



Annual Report and
Financial Statements

2007

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2007 Highlights



- Consulting and IP activities returned to profitability during 2007 with an operating profit for the year of £0.9m before restructuring costs of £0.4m in H1 2007 (2006: loss of £0.4m)
- Revenue for 2007 £23m (2006: £23.6m), with Consulting fee income for 2007 £17.9m (2006: £18m) and Consulting order intake up 12.6% year-on-year to £17.9m (2006: £15.9m)
- Consulting fee income in H2 2007 (£9.2m) 9.5% ahead of same period in H2 2006 (£8.4m)
- Operating margin in Consulting and IP improved to 8.9% in H2 2007 (H1 2007: -5.2%) following action taken to reduce costs and focus operations during the first quarter
- Sale of the Group's equity interest in Intrasonics Limited, our 93% owned venture subsidiary, for an initial cash consideration of £1.5m plus further payments of up to £4.5m
- Year-end debt of £7.2m (2006: £6.1m) with an unutilised bank facility of £3.4m. The Group generated cash of £0.5m during H2 2007 and since the year-end net debt has been further reduced by £1.4m
- A £3.7m reduction in the fair value of the venture portfolio, which has no effect on the Group's cash position and which includes £2.8m related to the fall in the share price of CMR Fuel Cells plc, resulted in a Group loss from continuing activities before taxation of £3.3m (2006: loss of £2.5m)
- Loss per share of 1.5 pence (2006: 1.1 pence)
- Shareholders' funds per share of 8.1 pence (2006: 9.7 pence)
- Dr Alistair Brown appointed Group Chief Executive to succeed Martin Frost
- Board to recommend to shareholders that the company be redomiciled during 2008, and its shares admitted to AIM

Following the year-end TurfTrax Holdings plc was admitted to trading on AIM on 30 January 2008 at an admission price of 40 pence per share. Sagentia currently holds 3.2m shares.

Chairman's Statement

The final results for 2007 were in line with our expectations at the half-year and demonstrate continued good progress, particularly in the consulting and IP business. Core consulting operations were returned to profitability during the course of the year, with order intake closing at £17.9m, up 13% from 2006 (£15.9m). Net consulting and IP margins have steadily recovered to show a net margin of 5.1% in the second half of the year (2006 H2: loss 12%). On the venturing side of our business however, we saw a significant reduction in the valuation of the portfolio due principally to the share price movement of CMR Fuel Cells plc, which reduced the value of our 11% stake by £2.8m. As a consequence, the Group recorded an overall loss for the year of £3.2m (2006: £2.5m) after fair value adjustments in the portfolio of £3.7m and restructuring charges of £0.4m incurred during Q1 2007.

Profitability in our consulting and IP business, together with the sale of our portfolio company Intrasonics Limited, led to a reduction in Group borrowings of £0.5m during the second half. This improved by a further £1.4m during January 2008 due to a reduction in debtor balances. Following the operational changes implemented over the last year, which have resulted in an increased focus and a significant improvement in the cash profile of the business, we are now confident that we have a good platform from which to profitably grow our core consulting and IP business.

During the last year we have reduced our dependence on venturing activities, and made good progress in trading out our portfolio, with the sale of Intrasonics Limited in December for a cash consideration of £1.5m, the sale of our investment in Nanoscience Inc for £0.3m and the quotation of TurfTrax Holdings plc on AIM in January 2008. Progress in Atraverda Limited, a bipolar battery technology development company, and Sphere Medical Limited, a breakthrough medical device company, remains strong with Atraverda completing a £10m refinancing in Q4 2007. Despite the fall in its share price, CMR's technical progress continues with two recently announced application specific, portable fuel cell demonstration systems, which were unveiled at the Fuel Cell Expo in Tokyo.

Over the last 18 months we have moved the Group from an integrated consulting and venturing business to one focused primarily on growing a profitable technology consulting business creating, developing and delivering business opportunities, products and services. Moving forward we will continue to focus the business on its core technology consulting capability. While we will continue to exploit our own technology and intellectual property ('IP') assets, our strategy is to generate future income in the form of royalties and transaction fees from technology licensing, design and build and managed service applications, rather than the creation of technology spin-out ventures which demand capital alongside scarce technical and management resources.

In the context of the Group's future strategic focus on its consulting and IP activities, the Board has appointed Dr Alistair

Brown as Group Chief Executive to succeed Martin Frost, who is stepping down with immediate effect. Dr Brown, a physicist, joined Sagentia in 2000. With many years of experience within mainland European businesses at Director level, Alistair launched and built Sagentia's operation in Germany and latterly has successfully led the company's sales and marketing strategy.

Martin Frost, who in addition to his other duties, has over the last year focused on managing the Group's portfolio assets, including the recent sale of Intrasonics Limited and the quotation of TurfTrax Holdings plc on AIM, will remain with the Group until the end of June 2008 as Investment Director. In this role he will continue to manage the Group's remaining portfolio assets and assume prime responsibility for the Group's proposed redomiciliation and admission to AIM.

Over the last 10 years Martin has made an outstanding contribution to the Group. I am delighted that he has agreed to stay to oversee the redomiciliation and admission of the company to AIM. Together with all my colleagues on the Board I wish him every success in the future. Similarly, after almost eight years with the Group, we are delighted that Alistair has accepted the role as Group Chief Executive and we are confident that he will continue to build on this year's operating performance and lead the business forward to deliver sustainable and profitable growth.

In the context of simplifying the Group's corporate structure and reducing costs, the Board of Sagentia has further resolved, subject to the shareholders' approval, to move the domicile of the company and its stock market listing.

Sagentia Group AG is currently a Swiss-domiciled company, with a full listing on the London Stock Exchange. During 2008 we intend to move the company's domicile from Switzerland to the UK and the listing from the main London market to AIM. This will reduce ongoing costs by an estimated £0.1m per annum and give the company greater corporate and fund raising flexibility. As part of these moves, I will be announcing further changes to the Board in due course. In order to facilitate the redomicile and admission to AIM, and to assist in broadening the company's shareholder base, we have appointed Arbuthnot Securities as our Nominated Adviser and Broker, with immediate effect.

These changes will not only simplify the business model and management structure, but also aid communications with both investors and customers, enabling us to build on the progress the business has achieved over the last year. While overall market conditions are unpredictable, with a healthy order book pipeline and strengthening balance sheet, we look forward to the future with added confidence.

Chris Masters
Chairman
3 March 2008

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	2007	2006	2007	2006
	Revenue	Revenue	Profit/(Loss)	Profit/(Loss)
Consulting and IP exploitation	20,926	21,472	540	(409)
Venture subsidiaries	169	531	(1,390)	(657)
Asset management	463	485	55	64
Property and centre	1,404	1,158	47	(495)
Revenues: gross loss	22,962	23,646	(748)	(1,497)
Profit on disposals of investments			1,376	392
Change in fair value on financial assets			(3,701)	(876)
Related bonus accrual			327	384
Rebranding costs			-	(632)
Cost of options			(83)	(235)
Operating loss			(2,829)	(2,464)

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 Limited ('Sagentia') and overseas subsidiaries in the USA, 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 2007 the consulting and IP activities maintained fee income of £17.9m (2006: 18m) and revenues including recharged expenses of £20.9m (2006: £21.5m). This reflected a weak order book pipeline brought forward into the year from 2006, which required management action in Q1 2007, reducing the cost base of the business and improving utilisation. Thereafter, order intake for 2007 improved by 12.5% to £17.9m (2006: £15.9m) and underpinned the improvement in operational performance in H2 2007.

The UK market for the Group's technology consulting services remained significant, and all regions, other than mainland Europe, increased year-on-year. Operating expenses decreased by £0.8m to £17.7m (2006: £18.5m) driven mainly by 12% headcount reduction, resulting in £1.8m per annum savings in employee costs for permanent and temporary staff. This followed the changes announced at the start of 2007, leading to redundancy costs in H1 2007 of £0.4m. Sagentia returned a profit for the year of £0.5m after redundancy costs, recovering from the losses posted in 2006 (2006: loss of £0.4m), with a stronger order book pipeline year-on-year moving into 2008.

Sagentia retains substantial interests in intellectual property assets, usually in the form of licences and/or equity stakes in exploitation vehicles, which should start to generate non-consulting income over the next few years. These include:

- Autosheath™ licence – for needle-stick technology – \$0.5m was received during 2007, following grant of the US patent. Sagentia retains co-marketing rights going forward
- BioNCrypt – a biometric encryption technology – \$0.2m was received during 2007, with a further \$0.5m dependant on technical milestones in the next 18 months, together with an 8% equity stake in the exploitation vehicle
- Astra Zeneca – licence to magnetic tagging technology developed by Sagentia – fees of £0.1m received
- TurfTrax – in January 2008 Sagentia agreed to assign its IP related to racehorse tracking and extended the field of use outside of sport for a consideration of £0.2m in cash and shares in TurfTrax
- CapTrack and MuTrack – sensing technologies being exploited through Sagentia Sensors – likely to generate non-consulting income in 2008. Discussions are progressing with global industrial and automotive companies
- Sensopad/Autopad – licensed to TT electronics in on-board automotive and fuel level applications. Future revenues of £1.6m already recognised from Autopad licence. TT has announced it has taken orders for more than 100m devices
- Grey Wheels – water meter reading sensing technology – licensed to confidential third party.

Going forward Sagentia intends to generate non-consulting income through:

- licensing proprietary IP
- manufacturing royalties where Sagentia is involved in creating, at risk, the original product concept
- generating retainer and transaction fee income from our growing managed services activity.

Chief Executive's Review continued

It is expected that the contribution of non-consulting income will increase over the next two years given product and service development lifecycles, and the time required to negotiate licence deals.

Patent fees of £0.3m were incurred during the year (2006: £0.3m) and have been expensed through the income statement.

