.

Investment activity:

Profit on disposal of investments: Note 15

Profit on disposal of investments principally relates to the disposal of our Vibration Technologies investment.

Change in value of investments: Note 15

The change in value of investments of £0.9m represents the reduction in the fair value of investments of £0.7m, primarily due to the reduction in share price of our quoted investment CMR Fuel Cells, together with the impairment of financial assets of £0.2m. CMR's share price ended the year at £1.645 (2005: £1.925). The Group initially had a lock-in period, where it was unable to trade in CMR shares. This has now expired.

Of the remaining investments, gains in Sphere, Vibration Technologies and Atraverda were offset by losses of a similar size booked in British Titanium, CDC (in administration), Zinwave and Turfrax (down-round investments).

Bonus accrual on change in fair value

A bonus accrual of £0.4m has been released in 2006 (£0.3m accrued in 2005) partly due to the reduction in fair value of investments, and partly due to the Board's decision to accrue bonuses at a lower level in future.

Rebranding

A one-off spend of £0.6m relating to external suppliers for the rebranding exercise was incurred in 2006.

Cost of options: Note 19

The cost of options issued and outstanding at the year-end for 2006 is calculated as £0.2m (2005: £0.1m). The increase being due to the options that were issued mid 2005. 0.7m options were issued in 2006. At the year-end, the majority of options issued have an exercise price in excess of market price.

Finance charges: Note 6

Finance charges reduced to £0.1m (2005: £0.3m) due to the increase in interest-rate charge reducing the cost of the interest-rate swap undertaken.

Financial Review continued

Earnings per share: Note 11

The loss per share was 1.1 pence (2005: earnings per share 0.5 pence).

Analysis of balance sheet

At 31 December 2006 the Group had shareholders' funds of £21m (2005: £23.1m) which was equivalent to approximately 9.7 pence per share (2005: 10.7 pence). This includes freehold land and buildings with a net book value of £14.8m (2005: £15m), against which the Group has an outstanding loan of £6.5m (2005: £6.6m), in addition to cash of £2m (2005: £3.7m). Unutilised loans of £4.5m are currently available to be drawn down by the Group.

The fair value of investments and other loans to investee companies at the year-end was £11.3m (2005: £11m). This represents the BVCA or market valuation of all non-controlled investments. The BVCA valuation of controlled investments – venture subsidiaries – is £1.1m (2005: £1.1m). The difference between the BVCA valuation and the net asset value at the year-end for venture subsidiaries is equivalent to approximately 0.5 pence per share (2005: 0.5 pence).

Cash and cash flow

Cash flows from operating activities reduced from a £1.2m outflow in 2005 to £0.7m outflow in 2006, mainly resulting from the gross loss offset by a reduction in working capital needs.

Cash flow from investing activities increased from £0.5m in 2005 to £0.9m in 2006. Discretionary spending, including capital expenditure and financial investment, was limited to a net £0.8m (2005: £2.2m).

Bank loans drawn at the end of the year were £6.5m (2005: £6.6m). The loan is part of a Group facility taken out as a five year revolving loan facility of up to £9m secured against Harston Mill, together with a further £2m overdraft facility guaranteed by Sagentia Group. This replaced the existing mortgage against the building. At the end of 2006 £4.5m of the facility remains available to be drawn down.

The Group continues to carefully manage its access to cash resources so that its business and investment activities can progress in line with its business plan. The Group will continue to review opportunities to dispose of investments in order to make funds available to make new investments.

G J McCarthy
Group Director of Finance
 28 February 2007

Report of the Directors

Directors

Chris Masters Chairman

Chris took his doctorate in Chemistry at Leeds University and previously worked for Shell Research BV in The Netherlands and with Shell Chemicals in the UK. He joined Christian Salvesen as Business Development Manager in 1979, becoming Director of Planning for its US operation and subsequently its Chief Executive from 1989 to 1997. After this time Chris was appointed Executive Chairman of Aggreko plc, a post he held until January 2002. Other directorships include Scottish Media Group plc, British Assets Trust plc, Alliance Trust plc, John Wood Group plc and the Crown Agents.

Lars Kylberg Senior Independent Non-Executive Director

Lars has been a Non-Executive Director of Sagentia Group since November 2000. Lars worked for ASEA as Managing Director of its subsidiaries in Colombia and South Africa from 1967 to 1976. Lars was President of ASEA Skandia from 1976 to 1981 and Executive Vice President of Saab Scania from 1981 to 1984. He was President and Chief Executive Officer of Incentive AB and Alfa Laval AB from 1984 to 1989, two of Sweden's largest industrial groups. From 1990 until 1995 he was President and CEO of Saab Scania. Lars is Chairman of Morgan Crucible plc.

Gordon Edge* Non-Executive Director

Gordon founded Sagentia Group in 1986. He became Chairman of the Group in January 2002, having previously been Chief Executive Officer. Gordon was also the founder of PA Technology in 1970 and became a member of the PA Consulting Group International Board in 1974. Prior to joining PA, he was one of the founding members of Cambridge Consultants Ltd (later owned by Arthur D Little Inc), of which he became Managing Director from 1965 to 1970. He is also a Trustee and Treasurer of the RSA and Co-Chairman of the Cambridge University MIT Institute.

Martin Forster Non-Executive Director

A Swiss resident, Martin has been a Non-Executive Director of Sagentia Group since 1998 and is Sagentia Group's Company Secretary. Martin is a partner in the law firm Wiederkehr Forster in Zürich, Switzerland and a member of the Zürich and Swiss Bar Association. Wiederkehr Forster is retained as Sagentia Group's legal adviser and provides company secretarial services to the Group. Martin is a Doctor of Law of the University of Zürich and has a Master of Comparative Law degree from the Southern Methodist University in Dallas, Texas.

Martin Frost* Chief Executive

Martin was appointed to the combined role of Managing Director/Finance Director for the Group in September 2003 and as Group CEO in November 2006. He joined Sagentia Group in 1997 from GEC-Marconi, where he served as Financial Controller of a number of its Divisions for three years. Prior to joining GEC-Marconi, Martin spent several years in the USA, France and Belgium, working for the Environmental Services Division of Simon Engineering plc. Martin chairs the Board of Sagentia and sits on the board of several of the Group's spin-out venture companies.

Johan Björklund Non-Executive Director

Johan has been a Non-Executive Director of Sagentia Group since November 2000. He has been Controller and Financial Director of Catella Holding AB since 1988 and was promoted to Managing Director in January 2005. Prior to that he had his own consultancy practice between 1985 and 1988. From 1980 to 1984, Johan was with PricewaterhouseCoopers, based in Stockholm, Sweden, where he worked in audit.

Markus Rauh Non-Executive Director

Markus has been a Non-Executive Director of Sagentia Group since November 2000. Markus began his career in 1971 with Sperry Univac. He left in 1978 to become Head of Data Systems at Philips AG and then went to Philips Kommunikations Industrie AG in 1983, where he became Chairman of the Executive Committee. In 1988, he was appointed President of Wild Leitz and, following its merger in 1990, became Chief Executive Officer of the resulting Leica Group. Markus was Chairman of the Board of Swisscom AG (retired 25 April 2006) and is a Non-Executive Director of a number of other companies.

Per Ludvigsson* Non-Executive Director

Per was appointed Non-Executive Director of Sagentia Group at the AGM in 2005. Per was proposed by Catella Holding AB and replaced Gunnar Rylander, who retired from the Board in April 2003. Per is the CEO of Inter IKEA Holding SA, Deputy Chairman of Catella Holding AB and a Board member of IKANO SA and AudioDev AB.

* Retire by rotation

Report of the Directors continued

The Directors present their annual report on the affairs of Sagentia Group AG, together with consolidated financial statements and Group auditor's report for the year ended 31 December 2006.

Business review and principal activities

The principal activities of the Group are the development and exploitation of intellectual property (IP) through licence and investment in spin-out companies, and the provision of skill based technology consulting services.

A review of the Group's activities is contained in the Chairman's Statement and Chief Executive's Review. The entities principally affecting the profit and assets of the Group in the current and preceding year are listed in Note 15 to the financial statements.

Key performance indicators

Group turnover was £23.6m (2005: £21.9m).

Group loss before taxation and minority interests was £2.5m (2005: £1.5m profit).

Group loss attributable to equity holders of the parent was £2.5m (2005: £1.3m profit).

Individual results at a segmental level are also discussed in the Chief Executive's Review and Financial Review earlier.

Principal risks and uncertainties facing the Group

The Group invests in and develops early stage technology companies. The success of these companies is not guaranteed, and the ability to realise cash from their subsequent disposal difficult to manage within a given timeframe. Consequently cash flows of the Group may vary significantly from those budgeted. The Group seeks to maintain access to sufficient funds via its own cash balance and loans that may be drawn upon in order to compensate for this.

The consultancy operations undertake a number of long term contracts of significant size, and as such the Group is exposed to uncertainty with respect to the cost to complete these contracts. Management recognises this uncertainty by conducting a rigorous exercise at the year-end to ensure that the revenue recognised on contracts in progress during the year is a fair representation of actual costs incurred and estimated costs to completion.

In addition to the operational risks, there are a number of financial and trading risks discussed in Note 3 to the financial statements.

Financial instruments

The Group's operations expose it to a variety of financial risks including the effects of changes in interest-rates on debt, foreign currency exchange rates, credit risk and liquidity risk. This is explained in more detail in Note 3 to the financial statements.

Environment

The Group's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the period covered by this report the Group has not incurred any fines or penalties or been investigated for any breach of environmental regulations.

Employees

The Group is dependent upon the qualities and skills of our employees. The commitment of our people has played a major role in our business success. This has been demonstrated in many ways, including improvements in customer satisfaction (as measured under our ISO 9001:2000 registration of our UK consultancy business), the development of our service offerings and the flexibility they have shown in adapting to changing business requirements and new ways of working. Employees' performance is aligned to Group goals through an annual performance review process that is carried out with all employees, Group profit share and option schemes.

