deVGen

(a limited liability company organized and existing under the laws of Belgium, with registered office at Technologiepark 30, 9052 Zwijnaarde, Belgium)

OFFERING OF UP TO €30 MILLION NEWLY ISSUED SHARES WITH VVPR STRIPS

In connection with the offering the lead manager was granted a green shoe option for an amount of up to €4.50 million

ALLOCATION TO RETAIL INVESTORS IN BELGIUM OF NO LESS THAN 15% OF THE OFFERED SHARES, SUBJECT TO CLAW BACK.

ALLOCATION OF THE BALANCE OF THE SHARES TO INSTITUTIONAL INVESTORS IN BELGIUM AND ELSEWHERE IN EUROPE, SUBJECT TO CLAW BACK.

The lead manager will be granted a green shoe option, exercisable as of the listing date until 30 days thereafter for a number of shares in an amount of up to €4.50 million at the final offering price, but in any event no more than 15% of the shares offered in the base offering, for the sole purpose of allowing the lead manager to cover over-allotments, if any. The green shoe option consists of an over-allotment option on existing shares, and an additional over-allotment warrant to be granted to the lead manager. The over-allotment option covers up to 101,456 of existing shares. The latter are currently held by certain members of the executive management and other shareholders (excluding most institutional shareholders of the company) that have granted the lead manager such over-allotment option. The remaining shares covered by the green shoe option will be new shares of the company to be issued upon the exercising of the aforementioned over-allotment warrant. None of the shares covered by the green shoe option will have a separate VVPR strip.

The offering and distribution of this prospectus are subject to CERTAIN RESTRICTIONS. See *"Certain restrictions on the offering and the distribution of this prospectus"*, beginning on page 5.

INVESTING IN THE SHARES INVOLVES A HIGH DEGREE OF RISK. See "*Risk factors*" beginning on page 14.

The shares that the company is offering and described in this prospectus involve substantial risks. Before making an investment in the shares, prospective investors should carefully read the entire prospectus and should give particular attention to the risk factors set forth in the section "Risk Factors", starting on page 14. The risks described in that section are not the only ones Devgen faces. Additional risk factors not currently known or which are not currently deemed material may also impair the company's business operations. The company's business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of the company's shares could decline due to any of these risks and an investor may lose all or part of his or her investment. This prospectus also contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described in this prospectus. Since its incorporation in 1997, the company has not been profitable and has generated operating losses.

LISTING ON EURONEXT BRUSSELS OF ALL OFFERED SHARES, INCLUDING SHARES SUBJECT TO THE OVER-ALLOTMENT WARRANT AS WELL AS ALL THE EXISTING SHARES AND UP TO 1,005,637 SHARES TO BE ISSUED UPON EXERCISE OF EXISTING WARRANTS

KBC Securities

Lead Manager

BANK DEGROOF

CODE

Co-lead managers

KBC Bank

Selling agent

Prospectus dated on 17 May 2005

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DISCLAIMERS AND NOTICES

NO REPRESENTATION

No dealer, sales person or other person has been authorized to give any information or to make any representation in connection with the offering of the shares and listing that is not contained in this prospectus and, if given or made, such information or representation must not be relied upon as having been authorized or acknowledged by Devgen or KBC Securities, Bank Degroof and Code Securities.

Statements made in this prospectus are valid on the date set forth on the cover page of this prospectus. The delivery of this prospectus or the completion of the offering and listing will not imply under any circumstance that there have been no changes in the affairs or financial situation of Devgen since the date of this prospectus, or that material information contained in this document is correct after the date of this prospectus. In accordance with Belgian law, if a significant new fact occurs between the date of this prospectus and the completion of the offering that could affect investors' assessment of the offered shares, this new fact will need to be mentioned in an addendum to this prospectus. The addendum shall be subject to approval by the Belgian Banking, Finance and Insurance Commission (*Commissie voor het Bank-, Financie- en Assurantiewezen / Commission Bancaire, Financière et des Assurances*) (BFIC) in the same manner as the prospectus and shall be made public as shall be determined by the BFIC.

DECISION TO INVEST

In making an investment decision regarding the shares offered herein, potential investors must rely on their own examination of Devgen and the terms of the offering, including the risks and merits involved. Any summary or description set forth in this prospectus of legal provisions, corporate structurings or contractual relationships is for information purposes only and should not be construed as legal or tax advice as to the interpretation or enforceability of such provisions or relationships. In case of any doubt relating to the contents or the meaning of the information contained in this document, prospective investors should consult an authorized or professional person specialized in advice on the acquisition of financial instruments. The shares have not been recommended by any federal or state securities commission or regulatory authority in Belgium or elsewhere.

CERTAIN RESTRICTIONS ON THE OFFERING AND THE DISTRIBUTION OF THIS PROSPECTUS

The offering and the distribution of this prospectus may be restricted by law in certain jurisdictions outside Belgium. Devgen does not represent that this prospectus may be lawfully distributed in jurisdictions outside Belgium or that the shares may be lawfully offered in compliance with any applicable registration or other requirements in jurisdictions outside Belgium, or pursuant to any exemption available thereunder. Devgen does not assume any responsibility for such distribution or offering. Accordingly, the offered shares may not be offered or sold, directly or indirectly, and neither this prospectus nor any advertising or other offering materials may be distributed or published in any jurisdiction outside Belgium, except in circumstances that will result in compliance with any applicable laws and regulations. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the shares of Devgen to any person in any jurisdiction in which it is unlawful to make such offer or solicitation to such person. Persons in whose possession this prospectus or any of the shares come, must inform themselves about, and observe, any such restrictions.

The shares offered herein have not been and will not be registered under the Securities Act of the United States of America. Subject to certain exceptions, the shares may not be offered, sold or delivered in the United States of America, or to, for the account or benefit of, US persons, except in certain transactions exempt from the registration requirements of the Securities Act. The terms used in this paragraph have the meanings given to them by Regulation S. The offered

shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offered shares or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense in the US.

Devgen, the lead manager and the co-lead manager have not authorized any offer of the shares to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995. The offered shares may not be offered or sold to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995. The lead manager and co-lead managers should only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by them in connection with the issue or sale of any shares in circumstances in which section 21 (1) of the FSMA would not, if Devgen was not an authorized person, apply to Devgen. The lead manager and co-lead managers should comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the shares in, from or otherwise involving the United Kingdom.

It is the responsibility of any person not resident in Belgium who wishes to take part in this offering to ascertain that the legislation applicable in his or her country of residence is complied with, and that all other formalities that may be required are fulfilled, including the payment of all costs and levies.

FORWARD-LOOKING INFORMATION

This prospectus contains forward-looking statements and estimates made by the management of Devgen with respect to the anticipated future performance of Devgen and the market in which it operates. Certain of these statements and estimates can be recognized by the use of words such as, without limitation, "believes", "anticipates", "expects", "intends", "plans", "seeks", "estimates", "may", "will" and "continue" and similar expressions. Such statements and estimates are based on various assumptions and assessments of known and unknown risks, uncertainties and other factors, which were deemed reasonable when made but may or may not prove to be correct. Actual events are difficult to predict and may depend upon factors that are beyond the company's control. Therefore, actual results, the financial condition, performance or achievements of Devgen, or industry results, may turn out to be materially different from any future results, performance or achievements expressed or implied by such statements and estimates. Factors that might cause such a difference include, but are not limited to those discussed in the section "Risk Factors". Given these uncertainties, no representations are made as to the accuracy or fairness of such forward-looking statements and estimates. Furthermore, forward-looking statements and estimates only speak as of the date of the prospectus. Devgen disclaims any obligation to update any such forward-looking statement or estimates to reflect any change in the company's expectations with regard thereto, or any change in events, conditions or circumstances on which any such statement or estimate is based, except to the extent required by Belgian law.

MARKET SHARE, RANKING AND OTHER DATA

Unless indicated otherwise in this prospectus, market share data, ranking and other data contained in this prospectus are based on independent industry publications, on reports by market research firms and on other independent sources such as Phillips McDougall, Global Industry Analysts Inc., reports from the University of Minnesota, Ashley Publications and Datamonitor, or on the company's management's own estimates, believed by management to be reasonable. The company, the lead manager and co-lead managers and their respective advisors have not independently verified this information. Furthermore, market information is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and

uncertainties inherent in any statistical survey of market information. As a result, prospective investors should be aware that market share, ranking and other similar data in this prospectus, and estimates and beliefs based on such data, may not be reliable.

CERTAIN DEFINITIONS AND EXPRESSIONS

Throughout this prospectus, certain terms and expressions are used. Unless the context in which these terms and expressions are used, does not so permit, or unless these terms or expressions are defined differently, they should be read and understood as follows:

- a reference to "the company" or "Devgen" should be read as a reference to Devgen NV. Devgen NV is a limited liability company (*naamloze vennootschap - NV / société anonyme - SA*) organized and existing under the laws of Belgium, with registered office at Technologiepark 30, 9052 Zwijnaarde, Belgium, and registered with the Registry of Legal Persons under company number RPR 0461.432.562;
- a reference to "the shares" should be read as a reference to the shares of Devgen NV;
- a reference to "the board of directors" should be read as a reference to the board of directors of Devgen NV; and
- a reference to "the statutory auditor" should be read as a reference to the statutory auditor of Devgen NV.

ROUNDING OF FINANCIAL AND STATISTICAL INFORMATION

Certain financial and statistical information in this prospectus has been subject to rounding adjustments and to currency conversion adjustments. Accordingly, the sum of certain data may not be equal to the expressed total.

SUMMARY

This summary should be read together with, and is qualified in its entirety by, the more detailed information and the consolidated financial statements and notes thereto appearing elsewhere in this prospectus. It should also be read together with the matters set forth under "Risk Factors".

Devgen is a biotechnology company focused, in the short term, on discovering and developing and, in the longer term, on commercializing:

- a novel generation of biotech solutions to protect a wide spectrum of crops from damage incurred from pests;
- a safer and more environmentally friendly chemical solution to protect crops from damage inflicted by plant parasitic nematodes; and
- novel therapeutic concepts and preclinical drug candidates for treatment of metabolic disease (diabetes, obesity, arrhythmia).

Each of these solutions is developed on a platform of in-house designed research, development programs and technologies.

The company's business strategy targets a balance between revenue generation and aggressive investment in its own products, which so far has resulted in a managed burn rate and a retained high potential upside:

- Some technologies and product opportunities have been partnered at an early stage, generating revenue, value through eligibility for milestone payments and royalties, market access for Devgen's technology as well as industry validation for the company's vision and technology. This resulted in approximately €39 million in revenue to date and 11 partnerships, of which the most important are the collaborations with FMC Corporation and Sumitomo Chemical Company focused on insecticide discovery, and the collaborations with Pioneer Overseas Corporation and Monsanto Company on biotech traits for selected pests on corn, cotton and soy. In 2004, the company's revenue was €9.4 million, its net loss €3.6 million and its year-end cash position €10.6 million (of which €2.1 million is restricted cash).
- Devgen has retained significant value potential by keeping additional technologies, product and growth opportunities in house for future partnering at increased value or for internal product development or commercialization.

Devgen's core technology edge includes powerful RNAi tools to discover pest control and human drug targets, proprietary solutions for compound screening of targets, and proprietary RNAi-based, protein-based and chemistry-based platforms to generate crop protection traits and human drug candidates.

The company targets distinct product opportunities addressing significant needs in major markets:

- *Biotech crops resistant to pests* are to date a $5 billion industry with a potential believed to grow to $10 billion by 2010, which requires novel safe solutions to protect a wide variety of crops from numerous pests. Devgen has established a portfolio of RNAi- and protein-based technologies (see section 4.4.2) and programs to deliver a number of high value traits. Agreements to discover and commercialize Devgen's technology in selected row crops have been put in place with market leaders Pioneer Overseas Corporation and Monsanto Company, respectively for nematodes and insect control. In certain other pest and crop combinations, including emerging biotech crops such as rice and specialty crops, Devgen intends to further develop and eventually commercialize traits by itself and/or through profit-sharing deals with seed providers. Devgen believes that commercialization of selected traits represents a market with a potential aggregate royalty stream that may exceed $100 million per year. Up to 10 times more royalties could be captured by companies that succeed in incorporating their technology traits in their own seed in selected crops.

- Devgen's most advanced product candidate is a *chemical nematicide formulation* with a safety profile expected to be substantially superior to current products, which is undergoing field trials in 2005 and may reach commercialization in 2009. Devgen discovered that certain registered agrochemical compounds used to treat other pest, may be effectively

used to control nematodes on crop plants, and implemented a strategy to protect and commercialize these discoveries. Nematicides are a $525 million market (2003) that may potentially grow to $1 billion through commercialization of a safe and effective solution. Current solutions are either prohibitively expensive for most applications (>$1000/ha) or require the use of chemicals that are increasingly under regulatory scrutiny. The top five selling compounds representing 67% of the market are hence scheduled to be phased out in the United States of America and Europe over the next few years. Devgen believes its products have the potential to capture significant market share in existing markets and to open up novel markets that are currently not treated because of a lack of safe, cost-effective treatments. Market access is intended to be achieved through distribution partnerships focused on major crop and geographic segments, which typically may yield up to 25% royalties on end-user sales.

- Using its unique technology to identify and screen targets, Devgen has gone on to develop proprietary preclinical *small molecules for treatment of metabolic disease*. Key in enabling these discoveries is the company's ability to model these complex human diseases involving multiple organs and complex physiological processes in the model organism *C. elegans* in combination with the company's associated RNAi knockdown technology. Metabolic diseases and their complications (diabetes, obesity and arrhythmia) are an important and growing disease area representing significant unmet medical needs in which the pharmaceutical industry seeks to strengthen its preclinical and clinical pipelines, paying premium prices due to the scarcity of novel concepts and programs. Devgen believes that it should be in a position to out-license some of its programs in this area to potential partners within the next 12 to 24 months. In the event an out-licensing agreement is effectively put in place, this could provide a substantial upside for the company.

To implement its strategy Devgen intends to focus on:

- advancing its existing projects and utilizing its proprietary core technologies to discover new product candidates;
- establishing additional strategic partnerships with companies that are interested in accessing the results of its research and development programs; and
- establishing additional strategic partnerships with companies to increase the company's downstream value capture on its technology and product opportunities.

Key elements underpinning Devgen's strategy include:

- *A strong management team combining industry and scientific experience*. Devgen's team includes individuals who have been substantially involved in the invention, IP protection, development and commercialization of crop protection and pharmaceutical technology and products.
- *Product opportunities that each have their foundation in a specific competitive edge of the company's technology or intellectual property.* Devgen's competitive edge is based on its technology platform using the model organism *C. elegans*. This small nematode worm can be a powerful experimental tool to efficiently unravel biological processes. The use of this organism to study biology, has led to a deeper understanding of human disease and new concepts for therapeutic intervention, as well as to the discovery of "RNA interference" or "RNAi", a novel mechanism for gene regulation, which has significant applications in pharmaceutical and agricultural research and development. Devgen industrialized the use of *C. elegans* as a discovery tool for the pharmaceutical and crop protection industries by developing a portfolio of technologies to identify drug targets and solutions for compound screening of targets. In addition, the company developed the concept of using the RNAi mechanism to provide a new generation of biotech crop protection solutions.
- *Devgen has consistently evolved its organization and technology base downstream* to build high value product-oriented programs: the company complemented its *C. elegans* platform with advanced genomics and protein technologies, high-throughput screening, biology and medicinal chemistry capabilities to support focused product design and development for the agro-chemical, seed and pharmaceutical industries.
- *An investment strategy that is focused* on strengthening Devgen's core competencies, key IP positions, expanding downstream discovery and development capabilities and progressing a portfolio of research programs targeting specific product opportunities.

- *The company's hybrid business model* provides a balance between revenue generation and aggressive investment in its own products, resulting in a managed burn rate while retaining high potential upside.
- *Diligent execution* as exemplified by Devgen's track record in corporate development, revenue generation and progress in both internal and partnered programs.

SELECTED KEY FINANCIALS ACCORDING TO IFRS

The selected key financial information presented below is based on the consolidated financial statements of Devgen as of 31 December 2002, 31 December 2003 and 31 December 2004, and for the financial years then ended. The selected key financial information is presented in accordance with the International Financial Reporting Standards (IFRS). The consolidated financial statements on which the selected key financial information is based have been prepared in accordance with IFRS and have been audited by Devgen's statutory auditor, Deloitte & Partners Bedrijfsrevisoren / Réviseurs CVBA, represented by Gino Desmet. For more detailed information, see chapter 7.

'000 of € / year ended 31 December	2004	2003	2002
Research and development services	8,527	5,956	5,527
Government grant income	857	1,670	108
Total revenues	**9,384**	**7,626**	**5,635**
Research and development expense	(9,922)	(9,088)	(10,645)
General, administrative and selling expenses	(3,153)	(2,805)	(3,497)
Other operating income	448	461	493
Other operating expense			
Total operating expenses	**(12,627)**	**(11,432)**	**(13,649)**
Profit/(loss) from operating activities	**(3,243)**	**(3,806)**	**(8,014)**
Financial income	302	326	648
Financial costs	(701)	(311)	(186)
Profit/(loss) before taxes	**(3,642)**	**(3,791)**	**(7,552)**
Taxes			
Net result for the period	**(3,642)**	**(3,791)**	**(7,552)**
Weighted average number of shares in issue ('000) (1)	29,590	29,590	29,590
Basic earnings per share	(0.12)	(0.13)	(0.26)
Diluted earnings per share	(0.12)	(0.13)	(0.25)

Notes:

(1) After 31 December 2004, but prior to the offering, the company's shares have been combined into a smaller number of shares via a reversed stock split at a ratio of one new share for 3 existing shares. The same ratio has been used to combine the existing warrants of the company. The number of shares set forth in the table reflects the number of outstanding shares prior to the reversed stock split.

OFFERING SUMMARY

Company	Devgen NV
Lead manager	KBC Securities NV
Co-lead managers	Bank Degroof NV and Code Securities Ltd.
Offering	The offering consists of shares for a maximum amount of up to €30 million. The shares will have coupon nr.1 attached. Each share shall have one VVPR strip. The offering is divided into two tranches. • A first tranche of no less than 15% of the offered shares shall be reserved for allocation to retail investors in Belgium, subject to claw back. • A second tranche of up to 85% of the offered shares shall be reserved for allocation to institutional investors in Belgium and elsewhere in Europe, subject to claw back. The lead manager may over-allot a limited number of shares in an amount of up to €4.5 million at the final offering price, but in any event no more than 15% of the shares offered in the base offering. Such shares will not have any VVPR strip and will be existing shares that will be lent by certain existing shareholders to the lead manager. The possibility to over-allot shares will exist whether or not the offering is fully subscribed to. In allocating the offered shares, the lead manager will use reasonable efforts to ensure that shares with VVPR strips are delivered to individual investors resident in Belgium and to investors subject to Belgian tax on legal entitities (*rechtspersonenbelasting* / *impôt des personnes morales*), in this order of priority. For the purpose of the offering, a retail investor shall mean (a) a natural person in Belgium or (b) a legal person in Belgium that subscribes to shares in an amount of €250,000 or less. No special tranche will be reserved for the personnel.
Green shoe option	The lead manager will be granted a green shoe option, exercisable as of the first listing date until 30 days thereafter for a number of shares in an amount of up to €4.5 million at the final offering price, but in any event no more than 15% of the shares offered in the base offering, for the sole purpose of allowing the lead manager to cover over-allotments, if any. The green shoe option consists of an over-allotment option on existing shares, and an additional over-allotment warrant to be granted to the lead manager. The over-allotment option covers up to 101,456 of existing shares. The latter are currently held by certain members of the executive management and other shareholders (excluding most institutional shareholders of the company) that have granted the

	lead manager such over-allotment option. The remaining shares covered by the green shoe option will be new shares of the company to be issued upon the exercise of the aforementioned over-allotment warrant. None of the shares covered by the green shoe option will have a separate VVPR strip.
Offered shares	All offered shares will have the same rights and benefits attached to them as the company's other shares. The offered shares will be entitled to a share in the profits, if any, as of 1 January 2005 and are therefore entitled to the dividend for the financial year closed on 31 December 2005 and the following financial years.
Offering period	The offering period will begin on 23 May 2005 and is expected to be closed on 3 June 2005. The lead manager reserves the right to close the offering period at an earlier or later date and time. Any early closure of the offering period will be announced in the Belgian financial press. The offering period will in any event be open for at least five trading days.
Offering price	The final offering price will be a single price in euro that will apply to all investors, whether retail or institutional. The final offering price will be determined within a price range. The lead manager will determine the final offering price in common agreement with the company on the basis of a book-building procedure, in which only institutional investors can participate. The applicable price range will be published in the Belgian financial press on or about 21 May 2005. The final offering price will be determined as soon as possible after the closing of the offering period, which is expected to take place on 3 June 2005, and will be published in the Belgian financial press on the first publishing day following its determination, which is expected to be on 4 June 2005. Retail investors in Belgium can only subscribe to the offered shares at the final offering price. The offering price applicable to retail investors in Belgium will in no event exceed the upper-end of the initial price range.
Payment, settlement and delivery	The shares must be paid up in full by the investor in euro upon subscription. It is expected that the shares and VVPR strips will be delivered to the subscribers on or about 9 June 2005, being the third trading day following the allocation date. All offered shares and VVPR strips will be delivered through the book-entry facilities of the Belgian central securities depository, all in accordance with their normal settlement procedures applicable to equity securities.
Closing date	The closing date, *i.e.* the date on which the realization of the offering will be established by the board of directors of the company, is expected to be 9 June 2005, being the third trading day following the allocation date. This date will be published in the Belgian financial press together with the announcement of the offer price and the results of the offering.
Lock-up arrangements	Subject to certain exceptions, the company's articles of association will prohibit the transfer of the outstanding shares during the six-months period following the initial listing of the company's shares. This lock-up will not apply to the shares offered in the offering and the shares covered by the green shoe option. In addition, shareholders, holding 94.71% of the company's shares prior to the start of the

	offering, have entered into a separate lock-up arrangement with the lead manager for a period of 12 months from the first day of trading of the company's shares. In addition, subject to certain exceptions, the company has agreed vis-à-vis the lead manager not to issue additional securities during a term of 12 months as from the first day of trading. These arrangements are further described in section 2.18 of chapter 2.
Use of proceeds	The net proceeds from the offering of new shares will be allotted to the company, and the net proceeds from the offering of existing shares upon exercise of the over-allotment option granted by existing shareholders will be allotted to such shareholders. The company intends to use the net proceeds of the offering for research and development, working capital, capital expenditure, acquisitions if and when they present themselves, and other general corporate purposes. See further section 2.3.
Listing	An application has been made for the admission of all offered shares of the company to listing on the Eurolist of Euronext Brussels, including the shares subject to the over-allotment warrant as well as 9,863,420 existing shares and up to 1,005,637 shares to be issued upon exercise of existing warrants. The company expects trading to commence on or about 7 June 2005, being the first trading day following the allocation date, but before the closing of the offering when the offered shares are delivered to the subscribers. Prior to the delivery of the shares and VVPR strips, the shares will be traded on a "when issued" basis. No application for the listing of the VVPR strips has been made. The VVPR strips will be freely transferable at the public auction market of Euronext Brussels, amongst others. Prior to the listing of the shares, no public market existed for the offered shares and VVPR strips.
Security codes – shares	ISIN: BE0003821387 on Euronext Brussels Security Code: 3821.38 Euronext Symbol: DEVG
Timetable	The following dates are all envisaged dates, barring any unforeseen circumstances:
23 May 2005, 09.00 hrs CET	Expected start of the offering period
3 June 2005, 16.00 hrs CET	Expected end of the offering period
6 June 2005	Expected allocation date
7 June 2005	Expected listing date (admission to listing and start of trading)
9 June 2005	Expected closing date (payment, settlement and delivery)

RISK FACTORS

The shares that the company is offering and described in this prospectus involve substantial risks. Before making an investment in the shares, prospective investors should carefully read the entire prospectus and should give particular attention to the risk factors set forth below. The risks described below are not the only ones Devgen faces. Additional risk factors not currently known or which are not currently deemed material may also impair the company's business operations. The company's business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of the company's shares could decline due to any of these risks and an investor may lose all or part of his or her investment. This prospectus also contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this prospectus. The risk factors listed below do not appear in any particular order.

RISKS RELATED TO THE COMPANY'S BUSINESS

Early stage development

Devgen is at an early stage of its development. It was founded in 1997 and has a limited operating history. While the company has been involved originally in genomics, using the model organism *C. elegans*, it is only since recently involved in human therapeutics and crop protection.

At the present time, Devgen's human therapeutic activities are in the early stages of drug identification and development. To date, the company has only identified a number of potential drug targets and several chemical compound series, all of which are still in the early stages of development and have not yet been put into clinical testing. The current compound series that the company has identified may not lead to successful drugs, and no approved drug resulting from its research may be commercially available for a large number of years, if at all. Devgen's leads for potential drug compounds will be subject to the risks and failures inherent in the development of pharmaceutical products based on new technologies. These risks include, but are not limited to, the inherent difficulty in selecting the right drug target and avoiding unwanted side effects for the chemistry as well as the unanticipated problems relating to product development, testing, regulatory compliance and additional costs and expenses that may exceed current estimates.

Devgen's crop protection activities are also in the early stages of development. The company's insecticide and nematicide technologies and development programs, as well as Devgen's RNAi and PBDi technology to achieve *in planta* resistance against major crops pests and diseases may not prove to be safe or efficacious in any market, may not meet applicable regulatory standards and may not be marketed successfully.

The company or its partners may not be successful in the commercial development of products. Successful products based on Devgen's technologies will require significant development and investment, including testing, to demonstrate their safety and (cost-)effectiveness prior to their commercialization. Problems frequently encountered in connection with the safety, development and utilization of new and unproven technologies and the competitive environment in which the company operates, might limit the company's ability to develop commercially successful products.

Rapid technology change

The company's business environment is characterized by rapid technological change, complexity and high competition. The changing competitive landscape is perhaps the single largest issue facing the biotech industry. Devgen competes with other companies based on several factors, including technology, product offering, intellectual property, crop pest and disease area, human disease area, geographic area, and time to market. The company's success depends on the ability to establish a competitive position with respect to all of these factors. Devgen believes that the key features of its approach to identify and validate targets for pharmaceutical, agro-chemical and biotech crop protection as well as the prevention

and treatment of crop and human diseases are unique and proprietary. For each product and crop and human disease area, however, there is a multitude of technological approaches. There are many established pharmaceutical, biotechnology, life sciences and agro-chemical companies with resources greater than the company's, as well as research and academic institutions that are actively working in similar areas. There can be no assurance that the company's competitors will not succeed in developing technologies and products that are less costly or more effective than any product which is currently being developed by the company, or that may reach the market first, or that will be more successful than the services offered or products being developed by the company.

Reliance on collaborative partners

Devgen's ability to generate revenues in the short to medium term depends upon the formation, maintaining and sustainability of multiple collaborative arrangements and license agreements with third parties. To date, Devgen has no collaborative arrangements for its human therapeutic activities. In the crop protection activities, part of the company's revenue from the collaborative and license agreements that relates to the research phase of these agreements, which revenue is for specified periods and in certain cases is partially offset by corresponding research costs. Following the completion of the research phase of a collaborative or license agreement, additional revenue may come only from royalties and milestone payments, which may not be paid, if at all, until some time well into the future.

Devgen relies on these collaborative arrangements not only for financial resources, but also for expertise that it expects to need in the future relating to manufacturing, sales and marketing, and for licenses to technology rights. To date, the company has entered into several of such arrangements with corporate collaborators in its crop protection activities.

Conflicts might arise with respect to the company's various relationships with such collaborators and third parties. Some of Devgen's current collaborative partners are competitors of Devgen, but also of each other. A successful IPO of the company may influence some of these partners and they may choose to terminate or not to renew their collaboration with Devgen. Other partners may also be threatened by the results that Devgen has in collaborations with other competitors. If any of the company's collaborators were to breach or terminate their agreement with the company or otherwise fail to conduct the collaborative activities successfully and in a timely manner, the development or commercialization of the affected product candidates or research programs of Devgen could be delayed or terminated. In that event, the company may not receive any future milestone payments associated with the resulting product.

Devgen generally does not control the amount and timing of resources that its corporate collaborators devote to its programs or potential products. The company does not know whether current or future collaborative partners, if any, might pursue alternative technologies or develop alternative products either on their own or in collaboration with others, including Devgen's competitors.

Conflicts might also arise with collaborative partners concerning proprietary rights to particular compounds. In some of the company's collaborations, the company has agreed not to conduct independently or with third parties any research that is competitive with the research conducted under the company's collaborations.

Where few contractual restrictions exist, the company may pursue opportunities in fields that conflict with those of its collaborators. Moreover, disagreements could develop over Devgen's intellectual property rights with its collaborators. Any conflict with collaborators could reduce the ability to obtain future collaboration agreements and could negatively impact existing relations, which could reduce future revenues. Certain of the company's collaborators could also become competitors in the future. Devgen's collaborators could develop competing products or preclude the company from entering into collaborations with their competitors. Any of these developments could harm the company's product developments.

The continuation of some of Devgen's collaborative agreements may be dependent on the periodic renewal of the contractual arrangements. The company may not be able to renew these collaborations on acceptable terms, if at all, or to

negotiate additional corporate collaborations on acceptable terms, if at all. If these collaborative arrangements are not renewed or if the company does not enter into new collaborative agreements, the relevant research and development programs of Devgen may be terminated and Devgen's revenues might be reduced.

Devgen is also a party to various license agreements that give it rights to use specified technologies in its research and development processes. Some of the agreements pursuant to which the company has in-licensed technology permit its licensors to terminate the agreements under certain circumstances. If Devgen is not able to continue licensing these and future technologies on commercially reasonable terms, its product development and research may be delayed.

Dependence on key personnel

Being a small company with less than 100 employees, the company's success depends on the continued contributions of its principal management and scientific personnel and on its ability to develop and maintain important relationships with leading academic institutions, scientists and companies in the face of intense competition for such personnel, institutions and companies. In particular, Devgen's research programs depend on its ability to attract and retain highly skilled biologist, chemists and other scientists. If the company loses the services of certain personnel, including, in particular, members of its management team, its research and development efforts may be seriously and adversely affected. Although Devgen generally has not experienced substantial problems retaining key employees, its employees can terminate their employment with Devgen at any time. There can be no assurance that the company will be able to retain and where necessary attract such personnel on acceptable terms, given the competition for experienced people from numerous specialized biotechnology firms and pharmaceutical companies. The company's anticipated growth and expansion into areas and activities requiring additional expertise such as clinical trials, government approvals, manufacturing and marketing, are expected to place increased demands on the company's resources. These demands are expected to require the addition of new management personnel and the development of additional expertise by current management staff. The failure to attract the needed personnel or to develop such needed expertise could have a materially adverse effect on the company's prospects for success.

Potential liability

The use or misuse of the company's products in testing, and the sale, marketing and use of future products based thereon, may expose Devgen to liability claims. The assertion of liability claims against the company could result in a substantial cost to, and diversion of efforts and management attention by, the company. If Devgen cannot successfully defend itself against product liability claims, it may incur substantial liabilities or be required to limit the commercialization of its products. The company currently does not have product liability insurance. Its inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of agricultural and/or pharmaceutical products it develops, alone or with corporate collaborators.

Furthermore, the company's collaborators may face similar liability claims. Any assertion of such claims against the company's collaborators could adversely effect the company's collaborations with such parties. While under various circumstances the company is entitled to be indemnified against losses by its corporate collaborators, indemnification may not be available or adequate for the company should any claim arise against its collaborators.

Negative reaction to the use of genetic technology and animal testing

The commercial success of Devgen's core technologies and any potential product resulting from these technologies will depend in part on market acceptance of the use of genetically engineered products and product candidates, including drugs, plants and plant products. Furthermore, the use of genetic technology and animal testing in some of its research and development could generate negative publicity for the company and public expressions of concern with respect to genetic technology and animal testing in general could result in greater governmental regulation. Any of these factors could delay or even prevent the successful development of potential products and may have substantial adverse effect on the company and the trading in its shares.

Patents and proprietary rights
Devgen's success will depend to a large part on its ability to obtain and maintain adequate protection of its technologies and the products, if any, resulting from the application of such technologies. Devgen currently owns 45 patents that were issued or granted. Devgen has an additional 82 patent applications pending. See also section 4.7 below. If the company does not adequately protect its intellectual property, competitors may be able to use the company's development technologies and erode its competitive advantage.

Devgen's patent position might be challenged and involve complex legal and factual questions. Devgen will be able to protect its proprietary rights from unauthorized use by third parties only to the extent that its proprietary technologies are covered by valid and enforceable patents. The company intends to continue to apply for patents covering its technologies as appropriate. However, these applications may be challenged and may not result in issued patents. In addition, others may challenge or invalidate Devgen's patents or may independently develop similar or alternative technologies or design around Devgen's patented technologies. Existing patents and any future patents of the company may therefore not be sufficiently broad to prevent others from practicing these technologies or from developing competing products. No consistent policy regarding the breadth of claims allowed in patents covering the company's technology and its drug targets has emerged to date. Accordingly, the company cannot predict the breadth of claims allowed in its or other companies' patents.

The company also relies on trade secrets to protect technology where it believes patent protection is not appropriate or obtainable. The company has taken measures to protect these trade secrets and other proprietary information. However, trade secrets are difficult to protect. While the company requires employees, collaborators and consultants to enter into confidentiality agreements, it may not be able to adequately protect its trade secrets or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information.

The company's success will also depend, in part, on its ability to operate without infringing on or misappropriating the proprietary rights of others. There are many issued patents and patent applications filed by third parties relating to technology, products or processes that are similar or identical to the company's or its licensors, and others may be filed in the future. There can be no assurance that Devgen's activities, or those of its licensors, will not infringe patents owned by others. The company believes that there may be significant litigation in the industry regarding patent and other intellectual property rights, and the company does not know if it or its collaborators would be successful in any such litigation. The company could incur substantial costs in any litigation or other proceedings relating to its patents and other proprietary rights, even if these are resolved in favor of the company. Some of the company's collaborators may be able to sustain the costs of such litigation or proceedings more effectively or for a longer time because of their greater resources.

Any failure to protect its intellectual property rights and the costs related to litigations and disputes with respect to intellectual property rights used by the company, may have a substantial adverse effect on the company's financial condition and its ability to conduct its business.

Subsidies and grants
The company has received and expects to continue to receive subsidies and grants under various research and technology development programs. The granting governments may reduce or stop funding in the future for a number of strategic or budgetary reasons. Furthermore, not all of the granted subsidies may actually be received by the company due to strategic choices and changes in the company's research programs. Governments may also provide subsidies and grants, but at terms that are undesirable or unacceptable for the company. There is no guarantee that in such event the company will be able to obtain alternative financing at acceptable terms, if at all.

Government regulation
The international biotechnology, agrochemical and pharmaceutical industries are highly regulated by numerous governmental authorities in Europe and the United States of America and by regulatory agencies in other countries where

the company intends to test or market products it may develop (wether itself or through a partner). These national and international regulatory authorities administer a wide range of laws and regulations governing the research, development, evaluation, testing, approval, manufacturing, labeling and marketing of pharmaceutical, agro-chemical and other biotechnology products (e.g. biotech crops) and also review the quality, safety and effectiveness of these products. These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product and the amount of time and expense associated with such development.

Government regulations impose significant costs and restrictions on the development of pharmaceutical, agro-chemical and other biotechnology products, including those the company is developing, in all territories within which the company intends to manufacture and market its products (whether itself or through a partner). No assurance can be given that any of the company's products will ultimately obtain all required regulatory approvals for manufacturing and marketing.

The time required to obtain regulatory approval varies between territories and no assurance can be given that any of the company's products will be approved in any territory within the timescale envisaged, or at all. This may result in delays and may hamper or even prevent the marketing of products'. Furthermore, each regulatory authority may impose its own requirements (for instance, by restricting the product's indicated uses) and may refuse to grant, or may require additional data before granting, an approval, even though the relevant product candidate may have been approved by another country's authority.

If regulatory approval is obtained, the product and its manufacture will most likely be subject to continuing review and this approval may be withdrawn or restricted. Changes in applicable legislation or regulatory policies, or discovery of problems with the product, or its production process, site or manufacturer, may result in further expenditures, the imposition of restrictions on the product, its sale, manufacture or use, including withdrawal of the product from the market, or may otherwise have an adverse effect on the company's business.

The company operates certain of its research and development activities, and the manufacturing of its products, at its own laboratories and production facilities in Ghent (Belgium) and Singapore. The operation of these facilities is subject to complex local and national safety, environmental, zoning and other governmental permits and requirements. Many of these are linked to the development and manufacturing requirements for biotechnological and pharmaceutical products or other hazardous substances. The company has spent substantial funds in making its facilities compliant with these requirements in order to obtain the necessary permits, and uses significant resources in maintaining such permits and complying with such regulations. In addition, the company has made substantial investments in obtaining and complying with international accreditations and standards for its facilities. These governmental rules and third party accreditations and standards are very complex and subject to change. If the company is unable to comply with these rules, permits and standards, it may be subject to civil and criminal damages and penalties, it may see restrictions imposed on it and it may lose its permits and accreditations.

Furthermore, the company may not be able to outsource its research and development activities, or the manufacturing of its products at terms acceptable to it. This may prejudice the company's ability to conduct its business and adversely impact its commercial viability and financial position.

Hazardous materials

The company's research and development activities involve the controlled use of potentially harmful biological and chemical materials as well as various radioactive compounds and hazardous materials. The company is subject to laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with, or any potential violation of, these laws and regulations could be significant. Although the company believes that its procedures for handling and disposing of such materials comply with the standards prescribed by the applicable laws and regulations, Devgen cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, the company could be

held liable for damages resulting therefrom, and any liability could exceed its resources. While the company has taken insurance against these liabilities, it cannot be guaranteed that such insurances will adequately cover all liabilities of the company.

No history of operating profitability

Due in large part to significant research and development expenditures, the company has not been profitable and has generated operating losses since it was incorporated in 1997. To date, the company has derived all of its revenues from collaborations and grants in its human therapeutics and crop protection business unit. To date, the combined revenue of the company and its subsidiary is insufficient to generate profitable operations. As of 31 December 2004, the company had losses carried forward in an amount of approximately €29 million. Devgen expects to incur losses for at least the next several years. These losses are likely to increase as the company expands its research and development activities, incurs significant pre-clinical, clinical and testing costs, develops and commercializes crop protection products (e.g. nematicides), and possibly expands its facilities.

The company's business plan contemplates that in the longer term it will need to generate meaningful revenues from royalties and licensing agreements. To date, Devgen has not yet received any revenue from royalties for the sale of products, and it does not know when it will receive any such revenue, if at all. Likewise, Devgen has not licensed any lead compounds or drug development candidates to third parties, and it does not know whether any such license will be entered into on acceptable terms in the future, if at all.

The company's ability to achieve profitability will depend, among other things, on whether the company or its collaborative partners meet certain contractual milestones, successfully complete the development of a marketable product, obtain regulatory approvals, establish manufacturing, sales and marketing arrangements and raise sufficient funds to finance these activities. It also depends on the company's ability to cope with any of the risk factors set out above and elsewhere in this prospectus. If the time required to generate revenues and achieve profitability is longer than anticipated or if the company is unable to obtain the necessary funds, it may not be able to fund and continue its operations. No assurance can be given that the company will be able to achieve profitability or that profitability, if achieved, can be sustained, in which case the company's stock price may fall, and an investor could lose whole or part of this investment.

Dividends

The payment of dividends in the future will depend, among other things, upon its earnings, capital requirements, including a legally required reserve, and Devgen's operating and financial condition. The company has not paid any dividends and does not expect to pay dividends on the shares in the foreseeable future.

Furthermore, the company's general reserve must be sufficient for any dividend payment. There can be no assurance that the company will generate sufficient earnings to allow it to pay dividends, and if the company does, the general shareholders' meeting of the company may elect to reinvest instead of paying dividends. See also section 2.11.2 on dividend policy and section 3.4.2.3 on dividends.

Also, the issue of new shares in the framework of the offering and listing will entail a dilution of the present shareholders. Possible further issues of shares may also entail additional dilution. Such dilution may have an impact on the amount of dividends, if any, per share.

Currency fluctuations

The company is subject to risks of currency exchange to the extent that some of its revenues are received in currencies other than the currencies of the company's related costs. Currency fluctuations between the euro and the other currencies in which the company does business could cause foreign currency transaction gains and losses. The company cannot predict the effects of exchange rate fluctuations on its future operating results because of the number of currencies involved, the variability of currency exposures and the potential volatility of currency exchange rates. In addition, it is

subject to the legal and administrative practices related to foreign exchange in the countries outside the euro zone where it operates, which could change.

Additional financing requirements and access to capital

Devgen might need additional financing in the future to fund its operations. The company's operations require and are expected to continue to require significant funding to cover research and development expenses, costs to commercialize products on which such development may be based, if at all, future preclinical and clinical-testing costs and the possibility of expanding its facilities. The amount of future funds needed will depend largely on the success of the company's research and development activities, and the company does not know whether additional financing will be available when needed, or that, if available, it will obtain financing on terms favorable to its shareholders or the company.

In particular, Devgen's future funding requirements will depend on many factors, including, but not limited to:

- any changes in the breadth of its research and development programs;
- its ability to successfully develop and commercialize crop protection products;
- the results of research and development, preclinical studies and clinical trials conducted by the company or its collaborative partners or licensees, if any;
- the success in out-licensing its technologies or compounds, if any;
- its ability to maintain and establish new corporate relationships and research collaborations;
- its ability to receive grants or subsidies;
- its ability to manage growth;
- the time and costs involved in filing, prosecuting, defending and enforcing patent and intellectual property claims; and
- the receipt of contingent licensing or milestone fees from its current or future collaborative and license arrangements, if established.

The company believes that the net proceeds from the offering will be sufficient to support the company's current operating plan through at least the next three years. If the company's plans or assumptions change or are inaccurate, it might need to seek additional capital sooner than anticipated. Also, if the offering is not fully subscribed to, the need for additional financing may arise sooner than currently anticipated. In addition, the company may choose to raise additional capital in view of the then prevailing market conditions or strategic considerations, even if it believes it has sufficient funds for its current or anticipated operating plans.

In this respect, the company might seek to raise funds through public or private equity offerings. Such offerings could result in the dilution of the company's shareholders. If the company obtains funds through a bank credit facility or through the issuance of debt securities or preferred shares, this indebtedness or preferred shares could have rights senior to the rights of holders of the company's ordinary shares, and the terms could impose restrictions on its operations.

To the extent that the company raises additional funds through collaboration and licensing arrangements, it may be required to relinquish some rights to its technologies or product candidates, or grant licenses on terms that are not favorable to the company. If adequate funds are not available, Devgen may not be able to continue developing its products, or even to continue its business.

RISKS RELATED TO THE OFFERING

Absence of liquid public market

Prior to the offering, there has been no public market for the company's shares and VVPR strips and an active public market for the shares and VVPR strips may not develop or be sustained after the offering. The final offering price of the offered shares will be determined by the lead manager in common agreement with the company on the basis of a book-building procedure in which only institutional investors can participate. The final offering price may not be indicative of future market prices, which may fall below the final offering price. Factors that may be relevant in the book-building procedure may include but are not limited to:

- market conditions in effect at the time of the offering;
- the number of shares requested, the size of the orders received, the quality of the investors submitting such orders and the prices at which the orders were made;
- the company's future prospects and its industry's future prospects;
- the company's sales, earnings and other financial and operating information in recent periods; and
- the price-earnings ratios, price-sales ratios, market prices of securities and financial and operating information of companies engaged in similar activities.

Use of proceeds

The company will have significant flexibility and broad discretion to allocate and use the net proceeds of this offering. If the proceeds are not wisely allocated it could harm the company's ability to carry out its business plan. The company intends to use the net proceeds of the offering for research and development, working capital, capital expenditure, acquisitions if and when they present themselves, and other general corporate purposes. The company's board of directors and management will determine, in their sole discretion and without the need for shareholders' approval, the amounts and timing of the company's actual expenditures which will depend upon numerous factors, including the status of the company's product development and commercialization efforts, if at all, the amount of proceeds actually raised in the offering, and the amount of cash received resulting from partnerships and out-licensing activities. The company constantly evaluates opportunities to acquire businesses and technologies that it believes are complementary to its business activities. The company has not determined the amounts it plans to spend on any of the areas listed above or the timing of these expenditures.