Overseas sales and operations continue to be targeted through the offices in Baltimore, Frankfurt and Hong Kong with significant increases in both the selling and operating capacity expected in 2008. Further, new offices have now been identified in Washington to house all of our US operations.

During 2007 Sagentia undertook a number of landmark projects. A notable success was the launch of a breakthrough mobile payment solution for micro-payments in Kenya, which was developed in conjunction with Vodafone for Safaricom. The service enables customers to send money safely and cheaply using a mobile phone and provides cost effective access to financial services for people without bank accounts in economies where it is unsafe, difficult and expensive to hold cash or move money around. Since the year-end, Vodafone has announced that there are already more than 1.6m registered customers in Kenya, and the intention to launch the application in Afghanistan.

By building on the rapidly growing mobile networks in emerging markets and linking with finance institutions, merchants and employee payment facilities, this provides a uniquely robust, reliable and efficient tool for organisations to distribute and receive money, their customers to access it and for individuals to move money around the country, and around the world.

The new service is available to anyone with a mobile phone, regardless of whether they have a bank account. World-wide, there are more than twice as many people who have a mobile phone than have a bank account. Specifically this provides mobile phone users with a secure platform which uses simple, tailored menus on their phone to send fully encrypted and PIN locked messages to a thoroughly audited financial accounting system.

The culmination of a two year, multi-million pound programme, M-PESA was extensively tested on the Safaricom network. Following the successful roll-out in Kenya, the collaboration is expected to continue for at least a further two years as the solution is rolled out to other parts of the world.

Information on other projects are available from The Gen, our quarterly magazine, which may be downloaded from our website (www.sagentia.com).

Sagentia Limited has also been awarded certification to ISO 13485:2003, the internationally recognised standard for ensuring adherence to regulatory requirements in the medical device industry.

As a registered organisation, the standard acts as a stamp of approval in an international marketplace for Sagentia,

demonstrating an ability to provide medical device design services that consistently meet customer and regulatory requirements. It also enhances Sagentia's ISO 9001:2000 certification, allowing the medical device requirements to work within the organisation's existing quality management system, and benefiting clients by ensuring the highest quality standards are met.

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. The scale of this activity will reduce going forwards as the business focuses on exploiting technology through licensing and collaboration with Sagentia's consulting clients.

Under IFRS, controlled investments are consolidated as subsidiaries, therefore all costs incurred by the venture subsidiaries are expensed through the income statement. Consequently, the fair value of controlled investments is not shown on the balance sheet. Controlled investments actively exploited during the year included Sensopad Limited, AtraNova Limited, Intrasonics Limited and Sagentia Sensors Limited. Intrasonics was sold in December 2007 for an initial cash consideration of £1.5m.

The net costs of venture subsidiaries in 2007 were £1.4m (2006: £0.7m). As well as operating costs, all expenditure on the creation and development of intellectual property was written off as incurred, in line with the Group's accounting policies. The venture subsidiaries were as follows:

Intrasonics Limited

Intrasonics Limited ('Intrasonics') is an interactive media services company which provides a completely new way of directly connecting broadcast media to mobile networks using data embedded in sound. Intrasonics' patented 'Sound Link and Sync' system addresses a number of applications including interactive gaming and advertising. Intrasonics addresses opportunities in the interactive media sector using its portfolio of wholly-owned IP assets – Intrasonics™ acoustic data communications technology.

Sagentia Group owned 93% of the equity in Intrasonics at the point when it was sold to Mainframe Participaties B.V. for an initial cash consideration of £1.5m in December 2007. Further payments, up to a maximum of £4.5m, could be received over the coming years depending on performance.

Sensopad Limited

The automotive applications of Sensopad Technologies were sold to a subsidiary of TT electronics plc ('TT') in March 2004 for a consideration of £1.2m together with anticipated future royalties. Net royalties of £1.7m have been recognised to date through the income statement. TT has announced that it has taken £100m of orders secured for its Autopad™ sensor. Royalty receipts are expected to commence in H1 2008. Sensopad has further licensed its technology in the field of fuel level sensing to TT for £0.15m in H1 2007.

Chief Executive's Review continued

Non-automotive applications for the contact-less inductive sensing technology are being exploited in the industrial, aerospace and gaming controller market via a closer marketing and operating arrangement with Sagentia Limited.

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

AtraNova Limited

AtraNova Limited ('AtraNova') obtained the rights to non-battery applications to commercialise Ebonex™, a titanium oxide ceramic, when Sagentia Group's portfolio company Atraverda Limited obtained funding for its battery applications.

During 2007 AtraNova has supplied water treatment test equipment within the UK which can significantly reduce the Mogden charge levied by water companies on manufacturers. It is currently seeking to raise sufficient funding to launch its

product into this market during 2008.

Sagentia Group owns 91% of the equity in AtraNova, and currently funds the company via a loan facility. It is anticipated that Sagentia will be diluted to a minority position post financing during 2008.

Sagentia Sensors Limited

Sagentia Sensors was created as a vehicle to exploit IP in Sagentia's Cap-Track™ and Mu-Track™ sensor patent families. During 2007 it has entered into negotiations to license the technology broadly in automotive and industrial sectors, and is anticipating closing a number of deals in 2008.

The fair value of venture subsidiaries is not shown in the consolidated balance sheet. The combined BVCA value of the Group holdings in these venture subsidiaries is £0.9m.

Asset management

Chord Capital, the Group's FSA registered subsidiary, manages certain investments within the Group on a non-discretionary basis, and advises on investments for two separate funds (2006: two). Fees earned for third party funds under management including Board fees was £0.46m (2006: £0.48m) and generated a gross profit of £0.06m (2006: loss of £0.5m). The portfolio capitalised on Sagentia Group's balance sheet at 31 December 2007 (Note 15) is valued at £7.6m (2006: £11.3m).

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 loss of £2m (2006: profit of £0.1m). This reflected a profit on the disposal of Intrasonics Limited, offset by a reduction in fair value of investments, most notably by £2.8m in the value of CMR Fuel Cells plc shares.

The following investee companies now comprise 70% of the fair/BVCA value of the portfolio capitalised on Sagentia Group's balance sheet at 31 December 2007:

Investee company	Group fully diluted equity interest * %	2007 BVCA valuation of Group interest £m	2006 BVCA valuation of Group interest £m
CMR Fuel Cells plc ('CMR')	11	0.9	3.7
Sphere Medical Holding Limited ('Sphere')	9	1.5	1.5
Atraverda Limited ('Atraverda')	8	1.3	1.3
Sensortec Limited ('Sensortec')	10	1.2	1.2
TurfTrax Group plc ('TurfTrax')	8	0.4	0.4
Total		5.3	8.1

* 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 Fuel Cells plc is a UK AIM-quoted developer of fuel cell stacks for portable and small stationary power generation applications. CMR plans to become a leading supplier of fuel cell products, based on its simple but revolutionary patented stack architecture which delivers longer run-time and lower costs than conventional fuel cell stacks.

CMR was spun out of Sagentia in 2003 to exploit a revolutionary flow-through fuel cell utilising mixed reactants developed at Sagentia and 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 the year-end was £0.42 (2006: £1.645). Sagentia Group's shares in CMR are therefore held in the balance sheet at year-end at a fair value of £0.9m (2006: £3.7m).

During 2007 CMR entered into a non-exclusive Joint Development Agreement ('JDA') with Samsung SDI Co. Limited ('Samsung') of Korea. Under the terms of the JDA, Samsung and CMR are collaborating to produce a Direct Methanol Fuel Cell system demonstrator incorporating CMR's mixed reactant stack technology. CMR also entered into active commercial programmes in Japan, Korea, Taiwan and China.

Chief Executive's Review continued

In January 2008 CMR announced that it has developed two new application specific, portable fuel cell demonstration systems which were unveiled at the Fuel Cell Expo in Tokyo. These systems are based on CMR's high power density direct methanol stacks, which are tailored for PDA and media player applications needing 3 Watts of power and for laptop computer applications needing 25 Watts of power.

CMR anticipates that 2008 will see early deployments of its stacks based on 'acid' chemistry in trial systems, building towards mass markets emerging from 2010 onwards.

Sphere Medical Holding ('Sphere')

Sphere, the medical devices company spun out from Sagentia, has developed micro-analysers which can measure numerous clinical parameters simultaneously and in real time. The disposable micro-analyser platform, based on technology originally acquired from Siemens and Sagentia, can be applied to numerous clinical needs at cost effective price points.

Sphere's transducer technology consists of an integrated circuit or 'chip' capable of simultaneously measuring a number of drugs and dissolved gases. Chips are designed to contain a range of transducers, which are modified by the deposition of suitable receptors, to enable the measurement of a number of key patient health parameters to be assessed in real time. Sphere's products are based on the Proxima System.

Proxima is a disposable blood analyser on a microchip. The device is so small that it can be integrated into an arterial line where it can repeatedly measure blood gases, electrolytes, glucose and hematocrit whenever blood is drawn over the sensor. This revolutionary approach to blood monitoring is quicker and simpler than removing blood samples for analysis in a lab or nearby blood gas analyser. The Proxima System will significantly increase the available data from which doctors prescribe life saving therapy, and will do so in near real time, giving clinicians the ability to respond rapidly to changing conditions in their critically ill patients.

Products already in development include devices to monitor blood gases, electrolytes, metabolites, drugs and disease markers. Drug monitoring will allow doctors to maintain the plasma concentration of therapeutic agents within the required range, avoiding toxicity associated with high concentrations and ineffectiveness from too low a dose. Blood gas, electrolyte and metabolite measurement is essential for respiratory and metabolic management of patients, and is a standard of care in intensive care medicine world-wide. The ability to monitor critical disease markers in real time will help clinicians to keep abreast of disease progression in patients who, for instance, have had a heart attack or a stroke.

Sphere exhibited Proxima at Medica, the World Forum for Medicine, in Düsseldorf in November 2007.