Employment policies

The Group's employment policies are non-discriminatory on the grounds of age, gender, nationality, ethnic or racial origin, non-job-related-disability or marital status. The Group gives every consideration to applications from all people and provides training and the opportunity for career development wherever possible.

The Group operates a share option scheme, which is at the discretion of Sagentia Group's Remuneration Committee. Executives and managers throughout the Group are invited to participate on the basis of recommendations made by the Remuneration Committee. The Group provides employees with information about its activities through regular briefings and the Group intranet. Employee involvement is encouraged across a wide range of business issues.

Report of the Directors continued

Fixed assets

Details of movements in fixed assets during the year are set out in Note 14 to the financial statements. The property was last valued during February 2006 by independent valuers. The Directors therefore do not believe that the property is materially misstated.

Research and development

The Group has a continuing commitment to a high level of research and development, both on its own behalf, and on behalf of its clients. Directors estimate that research and development costs incurred during the year amounted to £5,193,000 (2005: £5,057,000), all of which has been written off to the profit and loss account. This increase reflects the need to be at the forefront of technological advance to ensure future growth.

Dividends

No interim dividend was declared during the year and the Directors do not recommend that a dividend be paid in respect of the year ended 31 December 2006 (2005: £Nil). It is the Board's policy to invest retained earnings to fund the further development and growth of the consulting business and the venture portfolio. The Board will review its policy periodically in the context of the Group's financial position.

Change of name

Following a rebranding exercise undertaken throughout the Group, the parent company changed its name on 24 October 2006 from The Generics Group AG to Sagentia Group AG.

Directors

The present membership of the Board is shown on page 11. Chris Masters was appointed Chairman on 16 November 2006. Simon Davey resigned as a Director on 6 November 2006. All other Directors served throughout the year.

Directors' interests in the shares of the Company, and of other Group undertakings where they are not also a Director, at 31 December 2006 and 31 December 2005, and any changes subsequent to 31 December 2006, are as follows:

Ordinary CHF 0.10 shares of Sagentia Group AG	Option exercise price	31 December 2006 Number	31 December 2005 Number	31 December 2006 Number	31 December 2005 Number
Sagentia Group AG		Options	Options	Shares	Shares
Björklund		-	-	1,120,510	1,120,510
Masters		-	-	100,000	-
Edge		-	-	11,198,070	11,198,070
Forster		-	-	1,099,400	799,400
Frost	10.9-11.8p	1,000,000	1,000,000	227,248	200,750
Kylberg		-	-	346,544	9,400
Rauh		-	-	295,200	295,200

•Options were granted in 2005, and may be exercised before October 2015.

No Directors made any gain on the exercise of share options during the year and no options were exercised.

Election of Directors

Martin Frost, Per Ludvigsson and Gordon Edge retire by rotation at the next Annual General Meeting.

Directors' interests in contracts

None of the Directors had an interest in any contract of significance to which the Group was a party during the financial year, other than that disclosed in Note 8.

Supplier payment policy

The supplier payment policy is to pay suppliers generally at the end of the month following that in which the supplier's invoice is received. This policy is made known to the staff who handle payments to suppliers and to all suppliers on request. The Group creditor balance for 2006 represents a creditor payment period of 41 days (2005: 36 days).

Charitable and political donations

No charitable or political donations were made in the year (2005: £Nil).

Report of the Directors continued

Substantial shareholdings

As at the date of this report, the Group had been notified of the following significant interests in its ordinary share capital:

Shareholder	Number of ordinary shares	% held
Catella Switzerland AG	105,120,800	48.8
Herald Investment Management Ltd	13,874,912	6.4
Gordon Edge	11,198,070	5.2
Tudor Capital	9,868,004	4.6
Deutsche Asset Management	9,847,633	4.5
Bradshaw Asset Management	6,357,096	2.9

Corporate Governance Report

Statement about applying the Principles of Good Governance

The Company is registered in Switzerland, and quoted on the London Stock Exchange. As such it has sought to apply the overlying Principles of Good Governance set out by both parties. In particular the Group has applied the Principles of Good Governance set out in Section One of the Combined Code throughout the year by complying with the Code of Best Practice as reported above. Further explanation of how the Principles have been applied is set out below.

Corporate Governance Statements

The Group is committed to the Principles of Corporate Governance contained in the Combined Code and for which the Board is accountable to shareholders. This report explains how the Directors seek to apply the requirements of the Combined Code to procedures within the Group.

Statement of compliance with the Code of Best Practice

The Group has complied throughout the year with the Provisions of the Code of Best Practice set out in Section One of the Combined Code except for the following matters:

- Johan Björklund, although not deemed independent, was Chairman until Chris Masters, who is deemed independent, was appointed to the role in November 2006;
- not all of the Non-Executive Directors on the Remuneration Committee or Audit Committee are independent;
- the Nomination Committee does not consist of a majority of Independent Non-Executive Directors;
- the Board does not formally evaluate the performance of each of its Directors, but evaluates the effectiveness of the Board as a whole as part of the Strategy Review annually in September, by open forum discussion both with and without the Executive Directors in attendance.

Two of the six Non-Executive Directors on the Board at the year-end are independent. Lars Kylberg and Markus Rauh are deemed by the Board to be Independent Directors. Martin Forster will be deemed by the Board to be independent from 2007. Martin used to serve as a Director of Catella AG,

a dormant holding company, and therefore was not deemed independent under the Combined Code. However, Martin resigned this post in order to comply with the guidelines of the Combined Code. Through Wiederkehr Forster, Martin Forster provides company secretarial and Swiss legal advice for Sagentia Group AG.

Although the structure of the Board and a number of its subcommittees does not comply with the Combined Code, the Board believes that its composition is representative of the shareholders' register and, in particular, of the significant shareholding position of Catella AG. The Board believes that it is well advised by Lars Kylberg, Martin Forster and Markus Rauh, very experienced Non-Executive Directors. It is the Board's intention to continue to seek the view of institutional shareholders regarding its composition and to adapt the composition of the Board in line with its strategic direction.

During 2006, the priority of the Board remained to continue to improve the performance of each of the elements within the business model and to prioritise this above and beyond all other issues in the Group, including some aspects of corporate governance detailed above.

Board of Directors

Biographical details of the Directors are found earlier in these statements.

At 31 December 2006, the Board comprised a Chairman, one Executive Director and six Non-Executive Directors. Two of the six Non-Executive Directors are independent, although Martin Forster will be deemed independent from 2007, increasing the Independent Non-Executive Directors to three. All Directors bring a wide range of skills and international experience to the Board. Lars Kylberg is the Senior Independent Non-Executive Director. The Chairman holds meetings with the Non-Executive Directors without Executive Directors present.

Report of the Directors continued

Corporate Governance Report (continued)

The roles of Chairman and Chief Executive are separated and clearly defined. The Chairman is primarily responsible for the working of the Board of Sagentia Group AG, and the Chief Executive for the running of the business and implementation of Board strategy and policy. The Chief Executive is assisted in the managing of the business on a day-to-day basis by the Managing Director of Sagentia, the Managing Director of Chord Capital and the Group Director of Finance.

High-level strategic decisions are discussed and taken by the full Board, with recommendations as appropriate from the Chief Executive. Investment decisions (above a de minimus level) are taken by the Board, and may only be taken following the recommendation from the Chief Executive and the Managing Director of Chord Capital. Operational decisions are taken by the Chief Executive within the framework approved in the annual budgets for their part of the Group. The Group's principal operating subsidiary, Sagentia, is run by an executive team, managed by its Managing Director.

The Board met eight times during 2006. The Board regulations define a framework of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board will meet at least six times a year to consider a formal schedule of matters including the operating performance of the advisory, exploitation and investment businesses, and at least once to review the Group's budget strategy and business model. All Directors attended all Board meetings in person or by telephone, other than Martin Forster and Per Ludvigsson who were unable to attend one Board meeting, and Markus Rauh who was unable to attend two.

Directors

The Directors of the Company who served during the year were:

Director	Role at 31 December 2006	Date of (re-) appointment	Date of resignation	Board Committee			
Chris Masters	Chairman	16 Nov 2006			I	N	
Martin Frost	Managing Director	30 Jun 2004					
Simon Davey	Executive Director	30 Jun 2004	6 Nov 2006				
Lars Kylberg	Senior Non-Executive	30 Apr 2005		A	I	N	R
Gordon Edge	Non-Executive	30 Jun 2004				N	
Martin Forster	Non-Executive	28 Jun 2006		A		N	
Johan Björklund	Non-Executive	30 Jun 2005		A		N	R
Per Ludvigsson	Non-Executive	30 Jun 2004				N	
Markus Rauh	Non-Executive	28 Apr 2006			I	N	R

Note: Board Committee abbreviations are as follows:

A = Audit Committee; I = Independent Director; R = Remuneration Committee; N = Nomination Committee

Non-Executive Directors are appointed for a three-year term after which their appointment may be extended by mutual agreement, after rigorous review by the Board. In accordance with the Company's Articles of Association, one-third of the Board are required to retire by rotation each year so that over a three-year period all Directors will have retired from the Board and faced re-election. Martin Frost, Per Ludvigsson and Gordon Edge retire by rotation at the forthcoming Annual General Meeting.

All Directors have access to the advice and services of the Company Secretary, Group Legal Adviser, and other independent professional advisers as required. The Group has put in place processes by which Non-Executive Directors can familiarise themselves with all aspects of the Group and have access to key members of staff.

It is the responsibility of the Chairman and the Company Secretary to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties. The Group's strategy is regularly communicated to all employees in regular briefings.

Risk management is crucial to the success of the Group, and the Board and Audit Committee consider the risks associated with the Group's technology and intellectual property pipeline, technical resources, as well as regulatory and other operational risks. Risks are reviewed by the Board as part of the strategy review and the Audit Committee has since reviewed progress in all risk areas.