Future dilution

The dilution resulting from the exercise of outstanding warrants could adversely affect the price of the shares. See also section 3.5. In addition, the company may decide to raise capital in the future through public or private (convertible) debt or equity securities, or rights to acquire these securities, and exclude or limit the preferential subscription rights pertaining to the then outstanding shares. If the company raises significant amounts of capital by these or other means, it could cause dilution for its existing shareholders. See also "Additional financing requirements and access to capital" above.

Volatility of the share price

The following factors, in addition to other risk factors described in this prospectus, may have a significant impact on the market price and volatility of the offered shares:

- announcements of technological innovations or new commercial products or collaborations by Devgen's competitors or Devgen itself;
- developments concerning proprietary rights, including patents;
- publicity regarding actual or potential results relating to products under development by its competitors or the company;
- regulatory developments in Europe, the United States of America and other countries;
- public concern as to the safety or ethical implication of biotechnology products (e.g. biotech crops);
- litigation; or
- economic, monetary and other external factors.

Volatility of results

Devgen's interim operating results have fluctuated in the past and are likely to do so in the future. These fluctuations could cause the price of its shares to fluctuate or decline significantly. Some of the factors that could cause the company's operating results to fluctuate include:

- the timing of entering into and the expiration of license agreements and co-development arrangements;
- the success rate of its own and its licensees' discovery efforts;
- the timing and willingness of its licensees to commercialize products which would result in royalties and other payments; and
- general and industry specific economic conditions, which may affect its own and its licensees' research and development expenditures.

A large portion of the company's expenses is relatively fixed, including expenses for personnel, facilities and equipment. There is no direct link between the level of its expenses and its revenues. Accordingly, if revenues decline or do not grow as anticipated, Devgen may not be able to correspondingly reduce its operating expenses and may suffer losses accordingly. Due to the possibility of fluctuations in its revenues and expenses, the company believes that period-to-period comparisons of its operating results are not a good indication of its future performance. The company's operating results in some periods may not meet the expectations of stock market analysts and investors. In that case, the price of its shares would probably decline.

Significant shareholders

Following the completion of the offering and listing of Devgen's shares, the company will have a number of significant shareholders. For an overview of the company's significant shareholders before and after completion of the offering, reference is made to section 3.7 of chapter 3 of the prospectus.

Currently, the company is not aware that its existing shareholders have entered into a shareholders' agreement with respect to the exercise of their voting rights in the company after the completion of the offering. Nevertheless, to the extent that these shareholders were to combine their voting rights, they could have the ability to elect or dismiss directors, and, depending on how broad the company's other shares are held, approve certain other shareholders' decisions that require more than 50% or 75% of the company's outstanding votes that are present or represented at shareholders' meetings where such items are submitted to voting by the shareholders. On the other hand, to the extent that these shareholders have insufficient votes to impose certain shareholders' resolutions, they could have the ability to block proposed shareholders' resolutions that require more than 50% or 75% of the company's outstanding votes that are present or represented at shareholders' meetings where such items are submitted to voting by the shareholders. Any such voting by these significant shareholders may not be in the interest of the company or the other shareholders of the company.

Limited shares available for sale in the market

As set out in section 2.8 of chapter 2 of the prospectus, the number of shares that is available for sale in the public market following the admission to listing of the company's shares will be limited by several arrangements further described in the aforementioned section of the prospectus. Pending such arrangements, the liquidity of the shares trading on Euronext Brussels may be limited and this may cause the company's share price to be volatile. Also, upon termination of such arrangements, sales of shares that were previously subject to transfer restrictions could cause to decrease the company's share price. The current restrictions on transfers of shares by shareholders and the company as described in section 2.18 below allow to limit sudden, unorganized sales of large numbers of the company's shares by existing shareholders during a term following the start of the company's offering. However, no guarantee can be given that there are no such large, unorganized sales by other shareholders prior to the end of such term, or that there are such large, unorganized sales by existing significant shareholders after such term. Any such large, unorganized sale of shares could have an adverse effect on the company's share price.

1. GENERAL INFORMATION AND INFORMATION CONCERNING RESPONSIBILITY FOR THE PROSPECTUS AND FOR AUDITING THE ACCOUNTS

1.1. RESPONSIBILITY FOR THE CONTENT OF THE PROSPECTUS

Devgen, represented by its board of directors, assumes responsibility for the content of this prospectus. Devgen declares that, to the best of its knowledge, the information contained in this prospectus is factually accurate in all material respects and that there is no omission that would make this prospectus misleading in any material respect.

1.2. RESPONSIBILITY FOR AUDITING THE ACCOUNTS

Deloitte & Partners Bedrijfsrevisoren / Réviseurs CVBA, a civil company, having the form of a cooperative company with limited liability (*coöperatieve vennootschap met beperkte aansprakelijkheid* / *société coopeérative à responsabilité limitée*) organized and existing under the laws of Belgium, with registered office at Louizalaan 240, 1050 Brussels, Belgium, represented by Mr. Gino Desmet, of Belgian nationality, having his offices at President Kennedylaan 8a, 8500 Kortrijk, Belgium, has been elected as statutory auditor of Devgen for a term of three years ending immediately after the closing of the general shareholders' meeting to be held in 2007 that will have deliberated and resolved on the financial statements for the fiscal year ended on 31 December 2006.

The statutory financial statements of Devgen as of respectively 31 December 2002, 31 December 2003 and 31 December 2004 and for the financial years then ended have been prepared in accordance with generally accepted accounting principles in Belgium or Belgian GAAP. The consolidated financial statements of Devgen as of respectively the same dates and for the financial years then ended have been prepared in accordance with the International Financial Reporting Standards (IFRS). The respective statutory and consolidated financial statements have been audited by Deloitte & Partners Bedrijfsrevisoren / Réviseurs CVBA, represented by Mr. Gino Desmet, who delivered unqualified opinions.

1.3. APPROVAL OF THE PROSPECTUS

On 17 May 2005, the BFIC approved the Dutch language version of the prospectus for the purposes of the public offering in Belgium in accordance with article 14 of the Belgian Act of 22 April 2003 on the public offering of securities. The BFIC's approval does not imply any judgment on the merits or the quality of the offering, the offered shares or the company.

This prospectus is available in Dutch and English. The company is responsible for verifying the consistency between the Dutch and English versions of the prospectus. In connection with the public offering in Belgium only the Dutch version prospectus constitutes the approved prospectus and in case of inconsistencies between the different language versions the Dutch version shall prevail.

The offering and this prospectus have not been submitted for approval to any supervisory body or governmental authority outside Belgium.

1.4. LEGAL PUBLICATIONS

The notice required by article 13, § 1 of the afore mentioned Belgian Act of 22 April 2003 was published in the Belgian financial press on 21 May 2005. All publications with regard to the offering will be made in the Belgian financial press.

1.5. AVAILABLE INFORMATION

1.5.1. PROSPECTUS

The prospectus is available in Dutch and English. This prospectus will be made available to investors at no cost at the registered office of the company, Technologiepark 30, 9052 Gent, Belgium, and at the counters of the lead manager and co-lead managers and can be obtained upon simple request from KBC Telecenter at +32 (0)78 353 353 or from Bank Degroof at +32 (0)2 287 97 55. Subject to certain conditions, this prospectus is also available, for information purposes only, on the internet at the following websites: www.devgen.com, www.kbcsecurities.be and www.degroof.be.

Posting this prospectus on the internet does not constitute an offer to sell or a solicitation of an offer to buy any of the shares to any person in any jurisdiction in which it is unlawful to make such offer or solicitation to such person. The electronic version may not be copied, made available or printed for distribution. This prospectus is only valid in its original printed version circulated in Belgium in compliance with applicable laws. Other information on the website of Devgen or any other website does not form part of the prospectus.

1.5.2. COMPANY DOCUMENTS AND OTHER INFORMATION

Devgen must file its (restated and amended) articles of association and all other deeds that are to be published in the annexes to the Belgian Official Gazette with the clerk's office of the Commercial Court of Ghent (Belgium), where they are available to the public. A copy of the articles of association is also available on the company's website.

In accordance with Belgian law, the company must prepare annual audited statutory and consolidated financial statements. The annual statutory and consolidated financial statements and the reports of the board of directors and statutory auditor relating thereto are filed with the Belgian National Bank, where they are available to the public. Furthermore, as a listed company, the company has to publish summaries of its annual and semi-annual financial statements. These summaries will generally be published in the Belgian press in the form of a press release. Copies are also available on the company's website.

The company will also have to disclose price sensitive information and certain other information for its shareholders. In accordance with the Belgian Royal Decree of 31 March 2003 (as amended) relating to the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market, such information and documentation will be made available through the Belgian press, the company's website (subject to approval by the BFIC), the communication channels of Euronext Brussels or a combination of these media.

The company's website can be found at www.devgen.com.

2. GENERAL INFORMATION RELATING TO THE OFFERING

2.1. AUTHORIZATION OF THE OFFERING

At its meeting of 29 April 2005, the general shareholders' meeting of Devgen decided to increase the company's share capital in cash through the issuance of new shares. The shares offered in the present offering are issued within the framework of this capital increase.

The final issuance price of the shares is to be determined through a book-building procedure with institutional investors. The number of new shares to be issued shall be determined as a quotient, the denominator of which shall be the aggregate amount of the subscriptions to the capital increase, and the nominator of which shall be the final offering price. The capital increase and the issuance of the new shares are subject to the completion of the offering of the shares and the admission to listing of the company's shares.

Whether or not the capital increase is fully subscribed to, the company shall have the right, but not the obligation, to proceed with a capital increase in a reduced amount through the issuance of such number of shares that will have been subscribed to and which will have been accepted by Devgen within the framework of the offering. Whether or not the capital increase is fully subscribed to, the lead manager may proceed with over-allotments, if any, with a view to stabilization after the start of the trading. See also section 2.14 below.

At the same meeting, the general shareholders' meeting also decided to issue an over-allotment warrant that will be granted to the lead manager and that will provide the lead manager with the right to subscribe to new shares in cash at the offering price, but in any event no more than 15% of the shares to be issued within the framework of the capital increase referred to above, to be reduced by the number of existing shares that can be obtained by the lead manager through the exercise, if at all, of the over-allotment option that existing shareholders have granted to the lead manager. The over-allotment warrant is issued in connection with the green shoe option to cover over-allotments, if any. The additional shares to be issued upon exercise of the over-allotment warrant will have the same issuance price as the new shares to be issued in the main offering. The issue of the additional new shares is subject to the exercise of the over-allotment warrant by the lead manager. For further information on the green shoe option and the over-allotment warrant, reference is made to section 2.14.

In connection with the issuance of the above shares and the over-allotment warrant, the shareholders' meeting decided to cancel the preferential subscription right of the existing shareholders. For an overview of the other resolutions passed at the shareholders' meeting of 29 April 2005, reference is made to section 3.1 of chapter 3.

2.2. BACKGROUND AND PURPOSE OF THE OFFERING

The principal purposes of the offering are to increase the company's capitalization and financial flexibility, to provide a public market for the company's common stock and to facilitate access to the public equity capital markets.

2.3. USE OF PROCEEDS

If the offering is fully subscribed, the net proceeds from the issue of the offered shares could be estimated at €28.5 million, which will be allotted to the company.

If the over-allotment option and over-allotment warrant granted to the lead manager is exercised in full, the net proceeds from the issue and sale of the additional shares could be estimated at €4.3 million. The part of the proceeds that relate to the exercise of the over-allotment option on shares of existing shareholders, which will be equal to 101,456 shares times the offering price, minus fees and applicable taxes, will be allotted to the shareholders that have granted such over-allotment option. See also section 2.14. Only the proceeds from the exercise of the over-allotment warrant will be allotted to the company.

For further information on the costs and expenses of the offering, see section 2.15.

The company intends to use the net proceeds of the offering (*i.e.* after commissions and offering expenses payable by the company have been deducted) for research and development, working capital, capital expenditure, acquisitions if and when they present themselves, and other general corporate purposes.

More specifically, the company intends to use the net proceeds of the offering for:
- further development and commercialization of chemical crop protection products, and more specifically nematicides;
- building and commercializing a portfolio of pest and disease resistant traits for relevant crops;
- gaining access to seed germplasm;
- advancing the company's pipeline of preclinical drug discovery programs in metabolic disease; and
- expanding and maintaining Devgen's patent portfolio.

The company's board of directors and management will determine, in their sole discretion and without the need for shareholder approval, the amounts and timing of the company's actual expenditures, which will depend upon numerous factors, including the status of the company's product development and commercialization efforts, if at all, the amount of proceeds actually raised in the offering, and the amount of cash received resulting from partnerships and out-licensing activities. The company constantly evaluates opportunities to acquire businesses and technologies that it believes are complementary to its business activities. The company has not determined the amounts it plans to spend on any of the areas listed above or the timing of these expenditures. Accordingly, the company will have significant flexibility and broad discretion to allot and use the net proceeds from the offering.

The company intends to hold the proceeds it retains in connection with the offering at banks and in short-term, interest-bearing, investment grade securities, including governmental obligations and other money market instruments, until the company will use them.

2.4. SIZE AND NATURE OF THE OFFERING

The offering consists of new shares, coupon no.1 attached, for a maximum amount of up to €30 million. All new shares offered will benefit from the right to reduced withholding tax, known as "*Verminderde Voorheffing* / *Précompte Réduit*" or "*VVPR*". A separate VVPR strip will represent this right. Each share shall have one VVPR strip, which shall be separately tradable.

The offering can be increased with an additional number of shares, coupon nr.1 attached, for a maximum amount up to €4.5 million subject to exercise of the over-allotment option and over-allotment warrant that will be granted to the lead

manager to cover over-allotments, if any. See also section 2.14. The shares subject to the green shoe option will not have a separate VVPR strip.

The offering is organized as a public offering to retail investors in Belgium and a private placement with institutional investors in Belgium and elsewhere in Europe.

The offering is divided into two tranches:

- a first tranche of no less than 15% of the offered shares shall be reserved for allocation to retail investors in Belgium, subject to claw back; and
- a second tranche of up to 85% of the offered shares shall be reserved for allocation to institutional investors in Belgium and elsewhere in Europe, subject to claw back.

For the purpose of the offering, a retail investor shall mean (a) a natural person in Belgium, or (b) the legal person in Belgium that subscribes to shares in an amount of €250,000 or less.

The existing shareholders shall have no priority or preference in the allocation of the shares. The final offering price shall be the same for institutional and retail investors. See also section 2.5 below. No special tranche will be reserved for the personnel of Devgen.

2.5. OFFERING PRICE

The final offering price will be a single price in euro that will apply to all investors whether retail or institutional.

The final offering price will be determined within a price range. The final offering price will be determined by the lead manager in common agreement with the company, on the basis of a book-building procedure during the offering period, in which only institutional investors can participate, and taking into account various relevant qualitative and quantitative elements, including but not limited to the number of shares requested, the size of the orders received, the quality of the investors submitting such orders and the prices at which the orders were made, as well as the market conditions at that time.

The applicable price range will be published in the Belgian financial press on or about 21 May 2005. The final offering price will be determined as soon as possible after closing of the offering period, which is expected to take place on 3 June 2005 and will be published in the Belgian financial press on the first publishing day following its determination, which is expected to be on 4 June2005.

Retail investors in Belgium can only subscribe to the offered shares at the final offering price. The offering price applicable to retail investors in Belgium will in no event exceed the upper-end of the initial price range, as will be announced on 21 May 2005.

2.6. OFFERING PERIOD

The offering period will begin on 23 May 2005 and is expected to be closed on 3 June 2005, unless it is closed earlier. Any early closure of the offering period will be announced in the Belgian press. The offering period will in any event be open for at least five trading days.

Prospective investors can submit their applications during the offering period, unless this period is closed prematurely. Taking into account the fact that the offering period may be closed earlier, investors are requested to submit their applications as promptly as possible.

2.7. SUBSCRIPTION PROCEDURE

2.7.1. GENERAL

Subscriptions can be submitted to the lead manager and co-lead managers at no cost to the investor.

Only one application form per retail investor will be accepted. If the lead manager and co-lead managers determine, or have reason to believe, that a single retail investor has submitted several orders, through one or more syndicate members, they may disregard such orders.

Investors wishing to subscribe through intermediaries other than the lead manager and co-lead managers should request details of the costs which these intermediaries may charge and which they will have to pay themselves.

To be valid, subscriptions must be submitted at the latest at 4.00 p.m. (Central European time, GMT+1) on the final day of the offering period.

2.7.2. RETAIL INVESTORS

Retail investors must indicate in their orders the number of offered shares they commit to subscribe to. Retail investors can only subscribe to the offered shares at the final offering price as explained in section 2.5.

Orders can be submitted, at no cost, at the counters of the syndicate members in Belgium: KBC Securities, KBC Bank, and Bank Degroof.

Retail investors are invited to introduce their orders as soon as possible at the counters of the syndicate members in Belgium.

2.7.3. INSTITUTIONAL INVESTORS

Institutional investors must indicate in their orders the number of offered shares they commit to subscribe to, and the prices at which they are making such orders.

Only institutional investors can participate in the book-building procedure during the offering period. During the book-building period, institutional investors will have to indicate how many shares they wish to obtain and at what price.

Institutional investors are invited to introduce their orders as soon as possible with the lead manager and co-lead managers.

2.8. ALLOCATION OF THE SHARES

2.8.1. GENERAL

The exact number of offered shares allotted to respectively the retail investors and the institutional investors will be determined at the end of the offering period by the lead manager after consultation of the company and will depend on the quantitative and qualitative analysis of the order book.

The shares will be allotted amongst retail and institutional investors in a balanced way. In case of over-subscription, the allocation to retail and institutional investors will be made on the basis of an allocation key. In the event that the offered shares are oversubscribed, preferential treatment may be given to applications submitted at the branches of the lead manager and co-lead managers rather than through other financial intermediaries.

In allocating the offered shares the lead manager will use reasonable efforts to ensure that shares with VVPR strips are delivered to individual investors resident in Belgium and to investors subject to Belgian legal entities tax (*impôt des personnes morales* / *rechtspersonenbelasting*), in this order of priority.

The results of the offering and the allocation key for the retail investors will be published in the Belgian financial press, which is expected to be on 4 June 2005.

Except for this reasonable efforts undertaking in respect of the allocation of VVPR strips, all investors may receive either new shares or existing shares or a combination of both. While it is expected that retail investors will be allotted only shares with separate VVPR strip, neither the company that will grant the over-allotment warrant, nor the selling shareholders that have granted the over-allotment option or the lead manager and co-lead managers will have any liability to investors in connection with the allocation of shares, with or without a separate VVPR strip.

No application for trading on a trading platform of the VVPR strips will be made. However, the VVPR strips will be at all time transferable to third parties.

2.8.2. CLAWBACK

Insofar as not all shares offered in the retail tranche are subscribed to, the balance of that tranche will be allotted to investors in the institutional tranche if the demand by institutional investors exceeds the number of shares offered in that latter tranche, and vice versa, unless there would be a clear unbalance between both tranches.

2.9. PAYMENT, SETTLEMENT AND DELIVERY OF THE SHARES AND THE VVPR STRIPS

The shares must be paid up in full in euro upon delivery, together with any applicable stock exchange tax. For further information about applicable taxes, see section 2.19.3, “Tax on stock exchange transactions”.

The payment date is set at three trading days after the allocation date and is expected on 9 June 2005.

It is expected that the shares and VVPR strips will be delivered to the subscribers on or about 9 June 2005, such payment date.

All offered shares and VVPR strips will be delivered through the book-entry facilities of CIK, the Belgian central securities depository. As described in section 2.10 below, the shares and VVPR strips will upon closing of the offering not be delivered in physical form.

2.10. FORM OF THE SHARES AND VVPR STRIPS

All offered shares will have the same rights and benefits attached to them as the company’s other shares. For a further description of the company’s shares and the rights and benefits attached thereto, see section 3.4.2, “Description of rights and benefits attached to the shares”, in chapter 3, “General information about Devgen and its share capital”.

As described in section 2.9 above, all shares and VVPR strips will be delivered in book-entry form, represented by one or more global certificates that will have been filed with the CIK for safe keeping on behalf of those persons entitled to the shares and VVPR strips.

Upon delivery of the shares, foreseen at the latest on 9 June 2005, the shares will therefore be bearer shares in book-entry form. The shares cannot yet be delivered as bearer shares in physical form. Physical certificates will be available as soon as possible and in any case within three months after the first listing date. They will be available in the form of physical certificates representing 1, 10 or 100 shares or any other denomination that the company may be able to print, with coupons no.1 and following attached. Until they are delivered in physical form, a global certificate will represent the bearer shares and only book-entry transactions will be possible. The Devgen VVPR strips will only be available in book-entry form.

Shareholders requesting physical delivery of bearer shares should take into account delivery costs amounting to €10 (+VAT) for delivery at the counters of KBC Group and to €20 (+VAT) for delivery at the counters of Bank Degroof. Shareholders are requested to enquire about any additional costs which other financial institutions may charge and which shareholders will have to bear themselves. In addition, a tax on the physical delivery of bearer shares equal to 0.6% of the purchase price will be due, see also section 2.19.4.

For shareholders who opt for registered shares, the shares will be recorded in the company's shareholder register. Holders of registered shares may request that their registered shares be converted into bearer shares and vice versa at any time. Any costs incurred by the conversion of registered shares into bearer securities will be borne by the shareholder (see also above).

All of the offered shares will be fully paid upon their delivery, and freely transferable.

2.11. DIVIDENDS

2.11.1. ENTITLEMENT TO DIVIDENDS

The offered shares will be entitled to a share in the profits as of 1 January 2005, if any, and are therefore entitled to the dividend, if any, for the financial year closed on 31 December 2005 and the following financial years. For further information on the declaration and payment of dividends, see also section 2.19.1, "Dividends".

2.11.2. DIVIDEND POLICY

The company has never declared or paid any dividends on its shares. Following this offering, the company's dividend practice will be determined and may change from time to time by determination of the company's board of directors. Any issuance of dividends will be based upon the company's earnings, financial condition, capital requirements and other factors considered important by the board of directors. Belgian law and the company's articles of association do not require the board of directors to declare dividends. The board of directors expects to retain all earnings, if any, generated by the company's operations for the development and growth of its business and does not anticipate paying any dividends to the shareholders in the foreseeable future.

2.12. LISTING AND FIRST TRADING

An application has been made for the admission of all shares of the company to listing on the Eurolist of Euronext Brussels, including the shares to be issued within the framework of the offering, the shares subject to the over-allotment option and over-allotment warrant granted to the lead manager, as well as up to 1,005,637 shares to be issued upon exercise of the existing warrants of the company.

The shares are expected to be listed under the symbol DEVG and international code number BE0003821387.

The company expects trading to commence on or about 7 June 2005, being the first trading day following the allocation date but on the latest on the closing date of the offering when the offered shares are delivered to the subscribers. See also the underwriting agreement, referred to in section 2.13.

Prior to the closing date and delivery of the shares and, as the case may be, VVPR strips to the subscribers, the shares will be listed on a "when issued" basis. Investors that wish to enter into transactions in shares of the company prior to the closing date of the offering, whether such transactions are effected on Euronext Brussels or otherwise, should be aware that the closing date of the offering may not take place on 9 June 2005 or at all if certain conditions or events referred to in the underwriting agreement are not satisfied or waived or do not occur on or prior to such date. Such conditions include the receipt of officers' certificates and legal opinions and such events include the suspension of trading on Euronext Brussels or a material adverse change in the company's financial condition or business affairs or in the financial markets. Euronext Brussels has indicated that it will annul all transactions in Devgen shares effected on it if the shares offered hereby are not delivered on the closing date of the offering. No application for the listing of the VVPR strips has been made. However, the VVPR strips will be freely transferable on the public auction market of Euronext Brussels, amongst others.

Prior to the offering of the shares, no public market existed for the offered shares and VVPR strips.

2.13. UNDERWRITING AGREEMENT

Subject to the right of the parties involved in the underwriting agreement not to sign such an agreement, the company and the lead manager and the co-lead managers are expected to enter into an underwriting agreement no later than at the determination of the offering price, which is expected to take place prior to the publication of the result of the offering. The conclusion of this agreement may depend on various factors including, but not limited to, the market circumstances and the result of the book-building procedure.

In the underwriting agreement, the company is expected to make certain representations and warranties and to agree to indemnify the lead manager and the co-lead managers against certain liabilities.

Subject to the terms and conditions of the underwriting agreement, the lead manager, KBC Securities, and one of the co-lead managers, Bank Degroof, will, severally but not jointly, agree to subscribe in their own name and for their own account to the following percentages of the offered shares and VVPR strips in the base offering with a view to immediately distributing these shares and VVPR strips to the investors concerned:

- KBC Securities 73.50%
- Bank Degroof 26.50%

The lead manager and the co-lead managers will distribute the shares and VVPR strips to investors, subject to prior issue or sale, when, as and if delivered to and accepted by them, subject to the satisfaction or waiver of the conditions that are expected to be contained in the underwriting agreement, such as the receipt by the lead manager and the co-lead managers of officer's certificates and legal opinions.

The underwriting agreement is also expected to provide that, upon the occurrence of certain events, such as the suspension of trading on Euronext Brussels or a material adverse change in the company's financial condition or business affairs or in the financial markets, or other *force majeur* events, the lead manager and co-lead managers will have, on certain conditions and after consultation with the company, the right to withdraw from the underwriting and offering before the delivery of the shares.

In case of subscription by KBC Securities and Bank Degroof in their own name and for their own account, the lead manager and such co-lead manager must be viewed as the first legal owners of the shares, see also sections 2.19.3 and 2.19.4.

2.14. GREEN SHOE AND STABILIZATION

In connection with the offering, the lead manager may as of the date of the first listing date until 30 days thereafter over-allot or effect transactions that stabilize or maintain the market price of the shares at levels above those that might otherwise prevail in the open market. This possibility will exist whether or not the offering is fully subscribed to. Such transactions may be effected on the Eurolist of Euronext Brussels, on the over-the-counter market or otherwise. There is no assurance that such stabilization will be undertaken and, if it is, it may be discontinued at any time and will in any event be discontinued 30 days after the first listing date.

If the lead manager creates a short position in the shares in connection with the offering, it may reduce that short position by purchasing shares in the open market. Purchases of shares to stabilize the trading price or to reduce a short position may cause the price of the company's shares to be higher than it might be in the absence of such purchases. None of the company or the lead manager makes any representation or prediction as to the direction or the magnitude of any effect that the transactions described above may have on the price of the shares.

The lead manager may also elect to reduce any short position by exercising all or part of the over-allotment option or over-allotment warrant granted to it with regard to the green shoe option. This green shoe option will be exercisable as of the first listing date until 30 days thereafter. The green shoe option consists of an over-allotment option and over-allotment warrant that will be exercisable only to cover over-allotments, if any.

The green shoe option will apply to an aggregate number of shares in an amount of up to €4.5 million at the final offering price, but in any event no more than 15% of the shares offered in the base offering.

The green shoe will apply to existing and new shares as follows:

- Over-allotment option: Certain members of the executive management and other existing shareholders (excluding most institutional shareholders) granted the lead manager the right to purchase their existing shares in a number of up to 10% of their existing shareholding calculated on a fully diluted basis to cover over-allotments, if any. The total number of existing shares with respect to which such over-allotment option has been granted amounts to 101,456. These shares will not have a separate VVPR strip.
- Over-allotment warrant: In addition, the company will issue to the lead manager an over-allotment warrant granting it the right to subscribe to a number of new shares up to 15% of the shares offered in the base offering minus the number of existing shares that can be obtained by the lead manager by virtue of the exercise of the over-allotment option granted by the existing shareholders. These new shares will also not have a separate VVPR strip.

If the lead manager elects to exercise the green shoe, it will first have to exercise the over-allotment option on the existing shares, pro rata among the existing shareholders that have granted such option. Only after the over-allotment option has been fully exercised, the lead manager can elect to exercise the over-allotment warrant in whole or in part.

In order to cover any over-allotments prior to the exercise of the over-allotment option, it is expected that the lead manager will enter into a stock lending agreement with existing shareholders.

2.15. COSTS AND REMUNERATION OF INTERMEDIARIES

The costs of the offering borne in the current financial year are estimated to be approximately 4.7% of the amount of the offering. These costs include legal, administrative and other costs (€203,000), the remuneration of the BFIC (€8,000), legal publications and the printing of the shares and prospectus (€38,750), as well as the management, underwriting and selling fees (estimated at €1.2 million or €1.4 million depending on whether or not the green shoe option is exercised).

The latter are to a certain extent divided among all financial intermediaries who register subscriptions and applications from retail in relation to the offering described in this prospectus.

2.16. FINANCIAL SERVICE

The financial service for the shares of the company will be provided in Belgium by KBC Bank and Bank Degroof free of charge for the shareholders. Should the company alter its policy in this matter, this will be announced in the Belgian finacial press.

2.17. LEGISLATION AND COMPETENT COURTS

The offering is subject to Belgian law. The courts and tribunals of Brussels have sole jurisdiction should any dispute arise in relation to the offering.

2.18. LOCK-UP ARRANGEMENTS

The number of shares available for sale in the public market following the admission to listing of the company's shares will be limited by several transfer restrictions. These can be summarized as follows:

- Pursuant to a provision in the company's articles of association, none of the shares outstanding as at the date of 29 April 2005 may be transferred during the period starting on the date of the first listing of the company's shares on the Eurolist of Euronext Brussels and ending on the 180th day thereafter. The same restriction will apply to all shares issued during such period pursuant to the exercise of outstanding warrants. The restriction does not apply to the shares offered in the public offering to retail investors and the private placements to institutional investors within the context of offering and listing of the company's shares on the Eurolist of Euronext Brussels, the existing shares to be sold to the lead manager upon exercise of the over-allotment option and the shares subject to the stock lending agreement (it being understood that the shares that upon expiry of the stock lending are re-delivered to the lenders will be subject to the lock-up). The restriction does not apply either in case of transfer to legal successors (such as in case of death of a shareholder that is a natural person, or in case of merger, de-merger or liquidation of a shareholder that is a legal person, provided, however, that the legal successor of such legal person assumes the relevant transfer restriction obligations). The restriction in the company's articles of association is without prejudice to more stringent contractual transfer restrictions or arrangements.

- Directors, certain members of the executive management and existing shareholders who in the aggregate hold 94.71% of the company's shares prior to the offering (assuming that no warrants are exercised and including up to 76,641 existing shares with respect to which some of these shareholders have granted an over-allotment option to the lead manager), have entered into a separate transfer restriction. Pursuant to this arrangement, these shareholders have agreed that none of their shares and warrants outstanding as at the date of 29 April 2005, nor any of the shares to be issued upon exercise of their warrants, may be transferred during the period starting on the date of the first listing of the company's shares on the Eurolist of Euronext Brussels and ending 12 months thereafter. The restriction does not apply to the existing shares to be sold by some of them to the lead manager upon exercise of the over-allotment option, the shares subject to the stock lending agreement (it being understood that the shares that upon expiry of the stock lending are re-delivered to the lenders will be subject to the lock-up), and to transfers to legal successors. Upon expiry of the 180 day period following the date of the listing of the company's shares, the restriction does not apply either to a private sale whereby the transferee adheres to the transfer restriction, and organized sales of shares to which the lead manager consents and that are initiated by shareholders who at that time hold 2/3 of the shares that are subject to the contractual

transfer restriction. This contractual arrangement is without prejudice to the lock-up arrangement set out in the company's articles of association.

The above contractual lock-up arrangement has not been signed by two institutional shareholders that currently hold 116,960 shares (representing 1.19% of the existing outstanding shares assuming that no warrants are exercised). The company understands that these shareholders will be put into liquidation. Accordingly, after the expiry of the 6-month lock-up period provided for in the company's articles of association, such shares held by these shareholders are no longer subject to any of the aforementioned statutory or contractual lock-up arrangements. As set forth in section "Limited shares available for sale in the market" in the chapter "Risk factors", any large, unorganized sale of shares after the expiry of the lock-up arrangements could have an adverse effect on the company's share price.

- Apart from the foregoing restrictions with respect to existing shares and warrants, the company agreed with the lead manager that during a term ending 365 days after the completion of the offering and listing it shall not, except with the prior written consent of the lead manager, which shall not be unreasonably withheld, (i) issue or sell, or attempt to dispose of, or solicit any offer to buy any shares, warrants or other securities or grant any options, convertible securities or other rights to subscribe for or purchase shares or enter into any contract (including derivative transactions) or commitment with similar effects, or (ii) purchase any of its securities or otherwise reduce its share capital, except for the issuance of warrants in the framework of (current or future) stock option plans the content of which will have been disclosed in the prospectus and for the issuance of shares in exchange for a contribution in kind in the framework of a business transaction not exceeding 10% of the outstanding capital, unless the same has been approved by the general meeting of shareholders.

2.19. BELGIAN TAXATION

The following is a summary of certain Belgian tax consequences of the acquisition, ownership and disposition of shares in Devgen. It is based on the tax laws and administrative interpretations applicable in Belgium as presently in effect and is subject to changes in Belgian law, including changes that could have a retroactive effect. The following summary does not take into account or discuss the tax laws of any country other than Belgium, nor does it take into account the individual circumstances of each investor. Prospective investors should consult their own advisers as to the Belgian and foreign tax consequences of the acquisition, ownership and disposition of the shares.

For the purpose of this summary, a Belgian resident is an individual subject to Belgian personal income tax (*i.e.* an individual who has his domicile in Belgium or has the seat of his assets in Belgium, or a person assimilated to a Belgian resident), a company subject to Belgian corporate income tax (*i.e.* a company that has its registered office, its main establishment, its administrative seat or its seat of management in Belgium) or a legal entity subject to the Belgian tax on legal entities (*i.e.* a legal entity other than a corporation subject to the corporate income tax, that has its registered office, its main establishment, its administrative seat or its seat of management in Belgium). A Belgian non-resident is a person that is not a Belgian resident.

2.19.1. DIVIDENDS

For Belgian income tax purposes, the gross amount of all distributions made by Devgen to its shareholders is generally taxed as dividends, except for the repayment of paid-up capital carried out in accordance with the Belgian Company Code to the extent that the capital qualifies as "fiscal" capital. The gross amount paid by Devgen to redeem its shares and the gross amount of distributions made by Devgen to its shareholders as a result of Devgen's complete liquidation is also generally taxed as a dividend, insofar as the payment exceeds the fully paid-up fiscal capital of Devgen. In general, a 10% Belgian withholding tax is levied on such redemption and liquidation distributions.

In general, a Belgian withholding tax of (currently) 25% is levied on dividends. Under certain circumstances, the 25% withholding tax rate is reduced to 15% with respect to certain qualifying shares issued as of 1 January 1994. Shares that

are eligible for this reduced withholding tax rate can be issued together with or accompanied by a "VVPR-strip", which is a separate instrument representing the holder's right to receive dividends at the reduced withholding tax rate of 15%. The new shares that are issued in the context of this offering (other than upon the exercise of the over-allotment warrant) will be accompanied by a VVPR-strip.

The existing shares of Devgen should normally benefit from the 15% withholding tax until the time they are effectively listed.

If the dividend is paid through a Belgian financial institution, such institution is obliged to apply the applicable withholding tax.

For private investors who are a Belgian resident and for legal entities subject to the Belgian tax on legal entities, the Belgian withholding tax generally constitutes the final tax in Belgium on their dividend income. The amount that will be taxed is the amount of the dividends paid. If a private investor elects to report the dividend income in his tax return, he will then be taxed at the separate rate of 25% or, if applicable, the reduced rate of 15%, to be increased with the municipal surcharge or at the applicable progressive personal income tax taking into account the taxpayer's other declared income, whichever is lower. If progressive income tax rates apply, the amount of income tax payable is increased by the municipal surcharge.

For Belgian resident companies and for companies with their tax residence outside Belgium holding the shares of Devgen through a permanent establishment or a fixed base in Belgium, the gross dividend income, including the withholding tax, must be added to their taxable income, which is, in principle, taxed at the income tax rate of (currently) 33.99%. In certain circumstances lower tax rates can apply.

If such a company holds, at the time of the dividend distribution, a share participation of at least 10% in the capital of Devgen or a share participation with an acquisition value of at least €1,200,000, then 95% of the gross dividend received can in principle (although subject to certain limitations) be deducted from the taxable income ("dividend received deduction"), provided that the share participation in Devgen qualifies as a "financial fixed asset" and provided that a one year minimum holding period is met.

For certain investment companies and for certain financial institutions and insurance companies, certain of the afore mentioned conditions do not apply.

Belgian resident companies and companies with their tax residence outside Belgium holding the shares of Devgen through a permanent establishment or a fixed base in Belgium are, under certain conditions, entitled to credit the Belgian dividend withholding tax against their corporate income tax liability and to claim the reimbursement of the Belgian withholding tax that exceeds this liability.

A non-resident shareholder, who does not hold shares of Devgen through a permanent establishment or fixed base in Belgium, will not be subject to any Belgian income tax other than the dividend withholding tax, which normally constitutes the final Belgian income tax. Belgian tax law provides for certain exemptions from withholding tax on Belgian source dividends distributed to non-resident investors. In the event there is no exemption applicable under Belgian domestic tax law, the Belgian dividend withholding tax can potentially be reduced for investors who are non-residents pursuant to the treaties regarding the avoidance of double taxation concluded between the State of Belgium and the state of residence of the non-resident shareholder of Devgen.

2.19.2. CAPITAL GAINS AND LOSSES

Private investors who are a Belgian resident are in principle not subject to Belgian income tax on capital gains realized upon the sale, exchange or other result of the transfer of shares, unless either (i) the capital gain is the result of speculation or cannot be considered as the normal management of a private estate or (ii) the gain is realized upon the sale to certain non-residents of shares belonging to an important shareholding of 25% or more.

Legal entities subject to the Belgian tax on legal entities are in principle not subject to Belgian income tax on capital gains realized upon the sale, exchange or other transfer of shares.

Belgian resident companies and companies with a tax residence outside Belgium holding shares through a permanent establishment or a fixed base in Belgium are generally not subject to Belgian income tax on capital gains realized upon the sale, exchange or other transfer of shares.

Conversely, capital losses realized upon the sale, exchange, redemption or other transfer of shares are generally not tax deductible under Belgian tax law.

A non-resident shareholder who does not hold the shares through a permanent establishment or fixed base in Belgium will generally not be subject to Belgian income tax on capital gains realized upon the sale, exchange or other transfer of shares.

2.19.3. TAX ON STOCK EXCHANGE TRANSACTIONS

The purchase and the sale and any other acquisition or transfer for consideration in Belgium, through a "professional intermediary", of existing shares (secondary market) is subject to the tax on stock exchange transactions, generally in the amount of 0.17% of the purchase price. Subject to a bill that, however, has not yet been published in the Belgian Official Gazette, the amount of tax on stock exchange transactions is capped at maximum €500 per transaction. The initial subscription to newly issued shares is exempt from Belgian stock market tax. In the context of the present offering, the investors will acquire the shares from the underwriters, see also section 2.13. Therefore, the exemption for the subscription to newly issued shares is not available to the investors.

In any event, no tax on stock exchange transactions is payable by (i) professional intermediaries described in Articles 2, 9° and 10° of the Act of 2 August 2002 on the supervision of the financial sector and financial services, acting for their own account; (ii) insurance companies described in Article 2, §1 of the Insurance Supervision Act of 9 July 1975 acting for their own account, (iii) benefits institutions described in Article 2, §3, 6th of the Insurance Supervision Act of 9 July 1975 acting for their own account; or (iv) collective investment institutions.

2.19.4. TAX ON THE PHYSICAL DELIVERY OF BEARER SECURITIES

The physical delivery of bearer shares acquired on the secondary market for consideration through a "professional intermediary" in Belgium is subject to the Belgian tax on the physical delivery of bearer securities. The tax payable is equal to 0.6% of the purchase price. The tax is also due upon the physical delivery of shares in Belgium pursuant to the withdrawal of the shares from "open custody" or as a result of the conversion of registered shares into bearer shares. The tax payable is 0.6% of the last price quotation prior to the date of withdrawal or conversion.

No tax on the physical delivery of bearer securities is due upon the issuance of new shares. However, the investors will acquire the shares from the underwriters, see also section 2.13. Therefore, if investors request the physical delivery of bearer securities, the tax will be applicable. In any event, as further explained in section 2.10, the shares cannot yet be delivered as bearer shares in physical form. Physical certificates will be available as soon as possible and in any case within three months after the first listing date.

3. GENERAL INFORMATION ABOUT DEVGEN AND ITS SHARE CAPITAL

3.1. GENERAL

Devgen was incorporated on 10 September 1997 for an unlimited duration. Devgen has the legal form of a limited liability company (*naamloze vennootschap - NV / société anonyme - SA*) organized and existing under the laws of Belgium. Pursuant to the Belgian Company Code, the liability of the shareholders is limited to the amount of their respective committed contribution to the capital of Devgen.

The company's registered office is located at Technologiepark 30, 9052 Zwijnaarde, Belgium. The company is registered with the Registry of Legal Persons under company number RPR 0461.432.562.

This section 3 summarizes the share capital and corporate structure of Devgen and the material rights of its shareholders under Belgian law and the company's articles of association. It is based on Devgen's articles of association that have been amended by the general shareholders' meeting of 29 April 2005 and that will become effective upon completion of Devgen's initial public offering and listing.

At its meeting of 29 April 2005, the general shareholders' meeting of Devgen passed amongst other things the following resolutions:

- an amendment to the company's corporate purpose clause;
- the decision to increase the company's share capital with an amount of €2,740,221.52 through the incorporation of issuance premiums in the same amount, and immediately thereafter to decrease the share capital with the same amount to incorporate losses incurred by the company up to 31 December 2004, all without the issue or cancellation of shares;
- the reversed stock split and combination of the existing shares at the ratio of one new share for 3 existing shares, and the combination of the existing warrants at the ratio of one new warrant for 3 existing warrants;
- the decision to increase the company's share capital within the framework of the proposed offering and listing, and to create the over-allotment warrant (see also section 2.1 of chapter 2);
- the decision to cancel the existing classes of shares and conversion of all shares into ordinary shares, and the decision to amend the terms and conditions of the existing warrants of the company to take into account the cancellation of the classes of shares;
- the decision to amend and restate the articles of association in view of the proposed listing of the company, including, amongst other things, the decision to grant the board of directors the authority to increase the company's share capital within the framework of the authorized capital.

The cancellation of the existing classes of shares and related amendments of the terms and conditions of the warrants, and the amendment and restatement of the company's articles of association are subject to the completion of the initial public offering and listing of the company's shares on the Eurolist of Euronext Brussels.

The description hereafter is only a summary and does not purport to give a complete overview of the articles of association, nor of all relevant provisions of Belgian law. Neither should it be considered as legal advice regarding these matters.

3.2. CORPORATE PURPOSE

The corporate purpose of Devgen is set forth in article 3 of the company's articles of association and reads as follows:

The company's corporate purpose is to engage in Belgium and abroad, in its own name and on behalf of third parties, alone or in collaboration with third parties, in the following activities:

- all forms of research and development on biological and chemical compounds and organisms, as well as the industrialization and commercialization of the results thereof;
- the research and development of biotechnological or derivative products that could have a market value in agro applications, such as the protection and business of crops and seeds, in nutrition, and in human or animal health care, diagnostics and therapeutics, based amongst other things on the technology of genetics, genetic engineering, chemistry and cell biology;
- the commercialization of the aforementioned products and application domains;
- the acquisition, disposal, exploitation, commercialization and management of intellectual property, property and usage rights, trade marks, patents, drawings, licenses, etc.

The company is also authorized to engage into all commercial, industrial, financial movable and immovable transactions, which are directly or indirectly related to, or that may be beneficial to the achievement of, its corporate purpose.

It can, by means of subscription, contribution, merger, collaboration, financial participation or otherwise, take interests or participate in any company, existing or to be incorporated, undertakings, businesses and associations in Belgium or abroad. The company can manage, valorize or sell these participations and can also, directly or indirectly, participate in the board, management, control and dissolution of companies, undertakings, business and associations in which it has an interest or participation.

The company can provide guarantees and sureties for the benefit of these companies, undertakings, business and associations, act as their agent or representative, and grant advances, credit, mortgages or other sureties.

3.3. GROUP STRUCTURE

Devgen has only one subsidiary, Devgen Pte. Ltd., a fully owned company incorporated on 26 February 2004 under the laws of Singapore, with registered office at 1, Research Link, Singapore 117604, Singapore.

3.4. SHARE CAPITAL AND SHARES

3.4.1. SHARE CAPITAL AND SHARES

On the date of this prospectus, Devgen's share capital amounts to €739,754.88, represented by 9,863,420 shares, each having the same fractional value.