Atraverda Limited ('Atraverda')

Atraverda has developed an innovative lead acid battery design using Ebonex™ bipolar membranes. Atraverda's technology base is founded on the properties of its versatile proprietary Ebonex™ technology, a titanium sub-oxide material which has a unique combination of metallic-like electrical conductivity, along with the characteristic high corrosion resistance of ceramics.

Primary applications include a bipolar battery which is set to revolutionise a host of markets, including the emerging hybrid electric vehicles sector, personal mobility, standby power, defence and telecoms. Atraverda's Ebonex™ technology bipolar batteries employ significantly less lead than conventional batteries, therefore delivering huge environmental and cost reduction benefits. The battery is assembled with simpler and fewer manufacturing processes reducing the environmental footprint.

The past 12 months have seen Atraverda make significant progress in its plan to deliver the first commercially viable bipolar battery. Atraverda has announced that it is working with three of the world's largest battery manufacturers, including East Penn Manufacturing Inc in the US, Exide Industries Limited in India and Vadar Enterprise Limited in the Ukraine.

Atraverda closed its Series B financing round with a total of £10.4m (US\$21.4m) raised in October 2007. The round sees new investors BankInvest New Energy Solutions from Denmark, and Espírito Santo Ventures of Portugal lead the financing round. The investment will be used to accelerate Atraverda's growth, enhance product development and develop further commercial opportunities. Sagentia did not invest further in this round but holds 8% post-financing.

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 Limited ('Sensortec')

Sensortec a Jersey registered company, has developed a robust adaptable platform technology for use in disposable biosensors 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, which has not been possible with alternative sensor technologies. This novel biosensor technology has multiple

Chief Executive's Review continued

applications and has already been validated by use in the environmental and food quality assurance sectors for detecting such contaminants as mycotoxins and drug residues.

TurfTrax Holdings plc ('TurfTrax')

Sagentia Group holds 8% of the equity in TurfTrax Holdings plc. TurfTrax primarily provides horse racing data to the betting market, media and consumers.

TurfTrax is the holding company for a group of companies originating and distributing data and data products to enhance horse racing, and the products of the associated betting industry and media suppliers world-wide. This data and data products are produced wholly or in part by proprietary technologies, of which the key elements are protected by domestic and international patents. In particular the company has developed, with Sagentia, the TurfTrax Tracking System – capturing a horse race as data and broadcasting this data to multiple clients in real time.

The group currently operates through three subsidiaries:

- TurfTrax Racing Data – specialising in service provision to the global racing, betting and media industries, it incorporates tracking, betting services and course services
- TurfTrax Ground Management Systems – a high level consulting service for all forms of sporting surface users, including race courses, football pitches, golf courses and also for public areas such as parks
- TurfTrax Technology – charged with the commercialisation of the group's patented and proprietary technologies, for horse racing and other sports, and for other commercial and industrial application through partnerships

TurfTrax Holdings was quoted on AIM on 30 January 2008 at an admission price of 40 pence per share. Sagentia holds 3.2m shares.

Other investments

During the year Sagentia Group announced the sale of its entire equity stake in Nanoscience Inc for a cash consideration of £0.3m and a profit of £0.1m on original cost.

Our strategy regarding ventures has changed over the last year to a position where we now seek to exploit IP via licence or direct disposal rather than creating new venture companies. Over the last three to four years, we have demonstrated, in CMR, Sphere and Atraverda, that we are capable of creating companies with substantial value. However, the financing and management characteristics of a venture business are very different from a core technology consulting activity.

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 37,000 square feet on arms length terms. The remaining space is let on short to medium term leases.

The net profit from property and central services comprises £0.05m (2006: loss of £0.5m), the increase resulting from an increase in rental incomes, and a reduction in central costs (including a proportion of the rebranding fees incurred in 2006). 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 2007 closes in a better position with the building fully let, and Manage5Nines' revenues increasing, including for the non-Group share of its customer base.

Outlook

Demand for Sagentia's product and service development capability is robust and the order book pipeline is strong. The performance of the consulting and IP business in H2 2007 benefited from the changes made in Q1 2007 and we are confident that core activities will continue to improve into 2008.

Martin Frost
Chief Executive
3 March 2008

Financial Review

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

	2007 £000	2006 £000
Core operations	22,793	23,115
Venture subsidiaries	169	531
Revenue	22,962	23,646
Core operations	642	(840)
Venture subsidiaries	(1,390)	(657)
Gross loss	(748)	(1,497)
Profit on disposal of investments	1,376	392
Change in fair value on financial assets	(3,701)	(876)
Related bonus accrual	327	384
Rebranding costs	-	(632)
Cost of options	(83)	(235)
Operating (loss) profit	(2,829)	(2,464)
Finance charges (net)	(485)	(59)
(Loss) profit on continuing operations before income tax	(3,314)	(2,523)

Revenue: Note 4

Revenue is stated net of inter-company activity. Total revenues decreased by 2.9% to £22.9m (2006: £23.6m) due primarily to within technology consulting services, resulting from a reduction in recharged expenses of £0.7m. Consulting and IP exploitation represents 91% of Group revenue (2006: 91%).

Gross loss: Note 5

Gross loss before gains from venture disposals and fair value adjustments improved from 2006 to a loss of £0.7m (2006: £1.5m). However, this masks a return to profit for the core operations, including a profit in all three segments in the core operations. Venture subsidiary cost increases include activities that led to the disposal of Intrasonics for £1.5m, and additional costs in both Atranova and Sagentia Sensors, in advance of royalty fee income.

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 Intrasonics Limited (Note 15).

Change in fair value on financial assets: Note 15

The change in fair value on financial assets of £3.7m represents the total of the movement in market value of our quoted shares held, and the movement in fair value (as calculated using British Venture Capital Association methodology) of

our unquoted investments. The largest part of this relates to the reduction in share price of our quoted investment CMR of £2.8m. CMR's share price ended the year at £0.42 (2006: £1.645). The Group initially had a lock-in period, where it was unable to trade in CMR shares, and subsequent illiquidity in the share price has made trading by substantial shareholders difficult. Of the remaining financial assets, marginal gains were booked in Atraverda, with losses booked to our investments in Etech AG, Telsecure Group Limited, Zinwave Holdings Limited and Wingspeed Corp.

Bonus accrual

A bonus accrual of £0.3m has been released in 2007 (2006: £0.4m) due to the reduction in fair value on financial assets.

Rebranding

A one-off £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 2007 is calculated as £0.1m (2006: £0.2m). The decrease is due to the options that were issued mid 2005 having been fully charged through the Consolidated Income Statement. Options totalling 11.2m were granted in December 2007. At the year-end, all options issued have an exercise price in excess of market price.

Financial Review continued

Finance charges: Note 6

Finance charges for the year increased to £0.5m (2006: £0.1m) due to an increase in interest-rate charge on increased borrowings. 2006 also included a credit resulting from the reduction in the value of the interest-rate swap, which occurred due to the increase in interest rates during 2006. This was not repeated in 2007.

Loss per share: Note 11

The loss per share was 1.5 pence (2006: 1.1 pence).

Analysis of balance sheet

At 31 December 2007 the Group had shareholders' funds of £17.4m (2006: £20.7m) which is equivalent to approximately 8.1 pence per share (2006: 9.7 pence). This includes freehold land and buildings with a net book value of £14.6m (2006: £14.8m), against which the Group has an outstanding loan of £6.8m (2006: £6.5m), in addition to cash of £0.9m (2006: £2m). At the year-end, unutilised loans of £3.4m (2006: £4.5m) were available to be drawn down by the Group.

The fair value of investments and other loans to investee companies at the year-end was £7.6m (2006: £11.3m). This represents the BVCA or market valuation of all non-controlled investments. The BVCA valuation of controlled investments – venture subsidiaries – is £0.9m (2006: £1.1m). The difference between the BVCA valuation and the net asset value at the year-end for venture subsidiaries is equivalent to approximately 0.4 pence per share (2006: 0.5 pence).

Cash and cash flow

The cash and cash equivalents during 2007 decreased by £1.1m (2006: £1.6m). This resulted from cash outflows from operating activities of £3.5m (2006: £0.7m), being offset by cash inflows from investing activities of £1.3m (2006: outflow of £1m) and cash inflows of £1.1m (2006: £Nil) from financing activities from the partial drawdown of the loan facility.

Operating cash outflows during the year largely resulted from an increase in working capital requirements towards the end of the year of £2.7m (2006: decrease of £1.3m) due to an increase in debtors. The collections of overdue debts during January 2008 increased the cash position by a further £1.4m.

Cash inflow from investing activities resulted from the disposal of Intrasonics Limited. Other discretionary spending, including capital expenditure and financial investment, was limited to a net £0.2m (2006: £1m).

Bank loans drawn down at the end of 2007 were £6.8m (2006: £6.5m). The loan is part of a Group bank 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 the Sagentia Group. At the end of 2007 £3.4m of the facility remains available to be drawn down.

The Group continues to manage carefully its access to cash resources so that its current liabilities can be met as they fall due, and that 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.

Guy McCarthy
Group Director of Finance
3 March 2008

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 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.

Gordon Edge Non-Executive Director

Gordon founded Sagentia Group in 1986. He was Chairman of the Group from January 2002 to November 2006, 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 Limited (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 Bratschi Wiederkehr & Buob in Zürich, Switzerland and a member of the Zürich and Swiss Bar Association. Bratschi Wiederkehr & Buob is retained as Sagentia Group's legal adviser and provides company secretarial services to the Group. Martin is a Director of the University of Zürich and has a Master of Comparative Law degree from the Southern Methodist University in Dallas, Texas.

Per Ludvigsson*1 Non-Executive Director

Per was appointed Non-Executive Director of Sagentia Group at the AGM in 2004, and retired by rotation after three years at the AGM in 2007.

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. 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 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, a post he has now left. 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 and is a Non-Executive Director of a number of other companies.