Report of the Directors continued

Corporate Governance Report (continued)

Board Committees

The Board maintains three standing committees, all of which operate within written terms of reference. Their minutes are circulated for review and consideration by the full complement of Directors, supplemented by oral reports from the Committee Chairmen at Board meetings.

Audit Committee

The Audit Committee is chaired by Lars Kylberg and comprises himself, Johan Björklund and Martin Forster.

The Audit Committee is responsible for reviewing a wide range of matters including the half year and annual financial statements before their submission to the Board, as well as monitoring the controls, in particular regarding processes concerning investments, which are in force to ensure the integrity of the information reported to the shareholders. There is a whistle-blowing policy incorporated within the Group Handbook. The Audit Committee contributed to the Board's review of the effectiveness of internal controls and risk management systems. The Audit Committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The Audit Committee keeps under review the cost effectiveness and the independence and objectivity of the auditors. There is no internal audit function within the Group. The Audit Committee is satisfied that this would be inappropriate for a Group of Sagentia's size. The auditors have only provided services in relation to the audit and a government grant audit report during the year.

The Audit Committee met three times during 2006. All Directors attended all committee meetings in person or by telephone, other than Martin Forster who was unable to attend one meeting.

Remuneration Committee

The Remuneration Committee is chaired by Markus Rauh. Its function is to monitor the Human Resources policies of Sagentia Group AG and its subsidiaries, to ensure that they are consistent with the Group's business and culture. It is charged with executing the Board's policy on Executive Director and executive management remuneration and reporting decisions made to the Board. The Committee both determines the individual remuneration package of Executive Directors and reviews remuneration levels for other senior employees of the Group. The Report of the Board on Remuneration on how Directors are remunerated can be found following this report. Details of individual Directors' remuneration packages are in Note 8 to the financial statements.

The Remuneration Committee met three times during 2006. All Directors attended all committee meetings in person or by telephone.

Nomination Committee

The Nomination Committee is chaired by Johan Björklund and comprises six members, all being Board members excluding the Executive Directors. The Committee meets when necessary.

The Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance. The Board seeks input from all Non-Executive Directors regarding nominations for Board positions. The committee does not consist of a majority of Independent Non-Executive Directors. Nominations for Executive Directors are submitted by the Chief Executive Officer to the Nomination Committee.

The Nomination Committee met three times during 2006. All Directors attended all committee meetings in person or by telephone.

Relations with shareholders

The Directors seek to build on a mutual understanding of objectives between the Group and its institutional shareholders by meeting to discuss long term issues and receive feedback, communicating regularly throughout the year and issuing semi annual trading updates. The Board also seeks to use the Annual General Meeting to communicate with its investors.

Balanced and understandable assessment of position and prospects

The Board has shown its commitment to presenting balanced and understandable assessments of the Group's position and prospects by providing additional information to that required to comply with statutory obligations. This principally includes information on the Group's portfolio of investments in addition to disclosures within the segmental breakdown of income from activities.

As well as complying with the provisions of the Code as described in the Group's Corporate Governance Statements, the Board has applied the Principles of Good Governance relating to Directors' remuneration as described below. The Board has determined that there are no specific issues which need to be brought to the attention of shareholders. Approval of this report will not be sought at the Annual General Meeting.

Remuneration strategy

The Group operates in a competitive market. If the Group is to compete successfully, it is essential that it attracts, develops and retains high quality staff. Remuneration policy has an important part to play in achieving this objective. The Group aims to offer its staff a remuneration package which is both competitive in the relevant employment market and which is set in relation to individual performance.

Report of the Directors continued

Report of the Board on Remuneration

Remuneration Committee

The Remuneration Committee exists to provide a mechanism through which the Board can satisfy itself that Sagentia Group AG is adopting Human Resources policies that are consistent with the Group's business objectives and philosophy. Its written terms of reference require the Committee to recommend policy on Executive Directors' and other senior managers' remuneration to the Board and, in accordance with the provisions of the Combined Code, to determine the remuneration of each Executive Director, including pension rights and any compensation payments.

The Committee, which is chaired by Markus Rauh, also comprises Lars Kylberg and Johan Björklund. Both Markus Rauh and Lars Kylberg are considered Independent Non-Executive Directors. The Committee consults, as appropriate, with the Chief Executive of Sagentia Group and asks for assistance from the Human Resources Manager. It also takes advice from time to time from external advisers, but did not do so in 2006.

Remuneration policy for Executive Directors

The aim of the Board and the Remuneration Committee is to maintain a policy that:

- establishes a remuneration structure that will attract, retain and motivate Executive Directors and senior managers of appropriate calibre;
- rewards Executive Directors according to both individual and Group performance;
- establishes an appropriate balance between fixed and variable elements of total remuneration, with the performance-related element forming a potentially significant proportion of the total remuneration package;
- aligns the interests of Executive Directors and senior managers with those of shareholders through the use of performance-related rewards and share options in the Group;
- ensures that Directors' and senior managers' remuneration packages are in line with the Group's remuneration policy.

From time to time the Committee obtains market data and information as appropriate when making its comparisons and decisions and is sensitive to the wider perspective, including pay and employment conditions elsewhere in the Group, especially when determining salary increases.

Full details of each Director's remuneration package and interests in shares and share options can be found in Note 8 to the financial statements. There are no elements of remuneration, other than basic earnings, which are treated as being pensionable.

The remuneration package comprises the following elements:

- **basic salary:** basic salaries are normally reviewed annually and are set to reflect market conditions, personal performance and those paid for similar jobs in comparable companies. Martin Frost, in line with other senior managers, took a voluntary reduction in remuneration of 20% in 2005. Martin Frost's remuneration was reviewed in 2006 and his contractual entitlement agreed at £168,000 including employer's pension contributions. Simon Davey's remuneration was reviewed in 2006 and his contractual entitlement agreed at £191,000 including employer's pension contributions.
- **annual performance-related bonus:** Executive Directors receive six monthly performance-related bonuses related to consulting performance, valuation increases in the investment portfolio and profit. Performance payments of £6,000 have been paid to Martin Frost in respect of the year ended 31 December 2006. Performance payments of £28,000 have been paid to Simon Davey during the year, of which £21,000 related to 2005 following the improvement in performance of the consulting and IP activities. Simon resigned from the Board on 6 November. The remaining period of his notice period has been accrued as a cost of termination.
- **benefits:** Executive Directors' benefits include medical and dental expenses, life assurance and pension contributions.

Service contracts

Martin Frost was re-elected at the June 2004 Annual General Meeting for the following three years, and has offered himself up for re-election. All Directors are appointed for a period of three years. Martin Frost and Simon Davey's employment contracts contain a notice period of 12 months. Non-Executive Directors' service contracts may be terminated on three months' notice. There are no additional financial provisions for termination.

Chairman and Non-Executive Directors

The remuneration arrangements of the Chairman and Non-Executive Directors are determined by the Board. Fees are paid to Non-Executive Directors. The basic fee for Non-Executive Directors is £15,000 (2005: £15,000) per annum. This level was set and benchmarked against other quoted companies in 2000 and has not been adjusted thereafter as a result of cash constraints and Group performance. The Chairman is paid a fee of £50,000 per annum, with a one off additional fee of £20,000 in 2006. Benefits for Non-Executive Directors include reimbursement of travel and other incidental expenses for attendance at Board meetings and other Board committee meetings.

Report of the Directors continued

Report of the Board on Remuneration (continued)

Option plans

The Company formally adopted the Sagentia Group AG Approved Share Option Scheme on 14 August 2001, Sagentia Group AG Approved Share Option Scheme (Sweden) on 4 October 2001 and Sagentia Group AG Unapproved Share Option Scheme on 20 June 2005. Since IPO, options have only been issued at market price.

At the AGM held on 21 June 2005 shareholders approved the increase in the share option pool to 32.5m shares. At the end of the year there were 16m options in grant.

The Remuneration Committee and Board recognise that incentivisation of staff is a key issue for the Group which depends on the skill of its people for its success. The Board and the Remuneration Committee are evaluating the optimum route to link Group and individual performance. It is their intention to revise incentives at the earliest opportunity, within an open period. It is also the intention to accompany new incentives with performance criteria including both the growth and profitability of the technology development and consulting activities and the performance of the investment portfolio.

The market price of the shares at 31 December 2006 was 8.75 pence (2005: 11.75 pence). The highest and lowest price during the year was 13.5 and 8.75 pence respectively.

The Managing Director is entitled to participate in the Group's share option schemes. The Remuneration Committee approves any options granted thereunder. Non-Executive Directors do not participate in the Group's share option schemes. It is the policy of the Group to grant share options to employees and Executive Directors as a means of encouraging ownership and providing incentives for performance.

Report of the Audit Committee

Audit Committee

The Audit Committee has written terms of reference and exists to provide a mechanism through which the Board can maintain the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance; to review the Group's internal financial controls and the Group's internal control and risk management systems; and to make recommendations to the Board, for it to put to the shareholders for their approval in general meetings, in relation to the appointment of the external auditor. Provision is made by the Audit Committee to meet the auditors at least twice a year.

The Committee, which is chaired by Lars Kylberg, also comprises Martin Forster and Johan Björklund. The Committee consults, as appropriate, with the Chairman, Chief Executive and Group Director of Finance. It may also take advice from time to time from external advisers, but did not do so in 2006.

Internal controls

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets, the Directors recognise that they have overall responsibility for ensuring that the Group maintains a system of internal control, to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations, and for reviewing the effectiveness of that system. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable and not absolute assurance against material misstatement or loss, and that the system is designed to manage rather than eliminate the risk of failure to achieve the business objectives.

The Group has established procedures necessary to implement the guidance on internal control issued by the Turnbull Committee. This includes identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its Executive Director and senior managers.

In previous years the Board has established a process for identifying, evaluating and managing the significant risks the Group faces.