The table below provides an overview of the history of the company's share capital since its incorporation in 1997. The overview should be read together with the notes set out below the table.

On 22 October 1999, the amount of the company's share capital was converted into euro. Prior to that date, the company's share capital was expressed in Belgian franc (BEF). In the table below, all amounts are in euro, and amounts in Belgian franc have been converted into euro using the official exchange rate of BEF40.3399 / €1.00.

Date	Transaction	Number (and class) of shares issued	Issue price per share (€)	Capital increase (€) [1]	Issue premium paid (€)	Share capital after transaction (€)	Aggregate number of shares after the transaction
10 Sept. 1997	Incorporate[1]	2,500	24.79			61,973.38	2,500
8 Oct. 1997	Stock split (1/1,000) and reclassification of shares [2]	/	/	/	/	61,973.38	2,500,000
11 Dec. 1997	Capital increase in cash[3] [4]	6,001,000 (preferred B)	0.31	148,760.90	1,710,750.40	210,734.29	8,501,000
27 Aug. 1998	Capital increase in cash[5]	6,000,000 (preferred B)	0.93	148,736.11	5,428,868.19	359,470.40	14,501,000
25 Feb. 1999	Capital increase in cash[6]	1,365,680 (C)	0.02	33,854.32		393,324.72	15,866,680
22 Oct. 1999	Capital increase in cash [7] [8]	11,500,000 (preferred B)	2.00	285,200.00	22,714,800.00	678,524.72	27,366,680
	Capital increase through incorporation of issuance premiums	/	/	5,642.28	(5,642.28)	684,167.00	27,366,680
19 July 2000	Capital increase in cash[9]	2,223,515 (preferred B)	2.85	55,587.88	6,281,429.87	739,754.88	29,590,195
1 June 2004	Capital increase through incorporation of issuance premiums	/	/	25,913,227.42	(25,913,227.42)	26,652,982.30	29,590,195
	Capital decrease	/	/	(25,913,227.42)	/	739,754.88	29,590,195
29 April 2005	Capital increase through incorporation of issuance premiums	/	/	2,740,221.52	(2,740,221.52)	3,479,976.40	29,590,195
	Capital decrease	/	/	(2,740,221.52)	/	739,754.88	29,590,195
	Reversed stock split (3/1)						9,863,420

Notes:

(1) The amount of the share capital does not include issue premiums, if any, that have been paid with respect to the issuance of shares.

(2) At the same occasion, the shares were reclassified into three classes of shares: 1,000,000 A shares, 1,498,000 B shares, and 2,000 C shares.

(3) At the same occasion, 30,500 B shares were reclassified into 30,500 ordinary B shares, and 1,467,500 B shares were reclassified into 1,467,500 C shares.

(4) The shares were subscribed to by Abingworth Bioventures II SICAV (3,001,000 shares), GIMV NV (1,500,000 shares) and Biotech Fonds Vlaanderen NV (1,500,000 shares).

(5) The shares were subscribed to by GIMV NV (1,500,000 shares), Biotech Fonds Vlaanderen NV (1,500,000 shares), Abingworth Bioventures II SICAV (2,998,900 shares) and Elkinbrook Limited (1,100 shares).

(6) The shares were subscribed to by Thierry Bogaert (500,000 shares), and by a number of employees (865,680 shares).

(7) The shares were subscribed to by Abingworth Bioventures II SICAV (1,000,000 shares), Biotech Fonds Vlaanderen NV (1,000,000 shares), GIMV NV (500,000 shares), Bank Brussel Lambert NV (1,750,000 shares), De Vaderlandsche NV (1,250,000), KBC Securities NV (1,000,000), Life Science Partners (1,500,000 shares), Mercator & Noordstar NV (1,500,000 shares), Rendex NV (1,250,000 shares) and Sofindev NV (750,000 shares).

(8) At the same occasion, 30,500 ordinary shares B were reclassified into 30,500 C shares.

(9) The shares were subscribed to by Polytechnos Genomics (GP) Limited (1,872,637 shares), Capricorn Venture Fund NV (167,404) and Baring Capricorn Ventures Limited (183,474).

On 29 April 2005, the company's general shareholders' meeting also decided to authorize the capital increase required for the purpose of the present offering and to create the over-allotment warrant. See also section 2.1 "Authorization of the offering" of chapter 2, "General information relating to the offering".

Upon completion of the initial public offering and listing, all existing shares will be converted into ordinary shares with the same rights and benefits and the same fractional value as the offered shares (see also section 3.1).

3.4.2. DESCRIPTION OF RIGHTS AND BENEFITS ATTACHED TO THE SHARES

3.4.2.1 Voting rights

Each shareholder of Devgen is entitled to one vote per share.

Voting rights can be suspended in relation to shares:

- which were not fully paid up, notwithstanding the request thereto of the board of directors of the company;
- to which more than one person is entitled, except in the event a single representative is appointed for the exercise of the voting right;
- which entitle their holder to voting rights above the threshold of 3%, 5%, or any multiple of 5% of the total number of voting rights attached to the outstanding financial instruments of the company on the date of the relevant general shareholders' meeting, except in the event the relevant shareholder has notified Devgen and the BFIC at least 20 days prior to the date of the general shareholders' meeting on which he or she wishes to vote (see also below under section 3.8); and
- of which the voting right was suspended by a competent court or the BFIC.

Generally, the shareholders have sole authority with respect to:

- the approval of the statutory financial statements of the company;
- the appointment and resignation of directors and the statutory auditor of the company;
- the granting of discharge of liability to directors and the statutory auditor;
- the determination of the remuneration of the directors and the statutory auditor for the exercise of their mandate;
- the distribution of profits;
- the filing of a claim for liability against directors;
- the decisions relating to the dissolution, merger and certain other re-organizations of the company;
- amendments to the articles of association.

3.4.2.2 Right to attend and vote at general shareholders' meetings

a. Annual general shareholders' meeting

The annual general shareholders' meeting is held at the registered office of Devgen or at the place determined in the notice convening the shareholders' meeting. As of 2006, the meeting is held every year on the first business day of June. In 2005, the annual shareholders' meeting took place on 29 April 2005. At the annual general shareholders' meeting, the board of directors submits the audited statutory and consolidated financial statements and the reports of the board of directors and of the statutory auditor with respect thereto. The shareholders' meeting then decides on the approval of the statutory financial statements, the proposed allocation of the company's profit or loss, the discharge from liability of the directors and the statutory auditor, and, when applicable, the election or resignation of the statutory auditor and/or directors.

b. Special and extraordinary general shareholders' meetings

The board of directors or the statutory auditor can, at any given time when the interest of the company so requires, convene a special or extraordinary general shareholders' meeting. Such shareholders' meeting must also be convened every time one or more shareholders holding at least 20% of Devgen's share capital so demand.

c. Notices convening the general meeting

The notice convening the general shareholders' meeting must indicate the place, date, and time of the meeting, and the proposed resolutions that will be submitted to the meeting. The meeting cannot deliberate and vote on items that are not mentioned on the agenda, unless all shareholders are present or represented and decide unanimously to place such items on the agenda. The notice must be published in the annexes to the Belgian Official Gazette and a newspaper with nationwide distribution in Belgium at least 24 days prior to the meeting (or, if a second meeting is required and if the date of the second meeting was mentioned in the notice convening the first meeting, at least 17 days prior to the second meeting). A publication in a newspaper with nationwide distribution is not necessary for notices convening the annual general shareholders' meeting if such meeting takes place in Ghent and on the place, date and hour referred to above and if the agenda is limited to the submission of the financial statements, the reports of the board of directors and statutory auditor relating thereto, and the discharge from liability of the directors and statutory auditor. The holders of registered shares, warrants and bonds are personally notified by letter at least 15 days prior to the meeting.

d. Formalities to attend the general meeting

All holders of shares, warrants or bonds (if any) issued by Devgen can attend shareholders' meetings. Only shareholders, however, can vote at shareholders' meetings. In order to attend the general shareholders' meeting, holders of bearer instruments in book-entry form must deposit a certificate issued by a recognized account holder with the clearing agency for the financial instruments concerned or the clearing agency itself, confirming the number of financial instruments that have been registered in the name of the holder concerned and stating that these financial instruments are blocked until after the date of the general meeting. The certificate must be deposited at the company's registered office or any other place indicated in the notice convening the shareholders' meeting at the latest four business days prior to the meeting. Holders of bearer instruments in physical form must deposit their financial instruments at the company's registered office or any other place indicated in the notice convening the shareholders' meeting within the same term. Holders of registered instruments must be registered in the relevant register book and, where applicable, can be requested to inform the board of directors at the latest four business days prior to the shareholders' meeting whether they will attend the shareholders' meeting.

e. Registration date

The articles of association also allow the board of directors to specify a registration date in the notice convening the shareholders' meeting. If the board of directors decides to set a registration date in the notice, only shareholders who have shares at 24:00 hours (Central European Time, GMT+1) on the registration date may participate and vote with such shares at the shareholders meeting, regardless of the number of shares that they hold on the actual date of the shareholders' meeting. The specified registration date can be no earlier than 15 calendar days, and no later than five business days, before the date of the shareholders' meeting. If the board of directors decides to set a registration date, the notice convening the shareholders' meeting must be published in the annexes to the Belgian Official Gazette and a newspaper with nationwide distribution in Belgium at least 24 days prior to the registration date (or, if a second meeting is required and if the date of the second meeting was mentioned in the notice convening the first meeting, at least 17 days prior to the registration date for the second meeting).

f. Power of attorney

Each shareholder has the right to attend a general shareholders' meeting and vote at the general shareholders' meeting in person or through a proxy holder. The proxy holder does not need to be a shareholder. The board of directors can request the participants to the meeting to use a model of power of attorney (with voting instructions), which must be deposited at the company's registered office at least four business days prior to the meeting.

g. Quorum and majorities

In general, there is no quorum requirement for a general shareholders' meeting and decisions are generally passed with a simple majority of the votes of the shares present and represented. Capital increases not decided by the board of directors within the framework of the authorized capital, decisions with respect to the company's dissolution, mergers, de-mergers

and certain other reorganizations of the company, amendments to the articles of association (other than an amendment of the corporate purpose), and certain other matters referred to in the Belgian Company Code do not only require the presence or representation of at least 50% of the share capital of the company, but also the approval of at least 75% of the votes cast. An amendment of the company's corporate purpose, requires the approval of at least 80% of the votes cast at a general shareholders' meeting, which in principle can only validly pass such resolution if at least 50% of the share capital of the company and at least 50% of the profit certificates, if any, are present or represented. In the event the required quorum is not present or represented at the first meeting, a second meeting needs to be convened through a new notice. The second general shareholders' meeting can validly deliberate and decide regardless of the number of shares present or represented.

3.4.2.3 Dividends

All shares participate in the same manner in the company's profits (if any) as of and for the entire fiscal year starting on 1 January 2005 and for each subsequent financial year. Pursuant to the Belgian Company Code, the shareholders can in principle decide on the distribution of profits with a simple majority vote at the occasion of the annual general shareholders' meeting, based on the most recent audited statutory financial statements, prepared in accordance with the general accepted accounting principles in Belgium and based on a (non-binding) proposal of the company's board of directors. The company's articles of association also authorize the board of directors to issue interim dividends on profits of the current fiscal year subject to the terms and conditions of the Belgian Company Code.

Dividends can only be distributed if following the declaration and issuance of the dividends the amount of the company's net assets on the date of the closing of the last financial year as follows from the statutory financial statements (*i.e.* the amount of the assets as shown in the balance sheet, decreased with provisions and liabilities, all as prepared in accordance with Belgian accounting rules), decreased with the non-amortized costs of incorporation and extension and the non-amortized costs for research and development, does not fall below the amount of the paid-up capital, increased with the amount of non-distributable reserves. In addition, prior to distributing dividends, 5% of the net profits must be allotted to a legal reserve, until the legal reserve amounts to 10% of the share capital.

In relation to bearer shares, the Belgian Act of 24 July 1921, provides that, in the event the payment of dividends on bearer shares has not been claimed by the legal holder thereof, the company has the right to deposit those dividends with the *Deposito en Consignatiekas / Caisse de Dépots et Consignation*. The right to demand the distribution of dividends so deposited expires after thirty years, at which time the related dividends become the property of the Belgian State. With regard to registered shares, the right to payment of dividends expires five years after the board of directors declared the dividend payable.

3.4.2.4 Rights regarding liquidation

Devgen can only be dissolved by a shareholders' resolution passed with a majority of at least 75% of the votes cast at an extraordinary general shareholders' meeting where at least 50% of the share capital is present of represented.

If as a result of losses incurred the ratio of the company's statutory net-assets (determined in accordance with Belgian legal and accounting rules) to share capital is less than 50%, the board of directors must convene a special shareholders' meeting within two months as of the date the board of directors discovered or should have discovered this under-capitalization. At this shareholders' meeting the board of directors needs to propose either the dissolution of the company or other measures for the continuation of the company. Shareholders representing at least 75% of the votes validly cast at this meeting have the right to dissolve the company, provided that at least 50% of the company's share capital is present or represented at the meeting. If as a result of losses incurred the ratio of the company's net assets to share capital is less than 25%, the same procedure must be followed, it being understood, however, that in that event shareholders representing 25% of the votes cast at the meeting can decide to dissolve the company. If the amount of the company's net assets has dropped below €61,500 (the minimum amount of share capital of a public limited liability company), each interested party is entitled to request the competent court to dissolve the company. In that event, the company can present a plan to

continue its activities. The court can order the dissolution of the company or grant a grace period within which the company is to remedy the situation.

In the event the company is dissolved, the assets or the proceeds of the sale of the remaining assets, after payment of all debts, costs of liquidation and taxes, must be distributed on an equal basis to the shareholders, taking into account possible preferential rights with regard to the liquidation of shares having such rights, if any. Upon completion of the initial public offering and listing, none of the shares will have any preferred liquidation rights.

3.4.2.5 Changes to the share capital

a. Changes to the share capital decided by the shareholders

The general shareholders' meeting can at any given time decide to increase or decrease the share capital of the company. Such resolution must satisfy the quorum and majority requirements that apply to an amendment of the articles of association, as described above under section 3.4.2.2(g).

b. Capital increases by the board of directors

Subject to the same quorum and majority requirements, the general shareholders' meeting can authorize the board of directors, within certain limits, to increase the company's share capital without any further approval of the shareholders. This is the so-called authorized capital. This authorization needs to be limited in time (*i.e.* a renewable period of maximum five years), and in scope (*i.e.* the authorized capital may not exceed the amount of the share capital of the company). On 29 April 2005, the general shareholders' meeting authorized the board of directors to increase the share capital of the company within the framework of the authorized capital. These authorization and powers are further discussed in section 3.4.5 below.

3.4.2.6 Preferential subscription right

In the event of a capital increase in cash with issue of new shares, or in the event of an issue of convertible bonds or warrants, the shareholders have a preferential subscription right to subscribe to the new shares, convertible bonds or warrants, pro rata of the part of the share capital represented by the shares that they already have.

The general shareholders' meeting can decide to limit or cancel the preferential subscription right. Such decision needs to satisfy the same quorum and majority requirements as the decision to increase the company's share capital. The shareholders can also decide to authorize the board of directors to limit or cancel the preferential subscription right within the framework of the authorized capital, subject to the terms and conditions set forth in the Belgian Company Code. See also under section 3.4.5 below.

Normally, the authorization of the board of directors to increase the share capital of the company through contributions in cash with cancellation or limitation of the preferential right of the existing shareholders is suspended as of the notification to the company by the BFIC of a public takeover bid on the financial instruments of the company. The general shareholders' meeting can, however, authorize the board of directors to increase the share capital by issuing shares in an amount of not more than 10% of the existing shares of the company at the time of such a public takeover bid. Such authorization has currently not been granted to the board of directors of the company.

3.4.3. FORM AND TRANSFERABILITY OF THE SHARES

The shares of Devgen can take the form of bearer shares or registered shares. The shares being offered will take the form of bearer shares.

Until their physical delivery, bearer shares will be represented by one or more global certificates and only book-entry settlement will be possible.

Belgian company law and the company's articles of association entitle shareholders to request, upon written request and at their expense, the physical delivery of their bearer shares. Such request would imply that an individualized physical bearer certificate be delivered to the shareholder concerned. A special tax on the physical delivery of bearer shares would be imposed. See also section 2.19.4 in chapter 2. As soon as legally authorized, the shares may be converted into dematerialized shares in accordance with the relevant provisions in the company's articles of association.

All of the company's shares, including the offered shares upon delivery, are fully paid up and freely transferable, subject, however, to the lock-up arrangements further described in section 2.18 in chapter 2.

3.4.4. PURCHASE AND SALE OF OWN SHARES

In accordance with the company's articles of association and the Belgian Company Code, Devgen can only purchase and sell its own shares by virtue of a special shareholders' resolution approved by at least 80% of the votes validly cast at a general shareholders' meeting where at least 50% of the share capital and at least 50% of the profit certificates, if any, are present or represented. The prior approval by the shareholders is not required if the company purchases the shares to offer them to the company's personnel.

In accordance with the Belgian Company Code, an offer to purchase shares must be made to all shareholders under the same conditions. This does not apply to the acquisition of shares via a regulated market or the acquisition of shares that has been unanimously decided by the shareholders at a meeting where all shareholders were present or represented. Shares can only be acquired with funds that would otherwise be available for distribution as a dividend to the shareholders. The total amount of shares held by the company can at no time be more than 10% of its share capital.

3.4.5. AUTHORIZED CAPITAL

On 29 April 2005, the general shareholders' meeting authorized the board of directors to increase the company's share capital in one or more transactions with a maximum amount that cannot exceed the amount of the company's share capital upon completion of the initial public offering and listing (excluding issuance premiums, if any).

The board of directors can use the above powers for any purpose or type of transaction that the board of directors shall belief appropriate or necessary in the interest of the company (such belief to be evidenced by the use by the board of directors of its powers) in one or more transactions with a maximum amount that cannot exceed 20% of the company's share capital upon completion of the initial public offering and listing (excluding issuance premiums, if any).

If the board of directors has already used its powers under the authorized capital to increase the company's share capital with an amount of 20% of the company's share capital upon completion of the initial public offering and listing (excluding issuance premiums, if any), any further use of the powers under the authorized capital shall be subject to the unanimous consent of all directors and only for the following transactions:

- the issuance of stock based remuneration or incentive plans, such as stock option plans, stock purchase plans or other plans, for directors, consultants and personnel of the company and its subsidiaries;
- the issuance of financial instruments in consideration of the acquisition of shares, assets and liabilities or combinations of shares, assets and liabilities of companies, undertakings, business and associations;
- the issuance of financial instruments in consideration of the acquisition of licenses, intellectual property rights or other rights on intellectual property (whether registered or unregistered intellectual property rights, or applications therefor), such as patents, copyrights, data base rights and design rights, and know-how or trade secrets; and
- the issuance of financial instruments in consideration of entering into partnerships or other business associations.

When using its powers under the authorized capital the board of directors can issue shares, with or without voting rights, warrants, convertible bonds or combinations thereof or other securities. The board of directors can increase the company's share capital through contributions in cash by existing shareholders using their preferential subscription right, as well as

through contributions in kind and contributions in cash with a limitation or cancellation of the preferential subscription right of the existing shareholders, even for the benefit of individuals that are not an employee of the company or its subsidiaries. The capital can also be increased through incorporations of reserves or issuance premiums.

The powers of the board of directors within the framework of the authorized capital will be effective upon the closing of the initial public offering and listing, and will be valid for a period of five years as of the publication thereof in the annexes to the Belgian Official Gazette.

3.5. WARRANTS

Devgen has created a number of warrants. The following sections provide an overview of the outstanding warrants at the date of this prospectus. The company intends also to create a new warrant plan after the completion of the initial public offering and listing. See also section 6.6.3.

3.5.1. WARRANTS FOR EMPLOYEES, DIRECTORS AND CONSULTANTS

The company created several warrants within the context of stock based incentive plans for employees, directors and consultants of the company and its subsidiaries. The respective plans are the following:

- On 27 September 1999, the extraordinary general shareholders' meeting created 888,320 warrants within the framework of a stock based incentive plan for employees of the company and its subsidiaries.
- On the same date, the extraordinary general shareholders' meeting created 486,000 warrants within the framework of a stock based incentive plan for directors of the company and consultants of the company and its subsidiaries.
- On 22 September 2000, the extraordinary general shareholders' meeting created 1,650,000 warrants, called "Warrants 2000", within the framework of a stock based incentive plan for directors, employees and consultants of the company and its subsidiaries.

The terms and conditions of these warrants have been amended by the general shareholders' meeting of 29 April 2005. Certain of these amendments will only become effective upon completion of Devgen's initial public offering and listing.

The relevant terms and conditions of the warrants that will be effective upon completion of Devgen's initial public offering and listing can be summarized as follows:

- *Issue date:* 27 September 1999 for the warrants created in 1999, and 22 September 2000 for the Warrants 2000.
- *Number of shares to be issued upon exercise of the warrants:* one share per warrant.
- *Form of the warrants:* all warrants are registered warrants.
- *Term of the warrants:* 10 years as of 27 September 1999 for the warrants created in 1999, and 10 years as of 22 September 2000 for the Warrants 2000.
- *Exercise period:* the warrants created in 1999 can be exercised between 1 and 14 May of each calendar year, whereas the Warrants 2000 can be exercised between 1 and 15 April, and between 16 and 30 September of each calendar year. The company's board of directors, respectively the company's nomination and remuneration committee can decide to extend or shorten the exercise periods or to provide for additional exercise periods.
- *Transferability of the warrants:* except in case of death of the warrant holder, the warrants are not transferable once the warrant holder has accepted them.
- *Exercise price of the warrants:* in accordance with the terms and conditions of the warrants created in 1999, the exercise price of the warrants must be equal to the real value of the shares at the moment of grant to the participant, as

will be determined by the company's board of directors upon unanimous advice of the statutory auditor. In accordance with the terms and conditions of the Warrants 2000, the exercise price of the warrants will be determined by the company's nomination and remuneration committee when granting the warrants to a participant in the plan, subject to the following limitations:

- if the company's shares are not listed or traded on a stock exchange, the exercise price cannot be lower than the real value of the shares at the moment of offer to the participant, as will be determined by the company's nomination and remuneration committee or its board of directors upon unanimous advice of the statutory auditor.

- if the company's shares are listed or traded on a stock exchange at the moment of offer, the exercise price of the warrants cannot be lower than either the average stock price of the company's shares during a term of 30 days (or any other relevant period) prior to the offer, or the last closing stock price preceding the day of grant.

- *Warrant price:* in addition to the exercise price of the warrants, the company's nomination and remuneration committee can determine that the participant to whom warrants are offered must pay an additional warrant price when accepting the warrants.

- *Vesting of the warrants:* when warrants are offered to a participant in the plan, the warrants are generally only definitively acquired ("vested") after a certain period after the grant and subject to certain conditions, such as that the participant has continued his mandate as director, or his employment or consultancy agreement. Subject to certain conditions, warrants can lapse in the event of termination of the director's mandate or employment or consultancy agreement of the participant. The company has under certain conditions a call option on vested or acquired warrants in the event of termination of the director's mandate or employment or consultancy agreement of the participant. The exercise price of the call option is equal to the warrant price. The call option is transferable.

- *Accelerated exercise of the warrants: i*n the event a third party, other than existing shareholders, acquires the control over the company, new warrants or options on the shares of the acquirer can be offered to the warrant holder. With respect to the warrants created in 1999, it is provided that if the warrant holder is offered new warrants or options and the company's board of directors is of the opinion that their terms are better than or equal to the terms of the warrants of the warrant holder, the company shall have the right to purchase the warrants at their warrant price. If the warrant holder is not offered such new warrants or options that are acceptable to the board of directors, the warrants shall become immediately exercisable within 15 days following the notice by the board of directors to the warrant holder of the acquisition of the control. With respect to the Warrants 2000, it is provided that if the participants are not offered new warrants or options on the shares of the acquirer of the control that are acceptable to the board of directors, the company's nomination and remuneration committee will determine whether or not the exercise of the Warrants 2000 will be accelerated. The accelerated exercise of the warrants will not apply in the event of a change of control of the company resulting from a capital increase or in connection with the initial public offering of the company's shares and listing on a regulated market such as Euronext Brussels.

- *Number of outstanding warrants:* the table below sets out the number of warrants that are still outstanding on the date of this prospectus. On 29 April 2005, the warrants have been combined into a smaller number of warrants via a reversed split at the ratio of one new warrant for 3 existing warrants.

	Outstanding warrants		
	Before combination	After combination	Exercisable until
Employee Warrants:			27 Sept. 2009
Granted and exercisable	488,750	162,926	
Granted and not yet exercisable	-	-	
Not yet granted and not yet exercisable	7,820	2,607	
Director and Consultant Warrants:			27 Sept. 2009
Granted and exercisable	436,895	145,636	
Granted and not yet exercisable	17,305	5,768	
Not yet granted and not yet exercisable	31,800	10,600	
Warrants 2000:			22 Sept. 2010
Granted and exercisable	810,260	270,126	
Granted and not yet exercisable	606,444	202,146	
Not yet granted and not yet exercisable	-	-	

The table below provides an overview of the warrants that have so far been granted and are, or can still become, exercisable on the date of this prospectus, together with the applicable exercise price of the warrants.

	Before combination		After combination	
	Number	Exercise price (€)	Number	Exercise price (€)
Employee Warrants:				
30 September 1999	357,500	0.38	119,176	1.14
31 August 2000	93,750	1.06	31,250	3.18
12 July 2000	37,500	0.93	12,500	2.79
	488,750		**162,926**	
Director and Consultant Warrants:				
30 September 1999	268,334	0.38	89,448	1.14
18 September 2000	52,866	1.06	17,622	3.18
17 July 2003	133,000	0.49	44,334	1.47
	454,200		**151,404**	
Warrants 2000:				
20 December 2000	445,386	1.06	148,479	3.18
12 October 2000	34,090	1.06	11,364	3.18
28 January 2002	245,728	0.97	81,918	2.91
17July 2003	130,500	0.49	43,507	1.47
26 July 2004	561,000	0.41	187,004	1.23
	1,416,704		**472,272**	

- *Administration of the warrant plans:* the company's nomination and remuneration committee or board of directors administers the warrant plans and can impose additional conditions when granting warrants to participants.

3.5.2. WARRANTS FOR RESEARCH PARTNERS

The company created several warrant plans within the framework of the research collaboration agreements that it entered into with some of its research partners. The respective plans are the following:

- *CSHL warrants:* On 21 December 1999, the extraordinary general shareholders' meeting created 26,812 warrants, called "CSHL warrants". The warrants were created within the framework of the research collaboration agreement between Cold Spring Harbor Laboratory and the company.
- *GHC warrants:* On the same date, the extraordinary general shareholders' meeting created 396,666 warrants, called "GHC warrants". The warrants were created within the framework of the patent license agreement between General Hospital Corporation and the company.
- *Schnabel warrants:* On the same date, the extraordinary general shareholders' meeting created 15,000 warrants, called "Schnabel warrants". The warrants were created within the framework of the patent assignment agreement between Professor Ralf Schnabel and the company. Pursuant to an agreement between Professor Schnabel and the company, Professor Schnabel acquired 15,000 shares, and all Schnabel warrants have been cancelled.
- *TLL warrants:* On 1 June 2004, the extraordinary general shareholders' meeting created 194,000 warrants, called "TLL warrants". The warrants were created within the framework of a research collaboration agreement between Temasek Life Sciences Laboratory Limited and the company.

The terms and conditions of these warrants have been amended by the general shareholders' meeting of 29 April 2005. Certain of these amendments will only become effective upon completion of Devgen's initial public offering and listing.

The relevant terms and conditions of the warrants that will be effective upon completion of Devgen's initial public offering and listing can be summarized as follows:

- *Issue date:* 21 December 1999 for the CSHL warrants and GHC warrants, and 1 June 2004 for the TLL warrants.
- *Number of shares to be issued upon exercise of the warrants:* one share per warrant.
- *Form of the warrants:* all warrants are registered warrants.
- *Term of the warrants:* 10 years as of 21 December 1999 for the CSHL warrants and GHC warrants, and 5 years as of 1 June 2004 for the TLL warrants.
- *Exercise period:* the warrants can only be exercised as of the first day of the month following the month during which the first listing or admission to trading of the company's shares on a regulated market or an official stock exchange occurred, or in the event a third party, other than existing shareholders, acquires the control over the company. Exercisable CSHL warrants and GHC warrants can only be exercised between 1 and 14 May of each calendar year. Exercisable TLL warrants can only be exercised between 1 and 15 April, and between 16 and 30 September of each calendar year. The company's board of directors can decide to extend or shorten the exercise periods or to provide for additional exercise periods.
- *Transferability of the warrants:* the warrant holder can transfer the warrants subject to the prior notice of the proposed terms of transfer and the approval by the company's board of directors. If the board of directors does not approve the transfer, it must find another transferee, or instruct the company to acquire the warrants, at the terms notified by the warrant holder. If the board of directors cannot find a substitute transferee or if the warrants are not purchased by the company or a substitute transferee within a term of 30 days following the notice by the transferee, or if the substitute transferee has not paid the purchase price for the warrants within an additional term of 30 days, the warrant holder can transfer the warrants in accordance with the initial terms notified to the board of directors. The board of directors

agreed to approve any transfer of CSHL and GHC warrants to researchers employed by the respective beneficiary research partners. The agreement with Temasek Life Sciences Laboratory Ltd. provides that the company will approve a transfer of TLL warrants to employees of TLL engaged in the research program between Temasek Life Sciences Laboratory Ltd. and the company.

- *Exercise price of the warrants:* the CSHL warrants have an exercise price of €3.03 per warrant, the GHC warrants have an exercise price of €1.14 per warrant, and the TLL warrants have an exercise price of €1.23 per warrant.
- *Grant of warrants:* the CSHL warrants, GHC warrants and TLL warrants can be granted by the company's board of directors to respectively Cold Spring Harbor Laboratory, General Hospital Corporation and Temasek Life Sciences Laboratory Ltd. subject to the achievement of certain milestones in the collaboration between the company and these respective parties.
- *Accelerated exercise of the warrants:* in the event a third party, other than existing shareholders, acquires the control over the company, new warrants or options on the shares of the acquirer can be granted to the warrant holder. If the warrant holder is offered new warrants or options and the company's board of directors is of the opinion that their terms are better than or equal to the terms of the warrants of the warrant holder, the company shall have the right to purchase the warrants at the warrant price. If the warrant holder is not offered such new warrants or options that are acceptable to the board of directors, all warrants shall become immediately exercisable within 15 days following the notice by the board of directors to the warrant holder of the acquisition of the control. This accelerated exercise of the warrants will not apply in the event of a change of control of the company resulting from a capital increase or in connection with the initial public offering of the company's shares and listing on a regulated market, such as Euronext Brussels.
- *Number of outstanding warrants:* the schedule below sets out the number of warrants that are still outstanding on the date of this prospectus. On 29 April 2005, the warrants have been combined into a smaller number of warrants via a reversed split at the ratio of one new warrant for 3 existing warrants.

	Outstanding warrants			
	Before combination	After combination	Exercisable until	Exercise price after combination
CSHL warrants:			21 Dec. 2009	3.03
Granted and exercisable	26,812	8,938		
Not yet granted and not yet exercisable	-	-		
GHC warrants:			21 Dec. 2009	1.14
Granted and exercisable	158,666	52,889		
Not yet granted and not yet exercisable	238,000	79,334		
TLL warrants:			1 June 2009	1.23
Granted and exercisable	-	-		
Not yet granted and not yet exercisable (1)	194,000	64,667		

Notes:

(1) 48,000 TLL warrants will be granted by the company to Temasek Life Sciences Laboratory Ltd. in the course of June 2005.

3.6. OUTSTANDING FINANCIAL INSTRUMENTS

The table below provides an overview of the issued and outstanding voting financial instruments, whether or not representing the company's share capital, issued by Devgen prior to the initial public offering and listing. This overview must be read together with the notes referred to below.

		Prior to the IPO [1]
(A)	Shares	**9,863,420**
(B)	Shares to be issued upon exercise of warrants that are exercisable:	
	• Warrants for employees [2]	162,926
	• Warrants for director and consultant [2]	145,636
	• CSHL warrants [3]	8,938
	• GHC warrants [3]	52,889
	• Warrants 2000 [2]	270,126
	• TLL warrants [3]	-
	Sub-total	**640,515**
	Total (A)+(B)	**10,503,935**
(C)	Shares to be issued upon exercise of warrants that are not yet exercisable:	
	• Warrants for employees [2]	2,607
	• Warrants for director and consultant [2]	16,368
	• CSHL warrants [3]	-
	• GHC warrants [3]	79,334
	• Warrants 2000 [2]	202,146
	• TLL warrants [3]	64,667
	Sub-total	**365,122**
	Total (A)+(B)+(C)	**10,869,057**

Notes:

(1) The number of outstanding shares takes into account the reversed stock split or share combination at the ratio of one new share for 3 existing shares. The same combination applies to the warrants. The combination has been approved by the general shareholders' meeting on 29 April 2005.

(2) The warrants for employees and the warrants for directors have a term of 10 years as of their creation on 27 September 1999. The Warrants 2000 have a term of 10 years as of their creation on 22 September 2000. For further information see section 3.5.1.

(3) The CSHL warrants and GHC warrants have a term of 10 years as of their creation on 21 December 1999. The TLL warrants have a term of 5 years as of their creation on 1 June 2004. The warrants that have already been granted, will become exercisable upon completion of the offering and listing of the company's shares. In the course of 2005, 48,000 TLL warrants will be granted. These 48,000 warrants are not included in the number of TLL warrants under (B), but in the number of TLL warrants under (C). For further information see section 3.5.2.

3.7. SHAREHOLDERS

3.7.1. SHAREHOLDERS PRIOR TO THE COMPLETION OF THE OFFERING AND LISTING

The table below provides an overview of the shareholders of the company prior to the completion of the initial public offering and listing. The overview must be read together with the notes referred to below.

	Shares [1]		Warrants [2]		Total shares and warrants	
	Number	%	Number	%	Number	%
(A) Executive management: [3] [4] [5]						
Thierry Bogaert	525,001	5.32%	-	-	525,001	4.83%
Other executive management members	79,500	0.81%	77,168	7.76%	156,668	1.44%
Subtotal	**604,501**	**6.13%**	**77,168**	**7.76%**	**681,669**	**6.27%**
(B) Board [3] [5]						
Subtotal	**-**	**-**	**131,001**	**13.03%**	**131,001**	**1.21%**
(C) Institutional shareholders: [3]						
Abingworth Bioventures II (ABV II) SICAV	2,333,667	23.66%	-	-	2,333,667	21.47%
GIMV NV	1,169,167	11.85%	-	-	1,169,167	10.76%
Biotech Fonds Vlaanderen NV	1,335,834	13.54%	-	-	1,335,834	12.29%
Polytechnos Genomics (GP) Ltd.	624,213	6.33%	-	-	624,213	5.74%
Life Sciences Partners	500,000	5.07%	-	-	500,000	4.60%
Mercator & Noordstar NV	500,000	5.07%	-	-	500,000	4.60%
ING Belgium NV	417,084	4.23%	-	-	417,084	3.84%
ING Insurance NV	416,667	4.22%	-	-	416,667	3.83%
Rendex NV	416,667	4.22%	-	-	416,667	3.83%
KBC Investco NV	333,334	3.38%	-	-	333,334	3.07%
Other institutional investors	681,210	6.91%	90,813	9.03%	772,023	7.10%
Subtotal	**8,727,843**	**88.49%**	**90,813**	**9.03%**	**8,818,656**	**81.14%**
(D) Others [3] [4]						
Subtotal	**531,076**	**5.38%**	**549,447.0**	**54.64%**	**1,080,523**	**9.94%**
(E) Warrants still available for offering						
Subtotal	**-**	**0.00%**	**157,208.0**	**15.63%**	**157,208**	**1.45%**
Total (A)+(B)+(C)	9,332,344	94.62%	298,982	29.73%	9,631,326	88.61%
Total (A)+(B)+(C)+(D)+(E)	9,863,420	100.00%	1,005,637	100.00%	10,869,057	100.00%

Notes:

(1) The number of outstanding shares takes into account the reversed stock split at the ratio of one new share for 3 existing shares. The combination has been approved by the general shareholders' meeting on 29 April 2005.

(2) The number of outstanding warrants takes into account the warrant combination at the ratio of one new warrant for 3 existing warrants. This is the same ratio as was applied in connection with the reversed stock split referred to in note (1). For an overview of the warrants created by the company, reference is made to section 3.5.

(3) Certain shareholders and warrant holders referred to under (A), (B), (C) en (D) have entered into a separate arrangement with respect to the lock-up of their shares. For a description of this arrangement, see section 2.18.

(4) Thierry Bogaert and Hilde Windels have granted the lead manager with an over-allotment option on 52,500 of his existing shares, respectively 9,333 of her existing shares. Certain other shareholders' referred to in (D) have granted the lead manager with an over-allotment option on an aggregate of 39,623 of their shares.

(5) For a detailed overview of the shares and warrants of the directors and executive management, see also sections 6.6.1 and 6.6.2 of chapter 6.

3.7.2. SHAREHOLDERS AFTER COMPLETION OF THE OFFERING AND LISTING

The table below provides an overview of the shareholders of the company after the completion of the initial public offering and listing.

The number of outstanding shares and warrants after the completion of the offering and listing assumes that the offering of €30 million has been fully subscribed, and that the green shoe option has been fully exercised in an amount of up to €4.5 million, whereby all 101,456 existing shares that are subject to the over-allotment option have been sold and whereby the balance of the shares subject to the over-allotment warrant has been issued by the company.

As the final offering price is not yet known, the overview contains a simulation for the following hypotheses:

- The hypothesis that the new shares are issued at €8 per share: in that event, 3,750,000 new shares are issued in the offering (assuming that the offering is fully subscribed), and 461,044 new shares are issued upon exercise of the over-allotment warrant (assuming that the over-allotment warrant is fully exercised).
- The hypothesis that the new shares are issued at €10 per share: in that event, 3,000,000 new shares are issued in the offering (assuming that the offering is fully subscribed), and 348,544 new shares are issued upon exercise of the over-allotment warrant (assuming that the over-allotment warrant is fully exercised).
- The hypothesis that the new shares are issued at €12 per share: in that event, 2,500,000 new shares are issued in the offering (assuming that the offering is fully subscribed), and 273,544 new shares are issued upon exercise of the over-allotment warrant (assuming that the over-allotment warrant is fully exercised).
- The hypothesis that the new shares are issued at €14 per share: in that event, 2,142,857 new shares are issued in the offering (assuming that the offering is fully subscribed), and 219,972 new shares are issued upon exercise of the over-allotment warrant (assuming that the over-allotment warrant is fully exercised).

The simulation is merely for information purposes only. The hypothetical offering prices are no indication and do not express an expectation as to the final offering price of the offered shares. Prospective investors should note that the final offering price could be higher or lower than the hypothetical prices set out in the overview below. If the final offering price is higher, fewer new shares will be issued, assuming that offering is fully subscribed and the over-allotment warrant is fully exercised. If the final offering price is lower, more new shares will be issued, assuming that offering is fully subscribed and the over-allotment warrant is fully exercised.

Furthermore, prospective investors should note that it is possible that the offering is not fully subscribed to for the amount of €30 million or that the green shoe option is not fully exercised in an amount of up to €4.5 million. If the offering is not fully subscribed, fewer new shares will be issued (unless the offering is cancelled). If the green shoe option is not fully exercised, it is possible that the over-allotment option is only exercised on existing shares (in that event no additional new shares are issued) or on fewer new shares (assuming that the over-allotment option is at least exercised on the existing shares).

The overview must be read together with the notes referred to below.

	Total shares and warrants after the offering									
	Total shares and warrants before the offering (1)		Offering price of €8		Offering price of €10		Offering price of €12		Offering price of €14	
	Number	%	Number	%	Number	%	Number	%	Number	%
(A) Executive management										
Thierry Bogaert	525,001	4.83%	472,501	3.13%	472,501	3.32%	472,501	3.46%	472,501	3.57%
Other executive management members	156,668	1.44%	147,335	0.98%	147,335	1.04%	147,335	1.08%	147,335	1.11%
Subtotal	**681,669**	**6.27%**	**619,836**	**4.11%**	**619,836**	**4.36%**	**619,836**	**4.54%**	**619,836**	**4.68%**
(B) Board										
Subtotal	**131,001**	**1.21%**	**131,001**	**0.87%**	**131,001**	**0.92%**	**131,001**	**0.96%**	**131,001**	**0.99%**
(C) Institutional Investors										
Abingworth Bioventures II (ABV II) SICAV	2,333,667	21.47%	2,333,667	15.48%	2,333,667	16.41%	2,333,667	17.11%	2,333,667	17.64%
GIMV NV	1,169,167	10.76%	1,169,167	7.75%	1,169,167	8.22%	1,169,167	8.57%	1,169,167	8.84%
Biotech Fonds Vlaanderen NV	1,335,834	12.29%	1,335,834	8.86%	1,335,834	9.40%	1,335,834	9.79%	1,335,834	10.10%
Polytechnos Genomics (GP) Ltd.	624,213	5.74%	624,213	4.14%	624,213	4.39%	624,213	4.58%	624,213	4.72%
Life Sciences Partners	500,000	4.60%	500,000	3.32%	500,000	3.52%	500,000	3.66%	500,000	3.78%
Mercator & Noordstar NV	500,000	4.60%	500,000	3.32%	500,000	3.52%	500,000	3.66%	500,000	3.78%
ING Belgium NV	417,084	3.84%	417,084	2.77%	417,084	2.93%	417,084	3.06%	417,084	3.15%
ING Insurance NV	416,667	3.83%	416,667	2.76%	416,667	2.93%	416,667	3.05%	416,667	3.15%
Rendex NV	416,667	3.83%	416,667	2.76%	416,667	2.93%	416,667	3.05%	416,667	3.15%
KBC Investco NV	333,334	3.07%	333,334	2.21%	333,334	2.34%	333,334	2.44%	333,334	2.52%
Other institutional investors	772,023	7.10%	772,023	5.12%	772,023	5.43%	772,023	5.66%	772,023	5.83%
Subtotal	**8,818,656**	**81.14%**	**8,818,656**	**58.48%**	**8,818,656**	**62.03%**	**8,818,656**	**64.64%**	**8,818,656**	**66.65%**
(D) Others										
Subtotal	**1,080,523**	**9.94%**	**1,040,900**	**6.90%**	**1,040,900**	**7.32%**	**1,040,900**	**7.63%**	**1,040,900**	**7.87%**
(E) Warrants still available for offering										
Subtotal	**157,208**	**1.45%**	**157,208**	**1.04%**	**157,208**	**1.11%**	**157,208**	**1.15%**	**157,208**	**1.19%**
(F) Free Float										
Offering	-	0.00%	3,750,000	24.87%	3,000,000	21.10%	2,500,000	18.32%	2,142,857	16.19%
Over-allotment option existing shares	-	0.00%	101,456	0.67%	101,456	0.71%	101,456	0.74%	101,456	0.77%
Over-allotment option new shares	-	0.00%	461,044	3.06%	348,544	2.45%	273,544	2.01%	219,972	1.66%
Subtotal	**-**	**0.00%**	**4,312,500**	**28.60%**	**3,450,000**	**24.27%**	**2,875,000**	**21.07%**	**2,464,285**	**18.62%**
Grand Total	**10,869,057**	**100.00%**	**15,080,101**	**100.00%**	**14,217,601**	**100.00%**	**13,642,601**	**100.00%**	**13,231,886**	**100.00%**

Notes:

(1) The number of outstanding shares and warrants before the completion of the offering and listing is based on the overview set out in section 3.7.1, and takes into account (amongst other things) the reversed stock split and warrant combination that was approved by the general shareholders' meeting of 29 April 2005.

3.8. NOTIFICATION OF IMPORTANT PARTICIPATIONS

The Belgian Company Code and the company's articles of association provide that each natural person or legal entity acquiring or transferring shares or other financial instruments of the company that entitle the holder thereof to voting rights, whether or not representing the company's share capital (such as warrants or convertible bonds, if any), must, within two business days following the transaction, notify the company and the BFIC of the total number of voting financial instruments held by him each time where as a result of the acquisition or transfer the total number of voting financial instruments held by him after the transaction exceeds or falls below a threshold of 3%, 5%, 10% or 15% (or every subsequent multiple of 5%) of the total number of voting financial instruments of the company at the moment of the transaction. If the number of voting financial instruments held by him is equal to or in excess of 20 %, the notification must also contain a description of the policy in the framework of which the acquisition or transfer takes place, as well as how many voting financial instruments have been acquired over the last 12 months, and in which manner.