Dan Flicos Executive Director

Dan was appointed Executive Director of Sagentia Group at the AGM in 2007. Dan has global responsibility for Sagentia's operations. Previously Dan held the role of Commercial Director for Sagentia. Dan joined Sagentia in 1993 and spent three years in the US running Sagentia's Baltimore office, which specialises in medical device development. He has a first degree and a masters degree in Electrical and Electronic Engineering, both from Bath University.

* Retire by rotation

*1 Retired before 31 December 2007

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 2007.

Business review and principal activities

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

A review of the Group's activities is contained in the Chairman's Statement and the 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 £23m (2006: £23.6m).
Consulting activities was £20.9m (2006: £21.5m).
Group loss before taxation and minority interests was £3.3m (2006: £2.5m).
Group loss attributable to equity holders of the parent was £3.3m (2006: £2.5m).

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

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 cashflows 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 dependant 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 system) 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, and through 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 the 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

Non current assets

Details of movements in property, plant and equipment 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 do not believe that the property is materially misstated or that its fair value is significantly different to its carrying value.

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 £6,085,000 (2006: £5,193,000), all of which has been written off to the income statement. This increase reflects the need to be at the forefront of technological advance to ensure future growth.

Directors' interests in the shares of the Group, and of other Group undertakings where they are not also a director, at 31 December 2007 and 31 December 2006, and any changes subsequent to 31 December 2007, are as follows:

Ordinary CHF 0.10 shares of Sagentia Group AG	Average exercise price	31 December 2007 number	Average exercise price	31 December 2006 number	31 December 2007 number	31 December 2006 number
Sagentia Group AG		Options		Options	Shares	Shares
Björklund		-		-	1,120,510	1,120,510
Masters		-		-	1,000,000	100,000
Edge		-		-	11,298,070	11,198,070
Flicos	5.9p	1,887,573	10.9	416,777	-	-
Forster		-		-	1,599,400	1,099,400
Frost	7.1p	2,470,796	11.0	1,000,000	495,463	227,248
Kylberg		-		-	346,544	346,544
Rauh		-		-	295,200	295,200

*Options were granted between 2005 and 2007, and may be exercised before December 2017. Martin Frost and Dan Flicos were granted 1,470,796 options during the year at an exercise price of CHF0.10. The options may be exercised between three and 10 years from the date of grant. No Directors made any gain on the exercise of share options during the year and no options were exercised.

Election of Directors

Lars Kylberg and Johan Björklund 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 make payments to suppliers, and to all suppliers on request. The Group payables balance for 2007 represents a creditor payment period of 30 days (2006: 41 days).

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 2007 (2006: £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.

Directors

The present membership of the Board is shown on page 12. Per Ludvigsson retired by rotation at the Annual General Meeting in April and did not offer himself for re-election. Dan Flicos was appointed at the AGM. All other Directors served throughout the year.

Charitable and political donations

No charitable or political donations were made in the year (2006: £Nil).

Post balance sheet events

Following the year-end, TurfTrax Holdings plc was quoted on AIM in January 2008 at an admission price of 40 pence per share. Sagentia holds 3.2m shares.

Planned future developments

A review of the Group's current and future activities is contained in the Chairman's Statement and Chief Executive's Review.

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 Limited	13,874,912	6.4
Gordon Edge	11,298,070	5.2

Corporate governance report

Statement about applying the principles of good governance

The Company is registered in Switzerland, and listed 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 below. 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:

- not all of the Non-Executive Directors on the Remuneration Committee or Audit Committee are independent;
- 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

The Chairman and three of the five Non-Executive Directors on the Board at the year-end are independent. Lars Kylberg, Martin Forster and Markus Rauh are deemed by the Board to be Independent Directors. Martin used to serve as a Director

of Catella AG, a dormant holding company, and therefore was not initially deemed independent under the Combined Code. However, Martin resigned this post in order to comply with the guidelines of the Combined Code. Through Bratschi Wiederkehr & Buob, 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 do 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.

Board of Directors

Biographical details of the Directors can be found at the start of the Report of the Directors.

At 31 December 2007, the Board comprised a Chairman, two Executive Directors and five Non-Executive Directors. Three of the five Non-Executive Directors are independent. 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 Executive team 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, following 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, chaired by the Chief Executive.

The Board met seven times during 2007. 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 four 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 during the year, other than Per Ludvigsson, Markus Rauh, Lars Kylberg, and Johan Björklund who were unable to attend one Board meeting each.

Directors

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

Director	Role at 31 December 2007	Date of (re-) appointment	Date of resignation	Board committee		
Chris Masters	Chairman	16 Nov 2006		I	N	
Martin Frost	Chief Executive	27 Apr 2007				
Dan Flicos	Executive Director	27 Apr 2007				
Lars Kylberg	Senior Non-Executive	30 Jun 2005		A	I	N R
Gordon Edge	Non-Executive	27 Apr 2007				N
Martin Forster	Non-Executive	28 Apr 2006		A		N
Johan Björklund	Non-Executive	30 Jun 2005		A		N R
Per Ludvigsson	Non-Executive	30 Jun 2004	27 Apr 2007			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. Lars Kylberg, and Johan Björklund 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. The 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 with the Group Handbook. The Audit Committee contribute 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 twice in 2007. All Directors attended all committee meetings in person or by telephone. The Chairman may also take additional meetings with the auditors and Group Director of Finance during the year.

Remuneration Committee

The Remuneration Committee is chaired by Markus Rauh and comprises Johan Björklund and Lars Kylberg. 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 twice in 2007. All Directors attended all committee meetings in person or by telephone.

Nomination Committee

The Nomination Committee is chaired by Chris Masters and comprises the five Non-Executive members of the Board. 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. Nominations for Executive Directors are submitted by the Group Chief Executive to the Nomination Committee. All Board appointments have to be approved at a General Meeting of the Company.

The Nomination Committee met once in 2007. All Directors attended all committee meetings in person or by telephone. The committee also takes advice from time to time from external advisers, but did not do so in 2007.

Relations with shareholders

The Directors seek to build on a mutual understanding of objectives between the company 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 to 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 2007.

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 his 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's remuneration was reviewed in 2007 and his contractual entitlement agreed at £168,000 including employer's pension contributions. Dan Flicos' remuneration was reviewed in 2007 and his contractual entitlement agreed at £132,000 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 £19,000 have been paid to Martin Frost during the year ended 31 December 2007
- **benefits:** Executive Directors' benefits include medical and dental expenses, life assurance and pension contributions.

Service contracts

Martin Frost was re-elected at the April 2007 Annual General Meeting for the following three years. Dan Flicos was appointed at the April 2007 Annual General Meeting for the following three years. All Directors are appointed for a period of three years. Martin Frost's employment contract contains a notice period of 12 months; Dan Flicos' contract contains a notice period of 6 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 (2006: £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 24.3m options in grant (2006: 16m).

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 2007 was 4 pence (2006: 8.75 pence). The highest and lowest price during the year was 8.75 pence and 2.5 pence respectively.

Executive Directors are 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 Audit 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 Director of Finance. It may also take advice from time to time from external advisers, but did not do so in 2007.

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 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 Directors 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. There are also Group policies 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 2007 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 systems and processes in place in meetings with the Group Chief Executive, Group Director of Finance, and the Group's Auditors during 2007. No internal audit function is operated outside of the systems and processes in place, as the Group is considered too small for a separate function. 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 Group and of the profit or loss of the Group for that period.

After making enquiries, the Directors have a reasonable expectation that the Group has 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 Group. They are also responsible for safeguarding the assets of the 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 Company's Directors, as set out on page 12, 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 Directors appointed Grant Thornton UK LLP as auditors during the year. 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 3 March 2008 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

We have audited the consolidated financial statements of Sagentia Group AG for the year ended 31 December 2007 which comprise the principal accounting policies, the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Shareholders' Equity and Notes 1 to 27. These consolidated financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Annual General Meeting in accordance with our terms of engagement. Our audit work has been undertaken so that we might state to the Annual General Meeting those matters we are required to state to them in an auditor's 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 Annual General Meeting, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with IFRS as adopted by the European Union.

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

Basis of audit opinion

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

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

Opinion

In our opinion the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
Cambridge
3 March 2008

Financial Statements

and Notes to the Financial Statements

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	Core operations £000	Venture subsidiaries £000	2007 £000	2006 £000
Continuing operations					
Revenue					
Core operations		22,793	-	22,793	23,115
Venture subsidiaries		-	169	169	531
	4	22,793	169	22,962	23,646
Operating expenses					
Core operations		(22,151)	-	(22,151)	(23,955)
Venture subsidiaries		-	(1,559)	(1,559)	(1,188)
	4,5	(22,151)	(1,559)	(23,710)	(25,143)
Gross profit (loss)					
	4	642	(1,390)	(748)	(1,497)
Profit on disposal of investments	15			1,376	392
Change in value of financial assets	15			(3,701)	(876)
Bonus accrual				327	384
Rebranding				-	(632)
Share based payment charge*				(83)	(235)
Operating loss				(2,829)	(2,464)
Finance costs	6			(552)	(411)
Finance income	6			86	110
Other financial result	6			(19)	242
Loss on continuing operations before income tax				(3,314)	(2,523)
Tax income	9			80	51
Loss on continuing operations for the year				(3,234)	(2,472)
Attributable to:					
Equity holders of the parent				(3,264)	(2,531)
Minority interests				30	59
Loss for the year				(3,234)	(2,472)
Earnings per share from total and continuing operations					
Loss per share (basic and diluted)	11			(1.5)p	(1.1)p

* See Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

Group	Issued capital	Share premium	Investment in own shares	Translation reserve	Share based payment reserve	Retained earnings	Total shareholders' funds	Minority interest	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
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 based payment charge	-	-	-	-	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
Balance at 1 January 2007	9,307	13,133	(61)	(129)	348	(1,891)	20,707	92	20,799
Profit (loss) for the year	-	-	-	-	-	(3,264)	(3,264)	30	(3,234)
Dividends payable to minorities	-	-	-	-	-	-	-	(8)	(8)
Issue of shares to minorities	-	-	-	-	-	-	-	5	5
Share based payment charge	-	-	-	-	83	-	83	-	83
Exchange differences on translating foreign operations	-	-	-	(103)	-	-	(103)	(4)	(107)
Balance at 31 December 2007	9,307	13,133	(61)	(232)	431	(5,155)	17,423	115	17,538

The accompanying Notes are an integral part of the Consolidated Statement of Changes in Equity.