The key features of the internal control system are described below:

Control environment

The Group is committed to high standards of business conduct and seeks to maintain these standards across all of its operations. Group policies are also in place for the reporting and resolution of suspected fraudulent activities. The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives.

Risk identification

Group management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal and external sources, including infringement of IP, sales channels, investment risk, staff retention, disruption in information systems, natural catastrophe and regulatory requirements.

Report of the Directors continued

Report of the Audit Committee (continued)

Information systems

Group businesses participate in periodic strategic reviews, which include consideration of long term financial projections and the evaluation of business alternatives. Annual budgets and rolling four-year plans are prepared. The Board actively monitors performance against plan. Forecasts and results are consolidated and presented to the Board on a regular basis. Through these mechanisms, Group performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

Main control procedures

The Group and its operating units have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties and reviews by management.

Monitoring and corrective action

There are clear and consistent procedures in place for monitoring the system of internal financial controls.

This process, which operates in accordance with Turnbull guidance, was maintained throughout the 2006 financial year, and has remained in place up to the date of the approval of these financial statements. The Board, via the Audit Committee, has formally reviewed the processes in place in meetings with the Group Chief Executive, Group Director of Finance, and the Group's Auditors during 2006. The Board considers the internal control system to be adequate for the Group.

Statement of Directors' responsibilities

The Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, the Directors are required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The Directors confirm that, after making enquiries, they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditors

At the date of making this report each of the Group's Directors, as set out on page 11, confirm the following:

- so far as each Director is aware, there is no relevant information needed by the Group's auditors in connection with preparing their report of which the Group's auditors are unaware, and
- each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant information needed by the Group's auditors in connection with preparing their report and to establish that the Group's auditors are aware of that information.

Auditors

The auditors are willing to continue in office, and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approval

The Report of the Directors was approved by the Board on 28 February 2007 and signed on its behalf by:

By order of the Board
Martin Forster
Company Secretary

Bahnhofstrasse 44
CH-8023 Zürich,
Switzerland

Auditor's Report

Report of the Group Auditor to the Annual General Meeting of Sagentia Group AG, Zürich

As auditor of the Group, we have audited the consolidated financial statements (balance sheet, statement of income, statement of cash flows, statement of changes in equity and Notes 1 to 26 to the consolidated financial statements) of Sagentia Group AG's Annual Report and Financial Statements for the year ended 31 December 2006.

This report is made solely to the company in accordance with our terms of engagement. Our audit work has been undertaken so that we might state to the company those matters we are engaged to state to them in this audit report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements in accordance with relevant legal and regulatory requirements, International Auditing Standards and the Listing Rules of the Financial Services Authority. We confirm that we meet the legal requirements concerning professional qualifications and independence.

Basis of audit opinion

Our audit was conducted in accordance with International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2006, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and complying with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

RSM Robson Rhodes LLP
Cambridge

28 February 2007

Financial Statements

and Notes to the Financial Statements

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	Core operations £000	Venture subsidiaries £000	2006 £000	2005 £000
Continuing operations					
Revenue					
Core operations		23,115	-	23,115	21,658
Venture subsidiaries		-	531	531	288
	4	23,115	531	23,646	21,946
Operating expenses					
Core operations		(23,955)	-	(23,955)	(22,348)
Venture subsidiaries		-	(1,188)	(1,188)	(1,055)
	4,5	(23,955)	(1,188)	(25,143)	(23,403)
Gross loss					
	4	(840)	(657)	(1,497)	(1,457)
Profit on disposal of investments	15			392	1,573
Change in value of financial assets	15			(876)	1,808
Bonus accrual on change in fair value				384	(320)
Rebranding				(632)	-
Cost of options*				(235)	(107)
Operating (loss) profit				(2,464)	1,497
Finance charges (net)	6			(59)	(286)
(Loss) profit on continuing operations before income tax				(2,523)	1,211
Income tax expense	9			51	4
(Loss) profit on continuing operations for the year				(2,472)	1,215
Attributable to:					
Equity holders of the parent				(2,531)	1,252
Minority interests				59	(37)
(Loss) profit for the year				(2,472)	1,215
(Loss) earnings per share (basic)					
	11			(1.1)p	0.6p
(Loss) earnings per share (diluted)					
	11			(1.1)p	0.6p

* See Consolidated Statement of Changes in Equity

The accompanying Notes are an integral part of this consolidated income statement.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Issued capital	Shared premium shares	Investment in own shares	Translation reserve	Share based payment reserve	Retained earnings	Total share- holders' funds	Minority interest	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2005	9,289	13,095	(74)	50	6	(612)	21,754	3	21,757
Profit (loss) for the year	-	-	-	-	-	1,252	1,252	(37)	1,215
Issue of shares to minorities	-	-	-	-	-	-	-	79	79
Share options adjustment	-	-	-	-	107	-	107	-	107
Exchange differences on translating foreign operations	-	-	-	(102)	-	-	(102)	-	(102)
Balance at 31 December 2005	9,289	13,095	(74)	(52)	113	640	23,011	45	23,056
Balance at 1 January 2006	9,289	13,095	(74)	(52)	113	640	23,011	45	23,056
Profit (loss) for the year	-	-	-	-	-	(2,531)	(2,531)	59	(2,472)
New shares issued	18	38	-	-	-	-	56	-	56
Dividends payable to minorities	-	-	-	-	-	-	-	(8)	(8)
Issue of shares to minorities	-	-	-	-	-	-	-	11	11
Disposal of own shares	-	-	13	-	-	-	13	-	13
Share options adjustment	-	-	-	-	235	-	235	-	235
Exchange differences on translating foreign operations	-	-	-	(77)	-	-	(77)	(15)	(92)
Balance at 31 December 2006	9,307	13,133	(61)	(129)	348	(1,891)	20,707	92	20,799

* 2005 balances have been restated. See Note 2.1 Basis of preparation

The accompanying Notes are an integral part of the consolidated statement of changes in equity.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 £000	2005 £000
(Loss) profit before income tax	(2,523)	1,211
Depreciation charges	418	958
Amortisation charges	4	1
Profit on disposal of investments	(392)	(1,573)
Change in fair value	876	(1,808)
Change in fair value of interest-rate swap	(242)	8
Bonus accrual on change in fair value	(384)	320
Cost of options	235	107
Decrease (increase) in debtors	2,059	(2,100)
(Decrease) increase in creditors	(747)	1,653
UK corporation tax received (net)	35	21
Foreign corporation tax received (paid) (net)	3	(10)
Cash flows from operating activities	(658)	(1,213)
Purchase of property, plant and equipment	(212)	(610)
Loans granted to related parties	-	(691)
Loan repayments received from third parties	-	1,493
Purchase of financial assets at fair value through the income statement	(1,279)	(678)
Sale of financial assets at fair value through the income statement	540	5
Cash flows from investing activities	(951)	(481)
Issue of ordinary share capital	56	-
Disposal of own shares	13	-
Issue of shares by subsidiary undertakings to minority interests	11	79
Issue of loans by minority interests to subsidiary undertakings	(11)	30
Loan repayments	(64)	(11)
Cash flows from financing activities	5	98
(Decrease) in cash and cash equivalents in the year	(1,604)	(1,596)
Cash and cash equivalents at the beginning of the year	3,567	5,144
Exchange gains on cash	-	19
Cash and cash equivalents at the end of the year	1,963	3,567

Notes to the Financial Statements

For the year ended 31 December 2006

1 General Information

Sagentia Group AG (the Company) and its subsidiaries (together the Group) is an integrated technology consulting, development and venture organisation, that commercialises emerging science and technology.

The Group develops technologies that underpin the future of the widest range of industries. Its key areas of expertise include: engineering, materials, telecommunications, life sciences, business innovation and electronics. Sagentia's facilities include state-of-the-art laboratories and are located in Europe in Cambridge, Frankfurt, and Stockholm, in Boston and Baltimore in the USA and in Hong Kong.

The entity only accounts of Sagentia Group AG have been prepared under Swiss Law and have been audited by Trestor Treuhand. Accounts are available from the company's registered office: Bahnhofstrasse 44, CH-8023, Zürich, Switzerland. The Company has its primary listing on the London Stock Exchange (SGA.L).

These consolidated financial statements have been approved for issue by the Board of Directors on 28 February 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued and effective or issued at the time of preparing these statements.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets at fair value, as allowed by IAS39 Financial Instruments: Recognition and Measurement. Of the new Standards and Interpretations effective for the year ending 31 December 2006, listed below, there was no impact on the presentation of the accounts of Sagentia Group AG.

Number	Title
IFRS 4 (<i>Amendment</i>)	Insurance Contracts
IFRIC 5	Amendment for financial guarantee contracts
IFRS 6	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IAS 19 (<i>Amendment</i>)	Exploration for and Evaluation of Mineral Assets
IAS 39 (<i>Amendment</i>)	Employee Benefits
	Financial Instruments: Recognition and Measurement

The Standards and Interpretations in issue but not yet effective for the year ending 31 December 2006 are listed below. The Group has not adopted these early. Other than additional disclosure, there will be no impact on the preparation of the accounts of the Group on the adoption of these standards.

Number	Title
IAS 1 (<i>Amendment</i>)	Presentation of Financial Statements
IFRIC 7	Added disclosures about an entity's capital
IFRS 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Financial Instruments: Disclosures
IFRIC 9	Scope of IFRS 2
IFRIC 10	Reassessment of Embedded Derivatives
IFRIC 11	Interim Financial Reporting and Impairment
	IFRS 2: Group and Treasury Share Transactions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 26.

The allocation of the minority interest has been restated in the current year. Excess losses of the minorities have now been allocated to the majority interest in line with accounting standards, and even when loans have been made by the minorities to fund trading losses. The prior year comparatives have been amended accordingly.