All persons acting individually must make the notification. It must also be made by affiliated persons or persons acting in concert with respect to the holding, acquisition or transfer of voting financial instruments. In that event, the voting financial instruments of the affiliated persons or persons acting in concert must be combined for the purpose of determining whether a threshold is passed. Persons that individually or jointly transfer or acquire the legal or factual control over a person holding 3% or more of the voting rights of the company must also notify this to the company and the BFIC.

The forms to make the aforementioned disclosures, as well as further explanations can be found on the website of the BFIC (www.cbfa.be). Upon receipt of a disclosure notice, the company has a term of one business day to publish the notice in the official notices of Euronext Brussels. In addition, the company must disclose in its annual report an overview of its important shareholders based on the disclosure notices that it has received.

The BFIC and the commercial court can suspend voting rights attached to voting financial instruments that have not been disclosed in accordance with the foregoing provisions. In addition, the president of the commercial court can also order the sale of the financial instruments to a third party. In any event, shareholders cannot vote at shareholders' meetings with more voting rights than they have notified in accordance with the above rules at least 20 days prior to a shareholders' meeting.

3.9. PUBLIC TAKEOVER BIDS AND PROVISIONS HAVING AN ANTI-TAKEOVER EFFECT

Public takeover bids on the company's shares and other voting financial instruments (such as warrants or convertible bonds, if any) are subject to the supervision by the BFIC. If the BFIC determines that the takeover bid constitutes an infringement of the provisions of Article 15 of the Belgian Act of 2 March 1989, or the regulations promulgated thereunder and prejudices the rights of the holders of the company's voting financial instruments, it may suspend the takeover bid for a maximum term of 72 hours and request the president of the commercial court to prohibit the bid and suspend the exercise of the rights attached to any shares that were acquired in the bid.

Public takeover bids must be made for all of the company's voting financial instruments, as well as for all other financial instruments that entitle the holders thereof to the subscription to, the acquisition of or the conversion in voting financial instruments. Prior to making a bid, a bidder must issue and disseminate a prospectus, which must be approved by the BFIC. Prior to the takeover bid, the bidder must also obtain approval of the relevant competition authorities, where such approval is legally required for the acquisition of the company.

In the event that a natural person or legal entity, alone or in concert with others, intends to acquire a controlling interest through one or several transactions relating to the company's financial instruments, he must notify the BFIC of the

contemplated transaction at least five business days before the completion of the transaction. If the price of the contemplated transfer is higher than the market price on the moment of the acquisition, the acquirer must offer to all other shareholders the opportunity to sell their financial instruments at the same price (if the controlling interest is acquired through a single acquisition of financial instruments) or at the highest price offered by the acquirer for the company's financial instruments during the twelve months preceding the acquisition of the controlling interest (if the controlling interest is acquired through several acquisitions of financial instruments). The acquirer must give the other holders of financial instruments this opportunity within 30 business days after the acquisition of the controlling interest either in the form of a public takeover bid, or, under certain conditions, pursuant to an undertaking to support the stock price on the stock exchange where Devgen's shares will then be listed.

In addition, there are several provisions of Belgian company law and certain other provisions of Belgian law, such as the obligation to disclose important shareholdings (see under 3.8) and merger control, that may apply to the company and which may make an unfriendly tender offer, merger, change in management or other change in control, more difficult.

These provisions could discourage potential takeover attempts that other shareholders may consider to be in their best interest and could adversely affect the market price of the company's shares. These provisions may also have the effect of depriving the shareholders of the opportunity to sell their shares at a premium.

4. DEVGEN'S ACTIVITIES

4.1. INTRODUCTION

Devgen is a biotechnology company focused, in the short term, on discovering and developing and, in the longer term, on commercializing:

- a novel generation of biotech solutions to protect a wide spectrum of crops from damage incurred from pests;
- a safer and more environmentally friendly chemical solution to protect crops from damage inflicted by plant parasitic nematodes; and
- novel therapeutic concepts and preclinical drug candidates for treatment of metabolic disease (diabetes, obesity, arrhythmia).

Each of these solutions are developed on a platform of in-house designed research and development programs and technologies.

4.2. HISTORY

Devgen was founded in 1997, is headquartered in Ghent, Belgium and maintains a subsidiary in Singapore. The company currently employs 91 people. Since its incorporation, Devgen has raised €36.8 million through three separate private equity financings, following the seed financing. To date, the company generated €39 million in revenue and has entered into 11 partnerships, of which the most important are the FMC Corporation and Sumitomo Chemical Company collaborations focused on insecticide discovery and the collaborations with Pioneer Overseas Corporation and Monsanto Company on biotech traits for selected pests on corn, cotton and soy. Its revenues in 2004 amounted to €9.4 million, its net burn rate 2004 was €4.8 million and its year-end cash position €10.6 million (of which €2.1 million is restricted cash).

Devgen was founded as a technology platform company using the model organism Caenorhabditis elegans. *C. elegans* is a small nematode that can be used as a powerful experimental tool to unravel biological processes. Use of this organism to study biology has led to a deeper understanding of human diseases and new concepts for therapeutic intervention as well as to the discovery of a novel mechanism for gene regulation, "RNA interference" or "RNAi", which has significant pharmaceutical and agricultural applications.

In the late 90's, Devgen developed the use of *C. elegans* into a discovery tool for the pharmaceutical and crop protection industries by developing a technology portfolio to identify drug targets and solutions for compound screening. In addition, the company developed the concept of using the RNAi mechanism to provide a new generation of biotech crop protection solutions. Starting from its original edge in genomics, Devgen has progressively evolved its organization and technology base to build product-oriented programs.

The company complemented its *C. elegans* platform with advanced genomics and protein technologies, high-throughput screening and biology and medicinal chemistry capabilities to support focused product design and development for the agro-chemical, seed and pharmaceutical industries.

In 2003, Devgen organized its agricultural and pharmaceutical businesses in two separate business units: Devgen Crop Protection and Devgen Human Therapeutics, each with its own strategy and product focus.

In 2004, Devgen incorporated Devgen Pte. Ltd., a fully owned subsidiary based in Singapore, focusing on control of fungal disease in plants.

Since the company was founded, it has consistently executed its business plan. The following milestones represent the type of progress the company has made since its incorporation:

Date	Company milestones
September 1997	Devgen is founded and raises in December 1997 €1.92 million through a private placement.
August 1998	Devgen raises €5.55 million through a private placement.
April 1998	Devgen enters into a one-year collaboration with Janssen Pharmaceutica, a subsidiary of Johnson & Johnson.
October 1999	Devgen raises €23.0 million through a private placement.
November 1999	FMC Corporation and Devgen announce a non-exclusive multi-million dollar insecticide discovery agreement.
July 2000	Devgen raises €6.3 million in a follow-on round of financing. This was the company's third round of private financing increasing shareholder investment to €36.8 million.
June 2001	Devgen strengthens its diabetes research via collaboration with Metabolex in the US. The two companies work successfully together to identify the mode of action and activity of novel compounds for diabetes.
July 2001	Devgen is granted three patents that cover its C. elegans drug target and compound discovery technology. These patents are key to the development of Devgen's technology and its in-house research programs.
September 2001	Devgen and FMC Corporation announce the extension of collaboration in the field of insecticide discovery. Devgen enters into an expanded five-year non-exclusive collaboration with FMC Corporation in the field of insecticide discovery.
February 2002	Devgen completes the first C. elegans genome-wide RNAi feeding library as a tool for high throughput identification and validation of drug and pesticide targets.
July 2002	Devgen announces a target validation collaboration with Genentech to validate the function of novel drug targets.
December 2002	Devgen is awarded a €2.4 million technology development grant from the Flemish Government for ion channel research to support its unique capabilities in valuable therapeutic, but difficult to screen, targets.
May 2003	Devgen and Sumitomo Chemical Company announce a three-year crop protection research collaboration to develop novel insecticides. Devgen receives a significant upfront payment and will receive research funding. The collaboration also includes performance-based milestone payments and royalty payments.
June 2003	Devgen successfully completes a target validation collaboration with Genentech, Inc., delivering prioritized oncology targets.
November 2003	Devgen is awarded a €1.9 million technology development grant from the Flemish Government to further develop its technology to identify the mechanism of action (molecular target) of therapeutic compounds.
December 2003	Devgen signs a collaboration in nematode control with Pioneer Overseas Corporation. In addition to a significant upfront payment and research funding, the collaboration includes performance-based milestone payments and royalty payments.
February 2004	Devgen and an undisclosed pharmaceutical company initiate a collaboration to investigate the role of candidate targets in signaling pathways.
February 2004	Patent applications are filed for two chemical series with activity against targets relevant to metabolic disease.
February 2004	Incorporation of Devgen Pte. Ltd., a fully owned Devgen subsidiary based in Singapore, focusing on control of fungal disease in plants.
March 2004	Devgen moves into its new facilities in Ghent, Belgium.
May 2004	Devgen signs a collaboration in insect control with Monsanto Company. In addition to upfront payments and research funding, the collaboration includes performance-based milestone payments and royalty payments.
June 2004	Devgen successfully completes a nutraceuticals program with an undisclosed party designed to evaluate potential nutrient additives for weight control in animals.

Source: Devgen

4.3. STRATEGY

The company's growth strategy is focused on selective product opportunities in three distinct areas: biotech crop protection, control of nematodes and the metabolic disease area, each of which represents a significant market in need of better products.

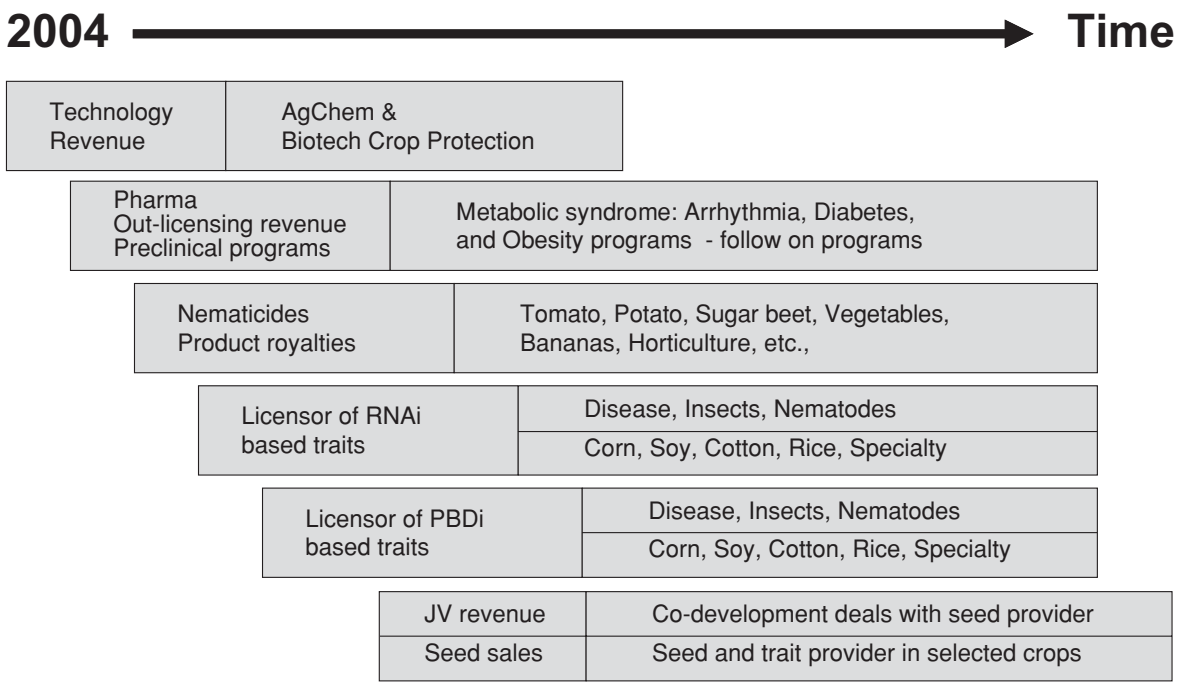
Key elements underpinning this strategy include:

- a broad portfolio of innovative core technologies and product oriented programs driven by a strong science and business team;
- selected product opportunities all of which have their foundation in a specific competitive edge in the company's technology or intellectual property;
- investments focused on strengthening key IP positions, expanding downstream discovery and development capabilities and a portfolio of research programs targeted at specific product opportunities; and
- a hybrid business model that provides an appropriate balance between revenue generation and aggressive investment in its own products, and that has, so far, resulted in a managed burn rate and a retained high potential upside: some technologies and product opportunities are partnered at an early stage, generating revenue, market access for Devgen's technology as well as industry validation for the company's vision and technology. Other technologies and product opportunities are retained in house for future partnering at increased value or for product development.

To implement its strategy Devgen intends to focus on

- advancing existing projects based on its core technologies to discover new product candidates;
- establishing additional strategic partnership with companies that are interested in accessing the results of its research and development programs; and
- establishing additional strategic partnerships with companies to increase the company's downstream value capture on its technologies and products.

Outline of Devgen's revenue and corporate plan



Source: Devgen

4.3.1. BIOTECH CROP PROTECTION

Devgen's mission is to build a company with a broad platform of biotech crop technologies and a crop protection trait portfolio and pipeline that is competitive with, or a preferred provider for, today's major players in the agro-biotech crop field and to leverage this position to capture a significant fraction of the global biotech crop market. Biotech crop protection is an emerging $5 billion industry, which is expected to double in size by 2010.

Devgen's edge lies in its RNAi and PBDi technology-based approaches that enable target based, rational design of selective and potent traits to control pests and diseases in crops. Devgen believes that these technologies may provide the next generation of biotech crop protection solutions.

To commercialize its technology and traits, the company intends to adopt business models suited to each crop and geographic area:

- in established biotech crop markets (corn, cotton, soy), where technology trait and seed access is already consolidating, the company targets to be a technology and trait provider to existing or emerging players. In this context, the company concluded research collaborations and licensing deals for one of its technologies with industry leaders Monsanto Company and Pioneer Overseas Corporation; and
- in emerging biotech crop markets, the company's strategy is oriented towards becoming itself a trait provider in some markets and a crop and biotech crop seed provider in other selected areas.

The company intends to progressively introduce its technology and the traits it develops, in more and more pest/crop combinations. To execute this strategy, the company is investing in research capabilities and a product pipeline to deliver its own biotech crop protection traits in a range of crops including rice, vegetables and some row crops for future partnering. In selected crops, the company furthermore intends to access traits to complement its pest and disease resistance portfolio and germ-plasm to capture more of the value chain.

The company intends to build its revenue stream through a combination of upfront payments, research funding, R&D and commercial milestone payments, royalties and where possible, seed co-development, distribution and sales agreements.

Of its different opportunities, Devgen believes that biotech crop protection represents the opportunity in which the company has the best competitive edge and the largest opportunity.

4.3.2. NEMATICIDES

The company's first products to potentially reach the market from 2009 - 2010 onwards, are in-house designed agrochemical formulations for control of plant parasitic nematodes on food, fruit and horticultural crops, which the company believes to be safer and more environmentally friendly than existing solutions.

Plant parasitic nematodes are estimated to cause $80 billion damage annually to crops. Current nematicide treatments are under increasing pressure from the regulatory agencies because of negative environmental properties. Their use is therefore restricted or banned or threatened to be restricted or banned, in a large number of markets. A safe effective and appropriately priced treatment has the potential to significantly substitute current treatments (a market of over $500 million of annual sales) as well as to capture new market segments by providing solutions in areas that are currently no longer treated because of safety and cost reasons.

The company's edge in this field is derived from combining its knowledge of nematode biology with the know-how in using *C. elegans* as a model for insecticide discovery, which Devgen developed for and in the course of its technology collaborations with agrochemical partners including FMC Corporation, Sumitomo Chemical Company and others. Devgen thus identified effective nematicidal activity in existing agrochemical products with a safety profile that is likely to be acceptable to the regulatory authorities. The company filed patents on the use of these products as nematicides, is developing proprietary formulations and is conducting field trials in a range of European countries and crops. The company

intends to gain market access through distribution partners who have market access in specific crops and geographic areas.

This program is expected to require limited investment (approximately €12 million budgeted over the next three years), most of which occurs after demonstrating field efficacy and which includes product registration support. This program has the potential to provide significant medium and long-term revenue streams in the form of 25% royalties on sales (numbers typical in the industry for relationships with distribution partners). These proceeds may support aggressive investments in the company's biotech crop protection business.

4.3.3. METABOLIC DISEASE

Starting from its original edge in genomics, Devgen's human therapeutics unit has developed an organization capable of identifying, validating and screening novel targets, as well as optimizing lead compounds for the treatment of metabolic disease including diabetes, obesity and arrhythmia.

Obesity, diabetes and arrhythmia each represent growing markets in need of innovative and effective therapies. In each of these areas, Devgen exploited the conservation of physiological processes between nematode and man, in combination with its *C. elegans* technology, disease biology and in-house medicinal chemistry platforms to establish a pool of opportunities. Three of these programs, each with their own unique and novel concept and competitive edges in biology and chemistry, are currently in lead optimization towards preclinical candidates. Each of Devgen's programs is in a market segment where a successful drug is likely to achieve over $1 billion in sales, on which Devgen, if successful, may be eligible for substantial annual royalties (in addition to significant preclinical and clinical milestone payments).

The industry has a scarcity of novel concepts and preclinical and clinical programs in these disease areas and is increasingly in-licensing programs prior to clinical development, but after these programs have reached proof of concept in animal models of the disease. In the medium term, the company therefore expects to be able to offer selected programs for out-licensing against significant upfront payments and providing significant upside in the form of potential milestone and royalty payments. Devgen's human therapeutics unit is at present budgeted to require only limited investment (€8 million over the next three years) to potentially develop its programs up to such an out-licensing point. From then onwards, Devgen's human therapeutics unit may be able to finance its own follow-on programs and should be in a position to execute a growth strategy that may include M&A or separate financing.

4.4. TECHNOLOGY

4.4.1. INTRODUCTION

Both the pharmaceutical and the crop protection industry have a constant need to bring new products to the market. In order to sustain their growth and financial health, pharmaceutical companies are constantly looking for new breakthrough medicines. In the crop protection industry, the need for new products is high as well, firstly because many crop pests develop resistance to specific products and secondly because society is requiring a new generation of crop protection products that are safer for man and non-target organisms (for example kill pests but not bees and butterflies). This results in a strong need for innovation.

The discovery processes for human therapeutics and crop protection products have a number of parallels: the pharmaceutical and crop protection industry are both based on modulating a physiology of an organism (man or pest) by administering chemical compounds or other biologically active molecules (protein, RNA, etc.).

Drugs exert their therapeutic effect by increasing or decreasing the activity of a valid "drug target" in the patient without creating side effects. Validated drug targets are human proteins whose modulation leads to improvements in a specific disease state without causing deleterious effects in other physiological processes. Some disease areas are "target rich"

while in other areas, including metabolic disease, few valid drug targets are known and few are likely to exist (because intervening in a process as fundamental as the metabolism, is difficult to achieve without causing side-effects).

Crop protection products kill a pest species by increasing or decreasing the activity of a target protein in the pest concerned. Valid targets are proteins that have an activity essential for the life of the pest species but have no or limited effect in other species. Modulation of the target should kill only selected species (for example insects that damage crops) and not kill "beneficial insects" or damage other organisms in the environment (such as insect eating-birds, or other animals, plants or man).

Finding novel, safe and effective pest and drug targets is a challenge for the industry and one of the bottlenecks in the discovery process.

After identification of a valid drug or pest target, assays are needed to screen for target modulators (the active ingredient in drugs or crop protection products) and to subsequently improve them (make them more effective and safe).

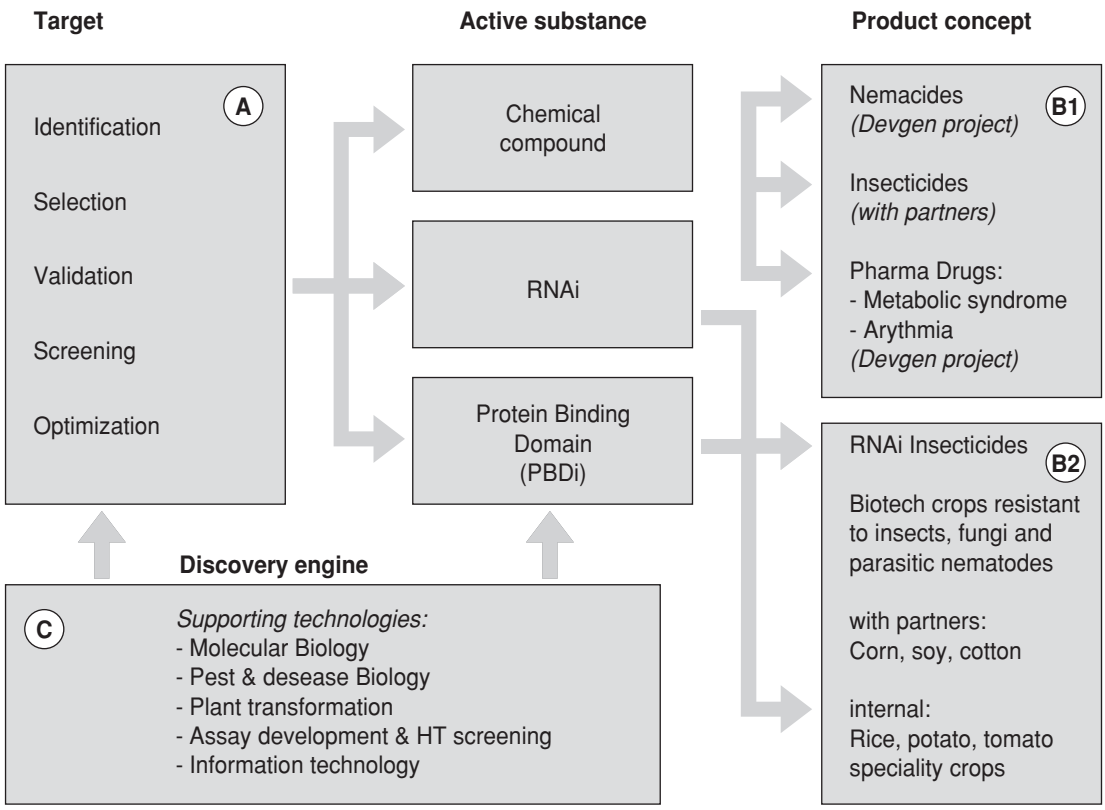
A pest or drug target can be modulated through different means. Different technologies can be used to obtaining modulation of the activity of a targets protein in an organism:

- The organism can ingest a small molecule compound orally or absorb it through the skin. The compound is distributed in the body and binds tightly and specifically to the drug or pesticide target, thereby inhibiting its function. Examples are human drugs and pesticides.
- The organism can ingest (or be injected with) a protein therapeutic or protein pesticide. Like the small molecule compound, the protein therapeutic binds a specific protein target in the organism, thereby inhibiting its function. Examples of protein therapeutics are recombinant insulin for treatment of diabetes or EPO for treatment of blood disorders. An example of a protein insecticide is Bt-toxin, a protein that is toxic to insects upon ingestion. It is either administered as a spray (on ponds where it is eaten by mosquito larvae) or produced by the leaves or roots of a crop plant and eaten by root or leaf eating insects. Antibodies, targeting a crucial protein in the organism, can also be used as protein therapeutics or protein pesticides.
- A third means of inhibiting a protein's activity is by preventing the production of the protein in a cell. This can be achieved by destroying the messenger RNA (mRNA) transcript that encodes for the corresponding protein. Devgen uses the RNA interference (RNAi) technology to achieve this. This concept is further explained below.

4.4.2. DESCRIPTION OF DEVGEN TECHNOLOGY

Devgen's technology portfolio includes solutions supporting drug and crop protection product discovery and development. After identification of a drug target (see section 4.4.2.A. below), assays are needed to screen for target modulators (compound, protein or RNAi) and to subsequently improve them (make them more effective and safe). Devgen has a suite of technologies and expertise to identify targets, build assays, create "target modulators" and deliver improved candidate molecules. These active substances form the basis for further development of new pharmaceuticals and agrochemicals (see section 4.4.2.B1. below) or pest and disease resistant biotech crops (see section 4.4.2.B2. below). The company's discovery engine supports this process (see section 4.4.2.C. below).

Overview of Devgen technologies and products



Source: Devgen

A: Finding validated targets for crop protection and human therapeutics

a. RNAi technology

Initially, Devgen was focused on the use of the model organism *C. elegans* as a tool to identify therapeutic and pesticide targets. Devgen has subsequently complemented this with pest species and human disease knowledge and assays, resulting in an integrated platform for target discovery and validation.

C. elegans is a small nematode worm that, as a research model, offers unique benefits over traditional animal models or biochemical in vitro approaches in drug and crop protection chemical discovery. Its utility is accepted by the scientific community worldwide as illustrated by multiple scientific breakthroughs made possible by using *C. elegans* as a biological model. This includes the discoveries relating to genetic regulation of organ development and programmed cell death for which Brenner, Sulston & Horvitz received the Nobel Prize in Physiology in 2002 and the discovery of the RNAi process and apoptosis by Fire and Mello in 1998. The main reason for the broad utility of this model organism is the conservation of biochemical pathways throughout evolution (implying that many pathways have remained identical or similar between *C. elegans* and humans) combined with the convenient handling and analysis of this microscopic, transparent animal and the ease with which individual genes can be "turned off". In *C. elegans* this can be done by creating mutations through classical genetics means or by reducing gene function through RNAi knockdown.

RNAi is a widespread mechanism to down-regulate ("knock-down") gene expression of invading genetic material and thus effectively works as an intrinsic defense mechanism against foreign genetic material. The approach of feeding *C. elegans* with *E. coli* bacteria expressing a double-stranded RNA ("dsRNA") of choice will result in the uptake of these molecules into most cells. In the cell, dsRNA is efficiently used by the cellular defense machinery to knockdown its cognate messenger RNA (mRNA). Devgen built proprietary libraries of *E. coli* bacteria each producing dsRNA

corresponding to a specific *C. elegans* gene. These *E. coli* are fed to *C. elegans* disease models in specific assays (different for different applications) and the physiological effect of reducing the activity of each gene is then monitored. Genes that exhibit the desired physiological effect are retained for further characterization in *C. elegans* (or human cells or pest species) and bio-informatics documentation.

Devgen makes extensive use of RNAi knock-down technology, to study the biological role of a given target in a given physiological context and to rapidly prioritize targets. Devgen also uses RNAi as a "product" to achieve pest species control (as described further). Devgen's early and broad application of RNAi technology for research and commercial agricultural and pharmaceutical applications have led to a significant estate of technical infrastructure, know-how and IP in the field.

b. Identifying human drug targets and target validation in mammalian cells

To identify and validate high quality drug targets, the company creates a genetic *C. elegans* model that mimics specific aspects of human disease. Devgen's scientists test (using control drugs and control genes) whether this model faithfully reproduces selected aspects of human disease. Devgen then tests each gene in the *C. elegans* genome for its ability to be an effective and safe drug target for this disease state. This information is then extrapolated through computer models or through experiments in mammalian cells to knowledge on the equivalent human gene. The competitive edge of this approach is that identified targets are "functionally relevant" (unlike targets selected in the computer) and able to restore a disturbed physiological process to normal in a whole organism setting. In a number of disease areas, including metabolic disease, this represents a significant advantage.

Devgen built a panel of cellular mammalian assays in diabetes and obesity in which candidate metabolic disease targets are validated. Candidate targets are either knocked down by RNAi technology or brought to over-expression in disease relevant cells and cellular responses are monitored biochemically or through use of appropriate reporter gene constructs.

c. Identifying crop protection targets / target validation in pest species

To identify high quality pesticide genes, Devgen uses two complementary approaches, both fitting different industry strategies:

- Devgen screened the *C. elegans* genome to identify genes essential for life and for nerve and muscle function (many insecticides act by paralyzing insects) in *C. elegans*. Devgen uses this information in conjunction with its knowledge of the genes in pest species and non-target organisms (man) to identify safe, effective and target genes suitable for compound, protein or RNAi intervention.

- By screening compounds in whole live insects, the crop protection industry also identifies compounds that are effective in killing pest species. There the molecular mode of action (MOA) is frequently not known. This knowledge is required to develop rapid and rational strategies to make such compounds safer and more effective. Devgen uses *C. elegans* based high throughput genetic tools to identify genes and proteins that result in sensitivity or resistance to the applied compound, giving crucial clues towards their MOA and providing new targets for intervention and design of effective compounds. To enable such pathway mapping and elucidation of the mode of action of compounds, Devgen built an industrialized platform for high throughput genetics to generate and characterize mutants resistant to compounds and a platform for rapid cloning of these mutant genes in *C. elegans*.

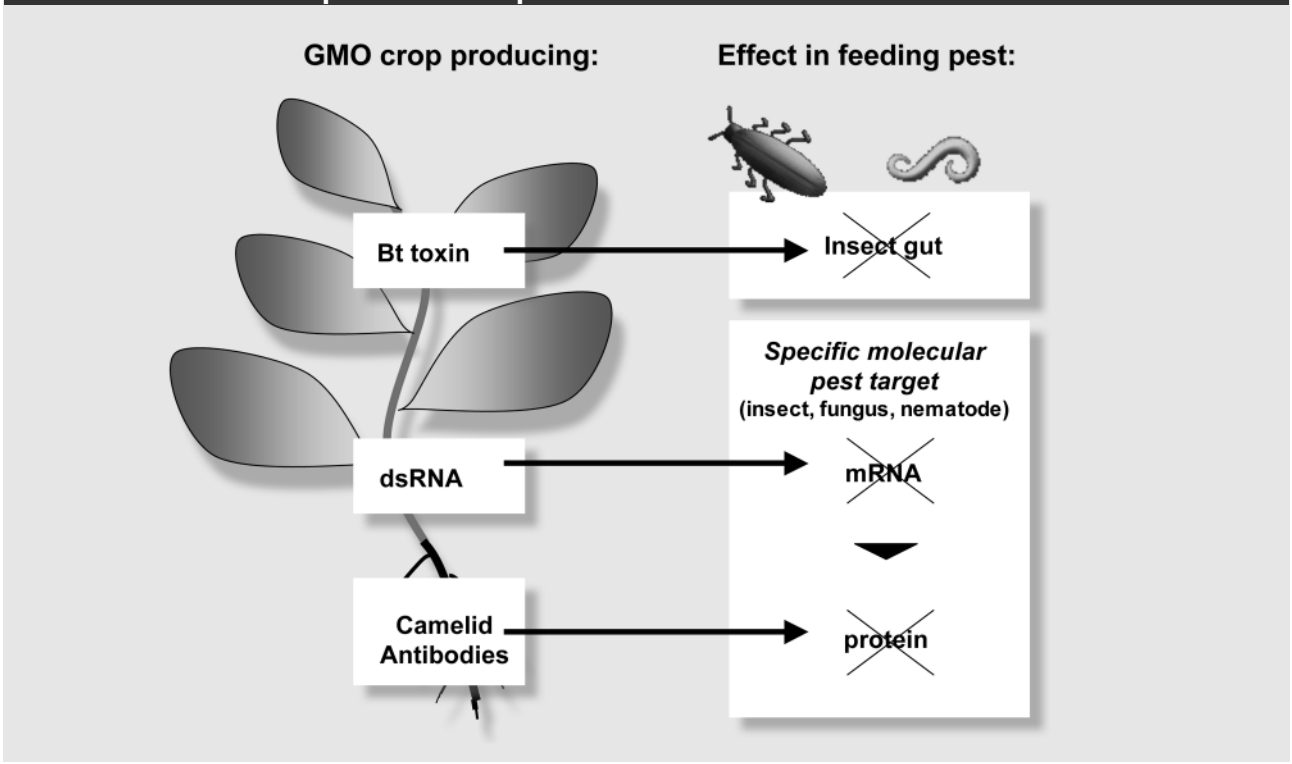
Devgen has built and is expanding a pest biology infrastructure and expertise to validate candidate targets in insects, plant parasitic nematodes and plant fungi.

B1: New biotech crop solutions for obtaining better pest and disease resistant crops

Modern techniques of genetic engineering and plant transformation gave rise to the development of biotech crops whose genetic makeup has been altered trough the introduction of carefully designed new genes. The aim is to produce plants

that have desirable new traits or eliminate undesirable ones. At present there are already a number of biotech crops on the market such as herbicide and pest resistance varieties of economically important plants. Current technologies to generate insect resistant traits are based on the expression of bacterial toxic proteins such as the Bt protein from *Bacillus thuringiensis*. Bt toxins affect the integrity of the insect gut and bugs feeding on plants expressing Bt toxins get killed in this way. Although this approach works fine for a number of crops there is a growing need for novel methods to develop potent resistance traits that are, on the one hand, more specific and allow, on the other hand, expanding the spectrum of possible pest-crop combinations. Devgen is developing novel RNAi and PBDi based approaches to achieve resistance against major crop pests and diseases (see figure below).

Biotech solutions to obtain pest resistant crops



Source: Devgen

Biotech crop solutions to obtain pest resistant crops: Plants produce Bt toxin (classical approach) that kills feeding insects through destruction of gut tissue. Alternatively transgenic plants can be engineered that produce a specific dsRNA that can knock-down, through RNAi silencing, mRNA of an essential pest gene, or a protein-binding domain that interferes with the activity of an essential pest protein. The RNAi and PBDi technology may lead to biotech crops with increased pest specificity ("safer" products) and may allow to target pest-crop combinations where Bt cannot be used.

a. RNAi based biotech crop technology

RNAi is a gene silencing mechanism whereby sequence specific double stranded RNA (dsRNA) knocks down the expression of the target gene through interaction with their cognate messenger RNA (mRNA). The RNAi technology as used in biotech crop protection application is based on the expression in plants of dsRNA corresponding to an essential pest target gene. Upon feeding, the ingested dsRNA will cause silencing of the essential gene and will ultimately result in lethality of the pest species. Because RNAi is a very sequence specific process, dsRNA molecules can be designed in such a way that only specific species become affected. Devgen is developing a strong intellectual property position in the use of RNAi-mediated control of plant parasitic pests and diseases.

b. Protein-Binding Domain (PBDi) for crop protection application

While RNAi affects the mRNA of crucial pest genes, plant expressed antibodies can interfere with the activity of essential pest proteins. Devgen has the intention to generate transgenic plants expressing camelid single domain antibodies. Unlike classical antibodies, single domain camelid antibodies are very small proteins encoded by only a single gene. Yet they can bind with high affinity and selectivity to their protein target, and are therefore called protein-binding domains (PBDs). These PBDs have multiple advantages such as their small size and superior solubility and stability (high/low pH and temperature), their unique binding properties (protein grooves and cavities, active sites of enzymes), and especially their proven expression and functionality in plants. In addition, they can be selected to antagonize or agonize protein functions and do not seem to induce detectable immune response in rodent models. The single domain antibodies can be selected to target any protein including surface proteins and in principal can be designed to be efficiently transported to the cell membrane. This technology has been broadly used in human therapeutics and in biotech crop plant research. Devgen has exclusively in-licensed this mature technology for biotech crop protection applications.

B2. Chemical compound based solutions for human therapeutics and crop protection

a. Proprietary Devgen Library

In-house designed chemical compounds are key value drivers for success in the chemical optimization process. Throughout the years, Devgen chemists have constructed a compound library of around 100,000 compounds of which approximately half are designed in-house and the other half purchased. The Devgen collection is composed out of different libraries either focusing on Devgen's internal biological targets or towards achieving a broader chemical space. Their novelty has been achieved by combining in-house designed and existing core molecules (>2500 unique structures) either with each other or with known groups. Such an approach holds the potential to expand interesting chemical series quickly when needed. For the acquisition of the non-proprietary part of the library, the added value resides in the combination of applying sound chemical expertise with novel computer algorithms in order to increase the diversity and other chemical characteristics of the library. This collection of state of the art compounds, which is designed to be highly lead- and drug-like, forms the foundation of Devgen's chemistry-driven hit identification process (see figure below).

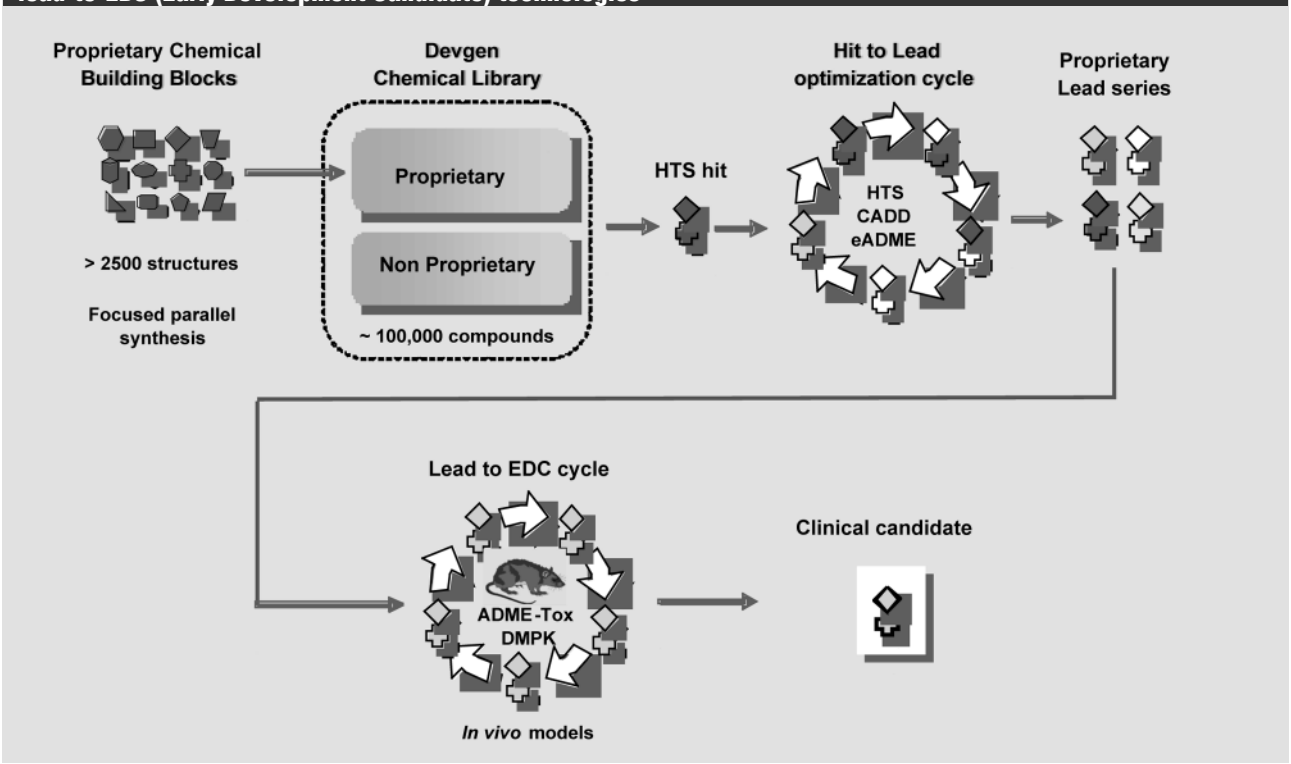
As such, the chemistry team has delivered hundreds of novel compound derivatives, ensured efficient quality and chemical tractability, discovered multiple lead scaffolds for multiple targets, and has shown successful optimization towards the desired compound properties. This has resulted in novel chemical series on kinases, ion channels and others for some of which patent applications have been filed.

Today, Devgen's chemistry department employs 15 people (8 PhDs) including seasoned medicinal chemists, organic/parallel synthesis chemists and two structural chemists (computer aided drug design). The chemistry toolkit includes state of the art equipment such as parallel synthesis capabilities, high-level purification apparatus (including automation) and various industry standard analytic tools. All the chemical work is performed in new laboratories, which are compliant with state of the art safety rules.

b. Optimization cycle 1: Hit-to-Lead development

This library has been screened against relevant biological targets in Devgen's programs. By combining parallel synthesis and computer molecular modeling of the targets, the chemical space around the identified proprietary hits could be efficiently explored. An integrated process containing high throughput screening (HTS) support, and an ADME infrastructure aids the chemists to build in, early in the optimization process, the desired chemical characteristics. By means of iterative cycles of optimizing multiple parameters in parallel, the optimization time can be substantially decreased. The overall strategy is to combine improvements on pharmacological activity and selectivity with the design of proprietary chemical structures as shown in the figure below.

Overview of Devgen's proprietary chemical library, hit-to-lead and lead-to-EDC (Early Development Candidate) technologies



Source: Devgen

c. Optimization cycle 2: Lead-to-EDC development

Further lead optimization towards an early development candidate (EDC) is being pursued by Devgen using structure based drug design, rational medicinal chemistry, wide secondary selectivity assays, in vivo pharmacological validation and drug metabolism and pharmacokinetics studies (DMPK). By means of specific chemical adjustments, the company's chemists improve the chemical lead series to the point that they can select the best compound to be promoted for pre-clinical development. Devgen outsources pre-clinical toxicity studies, in-depth ADME investigations and animal studies.

C: Discovery Engine: Supporting Technologies

a. Target Selection and Validation

- *Bioinformatics:* Devgen has state of the art bio-informatics architecture to store and analyze both public domain databases and its own information on human, model organism and pest genomes. It builds proprietary search and analysis tools to organize this information and to rapidly find homologous genes, cDNAs and protein functions across genomes of different organisms.

- *Function Factory®:* Function Factory is an expert system of biological knowledge and technical know-how implemented through a set of laboratory procedures and software that records and compares the phenotypic profiles of *C. elegans* mutants, the effects of drugs and compounds on *C. elegans*, and the effect of gene knockdowns in *C. elegans*. It classifies compounds by acute phenotypes induced in *C. elegans*. Devgen's Function Factory database now contains over a million data points and enables Devgen to group and rank targets on a pathway, elucidate alternative targets on the same pathway, and identify the mechanism of action of compounds.

- *Phenobase*™ : The compounds or hits identified in screens are phenotypically profiled in Devgen's Function Factory and electrophysiological assays, which allows comparison to Devgen's database of phenotypes, Phenobase. This

database contains over 250 phenotypic entries, which represent the effect of compounds or genes on *C. elegans* physiology/behavior. This enables the clustering of existing compounds or compound hits according to phenotypes induced in *C. elegans* (such as acute lethality, growth retardation, neuromuscular effects, etc.) and subsequent classification of compounds into known, unknown and novel mode-of-actions.

- *Targeteer:* Targeteer is an integrated sequence and annotation database on model organisms and pest species and is used to perform dynamic target selection. Targeteer accesses the company's proprietary bioinformatics data, Phenobase™ and RNAi data and integrates this information with data from GenBank and other functional genomic databases. Targeteer, Function Factory®, Phenobase™ and other bioinformatics infrastructure of Devgen represent over 30 man years of time and effort of Devgen's IT and biology staff and represents a valuable tool to Devgen and its partners.

b. Pest, disease and plant transformation biology

Pest and disease biology are complementary skills and capabilities required to effectively demonstrate the intrinsic value of introduced traits as well as the efficacy of these traits with respect to whole organism fungal, nematode and insect control. In addition, plant pathology capability is a component of the PBDi and RNAi programs in Singapore. Devgen intends to continue to build this capability through internal growth and, where appropriate, intends to support its internal program through academic and commercial outsourcing relationships, some of which are already in place.

Transformation capability is required to ensure effective expression of genes in plants of interest. Devgen has recently engaged in academic and industry collaborations to effectively introduce proprietary target genes into crops of commercial value.

c. Molecular biology

Molecular biology supports both the crop protection and human therapeutics units with respect to identification and cloning of targets, assembling gene constructs, cloning and construction of transformation vectors. In addition to skills and capabilities normally utilized, such as cloning, rtPCR and family PCR, Devgen employs multiple expression construct designs and its proprietary RNAi fragment selection technology to rapidly identify, screen and clone potential targets of interest. Where deemed necessary academic and commercial outsourcing relationships are in place to support internal programs.