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 £000	2006 £000
Group			
ASSETS			
Non-current assets			
Intangible assets	13	5	9
Goodwill	12	-	-
Property, plant and equipment	14	14,574	14,787
Investments	15	7,570	11,279
Deferred income tax assets	10	2,657	3,014
		24,806	29,089
Current assets			
Trade and other receivables	16	7,733	5,212
Current tax asset		59	30
Investments	17	-	23
Cash and cash equivalents	18	859	1,963
		8,651	7,228
Total assets		33,457	36,317
EQUITY AND LIABILITIES			
Shareholders' equity			
Called-up share capital*	19	9,307	9,307
Share premium account*		13,133	13,133
Investment in own shares*		(61)	(61)
Translation reserve*		(232)	(129)
Share based payment reserve*		431	348
Retained earnings*		(5,155)	(1,891)
Equity attributable to the equity holders of the parent		17,423	20,707
Minority interest		115	92
Total equity		17,538	20,799
Non-current liabilities			
Borrowings	20	7,243	6,948
Other creditors	20	69	41
Financial instruments	20	200	181
Deferred income tax liabilities	10	2,657	3,014
		10,169	10,184
Current liabilities			
Trade and other payables	21	4,891	5,250
Current income tax liabilities	21	36	43
Borrowings	21	823	41
		5,750	5,334
Total liabilities		15,919	15,518
Total equity and liabilities		33,457	36,317

* See Consolidated Statement of Changes in Equity

The financial statements were approved by the Board of Directors and signed on its behalf by:

Chris Masters Chairman
 Martin Frost Chief Executive Officer
 On 3 March 2008

The accompanying Notes are an integral part of the Consolidated Balance Sheet.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 £000	2006 £000
Loss before income tax	(3,314)	(2,523)
Depreciation and amortisation charges	409	422
Profit on disposal of investments	(1,376)	(392)
Change in fair value	3,701	876
Change in fair value of interest-rate swap	19	(242)
Bonus accrual	(327)	(384)
Share based payment charge	83	235
(Increase) decrease in receivables	(2,599)	2,059
(Decrease) in payables	(140)	(747)
UK corporation tax received (net)	50	35
Foreign corporation tax (paid) received (net)	(6)	3
Cash flows from operating activities	(3,500)	(658)
Purchase of property, plant and equipment	(200)	(212)
Proceeds from sale of property, plant and equipment	5	-
Loans repaid by related parties	63	-
Loan repayments received from third parties	(34)	-
Purchase of financial assets at fair value through the profit and loss	(185)	(1,279)
Sale of current asset investments	23	-
Sale of subsidiary undertakings	1,488	-
Sale of financial assets at fair value through the profit and loss	165	540
Cash flows from investing activities	1,325	(951)
Issue of ordinary share capital	-	56
Disposal of own shares	-	13
Issue of shares by subsidiary undertakings to minority interests	5	11
Issue of loans by minority interests to subsidiary undertakings	13	(11)
Loan repayments	1,064	(64)
Cash flows from financing activities	1,082	5
Decrease in cash and cash equivalents in the year	(1,093)	(1,604)
Cash and cash equivalents at the beginning of the year	1,963	3,567
Exchange losses on cash	(11)	-
Cash and cash equivalents at the end of the year	859	1,963

Notes to the Financial Statements

For the year ended 31 December 2007

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 Company is the ultimate parent company in which results of all Group companies are consolidated.

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 located in Europe in Cambridge, Frankfurt, and Stockholm; in the US in Baltimore, and in Asia in Hong Kong.

The accounts of Sagentia Group AG were prepared under Swiss Law and have been audited by Grant Thornton BFB SA. Accounts are available from the Company's registered office; Bahnhofstrasse 44, CH-8023, Zürich, Switzerland.

The Company is incorporated in Switzerland and 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 3 March 2008.

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 IAS 39 Financial Instruments: Recognition and Measurement. Of the new Standards and Interpretations effective for the year ended 31 December 2007, listed below, there was no impact on the presentation of the financial statements of Sagentia Group AG.

Number	Title
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRS 7	Financial Instruments: Disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The Standards and Interpretations in issue but not yet effective for the year ending 31 December 2007 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	Effective
IFRIC 11	IFRS 2: Group and Treasury Share Transactions	1 Jan 2008
IFRIC 12	Service Concession Arrangements	1 Jan 2008
IFRIC 13	Customer Loyalty Programmes	1 Jul 2008
IFRIC 14	Defined Benefit Asset and Minimum Funding Requirements	1 Jan 2008
IFRS 3 (Revised)	Business Combinations	1 Jul 2009
IFRS 2 (Amendment)	Share Based Payments	1 Jan 2009
IAS 1	Presentation of Financial Statements – Capital Disclosures	1 Jan 2009
IAS 23 (Revised)	Borrowing Costs	1 Jan 2009
IAS 27 (Revised 2008)	Consolidated and Separate Financial Statements	1 Jul 2009
IFRS 8	Operating Segments	1 Jan 2009

IAS 1, Presentation of Financial Statements (Revised 2007), will result in changes to the presentation of the Group's financial statements as the format currently adopted for the Statement of Changes in Equity will no longer be permitted. Instead, the Group will present a Statement of Comprehensive Income combining the existing Income Statement with other income and expenses currently presented as part of the Statement of Changes in Equity. In addition, the Group will present a separate Statement of Changes in Equity showing owner changes in equity.

IAS 23 Borrowing Costs (Revised 2007) requires that borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of the asset. The standard must be applied for accounting periods beginning

Notes to the Financial Statements continued

2 Summary of significant accounting policies (continued)

on or after 1 January 2009. The Group's current accounting policy is to recognise borrowing costs in the income statement as incurred. Where the Group has funded the acquisition or construction of property, plant and equipment through borrowings, application of the standard is expected to increase the cost of the asset and the depreciation charge and reduce finance costs.

IFRS 3 Business Combinations (Revised 2008) will apply to any future business combinations that the Group may undertake once it is in force. The Group has no plans to adopt the revised standard in advance of its mandatory implementation date and it is not possible to quantify the effect of the standard on future business combinations until those combinations take place. The other standards and interpretations are not expected to have any significant impact on the Group's financial statements, in their periods of initial application, except for the additional disclosures on operating segments when IFRS 8 Operating Segments comes into effect.

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 Group'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.

2.2 Basis of consolidation

The consolidated financial statements of Sagentia 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 was 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 the 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. The Company, as part of a group rebranding exercise, changed its name again during 2006 to Sagentia Group AG. 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 IAS 39, 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 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 incurred expense. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and which 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 (see 2.7 re requirements of internally developed software) 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. 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 project's criteria are met that would allow such costs to be capitalised. 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 complete and 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 (three to five years).

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 less 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 when an indicator of impairment is identified, in accordance with the policy Note 2.5.

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

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 equity investments and loans and receivables at fair value through profit or loss. Initial recognition is at fair value, with transaction costs expensed.

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
- where there has been any recent investment by third parties, the price of that investment will provide a basis of the valuation.

Notes to the Financial Statements continued

2 Summary of accounting policies (continued)

2.9 Investments (continued)

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, and such investments are consolidated, in accordance with the Group's policy on consolidation.

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.

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 in the period when believed to be relatively certain and attributable
- licence and royalty income is recognised in the related period in line with the contract
- share of manufacturer's margin – income recognised in the related period in line with the agreement
- 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 in the related period in line with the lease agreement.

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 payables 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.

Notes to the Financial Statements continued

2 Summary of significant accounting policies (continued)

2.16 Foreign currency (continued)

(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.

In respect of translation differences on non-monetary items, items held at cost are translated at the exchange rate at the date of transaction and items held at fair value are translated at the exchange rate when the fair value was determined.

(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)
- 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.

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 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 had 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.

2 Summary of significant accounting policies (continued)

2.17 Employee benefits (continued)

(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, 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.

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

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

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

All other leases are treated as operating leases and are charged on a straight-line basis over the lease term, even if payments are not made on such a basis.

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 qualifying 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.

2.22 Financial instruments

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading, or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. By definition, all derivative financial instruments that do not qualify for hedge accounting fall into this category. However, no other type of Sagentia's financial instruments currently falls into this category.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

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) Foreign currency sensitivity

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Hong Kong dollar.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

3.1 Financial risk factors (continued)

(a) Foreign currency sensitivity (continued)

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.