Notes to the Financial Statements continued

2 Summary of significant accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements of Sagentia Group have been prepared in conformity with International Financial Reporting Standards ('IFRS'). In accordance with the rules of the London Stock Exchange and applicable legislation, Sagentia Group is required to adopt IFRS for accounting periods beginning on 1 January 2005. The Group has applied the business combinations exemptions in IFRS 1. It has not restated business combinations that took place prior to 1 January 2004 transition date.

The Group financial statements consolidate the financial statements of Sagentia Group AG and its subsidiary undertakings drawn up to 31 December each year. The Company was incorporated in 1996 under the name of Catella AG; in 1998 changed its name to The Generics Group AG; and in 2006 changed its name to Sagentia Group AG. The Company, as part of a group reorganisation, became the parent of The Generics Group Ltd (now Sagentia Group Ltd) in 1998 via a share-for-share exchange in that company. This combination qualified as a group reconstruction under FRS 6 'Acquisitions and Mergers', and, as such, was accounted for via merger accounting. Thus the results and cash flows of the combined entities were brought into the financial statements of the combined entity as though they had always been combined.

The basis of consolidation is set out below:

Subsidiaries – Subsidiaries are entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. These acquisitions are accounted for using the purchase method of accounting.

Venture subsidiaries – Venture subsidiaries are investments in which the Group holds control, but holds these investments for ultimate disposal and capital gain. The Group accounts for such investments as subsidiaries until either they are disposed of or the Group issues shares to minorities and allows control to pass.

Investments – Investments are investments in which the Group does not hold significant influence. Where the Group holds these investments for ultimate disposal and capital gain, they are accounted for in accordance with IAS39, and are designated as at fair value through profit and loss.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.4 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operating by each primary reporting segment.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefit greater than one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their useful lives (not exceeding three years).

Notes to the Financial Statements continued

2 Summary of significant accounting policies (continued)

2.5 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment using discounted cash flow techniques at the company cost of capital to calculate the value in use and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are expensed when foreseen. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.6 Research expenditure

Research expenditure is written off as incurred.

2.7 Development expenditure

Development expenditure is also written off as incurred, except where the Directors are satisfied that the technical, commercial and financial viability of individual projects under relevant IAS 38 criteria are met that would allow such costs to be capitalised. Under IAS 38, the Group recognises an intangible asset if it believes it can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- its ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits; either by the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Identifiable expenditure is then capitalised and amortised over the period during which benefits are expected.

2.8 Property, plant and equipment

Land and buildings comprise offices and laboratories at Harston Mill, Harston, Cambridge, UK. Land and buildings are shown at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that the future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	25 years
Furniture and fittings	3-10 years
Equipment	3-4 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The residual value of the property at Harston Mill has been revised to £10.8m. This has resulted in a reduction of depreciation for the year of £525,000.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Notes to the Financial Statements continued

2 Summary of significant accounting policies (continued)

2.9 Investments

The Directors consider that a substantial measure of the performance of the Group is assessed through changes in fair value arising from the investment activity of the Group. Consequently the Group classifies its investments that are not controlled investments as being financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Fair value through profit or loss investments that are not controlled investments are shown on the balance sheet at their fair value and any associated changes in fair value are included in the income statement in the period they arise.

Valuation policy – in determining fair value, investments have been valued by the Directors in compliance with the principles of the International Private Equity and Venture Capital Guidelines, updated and effective 1 January 2005, as recommended by the British Venture Capital Association (BVCA).

Listed investments – the fair values of quoted investments are based on bid prices at the balance sheet date.

Unlisted investments – the valuation methodology used most commonly by the Group is the ‘price of recent investment’, reflecting the early stage nature of the investments. The following considerations are used when calculating the fair value using the ‘price of recent investment’ guidelines:

- where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value; and
- where there has been any recent investment by third parties, the price of that investment will provide a basis of the valuation.

Convertible loan notes – under IAS 28 financial instruments that are presently exercisable are taken into account in determining control and significant influence and this may affect the basis of consolidation.

Under IAS 39 convertible loan notes are financial assets and are defined as compound financial instruments consisting of a liability component and an equity component. At the date of issue there is a requirement to split the instrument between its debt and equity components.

The debt component is not classified as fair value through profit or loss, but under investments as ‘loans and receivables’ and subsequently carried in the balance sheet at amortised cost

using the effective interest method less any impairment. The equity component is classified under investments and subsequently carried in the balance sheet at fair value. The right to convert the loan into equity represents an embedded derivative (the option) and as such needs to be remeasured to fair value at each reporting date with any changes in fair value of this right taken through profit or loss.

Convertible loans issued in a different functional currency to the issuing entity are treated the same, however there may also be an associated financial instrument to manage the risks associated with foreign currency fluctuations.

Controlled investments – the Group also undertakes investment activities in investments that are controlled, the performance of which, therefore, cannot be measured by changes in fair value arising from the investment activity of the Group. The Group identifies these activities separately as Venture Subsidiaries.

2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest-rate. The amount of the provision is recognised in the income statement.

2.11 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Notes to the Financial Statements continued

2 Summary of significant accounting policies (continued)

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

The Group also has an Employee Share Ownership Trust (ESOT) for assisting with the obligations under share option and other employee remuneration schemes. The ESOT is consolidated as if it were a subsidiary. Shares in the Group held by the ESOT are stated at cost and presented in the balance sheet as a deduction from equity under the heading of Investment in Own Shares. Finance and administration costs relating to the ESOT are charged to operating costs.

2.14 Revenue recognition

Group revenue comprises the value of sales (excluding VAT) of services provided in the normal course of business. The Group revenue recognition policies by revenue type are as follows:

- consulting revenues are recognised in proportion to the stage of completion of each project. The stage of completion takes into account the milestones achieved in relation to the project deliverables. Any success elements of consultancy revenues are recognised when earned
- licence and royalty income is recognised when earned
- share of manufacturers margin – income recognised when earned
- management fees (and any carried interest income) relating to the provision of investment management services are recognised when earned. Management fees are typically a percentage of funds under management
- rental income from leases over property held is recognised when earned
- trade payables are non-interest bearing and are stated at their nominal value.

2.15 Long term contracts

Amounts recoverable on long term contracts, which are included in trade receivables, are stated at the value of the work done less amounts received as progress payments on account. Progress payments in excess of work done are included in creditors as payments on account.

2.16 Foreign currency

(a) 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 ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through the income statement, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Financial Statements continued

2 Summary of significant accounting policies (continued)

2.17 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies based on a percentage of salary earned, currently ranging between 0 and 20%, or trustee-administered funds determined by periodic actuarial calculations. The Group has 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.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, as calculated using the Black-Scholes option pricing method, excluding the impact of any non-market vesting conditions (for example profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises 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 (nominal value) and share premium when the options are exercised.

The Group has elected to apply the share-based payment exemption. It applied IFRS 2 from 1 January 2004 to those options that were issued after 7 November 2002 but that have not vested by 1 January 2005.

(c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(d) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements continued

2 Summary of significant accounting policies (continued)

2.19 Income Tax

Income tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws of the relevant countries that have been enacted or substantively enacted by the balance sheet date.

2.20 Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if payments are not made on such a basis.

Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and the asset's useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance.

2.21 Capitalisation of borrowing costs and interest

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities, entities in the Group use forward contracts, transacted with Group Treasury. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts.

The Group's risk management policy is to hedge anticipated transactions when there is certainty of receipt of funds. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to clients with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

Notes to the Financial Statements continued

3.1 Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest-rate risk

The Group's interest-rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. Group policy is to

maintain the majority of its borrowings in fixed rate instruments. At the year end, 90% of borrowings were at fixed rates.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest-rate swaps. Such interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The Group's financial liabilities and interest-rate profile are as follows:

	2006	2005
	£000	£000
Sterling – bank loan	6,531	6,593
Swedish Krona – bank loan	41	43
	6,572	6,636
Weighted average interest-rate	%	%
Sterling – fixed rate bank loan	7.1	7.1
Swedish Krona – floating rate bank loan	5.5	5.5

For benchmark rates of interest, the Group refers to both the LIBOR and EUROBOR rates.

The bank loans are secured via a fixed charge over assets of the Group and are repayable as disclosed in Note 22.

Terms and conditions of the interest-rate swap are as disclosed in Note 20.

3.2 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of cash flows of recognised assets or liabilities or highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group has not applied hedge accounting. Derivatives are recognised at fair value and remeasured at each reporting date, with changes in fair value recognised in the income statement.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Techniques, such as estimated discounted cash flows, are used to determine fair value for non-traded financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest-rate that is available to the Group for similar financial instruments.