Devgen's protein production and purification capabilities are based on its molecular biology expertise to support assay development and screening. Devgen has had considerable success with expression, production and purification of various protein classes including kinases, phosphatases, ion channels, and membrane transporters. This is achieved by using insect, yeast, bacterial and mammalian expression systems. Affinity chromatography and classical protein purification approaches are used to ensure pure active protein to support high throughput screening in Devgen's pharmaceutical and agro-chemical targets of interest.

d. Assay development and screening technologies

Devgen's high throughput screening infrastructure can run campaigns of thousands of compounds per day linked to industry standard compound registering, tracking and data recording and analysis. Devgen's HTS infrastructure enables to screen high numbers of chemical compounds or bio-reactive molecules such as double stranded RNA and protein-binding domains in both *in vitro* (on isolated proteins) and *in vivo* (in whole organisms) assays. Devgen's assay and screening technologies are fully integrated with IT, molecular biology, and protein production and are utilized in all crop protection and human therapeutics projects.

Devgen has an industry standard assay development infrastructure and expertise to build, optimize and run, different types of assays as required in:

- *in vitro* assays: In the context of its internal agrochemical research collaborations and human therapeutics programs Devgen builds in vitro high throughput screening assays using insect or human target proteins produced in-house;

- *in vivo* assays on ion channel targets: In addition, Devgen built a proprietary in vivo high throughput screening assaying technology to screen high value targets that require a physiological context to function, such as voltage-gated ion channels. Insect or human targets are expressed in *C. elegans* in such a manner that their activity can be read out in a quantitative and automated manner. These high-throughput screening readouts that measure the physiological effect of modifying a target's activity are protected by a specific patent estate. These assays improve the selection of chemical scaffolds that produce the desired therapeutic effect in vivo, with a reduced rate of costly false positives;
- metabolic disease assays: Devgen built a platform of cellular and *in vitro* screens to support compound optimization in support of specific drug discovery programs in metabolic disease;
- pest species assays: Devgen is building a pest biology infrastructure for medium throughput screening of candidate modulators (compound, RNAi, protein) on insects, plant parasitic nematodes and plant parasitic fungi in support of its biotech crop technology development and programs; and
- ADME-tox assays to support compound optimization.

e. Information Technology

The IT capabilities within Devgen serve as an essential integrating vehicle to support internal and external program objectives. From databases that support screening operations, compound management and compound library tracking to more advanced applications that integrate public and proprietary databases required for target identification, annotation and selection, the IT infrastructure and supporting applications create an environment for seamless data and information flow. Moreover, Devgen believes that partners and collaborators require strict confidentiality with respect to information and data and accordingly has systems and procedures in place to ensure adequate controls for information and data access. These same systems and controls also serve to protect Devgen's proprietary information.

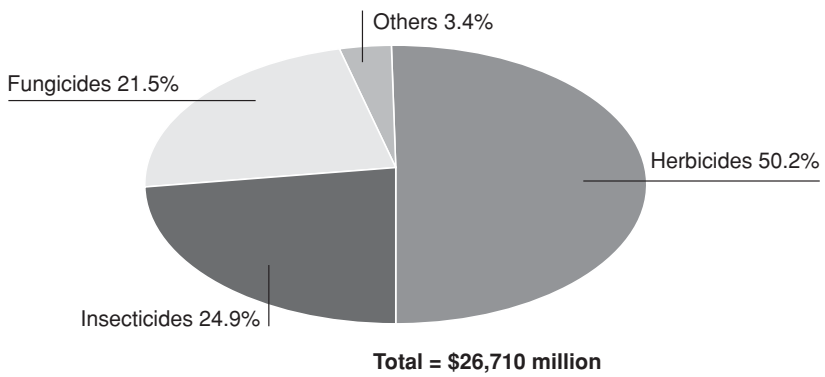
4.5. BUSINESS UNIT: CROP PROTECTION [2]

4.5.1. AGCHEM CROP PROTECTION

4.5.1.1 Opportunity for new crop protection chemicals

The use of chemical crop protection agents still represents the mainstay for control of insects, diseases, weeds and nematodes despite the increasing contribution of biotechnology (see discussion in biotech crop section). The agrochemical market is approximately $26.7 billion (manufacturer level), with $13.4 billion or about half the expenditures for herbicides, $6.6 billion for insecticides representing 25%, $5.7 billion for fungicides representing 21% and about 4% for other products, including nematicides and plant growth regulators.

Market size for crop protection chemicals



Source: McDougall, 2003

[2] The numbers in this chapter on market size and market growth are based on external sources such as, but not limited to, Phillips McDougall, Global Industry Analysts Inc., reports from the University of Minnesota, Ashley Publications, Datamonitor, Goldman Sachs, as well as internal estimates. Devgen cannot guarantee the accuracy of these estimates.

There is a significant opportunity for the discovery and development of new products for several reasons:

- several "older" products are still being marketed due to the lack of new product introductions. This is particularly true in the insecticide, nematicide and fungicide areas; and
- insects and fungi often develop "resistance" to certain products, rendering these products ineffective.

Many of the currently used products are not viewed favorably with respect to toxicology or environmental impact.

Discovery and development is a key driver in the industry aiming at introducing products that have better toxicology and ecotoxicology profiles that are easier to use or represent novel "modes of action". The technology and know-how developed at Devgen provides a substantial contribution to cost effective and rational discovery of new products.

Chemical and biotechechnological crop-based solutions will both remain useful tools for crop protection and indeed, these two technologies can be quite complementary. Devgen is well positioned to provide solutions for both approaches.

4.5.1.2 Positioning and strategy

Devgen licenses its technology to corporate partners who are leaders in agrochemical crop protection research and commercialization. The company receives short-term revenues from technology and research fees, is eligible for medium term revenues from milestone payments as discovered products progress to commercialization, and will receive royalties in the event where products are commercialized.

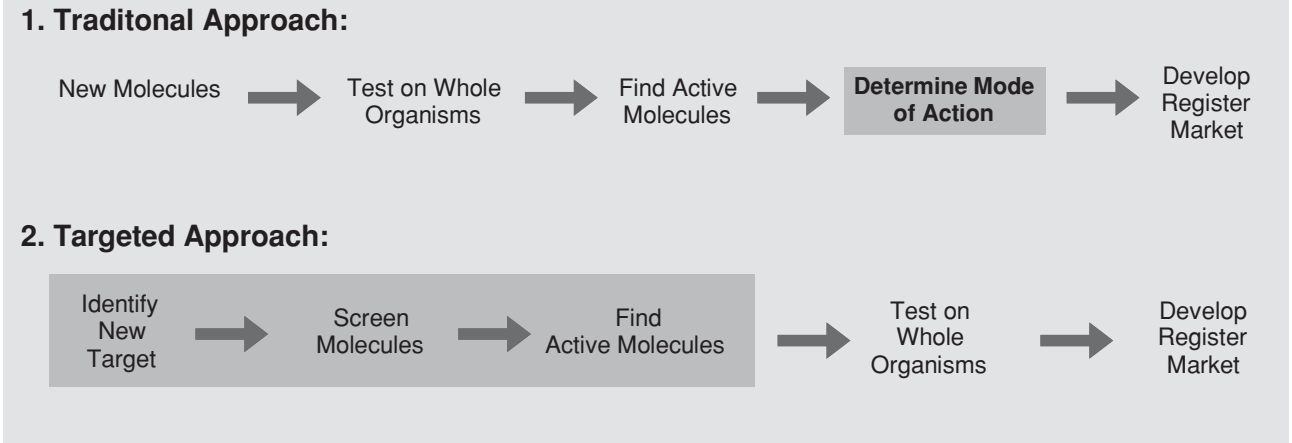
Devgen retains significant opportunities to build its own products or to enter into new or expand existing relationships in crop protection (insecticides, nematicides) and animal health because in each deal the company licenses only a selected number of technologies, targets or assays to each partner.

In line with its strategy to evolve from a technology company to a product revenue company, Devgen has leveraged its nematode expertise to discover and develop an agrochemical solution for control of plant parasitic nematodes. This market, which exceeds $500 million, is short of environmentally acceptable solutions and has significant unmet needs. It represents a medium-term product opportunity for the company.

4.5.1.3 Devgen technology and competitive edge

The figure below illustrates the value Devgen brings to the discovery of new agrochemical products.

Illustration on Devgen's competitive edge



Source: Devgen

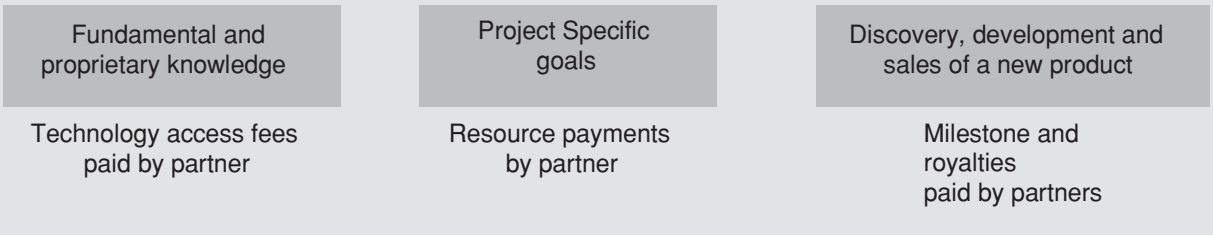
The highlighted areas represent components of the discovery process where Devgen technology and capability can be applied most effectively. Importantly, since companies working in crop protection use both approaches, Devgen can support the discovery process of major companies irrespective of the approach taken to find new products.

Devgen can supply the tools, technology and capability to facilitate the discovery of new molecules through a variety of integrated science platforms including (see technology section):

- bioinformatics;
- *C. elegans* biology (proven technology for insecticide discovery);
- assay development;
- high through-put screening; and
- compound assisted target discovery.

Devgen has established successful research collaborations with FMC Corporation and Sumitomo Chemical Company, two large agricultural crop protection companies. The business model in collaborations involved in the discovery of new insecticides follows the flow of the discovery process described above:

Discovery process of new insecticides



Source: Devgen

The established business model provides short-term revenues as well as an opportunity for milestone payments and royalty income once new products are commercialized by Devgen's partners.

Examples of the two discovery processes and associated business models are two of Devgen's collaborations focused on identifying new insecticides with the following corporate partners:

- FMC Corporation, a company based in the United States of America with a strong global presence in the agrochemical industry. A pilot study was entered into in 1999 and a research agreement was entered into in 2000, as furthermore amended and restated in 2001 and 2003. Finally, the agreements were completed in 2005.
- Sumitomo Chemical Company, a premier agricultural chemical company in Japan with strong global presence in sales and marketing. This agreement was entered into in 2003 following successful completion of a pilot agreement entered into in 2000. It runs until 2006.

In these collaborations, Devgen's technology is applied to both the traditional and target based approach (described above). Supporting the traditional approach, Devgen provides critical information on the mechanism of action of insect lethal compounds provided by the partner. In the target based approach Devgen is delivering targets, developing assays and conducting high throughput screens against these targets with compounds supplied by the partner. The corporate partner optimizes compounds that are active in the assays until they have biological utility for controlling insects of commercial interest. Active areas of chemistry may lead to candidates for further development.

Both collaborations provide significant research funding, a technology license fee and eligibility for performance-based milestone payments and royalty payments. The company licenses only a limited number of technologies, targets and assays to each partner. Devgen thus retains a number of opportunities to enter into new, or expand existing relationships in crop protection (insecticides, nematicides) and animal health, or to develop its own products.

4.5.1.4 Nematicides

Plant-parasitic nematodes cause an estimated $80 billion in crop damage annually. They impact the majority of economically important crops, reducing crop yield by 5%-20%. The total market for products used to control nematodes is in excess of $500 million. The lack of new product introductions combined with the compulsory phase-out of existing products due to toxicological and environmental concerns creates a significant opportunity for new products in this market.

Damage from nematodes is now also recognized as a major yield barrier in several crops. The impact of nematodes has recently become a focal point, since weed, insects and disease problems are managed more effectively. Nematicide (and soil insecticide) use has been reduced due to bans introduced on environmentally toxic chemicals and the high cost of alternative solution (methyl bromide and/or steam treatment of the soil, etc.)

Consequently, nematode-induced crop damage has now become much more "visible" than in the past. Since the major crop protection companies have not focused on discovery and development of new nematicides, there has been a lack of innovation in this market sector. With the exception of fosthiazate introduced by Isihara Sangyo in 1998, the company is not aware of the introduction of new products since 1974.

In line with its strategy to move from technology to product focus, Devgen leveraged its scientific capability and know-how, particularly in the area of nematode biology (*C. elegans*) to discover an environmentally safer chemical treatment to control plant parasitic nematodes.

Devgen has used its proprietary *C. elegans* technology platform to identify commercial, registered products that could have utility as potential nematicides. The company has identified and selected five compounds that have demonstrated efficient biological activity against nematodes that cause important crop damage. The nematicidal activity of these compounds has, to the company's knowledge, not been described before and is now being patent-protected by the company, providing Devgen with the opportunity to file patents in this area with the intent to secure valuable intellectual property rights and preclude or minimize competing activity.

The comparative toxicity and corresponding classifications for current nematicide products is shown in the table below. Since a major market driver for developing a new nematicide is displacement of existing products due to unfavorable toxicology, ecotoxicology or associated environmental concerns, these relative risk classifications serve to point out the potential competitive edge for Devgen's intended commercial products. The majority of commercialized nematicides are classified as highly hazardous by regulatory agencies like the EPA. This has resulted in restricted uses or required phasing out of products such as methyl-bromide. Without an effective alternative, it is anticipated that agencies will allow continued use of some products, albeit with significant restrictions imposed on their use. Most candidate active ingredients identified by Devgen are classified in the least hazardous group.

Extremely/Highly Hazardous	Moderately Hazardous	Slightly Hazardous
Commercial Products	**Commercial Products**	**Commercial Products**
Aldicarb	Chloropicrin	Dazomet
1,3-dichloropropene	Ethoprophos	
Cadusaphos	Metam	
Carbofuran		
Chloropicrin	**Devgen Candidates**	**Devgen Candidates**
Ethoprophos	Compound 4	Compound 1
Fenamiphos		Compound 2
Isazofos		Compound 3
Methyl-bromide		Compound 5
Oxamyl		
Terbufos		
Phorate		
Triazophos		

Source: Devgen; these data are based on assessments by WHO

Compared to current products utilized for nematode control, the Devgen candidates exhibit better acute and chronic toxicology and generally a better profile with respect to the environment and effects on non-target organisms. The company is aware that all assessments of this type are relative and the final decision on classification and registration rests with regulatory authorities.

Extent of use and sales volume of the major nematicide products are shown in the table below.

Active ingredient	Product Area Treated (000 ha)	Product Sales (US$ M)
Methyl-bromide	48	105
Dichloropropene	217	93
Chloropicrin	59	69
Metam-sodium	180	47
Aldicarb	792	40
All others	2,529	170
Grand Total	**3,790**	**523**

Source: McDougall (based on 2003 market data)

The top five products, that command two thirds of all nematicides sales are in varying stages of being phased out of the market by regulatory authorities or are under restricted use mandates.

a. Business model - commercialization strategy

Nematicide control is important in a wide variety of crops in a wide geographical area: many vegetable crops, potato, tomato, bananas, strawberries, vines, rice, sugar beet, turf grasses. It is standard practice in the industry to conduct for each crop for each geographic area a cycle of field trials (different compounds – different formulations), studies required for product registration and demonstration trials prior to market entry. Such a cycle takes on average of 3 to 4 years.

Devgen intends to conduct field trials in different crops and in different geographic areas to determine the optimal formulation for any chosen crop. This can be effectively outsourced to specialized service providers, or done in partnership

with major distributors. Studies in 2005 will focus on further establishing the effectiveness of the compounds in key crops in countries in northern and southern Europe, and on the preparation for registration of one or more products. In parallel, the company will continually invest in strengthening its intellectual property position and freedom to operate position.

Devgen intends to partner with distributors in specific geographic areas for specific crop applications. Devgen may elect to carry more or less of the upfront investment to proportionally obtain a higher profit potential. Devgen considers its nematicide program as a medium risk, but potentially strong value driver for the company.

b. Competition

In addition to the currently existing products, there are a few "biopesticides" that have some degree of nematicide activity. These have achieved very limited market penetration so far and market information suggests that results in the field are quite variable. The most recent data (2003) report little development and registration activity of new nematicides. Devgen is aware that Agro Kanesho has one candidate in development in Japan, but registration is not expected until at least 2007. Arvesta (United States) is in the process of registering iodo-methane as a methyl-bromide replacement. Divergence, a company based in the United Stated of America, is active in discovery and development of nematicides, but there is no official information available regarding the development or registration status of any new molecules.

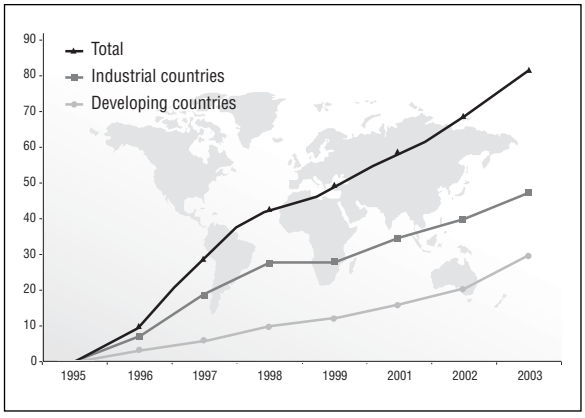
Biotech crop-based approaches (including those of Devgen) are also being pursued, but these focus on the larger market segments where biotech crop-based approaches can be most effective (*i.e.* soy, cotton). The market for chemical approaches to nematode control is expected to remain focused on lower acreage but higher value crops, such as fruit and vegetables.

4.5.2. BIOTECH CROP PROTECTION

4.5.2.1 Introduction

Genetic modification of crop plants following selection for enhanced yield and quality has been carried out for centuries. Advances in biotechnology have permitted development of crop plants with improved characteristics more rapidly than in the past. For example, introduction of insect resistance and herbicide tolerance has made a significant impact on how farmers manage insects and weed problems. Since the first introduction of genetically modified crops in 1996, adoption of these crops has grown rapidly.

Global area of biotech crop (million hectares)



Source: Clive James, 2003

Area and penetration of major biotech crops

2004	World		US	
million hectares	area	% of total	area	% of total
Soy	76	54%	34	90%
Corn	140	11%	33	55%
Cotton	34	21%	5.5	82%
Canola	22	16%	0.5	80%

Source: ISAAA, 2004

In 2004, 81 million hectares of biotech crops were planted, representing a 20% increase over 2003. Predominant biotech crops are corn, soy, canola and cotton. Global acceptance of biotech-based crops is growing, based on their widespread utilization in North and South America and in Asia.

With advances in the scientific understanding of plant, insect, fungal and nematode biology and with the ability to effectively insert genes into plants, further significant growth in this area is anticipated. Current projections indicate that the value of biotech crop-based traits will be $8-10 billion by 2008-2010, more than double from the expenditures of $4.7 billion 2004, of which the majority stems from 3 traits (herbicide resistance and protection against caterpillars and beetles).

The rapid growth of the biotech crop business reflects the benefits these crop protection traits provide to producers and seed companies:

- A successful crop protection biotech trait reduces input cost and permits for more flexible, more sustainable and environmentally friendly land management: the farmer uses less fuel, less labor, less equipment, less pesticides, less tillage, requires less insurance, etc.
- A successful crop protection trait increases yield and crop quality because the crop is protected throughout its growth cycle from pest infestation, whereas chemical pesticides are frequently only used when a pest infestation is noticeable and significant.
- Traits are also important value drivers for the $16 billion seed industry: some traits (like herbicide resistance traits in soy) are now close to "a must have". New traits can be leveraged to increase (or maintain) a seed provider's market share significantly.

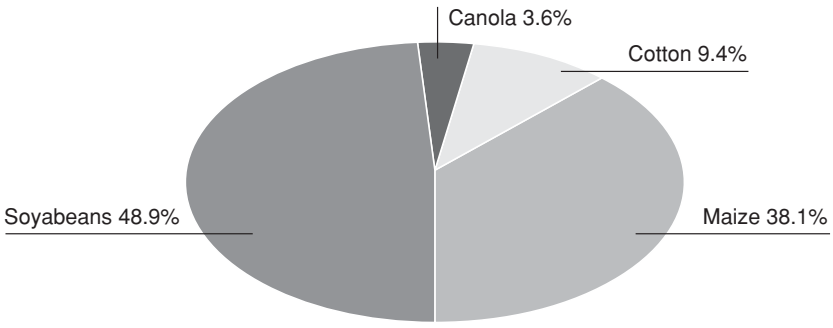
An important fraction of corn, cotton, soy and canola now has at least one biotech crop protection trait in its germplasm. New traits (which kill additional pest species) or more advanced traits that kill beetles or moths more effectively, can therefore be added to these existing traits and are expected to encounter little barrier to farmer or market acceptance. Traits that can protect plants from drought and salinity or enhance the efficiency of utilizing fertilizers are being developed and may provide additional and complementary benefits and value.

The value capture model in this industry is becoming well established: "trait providers" such as Monsanto Company, Bayer and DuPont design traits and build them into crop plants. Where needed they license technology from "technology providers". In turn "trait providers" transfer crop plants containing novel traits to seed companies, who breed these traits in their locally adapted varieties and sell the seeds to farmers. The fraction thereof actually collectable by biotech crop companies will typically be, dependent on the company's commercialization and investment strategy, respectively 5% for a technology provider, 20% to 50% for a trait provider involved in co-investment deals, and up to 80% for a seed provider. Next to Devgen, companies active in the biotech crop field include Bayer, Syngenta, Monsanto Company, Pioneer Overseas Corporation, BASF, Metahelix, Athenix and also some smaller seed companies working together with research institutes and universities.

4.5.2.2 Opportunity space

Currently, 98% in the biotech crop industry is embodied in four crops: corn, cotton, soy and canola and three traits (herbicide resistance and resistance to insects: caterpillars and beetles). The value of these biotech crops is shown below (data from 2003).

Value of biotech industry major crops



Source: McDougall, 2003

Total = $3,940 million

However, global agricultural productivity requires more extensive crop protection as evidenced by the $27 billion market for crop protection chemicals (see above).

Currently there are no biotech crop-based solutions for effective crop protection against plant diseases and nematodes. While insect control via biotech crop-based approaches are already commercialized, the traits are limited to a few crop species and only in a few crops. The opportunity space for novel crop protection traits consists on the one hand of enhanced or novel traits for the current biotech crops and on the other hand of traits for pest-crop combination that are as yet not biotech crops.

The following table contains a management assessment of the potential market value of traits for some selected pest-crop combinations.

in million $	Yearly collectable trait potential
Corn - rootworm	660
Corn - borer	1,200
Soy - fungus	700
Soy - nematode	460
Cotton - bollworm	730
Cotton - lygus	730
Cotton - nematode	200
Rice - borer	500
Rice - hopper	250
Rice - fungus	170

Source: Devgen derived these numbers from industry reports, replacement value of crop protection chemistry, average value of crop yield losses and internal estimates.

Combing the royalty percentages typical in the biotech crop protection industry (see the previous section 4.5.2.1) with the potential trait value of some selected pest-crop combinations, leads to a typical yearly royalty potential per pest/crop combination in the range of $10 million to $40 million for a biotech company acting as a technology provider and to a range of $50 million to $200 million for a biotech company acting as a trait provider.

4.5.2.3 Devgen technological and competitive edge

Devgen believes that RNAi and PBDi technologies represent the next steps in traits to control plant pathogens such as insects, fungi and nematodes and are superior to Bt based strategies. Devgen believes that this technology will be applicable to a wider spectrum of pest species than existing technologies and has the potential of leading to products that are safer to man, non-target organisms and the environment.

RNAi technology may provide a number of unique technical and commercial benefits:

- The technology is based on expressing a small dsRNA in the plant that is identical to part of a gene of the target pest that is essential for life. When the pest ingests this RNA, the gene to which it matches is turned off and the organism dies.
- Traits can be made effective safe and independent of pest species races because the technology permits rational selection of lethal genes from the pest that are identical in all pest races and not present in man or other non-target organisms.
- RNAi technology permits development of superior strategies to manage the development of resistance in the pest species by combining multiple of such lethal genes. This is important because, as the current insect resistance traits are being planted on large geographic areas, the pests are very likely to develop resistance over time. Therefore

rotation of traits will be needed to keep development of resistance under control.
- The technology permits rapid discovery of new, or adaptation of existing RNAi traits for novel pest-crop combinations through the use of powerful molecular biology and genomic techniques.

The PBDi technology similarly permits rational and scalable design of protein based crop protection traits and, unlike existing technologies, is not dependent on naturally occuring insecticidal or pesticidal proteins from bacteria, fungi or other organisms. It complements the RNAi technology.

The combination and integration of both RNAi and PBDi technologies puts the company in a strong position to develop optimized solutions for various crop-species applications. It also gives the company the flexibility for each pest-species combination to license one technology to a partner and retain the other for itself.

4.5.2.4 External collaborations

Devgen partnered one of its technologies with Monsanto Company and Pioneer Overseas Corporation for the control of amongst others selected corn, cotton and soy pest species in discovery deals (as researcher and technology provider) while retaining a second technology for internal discovery and future out-licensing.

These collaborations offer a number of commercial and strategic benefits. Seed access and technology access to crop transformation and gene expression tools, as well as existing complementary traits required to have an attractive product are highly consolidated in these crops. Alternative routes of market access in these markets is challenging. Therefore:

- early partnering with the key industry players increases the probability of successful development and adequate market penetration for Devgen's technologies;
- in these deals, Devgen retains certain rights to use project technology to develop and commercialize traits in non-licensed crops; and
- these deals validate Devgen's technology and IP position.

These deals provide short-term revenue and potentially important royalty based revenue streams when products are on the market.

Pioneer collaboration

Pioneer Overseas Corporation is a leading developer and supplier of advanced plant genetics to farmers worldwide.
Under the terms of the agreement, which was started in 2003, Devgen will use its patented technology to indentify and validate target genes to control plant parasitic nematodes. Pioneer Overseas Corporation obtains exclusive commercial rights under Devgen's proprietary technology to control plant parasitic nematodes in soybean and the possibility to expand the scope of the agreement to include other designated crops. Devgen retains all rights to develop and commercialize nematode resistant products in other crops and all other fields of pest & disease control. In addition to upfront payments and research funding, Devgen is eligible for significant performance-based milestone and royalty payments.

Monsanto collaboration

Monsanto Company is a leading provider of technology based solutions and agricultural products that improve farm productivity and food quality.
Under the terms of the agreement, which was started in 2004, Devgen will select and validate target genes to control plant insects. Monsanto Company obtains exclusive commercial rights under Devgen's technology to control plant insects in corn, soybean and cotton. Devgen retains all rights to develop and commercialize insect resistant products in all other crops and other fields in pest and disease control. In addition to an upfront payment and research funding, Devgen is eligible for research and commercial milestone payments and royalties.

4.5.2.5 Internal Devgen programs

In addition to its research collaborations with Monsanto Company and Pioneer Overseas Corporation, which already represent significant potential value, Devgen's is well placed to build a position and capture value both in established biotech crop markets, and emerging biotech crop markets through:

- Discovery and development of complementary high value traits in corn, cotton, soy;
- Leveraging traits discovered in its collaborations to other crops; and
- Development of a portfolio of traits in growth biotech crops such as rice and specialty crops.

The global trends in plant biotechnology suggest that major acreage expansions are likely to occur in Asia and Latin America. Apart from this expansion, Devgen expects the range of biotech crops approved commercially to continue to grow, resulting in new markets and opportunities, both in developed and in developing countries.

As the biotech crops expand geographically and in number, different target pests will need to be controlled. This includes row crops (rice, sunflower, barley, lentils, alfalfa, sugar beet), specialty crops (fruits and vegetables) and forestry-biomass crops. Devgen's plans are based on markets outside of Europe, eliminating the need to discount for Europe specific acceptance issues.

Devgen has prioritized key crop-species opportunities and initiated internally funded programs to discover traits for RNAi and PBDi mediated control of selected pests including insects in rice and corn, fungi in rice and nematodes in cotton, tomato and potato. This limited number of crop-species combinations alone represent a potential total collectable trait value of up to several billion euros.

4.6. BUSINESS UNIT: HUMAN THERAPEUTICS [3]

4.6.1. FOCUS ON METABOLIC DISEASE

Within the area of human therapeutics, Devgen focuses on metabolic disease because it fits with the competitive edge of its technology and is a field that is believed to be commanding premium prices for pre-clinical program licensing rights. Metabolic disease represents a large and growing unmet medical need, and is therefore strategic for most pharmaceutical companies. There is a scarcity of novel approaches in this field as research is difficult for this complex indication affecting multiple organs and tissues of the entire organism.

Metabolic disease covers indications of obesity, type-2 diabetes and their cardiovascular consequences. New insights relate type-2 diabetes and finally cardiovascular pathologies to increased caloric intake, fat accumulation and lack of physical activity. Recently increasing numbers of teenagers and children are diagnosed with type-2 diabetes, a disease previously only known to affect the elderly. The prevalence of metabolic disease is estimated at 115 million individuals in the seven major markets requiring a range of pharmacological treatments depending on varying combinations of risk factors.

Devgen is currently investing in three preclinical drug discovery programs treating metabolic disease and its consequences: two in the diabetes and obesity field, one in the arrhythmia field. With its current resources the company has tried to balance between focus and risk spreading. Devgen retains multiple opportunities to leverage its technology, biology and chemistry for future programs. The preclinical or clinical candidates that Devgen is working on could eventually become eligible for out-licensing for further development in the pharmaceutical industry in return for upfront payments, milestones and royalties.

3 The numbers in this chapter on market size and market growth are based on external sources such as, but not limited to, Phillips McDougall, Global Industry Analysts Inc., reports from the University of Minnesota, Ashley Publications, Datamonitor, Goldman Sachs, as well as internal estimates. Devgen cannot guarantee the accuracy of these estimates.

Devgen's competitive edge in drug discovery in this disease area lies in its core competencies in target identification in biologically complex disease areas, *in vivo* high throughput screening of ion channel targets and the company's in-house designed chemical library and expert medicinal chemistry.

4.6.2. COMPETITIVE EDGE IN METABOLIC DISEASE

4.6.2.1 Target identification

Devgen's advantage in target identification technology lies in the complexity of the metabolic disease that cannot be modeled in a single human cell type. Control of metabolic processes important in diabetes and obesity are known to be highly conserved between man and *C. elegans*. Devgen designed and validated assays in the obesity and diabetes field using an entire organism to identify drug targets that are capable of restoring health in a disease model. Devgen subsequently confirmed the validity of these targets in multiple human cells and knockout mice. This strategy identified a small number of novel relevant drug targets in a field in which few novel therapeutic intervention points are known.

The number of effective novel targets is limited. Devgen's strategy is therefore to identify targets and progress drug discovery on such targets to the point at which their therapeutic value can be demonstrated with proprietary drug-like compounds in predictive animal models. Devgen is currently investing in two preclinical programs in diabetes and obesity.

4.6.2.2 In vivo target screening

Selective and potent drugs directed at ion channels are successful medicines in disease treatment. However the identification of chemical modulators of many of these channels is challenging because of their complex function and regulation and the limitations of the established artificial methodology employed to screen these channels.

Devgen has developed a novel screening technology, which removes many of the limitations of the current *in vitro* approaches by placing human ion channels in a physiological environment in live *C. elegans* animals for high throughput compound screening. Devgen's technology permits libraries of compounds to be screened on such channels in a physiological setting, which may lead to identification of novel chemistry with improved functional properties. This technology is optimally applied to high value targets that cannot be readily screened. Devgen's strategy is to identify novel and preclinical *in vivo* effective chemistry on these targets. This technology has led to Devgen's arrhythmia program and the identification of several future opportunities.

4.6.3. DIABETES AND OBESITY

4.6.3.1 Opportunity space

Existing treatments act via a limited number of therapeutic concepts, do not treat the underlying cause of the disease process and slow down but do not reverse the disease process. A novel effective treatment for diabetes or obesity is estimated to represent a several billion dollars product opportunity. The global market for oral diabetes treatments exceeded $4.5 billion in 2004. The prevalence of type-2 diabetes in the seven major markets is expected to increase from 37 million in 2003 (5.1% of the population) to 50.1 million in 2012. Only around 20% of the drug-treated type-2 diabetes patients receive insulin therapy. Conversely 18-29 million patients received oral type-2 diabetes therapy in 2003. Insulin sensitizers like the PPAR agonists, generated $3.3 billion in 2004 and show an annual growth of 10%. Devgen's programs are aimed at becoming part of this segment.

Current therapies for the oral treatment of type-2 diabetes include drugs such as the sulphonylureas and biguanides like metformin that enhance insulin secretion and the thiazolinediones including rosiglitazone. Each of these approaches is associated with adverse side effects, including further weight gain. Novel mechanisms are being addressed that may provide better efficacy or reduced side effect profiles. These include mixed partial agonists of the PPARα and γ receptors, inhibitors of 11ß hydroxysteroid dehydrogenase type-1 that are anticipated to impact many tissue responses, activators of AMP kinase and inhibition of acetyl-CoA carboxylase that may favorably modulate lipid metabolism. Targets focusing on enhancing insulin signaling include inhibitors of PTP-1b and glycogen synthase kinase. Enhancing insulin secretion with

mimics of GLP-1 and inhibition of its metabolism with dipeptidylpeptidase-IV is also under exploration. An orally available molecule with multiple beneficial effects on insulin levels and insulin responsive tissues without the risk of hypoglycemia would have a strong position in the market.

The pharmaceutical industry recognizes this area to be in need of innovative and effective therapeutic concepts and chemistry. Given the recent soaring of numbers of obesity patients, an effective medicine would treat an unmet medical need for many patients. It is therefore a strategic focus for much of the pharmaceutical industry, yet to the knowledge of the company most pipelines are short of novel pre-clinical and clinical programs in this field. This makes the obesity and diabetes field an attractive opportunity even if Devgen would decide to opt for an out-licensing strategy in the pre-clinical stage.

4.6.3.2 Devgen's diabetes program description

Inhibition of kinase target (Kinase 1) is expected to produce an improvement in the body's response to food (glucose) in type-2 diabetes patients. Current therapies such as the sulphonylureas stimulate pancreatic insulin secretion. However despite their wide spread use they suffer the considerable disadvantage that they can induce hypoglycaemia, which would lead to coma and consequently creates a need for regular glucose tests. The expected advantage of Devgen's program is that it would only enhance glucose stimulated (food intake related) insulin secretion and consequently not induce hypoglycemia. The activity of the potential drug would be mediated through actions on the pancreas, the liver, the fat cells and the muscle cells in a cooperative fashion. Inflammation, another characteristic of diabetes and obesity, may be alleviated by Kinase 1 inhibition through the down regulation of inflammation modulators. Thus Devgen's Kinase 1 inhibitor is thought to address many of the cardinal features of diabetes, including impaired insulin secretion, hyperglycemia, insulin resistance and inflammation. Devgen is not aware of other therapies under investigation for diabetes combining these attractive properties in one mechanism.

Studies in mice in which this target is knocked out, show that these mice are protected from diabetes when overweight. These mice are furthermore healthy and show normal behavior and fertility, suggesting a low likelihood of side effects. Devgen therefore believes that a safe and effective compound against this target would be a novel, attractive and competitive candidate drug of interest to the pharmaceutical industry.

Devgen has established an integrated drug discovery program around this target, including all necessary *in vitro* assays and *in vivo* assays for compound evaluation and optimization. There is both in-house and outsourced biology support for its strong medicinal chemistry drive. Devgen designed and patented potent inhibitors of this target. Devgen's most advanced lead series have entered into animal models to test *in vivo* efficacy.

4.6.3.3 Devgen's obesity program description

Using a disease model in *C. elegans*, Devgen has identified a kinase target (Kinase 2) as a target for the treatment of obesity. It has subsequently confirmed its relevance to man and obesity and diabetic disease processes in mammalian tissue culture. Kinase 2 is known to be involved in obesity. Devgen anticipates that inhibition of this target will ameliorate diabetes caused by obesity by regulating fat storage, and improvement of insulin function. Devgen therefore believes that a safe and effective compound against this target could be a novel concept with an attractive and competitive drug candidate, which may be of considerable interest to the pharmaceutical industry.

Devgen has established an integrated drug discovery program around this concept, including a highly predictive computer model of the target; panels of *in vitro* and *in vivo* assays for compound evaluation and optimization. Devgen designed and patented potent inhibitors of this target.

4.6.4. ARRHYTHMIA

4.6.4.1 Opportunity space

Cardiovascular disease remains the number one cause of death in the western world. Arrhythmias (irregular and inefficient heart beats) contribute more than 25% to the death toll. These patient numbers have been rising in the recent past. The total number of patients is rising due to western life style (incl. metabolic disease) and the general ageing of the population. Atrial fibrillation initiates strokes in 15% to 24% of sufferers depending on their age. In 2002 there were 2.2 million atrial fibrillation patients in the US alone, leading to 1.6 million hospitalizations. This is a large financial burden for the health system. In 1995 multiple studies found that current therapies with anti-arrhythmics shortened the life expectancy of patients. Furthermore, many clinical trials for anti-arrhythmic drugs failed, which largely reduced the interest of the pharmaceutical industry in this indication. Due to safety and efficacy concerns class I to III anti-arrhythmic drugs have not been successful. One of their limitations is their lack of selectivity giving rise to inhibition of many ion channels, most notably the hERG channel, whose inhibition causes a life threatening arrhythmia side-effect, long QT syndrome.

All of the anti-arrhythmic drugs act by altering ion fluxes within excitable tissues in the myocardium. The three ions of primary importance are Na+, Ca++ and K+. Antiarrhythmic drugs can be classified by their ability to directly or indirectly block flux of one or more of these ions across the membranes of excitable cardiac muscle cells. Class I drugs including flecainide are Na channel blockers, class II drugs are b blockers including propranolol, Class III are K channel blockers such as Amiodarone with class IV being Ca channel blockers such as verapamil. Class I and III anti-arrhythmic drugs have been associated with many severe side effects leading to a decline in sales. Concerns about class I drugs have led to a shift in treatment patterns towards antiarrhythmic agents that lengthen cardiac repolarization. Newer therapies in development include dronedarone which is a small molecule based on the structure of amiodarone, which was developed by Sanofi-Synthélabo. Dronedarone is chemically related to amiodarone but contains no iodine, and so has no thyroid or lung toxicity.

Azimilide is a novel class III anti-arrhythmic that works by blocking the slow and fast potassium channels in the heart. Newer antithrombotics are also under development. RSD1235 from Cardiome is in phase 3 and is a new chemical entity designed to treat atrial fibrillation. Its mechanism of action involves blockade of multiple ion channels with rapid interaction and dissociation from target sites. Cardiome also has Oxypurinol for CHF in phase 2.

Recent figures suggest that worldwide approximately 3 million patients with atrial fibrillation seek treatment each year. Estimating treatment costs of $1,000 per year per patient, the market has a size of $3 billion. There is a lack of a safe and effective pharmacological therapy. Devgen estimates a market potential of $1.5 billion per year for a successful drug.

4.6.4.2 Arrhythmia program description

Devgen's edge in this program lies in combining its screening technology (explained above), with the most recent insights into the action potential formation of the human heart, and focused innovative drug design.

Devgen selected a "cardiovascular disease / arrhythmia" target, Kv4.3, to leverage this screening technology into an internally funded drug discovery program. It is accepted that this target is theoretically one of the most effective options for medical treatment of arrhythmias, but difficult to screen because of its fast inactivating properties.

Kv4.3 is a highly attractive potassium channel target for the treatment of arrythmias. It functions by extending the refractory period for cardiac contraction. Pharmaceutical companies have been precluded from exploiting Kv4.3 because of the inherent difficulties of screening the channel. Devgen has circumvented these problems with a proprietary screening technology in *C. elegans* and has identified novel, potent and selective drug like modulators of this channel.

Devgen built a functional high throughput assay for the human potassium channel Kv4.3, designed and synthesized a compound library of several thousand proprietary compounds, and identified novel chemistry with superior properties over other compounds known to inhibit this family of ion channels, most notably a high selectivity against other ion channels that could cause side effects.

Devgen's patented compounds show 10 to 60-fold selectivity over hERG and have a favorable selectivity profile against selected other channels as well. Devgen's current lead compounds show a complete absence of side effects in animal organ bath studies. At the same time the desired effect (extension of the effective refractory period ERP) was observed. The ERP is the time frame in which no secondary stimulus can elicit a new action potential. In arrhythmias it is thought to be important to extend this time period to avoid aberrant re-stimulation that cause heart fibrillation. Devgen's compounds furthermore appear to act in a use dependent manner and appear to be the first specific Kv4.3 blockers. Compounds from two independent chemical series have been further tested *in vivo* in animals and show promising properties for future clinical development.

Selective anti-arrhythmic drugs could be used acutely in the clinic to end arrhythmic episodes. This is a significant market by itself given the numbers of yearly hospitalizations. Furthermore the drug could be chronically given as a preventive therapy to reduce the number of hospitalizations. This much larger market represents a second product opportunity. As current therapies are not very effective and prone to risks a safe novel therapy may have a major impact on the market.

4.6.5. FUTURE OPPORTUNITIES

The company has identified compounds active on an additional ion channel structurally related to Kv4.3 which is a candidate target for the treatment of metabolic disease through improvement in glucose induced insulin secretion. Furthermore medicinal chemistry efforts have resulted in additional opportunities that can be leveraged for other indications with known targets. Based on success and available resources, Devgen may elect to leverage its proprietary chemistry scaffolds in the ion-channel field and invest in additional programs for preclinical outlicensing. The company has also identified several additional targets for the treatment of metabolic disease from its proprietary technologies using disease models (outlined above) and opportunities to leverage its in-house chemistry on other targets.

4.7. PATENTS AND INTELLECTUAL PROPERTY

Devgen's success and ability to compete depend largely on its ability to protect its proprietary technology and information and to operate without infringing the intellectual property rights of others. Devgen relies on a combination of patent, trademark and trade secret laws, as well as confidentiality, assignment and licensing agreements, to establish and protect its intellectual property position. In addition to using external patent attorneys and advisers, Devgen employs a European patent attorney leading its intellectual property department. Devgen has developed internal processes for monitoring, identifying and recording patentable technology and has dedicated internal resources to managing and overseeing its intellectual property rights position.

Devgen is actively seeking and obtaining intellectual property protection. Devgen is actively using these rights in commercial and research collaborations, seeking for cross-licensing arrangements and out-licensing of these rights.

Devgen currently owns 45 patents that were issued or granted (2 in Europe (validated in 5 European countries), 5 in the United States of America and 35 in other jurisdictions (Australia, South Africa, New Zealand, Hong Kong, Germany, Great Britain, Russia and China); one application is already granted in 8 countries). Devgen has an additional 82 patent applications pending (4 in PCT (worldwide); 17 in Europe, 20 in the United States of America and 41 in 17 other jurisdictions). Devgen's patents and patent applications fall into 25 patent families.

At present, Devgen has 8 issued patents and 31 patent applications with claims directed to the use of RNAi in screening assays and to RNAi targets and RNAi technology for alleviating pest infestation in plants.

Devgen's patent portfolio in human therapeutics consists of 2 issued patents and 10 filed patent applications. Devgen's research and commercial activity in the field of RNAi are subject to a patent license agreement with the Carnegie Institution of Washington, US. In the event Devgen commercializes products, which are subject to the in-licensed patent(s), product sales will be subject to (to be agreed upon) royalty payments.

Devgen has made arrangements with its collaborative partners regarding collaborative IP, Devgen's IP and its partners' IP with the view of securing each party's rights and obligations.

Substantial part of the know-how and software in the field of its human therapeutics and crop protection activities is maintained as trade secret.

In the Benelux, Germany, France, the United Kingdom, Switzerland, Canada, the US, Australia, Japan and Singapore, one or more of the following trademarks related to Devgen's business and technology are currently registered: "Devgen'', "Function Factory'', "rBlast'', "Targeteer'' and "TM-HTS Screen''.

To support its research activities, Devgen in-licenses technology from third parties in selected domains including PBDi technology. In the event Devgen's commercializes its products, it may be subject to royalties to third parties.

4.8. GRANTS AND SUBSIDIES

Since its incorporation, Devgen has been awarded multiple grants from Flemish and European institutions.

4.8.1. IWT

In particular, the role of IWT (Institute for the Promotion of Innovation through Science and Technology in Flanders) has been important for the endorsement of Devgen's technology and strategic orientation and for the overall financial support of the company.

The IWT subsidies are being paid through advance payments in 6-monthly installments. The approved subsidy is a maximum; the exact amount is determined after completion of the project, based on the activities performed and the costs expensed.

The subsidies as described in the table below have been granted for projects, which have been terminated.