Foreign currency denominated financial assets and liabilities, translated into GBP at the closing rate, are as follows:

2007 £000s	US\$	Euro	HK\$	Swedish Krona	Other
Financial assets	911	523	284	144	5,180
Financial liabilities	(17)	(51)	(44)	(93)	(1,439)
Short-term exposure	894	472	240	51	3,741
Financial assets	17	-	-	-	7,553
Financial liabilities	-	-	(10)	(65)	(7,368)
Long-term exposure	17	-	(10)	(65)	185
2006 £000s	US\$	Euro	HK\$	Swedish Krona	Other
Financial assets	690	465	168	174	4,323
Financial liabilities	-	(21)	(32)	(86)	(693)
Short-term exposure	690	444	136	88	3,630
Financial assets	17	-	-	-	11,262
Financial liabilities	-	-	-	(62)	(7,067)
Long-term exposure	17	-	-	(62)	4,195

The following table illustrates the sensitivity of the net movement on reserves and equity in regards to the Group's financial assets and financial liabilities and the US dollar – GBP exchange rate, Euro – GBP exchange rate and Hong Kong dollar – GBP exchange rate. It assumes a +/- 5% change of the GBP/US dollar exchange rate for the year ended at 31 December 2007 (2006: 10%). A +/- 10% change is considered for the GBP/Euro exchange rate (2006: 5%). A +/- 5% change is considered for the

GBP/Hong Kong dollar exchange rate (2006: 10%). Each of these percentages have been determined based on the month on month volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on Sagentia's foreign currency financial instruments held at each balance sheet date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the GBP had strengthened against the US dollar, Euro and Hong Kong dollar by 5% (2006: 10%), 10% (2006: 5%) and 5% (2006: 10%) respectively, then this would have had the following impact:

2007 £000s	US\$	Euro	HK\$	Total
Movement on reserves in the year	(46)	(47)	(11)	(104)
Equity	(46)	(47)	(11)	(104)

If the GBP had weakened against the US dollar, Euro and Hong Kong dollar by 5% (2006: 10%), 10% (2006: 5%) and 5% (2006: 10%) respectively, then this would have had the following impact:

2007 £000s	US\$	Euro	HK\$	Total
Movement on reserves in the year	46	47	11	104
Equity	46	47	11	104

Notes to the Financial Statements continued

3.1 Financial risk factors (continued)

(a) Foreign currency sensitivity (continued)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of Sagentia's exposure to currency risk.

(b) Interest-rate sensitivity

Sagentia's policy is to minimise interest-rate cash flow exposures on long-term financing. Longer term borrowings are therefore usually at fixed rates. At 31 December 2007, Sagentia is exposed to changes in market interest rates through its short-term bank borrowings, which are subject to variable interest rates – see Note 22 for further information.

The Group manages its longer term 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 its interest rate profile are as follows:

	2007 £000	2006 £000
Sterling – bank loan	7,578	6,531
Swedish Krona – bank loan	58	41
	7,636	6,572
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.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +0.5% and -0.5% (2006: +/- 0.5%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on Sagentia's financial instruments held at each balance sheet date. All other variables are held constant.

	2007 £000	2007 £000	2006 £000	2006 £000
	+0.5%	-0.5%	+0.5%	-0.5%
Net result for the year	(12)	12	(3)	3
Equity	(12)	12	(3)	3

(c) Price risk

Sagentia is exposed to other price risk in respect of its listed equity securities, and the participation in CMR Fuel Cells plc. Sagentia's sensitivity to price risk with regards to its participation in CMR Fuel Cells plc cannot be reliably determined due to numerous uncertainties regarding the future development of the company.

Any investments in listed equity securities are considered long-term, strategic investments. In accordance with Sagentia's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilised in Sagentia's favour.

Sagentia holds 2,234,540 shares (2006: 2,234,540 shares) in CMR Fuel Cells plc. If the share price moves by +/- 1 pence then Sagentia's investment at fair value moves by +/- £22,345. Sagentia holds no shares (2006: 3,549,265 shares) in Nanoscience Inc.

Notes to the Financial Statements continued

3.1 Financial risk factors (continued)

(d) Credit risk analysis

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.

Sagentia's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2007 £000	2006 £000
Classes of financial assets – carrying amounts		
Loans and receivables and equity investments	7,570	11,279
Cash and cash equivalents	859	1,963
Trade and other receivables	6,183	3,857
	14,612	17,099

Sagentia continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Sagentia's policy is to deal only with creditworthy counterparties. Sagentia's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of Sagentia's financial assets are secured by collateral or other credit enhancements. In respect of trade and other receivables, Sagentia is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high-quality external credit ratings.

(e) Liquidity risk analysis

Sagentia manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a weekly and monthly basis. Long-term liquidity needs for a quarterly and semi-annual period are reviewed monthly.

Sagentia maintains cash to meet its liquidity requirements in interest bearing current accounts. Funding for long-term liquidity needs is secured by committed credit facilities.

As at 31 December 2007, Sagentia's liabilities have contractual maturities which are summarised below:

2007	Current		Non-current	
	within 6 months £000	6 to 12 months £000	1 to 5 years £000	Later than 5 years £000
Long-term bank loans	823	-	7,243	-
Trade payables	821	-	-	-
Derivatives	-	-	200	-
	1,644	-	7,443	-

This compares to the maturity of Sagentia's financial liabilities in the previous reporting period as follows:

2006	Current		Non-current	
	within 6 months £000	6 to 12 months £000	1 to 5 years £000	Later than 5 years £000
Long-term bank loans	41	-	6,948	-
Trade payables	791	-	-	-
Derivatives	-	-	181	-
	832	-	7,129	-

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date.

Notes to the Financial Statements continued

3.1 Financial risk factors (continued)

(f) Summary of financial assets and liabilities by category

The carrying amounts of Sagentia's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows:

	2007 £000	2006 £000
Non-current assets		
Loans and receivables	1,678	1,836
Equity investments	5,892	9,443
	7,570	11,279
Current assets		
Trade and other receivables:		
- trade receivables	6,183	3,857
Cash and cash equivalents	859	1,963
	7,042	5,820
Non current liabilities		
Borrowings:		
- financial liabilities designated at fair value through profit and loss	7,243	6,948
Derivative financial instruments:		
- financial liabilities held for trading (carried at fair value through profit and loss)	200	181
	7,443	7,129
Current liabilities		
Borrowings:		
- financial liabilities designated at fair value through profit and loss	823	41
Trade payables:		
- financial liabilities measured at amortised cost	821	791
	1,644	832

3.2 Fair value estimation

The fair value of financial instruments traded in active markets 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 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 2007, the Group was organised on a world-wide basis into four main business segments:

Year ended 31 December 2007	Consulting and IP exploitation £000	Venture subsidiaries £000	Asset management £000	Property and central services £000	Total £000
Fees	17,852	169	689	2,621	21,331
Recharged project expenses	2,737	-	-	-	2,737
Licence/royalty income	387	-	-	-	387
Less: Inter company trading	(50)	-	(226)	(1,217)	(1,493)
Revenue	20,926	169	463	1,404	22,962
Expenses	(17,699)	(1,559)	(634)	(2,574)	(22,466)
Recharged project expenses	(2,737)	-	-	-	(2,737)
Less: Inter company trading	50	-	226	1,217	1,493
Expenses	(20,386)	(1,559)	(408)	(1,357)	(23,710)
Gross profit (loss)	540	(1,390)	55	47	(748)
Profit on disposal of investments	-	-	1,376	-	1,376
Change in fair value of financial assets	-	-	(3,701)	-	(3,701)
Bonus accrual	-	-	327	-	327
Cost of options	(67)	-	(7)	(9)	(83)
Operating profit (loss)	473	(1,390)	(1,950)	38	(2,829)
Finance charges					(485)
Loss before income tax					(3,314)
Tax income					80
Loss for the year					(3,234)
Balance sheet analysis					
Intangible assets	9	-	-	-	9
Intangible assets – amortisation	(4)	-	-	-	(4)
Goodwill	312	651	-	-	963
Goodwill – amortisation	(312)	(651)	-	-	(963)
Property, plant and equipment	7,001	44	16	14,168	21,229
Property, plant and equipment – depreciation	(3,999)	(44)	(16)	(2,596)	(6,655)
	3,007	-	-	11,572	14,579
Investments	(2,560)	-	7,570	2,560	7,570
Deferred income tax assets	-	-	-	2,657	2,657
Current assets (excluding cash)	7,460	39	(1,588)	1,881	7,792
Cash and cash equivalents	(169)	1	201	826	859
Total assets	7,738	40	6,183	19,496	33,457
Total liabilities (excluding bank loans and interest bearing liabilities)	8,033	3,248	35	3,580	14,896
Total equity (excluding loans and interest bearing liabilities)	(295)	(3,208)	6,148	15,916	18,561
Loans and interest bearing liabilities	(823)	-	-	(200)	1,023
Total equity	(1,118)	(3,208)	6,148	15,716	17,538
Total equity and liabilities	7,738	40	6,183	19,496	33,457

Notes to the Financial Statements continued

4 Segment information (continued)

On 31 December 2006, the Group was organised on a world-wide 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	21,486
Recharged project expenses	3,392	-	-	-	3,392
Licence/royalty income	137	-	-	-	137
Less: Inter company trading	(60)	-	(279)	(1,030)	(1,369)
Revenue	21,472	531	485	1,158	23,646
Expenses	(18,549)	(1,188)	(700)	(2,683)	(23,120)
Recharged project expenses	(3,392)	-	-	-	(3,392)
Less: Inter company trading	60	-	279	1,030	1,369
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 of financial assets	-	-	(876)	-	(876)
Bonus accrual	-	-	384	-	384
Cost of options	(80)	-	(71)	(84)	(235)
Rebranding	(367)	-	-	(265)	(632)
Operating loss	(856)	(657)	(497)	(454)	(2,464)
Finance charges	-	-	-	-	(59)
Loss before income tax	-	-	-	-	(2,523)
Tax income	-	-	-	-	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
Deferred income tax assets	-	-	-	3,014	3,014
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	20,059	36,317
Total liabilities (excluding loans and interest bearing liabilities)	8,251	2,867	381	783	12,282
Total equity (excluding bank 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)	9,311	15,900	20,799
Total equity and liabilities	6,137	428	9,693	20,059	36,317

Notes to the Financial Statements continued

4 Segment information (continued)

Capital expenditure by business and geographical segment

Year ended 31 December 2007	Consulting and IP exploitation £000	Venture subsidiaries £000	Asset management £000	Property and central services £000	Total £000
United Kingdom	70	-	-	5	75
Other European countries	92	-	-	-	92
North America	17	-	-	-	17
Other	16	-	-	-	16
	195	-	-	5	200

Year ended 31 December 2006	Consulting and IP exploitation £000	Venture subsidiaries £000	Asset management £000	Property and central services £000	Total £000
United Kingdom	78	-	-	7	85
Other European countries	85	-	-	-	85
North America	34	-	-	-	34
Other	8	-	-	-	8
	205	-	-	7	212