Notes to the Financial Statements continued

4 Segment information

Primary reporting format – business segments

On 31 December 2006 the Group is organised on a worldwide basis into four main business segments:

Year ended 31 December 2006	Consulting and IP exploitation £000	Venture subsidiaries £000	Asset management £000	Property and central services £000	Total £000
Fees	18,003	531	764	2,188	
Recharged project expenses	3,392	-	-	-	
Licence/royalty income	137	-	-	-	
Less: Inter company trading	(60)	-	(279)	(1,030)	
Revenue	21,472	531	485	1,158	23,646
Expenses	(18,549)	(1,188)	(700)	(2,683)	
Recharged project expenses	(3,392)	-	-	-	
Less: Inter company trading	60	-	279	1,030	
Expenses	(21,881)	(1,188)	(421)	(1,653)	(25,143)
Gross (loss) profit	(409)	(657)	64	(495)	(1,497)
Profit on disposal of investments	-	-	2	390	392
Change in fair value on financial assets	-	-	(876)	-	(876)
Bonus accrual on change in fair value	-	-	384	-	384
Rebranding	(367)	-	-	(265)	(632)
Cost of options	(80)	-	(71)	(84)	(235)
Operating (loss)	(856)	(657)	(497)	(454)	(2,464)
Finance charges					(59)
(Loss) before income tax					(2,523)
Income tax expense					51
(Loss) for the year					(2,472)
Balance sheet analysis					
Intangible assets	13	-	-	-	13
Intangible assets – amortisation	(4)	-	-	-	(4)
Goodwill	312	651	-	-	963
Goodwill – amortisation	(312)	(651)	-	-	(963)
Property, plant and equipment	6,757	50	16	14,248	21,071
Property, plant and equipment – depreciation	(3,713)	(50)	(16)	(2,505)	(6,284)
	3,053	-	-	11,743	14,796
Investments	(2,474)	-	11,279	2,474	11,279
Current assets (excluding cash)	4,507	346	(1,792)	2,204	5,265
Cash and cash equivalents	1,051	82	206	624	1,963
Total assets	6,137	428	9,693	17,045	33,303
Total liabilities (excluding loans and interest bearing liabilities)	8,251	2,867	381	783	12,282
Total equity (excluding loans and interest bearing liabilities)	(2,114)	(2,439)	9,312	16,262	21,021
Loans and interest bearing liabilities	(41)	-	-	(181)	(222)
Total equity	(2,155)	(2,439)	9,312	16,081	20,799

Notes to the Financial Statements continued

4 Segment information (continued)

Year ended 31 December 2005	Consulting and IP exploitation £000	Venture subsidiaries £000	Asset management £000	Property and central services £000	Total £000
Fees	16,968	288	516	1,833	
Recharged project expenses	2,879	-	-	-	
Licence/royalty income	497	-	-	-	
Less: Inter company trading	(60)	-	-	(975)	
Revenue	20,284	288	516	858	21,946
Expenses	(16,972)	(1,055)	(593)	(2,939)	
Recharged project expenses	(2,879)	-	-	-	
Less: Inter company trading	60	-	-	975	
Expenses	(19,791)	(1,055)	(593)	(1,964)	(23,403)
Gross profit (loss)	493	(767)	(77)	(1,106)	(1,457)
Profit/(loss) on disposal of investments	-	-	1,573	-	1,573
Change in fair value on financial assets	-	-	1,808	-	1,808
Bonus accrual on change in fair value	-	-	(320)	-	(320)
Cost of options	(36)	-	(32)	(39)	(107)
Operating profit (loss)	457	(767)	2,952	(1,145)	1,497
Finance charges					(286)
Profit before income tax					1,211
Income tax expense					4
Profit for the year					1,215
Balance sheet analysis					
Intangible assets	14	-	-	-	14
Intangible assets – amortisation	(1)	-	-	-	(1)
Goodwill	312	651	-	-	963
Goodwill – amortisation	(312)	(651)	-	-	(963)
Property, plant and equipment	7,146	133	16	14,326	21,621
Property, plant and equipment – depreciation	(4,053)	(130)	(16)	(2,417)	(6,616)
	3,106	3	-	11,909	15,018
Investments	(2,389)	-	11,044	2,389	11,044
Current assets (excluding cash)	6,690	151	(1,797)	2,250	7,294
Cash and cash equivalents	2,383	32	239	913	3,567
Total assets	9,790	186	9,486	17,461	36,923
Total liabilities (excluding loans and interest bearing liabilities)	10,486	(70)	3,341	(926)	12,831
Total equity (excluding loans and interest bearing liabilities)	(696)	256	6,145	18,387	24,092
Loans and interest bearing liabilities	(613)	-	-	(423)	(1,036)
Total equity	(1,309)	256	6,145	17,964	23,056

Notes to the Financial Statements continued

4 Segment information (continued)

Secondary reporting format – geographical segments

The Group's four business segments operate in four main geographical areas, even though they are managed on a worldwide basis. Revenue by geographical area is as follows:

	United Kingdom £000	Other European countries £000	North America £000	Other £000	Total £000
Year ended 31 December 2006	10,755	8,210	4,149	532	23,646
Year ended 31 December 2005	10,522	7,463	3,433	528	21,946

For the purpose of the analysis of revenue, geographical markets are defined as the country or area in which the client is based. Turnover and operating results arise from the Group's principal activities and are primarily generated by employees of the Group's United Kingdom subsidiary undertakings.

Assets by geographical area are as follows:

	United Kingdom £000	Other European countries £000	North America £000	Other £000	Total £000
Year ended 31 December 2006	27,253	8,199	673	192	36,317
Year ended 31 December 2005	26,954	11,929	845	146	39,874

For the purpose of the analysis of assets, geographical markets are defined as the country or area in which the asset is based.

5 Operating expenses

Expenses by nature

	Note	2006 £000	2005 £000
Year ended 31 December 2006			
Employee benefit expenses	7	14,966	14,254
Rechargeable project expenses		3,392	2,879
Occupancy costs		1,443	1,598
Equipment and consumables		972	1,362
Selling and marketing expenses		1,703	1,213
Depreciation of property, plant and equipment	14	418	958
Patent fees		341	352
Recruitment and training		360	343
Amortisation of intangible assets	13	4	1
Foreign currency losses (gains)		335	(261)
Other		1,209	704
		25,143	23,403

Notes to the Financial Statements continued

5 Operating expenses (continued)

	2006 £000	2005 £000
Included above		
Research and development	5,193	5,057
Operating lease rentals		
Plant and machinery	49	53
Other	76	75
Auditors' remuneration		
Services to the Company and its subsidiaries:		
Fees payable to the Company's auditor for the audit of the financial statements	25	25
Fees payable to the Company's auditor and its associates for other services:		
Audit of the financial statements of the Company's subsidiaries (associates) pursuant to legislation	58	65
Other services supplied pursuant to legislation	8	1
Other services relating to taxation	-	-
Services relating to information technology	-	-
Internal audit services	-	-
Valuation and actuarial services	-	-
Services relating to litigation	-	-
Services relating to recruitment and remuneration	-	-
Services relating to corporate finance transactions	-	-
All other services	-	-
Services to the Company's associated pension scheme:		
Audit of the financial statements of the scheme pursuant to legislation	-	-
Other services	-	-

6 Finance charges (net)

	2006 £000	2005 £000
Year ended 31 December		
Investment income		
Bank interest receivable and similar income	110	50
Interest payable and similar charges		
Bank loans and overdrafts	(411)	(316)
Change in fair value of interest-rate swap	242	(8)
Other loans	-	(12)
	(169)	(336)
Finance charges (net)	(59)	(286)

7 Employee benefit expenses

Employment costs are shown below:

	2006 £000	2005 £000
Year ended 31 December		
Wages and salaries (including bonuses and healthcare costs)	12,244	11,803
Social security costs	1,651	1,536
Share options granted to Directors and employees	235	107
Other pension costs	1,071	915
	15,201	14,361

Notes to the Financial Statements continued

7 Employee benefit expenses (continued)

The average monthly number of persons employed (including Executive Directors) by the Group was as follows:

Year ended 31 December	2006 Number	2005 Number
Technology consultants	158	142
Marketing, support, administration and other technically-qualified staff	72	72
	230	214

8 Directors' remuneration, interests and transactions

Aggregate remuneration:

Year ended 31 December	2006 Number	2005 Number
Emoluments	366	356
Bonuses	9	37
Money purchase pension scheme contributions	40	38
Compensation for loss of office	191	-
	606	431
Fees to third parties	74	35

Fees to third parties comprise amounts paid to Wiederkehr Forster under an agreement by which Martin Forster provides the Group with legal services. Fees payable to Chris Masters comprise £31,022 (2005: £Nil) for services as Chairman. His employment commenced on 12 October 2006.

Directors' emoluments and benefits include:

Year ended 31 December 2006	Salary/ fee £000	Bonuses £000	Taxable benefits £000	Pension contribution £000	Gains on exercise of share options £000	Compensation for loss of office £000	Total £000
Name of Director							
Masters	31	-	-	-	-	-	31
Frost	150	6	1	18	-	-	175
Davey	138	3	1	22	-	191	355
Edge	15	-	-	-	-	-	15
Björklund	-	-	-	-	-	-	-
Forster	-	-	-	-	-	-	-
Kylberg	15	-	-	-	-	-	15
Rauh	15	-	-	-	-	-	15
Ludvigsson	-	-	-	-	-	-	-
Aggregate emoluments	364	9	2	40	-	191	606

Year ended 31 December 2006	Salary/ fee £000	Bonuses £000	Taxable benefits £000	Pension contribution £000	Gains on exercise of share options £000	Compensation for loss of office £000	Total £000
Name of Director							
Frost	123	-	1	14	-	-	138
Davey	151	37	1	24	-	-	213
Edge	50	-	-	-	-	-	50
Björklund	-	-	-	-	-	-	-
Forster	-	-	-	-	-	-	-
Kylberg	15	-	-	-	-	-	15
Rauh	15	-	-	-	-	-	15
Ludvigsson	-	-	-	-	-	-	-
Aggregate emoluments	354	37	2	38	-	-	431

The above figures for emoluments do not include any gains made on the exercise of share options or the value of any shares or share options received under long term incentive schemes.

Notes to the Financial Statements continued

9 Income tax expense

The tax charge comprises:

	2006	2005
Year ended 31 December	£000	£000
Foreign taxation	3	(6)
Current taxation	48	10
Deferred taxation (Note 10)	-	-
	51	4

The Group has available tax losses of approximately £88.4m (2005: £87.4m).

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average statutory tax rate applicable to profits of the consolidated companies as follows:

	2006	2005
	£000	£000
(Loss) profit on ordinary activities before tax	(2,523)	1,211
Tax calculated at domestic tax rates applicable to profits in the respective countries	(757)	363
Expenses not deductible for tax purposes	40	620
Income not subject to tax	(89)	(1,384)
Accelerated capital allowances	(64)	(6)
Utilisation of previously unrecognised tax losses	-	(10)
R&D tax credit received in respect of prior years	(48)	-
Other timing differences	7	12
Tax losses for which no deferred income tax asset was recognised	860	401
Tax charge	(51)	(4)

The weighted average statutory applicable tax rate was 30% (2005: 30%).