Name	Date	Term	Amount (€)
SERCA project. Function, regulation and specific inhibition of the Sarco-/Endoplasmic Reticulum Ca^2+-ATPase (SERCA) in the nematode C.elegans.	03/08/99	36 m	1,186,733 (1)
PKD project. The role and pharmacology of the PKD signal transduction pathway and development of a nematode model for kidney diseases and epithelial polarity disorders.	16/07/99	36 m	1,768,373 (1)
MOA project. Genomic and Genetic Pharmacology: Deorphanization of "orphan' drugs using a C. elegans based approach and validation of the corresponding human targets identified using mammalian cell assays.	20/10/03	24 m	592,299 (2)

(1) Amounts net of actual refunds

(2) Amount net of expected refund

Source: Devgen

The grants in the table below have been approved in the frame of ongoing projects:

Name	Date	Term	Amount (€)
Ion channel project. *C. elegans* as a model organism for ion channels and drug discovery. (1)	06/12/02	36 m	2,430,000.00
PPN control project. Genomics based nematicide discovery and RNA interference / PBDi mediated resistance: novel strategies for Plant Parasitic Nematode Control.	26/10/04	36 m	843,357.40

(1) The innovation goal of this project has been changed and approved on 21/10/04

Source: Devgen

4.8.2. FLEMISH GOVERNMENT OF ECONOMY

The Flemish Government has implemented a framework to support economic development. Through a set of regulations for economic expansion, subsidies are being granted to companies. The following subsidies have been approved according the provisions and regulations adopted on 1 November 1998. The subsidies are being paid in multiple installments according the progression of the project and the last installment is being paid when all the conditions are met.

Name	Date	Term		Amount (€)
Grant 98K03004. Subsidy for tangible investments	01/10/98	30 months	Interest subsidy	323,773.73
			Capital subsidy	155,677.13
	17/01/01	*Subsidy for extra employment:*		
			additional interest subs.	330,655.17
			additional capital subs	158,974.12
Grant 2002G00068. Subsidy for tangible investments	01/02/01	47 months	Capital subsidy	161,000.00

Source: Devgen

4.8.3. EUROPEAN COMMUNITY

Devgen has participated in an EC network contract, steered by EC directorate DG XII (Science Research and Development), together with other European participants. Devgen acted as Associated Contractor together with others, under the lead of the contractor, which was CNRS (Centre National de la Reserche Scientifique, established in France).

The contractor makes payments after receipt of the financial contribution of the Commission. This contribution is partially paid as an advance payment and through installments paid upon approval of the progress reports. The balance of the total contribution due (retention of 10%) is paid upon approval of the final report.

Following subsidy has been granted and consummated as the underlying project has been finalized:

Name	Date	Term	Amount (€)
Post sequence analysis of *C.elegans* embryogenesis	1/4/98	48 m	205,152.00

Source: Devgen

Devgen has participated in the Fifth Framework Program ('98-02), a program that defines the Community activities in the field of research, technological development and demonstration. In the R&D projects, the financial participation amounts to 50% of the eligible costs. The contribution is paid in a number of regular installments based on cost claims submitted by participants with interim and final reports. As a general rule, these installments are non refundable.

Following subsidy has been granted and consummated as the underlying project has been finalized:

Name	Date	Term	Amount (€)
AGEGEN QLK6-CT-1999-02071	1/2/00	36 m	280,541.23

Source: Devgen

4.9. HUMAN RESOURCES

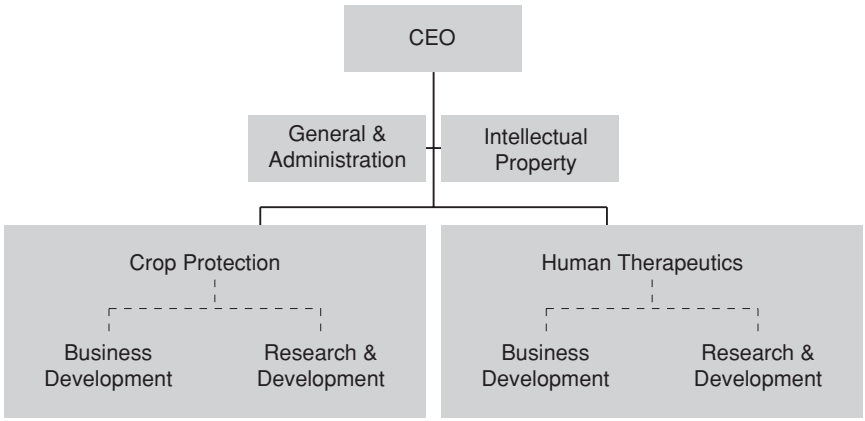
4.9.1. OVERVIEW

Devgen recognizes that the human capital is its greatest asset. Therefore the company provides its employees with the necessary tools to accomplish their work objectives, and provide them with opportunities to enhance their job satisfaction and career goals. Devgen also strives to create a positive atmosphere and healthy work/life balance. The positive results of the first employee satisfaction survey, done in 2004, prove that the company has succeeded in this key company goal so far.

Devgen has developed an organization that uses standard operating procedures to efficiently execute the process necessary for moving from a gene to a compound, both for therapeutic use and for crop protection and from a gene to a plant producing a gene or protein for crop protection purposes.

On 1 April 2005, Devgen had 91 employees, 31 of whom hold PhD's. Devgen's scientific staff has expertise in (plant) molecular biology, bio-informatics, pest biology, plant biology, RNAi and PBDi technology, cell biology and chemistry amongst other disciplines.

The table below represents an overview of the company's organization. It is further discussed in section 6.4.1 of chapter 6.



4.9.2. HEADCOUNT EVOLUTION

Total headcount evolution

Headcount evolution by subsidiary

As of Jan 1st.	2005	2004	2003	2002
Devgen NV	86	90	91	96
Devgen PTE	6	6 (July)	-	-
Total	**92**	**96**	**91**	**96**

Source: Devgen

Headcount evolution by education level

As of Jan 1st.	2005	2004	2003	2002
PhD	32	29	25	22
University Degree	28	31	34	37
Higher education/non university	29	33	29	33
High school level	3	3	3	4
Total	**92**	**96**	**91**	**96**

Source: Devgen

Headcount evolution by department

As of Jan 1st.	2005	2004	2003	2002
Crop protection	48	38	16	15
Human therapeutics	26	38	56	58
General & admin	18	20	19	23
Total	**92**	**96**	**91**	**96**

Source: Devgen

4.10. FACILITIES

4.10.1. THE FACILITY

Devgen moved into its new research facilities in March 2004. Devgen has approximately 6,000m^2 of research and office space at its disposal (or approximately 9,000m^2 including technical floor and car park). The facilities are located in the Technologiepark in Ghent (Zwijnaarde), which is the core biotech cluster in Belgium.

The new facilities are designed in such a way that they fulfill the requirements of a modern research lab, in terms of functionality, flexibility, security and safety.

Special attention was given to a contingency and security plan. This encompasses a set of measures and policies in case of fire, burglary, power interruption (on-line UPS and emergency generator assuring the continuation of activity in case on power failure) and other risks. The building is equipped with state of the art technical features to minimize the disaster

or damage and maximize security. A building management system guarantees the functioning of the building in the best way possible by supervising the different services in the building 24 hours a day.

The facilities are sufficient for the current and future activities as future expansion can be addressed by using an allocated spare extension area of 970 m^2 on the first floor for office or laboratory up-sizing. This area is currently sublet to the following parties:

- UG (Ghent University) – Docolab: approximately 600 m^2 - for a 4 year term minimum (starting 1 June 2004)
- Porthus: approximately 370 m^2 - for a 3-year term (starting 1 September 2004).

4.10.2. FINANCING

The building represents an investment of €9.4 million, including architect and engineering costs and lab furniture. The lease for this facility has a term of 15 years with an up front lease payment of €1 million followed by quarterly lease payments of €191,933.96 each and a residual value of 30%. Devgen has an option to extend the contract and negotiate a new lease contract at conditions to be agreed upon and taking into account the residual value of the building.

The building is built on land leased from the Ghent University. The long lease agreement has a contractual term of 54 years (as from 21 October 2002), with a cancellation possibility after the first 27 years at an initial canon of €2.97/m^2/ year.

4.10.3. INFRASTRUCTURE

The current infrastructure and equipment allow Devgen to be active in the different fields of scientific research:

- plant growth chambers and insect/plant nematodes rearing chambers are used for pest control projects;
- chemical fume hoods, extraction arms and preparative and compound analysis facilities (HPLC, LCMS, IR) used in the search for lead compounds in both human therapeutics and crop protection;
- tissue culture facilities with Biological Safety Cabinets class II to confirm the activity of compounds in in vitro assays;
- high throughput DNA preparation, sequencing facilities and protein production facilities for molecular biology work used in the different projects;
- microscopy equipment with different magnification ranges, GFP and image analysis software for plant, cell and nematode biology; and
- robots for different applications such as combinatorial chemistry, automated reading of plates, plate production, DNA preparation, sequencing, dispensing, reformatting, etc.

The company's IT room is equipped with 18 data racks and houses 47 servers, including several database servers that are hosting Devgen's scientific information. A high performance cluster is in place to increase the number crunching capacity and to enhance the company's bio informatics capacities to filter and analyze large sequence data in-house. To store the rapidly growing data, large storage capacity is provided which brings Devgen's SAN capacity up to over 4TB. The gigabit ethernet network is fully redundant and all equipment is dual powered by UPS and an emergency generator. The network has been audited and meets today's standards. Multiple stringent operating procedures are in place to secure the highest safety security standards possible for data.

4.10.4. SINGAPORE

Devgen Pte. Ltd., a wholly owned subsidiary incorporated in February 2004 and focusing on control of fungal disease in plants, currently leases approximately 125m^2 of office and laboratory facilities in Singapore from Temasec Life Sciences Laboratory Ltd. The lease for this facility is a three-year lease which will start on 1 July 2005, with a renewal option for one or more periods of time under mutually agreeable terms and conditions. The level of safety and security meets the same high standards as in the Ghent-Belgium based facilities. The Singapore site is online connected over an internet VPN connection.

4.11. INVESTMENT POLICY

Other than investments made in its facilities and infrastructure as mentioned above, Devgen has made no major other investments, nor has it made firm commitments to make any such investments in the near future.

4.12. GOVERNMENT REGULATIONS

4.12.1. HEALTH, SAFETY AND ENVIRONMENTAL REGULATIONS

The health and safety of Devgen's employees, visitors, the surrounding community and the protection of the environment are priorities of the company and are consistently pursued. The environment, health and safety policy is included in the strategy of the company and in the objective settings of each individual employee.

Ensuring safety is a daily and continuous process at Devgen involving the provision of:

- the necessary infrastructure and equipment to create suitable working conditions and high levels of industrial hygiene;
- collective and personal protection tools;
- training and support; and
- recurring internal audits.

The generation, use and disposal of both hazardous materials and wastes are inevitable for the type of research activities of Devgen. Devgen therefore is subject to numerous changing environmental and safety laws and regulations. There is a continuous attention to the implementation, coordination and supervision of the environmental, health & safety policy, environmental affairs, product safety, and operating permits of the company. Devgen constantly seeks to reduce the impact of its operations on the environment through emphasizing pollution prevention and pollution control.

All current activities of Devgen have been fully permitted and the company obtained all required authorizations for its activities. This includes environmental permits and the necessary authorizations for the use of biological agents, ionizing radiation and chemical products under the supervision of the Pharmaceutical Inspection.

The conditions stipulated in these permissions, authorizations and in the regulatory framework have been translated in the EH&S Instructions of the company and in working regulations and procedures to be observed by all employees, students and visitors. All employees must comply with these instructions, regulations and procedures, as they are part of the company's labor regulations. Yearly, the company files a "Annual Environmental Reports" and the "Annual Report Internal Service Prevention and Protection at Work".

Continuous reviewed risk assessments form the basis for a strategy to prevent and reduce accidents.

4.12.2. SPECIFIC REGULATIONS ON BIOTECH CROP

Certain Devgen projects involve activities with genetically modified organisms and/or pathogenic organisms. At this stage of the research & development process they are limited to confined use, *i.e.* there are no intentional introductions in the environment such as field trials with or commercial introduction of genetically modified organisms yet. The activities are subject to specific legislation covering aspects of workers protection, protection of human, animal and plant health as well as protection of the environment. Some organisms qualify as quarantine organisms.

The regulatory framework for handling genetically modified organisms, pathogenic and quarantine organisms consists of European Directives and Regulations that are either applicable as such or that are implemented through national and/or

regional legislation. The legal requirements entail obtaining permits for each activity and complying with strict performance standards. All current activities have been fully permitted and Devgen foresees no hurdles for obtaining permits for future activities. Furthermore the facilities, practices and standard operating procedures are in full compliance with the governing laws.

4.13. LEGAL PROCEEDINGS

To date, no material claims have been filed against Devgen.

5. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following outlook discussion contains forward-looking statements, including statements about the company's beliefs and expectations. Forward-looking statements involve inherent risks and uncertainties and speak only as of the date they are made. The company cautions investors that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements. See also "Forward-looking information" on page 6.

With respect to the expectations for 2005, there can be no assurance that such expectations will occur due to a number of factors including, among others, general economic and business conditions, industry trends, availability and the terms of funding available, competition, currency fluctuations, failure to achieve the expected research and development results, cancellation of orders, the loss of key personnel, availability of suitably qualified personnel on commercially reasonable terms and other factors, some of which are referred to elsewhere in this prospectus. See also "Risk factors", beginning on page 14.

All financial information set out in this chapter has been derived from the audited consolidated financial statements of Devgen as of 31 December 2004, 31 December 2003 and 31 December 2002 and for the financial years then ended. The financial information has been presented in accordance with International Financial Reporting Standards.

5.1. OVERVIEW

Devgen was established in 1997 as a company focused on functional genomics. Its mission was to exploit the industrialized use of a small nematode model organism, called *C. elegans*. This organism shares more than 50% of its genes with humans and other animals. It is a powerful tool to discover gene functions and unravel complex cellular processes. Devgen used the *C. elegans* organism to:

- discover drug targets that restore disease processes to normal in *C. elegans* models of complex human diseases; and
- compound screen drug targets in a more physiologically relevant manner.

In 1998, Andy Fire et al. discovered the RNAi mechanism in the *C. elegans* organism (see section 4.4 "Technology" for a description of this mechanism). Because of the mechanism's ability to turn off genes in an organism (whether of humans and/or of animals, fungi or plants), it can be used to modulate a biochemical function important in diseases. It has therefore become an important alternative to compound and protein therapeutics, and is used in target discovery, human therapeutics and crop protection.

Devgen leveraged its knowledge of the *C. elegans* organism with the RNAi technology as a tool for the discovery of:

- human drug targets for the treatment of the metabolic disease;
- chemical crop protection products; and
- biotechnological crop protection products.

The development of this technology has allowed Devgen to conclude a number of partnerships and service agreements with industrial partners. These partnerships and agreements have allowed Devgen to generate revenues and thereby cover part of the research and development costs.

5.2. INCOME STATEMENT

Consolidated income statement 2004 - 2002

'000 of € / year ended 31 December	2004	2003	2002
Research and development services	8,527	5,956	5,527
Government grant income	857	1,670	108
Total revenues	**9,384**	**7,626**	**5,635**
Research and development expense	(9,922)	(9,088)	(10,645)
General, administrative and selling expenses	(3,153)	(2,805)	(3,497)
Other operating income	448	461	493
Total operating expenses	**(12,627)**	**(11,432)**	**(13,649)**
Profit / (loss) from operating activities	**(3,243)**	**(3,806)**	**(8,014)**
Financial income	302	326	648
Financial costs	(701)	(311)	(186)
Profit / (loss) before taxes	**(3,642)**	**(3,791)**	**(7,552)**
Taxes			
Net result for the period	**(3,642)**	**(3,791)**	**(7,552)**
Weighted average number of ordinary shares in issue ("000)	29,590	29,590	29,590
Basic earnings / (loss) per share	(0.12)	(0.13)	(0.26)
Diluted earnings / (loss) per share	(0.12)	(0.13)	(0.25)

5.2.1. SOURCES OF REVENUES AND REVENUE RECOGNITION

Substantially all of the company's revenues have been derived from research collaboration agreements and government grants.

Pursuant to such research collaborations, Devgen agreed to conduct the research projects, as defined in the agreements. Most of these agreements provide for up-front fees for technology access, research and development services and significant milestone and royalty payments.

- Research and development services are recognized as revenue over the life of the research agreement as the required services are provided and costs are incurred. These services are usually in the form of a defined number of the company's full-time equivalent (FTE) at a specified rate per FTE.
- Technology access fees related to research conducted are recognized as revenue over the expected term of the relationship under the terms of the agreement.
- Milestone payments are recognized as revenue when the amount of the milestone payment is determinable and the earnings process relative to the milestone has been fully completed.
- Royalties will be generated by the sales of products incorporating Devgen's proprietary technology. Royalties are recognized once the amounts due can be reliably estimated based on the sale of the underlying products and collectibility is assured. Where there is insufficient historical data on sales and returns to fulfill these requirements, the royalties will not be recognized until Devgen can reliably estimate the underlying sales. This may be considerably later than when payment is received if subsequent adjustments for product returns are possible under the terms of the relevant contract.

In situations where there is adequate financial information on sales, royalties are recorded based on the reports received from the licensee or based on estimated sales if the information has not been received.

In addition to these sources, the company also receives grants, that can be either research grants, linked to certain research projects, or investment grants, relating to investments in property, plant and equipment and intangible assets.

- Research grants: on certain specific research projects, the research costs incurred are partially reimbursed by IWT or the European Commission. These grants are recognized under government grant income when there is a reasonable assurance Devgen will comply with the conditions attached to them and the grants will be received. Devgen considers the overall recognition criteria being met when the related costs are incurred and an award letter from IWT or the European Commission has been received. These grants are recognized as grant income when the project costs have been incurred.
- Investment grants: grants from the Flemish Government relating to investments in property, plant and equipment and intangible assets are recognized when there is a reasonable assurance Devgen will comply with the conditions attached to them and the grants will be received. These grants are presented as a decrease in the cost of the related asset. Any outstanding receivables are recorded under grants receivable.

5.2.2. REVENUES

Devgen's revenues have increased strongly over the last two years, from €5.6 million in 2002 to €9.4 million in 2004, or an increase with 67%.

Segment revenues 2004 - 2002

'000 of € / year ended 31 December	2004	2003	2002
Research and development services			
Crop protection business unit	8,238	5,700	5,327
Human therapeutics business unit	289	256	200
Total research and development services	**8,527**	**5,956**	**5,527**
Government grant income			
Crop protection business unit	207	0	11
Human therapeutics business unit	650	1,670	97
Total government grant income	**857**	**1,670**	**108**

This strong revenue growth mainly stems from the growth in research and development services in the crop protection business unit. The contracts with Pioneer Overseas Corporation signed in 2003 and Monsanto Company in 2004 have contributed to this growth.

The revenues from the human therapeutics business unit are partly comprised of revenues from research and development services, but have in 2003 and 2004 been based to a large extent on government grant income (see section 4.8. Grants and subsidies).

5.3. OPERATING COSTS AND EXPENSES

Operating costs and expenses 2004-2002

'000 of € / year ended 31 December	2004	2003	2002
Research and development expenses	(9,922)	(9,088)	(10,645)
General, administrative and selling expenses	(3,153)	(2,805)	(3,497)
Other operating income	448	461	493
Total operating expenses	**(12,627)**	**(11,432)**	**(13,649)**

Notwithstanding the increasing revenues, the company believes that the operating costs have been kept well under control over the last 3 years. As Devgen's activities are either aimed at providing research and development services to third parties or at conducting research and development for its own account, the expenses related to these research and development activities are the main cost driver.

Within the research and development expenses, staff costs increased with ca. 10% from 2002 to €4.9 million in 2004, but this was more than compensated with decreases in laboratory expenses and lower depreciations. Also within the general, administrative and selling expenses, staff costs represent the largest individual factor. See section 7.1.7. "Notes to the financial statements" for further details on the cost structure.

5.4. NET RESULTS

The net result on a consolidated level for 2004 amounted to a loss of €3.6 million, at nearly the same level as compared to the loss of €3.8 million in 2003, but a strong improvement compared to the loss of €7.6 million in 2002. This positive evolution is due to the strong increase in revenues and the fact that the costs have been kept under control.

5.5. CASH FLOW

Consolidated cash flows 2004 - 2002

'000 of € / year ended 31 December	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	(1,273)	(869)	(7,078)
Interest paid	(616)	(315)	(179)
Income taxes paid	-	-	-
Net cash provided by (used in) operating activities	**(1,889)**	**(1,184)**	**(7,257)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(665)	(612)	(1,335)
Purchases of intangible assets	(17)	-	(11)
Proceeds sales of property plant and equipment	-	14	30
Interest received	228	426	727
Net cash provided by (used in) investing activities	**(454)**	**(172)**	**(589)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of long term debt	400	1,343	2,342
Principal payments debt	(2,820)	(1,738)	(1,389)
Net cash provided by (used in) financing activities	**(2,420)**	**(395)**	**953**
Net increase (decrease) in cash and cash equivalents	**(4,763)**	**(1,751)**	**(6,892)**
Cash and cash equivalents, beginning of period	**15,418**	**17,169**	**24,061**
Cash and cash equivalents, end of period	**10,655**	**15,418**	**17,169**

The strong improvement in financial results since 2002 is also illustrated by the lower level of net cash used in operating activities: €1.9 million in 2004 as compared to €7.3 million in 2002. The main reason is the above described increase in revenues and cost control, but also the lower level of working capital at the end of 2004 contributed to the positive cash flow evolution. Fluctuations in net movement of trade and other payables and receivables mainly relate to the receipt of license fees, which are spread over the (expected) lifetime of the research contract they relate to.

The net cash flow used by financing activities in 2004 is substantially higher than in 2003 because of the combined effect of loan repayments and the reduced usage of new loans to finance new investments. Additionally, not all investments in property, plants and equipment in 2004 have been financed by bank loans, in contrast to past periods.

The resulting net decrease in cash in each of the three previous years is presented in the table. The financing of this cash drain was entirely based on the available cash of €24 million at the start of 2002. Of this amount, still €10.6 million (of which €2 million is restricted cash) was available at the end of 2004.

5.6. BALANCE SHEET

Consolidated balance sheet at year end 2004 - 2002

'000 of € / year ended 31 December	2004	2003	2002
ASSETS			
Intangible assets	20	25	87
Property plant and equipment	1,438	1,904	2,824
Building held under lease	7,807	-	-
Investment property	1,365	-	-
Cash restricted in its use	2,100	2,100	0
Grants receivable	27	70	55
Trade receivables	263	301	164
Prepaid expenses and other current assets	1,444	1,065	884
Cash and cash equivalents	8,555	13,318	17,169
Total Assets	**23,019**	**18,783**	**21,183**
EQUITY AND LIABILITIES			
Total equity	7,312	10,921	14,701
Provisions	10	-	-
Long term debt	520	1,436	2,042
Long term lease building	8,149	-	-
Current portion of long term debt	1,366	1,782	1,574
Current portion of lease building	287	-	-
Short term debt	0	1	0
Trade payables	1,367	1,524	944
Other current liabilities	4,008	3,117	1,922
Total Equity and Liabilities	**23,019**	**18,783**	**21,183**

Apart from the cash position held by the company, the property plant and equipment are the other major asset class. At the end of 2002, more than half of the property, plant and equipment were comprised of laboratory equipment. In 2003 en 2004, the construction of the company's corporate headquarters in Ghent was continued, so that the fixed assets related to it considerably increased. At year-end 2004, the building was carried at a book value of €9.75 million, thus representing the largest part of the fixed assets.

On the other side of the balance sheet, the construction of the building led to an increase of long-term debts to €8.7 million at year-end 2004.

The working capital assets mainly consist of prepaid expenses in relation to the research and development contracts entered into by Devgen and showed an increase over the last 2 years. In parallel with the growing revenues, also the working capital liabilities (trade payables and other current liabilities) were rising. The largest individual item herein is the deferred income.

Taking into account the net losses as described above, the net equity position of the company decreased from €14.7 million at year-end 2002 to €7.3 million at year end 2004.

5.7. OFF-BALANCE SHEET COMMITMENTS

Off-balance sheet commitments for Devgen mainly consist of operating lease commitment:

- for the rent of the laboratory facility in Singapore with a yearly cost of SGD 90,000 and extending until July 2007;
- for the rent of a back-up facility for the company's laboratories in Ghent starting from 1 April 2004 for a duration of 3 years but yearly cancelable by both parties at zero cost (2 months notice before the end of the annual renewal date); and
- for the lease of company cars.

5.8. TAXATION

The negative results of the company over the last three years imply that no income taxes were payable. At 31 December 2004, the company had net tax losses carried forward amounting to €27.3 million, implying a potential deferred tax asset of €9.3 million. However, due to the uncertainty surrounding Devgen's ability to realize taxable profits in the near future, the company did not recognize any deferred tax assets on the balance sheet.

5.9. RECENT DEVELOPMENTS

Devgen and FMC Corporation agreed to terminate the research collaboration effective 31 March 2005, one year ahead of schedule. The basis for the termination is in fact that Devgen has met the expectations of FMC Corporation with respect to the project. Payment to Devgen by FMC Corporation will be fully executed according to the original plan. Provisions for potential milestones and royalties will remain in effect consistent with the terms outlined in the Research Agreement.

5.10. OUTLOOK

During the coming years the company intends:

- to advance its existing projects utilizing its proprietary core technologies with a view to discover new product candidates;
- to strengthen certain ongoing alliances and to establish additional strategic partnerships with companies that are interested in accessing the results of its research and development programs; and
- to initiate discussions with selected companies that may or may not result in partnerships with a view to increase the company's downstream value capture on its technology and product opportunities.

Devgen will target distinct product opportunities addressing significant needs in major markets:

- **Biotech crop protection:** In certain pest and crop combinations, including emerging biotech crops such as rice and specialty crops, Devgen intends to further develop and eventually commercialize traits by itself and/or through profit-sharing deals with seed providers.
- **Nematicides:** Devgen's most advanced product candidate is a *chemical nematicide formulation* with a safety profile expected to be substantially superior to current products, which is undergoing field trials in 2005 and may reach commercialization in 2009. Devgen believes its products have the potential to capture significant market share in existing markets and open up novel markets that are currently not treated because of a lack of safe, cost-effective treatments. Market access is intended to be achieved through distribution partnerships focused on major crop and geographic segments, which typically may yield up to 25% royalties on end-user sales.

- **Human therapeutics for metabolic disease:** Using its unique technology to identify and screen targets, Devgen has gone on to develop proprietary preclinical *small molecules for treatment of metabolic disease*. Devgen believes that it should be in a position to consider out-licensing some of its programs in this area to potential partners within the next 12 to 24 months. In the event an out-licensing agreement is effectively put in place, this could provide a substantial upside for the company.

For 2005, the company intends:

- to conduct nematicide field trials in several major countries, strengthen its IP position and initiate its first discussions with potential distribution partners, to further optimize potential profiles and regulatory packages required in selected markets;
- to further develop and start testing candidate PBDi and RNAi traits in a range of *in vitro* and *in planta* assays on selected pest-crop combinations;
- to file additional patents and complete certain patent in key areas of RNAi and other technologies;
- to increase the selectivity, potency and other drug like properties of its candidate compounds in each of its pharma programs;
- to file additional patents and complete filed patents on chemical series critical to its pharma programs; and
- to continue making selected additions to its team, infrastructure, scientific and commercial network in line with delivering on its scientific and business goals.

Based on current ongoing research collaboration and government grants, the company expects revenues of €9 million in 2005. The company also sees opportunities for additional revenues in 2005 following new collaborations. As a consequence, the company anticipates a moderate increase in revenues in 2005 compared to 2004. At the same time, the company expects operating costs to increase to about €16.5 million. This is partly due to the expected increase in personnel costs and higher costs for outsourced activities in the crop protection and human therapeutics area. Because of these higher costs, the cash burn rate is expected to increase to about €7 million in 2005. With the cash position of €10.6 million (of which €2.1 million is restricted cash) as per 31 December 2004 and anticipated gross proceeds of €30 million from this offering (excluding proceeds from the possible exercise of the over-allotment warrant) the company will end 2005 with an expected cash position of €35 million. The company believes that, assuming full subscription to the capital increase, the net proceeds from the offering will be largely sufficient to support the company's business plan for at least the next three years.

6. CORPORATE GOVERNANCE

6.1. GENERAL

This section 6 summarizes the rules and principles by which the corporate governance of Devgen has been organized pursuant to Belgian company law, the company's articles of association and the company's corporate governance charter. It is based on the company's articles of association that have been amended by the general shareholders' meeting of 29 April 2005 and on the company's corporate governance charter, both of which will become effective upon completion of Devgen's initial public offering and listing.

The company's corporate governance charter has been adopted in accordance with the recommendations set out in the Belgian Code for Corporate Governance that has been issued on 9 December 2004 by the Belgian Corporate Governance Committee. The main purpose of the Belgian Code for Corporate Governance is to support long-term value creation by providing Belgian listed companies with a model for good corporate governance. Corporate governance has been defined in the Code as a set of rules and behaviors according to which companies are managed and controlled. According to the Code, a good corporate governance model will achieve its goal by setting a proper balance between entrepreneurship and control, as well as between performance and conformance. The Code is based on a "comply or explain" system: Belgian listed companies should follow the Code, but can deviate from its provisions and guidelines (though not the principles) provided they disclose the justifications for such deviation.

Devgen's board of directors intends to comply with the Belgian Code for Corporate Governance, but believes that certain deviations from its provisions are justified in view of the company's particular situation. These deviations are further explained below.

The board of directors of Devgen will review its corporate governance charter from time to time and make such changes as it deems necessary and appropriate. The charter will be made available on the company's website (www.devgen.com) and can be obtained free of charge at the registered office of the company after completion of the offering and listing. In its annual report for the fiscal year ended 31 December 2005, to be published in 2006, the board of directors will also devote a specific chapter to corporate governance, describing the company's corporate governance practices during that year and including explanations, if applicable, on any deviations from the Code, in accordance with the requirement to "comply or explain".

6.2. BOARD OF DIRECTORS

6.2.1. GENERAL PROVISIONS

The board of directors of Devgen has the broadest powers to manage and represent the company, except to the extent provided otherwise by applicable law or the company's articles of association. The board of directors' role is to pursue the long-term success of the company by providing entrepreneurial leadership and enabling risks to be assessed and managed. The board of directors acts as a collegiate body.

In exercising its role and powers, the board of directors has the following specific tasks:

- The board of directors decides on the company's values, objectives and strategy, its risk profile and key policies.
- The board of directors should ensure that the necessary financial and human resources are in place for the company to meet its objectives.
- The board of directors must decide on the executive management structure, appoints the executive management and determines the powers and duties entrusted to the executive management.

- With respect to its monitoring responsibilities, the board of directors should:
  - review the existence and functioning of a system of internal control, including adequate identification and management of risks (including those relating to compliance with existing legislation and regulations),
  - take all necessary measures to ensure the integrity of the company's financial statements,
  - review executive management performance; and
  - supervise the performance of the external auditor and supervise the internal audit function.
- The board of directors should ensure that its obligations to all its shareholders are understood and met. It should account to shareholders for the discharge of its responsibilities.

The board of directors of Devgen is composed of at least five directors. At least three directors should be independent directors who meet the criteria set forth in article 524 of the Belgian Company Code (see also section 6.2.3 below). The board of directors of Devgen believes that its members should have the highest professional and personal ethics and values, consistent with the company's values and standards. They should have broad experience at policy-making level in business, government, education, technology or public interest. They should be committed to enhancing shareowner value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience.

The directors of Devgen are elected by the general shareholders' meeting. However, in accordance with the Belgian Company Code, if the mandate of a director becomes vacant due to his death or resignation, the remaining directors have the right to appoint temporarily a new director to fill the vacancy until the first general shareholders' meeting after the mandate became vacant. The new director completes the term of the director whose mandate became vacant. The corporate governance charter provides that directors can be elected for a maximum (renewable) term of four years.

At the beginning of the year, the chairman of the board of directors will establish a schedule and agenda of subjects to be discussed during the year (to the extent that this can be foreseen). The board of directors shall have at least four regularly scheduled meetings each year. Additional unscheduled meetings of the board of directors may be called upon at any time when the company's interest so requires or upon the request of two directors.

The company's corporate governance charter contains specific rules and procedures relating to the nomination, induction and evaluation of directors. The charter also contains specific guidelines with respect to the conduct of meetings and the individual conduct of directors.

6.2.2. CHAIRMAN

The board of directors appoints a chairman amongst the non-executive directors. The CEO cannot be the chairman.

The chairman of the board of directors is responsible for the leadership of the board of directors. The chairman should take the necessary measures to develop a climate of trust within the board of directors, contributing to open discussion, constructive dissent and support for the decisions of the board of directors. The chairman should promote effective interaction between the board and the executive management. The chairman should establish a close relationship with the CEO, providing support and advice, while fully respecting the executive responsibilities of the CEO.

The chairman has additional specific tasks. These are further described in the terms of reference of the board of directors as set out in the company's corporate governance charter.

6.2.3. INDEPENDENT DIRECTORS

As to independent directors, a director can only be considered an independent director if he meets at least the criteria set out in Article 524 of the Belgian Company Code, which read as follows:

(a) During a term of two years prior to his election he has not exercised the mandate or function of director, manager, executive committee member, day-to-day manager or executive in the company or an affiliate of the company. This criterion does not apply to the re-election of an independent director.
(b) He does not own any corporate rights that represent 10% or more of the share capital, the corporate funds or of a category of shares of the company.
    If he has corporate rights which represent less than 10%, then:
    (i) such rights, taken together with rights in the same company held by companies over which he has control, may not represent 10% or more of the share capital, the corporate funds or of a category of shares of the company; or
    (ii) the disposal of these shares, or the exercise of the rights attached thereto may not be subject to agreements or unilateral commitments entered into by him.
(c) He is not the spouse of, is not the unmarried legal partner of, or is not a relative (via birth or marriage) in the second degree of a person who (i) is a director, manager, executive committee member, day-to-day manager or executive in the company or an affiliate of the company, or (ii) has a financial interest as set out under (b) above.
(d) He does not have a relationship with the company that is of a nature to prejudice his independency.

The board of directors will consider a director independent for the purpose of criterion (d) above, if he is free from any business, close family or other relationship with the company, its controlling shareholders (if any), or the management of either, that creates a conflict of interest such as to affect that director's independent judgment.

In considering a director's independence, also the criteria set out in the Belgian Code of Corporate Governance will be taken into account. The board of directors will disclose in its annual report which directors it considers independent directors. If a director does not meet the criteria set out in the list above, the board of directors will set out its reasons for nevertheless considering this director to be an independent director.

6.2.4. COMPOSITION OF THE BOARD OF DIRECTORS

Upon completion of the offering and listing of the company's shares, the board of directors will consist of 9 members. These members are:

Name	Age	Position	Term until [1]	Other Mandates
Mr. Pierre Hochuli	58	Chairman, independent, non-executive director	2007	Unibioscreen, Oncomethylome Sciences, Royal DSM
Dr. Stephen Bunting	52	Non-executive director	2007	Galapagos, Ablynx, Astex, Akubio
Mr. Patrick Van Beneden	42	Non-executive director	2007	Crop Design, Pamgene, I&I Gent, Avalon Pharmaceuticals, Psychiatric Genomics, TorreyPines Therapeutics, Xantos Biomedicine, Astex Technology, Biotech Fonds Vlaanderen
ING Belgium NV, represented by Mr. Denis Biju-Duval	48	Non-executive director	2007	Roller Grill, Sodir, Surf., Oncomethylome Sciences, Numeca, BioAlliance, Environment SA, Sogam
Dr. Alan Williamson	68	Independent, non-executive director	2007	Argenta Discovery, Oxxon Therapeutics, Onconova
Dr. Jan Leemans	49	Independent, non-executive director	2007	Cropdesign, MTI (Maize Technologies International NV)
Mr. Remi Vermeiren [2]	65	Independent, non-executive director	2007	Crédit Commercial de France, Euronext, Afinia Plastics NV, Ravago NV, The Capital Markets Company NV, ACP sca Luxemburg, Ardatis NV, Groep Van Steenberge NV, Hobbyrama NV, Gondry SA, Hout Van Steenberge NV, Cometal NV.
Thierry Bogaert BVBA, represented by Dr. Thierry Bogaert	44	Managing director, CEO	2007	
Hilde Windels BVBA, represented by Mrs. Hilde Windels	39	Executive director, CFO	2007	

Notes:

(1) The term of the mandates of the directors will end immediately after the annual general shareholders' meeting held in the year set out next to the directors' name.

(2) Election will become effective upon completion of the offering and listing of the company's shares.

The board of directors believes that Mr. Hochuli, Dr. Williamson, Dr. Leemans and Mr. Vermeiren all qualify as an independent director as they satisfy the criteria described in section 6.2.3.

The following paragraphs contain brief biographies of each of the directors:

- **Pierre Hochuli, MBA,** *Chairman, non-executive, independent director.* Pierre Hochuli spent 23 years with Monsanto Company, where he held strategy, finance, marketing, research and development and general management positions including heading Monsanto Company's agriculture research and development / new products division. His last position at Monsanto Company was president international and corporate executive vice president. He also was a member of the board of industry associations such as EuropaBio and US-China Business Council. Currently, Pierre Hochuli serves as board member of several high tech companies.

- **Stephen Bunting, PhD,** Non-executive director. Stephen Bunting is the managing director of Abingworth Management Ltd, a U.K. venture capital firm with over $700 million under management and exclusively devoted to life science investments. Directorships have included, amongst others, Aurora Biosciences, Hexagen, Genetics Therapy Inc., Cantab Pharmaceuticals, and 3-D Pharmaceuticals. Currently Stephen Bunting serves as board member of Ablynx, Galapogos, Astex and Akubio.
- **ING Belgium NV, represented by Denis Biju-Duval,** *Non-executive director.* Denis Biju-Duval has an engineer degree in chemical engineering from INSA Lyon and an MBA from HEC-ISA. He has extensive experience in strategic consulting at Boston Consulting Group and more than 13 years in the private equity industry both in France and in Belgium. He presently is head of corporate investments for ING Belgium and a board member of some investee companies such as BioAlliance, Environnement SA, Numeca Software, Oncomethylome Sciences and other European companies.
- **Jan Leemans, Ph.D,** *Non-executive, independent director.* Jan Leemans is the former research director of Plant Genetic Systems in Ghent, Belgium. In the late nineties, he was member of the board of Hoechst Shering AgrEvo GmbH in Germany, of Nunza B.V. in the Netherlands and of the Flemish Institute of Biotechnology (VIB) in Belgium. He currently serves as a board member of CropDesign and of Maize Technologies International NV, of which he is also a co-founder.
- **Patrick Van Beneden,** *Non-executive director.* Patrick Van Beneden is the executive vice-president of GIMV - Life Sciences, responsible for GIMV's investment portfolio in life sciences. Current board mandates include: Crop Design, Pamgene, I&I Gent, Avalon Pharmaceuticals, Psychiatric Genomics, TorreyPines Therapeutics, Xantos Biomedicine, Astex Technology, Biotech Fonds Vlaanderen and VZW FlandersBio. He is a member of the advisory board of Oxford Bioscience Partners and former board member of Innogenetics, Crucell and Pharming.
- **Remi Vermeiren,** *Non-executive, independent director.* Remi Vermeiren is the former managing director of KBC Bank (from 1989 to 1998) and chairman of KBC Bank and Insurance Company (from 1998 to 2003 when he retired). He has various board positions in other private and public companies such as Euronext and Crédit Commercial de France.
- **Alan Williamson, PhD,** *Non-executive, independent director.* Alan Williamson is the former vice-president of basic research, immunology and inflammation and vice-president of research strategy at Merck US. He was a member of the advisory council of the NIH National Human Genome Institute from 1998 to 2002 and currently is a member of the Sequencing Advisory Panel and Hap Map Advisory Panel. He currently serves as a board member of several high tech companies, including Argenta Discovery, Oxxon Therapeutics, Onconova
- **Thierry Bogaert BVBA represented by Dr. Thierry Bogaert, PhD,** *Founder, managing director, chief executive officer (CEO).* See executive management, section 6.4.
- **Hilde Windels BVBA, represented by Hilde Windels,** *Executive director, chief financial officer (CFO).* See executive management, section 6.4.

6.3. COMMITTEES OF THE BOARD OF DIRECTORS

6.3.1. GENERAL

The board of directors can set up specialized committees to analyze specific issues and advise the board of directors on those issues. The committees are advisory bodies only and the decision-making remains within the collegial responsibility of the board of directors. The board of directors determines the terms of reference of each committee with respect to the organization, procedures, policies and activities of the committee.

6.3.2. AUDIT COMMITTEE

The board of directors has appointed an audit committee. The committee must be composed of at least three members. The committee must be composed exclusively of non-executive directors. At least a majority of its members should be independent directors. The committee appoints a chairman amongst its members. The chairman of the board of directors should not chair the committee.

The role of the audit committee is to assist the board of directors in fulfilling its financial, legal and regulatory monitoring responsibilities. The committee should report regularly to the board of directors on the exercise of its duties, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken. The audit review and the reporting on that review should cover the company and its subsidiaries as a whole.

The committee has specific tasks, which include the company's financial reporting, internal controls and risk management, and the internal and external audit process. These are further described in the terms of reference of the audit committee, as set out in the company's corporate governance charter.

The members of the committee have unrestricted access to the company's offices and all information and papers kept by the company and its subsidiaries. Each member may ask the executive management or any other staff member of the company or its subsidiaries to submit the information that he deems useful, appropriate or necessary to perform his tasks within the framework of the committee. When requesting such information, each member shall inform the other members of the committee thereof and exchange such information with the other members of the committee. Where practical or appropriate such requests will be channeled through the chairman of the board of directors.

On completion of the offering and listing of the company's shares, the following directors shall be member of the audit committee: Remi Vermeiren, as chairman of the committee, and Pierre Hochuli and ING Belgium NV, represented by Denis Biju-Duval.

6.3.3. NOMINATION AND REMUNERATION COMMITTEE

The board of directors has appointed a nomination and remuneration committee. The committee must be composed of at least three members. The committee must be composed exclusively of non-executive directors. According to the Belgian Code on Corporate Governance, at least a majority of its members should be independent directors. The committee appoints a chairman amongst its members. The chairman of the board of directors can chair the committee, but should not chair the committee when dealing with the designation of his successor. The CEO should participate to the meetings of the committee when it deals with the remuneration of other executive managers.

The role of the nomination and remuneration committee is:

- to make recommendations to the board of directors with regard to the election of directors, and to ensure that the appointment and re-election process is organized objectively and professionally, and
- to make proposals to the board on the remuneration policy for non-executive directors and the resulting proposals to be submitted to the shareholders' meeting, and the remuneration policy for executive management.

The committee has specific tasks. These are further described in the terms of reference of the nomination and remuneration committee as set out in the company's corporate governance charter.

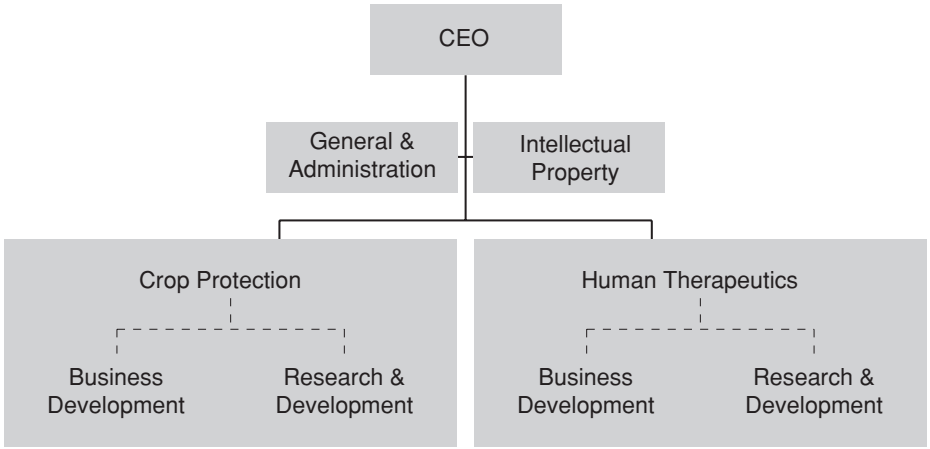
On completion of the offering and listing of the company's shares, the following directors shall be member of the nomination and remuneration committee: Pierre Hochuli, as chairman of the committee, Patrick Van Beneden, Stephen Bunting and Jan Leemans. Contrary to the Belgian Code on Corporate Governance, the nomination and remuneration committee does not exist of a majority of independent directors, but of two independent and two non-independent non-executive directors. The board of directors believes that this deviation is justified as it allows the two non-independent directors concerned, who have great in-depth knowledge of the sector, to add their insight to the committee, as these directors have been involved in the company since many years, and as the board of directors intends to have this situation only during an interim period of two years.