Secondary reporting format – geographical segments

The Group's four business segments operate in four main geographical areas, even though they are managed on a world-wide 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 2007	11,839	5,555	4,736	832	22,962
Year ended 31 December 2006	10,755	8,210	4,149	532	23,646

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 2007	25,187	7,374	585	311	33,457
Year ended 31 December 2006	27,253	8,199	673	192	36,317

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

Notes to the Financial Statements continued

5 Operating expenses

Expenses by nature

Year ended 31 December 2007	Note	2007 £000	2006 £000
Employee benefit expenses (excluding share options)	7	13,303	14,966
Rechargeable project expenses		2,737	3,392
Operating third party expenses		1,473	1,152
Occupancy costs		1,684	1,443
Equipment and consumables		918	972
Selling and marketing expenses		1,654	1,703
Depreciation of property, plant and equipment	14	405	418
Patent fees		293	341
Recruitment and training		345	360
Amortisation of intangible assets	13	4	4
Foreign currency losses (gains)		16	335
Other		878	57
		23,710	25,143
Included above		2007 £000	2006 £000
Research and development		6,085	5,193
Operating lease rentals			
Plant and machinery		52	49
Other		138	76
Auditor's remuneration			
Services to the Company and its subsidiaries:			
Fees payable to the Company's auditors for the audit of the financial statements		23	25
Fees payable to the Company's auditors and its associates for other services:			
Audit of the financial statements of the Company's subsidiaries (associates) pursuant to legislation		63	58
Other services supplied pursuant to legislation		7	8
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		-	-

Notes to the Financial Statements continued

6 Finance income and finance costs

Finance costs include all interest-related income and expenses, other than those arising from financial assets at fair value through the profit or loss. The following have been included in the income statement line for the reporting periods presented:

Year ended 31 December	2007 £000	2006 £000
Finance income		
Bank interest receivable and similar income	86	110
Finance costs		
Bank loans and overdrafts	(552)	(411)
Other financial result		
Year ended 31 December	2007 £000	2006 £000
Change in fair value of interest-rate swap	(19)	242

7 Employee benefit expenses

Employment costs are shown below:

Year ended 31 December	2007 £000	2006 £000
Wages and salaries (including bonuses and healthcare costs)	10,807	12,244
Social security costs	1,538	1,651
Share options granted to Directors and employees	83	235
Other pension costs	958	1,071
	13,386	15,201

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

Year ended 31 December	2007 Number	2006 Number
Technology consultants	153	158
Marketing, support, administration and other technically-qualified staff	60	72
	213	230

8 Directors' remuneration, interests and transactions

Aggregate remuneration

Year ended 31 December	2007 £000	2006 £000
Emoluments	336	366
Bonuses	19	9
Money purchase pension scheme contributions	20	40
Compensation for loss of office	-	191
	375	606
Fees to third parties	24	74

Fees to third parties comprise amounts paid to Wiederkehr Forster under an agreement by which Martin Forster provides the Group with legal services.

Notes to the Financial Statements continued

8 Directors' remuneration, interests and transactions (continued)

Directors' emoluments and benefits include:

Year ended 31 December 2007							
Name of Director	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
Masters	50	-	-	-	-	-	50
Frost	150	19	1	18	-	-	188
Flicos	88	-	1	2	-	-	91
Edge	15	-	1	-	-	-	16
Björklund	-	-	-	-	-	-	-
Forster	-	-	-	-	-	-	-
Kylberg	15	-	-	-	-	-	15
Rauh	15	-	-	-	-	-	15
Ludvigsson	-	-	-	-	-	-	-
Aggregate emoluments	333	19	3	20	-	-	375

Year ended 31 December 2006							
Name of Director	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
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

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.

9 Tax income

The tax charge comprises:

Year ended 31 December	2007 £000	2006 £000
Foreign taxation	(16)	3
Current taxation	96	48
Deferred taxation (Note 10)	-	-
	80	51

The Group has available tax losses of approximately £78.8m (2006: £88.4m).

Notes to the Financial Statements continued

9 Tax income (continued)

The tax on the Group's losses 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:

	2007 £000	2006 £000
Loss on ordinary activities before tax	(3,314)	(2,523)
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	(994)	(757)
Expenses not deductible for tax purposes	545	40
Income not subject to tax	(101)	(89)
Accelerated capital allowances	(205)	(64)
R&D tax relief	(203)	-
R&D tax credit received in respect of prior years	(96)	(48)
Other timing differences	33	7
Tax losses for which no deferred income tax asset was recognised	941	860
Tax credit	(80)	(51)

The weighted average statutory applicable tax rate was 30% (2006: 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:

	2007 £000	2006 £000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	2,657	3,014
Deferred tax assets to be recovered within 12 months	-	-
	2,657	3,014
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	(2,657)	(3,014)
Deferred tax liabilities to be recovered within 12 months	-	-
	(2,657)	(3,014)
Total	-	-

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

	2007 £000	2006 £000
Beginning of the year	-	-
Exchange differences	-	-
Income statement charge (Note 9)	-	-
End of year	-	-

Notes to the Financial Statements continued

10 Deferred income tax (continued)

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 2006	(2,951)	2,951	-
Charged/(credited) to the income statement	(63)	63	-
Exchange differences	-	-	-
At 31 December 2006	(3,014)	3,014	-
Charged/(credited) to the income statement	357	(357)	-
Exchange differences	-	-	-
At 31 December 2007	(2,657)	2,657	-

*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 £20,994,000 (2006: £23,521,000) in respect of losses amounting to £70,273,000 (2006: £78,700,000) and other temporary differences amounting to £88,000 (2006: £89,000) that can be carried forward against future taxable income.

11 Loss per share

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

	Basic	
	2007 £000	2006 £000
Profit (loss) for the financial year	(3,234)	(2,472)
Weighted average number of shares:	2007 number	2006 number
For basic earnings per share	215,965,577	215,158,527
For fully diluted earnings per share	215,965,577	215,157,670

Only the share options granted, as disclosed in Note 19, are dilutive. Options have no dilutive effect in loss-making years, and hence the diluted loss per share for 2007 is the same as the basic loss per share.

Notes to the Financial Statements continued

12 Goodwill

On transition from UK GAAP to IFRS, the carrying value of the Group's goodwill was £Nil.

13 Intangible assets

Software	Total £000
At 1 January 2006	
Cost	14
Accumulated amortisation	(1)
Net book amount	13
Year ended 31 December 2006	
Opening net book amount	13
Amortisation charge	(4)
Closing net book amount	9
At 31 December 2006	
Cost	14
Accumulated amortisation	(5)
Net book amount	9
Year ended 31 December 2007	
Opening net book amount	9
Amortisation charge	(4)
Closing net book amount	5
At 31 December 2007	
Cost	14
Accumulated amortisation	(9)
Net book amount	5

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 2006				
Cost	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	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
Year ended 31 December 2007				
Opening net book amount	14,208	269	310	14,787
Exchange differences on cost	-	(1)	(13)	(14)
Exchange differences on depreciation	-	1	9	10
Additions	-	48	152	200
Disposals	-	-	(32)	(32)
Depreciation charge	(85)	(104)	(216)	(405)
Depreciation on disposals	-	-	28	28
Closing net book amount	14,123	213	238	14,574
At 31 December 2007				
Cost	16,682	1,236	3,307	21,225
Accumulated depreciation	(2,559)	(1,023)	(3,069)	(6,651)
Net book amount	14,123	213	238	14,574

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 (2006: £1,360,000) which has not been depreciated. Cumulative interest capitalised at 31 December 2007 was £340,000 (2006: £340,000) of which £Nil was capitalised during 2007 (2006: £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 £1,713,000 in 2007 (2006: £1,375,000) of which £868,000 (2006: £746,000) 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).

Notes to the Financial Statements continued

15 Investments

	Designated at fair value through profit or loss		Total
	Equity investments £000	Loans and receivables £000	£000
Fair value, January 2006			
Additions	1,293	-	1,293
Disposals	(150)	(14)	(164)
Change in fair value	(658)	(218)	(876)
Foreign exchange	(4)	(14)	(18)
Fair value, December 2006	9,443	1,836	11,279
Fair value, January 2007			
Additions	315	-	315
Disposals	(130)	(193)	(323)
Change in fair value	(3,736)	35	(3,701)
Impairment of financial assets	-	-	-
Foreign exchange	-	-	-
Fair value, December 2007	5,892	1,678	7,570
All disposals during the year were for a cash consideration.			
Financial assets held at fair value include the following:			
	2007		2006
	£000		£000
Quoted securities			
Cost – equity securities – UK	1,425		409
– equity securities – US	-		-
	1,425		409
Fair value adjustment	701		3,632
	2,126		4,041
Unquoted securities			
Cost	10,202		9,892
Fair value adjustment	(6,436)		(4,490)
	3,766		5,402
Financial assets held at fair value	5,892		9,443

Quoted securities are listed investments with fair value based on bid prices at the balance sheet date.

Unquoted securities are unlisted investments with fair value based on a valuation methodology used most commonly by the Group, being the 'price of recent investment' reflecting the early stage nature of the investments.

Notes to the Financial Statements continued

15 Investments (continued)

Disposal/deemed disposal of subsidiary undertakings in 2007

	Intrasonics Limited £000	Total £000
Non-current assets		
- Intellectual Property	-	-
- Property, plant and equipment	-	-
Current assets	78	78
Borrowings	-	-
Current liabilities	(43)	(43)
Total equity	35	35
Minority interests	77	77
Cash invested	-	-
Realised profit on sale	1,376	1,376
Unrealised gain on issue of shares	-	-
Cost of investment	-	-
Sale proceeds	1,488	1,488

Intrasonics Limited was sold to Mainframe Participaties BV in December 2007 for an initial cash consideration of £1.5m, before costs of disposal of £0.1m, together with anticipated future royalties of up to £4.5m, which may become payable, but have not been recognised to date due to their uncertainty in nature. Intrasonics Limited incurred a loss after taxation and minority interests of £272,000 before the disposal.