10 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority and the intention is to settle net. The offset amounts are as follows:

	2006	2005
	£000	£000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	3,014	2,951
Deferred tax assets to be recovered within 12 months	-	-
	3,014	2,951
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	(3,014)	(2,951)
Deferred tax liabilities to be recovered within 12 months	-	-
	(3,014)	(2,951)
Total	-	-

Notes to the Financial Statements continued

10 Deferred income tax (continued)

The gross movement on the deferred income tax account is as follows:

	2006 Number	2005 Number
Beginning of the year	-	-
Exchange differences	-	-
Income statement charge (Note 9)	-	-
End of year	-	-

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred tax liability**	Deferred tax asset*	Total
At 1 January 2005	(3,026)	3,026	-
Charged/(credited) to the income statement	75	(75)	-
Exchange differences	-	-	-
At 31 December 2005	(2,951)	2,951	-
(Credited)/charged to the income statement	(63)	63	-
Exchange differences	-	-	-
At 31 December 2006	(3,014)	3,014	-

*Tax losses

**Accelerated tax depreciation

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of £23,521,000 (2005: £23,783,000) in respect of losses amounting to £78,700,000 (2005: £79,020,000) and other timing differences amounting to £89,000 (2005: £257,000) that can be carried forward against future taxable income.

11 Earnings per share

The calculations of earnings per share are based on the following losses and numbers of shares:

	2006 £000	2005 £000
Profit (loss) for the financial year	(2,472)	1,215
Basic		
	2006 Number	2005 Number
Weighted average number of shares:		
For basic earnings per share	215,158,527	215,548,800
For fully diluted earnings per share	215,157,670	216,750,679

Options have no dilutive effect in loss-making years, and hence the diluted loss per share for 2006 is the same as the basic loss per share.

Notes to the Financial Statements continued

12 Goodwill

	Total £000
At 1 January 2005	
Cost	963
Accumulated amortisation	(963)
Net book amount	-
Year ended 31 December 2005	
Opening net book amount	-
Additions	-
Disposals	-
Amortisation charge	-
Closing net book amount	-
At 31 December 2005	
Cost	963
Accumulated amortisation	(963)
Net book amount	-
Year ended 31 December 2006	
Opening net book amount	-
Additions	-
Disposals	-
Amortisation charge	-
Closing net book amount	-
At 31 December 2006	
Cost	963
Accumulated amortisation	(963)
Net book amount	-

Notes to the Financial Statements continued

13 Intangible assets

Software	Total £000
At 1 January 2005	
Cost or valuation	-
Accumulated amortisation	-
Net book amount	-
Year ended 31 December 2005	
Opening net book amount	-
Additions – purchased	14
Disposals	-
Amortisation charge	(1)
Closing net book amount	13
At 31 December 2005	
Cost or valuation	14
Accumulated amortisation	(1)
Net book amount	13
Year ended 31 December 2006	
Opening net book amount	13
Additions – purchased	-
Disposals	-
Amortisation charge	(4)
Closing net book amount	9
At 31 December 2006	
Cost or valuation	14
Accumulated amortisation	(5)
Net book amount	9

Computer software is amortised on a straight-line basis over its estimated useful life of three years. The annual amortisation charge is recognised in operating expenses of core operations in the income statement.

Notes to the Financial Statements continued

14 Property, plant and equipment

	Freehold land buildings £000	Furniture and fittings £000	Equipment £000	Total £000
At 1 January 2005				
Cost or valuation	16,570	890	3,698	21,158
Accumulated depreciation	(1,779)	(767)	(3,228)	(5,774)
Net book amount	14,791	123	470	15,384
Year ended 31 December 2005				
Opening net book amount	14,791	123	470	15,384
Exchange differences on cost	-	-	(77)	(77)
Exchange differences on depreciation	-	-	59	59
Additions	112	244	387	743
Disposals	-	(27)	(175)	(202)
Depreciation charge	(610)	(78)	(270)	(958)
Depreciation on disposals	-	27	29	56
Closing net book amount	14,293	289	423	15,005
At 31 December 2005				
Cost or valuation	16,682	1,107	3,833	21,622
Accumulated depreciation	(2,389)	(818)	(3,410)	(6,617)
Net book amount	14,293	289	423	15,005
Year ended 31 December 2006				
Opening net book amount	14,293	289	423	15,005
Exchange differences on cost	-	(1)	(61)	(62)
Exchange differences on depreciation	-	-	50	50
Additions	-	83	129	212
Disposals	-	-	(701)	(701)
Depreciation charge	(85)	(102)	(231)	(418)
Depreciation on disposals	-	-	701	701
Closing net book amount	14,208	269	310	14,787
At 31 December 2006				
Cost or valuation	16,682	1,189	3,200	21,071
Accumulated depreciation	(2,474)	(920)	(2,890)	(6,284)
Net book amount	14,208	269	310	14,787

The property is held at cost less depreciation. Included within land and buildings for the Group is freehold land, to the value of £1,360,000 (2005: £1,360,000) which has not been depreciated. Cumulative interest capitalised at 31 December 2006 was £340,000 (2005: £340,000) of which £Nil was capitalised during 2006 (2005: £Nil). The property was last valued during February 2006 by independent valuers. The Directors therefore do not believe that the property is materially misstated.

The property generated rental income of £1,375,000 in 2006 (2005: £1,163,000) of which £746,000 (2005: £695,000) was charged to related Group companies. The interest in freehold land and buildings has been charged as security to the bank loan (see Note 22).

The residual value of the property at Harston Mill has been revised to £10.8m. This has resulted in a reduction of depreciation for the year from £610,000 in 2005 to £85,000 in 2006. Depreciation for 2006 would have remained at £610,000 if there had not been a change in accounting estimate.

Notes to the Financial Statements continued

15 Investments

	Fair value through income statement £000	Loans and receivables £000	Total £000
Fair value, January 2005	7,376	410	7,786
Additions	1,333	2,001	3,334
Disposals	(1,664)	(233)	(1,897)
Change in fair value	1,917	-	1,917
Impairment of financial assets	-	(100)	(100)
Foreign exchange	-	4	4
Fair value, December 2005	8,962	2,082	11,044
Fair value, January 2006	8,962	2,082	11,044
Additions	1,293	-	1,293
Disposals	(150)	(14)	(164)
Change in fair value	(658)	-	(658)
Impairment of financial assets	-	(218)	(218)
Foreign exchange	(4)	(14)	(18)
Fair value, December 2006	9,443	1,836	11,279

Vibration Technologies Limited was disposed of during the year. This consisted of a cash payment of £540,000. This generated a profit on disposal in 2006 of £392,000.

Financial assets held at fair value include the following:

	2006 £000	2005 £000
Quoted securities		
Cost – equity securities – UK	409	409
– equity securities – US	-	-
	409	409
Fair value adjustment	3,632	4,412
	4,041	4,821
Unquoted securities		
Cost	9,892	9,127
Fair value adjustment	(4,490)	(4,986)
	5,402	4,141
Financial assets held at fair value	9,443	8,962

Notes to the Financial Statements continued

15 Investments (continued)

Principal Group investments

The Group held investments in the following subsidiaries, associated undertakings and investments at 31 December 2006. To avoid a statement of excessive length, details of investments that are not significant have been omitted.

Subsidiary, associate undertakings and investments of Sagentia Group AG	Country of incorporation	Principal activity	Shares held	%
Venture subsidiaries				
Atranova™ Ltd	England	Battery technology	Ordinary	91
Sensopad Ltd	England	Sensor technology	Ordinary	77
Intrasonics™ Ltd	England	Acoustic spread spectrum technology	Ordinary	93
Investments				
Sphere Medical Holding Ltd	England	Medical sensor technology	Ords & A's	11
CMR Fuel Cells Ltd*	England	Fuel cell technology	Ordinary	11
Atraverda™ Ltd	England	Battery technology	Ords & A's	18
Sensortec Ltd	Jersey	Environmental sensing technology	Ordinary	12
Nanoscience Inc*	Cayman Islands	Nano-technology investor	Ordinary	2
Turfrax Holding Ltd	England	Location tracking technology	Ords & Prefs	10
Core Operations				
Sagentia Group Ltd	England	Holding company	Ordinary	100
Sagentia Ltd	England	Consultancy	Ordinary	100
Sagentia Catella AB	Sweden	Battery technology	Ordinary	100
Manage5Nines Ltd	England	IT consultancy	Ordinary	80
Sagentia Inc	USA	Consultancy	Ordinary	100
SGAI Tech Ltd	Hong Kong	Consultancy	Ordinary	63
Sagentia GmbH	Germany	Consultancy	Ordinary	100
Chord Capital Ltd	England	Fund management services	Ordinary	100
Cascade Generics Ltd	England	Fund management services	Ordinary	100

* Listed on the UK Alternative Investment Market (AIM)

All subsidiaries have year-ends of 31 December other than SGAI Tech Ltd which is 31 March, but for which accounts are provided to 31 December.

16 Trade and other receivables

	2006 £000	2005 £000
Current assets:		
Trade receivables	3,865	5,691
Provision for impairment	(8)	(188)
Trade receivables – net	3,857	5,503
Amounts recoverable on contracts	729	1,116
Amounts owed by Group undertakings	-	-
Other debtors	-	-
VAT	57	11
Prepayments and accrued income	569	641
	5,212	7,271

Notes to the Financial Statements continued

17 Current Asset Investments

	2006	2005
	£000	£000
Listed investments	23	23
Aggregate market value of listed investments	86	103
The tax liability if listed investments were sold at market value	-	-

The Company granted options over shares held in Synaptics Inc against the time that the options will be exercised to the employees of Absolute Sensors Ltd as part of the disposal of Absolute Sensors Ltd to Synaptics Inc. The Company retains shares in Synaptics Inc, a company quoted on NASDAQ. The value of the asset is the net price achievable by the Company, being the lower of the market price of the share and exercise price of the option.