6.4. EXECUTIVE MANAGEMENT

6.4.1. GENERAL PROVISIONS

The board of directors has appointed the executive management of the company. The terms of reference of the executive management have been determined by the board of directors in close consultation with the CEO.

The business of Devgen and its subsidiaries is organized in two business units and two central departments as can be illustrated below:



The business units are organized as follows:

- Crop Protection: This business unit contains the "Crop Protection" business of Devgen, with two sub-divisions, a Business Development division, and a Research and Development division.
- Human Therapeutics: This business unit contains the "Human Therapeutics" business of Devgen. The business unit consists of two separate sub-divisions, a Business Development division, and a Research and Development division.

The central departments are organized as follows:

- Finance, HR and Operations: This central department centralizes all financial matters, including purchases, resource management and operations, human resources, operations (including IT system administration and facilities/safety) and general corporate administration and investor relations. The central department is headed by the CFO. The four directors of the sub-divisions, *i.e.* finance, human resources, operations and IT system administration, directly report to the CFO.
- Intellectual Property: This central department is responsible for the management of all intellectual property developed, owned or used within Devgen. It is headed by the company's IP counsel.

The CEO oversees the different business units and central departments. Together with the CEO, the heads of the business units and central departments constitute the executive management of Devgen. The executive management includes all executive directors of Devgen. The executive management does not constitute an executive committee (*directiecomité* / *comité de direction*) within the meaning of Article 524bis of the Belgian Company Code.

6.4.2. CHIEF EXECUTIVE OFFICER

The CEO is appointed, and can be removed, by the board of directors of the company.

The CEO is charged by the board of directors with the day-to-day management of the company and is therefore also managing director of the company. In this function, the CEO has the following general responsibilities:

- He is responsible vis-à-vis the board of directors for the management of the company and the implementation of the decisions of the board of directors, within the strategy, planning, values and budgets approved by the board of directors.
- He heads and oversees the different central departments and business units of the company, and reports to the board of directors on their activities.
- He is responsible for the development of proposals for the board of directors relating to strategy, planning, finances, operations, human resources and budgets, and such other matters that are to be dealt with at the level of the board of directors.

The CEO has certain specific tasks. These are further described in the terms of reference of the executive management, as set out in the company's corporate governance charter.

6.4.3. OTHER MEMBERS OF THE EXECUTIVE MANAGEMENT

The heads of the two business units and of the two central departments are appointed and removed by the CEO in close consultation with the board of directors of the company.

The tasks of the heads of the different business units and central departments (and their divisions) are the following:
- They must organize their business unit/department in accordance with the guidelines determined by the CEO.
- They report to the CEO on the operation and activities of their business unit/department.

6.4.4. COMPOSITION OF THE EXECUTIVE MANAGEMENT

Upon completion of the offering and listing of the company's shares, the board of directors will consist of 8 members.

These members are:

Name	Position	Age
Thierry Bogaert, BVBA, represented by Thierry Bogaert PhD	Managing director and chief executive officer (CEO)	44
Hilde Windels BVBA, represented by Hilde Windels	Executive director and chief financial officer (CFO), head of the finance, human relations and operations central department	39
Robert Ackerson, PhD	Head of research and development, crop protection business unit	54
Erik Jongedijk, MSc, PhD	Head of business development, crop protection business unit	47
Andreas Köpke, PhD	Head of business development, human therapeutics business unit	40
Ann Viaene, PhD	IP counsel, head of the intellectual property central department	41
Dirk Leysen, PhD	Head of medicinal chemistry, research and development, human therapeutics business unit	46
Thomas Brown, PhD	Head of pharma biology, research and development, human therapeutics business unit	53

Following are biographies of the executive management.

- **Thierry Bogaert BVBA, represented by Thierry Bogaert, PhD,** *Managing director and chief executive officer (CEO)*. Thierry Bogaert is a graduate from Ghent University and received an MSc degree form the University of Manitoba, Canada and a PhD from the Medical Research Council, Laboratory of Molecular Biology, Cambridge, United Kingdom. He held faculty positions at the Medical Research Council - Laboratory of Molecular in Cambridge and the Medical Faculty of the Ghent University. He was a founder of Devgen in 1997 and has led the company's science programs and business development during that time period. He is actively involved with both the crop

protection and human therapeutics business units, having been instrumental in forging key collaborations in both areas that support the company's goals and objectives.

- **Hilde Windels BVBA, represented by Hilde Windels,** *Executive director and chief financial officer (CFO), head of the finance, HR and operations central department.* Hilde Windels has a master in business economics from the University of Leuven. She has been with Devgen since the end of 1998. Previously she was regionally responsible for corporate banking at BBL (now ING).
- **Robert Ackerson, PhD,** *Head of research and development, crop protection business unit*. Robert Ackerson received his PhD in the area of plant physiology from the Texas Tech University. He held a series of positions with DuPont Crop Protection including research, development, registration and regulatory affairs, and formulations, and several management positions both in the United States of America and Asia. Prior to joining Devgen, his latest position within DuPont was director of research. As a consequence of his numerous roles, he has acquired extensive knowledge of the agricultural industry, particularly in the United States, Europe and Asia, along with the attendant insights related to the business throughout the world. He was responsible for bringing several products to the market within DuPont. He brings over 26 years of industry experience encompassing research, development and business dimensions.
- **Erik Jongedijk, PhD,** *Head of business development, crop protection business unit*. Erik Jongedijk received an MSc and PhD in agricultural sciences (plant breeding and genetics) from Wageningen University, The Netherlands. Having served in several senior scientific, management and business positions with companies like Mogen International, RZ Research (currently HZPC), Monsanto Company, Phase-1 Molecular Toxicology and as an independent consultant in business development with multiple biotech companies. He brings 22 years of relevant experience in the agro and pharma biotech industry.
- **Andreas Köpke, PhD,** *Head of business development, human therapeutics business unit*. Andreas Köpke holds a PhD in biochemistry from the Free University of West-Berlin. His scientific background includes seven years of molecular biology and neuro-biochemistry at three different highly recognized universities in Germany and Canada. He is the former CEO of WITA Proteomics AG, a proteomics startup, which has been sold to Eurogentec GmbH. Prior to joining WITA Proteomics, Dr. Köpke was associate director of collaborations and technology transfer at the Janssen Research Foundation (Johnson & Johnson group).
- **Ann Viaene, PhD,** IP counsel, head of the intellectual property central department. Ann Viaene holds an MSc in biotechnology from Ghent University, a PhD in sciences from the University of Leuven and is a qualified European patent attorney. Before joining Devgen in 2004, she worked for 6 years in the private practice firm Declercq, Brandt en Partners.
- **Dirk Leysen, PhD,** *Head of medicinal chemistry, research and development, human therapeutics unit*. Before joining Devgen, Dirk Leysen was section head medicinal chemistry for Organon NV, The Netherlands. He has 22 years of experience in drug discovery and development with a focus on medicinal chemistry, within the therapeutic areas of infection, schizophrenia, depression and anxiety, infertility, contraception and hormone replacement therapy, immunology, and cardiovascular. Dr. Leysen holds a PhD in pharmaceutical chemistry from the University of Antwerp, Belgium. Currently he also holds a position of professor in chemical biology at Maastricht University and the University of Eindhoven, The Netherlands.
- **Thomas Brown, PhD,** *Head of pharma biology, research and development, human therapeutics business unit*. Thomas Brown is the former department head of biochemistry and cell biology at Aventis. Prior to joining Aventis, he worked at RPR as department head of the cardiovascular program. He holds a PhD in "The influence of carbohydrate status on thyroid function". He has experience in biochemistry and pharmacology of various molecular targets of interest of disease groups. Thomas Brown joined Devgen in 2003.

6.5. REMUNERATION OF DIRECTORS AND EXECUTIVE MANAGEMENT

6.5.1. NON-EXECUTIVE DIRECTORS

The directors' mandate may be terminated "ad nutum" (at any time) without any form of compensation. The remuneration package of the non-executive directors is subject to approval by the general shareholders' meeting.

According to the Belgian Code on Corporate Governance, the remuneration of non-executive directors should take into account their responsibilities and time commitment, and non-executive directors should not be entitled to performance-related remuneration such as bonuses, stock related long-term incentive schemes, fringe benefits or pension benefits.

Contrary to the Code, however, the board of directors believes that its non-executive directors should not be remunerated for their mandate, except to the extent that they are an independent director. Accordingly, the remuneration of the independent directors consists of the following elements:

- General remuneration: independent directors are entitled to €1,500 per meeting of the board of directors on which the independent director is present in person.
- Warrants: in addition to the foregoing cash remuneration, all independent directors are entitled to receive warrants on the company's shares.

The board of directors believes that the remuneration package is justified, as it corresponds to market practice and expectations for small, listed companies in the agro and biotechnology field. In addition, it allows the company to offer an appropriate remuneration to attract and retain experienced independent directors from different economic sectors. Also, through warrants, the board of directors can remunerate its independent directors without using the company's cash resources, which is in the interest of a growth company such as Devgen.

Apart from the above remuneration, which only applies to independent directors, both independent and non-independent non-executive directors are entitled to a reimbursement of out-of-pocket expenses actually incurred to participate to board meetings up to a maximum amount of €1,500 per year, such as telephone expenses, fax expenses, travel expenses, hotel expenses and other expenses. Expenses incurred in excess of €1,500 will only be reimbursed to the extent they relate to hotel expenses, international travel expenses and/or conferences in the business framework of Devgen.

Devgen has not made any loans to the members of the board of directors.

6.5.2. EXECUTIVE MANAGEMENT

Thierry Bogaert BVBA is currently remunerated by the company for the performance of services as managing director and CEO of Devgen. The remuneration of Thierry Bogaert BVBA as managing director and CEO is determined by the board of directors upon recommendation by the nomination and remuneration committee. Apart from this position, Dr. Bogaert entered into an employment agreement with Devgen in 1997. This employment agreement has been suspended.

The remuneration of the other members of the executive management is also determined by the board of directors upon recommendation by the nomination and remuneration committee, after recommendation by the CEO to such committee.

The remuneration of the executive management is designed to attract, retain and motivate executive managers. The level and structure of the remuneration are subject to an annual review by the nomination and remuneration committee to take into account market practice. The annual review does not provide mechanisms for automatic adjustments, except for changes that are legally required.

The remuneration of the members of the executive management consists of the following elements:

- Each member of the executive management is entitled to a basic fixed remuneration designed to fit responsibilities, relevant experience and competences, in line with market rates for equivalent positions.
- For the future, the company may contemplate paying a variable remuneration dependent on the executive management member meeting individual and/or team objectives. The bonuses will not be time-driven.
- Each member of the executive management may be offered the possibility to participate in a stock-based incentive scheme, in accordance with the recommendations set by the nomination and remuneration committee, after recommendation by the CEO to such committee.
- Each member of the executive management is in addition entitled to a number of fringe benefits, consisting in most cases of participating in a defined contribution pension scheme (see also section 7.1.5.13 below), also providing survivors' pension and disability insurance, a company car, a mobile telephone, internet access and/or a laptop computer according to general company policy, and other collective benefits (such as hospitalization insurance, meal vouchers). For expatriates, housing is provided at the company's expense.

The great majority of the members of the executive management (excluding amongst others the CEO) are engaged on the basis of an employment contract. The employment contracts are generally for an indefinite term, with a trial period. The employment contracts may be terminated at any time by the company, subject to a severance payment of three months' salary per commenced five years of seniority. The employment contracts include strict (derogatory) non-competition undertakings for 12 months with six months' salary compensation, as well as confidentiality and IP transfer undertakings. Certain other members are engaged on the basis of a service arrangement. The services contracts can be terminated at any time, subject to certain pre-agreed notice periods or compensations. Executive members that are engaged on the basis of a services contract do not receive fringe benefits, except that they are provided with a mobile phone and laptop computer according to general company policy.

The total remuneration paid to the executive management in 2004 was €1.714 million. Notwithstanding the expected addition in 2005, there is a only a slight increase in 2005 caused by the leave of one of the senior directors, who was 9 months on the pay list in 2004.

For income year 2005, the remuneration for the members of the executive management will approximate €1.753 million (fixed salary). In this aggregate remuneration, the expansion of the executive management team with a COO (chief operating officer) is covered (foreseen in the second half of 2005). Contrary to the Belgian Code on Corporate Governance, the board of directors has currently opted not to disclose the individual remuneration of the CEO, due to privacy reasons and as the board of director believes that the remuneration of the CEO is set at reasonable market standards.

6.6. SHARES AND WARRANTS HELD BY DIRECTORS AND EXECUTIVE MANAGEMENT

6.6.1. SHARES AND WARRANTS HELD BY DIRECTORS

The table below provides an overview of the shares and warrants held by the non-executive directors. This overview must be read together with the notes referred to below.

Name	Number of shares [1]	Warrants [2]				Total shares and warrants
		Number	Type [3]	Exercise price	Vested	
Pierre Hochuli [4]	0	33,334	Director and Consultant Warrants (1999)	1.47	33,334	100,001
		66,667	Warrants 2000	1.23	0	
Jan Leemans	0	20,000	Warrants 2000	1.23	0	20,000
Alan Williamson [5]	0	11,000	Director and Consultant Warrants (1999)	1.47	5,232	11,000
Remi Vermeiren [6]	0	0				0
ING Belgium NV, represented by Denis Biju-Duval : the shares held by ING Belgium NV were not acquired in its capacity as director of the company						

Notes:

(1) The number of outstanding shares takes into account the reversed stock split at the ratio of one new share for 3 existing shares.

(2) The number of outstanding warrants takes into account the reversed stock split at the ratio of one new share for 3 existing shares.

(3) Each type of warrant entitles the holder thereof to subscribe to one share of the company. For a description of the different types of the warrants, see also section 3.5 of chapter 3.

(4) The company may decide to grant Pierre Hochuli additional warrants after the completion of Devgen's initial public offering and listing. The exact number of warrants has not yet been determined, but will be determined at a later stage upon recommendation by the nomination and remuneration committee. Upon completion of the initial public offering and listing, all his warrants will have vested.

(5) The company intends to grant Alan Williamson additional warrants after the completion of Devgen's initial public offering and listing. The exact number of warrants has not yet been determined, but will be determined at a later stage upon recommendation by the nomination and remuneration committee.

(6) The company intends to grant Remi Vermeiren warrants after the completion of Devgen's initial public offering and listing. The exact number of warrants has not yet been determined, but will be determined at a later stage upon recommendation by the nomination and remuneration committee.

Pierre Hochuli, Jan Leemans and Alan Williamson, together with others, entered into a contractual lock-up arrangement with respect to their existing warrants for a term of 12 months as of the first listing of the company's shares on the Eurolist of Euronext Brussels. See also section 2.18.

6.6.2. SHARES AND WARRANTS HELD BY EXECUTIVE MANAGEMENT

The table below provides an overview of the shares and warrants held by the executive management (including the executive directors). This overview must be read together with the notes referred to below.

Name	Number of shares [1]	Warrants [2]				Total shares and warrants
		Number	Type [3]	Exercise price	Vested	
Thierry Bogaert BVBA [4]	525,001					525,001
Hilde Windels BVBA [5]	79,500	8,167	Employee Warrants (1999)	1.14	8,167	13,834
		5,667	Warrants 2000	3.18	5,667	
Robert Ackerson	0	10,000	Warrants 2000	1.23	0	10,000
Erik Jongedijk	0	20,000	Warrants 2000	1.23	0	20,000
Andreas Köpke	0	20,000	Warrants 2000	1.23	0	20,000
Ann Viaene	0	0				0
Dirk Leysen	0	13,334	Warrants 2000	1.23	0	13,334
Thomas Brown	0	0			0	0

Notes:

(1) The number of outstanding shares takes into account the reversed stock split at the ratio of one new share for 3 existing shares.

(2) The number of outstanding warrants takes into account the reversed stock split at the ratio of one new share for 3 existing shares.

(3) Each type of warrant entitles the holder thereof to subscribe to one share of the company. For a description of the different types of the warrants, see also section 3.5 of chapter 3.

(4) Thierry Bogaert granted the lead manager an over-allotment option on 52,500 of his shares. The remainder of his shares and warrants are subject to a contractual lock-up arrangement of 12 months after the first listing of the shares. See also section 2.18.

(5) Hilde Windels granted the lead manager an over-allotment option on 9,333 of her existing shares. The remainder of her shares and warrants are subject to a contractual lock-up arrangement of 12 months after the first listing of the shares. See also section 2.18.

6.6.3. EQUITY SHARE OPTION PLANS

The company created several warrants within the context of stock based incentive plans for employees, directors and consultants of the company and its subsidiaries. For a description of the different types of the warrants, see also section 3.5 of chapter 3.

In addition to these warrants, on 29 April 2005, the board of directors took an in principle decision to create a new warrant plan after the completion of the company's initial public offering and listing. The contemplated plan is expected to have the following features:

- the plan will provide for the creation of up to 643,334 warrants. At the same time, the company will cancel up to 221,509 warrants under the old plans for employees, directors and consultants that have not yet been granted, or are no longer exercisable;
- beneficiaries of the warrants will be executive management, high-level staff and selected key individuals, and independent directors;
- the warrants will be available for grant to beneficiaries during a two-year period;
- the warrants will be used to reward individuals and to provide a long term incentive scheme.

6.7. THE EXTERNAL AUDITORS

Deloitte & Partners Bedrijfsrevisoren / Réviseurs d'Entreprises CVBA, a civil company having the form of a cooperative company with limited liability organized and existing under the laws of Belgium, with registered office at Louizalaan 240, 1050 Brussels, represented by Mr. Gino Desmet, has been appointed statutory auditor of Devgen for a term of 3 years, ending immediately after the closing of the annual shareholder's meeting to be held in 2007. The remuneration of the statutory auditor for the performance of its mandate in 2004 for Devgen amounted to €11,025 (excl. VAT).

6.8. TRANSACTIONS WITH AFFILIATED COMPANIES

6.8.1. GENERAL

Each director and executive manager is encouraged to arrange his personal and business affairs so as to avoid direct and indirect conflicts of interest with the company. The company's corporate governance charter contains specific procedures to deal with potential conflicts. Summarized, prior to his appointment, a director and an executive manager must inform the board of directors of his related party transactions with Devgen or the company's subsidiaries. During his mandate, he must inform the chairman of the board of directors of the related party transactions that he or his affiliates contemplate to enter into, and such related party transactions can only be entered into after approval by the board of directors. "Related party transaction" of a director or executive manager means any transaction to deliver services or provide supplies or other goods to Devgen or the company's subsidiaries either by the director or executive manager himself, his spouse or unmarried legal partner, a relative of his (via birth or marriage) in the second degree, or a legal entity that is directly or indirectly under the control of the director or executive manager concerned, his spouse or unmarried legal partner, or a relative of his (via birth or marriage) in the second degree. These rules are without prejudice to certain legal procedures that are further discussed below.

6.8.2. CONFLICTS OF INTEREST OF DIRECTORS

Article 523 of the Belgian Company Code provides for a special procedure within the board of directors in the event of a possible conflict of interest of one or more directors with one or more decisions or transactions by the board of directors. In the event of a conflict of interest, the director concerned has to inform his fellow directors of his conflict of interest before the board of directors deliberates and takes a decision in the matter concerned. Furthermore, the conflicted director cannot participate in the deliberation and voting by the board on the matter that gives rise to the potential conflict of interest. The minutes of the meeting of the board of directors must contain the relevant statements by the conflicted director, and a description by the board of the conflicting interests and the nature of the decision or transaction concerned. The minutes must also contain a justification by the board for the decision or transaction, and a description of the financial consequences thereof for the company. The relevant minutes must be included in the (statutory) annual report of the board of directors. The conflicted director must also notify the statutory auditor of the conflict. The statutory auditor must describe in his annual (statutory) audit report the financial consequences of the decision or transaction that gave rise to the potential conflict.

The procedure does not apply to decisions or transactions in the ordinary course of business at customary market conditions. It also does not apply to transactions or decisions between companies of which one holds (directly or indirectly) at least 95% of the voting financial instruments of the other, and transactions or decisions between companies whereby at least 95% of the voting financial instruments of both companies are (directly or indirectly) held by another company.

Article 524bis of the Belgian Company Code provides for a similar procedure in the event of conflicts of interest of executive committee members. In the event of such conflict, only the board of directors will be authorized to take the decision that has led to the conflict of interest. The company's executive management team does not qualify as an executive committee in the sense of article 524bis of the Belgian Company Code.

6.8.3. TRANSACTIONS WITH AFFILIATES

Article 524 of the Belgian Company Code provides for a special procedure that applies to intra-group or related party transactions with affiliates. The procedure applies to decisions or transactions between Devgen and affiliates of Devgen that are not a subsidiary of Devgen. It also applies to decisions or transactions between any of Devgen's subsidiaries and such subsidiaries' affiliates that are not a subsidiary of Devgen.

Prior to any such decision or transaction, the board of directors of Devgen must appoint a special committee consisting of three independent directors, assisted by one or more independent experts. This committee must assess the business advantages and disadvantages of the decision or transaction for Devgen. It must quantify the financial consequences thereof and must determine whether or not the decision or transaction causes a disadvantage to the company that is manifestly illegitimate in view of the company's policy. If the committee determines that the decision or transaction is not manifestly illegitimate, but is of the opinion that it will prejudice the company, it must clarify which advantages are taken into account in the decision or transaction to compensate the disadvantages. All these elements must be set out in the committee's advice. The board of directors must then take a decision, taking into account the opinion of the committee. Any deviation from the committee's advice must be motivated. Directors who have a conflict of interest are not entitled to participate in the deliberation and vote (as set out in section 6.8.2 above). The committee's advice and the decision of the board of directors must be notified to the company's statutory auditor, who must render a separate opinion. The conclusion of the committee, an excerpt from the minutes of the board of directors and the opinion by the statutory auditor must be included in the (statutory) annual report of the board of directors.

The procedure does not apply to decisions or transactions in the ordinary course of business at customary market conditions, and transactions or decisions with a value of less than 1% of the consolidated net assets of the company.

Apart from the foregoing procedure, the company must also report in its annual report substantial restrictions or burdens imposed or maintained by the controlling parent company if any, during previous financial year.

6.9. RELATIONS WITH SIGNIFICANT SHAREHOLDERS

Except for the managing director, the company has no relations with significant shareholders. The company has no knowledge of any shareholders' agreement that would be effective upon completion of the initial public offering and listing, other than the specific lock-up arrangements described in section 2.18 of chapter 2.

7. FINANCIAL INFORMATION

7.1. CONSOLIDATED ANNUAL ACCOUNTS 2002 – 2003 – 2004

The following consolidated accounts are drawn up in accordance with IFRS and have been approved for issuance by the board of directors on 29 April 2005. The accounting policies and notes set out below are an integral part of these consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7.1.1. INCOME STATEMENT

Income statement	Note	2004	2003	2002
'000 of € / year ended 31 December				
Revenues	(7.1.7.1)	**9,384**	**7,626**	**5,635**
Research and development services		8,527	5,956	5,527
Government grant income		857	1,670	108
Research and development expense	(7.1.7.2)	(9,922)	(9,088)	(10,645)
General, administrative and selling expenses	(7.1.7.3)	(3,153)	(2,805)	(3,497)
Other operating income	(7.1.7.4)	448	461	493
Operating profit / (loss)		**(3,243)**	**(3,806)**	**(8,014)**
Financial income	(7.1.7.5)	302	326	648
Financial expense	(7.1.7.6)	(701)	(311)	(186)
Profit / (Loss) before taxes		**(3,642)**	**(3,791)**	**(7,552)**
Income taxes	(7.1.7.9)	-	-	-
Net profit / (loss)		**(3,642)**	**(3,791)**	**(7,552)**
Losses per share (€ per share) (*)				
Basic		(0,12)	(0,13)	(0,26)
Diluted		(0,12)	(0,13)	(0,25)

(*) Not considering the combination of shares and warrants at a ratio of one new share/warrant for 3 existing shares/warrants - see note 7.1.7.24

7.1.2. BALANCE SHEET

Consolidated balance sheet	Note	2004	2003	2002
'000 of € / year ended 31 December				
ASSETS				
Intangible assets	(7.1.7.11)	20	25	87
Property plant and equipment	(7.1.7.12)	1,438	1,904	2,824
Building held under lease	(7.1.7.12)	7,807	-	-
Investment property	(7.1.7.13)	1,365	-	-
Deferred tax assets	(7.1.7.18)	-	-	-
Cash restricted in its use	(7.1.7.16)	2,100	2,100	0
Non-current assets		**12,730**	**4,029**	**2,911**
Grants receivable		27	70	55
Trade receivables		263	301	164
Prepaid expenses and other current assets	(7.1.7.14)	1,444	1,065	884
Held-to-maturity investments		-	-	-
Cash and cash equivalents	(7.1.7.16)	8,555	13,318	17,169
Current assets		**10,289**	**14,754**	**18,272**
Total assets		**23,019**	**18,783**	**21,183**
EQUITY AND LIABILITIES				
Share capital	(7.1.7.19)	740	740	740
Share premium account	(7.1.7.19)	9,911	35,824	35,824
Translation reserves		(17)	-	-
Share-based payment	(7.1.7.20)	61	11	-
Accumulated losses		(3,383)	(25,654)	(21,863)
Equity attributable to equity holders of the parent		**7,312**	**10,921**	**14,701**
Total equity		**7,312**	**10,921**	**14,701**
Provisions		10	-	-
Deferred tax liabilities	(7.1.7.18)	-	-	-
Long term debt	(7.1.7.17)	520	1,438	2,042
Long term lease debt	(7.1.7.17)	8,149	-	-
Non-current liabilities		**8,679**	**1,438**	**2,042**
Current portion of long term debt	(7.1.7.17)	1,366	1,782	1,574
Current portion of lease building	(7.1.7.17)	287	-	-
Short term debt		-	1	-
Trade payables		1,367	1,524	944
Income tax liabilities		-	-	-
Other current liabilities	(7.1.7.15)	4,008	3,117	1,922
Current liabilities		**7,028**	**6,424**	**4,440**
Total equity and liabilities		**23,019**	**18,783**	**21,183**

7.1.3. CASH FLOW STATEMENT

Cash flow statement	2004	2003	2002
'000 of € / year ended 31 December			
CASH FLOW FROM OPERATING ACTIVITIES			
Cash used in operations (see note 7.1.7.10)	(1,273)	(869)	(7,078)
Interest paid	(616)	(315)	(179)
Income taxes paid	-	-	-
Net cash provided by (used in) operating activities	**(1,889)**	**(1,184)**	**(7,257)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(665)	(612)	(1,335)
Purchases of intangible assets	(17)	-	(11)
Proceeds sales of property plant and equipment	-	14	30
Interest received	228	426	727
Net cash provided by (used in) investing activities	**(454)**	**(172)**	**(589)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of long term debt	400	1,343	2,342
Principal payments debt	(2,820)	(1,738)	(1,389)
Net cash provided by (used in) financing activities	**(2,420)**	**(395)**	**953**
Net increase (decrease) in cash and cash equivalents	**(4,763)**	**(1,751)**	**(6,892)**
Cash and cash equivalents, beginning of period (1)	**15,418**	**17,169**	**24,061**
Cash and cash equivalents, end of period (1)	**10,655**	**15,418**	**17,169**

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

7.1.4. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred stock Shares	Amount	Common stock Shares	Amount	Issuance premium	Accumulated profit (loss)	Share-based compensation	Cumulative translation Adjustment	Total
'000 of €, except share and per share amounts									
Balance at 31 Dec. 2001	25,724,515	643	3,865,680	97	35,824	(14,311)			22,253
Net loss 2002						(7,552)			
Balance at 31 Dec. 2002	25,724,515	643	3,865,680	97	35,824	(21,863)			14,701
Net loss 2003						(3,791)			
Share-based payment							11		
Balance at 31 Dec. 2003	25,724,515	643	3,865,680	97	35,824	(25,654)	11		10,921
Net loss 2004						(3,642)			
Capital increase through incorporation of issue premium		22,516		3,397	(25,913)				
Capital decrease through incorporation of retained losses		(22,516)		(3,397)		25,913			
Share-based payment							50		
Translation differences								(17)	
Balance at 31 Dec. 2004	25,724,515	643	3,865,680	97	9,911	(3,383)	61	(17)	7,329

7.1.5. ACCOUNTING POLICIES

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

7.1.5.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission as of 31 December 2004 except for IFRS 2 share-based payment, which was endorsed in February 2005. The financial statements are presented in euro. These principles differ from the statutory financial statements of Devgen, which are kept in accordance with the applicable Belgian accounting legislation (Belgian GAAP).

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

The consolidated financial statements have been established assuming the company in a going concern. The company has generated losses since it incorporation, which is inherent to the current stage of Devgen's business life cycle as a biotech company. Sufficient funds have been raised since its incorporation in order to finance the cash needs of its operations. In order to finance the future growth of the company and its increased cash needs, the company's board of directors has decided to raise additional capital by means of a public offering on Euronext. Other financing mechanisms, such as private placements could be envisaged if needed. Since the company is currently able to satisfy all financial liabilities and is able to fulfill all payments, the board of directors believes that the continuity of the company is not threatened. Based on the current cash availability, and not taking into account a possible capital increase, the board of directors believes that the future of the research programs can be guaranteed for at least one more year.

7.1.5.2 Early adoption of standards

In order to avoid a restatement in 2005, Devgen adopted the IFRS standards (which became effective as of 1 January 2005) listed below early. All of them, with the exception of IFRS 2, were endorsed by the European Commission as of 31 December 2004. IFRS 2 share-based payment was endorsed in February 2005.

IAS 1	(revised 2003)	Presentation of financial statements
IAS 8	(revised 2003)	Accounting policies, changes in accounting estimates and errors
IAS 10	(revised 2003)	Events after the balance sheet date
IAS 16	(revised 2003)	Property, plant and equipment
IAS 17	(revised 2003)	Leases
IAS 21	(revised 2003)	The effects of changes in foreign exchange rates
IAS 24	(revised 2003)	Related party disclosures
IAS 27	(revised 2003)	Consolidated and separate financial statements
IAS 32	(revised 2003)	Financial instruments: disclosure and presentation
IAS 33	(revised 2003)	Earnings per share
IAS 39	(revised 2003)	Financial instruments: recognition and measurement
IFRS 2	(issued 2004)	Share-based payments
IAS 36	(revised 2004)	Impairment of assets
IAS 38	(revised 2004)	Intangible assets

IFRS 2 Share-based payments

The group accounted for all share-based compensation transactions for grants of equity instruments granted after 7 November 2002 and which were not vested as of 31 December 2004.

7.1.5.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its fully owned subsidiary Devgen Pte. Ltd., which was incorporated on 26 February 2004. The results of its subsidiary, incorporated during the year, are included in the consolidated income statement from the effective date of incorporation. Where necessary, adjustments are made to the financial statements of its subsidiary to bring the accounting policies used in line with those used by Devgen. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

7.1.5.4 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

7.1.5.5 Revenue recognition

Substantially all of the company's revenues have been derived from research collaboration agreements and government grants. Pursuant to such research collaborations, Devgen agreed to conduct the research projects, as defined in the agreements. Most of these agreements provide for up front fees for technology access, research & development services and significant milestone and royalty payments.

- Research & development services are recognized as revenue over the life of the research agreement as the required services are provided and costs are incurred. These services are usually in the form of a defined number of the company's full-time equivalents (FTE) at a specified rate per FTE.
- Technology access fees related to research conducted are recognized as revenue over the expected term of the relationship under the terms of the agreement.
- Milestone payments are recognized as revenue when the amount of the milestone payment is determinable and the earnings process relative to the milestone has been fully completed.
- Royalties will be generated by the sales of products incorporating Devgen's proprietary technology. Royalties are recognized once the amounts due can be reliably estimated based on the sale of the underlying products and when collect ability is assured. Where there is insufficient historical data on sales and returns to fulfill these requirements, the royalties will not be recognized until Devgen can reliably estimate the underlying sales. This may be considerably later than when payment is received if subsequent adjustments for product returns are possible under the terms of the relevant contract. In situations where there is adequate financial information on sales, royalties are recorded based on the reports received from the licensee or based on estimated sales if the information has not been received.

Deferred revenue represents amounts received prior to revenue being earned.

7.1.5.6 Grants

Research grants

On certain specific research projects, the research costs incurred are partially reimbursed by IWT or the European Commission. These grants are recognized under government grant income when there is a reasonable assurance Devgen will comply with the conditions attached to them and the grants will be received. Devgen considers the overall recognition criteria being met when the related project costs have been incurred and an award letter from IWT or the European Commission has been received. These grants are recognized as grant income when the project costs have been incurred.

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

7.1.5.7 Property, plant and equipment

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

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

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

7.1.5.8 Intangible assets

Internally generated intangible assets
Research expenses are charged to the income statement as incurred.

An internally generated intangible asset arising from the group's development is recognized only if all of the following conditions are met:
- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

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

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

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

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

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

7.1.5.9 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.

7.1.5.10 Leases

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

The group as lessee

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

Rentals payable under operating leases are charged to income on a straight-line basis over the relevant lease term.

The group as lessor

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

7.1.5.11 Income taxes

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

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

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

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

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

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

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

7.1.5.12 Property

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

7.1.5.13 Provisions

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

7.1.5.14 Pension benefit plans

Pension obligations

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

Share-based compensation

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

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets where applicable). Non-market based 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 recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

7.1.5.15 Financial instruments

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

Loans and receivables

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

Held to maturity investments
Held to maturity investments are initially recognized at their fair value plus transaction costs that are directly attributable to the acquisition of the held to maturity investments. Subsequent to initial recognition, held to maturity investments are recognized at amortized cost using the effective interest method less any impairment losses.

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

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Financial charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

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

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

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

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

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

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

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

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

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

7.1.6. FINANCIAL RISK MANAGEMENT

Credit risk

The limited number of the group's customers subjects the company to concentrations of credit risk. In 2004, all revenue was generated with seven customers.

Interest risk

The group is not subject to material interest risk. All borrowings and leases have fixed interest rates, except for the building loan which is subject to a variable interest rate, revisable at each fifth anniversary date of the loan agreement based on the average weighted interest rate swap 1 to 5 years (IRS ask) with a duration of 15 years, with a margin of 2,5% (see note 7.1.7.21).

Currency risk

The group is not subject to material currency risk. The group has the policy to match foreign currency cash inflows with foreign cash outflows.

7.1.7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR 2004

7.1.7.1 Segment reporting

For management purposes, the group is currently organized into two operating business units: Devgen crop protection and Devgen human therapeutics. These business units are the basis on which the group reports its primary segment information. Devgen Pte. Ltd. is an integral part of Devgen crop protection.

Principal activities are as follows:

- Crop protection: research and development in the agrochemical and biotech crop area
- Human therapeutics: research and development in the pharmaceutical area

Income statement by vertical segment

2004 ('000 of €)	**Total**	**Crop Protection**	**Human Therapeutics**	**Not allocated**
Revenues	**9,384**	**8,445**	**939**	
Research and development services	8,527	8,238	289	
Government grant income	857	207	650	
Research and development expense	(9,922)	(4,896)	(5,026)	
General, administrative and selling expenses	(3,153)			(3,153)
Other operating income	448			448
Operating profit / (loss)	**(3,243)**	**3,549**	**(4,087)**	**(2,705)**
Financial income	302			302
Financial expense	(701)			(701)
Profit / (loss) before taxes	**(3,642)**			
Income taxes				
Net profit / (loss)	**(3,642)**			

2003 ('000 of €)	**Total**	**Crop Protection**	**Human Therapeutics**	**Not allocated**
Revenues	**7,626**	**5,700**	**1,926**	
Research and development services	5,956	5,700	256	
Government grant income	1,670		1,670	
Research and development expense	(9,088)	(3,192)	(5,896)	
General, administrative and selling expenses	(2,805)			(2,805)
Other operating income	461			461
Operating profit / (loss)	**(3,806)**	**2,508**	**(3,970)**	**(2,344)**
Financial income	326			326
Financial expense	(311)			(311)
Profit / (loss) before taxes	**(3,791)**			
Income taxes				
Net profit / (loss)	**(3,791)**			

2002 ('000 of €)	**Total**	**Crop Protection**	**Human Therapeutics**	**Not allocated**
Revenues	**5,635**	**5,338**	**297**	
Research and development services	5,527	5,327	200	
Government grant income	108	11	97	
Research and development expense	(10,645)	(3,270)	(7,375)	
General, administrative and selling expenses	(3,497)			(3,497)
Other operating income	493			493
Other operating expense				
Operating profit / (loss)	**(8,014)**	**2,068**	**(7,078)**	**(3,004)**
Financial income	648			648
Financial expense	(186)			(186)
Profit / (loss) before taxes	**(7,552)**			
Income taxes	-			
Net profit / (loss)	**(7,552)**			

Balance sheets by vertical segment

2004 ('000 of €)	**Crop Protection**	**Human therapeutics**	**Not allocated**	**Total**
Segment assets (*)	197	385	22,437	23,019
Segment liabilities	2,794	148	12,765	15,707

2003 ('000 of €)	**Crop Protection**	**Human therapeutics**	**Not allocated**	**Total**
Segment assets (*)	232	177	18,374	18,783
Segment liabilities	1,528	457	5,877	7,862

2002 ('000 of €)	Crop Protection	Human therapeutics	Not allocated	Total
Segment assets (*)	11	137	21,035	21,183
Segment liabilities	487	449	6,534	6,482

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

Geographical Segments

Revenues according to geographic area were as follows:

('000 of €)	2004	2003	2002
Belgium	857	1,670	108
United States	4,498	3,462	5,377
Other foreign countries	4,029	2,494	150
Total	**9,384**	**7,626**	**5,635**

Revenues are attributed to countries based on location of customer.

7.1.7.2 Research and development expenses

('000 of €)	2004	2003	2002
Staff costs	4,895	4,242	4,396
Shared based payment	50	11	0
Laboratory expenses	1,318	1,658	1,933
Outsourcing	665	395	876
Patent expenses	300	245	399
License expenses	203	148	178
Other	1,162	856	1,080
Subtotal	**8,593**	**7,555**	**8,862**
Depreciation and amortization	1,329	1,533	1,783
Total research and development expenses	**9,922**	**9,088**	**10,645**

7.1.7.3 General, selling and administrative expenses

('000 of €)	2004	2003	2002
Staff costs	1,792	1,782	2,009
Shared based payment	-	-	-
Other	1,232	970	1,429
Subtotal	**3,024**	**2,752**	**3,438**
Depreciation and amortization	129	53	59
Total general and administrative expenses	**3,153**	**2,805**	**3,497**

7.1.7.4 Other operating income

('000 of €)	2004	2003	2002
Rent income	68	0	0
Other operating income	380	461	493
Total	**448**	**461**	**493**

7.1.7.5 Financial income

('000 of €)	2004	2003	2002
Interest income	243	326	648
Interest subsidies	59	0	0
Total	**302**	**326**	**648**

7.1.7.6 Financial expenses

('000 of €)	2004	2003	2002
Interest charges on long term loan building	432	0	0
Interest charges in other borrowings	227	311	186
Other	42	0	0
Total	**701**	**311**	**186**

7.1.7.7 Employee benefits

('000 of €)	2004	2003	2002
Wages, salaries and bonuses	4,445	3,889	4,510
Social security costs	1,202	1,163	1,153
Share-based compensation expense	50	11	0
Pension costs – defined contributions plans	280	256	278
	5,977	**5,319**	**5,941**
Share options granted (in '000 of number)	247	131	513

The company has various defined contribution plans, available to substantially all salaried employees. Employees contribute 0% of their annual compensation while the company contributes up to 8% of the employees' annual compensation.

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

In numbers	2004	2003	2002
Executive directors	2	2	2
Laboratory staff	72	71	72
General and administrative staff	17	17	20
	91	**90**	**94**

7.1.7.8 Operating leases

('000 of €)	2004	2003	2002
Lease payments recognized as an expense (as lessee)	213	694	647
Lease payments recognized as income (as lessor)	68	0	0

7.1.7.9 Income Taxes

('000 of €)	2004	2003	2002
Current taxes	0	0	0
Deferred taxes (see note 7.1.7.18)	0	0	0
	0	**0**	**0**

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

('000 of €)	2004	2003	2002
Expected income tax credit, computed by applying the statutory tax rate to the book loss	(1,232)	(1,288)	(3,033)
Non recognized deferred tax assets	960	1,170	2,880
Permanent differences	53	48	85
Other	219	70	68
Effective income taxes	**0**	**0**	**0**

7.1.7.10 Cash used in operations

('000 of €)	2004	2003	2002
Net loss	(3,642)	(3,791)	(7,552)
Adjustments for:			
Income taxes	-	-	-
Amortization	22	62	92
Depreciation	1,434	1,523	1,749
Profit / (loss) disposal on property, plant and equipment	-	(4)	70
Shared based payment expense	50	11	-
Interest expense	659	310	186
Interest income	(243)	(359)	(648)
Net movement in provisions	10	-	(41)
Net movement trade and other receivables	(271)	(401)	1,022
Net movement trade and other payables	737	1,780	(1,956)
Rental deposit	(11)	-	-
Other	(17)	-	-
Cash used in operations	**(1,273)**	**(869)**	**(7,078)**

7.1.7.11 Intangible Assets

('000 of €)	Licenses
At 1 January 2002	
Cost	282
Accumulated depreciations	(113)
Net carrying amount	169
Year ended 31 December 2002	
Additions	10
Disposals	0
Movements from other category	0
Depreciation charge	(92)
Net carrying amount	87
At 31 December 2002	
Cost	292
Accumulated depreciations	(205)
Net carrying amount	87
Year ended 31 December 2003	
Additions	0
Disposals	0
Movements from other category	0
Depreciation charge	(62)
Net carrying amount	25
At 31 December 2003	
Cost	292
Accumulated depreciations	(267)
Net carrying amount	25
Year ended 31 December 2004	
Additions	19
Disposals	0
Movements from other category	0
Depreciation charge	(24)
Net carrying amount	20
At 31 December 2004	
Cost	311
Accumulated depreciations	(291)
Net carrying amount	20

The amortization of intangible assets is included in the research and development expense line of the income statement. No intangible assets are restricted or pledged.

7.1.7.12 Property, plant, equipment and building under lease

('000 of €)	Building under lease	Equip-ment	Hard & Software	Furniture	Vehicles	Computer Equipment under leasing	Leasehold Improve-ments	Total
At 1 January 2002								
Cost	0	4,220	900	403	155	0	1,025	6,703
Accumulated depreciation	(0)	(1,958)	(520)	(188)	(91)	(0)	(727)	(3,484)
Net carrying amount	**0**	**2,262**	**380**	**215**	**64**	**0**	**298**	**3,219**
Year ended 31 December 2002								
Additions	0	1,093	34	40	0	189	12	1,368
Disposals	(0)	(0)	(0)	(0)	(28)	(0)	(0)	(28)
Movements from other category	0	0	0	0	0	0	0	0
Depreciation charge	(0)	(1,187)	(229)	(86)	(7)	(29)	(197)	(1,735)
Net carrying amount	**0**	**2,168**	**185**	**169**	**29**	**160**	**113**	**2,824**
At 31 December 2002								
Cost	0	5,313	934	443	127	189	1,037	8,043
Accumulated depreciation	(0)	(3,145)	(749)	(274)	(98)	(29)	(924)	(5,219)
Net carrying amount	**0**	**2,168**	**185**	**169**	**29**	**160**	**113**	**2,824**
Year ended 31 December 2003								
Additions	0	193	11	2	0	411	5	622
Disposals	(0)	(0)	(0)	(0)	(9)	(0)	(0)	(9)
Movements from other category	0	0	0	0	0	0	0	0
Depreciation charge	(0)	(1,079)	(136)	(72)	(17)	(112)	(117)	(1,533)
Net carrying amount	**0**	**1,282**	**60**	**99**	**3**	**459**	**1**	**1,904**
At 31 December 2003								
Cost	0	5,506	945	445	118	600	1,042	8,656
Accumulated depreciation	(0)	(4,224)	(885)	(346)	(115)	(141)	(1,041)	(6,752)
Net carrying amount	**0**	**1,282**	**60**	**99**	**3**	**459**	**1**	**1,904**
Year ended 31 December 2004								
Additions	8,000	350	117	76	7	73	128	8,751
Disposals	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Movements from other category	0	0	0	0	0	0	0	0
Depreciation charge	(193)	(868)	(70)	(58)	(7)	(212)	(2)	(1,410)
Net carrying amount	**7,807**	**764**	**107**	**117**	**3**	**320**	**127**	**9,245**
At 31 December 2004								
Cost	8,000	5,856	1,062	521	125	673	1,170	17,407
Accumulated depreciation	(193)	(5,092)	(955)	(404)	(122)	(353)	(1,043)	(8,162)
Net carrying amount	**7,807**	**764**	**107**	**117**	**3**	**320**	**127**	**9,245**

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

7.1.7.13 Investment property

('000 of €)	2004
Cost	1,400
Depreciation	35
Net carrying amount	**1,365**
Rental income recognized	68
Fair value	**1,125**

The group had no investment property in 2003 and 2002.