During 2007, Intrasonics Limited utilised £316,000 of the Group's net operating cash flows, paid £21,000 in respect of net returns on financial assets and servicing of finance, and utilised £500,000 for capital expenditure and financial investment.

There was no disposal of operating subsidiaries during 2006.

Principal Group investments

The Group held investments in the following subsidiaries, associated undertakings and investments at 31 December 2007. 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™ Limited	England	Battery technology	Ordinary	91
Sensopad Limited	England	Sensor technology	Ordinary	77
Investments				
Sphere Medical Holding Limited	England	Medical sensor technology	Ords & A's	11
CMR Fuel Cells plc*	England	Fuel cell technology	Ordinary	11
Atraverda™ Limited	England	Battery technology	Ords & A's	18
Sensortec Limited	Jersey	Environmental sensing technology	Ordinary	12
TurfTrax Holdings plc*	England	Location tracking technology	Ords & Prefs	10
Core Operations				
Sagentia Group Limited	England	Holding company	Ordinary	100
Sagentia Limited	England	Consultancy	Ordinary	100
Sagentia Catella AB	Sweden	Battery technology	Ordinary	100
Manage5Nines Limited	England	IT consultancy	Ordinary	80
Sagentia Inc	USA	Consultancy	Ordinary	100
SGAI Tech Limited	Hong Kong	Consultancy	Ordinary	63
Sagentia GmbH	Germany	Consultancy	Ordinary	100
Chord Capital Limited	England	Fund management services	Ordinary	100
Cascade Generics Limited	England	Fund management services	Ordinary	100

* Quoted on the UK Alternative Investment Market (AIM)

Notes to the Financial Statements continued

15 Investments (continued)

Intrasonics™ Limited and Nanoscience Inc were disposed of for cash during the year. TurfTrax Holdings plc was quoted on AIM on 30 January 2008.

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

16 Trade and other receivables

	2007 £000	2006 £000
Current assets:		
Trade receivables	6,280	3,865
Provision for impairment	(97)	(8)
Trade receivables – net	6,183	3,857
Amounts recoverable on contracts	1,350	729
VAT	23	57
Prepayments and accrued income	177	569
	7,733	5,212
Current tax asset	59	30
	7,792	5,242

All amounts disclosed above are short-term. The carrying value of trade receivables is considered a reasonable approximation of fair value.

All of Sagentia's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an additional provision of £89,000 has been provided, bringing the total provision to £97,000 (2006: £8,000). In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	2007 £000	2006 £000
Not more than 3 months	6,025	3,598
More than 3 months but not more than 6 months	123	235
More than 6 months but not more than 1 year	22	3
More than 1 year	13	21
	6,183	3,857

17 Current asset investments

	2007 £000	2006 £000
Quoted investments	-	23
Aggregate market value of listed investments	-	86
The tax liability if listed investments were sold at market value	-	-

These are current asset investments held for disposal.

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 Limited as part of the disposal of Absolute Sensors Limited to Synaptics Inc. The Company retained shares in Synaptics Inc, a company quoted on NASDAQ. The value of the asset was the net price achievable by the Company, being the lower of the market price of the share and exercise price of the option. These options have now all been exercised.

Notes to the Financial Statements continued

18 Cash and cash equivalents

	2007 £000	2006 £000
Short-term bank deposits	-	8
Cash at bank and in hand	859	1,955
	859	1,963

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:

	2007 £000	2006 £000
Cash held within spin-out companies	1	81

Effective interest rates achieved are shown in Note 3.

19 Called-up share capital

	2007 £000	2006 £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	9,307
	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	215,965,577

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 (2006: 215,965,577), and conditional capital of 32,083,223 (2006: 32,083,223), being 16,284,000 approved on 21 June 2005, 11,916,000 approved on 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.

Sagentia Group AG holds an interest in its own shares. At 31 December 2007, the Group held 610,800 (2006: 610,800) of its own shares in Sagentia Group AG, and a further 42,100 (2006: 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 2007, was 4 pence per share (2006: 8.75 pence).

Reconciliation of options in grant	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At beginning of year	15,966,368	13.4p	17,694,881	13.5p
Granted during year	11,193,834	4.4p	708,518	9.8p
Exercised during year	-	-	(716,777)	9.7p
Lapsed or cancelled during year	(2,838,507)	14.3p	(1,720,254)	14.6p
At end of year	24,321,695	9.3p	15,966,368	13.4p

No options were exercised in 2007. (2006: The weighted average share price during the period for options exercised over the year was 9.7 pence).

Notes to the Financial Statements continued

19 Called-up share capital (continued)

Exercise of an option is subject to continued employment, and normally lapses upon leaving 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 5.5%. Volatility is taken from data provided by Bloomberg L.P. over an appropriate time period, usually being a 100 day rolling average. 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 £83,000 (2006: £235,000), all of which related to equity-settled share-based payment transactions. After deferred tax the total charge was £83,000 (2006: £235,000). The fair value per option granted and the assumptions used in the calculation are in the table below.

At 31 December 2007, 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	4.4p	10	45%
Jun 2005	Jun 2007	Jun 2015	11,755,946	258,402	10.9	2.8p	10	40%
Sep 2005	Sep 2007	Sep 2015	674,724	775,207	11.8	7.0p	2	40%
Dec 2005	Dec 2007	Dec 2015	50,013	435,112	11.8	6.5p	2	35%
Jun 2006	Jun 2008-Jun 2009	Jun 2016	358,427	350,091	9.8	5.8p	2	40%
Dec 2007	Dec 2007-Dec 2009	Dec 2017	-	11,193,834	4.5	2.9p	10	58%

(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 IFRS 2.

20 Other non current liabilities

	Note	2007 £000	2006 £000
Loans from minorities to subsidiaries	22	430	417
Bank loans	22	6,813	6,531
		7,243	6,948
Other creditors		69	41
Fair value of interest-rate swap		200	181
Deferred income tax liabilities		2,657	3,014
		10,169	10,184

Loans from minorities to subsidiaries and bank loans:

See Note 22.

Fair value of interest-rate swap:

The interest-rate swap was used to separately fix the interest rate on the original floating rate mortgage over the property at 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 £5m at the end of 2007 (2006: £5.6m).

Notes to the Financial Statements continued**21 Current liabilities**

	Note	2007 £000	2006 £000
Trade and other payables – current			
Payments received on account		1,345	1,431
Trade payable		821	791
Other taxation and social security		613	659
VAT		448	181
Accruals		1,664	2,188
		4,891	5,250
Bank loans and overdrafts	22	823	41
Current tax liabilities		36	43
		5,750	5,334

22 Borrowings

	Note	2007			2006		
		UK £000	Foreign £000	Total £000	UK £000	Foreign £000	Total £000
Non-current							
Bank borrowings	20	6,813	-	6,813	6,531	-	6,531
Loans from minorities to subsidiaries	20	430	-	430	417	-	417
		7,243	-	7,243	6,948	-	6,948
Current							
Bank borrowings	21	765	58	823	-	41	41
Total borrowings		8,008	58	8,066	6,948	41	6,989

As at 31 December 2007, Group companies have granted charges over their assets to secure a five year bank loan from March 2006 for £9m (2006: £9m) for Sagentia Group Ltd, and an annual revolving facility of £2m (2006: £2m) for Sagentia Limited, renewable each year. Of the current bank loans and overdrafts, at 31 December 2007, £6,813,000 (2006: £6,531,000) has been drawn down and is repayable by Sagentia Group Limited to Lloyds TSB Bank plc, and £58,000 (2006: £41,000) is repayable on call by Sagentia Catella AS. 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.

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

	2007 £000	2006 £000
Between one and two years	-	-
Between two and five years	6,813	6,531
Over five years	-	-
	6,813	6,531

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

Notes to the Financial Statements continued**23 Commitments****Lease commitments**

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

	2007 £000	2006 £000
Plant and equipment lease commitments		
Operating leases which expire:		
Within one year	14	9
Between one and five years	17	11
Property lease rentals		
Operating leases which expire:		
Within one year	136	129
Between one and five years	111	103

24 Capital and other financial commitments

At 31 December 2007 the Group and the Company had commitments of £Nil (2006: £Nil). The Group had a committed un-drawn overdraft facility of £2.2m at 31 December 2007 (2006: £2.5m).

At 31 December 2007, the Group had a five year loan facility of £9m secured on Harston Mill, Cambridge, UK, of which £6.8m (2006: £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:

	2007 Loans £000	2007 Sale of goods and services £000	2006 Loans £000	2006 Sale of goods and services £000
3D Molecular Science Limited	-	-	-	-
Flying Null Limited	833	-	833	-
Sensopad Limited	979	129	910	54
FD Technologies	160	-	160	-
AtraNova Limited	494	47	141	36
	2,466	176	2,044	90

Disclosure above is for subsidiary undertakings in the Group when Sagentia owns less than 90% and provide funding and/or other services.

Key personnel are the Executive Directors and Non Executive Directors of the Group. Remuneration to key personnel is disclosed in Note 8.

Related party transactions also comprise legal fees paid to Wiederkehr Forster as disclosed in Note 8.

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 on individual investment basis.

(b) Project accounting

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

(c) Other loans recognition

The Group has recognised other loans amounting to £1,677,000 (2006: £1,677,000) that will become due and payable as part of the consideration of the disposal of Sensopad Limited to TT electronics plc. The repayment of the loan is dependant upon TT electronics plc achieving various target revenues which will generate a royalty payable to Sagentia.

27 Post balance sheet events

Following the year-end, TurfTrax Holdings plc was listed on AIM in January 2008 at an admission price of 40 pence per share. Sagentia holds 3.2m shares.

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