18 Cash and cash equivalents

	2006	2005
	£000	£000
Short term bank deposits	8	88
Cash at bank and in hand	1,955	3,479
	1,963	3,567

Of the cash at bank and in hand detailed above, the following amounts are held principally in spin-out companies and are not available for general use by the Group.

	2006	2005
	£000	£000
Cash held within spin-out companies	81	31

19 Called-up share capital

	2006	2005
	£000	£000
<i>Authorised</i>		
Ordinary shares of CHF 0.10 each	10,552	10,552
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of CHF 0.10 each	9,307	9,289
	Number	Number
<i>Authorised</i>		
Ordinary shares of CHF 0.10 each	248,048,800	248,048,800
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of CHF 0.10 each	215,965,577	215,548,800

Sagentia Group AG is incorporated in Switzerland; therefore the ordinary shares are denominated in Swiss Francs with a nominal value of CHF 0.10. Authorised share capital comprises allotted shares of 215,965,577 (2005: 215,548,800), and conditional capital of 32,083,223 (2005: 32,500,000) being 16,284,000 approved on 21 June 2005, 11,916,000 approved on the 15 September 2000 and 4,300,000 approved on 30 April 2004 for the future issue of options under a company scheme. 416,777 of these approved shares were sold on 16 May 2006.

Notes to the Financial Statements continued

19 Called-up share capital (continued)

Sagentia Group AG holds an interest in its own shares. At 31 December 2006, the Group held 610,800 (2005: 910,800) of its own shares in Sagentia Group AG, and a further 42,100 (2005: 42,100) shares in The Generics Group Employee Share Trust. Of the 610,800 treasury shares, 471,000 are to be utilised against share options already granted. The value of Sagentia Group AG shares, as quoted on the London Stock Exchange plc at 31 December 2006, was 8.75 pence per share (2005: 10.125 pence).

Reconciliation of options in grant	2006		2005	
	No.	Weighted average exercise price	No.	Weighted average exercise price
At beginning of year	17,694,881	13.5p	5,931,851	48.0p
Granted during year	708,518	9.8p	16,037,448	11.0p
Exercised during year	(716,777)	9.7p	-	-
Lapsed or cancelled during year	(1,720,254)	14.6p	(4,274,418)	52.0p
At end of year	15,966,368	13.4p	17,694,881	13.5p

The weighted average share price during the period for options exercised over the year was 9.7 pence (2005: none). Exercise of an option is subject to continued employment, although this period may be extended where an employee is deemed a 'good leaver'. Options were valued using the Black Scholes option-pricing model. No performance conditions were included in the fair value calculations; expected dividends were assumed to be nil; possibility of ceasing employment before vesting was assumed to be nil. The risk free rate was taken as 4.75%. Other assumptions which varied with the option issue are given in the table below. The total charge for the year under the Black Scholes model relating to employee share-based payment plans was £235,000 (2005: £107,000), all of which related to equity-settled share-based payment transactions. After deferred tax the total charge was £235,000 (£2005: £107,000). The fair value per option granted and the assumptions used in the calculation are in the table below.

At 31 December 2006, options granted to subscribe for ordinary shares of the Company are as follows:

Date of grant	Option exercise period		Number of shares under option		Exercise price (pence) (3)	Fair Value of options (4)	Expected Life (years)	Volatility
	From (1)	To (2)	Approved scheme	Unapproved scheme				
Oct 2000	Feb 2002	Dec 2007	-	300,000	18.0			
Oct 2000	Jun 2002-Dec 2004	Oct 2010	-	386,354	40.0			
Sep 2001	Sep-2005	Sep 2011	5,000	-	68.0			
Sep 2001	Sep 2004-Sep 2005	Sep 2011	16,500	-	94.0			
Dec 2001	Jun 2003-Dec 2005	Dec 2011	37,500	195,000	84.0			
Dec 2001	Dec 2005-Dec 2005	Dec 2011	47,092	-	94.0			
Mar 2002	Mar 2005-Mar 2006	Mar 2012	37,500	37,500	68.5			
Mar 2002	Mar 2005-Mar 2006	Mar 2012	16,500	-	71.0			
Sep 2002	Sep 2005-Sep 2006	Sep 2012	8,000	-	8.0			
Dec 2002	Dec 2005-Dec 2006	Dec 2012	16,500	-	8.8	5.6p	10	45%
Sep 2004	Mar 2006-Mar 2008	Mar 2013	205,000	-	7.0	4.0p	10	45%
Jun 2005	Jun 2007	Jun 2015	11,755,946	258,402	10.9	4.4p	10	45%
Sep 2005	Sep 2007	Sep 2015	674,724	775,207	11.8	2.8p	2	40%
Dec 2005	Dec 2007	Dec 2015	50,013	435,112	11.8	3.0p	2	40%
Jun 2006	Jun 2008-Jun 2009	Jun 2016	358,427	350,091	9.8	2.7p	2	35%
			13,228,702	2,737,666				

(1) Subject to earlier exercise in certain limited circumstances. Where range of dates provided, shares under option have been granted with exercise periods which commence on different dates.

(2) Where range of dates provided, shares under options have been granted with exercise periods which expire on different dates.

(3) The exercise price is also the share price at grant date.

(4) The fair value of options has not been calculated for options granted but not expired before November 2002 in accordance with IFRS2.

Notes to the Financial Statements continued

20 Other non current liabilities

	Note	2006 £000	2005 £000
Loans from minorities to subsidiaries	22	417	428
Bank loans	22	6,531	6,023
		6,948	6,451
Other creditors		41	-
Fair value of interest-rate swap		181	423
		7,170	6,874

The interest-rate swap was used separately to fix the interest-rate on the original floating rate mortgage over Harston Mill at 6.1%. The swap matched the repayment schedule envisaged over 10 years from £8m to £2.5m. The loan balance was expected to be £5.6m at the end of 2006 (2005: £6.2m). Unrecognised losses on the interest-rate swap at the year-end were £181,000 (2005: £423,000), of which £242,000 was recognised in the year and £37,000 is expected to be recognised in 2007 (2006: £34,000).

21 Current liabilities

	Note	2006 £000	2005 £000
Trade and other payables – current			
Payments received on account		1,431	1,741
Trade payable		791	816
Other taxation and social security		659	641
VAT		181	279
Accruals		2,188	2,877
		5,250	6,354
Bank loans and overdrafts	22	41	613
Current tax liabilities		43	26
		5,334	6,993

22 Borrowing

	Note	2006			2005		
		UK £000	Foreign £000	Total £000	UK £000	Foreign £000	Total £000
Non-current							
Bank borrowings	20	6,531	-	6,531	6,023	-	6,023
Current							
Bank borrowings	21	-	41	41	570	43	613
Loans from minorities to subsidiaries	20	417	-	417	428	-	428
		417	41	458	998	43	1,041
Total borrowings		6,948	41	6,989	7,021	43	7,064

Group companies have granted charges over their assets to secure bank loan and overdraft facilities of £9m (2005: £8m). Of the current bank loans and overdrafts, £6,531,000 has been drawn down and is repayable by Sagentia Group Ltd to Lloyds TSB Bank plc, and £41,000 (2005: £43,000) is repayable on call by Sagentia Catella AB.

Loans from minorities to venture subsidiaries are usually non-interest bearing and repayable on call. They are shown in current borrowings, although they are unlikely to be able to be recalled within 12 months.

Notes to the Financial Statements continued

22 Borrowing (continued)

In accordance with an agreed repayment schedule with the bank, bank loans and overdrafts are repayable to Lloyds TSB Bank plc as follows:

	2006	2005
	£000	£000
Between one and two years	-	1,130
Between two and five years	6,531	1,700
Over five years	-	3,193
	6,531	6,023

An interest-rate swap has effectively fixed the majority of the loan at an interest-rate at 6.13% plus bank charges of 1%, which is payable quarterly.

23 Commitments

Lease commitments

The minimum annual rentals under non-cancellable operating leases are as follows:

	2006	2005
	£000	£000
Plant and equipment lease commitments		
Operating leases which expire:		
Within one year	9	2
Between one and five years	11	17
Property lease rentals		
Operating leases which expire:		
Within one year	129	107
Between one and five years	103	138

24 Capital and other financial commitments

At 31 December 2006 the Group and Company had commitments of £Nil (2005: £Nil).

The Group had a committed undrawn overdraft facility of £2.5m at 31 December 2006 (2005: £Nil).

At 31 December 2006, the Group had a loan facility of £9m secured on Harston Mill, Cambridge, UK, of which £6.5m had been drawn down. This facility is repayable in accordance with an agreed repayment schedule with the bank as detailed in Note 22 and renewable on an annual basis.

25 Related party transactions

The Group provided support, IT and consultancy services to associated undertakings and made loans as follows:

	2006	2006	2005	2005
	Loans	Sale of goods	Loans	Sale of goods
	£000	and services	£000	and services
	£000	£000	£000	£000
3D Molecular Science Ltd	-	-	241	-
Flying Null Ltd	833	-	839	35
Sensopad Ltd	910	54	571	62
FD Technologies	160	-	158	-
	1,903	54	1,809	97

Loans to associated undertakings are disclosed in Note 15. The year-end loan balances are as stated above. Related parties transactions also comprise legal fees paid to Wiederkehr Forster as disclosed in Note 9.

Notes to the Financial Statements continued

26 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

26.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of investments

The Group tests regularly whether investments and other loans have suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts have been determined based on BVCA calculations. These calculations require the use of estimates.

(b) Project accounting

The Group undertakes a number of fixed price consultancy projects. The state of completeness of each project, and hence the revenue recognised, requires the use of estimates.

(c) Other loans recognition

The Group has now recognised other loans amounting to £1,677,000 that will become due and payable as part of the consideration of the disposal of Sensopad Ltd to TT Electronics plc. The repayment of the loan is dependent upon TT Electronics achieving various target revenues which will generate a royalty payable to Sagentia.

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