7.1.7.14 Prepaid expenses and other current assets

('000 of €)	2004	2003	2002
Taxes receivable	233	226	249
Interest income receivable	7	11	17
Social expenses prepaid	195	228	154
Deferred charges	568	464	265
Accrued income	430	136	199
Guarantees paid	11	0	0
Total	**1,444**	**1,065**	**884**

7.1.7.15 Other current liabilities

('000 of €)	2004	2003	2002
Taxes payable	188	188	112
Employee benefits	774	897	835
Accrued charges	53	45	36
Deferred income	2,841	1,985	487
Other	152	2	452
Total	**4,008**	**3,117**	**1,922**

7.1.7.16 Cash and cash equivalents

('000 of €)	2004	2003	2002
Cash on hand	8	11	6
Cash at bank	1,871	10,607	1,882
Short term bank deposits	2,700	2,700	15,281
Highly liquid commercial paper	3,976	0	0
	8,555	**13,318**	**17,169**

On 21 October 2002, Devgen entered into a lease agreement with ING Lease Belgium and Dexia Lease Services (originally named "Artesia Leasing & Renting"), the lessors, for the construction of a new building. On 18 October 2002, Devgen placed a cash pledge of €1,000,000 in favor of the lessors to guarantee the first up front lease payment of €1,000,000 on

1 April 2004. This pledge was released on 1 April 2004 together with the payment of the first lease term. Concurrently, at signing date, Devgen placed a cash pledge of €1,700,000 in favor of the lessors for the certainty of the adequate execution of all the obligations until the lease agreement came into effect. This cash pledge was released on 24 April 2004.

Concurrently, Devgen placed an additional cash pledge of €2,100,000 in favor of the lessors, to cover the V.A.T. recoverability risk of the lessors on the construction cost of the building. This cash pledge will be released on a straight-line basis over 15 years, at the rate of 1/15 per year, starting on 1 April 2005. This amount is classified as a non-current asset.

7.1.7.17 Borrowings and lease debt

('000 of €)	2004	2003	2002
Non-current			
Secured	8,331	357	116
Non-secured	338	1081	1,926
Total	**8,669**	**1,438**	**2,042**
Current			
Secured	545	240	61
Non-secured	1,108	1,542	1,513
Total	**1,653**	**1,782**	**1,574**

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

The other borrowings are non-secured.

All borrowings are subject to the following covenants:

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

The maturity of non-current borrowings (including financial leases) is as follows:

('000 of €)	2004	2003	2002
Between 1 and 2 years	685	1,438	1,171
Between 2 and 5 years	1,133	-	871
Over 5 years (*)	6,851	-	-
	8,669	**1,438**	**2,042**

(*) The amount for 2004 includes the €3 million option on the building held under lease (see note 7.1.7.21f)

The details on the borrowings are summarized below (all in full amounts):

Year and Original Amount		Currency	Secured (s) Non secured (ns)	Interest (annual)	First installments	Number of installments	Period of installments
1997	1,363,414	Euro	ns	5.30%	4 May '98	20	quarterly
1997	347,051	Euro	ns	4.95%	4 May '98	12	quarterly
1999	421,419	Euro	ns	3.86%	10 June '99	36	monthly
1999	1,363,414	Euro	ns	4,05%	10 June '99	60	monthly
2000	867,627	Euro	ns	5.08%	6 Oct. '00	60	monthly
2001	2,100,000	Euro	ns	5.38%	15 June '01	20	quarterly
2002	1,700,000	Euro	ns	5.71%	23 Oct. '02	12	quarterly
2002	192,867	Euro	Financial lease (s)		1 Oct. '02	12	quarterly
2003	81,507	Euro	Financial lease (s)		1 Jan. '03	12	quarterly
2003	37, 445	Euro	Financial lease (s)		1 Apr. '03	12	quarterly
2003	245,499	Euro	Financial lease (s)		1 Oct. '03	12	quarterly
2003	112,040	Euro	Financial lease (s)		1 Oct. '03	12	quarterly
2003	65,555	Euro	Financial lease (s)		1 Jan. '04	12	quarterly
2003	300,000	Euro	ns	0,161% M	1 Aug. '03	12	monthly
2004	74,400	Euro	Financial lease (s)		1 Jan '05	12	quarterly
2004	400,000	Euro	ns	4.50%	12 Nov '04	12	quarterly
2002 (**)	9,400,000	Euro	Financial lease	5.68 % for first 5 years*	1 April '04	60	quarterly

(*) Variable interest: revision after 5 and after 10 years, based on 5 year IRS (ask).
(**) At the end of the lease term of 15 years, Devgen has a purchase option of €3,000,000 to acquire the building from the lessors. The €9,400,000 borrowing cost includes the €3,000,000 purchase option amount.

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

The group has the following un-drawn borrowing facilities:

('000 of €)	2004	2003	2002
Lease debt building	0	9,400	9,400
Other borrowings	0	0	519
Total	**0**	**9,400**	**9,919**

Obligations under financial leases

('000 of €)	2004	2003	2002
Amounts payable under finance lease			
Within one year	767	272	72
In the second to fifth year	3,071	381	126
After five years	10,371	0	0
	14,209	**653**	**198**
Less future finance charges	5,405	54	19
Present value of lease obligations	8,804	599	179
Less amount due for settlement within 12 months	547	239	61
Amount due for settlement after 12 months	**8,257**	**360**	**118**

Financial leases relate to the financing of computer equipment and building.
Devgen has a purchase option at the end of each finance lease contract to acquire the leased assets. This purchase option amounts to 1% of the acquisition value of the leased assets, which matches the amount of the finance lease at inception.

7.1.7.18 Deferred Income Taxes

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

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

('000 of €)	2004	2003	2002
Net tax loss carry forwards	27,298	24,472	21,031
Non recognized deferred tax	9,279	8,318	8,448

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

('000 of €)	2004	2003	2002
Tax credits	2,605	2,296	1,927
Share-based compensation	51	10	-
Other	997	651	452
Non recognized deferred tax assets	**1,238**	**1,005**	**956**

Deferred taxes by type of temporary differences:

('000 of €)	2004	2003	2002
Accelerated tax depreciation	-99	-173	-297
Formation costs expensed	1	2	17
Research costs expensed	58	138	280
Net impact recognition building, recognition of revenue in next accounting period and other - net	40	33	0
End of the year	**0**	**0**	**0**

7.1.7.19 Share Capital

At 31 December 2004, 2003 and 2002, the number of issued and outstanding Class A, B and C shares and the related weighted average par value and issuance premium paid are as follows:

	2004	2003	2002
Class A Common Stock			
- issued and outstanding	1,000,000	1,000,000	1,000,000
- par value	0.025	0.025	0.025
- issuance premium	-	-	-
Class B Preferred Stock			
- issued and outstanding	25,724,515	25,724,515	25,724,515
- par value	0.025	0.025	0.025
- issuance premium	1.39	1.39	1.39
Class C Common Stock			
- issued and outstanding	2,865,680	2,865,680	2,865,680
- par value	0.025	0.025	0.025
- issuance premium	-	-	-

On 1 June 2004, the general meeting of shareholders decided first to increase the capital through incorporation of part of the issuance premium (€25,913,227.42) into the capital, and consequently to reduce the capital by incorporation of the retained losses for the same amount (€25,913,227.42). After this operation, the capital amounted again to its initial amount of €739,754.88. The reconciliation is shown in the statement of shareholders' equity.

Voting rights – each share is entitled to one vote.

Dividends – The company has never declared or paid dividends on its shares and does not anticipate paying any dividends in the foreseeable future. Under Belgian law, the company is required to set aside at least 5% of its net profits during each financial year and contribute such sum to the legal reserve until such reserve has reached an amount equal to 10% of the company's share capital. As of 31 December 2004, there were no profits available for distribution under Belgian law.

Preferred B shares had non-cumulative preferential dividend rights, equal to 8% of the total paid-in amount of these shares, until the annual shareholders' meeting in 2003, which approved the annual accounts as of 31 December 2002.

Liquidation rights – In the event of any liquidation, dissolution or winding up of the company, the holders of the Class B preferred shares are entitled to receive, prior and in preference to any distribution to the holders of Class A and C shares, an amount equal to the paid-in amount of their class B shares, being €36,774,133 as at 31 December 2004, before issuance cost.

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

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

The preferential subscription right can be restricted or cancelled by a resolution approved by 75% of the votes validly cast at a shareholders' meeting where, in principle, at least 50% of the company's share capital is present or represented, and provided that all B shares that are present or represented at the meeting that will decide on the limitation or suspension, shall have consented.

Preferred B stock – In addition to the preferred dividend and liquidation rights, as described above, preferred B shares have following additional preferred rights compared to A and C shares:
(1) Preferential rights in case of sale of minimum 75% of the shares, whereby, in case the total sales price of the shares is lower than the highest subscription price of preferred B shares (currently €2.85 per share) multiplied with the total amount of shares transferred, the proceeds of the sales transaction will first be attributed to the preferred B shareholders, and
(2) Certain well-described rights with respect to the representation of the board of directors, (*i.e.* minimum 4 directors out of the total minimum of 5 directors are elected from the list of candidates proposed by group B shareholders), special majority quorums in the board of directors for the confirmation of well-described decisions (among which of strategic importance for the company).

Common A stock – The class A and C shares are identical except for the fact that, in accordance with the bylaws, at least one director will be elected from the list of candidates proposed by group A shareholders. There are no such clauses related to C shareholders.

Subsequent to 31 December 2004, the board of directors has called an extra-ordinary shareholders meeting on 29 April 2005, to propose, amongst others, the cancellation of the different classes of shares and the rights attached to them (see note 7.1.7.24 on subsequent events). In addition, the shareholders' meeting will be proposed to combine the shares in a reversed stock split at a ratio of the new shares for 3 existing shares. The shareholders' meeting will also be proposed to combine the existing warrants using the same ratio.

7.1.7.20 Share-based payment schemes

The company has created several pools of stock options for grant to employees, directors, consultants and research institutions. The table below provides an overview as per 31 December 2004 of the warrants that have been granted and that are still exercisable.

Summary table of options granted

Creation date of plan	Total number created	Grant date	Total number granted	Exercise price (in €)	Beneficiary
27 Sept. 1999	888,320	30 Sept. 1999	357,500	0.38	Employees
		31 Aug. 2000	93,750	1.06	Employees
		12 July 2000	37,500	0.93	Employees
27 Sept. 1999	486,000	30 Sept. 1999	268,334	0.38	Directors and consultants
		18 Sept. 2000	52,866	1.06	Directors and consultants
		17 July 2003	133,000	0.49	Directors
22 Sept. 2000	1,650,000	20 Dec. 2000	445,386	1.06	Employees, Directors and consultants
		12 Oct. 2000	34,090	1.06	Employees, Directors and consultants
		28 Jan 2002	245,728	0.97	Employees, Directors and consultants
		17 July 2003	130,500	0.49	Employees and Directors
		26 July 2004	567,000	0.41	Employees and Directors
21 Dec. 1999	26,812	9 Feb. 2000	26,812	1.0082	Research institution
21 Dec. 1999	396,666	9 Feb. 2000	158,666	0.381	Research institution
21 Dec. 1999	15,000	Cancelled	-	1.0082	Research institution

Since 31 December 2004, 6,000 Warrants 2000 of the pool created on 22 September 2000, and which were granted on 26 July 2004, have become no longer exercisable. Since 31 December 2004 the board of directors has called an extraordinary general shareholders' meeting held on 29 April 2005 decided, amongst other things, to combine the warrants at a ratio of one new warrant for [3] existing warrants.

a. Warrant pool 1999 for employees

By a decision of the extraordinary shareholders' meeting on 27 September 1999, the company was allowed to issue a maximum of 888,320 warrants to its employees under its 1999 stock option plan, in order to purchase class C common shares. The options were granted with an exercise price equal to the fair market price of the underlying class C shares at the date of grant, as determined by the board of directors.

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

The duration of the stock options is ten years from the date of creation of the warrants. Except in the event of liquidation, the exercise of the warrants may only take place during an exercise period (1 May to 14 May of each year), which will occur at the earliest three full calendar years after the calendar year when the grant occurred and then only (1) after the earlier of (a) date of first quotation of the shares on an official securities exchange or (b) 5 years after the date of grant, or (2) in the circumstances of an acquisition.

All options currently offered to employees from these 1999 plans were granted before 7 November 2002.

As of 31 December 2004, there are 7,820 options available for future grants to employees. As of 31 December 2004, 391,750 options have been declared unexerciseable.

b. Warrant pool 1999 for directors, consultants and research institutions

By decisions of the extraordinary shareholders' meeting on 27 September 1999 and 21 December 1999, the company was allowed to issue a maximum of 486,000 warrants to directors and consultants and 438,478 warrants to three specific research institutions.

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

The warrants are granted to selected beneficiaries by decision of the nomination and remuneration committee or the board of directors. The duration of the warrants for directors and consultants is ten years from the date of creation of the warrants. Except in the event of liquidation the exercise of the warrants may only take place during an exercise period (1 May to 14 May of each year), which will occur at the earliest 3 full calendar years after the calendar year when the grant occurred and then only (1) after the earlier of (a) date of first quotation of the shares on an official securities exchange or (b) 5 years after the date of grant, or (2) in the circumstances of an acquisition.

As of 31 December 2004, there are 31,800 options available for future grants to directors and consultants. As of 31 December 2004, no options have been cancelled.

As of 31 December 2004 the company has granted 423,478 options to 2 research institutions, which will vest upon reaching certain milestones under the research agreement of which 185,478 options under this plan were fully vested as of 31 December 2004. There are still 238,000 options available for future vesting granted to these research institutions. As of 31 December 2004, 15,000 options have been cancelled.

The duration of the stock options granted to research institutions is ten years from the date of creation of the warrants. Except in the event of liquidation the exercise of the warrants may only take place during an exercise period (1 May to 14 May of each year), which will occur after the earlier of date of the first day of the month following the first quotation of the shares on an official securities exchange or in the event of an acquisition.

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

All options granted to directors, consultants and research institutions from these 1999 plans were granted before 7 November 2002, except for 133,000 warrants which were granted to directors on 17 July 2003.

c. Warrant pool 2000 for employees, board members and consultants

By a decision of the extraordinary shareholders' meeting of 22 September 2000, the company was allowed to issue a maximum of 1,650,000 warrants to its employees, directors and consultants under this 2000 Stock option plan, to purchase class C common shares. These options have an exercise price equal to the fair market price of the underlying class C shares at the date of offer, as determined by the board of directors and vest rateably over 4 years: 25% of the options vest after one year, after that date the remaining 75% become vested on a monthly basis (2,083% per month), except if decided otherwise by the company. As of 31 December 2004, there are no options available for future grants to employees, board

members and consultants under this 2000 plan. As of 31 December 2004, 227,296 options have been cancelled. Since 31 December 2004, 6,000 options in addition have been cancelled.

The employee, directors and consultant options are granted to selected beneficiaries by decision of the nomination and remuneration committee or the board of directors. The duration is ten years from the date of creation of the warrants, 22 September 2000. Except in the event of liquidation the exercise of the warrants may only take place during an exercise period (1 April to 15 April and 16 September to 30 September), which will occur at the earliest three full calendar years after the calendar year when the grant occurred.

From this plan, 697,500 options were granted after 7 November 2002.

d. Warrant pool Temasek Life Sciences Laboratory Ltd.

By a decision of the extraordinary shareholders' meeting of 1 June 2004, the company was allowed to issue 194,000 warrants for the benefit of a specific research institution, to purchase class C common shares. As of 31 December 2004, no options were granted under this plan.

The duration of the stock options is five years from the date of creation of the warrants. Except in the event of liquidation the exercise of the warrants may only take place during an exercise period (1 April to 15 April and 16 September to 30 September of each year), which will occur after the earlier of date of the first day of the month following the first quotation of the shares on an official securities exchange or in the event of an acquisition.

As of 31 December 2004, there are 194,000 options available for future grant to this research institution.

e. Accounting for share-based payment

IFRS 2 Share-based payment only becomes effective as of 1 January 2005. In order to avoid a restatement of its 2005 consolidated financial statements, the group decided to early adopt IFRS 2 for all options granted after 7 November 2002 which were not vested as of 31 December 2004. It relates to 170,181 of the 263,500 options granted on 17 July 2003 and all 567,000 options granted on 26 July 2004.
The share-based compensation expense recognized in the income statement as such, is given below:

('000 of €)	2004	2003	2002
Share-based compensation	51	10	0

The fair value of each option is estimated on the date of grant using the binomial model by Cox-Ross-Rubinstein with the following assumptions:

	Options 1999 granted 17 July 2003	Options 2000 granted 17 July 2003	Options 2000 granted 26 July 2004
Number of options granted	133,000	130,500	567,000
Number of options not vested at 31/12/04	85,898	84,283	567,000
Exercise price	€0.49	€0.49	€0.41
Expected dividend yield	0	0	0
Expected stock price volatility	90%	90%	90%
Risk-free interest rate	3.45%	3.73%	3.68%
Expected duration	4 years	5 years	4 years
Forfeiture rate	10%	10%	10%
Dilution rate	0.43%	0.42%	1.84%
Fair value	€0.24	€0.26	€0.22

The weighted average risk-free interest rates used are based on Belgian strip-yields at the date of grant with a term equal to the expected life of the options.
Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2004		2003		2002	
	Average exercise price in €	Options (thousands)	Average exercise price in €	Options (thousands)	Average exercise price in €	Options (thousands)
On 1 Jan.	0.72	2,093	0.74	1,898	0.70	1,643
Granted	0.41	567	0.49	265	0.97	513
Forfeited	0.98	109	0.47	69	0.94	258
On 31 Dec.	0.64	2,551	0.72	2,093	0.74	1,898

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

Earliest exercise date	Expiry date	Exercise price	2004 (thousands)
2002	2009	0.38	626
2003	2009	1.01	27
2003	2009	0.38	159
2003	2009	0.93	37
2003	2010	1.06	479
2003	2009	1.06	147
2005	2010	0.97	246
2006	2010	0.49	130
2006	2009	0.49	133
2007	2010	0.41	567
			2,551

7.1.7.21 Significant agreements, commitments and contingencies

a. Grants related to research and development projects

Certain research projects of the company are partially funded by grants from government agencies. The company has been awarded five research grants from IWT: one agreement of 16 July 1999 (“Pkd project”), one agreement of 3 August 1999 (“Serca project”), one agreement of 6 December 2002 (“Ion Channel project”), one agreement of 20 October 2003 (“Mode of Action project”) and one agreement of 26 October 2004 (“PPN control project”). The grants are determined as a percentage of the actual direct costs incurred by the company to execute the project, during the period as defined in the fund agreement. Costs including payroll, consumables and small equipment, depreciation of machinery and equipment, direct general and administrative expense (or a defined fixed overhead allocation percentage), are reimbursed between 48% and 60% of actual project costs incurred during periods ranging from 24 to 36 months.

The first two projects generated funding of €1,186,733 (“Serca project”) and €1,768,373 (“Pkd project”) respectively and received a final positive evaluation after the conclusion of the projects in 2001.

The other two projects have a cap on maximum funding of €2,430,000 (“Ion Channels”) and €1,851,660 (“Mode of Action”) respectively. The “Mode of Action project” has been terminated in 2004 after one year and is likely to generate

a final funding of €92,299, provided the project will receive a final positive evaluation by IWT The "Ion Channel project" has been positively evaluated by the grantor after 24 months and received an approval on 21 October 2004 for a change in innovation goal for the third remaining year of the project.

For the "PPN control project", IWT will evaluate the progress after one year, at which time funding could be terminated if certain milestones, as defined in the agreement, have not been reached or alternatively, continued according the pre-agreed schedule.

The following table summarizes the financial impact of these grants pursuant to these 5 agreements:

('000 of €)	2004
Grants recognized (cumulative)	5,449
Grants received (cumulative)	5,255
Recognized as accrued income	385
Recognized as deferred income	191

b. Collaborative Research Agreements

FMC Corporation

On 7 October 1999, Devgen entered into a 6 months pilot research agreement with FMC Corporation, which was followed by a 3-year research collaboration on 13 March 2000, and has been restated and extended in 2001, 2002 and 2003. The agreement has been completed in 2005. Under the terms of the agreement, Devgen delivered novel insecticide targets, assays and hits from *C. elegans* based high throughput screens and mechanism of action for selected insecticide compounds. In addition to significant research funding of FTE based payments, Devgen received a technology license fee and is eligible for performance-based milestone payments and royalty payments.

Genentech

On 1 July 2002, Devgen entered into a one year research collaboration with Genentech to validate the function of novel drug targets. Under the terms of the agreement, Devgen used its proprietary in *C. elegans* RNAi technology and its Function Factory tool to evaluate the function of Genentech's genes in signaling pathways, enabling Genentech to investigate more closely their function in cancer development and to progress these genes towards drug discovery.

Sumitomo Chemical Company

On 1 March 2003, Devgen entered into a three year, research agreement with Sumitomo Chemical Company. Under the terms of the agreement, following successful completion of an earlier pilot collaboration, Devgen is selecting and validating novel insecticidal targets and formats high-throughput assays to screen small molecule compounds designed by Sumitomo. In addition to an upfront payment and quarterly research funding fees, Devgen is eligible for performance-based milestone payments and royalty payments.

Pioneer Overseas Corporation

On 17 December 2003, Devgen entered into a two year, research agreement with Pioneer Overseas Corporation. Under the terms of the agreement, Devgen uses its patented technology to identify genes that could be used to control plant nematode pests in soybean, corn and other crops. In addition to upfront payments and research funding, Devgen is eligible for significant performance-based milestone and royalty payments.

Monsanto Company

On 28 May 2004, Devgen entered into a two year, extendable research agreement with Monsanto Company. Under the terms of the agreement, Monsanto Company obtains exclusive commercial rights under Devgen's technology to control specific categories of insect pests in three core crops. In addition to upfront payments of and quarterly research funding fees, Devgen is eligible for significant performance-based milestone and royalty payments.

Undisclosed 1, 2, 3 and Sumitomo Pharmaceuticals
On 10 December 2001, Devgen performed a feasibility study with Company 1, investing Devgen's capabilities in mode of action testing of compounds. Devgen was awarded a research fee in 2002 for this study.

On 4 April 2003, Devgen entered into a one-year pilot research agreement with Company 2 for screening of nematicidal compounds. Company 2 paid to Devgen a one-time, non-refundable research fee.

On 27 November 2003, Devgen entered into a one-year pilot research agreement with Company 3 for testing of compounds in the field of animal nutrients. Company 3 paid to Devgen a one-time, non-refundable research fee.

On 25 February 2004, Devgen entered into a one-year research agreement with Sumitomo Pharmaceuticals for the evaluation of target genes in the field of pharmaceutical research. Sumitomo Pharmaceuticals paid to Devgen a non-refundable fee.

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

d. The group acting as a lessor in operating leases

Future minimum lease payments ('000 of €)	**2004**	**2003**	**2002**
Within one year	160	0	0
In the second to fifth year	355	0	0
After five years	0	0	0
	515		
Total contingent rents recognized as income	**0**	**0**	**0**

On 1 June 2004, the company entered into an operating lease agreement with the Ghent University to subrent 597 m^2 in the building facilities at Technologiepark 30, 9052 Zwijnaarde. The rental agreement has a duration of maximum 7 years, cancelable by both parties after 4 years taking into account a notice period of 18 months.

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

e. The Devgen Pte. Ltd. acting as a lessee in operating leases
On 1 July 2004, the Devgen Pte. Ltd. entered into an operating lease agreement with Temasek Life Sciences Laboratory Ltd. for the rent of research facilities at 1 Research Link, National University of Singapore 5th floor, Singapore 117604. The duration of the contract is 3 years and the parties may agree to extend the term of this tenancy agreement with one or more further periods of time under mutually agreeable terms and conditions.

On 1 April 2004, Devgen entered into an extendable operating lease agreement with Ablynx NV for the rent of a back up facility at the Bio Incubator building at Technologiepark 4, 9052 Zwijnaarde. The duration of the contract is 3 years and is yearly cancelable by both parties taking into account a notice period of 2 months.

Over the years, the group has entered into several operating lease agreement under which it financed its company cars. These leases are repayable in 48 monthly installments, except for one, which was repayable over 60 months, from August 1998 onwards till December 2003. The operating lease implied interest rates are fixed and range between 0.175% and 0.21% per month.

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

('000 of €)	2004	2003	2002
Within one year	121	183	487
In the second to fifth year	111	111	111
After five years	528	556	584
	760	**850**	**1,182**

Included in these operating lease commitments is the initial annual lease fee of €28,115 for the long lease of the land on which the new building has been constructed. The building is established on the grounds of the University of Ghent. The land was given in long lease by the Ghent University to Devgen for a period of 54 years, terminable by Devgen only once after the first period of 27 years.

f. Lease of the building

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

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

Based upon the finance agreement with the lessors, the outstanding debt after 15 years will amount to €3 million. If at that moment, Devgen would like to obtain the legal title to the building it will have to exercise its purchase option and pay an additional €3 million. If the purchase option is not exercised, it can either decide to extend the agreement or it will have to return the building to the lessors. Devgen did not receive any fee under this agreement (see note 7.1.7.17).

g. Litigations

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

h. Capital commitments

The group had the following commitments to capital expenditures:

('000 of €)	2004	2003	2002
Building held under lease	0	9,400	9,400

i. Other commitments

The company has entered into various license agreements which require the company to pay royalties either based upon a set percentage of certain product sales and license fee revenue subject, in some case, to certain minimum amounts, either based on a fixed royalty amount upon signature of the contract, first sale of certain products and/or filing of a new drug application for each subsequent product. Total royalty expense amounted to €0 for all years until 31 December 2004.

For some of these agreements, in consideration for the receipt of licenses, Devgen has agreed to issue shares or warrants (options) which entitle the holder of such warrants to acquire class C common stock of the company, when certain milestones have been achieved. As of 31 December 2002, 31 December 2003 and 31 December 2004, no options were vested under these agreements, except for 79,333 options, which vested at 1 October 2003.

7.1.7.22 Related party transactions

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

The remunerations of the executive management, including the managing director, can be summarized as follows:

Executive management ('000 of €)	**2004**	**2003**	**2002**
Short-term benefits*	1,714	1,313	1,079
Post-employment benefits – defined contributions	37	31	35
Share-based compensation	15	3	0
Expense reimbursement	13	29	8
Total benefits	1,779	1,376	1,122
# of warrants & shares offered ('000)	190	63	152
# cumulative outstanding warrants & shares ('000)	2,391	2,201	2138
Outstanding receivables	0	0	0
Outstanding payables	60	123	20

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

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

Transactions with non-executive directors

Non - executive directors ('000 of €)	**2004**	**2003**	**2002**
Short-term employee benefits	0	0	0
Post-employment benefits – defined contributions	0	0	0
Share-based compensation	24	5	0
Expense reimbursement	26	16	21
Total benefits	50	21	21
# of warrants & shares offered ('000)	260	133	0
# cumulative outstanding warrants & shares ('000)	534	274	141
Outstanding receivables	0	0	0
Outstanding payables	5	11	3

7.1.7.23 Disclosure earnings per share

Earnings ('000 of €)	2004	2003	2002
Earnings for the purpose of basic earnings per share (net loss for the year)	(3,642)	(3,791)	(7,552)
Effect of dilutive potential ordinary shares	-	-	-
Earnings for the purpose of diluted earnings per share	(3,642)	(3,791)	(7,552)

Number of shares			
Weighted average number of ordinary shares for the purpose of dilutive potential ordinary shares	29,590,195	29,590,195	29,590,195
Effect of dilutive potential ordinary shares			
Share options	53,936	226,495	487,712
Weighted average number of ordinary shares for the purpose of diluted earnings per share	29,644,131	29,816,690	30,077,907

Options that would result in the issue of ordinary shares for more than the average market price of the underlying ordinary shares during the period are considered anti-dilutive and have not been included in the calculation of the diluted earnings per share. At year-end 2004 1,846 options (thousands) were outstanding that have thus been excluded from the calculation of diluted earnings per share.

7.1.7.24 Subsequent events

1) The company's board of directors has approved the filing of a dossier with the BFIC and with the Euronext market authority in connection with the intended offering of the company's shares to the public.
2) Subsequent to 31 December 2004, the extraordinary shareholders' meeting of 29 April 2005 decide, amongst other things, to cancel the different classes of shares and the special rights attached to them and to combine the shares and warrants at a ratio of one new share/warrant for 3 existing shares/warrants.

   The losses per share, as shown in the income statement, after combination of the shares and warrants would be for the respective years:

€ **per share**	2004	2003	2002
Losses per share			
Basic	0.36	0.39	0.78
Diluted	0.36	0.39	0.75

3) Devgen and FMC Corporation agreed to terminate the research collaboration effective 31 March 2005, one year ahead of schedule. The basis for the termination is in fact that Devgen has met the expectations of FMC Corporation with respect to the project.
   Payment to Devgen by FMC Corporation will be fully executed according to the original plan. Provisions for potential milestones and royalties will remain in effect consistent with the terms outlined in the Research Agreement.
4) On 29 April 2005, the company's general shareholders' meeting decided to increase the company's share capital with an amount of €2,740,221.52 through incorporation of issuance premiums, and immediately thereafter to decrease the company's share capital with the same amount of €2,740,221.52 to absorb losses incurred by the company up to 31 December 2004.

7.1.7.25 Transition to IFRS

In anticipation of its listing on Euronext, Devgen decided to prepare a set of consolidated financial statements in accordance with the International Financial Reporting Standards as endorsed by the European Commission. As the group published two year of comparatives in its first IFRS consolidated financial statements, its date of transition to IFRSs is 1 January 2002, this being the start of the earliest period of comparative information being presented under IFRSs.

In order to provide comparative data, the group established an opening balance sheet as of 1 January 2002. The effects of the transition are recorded in the opening IFRS equity.

The first consolidated financial statements prepared under IFRSs are based on all standards and interpretations as endorsed by the European Commission as of 31 December 2004 and IFRS 2 Share-based payment, which was endorsed by the European Commission in February 2005.

a. Basis for preparation of the Group's opening balance sheet

For the purpose of the transition to IFRSs, the group elected an early application of IAS 32 Financial instruments: disclosure and presentation and IAS 39 Financial instruments: recognition and measurement.

In order to avoid a restatement in 2005, the Group early adopted the IFRSs below, which are all effective since 1 January 2005.

IAS 1	(revised 2003)	Presentation of financial statements
IAS 8	(revised 2003)	Accounting policies, changes in accounting estimates and errors
IAS 10	(revised 2003)	Events after the balance sheet date
IAS 16	(revised 2003)	Property
IAS 17	(revised 2003)	Leases
IAS 21	(revised 2003)	The effects of changes in foreign exchange rates
IAS 24	(revised 2003)	Related party disclosures
IAS 27	(revised 2003)	Consolidated and separate financial statements
IAS 32	(revised 2003)	Financial instruments: disclosure and presentation
IAS 33	(revised 2003)	Earnings per share
IAS 39	(revised 2003)	Financial instruments: recognition and measurement
IFRS 2	(issued 2004)	Share-based payments
IAS 36	(revised 2004)	Impairment of assets
IAS 38	(revised 2004)	Intangible assets

b. Exemption from other IFRSs

The rules for first time adoption of IFRS are set out in IFRS 1 "First-time adoption of International Financial Reporting Standards". In general a company is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. The standard allows a number of exceptions to this general principle to assist companies in their transition to IFRS. The group has taken advantage of some of these exemptions as noted below.

- IFRS 2 Share-based payment
  The group accounted for all share-based compensation transactions for grants of equity instruments granted after 7 November 2002 and which did not vest as of 31 December 2004.

- IAS 32 – 39 Financial instruments
  Although not required by IFRS 1 First-time adoption of International Financial Reporting Standards, the group elected to apply these standards in its comparative periods.

c. Impact of the transition

The following table summarizes the impact of the transition on:

- Equity at the date of transition to IFRSs (1 January 2002)
- Equity at 31 December 2002
- Equity at 31 December 2003
- Equity at 31 December 2004
- Loss reported for 2002
- Loss reported for 2003
- Loss reported for 2004

Impact of the transition to IFRS

('000 of €)	31 Dec. 2004	2004	31 Dec. 2003	2003	31 Dec. 2002	2002	1 Jan. 2002
	Equity	Loss of the year	Equity	Loss of the year	Equity	Loss of the year	Equity
Under Belgian GAAP	7,956	(2,999)	10,982	(3,497)	14,498	(7,602)	22,122
Formation costs (1)	(7)	4	(9)	59	(69)	95	(165)
Patent costs (2)	(388)	(49)	(339)	120	(459)	215	(674)
Research and development (3)						418	(418)
Depreciations (4)	295	(237)	532	(243)	775	(128)	903
Grants (5)	(16)		(26)		(44)	(20)	(46)
Contract income (6)	(487)	(268)	(219)	(219)			
Share-based payment (7)		(50)		(11)			
Recognition building (8)	(41)	(41)				(530)	530
Total restatements	**(644)**	**(643)**	**(61)**	**(294)**	**203**	**50**	**130**
Under IFRS	**7,312**	**(3,642)**	**10,921**	**(3,791)**	**14,701**	**(7,552)**	**22,252**

(1) *Formation costs*

Under Belgian GAAP formation costs relating to capital increases were capitalized and amortized over 5 years. Under IFRSs all these formation costs do not meet the definition of an asset and the majority of these costs are recorded against equity.

(2) *Patent costs*

Under Belgian GAAP the external costs incurred by Devgen to establish patents were recognized as intangible assets. As the internally generated intangible assets arising from the group's development did not meet the recognition criteria of IAS 38 Intangible assets, all costs incurred to protect certain know-how of Devgen are expensed as incurred.

(3) *Research and Development costs*

Under Belgian GAAP research and development costs were recognized as intangible assets until 2002. These internally generated intangible assets arising from research and development did not meet the recognition criteria of IAS 38 Intangible assets.

(4) *Depreciations property, plant and equipment*

Under Belgian GAAP property, plant and equipment acquired prior to 2003 was depreciated for a full year in the year of acquisition. Under IAS 16 Property, plant and equipment, the depreciation commences from the moment the asset is ready for use.

(5) *Grants*

Under Belgian GAAP government grants are classified under equity. In application of IAS 20 Government grants, the group elected to present government grants related to assets as a deduction of the carrying amounts of the related assets.

As under Belgian GAAP certain items of property, plant and equipment acquired prior to 2003 were depreciated for a full year in the year of acquisition (see item 4 above) the governments grants related to these assets were recognized on the same basis as well. As for IFRS purposes the depreciation commences from the moment the asset is ready for use, the related government grants had to be recognized on a similar basis.

(6) *Contract Income*

Under Belgian GAAP revenue from up-front non-refundable technology access fees is recognized over the contractual term of the agreement. If at inception of the contract it is reasonably certain that the term of contract will be extended, the revenue from up-front non-refundable technology access fees is recognized over the extended term under IFRS.

(7) *Share-based payment*

Under Belgian GAAP no employee benefit expense is recognized for options on shares of the entity offered to employees. Under IFRS 2 Share-based Payment, the entity shall measure a compensation expense for the fair value of the services received from employees and others providing similar services by reference to the fair value of the equity instruments granted. There is no net impact on equity as for equity-settled share-based payment transactions under IFRS 2, the compensation expense is recorded by a corresponding increase in equity.

(8) *Building*

The building in Gent-Zwijnaarde in which Devgen is located was under construction since 2002. Construction came to an end early 2004. The building was not recognized on the balance sheet under Belgian GAAP as the related lease agreement had to be considered as an operational lease. Under IFRSs the related contract had to be accounted for a financial lease, thus recognizing the investment as an asset on Devgen's balance sheet. The difference in equity as of January 1, 2002 and the loss in the year 2002 (530) concerns costs incurred related to the construction of the building in 2001 and recovered from the lessor in 2002, which under Belgian GAAP have been recorded in the respective income statements.

7.2. STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED ACCOUNTS 2004

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS AND TO THE SHAREHOLDERS OF DEVGEN NV

To the Board of Directors and to the shareholders

We have audited the accompanying balance sheets of Devgen NV as of December 31, 2004, 2003 and 2002, and the related statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards.

April 30, 2005

The Statutory Auditor

DELOITTE & PARTNERS Bedrijfsrevisoren / Reviseurs d'Entreprises
SC s.f.d. SCRL
Represented by Gino Desmet

7.3. STATUTORY ANNUAL ACCOUNTS 2002 – 2004

The statutory financial statements are based upon Belgium GAAP. An unqualified audit opinion has been issued by the statutory auditor per 14 April 2005.

7.3.1. STATUTORY INCOME STATEMENT 2002 – 2004

Statutory income statement	2004	2003	2002
'000 of € / year ended 31 December			
I. Operating income	**10,125**	**8,345**	**6,631**
A. Turnover	8,794	6,175	5,527
D. Other operating income	1,331	2,170	1,104
II. Operating charges	**12,750**	**11,788**	**15,088**
B. Services and other goods	5,610	4,661	6,276
C. Remun., soc. security costs, pensions	5,844	5,307	5,941
D. Deprec. & amounts wr. off fixed assets	1,268	1,800	2,897
F. Provisions for liabilities and charges	10	0	-41
G. Other operating charges	18	20	15
III. Operating profit/(loss)	**-2,625**	**-3,443**	**-8,457**
IV. Financial income	**324**	**401**	**1,241**
B. Income from current assets	243	359	649
C. Other	81	42	592
V. Financial charges	**267**	**339**	**309**
A. Debt charges	238	325	201
C. Other	29	14	108
VI. Current profit/(loss) before taxes	**-2,568**	**-3,381**	**-7,525**
VII. Extraordinary income	**0**	**8**	**25**
E. Other	0	8	25
VIII. Extraordinary charges	**0**	**1**	**102**
A. Extraord. deprec. & amounts wr. off fixed assets	0	0	73
D. Loss on disposal of fixed assets	0	0	1
E. Other	0	1	28
IX. Profit/(loss) before taxes	**-2,568**	**-3,374**	**-7,602**
IXbA. Transfer from postponed taxes	**0**	**0**	**0**
IXbB. Transfer to postponed taxes	**0**	**0**	**0**
X. Income taxes	**172**	**123**	**0**
A. Income taxes	172	123	0
XI. Profit/(loss) for the year after taxes	**-2,740**	**-3,497**	**-7,602**

Appropriation account	2004	2003	2002
'000 of € / year ended 31 December			
A. Loss to be appropriated			
A1. Loss for the period available for appropriation	-2,740	-3,497	-7,602
A2. Loss brought forward	-25,913	-22,416	-14,814
B. Transfer from capital and reserves			
B1. From capital and share premium account	25,913	0	0
D. Result to be carried forward			
D2. Loss to be carried forward	2,740	25,913	22,416

7.3.2. STATUTORY BALANCE SHEET 2002 – 2004

Statutory balance sheet after appropriations	2004	2003	2002
'000 of € / year ended 31 December			
ASSETS	**1,881**	**1,774**	**2,714**
I. Formation expenses	**7**	**12**	**70**
II. Intangible fixed assets	**406**	**342**	**512**
III. Tangible fixed assets	**1,100**	**1,420**	**2,127**
B. Plant, machinery and equipment	589	920	1,777
C. Furniture and vehicles	94	69	140
D. Leasing and other similar rights	290	431	129
E. Other tangible assets	127	0	81
IV. Financial fixed assets	**368**	**0**	**4**
A. Affiliated enterprises	368	0	0
A1. Investments	124	0	0
A2. Amounts receivable	244	0	0
C. Other financial assets	0	0	4
C2. Amounts received and cash guarantee	0	0	4
CURRENT ASSETS	**13,105**	**16,854**	**18,268**
V. Amounts receivable after one year	**0**	**0**	**0**
VI. Stocks and contracts in progress	**0**	**0**	**0**
VII. Amounts receivable within one year	**728**	**835**	**696**
A. Trade debtors	263	301	164
B. Other amounts receivable	465	534	532
VIII. Investments	**8,776**	**4,800**	**15,281**
B. Other investments and deposits	8,776	4.800	15,281
IX. Cash at bank and in hand	**1,869**	**10,618**	**1,888**
X. Deferred charges and accrued income	**1,732**	**601**	**403**
TOTAL ASSETS	**14,986**	**18,628**	**20,981**

Statutory balance sheet after appropriations	2004	2003	2002
'000 of € / year ended 31 December			
CAPITAL AND RESERVES	**8,232**	**10,982**	**14,498**
I. Capital	740	740	740
A. Issued capital	740	740	740
II. Share premium account	**10,217**	**36,130**	**36,130**
III. Revaluation surpluses	**0**	**0**	**0**
IV. Reserves	**0**	**0**	**0**
V. Accumulated profit/(loss)	**-2,740**	**-25,913**	**-22,416**
VI. Investment grants	**15**	**25**	**44**
VII. PROVISIONS & POSTPONED TAXES	**10**	**0**	**0**
A. Provisions for liabilities and charges	10	0	0
A4. Other liabilities & charges	10	0	0
AMOUNTS PAYABLE	**6,744**	**7,646**	**6,483**
VIII. Debts payable after 1 year	**511**	**1,440**	**2,043**
A. Financial debts	511	1,440	2,043
A3. Leasing and other similar rights	173	360	117
A4. Credit institutions	338	1,080	1,926
IX. Debts payable within 1 year	**3,842**	**4,392**	**3,914**
A. Current portion of debts after one year	1,369	1,782	1,574
B. Financial debts	0	1	0
B1. Credit institutions	0	1	0
C. Trade debts	1,364	1,524	944
C1. Suppliers	1,364	1,524	944
E. Taxes, remuneration & social security	961	1,085	947
E1. Taxes	187	188	112
E2. Remuneration & social security	774	897	835
F. Other amounts payable	148	0	449
X. Accrued charges and deferred income	**2,391**	**1,814**	**526**
TOTAL LIABILITIES	**14,986**	**18,628**	**20,981**

8. GLOSSARY OF SELECTED ITEMS

8.1. FINANCIAL GLOSSARY

Articles of Association	The articles of association of Devgen.
Belgian GAAP	Generally accepted accounting principles in Belgium.
BFIC	Banking, Finance and Insurance Commission in Belgium (*Commissie voor het Bank-, Financie- en Assurantiewezen* / *Commission Bancaire, Financière et des Assurances*).
CET	Central European Time.
CIK	The Inter-professional Securities Depositing Trust in Belgium (*Interprofessionele Effectendeposito- en Girokas* / *Caisse Interprofessionnelle de Dépôts et de Virements de Titres*).
€ or Euro	Euro, the legal currency of the European Monetary Union, of which Belgium is one of the members.
Euronext Brussels	Euronext Brussels SA/NV, located in Brussels, Belgium.
FSMA	The UK Financial Services and Markets Act 2000.
Regulation S	Regulation S under the US Securities Act of 1933, as amended.
Securities Act	The US Securities Act of 1933, as amended.
US or United States	United States of America.
UK or United Kingdom	United Kingdom of Great Britain and Northern Ireland.
VVPR	Reduced withholding tax *(Verminderde Voorheffing* / *Précompte Réduite)*

8.2. BUSINESS GLOSSARY

ADME(-tox)	Acronym for absorption, distribution, metabolization and excretion which describes what different compartments of an organism do to a pharmaceutical compound. The four criteria are all critical with respect to the success of the compound as a drug. Sometimes, the potential or real toxicity of the compound is also taken into account (ADME-Tox)
Antibody	A protein made by the immune system that binds and helps remove foreign molecules in the body. Because they must not bind to the body's own molecules, antibodies are very specific about their targets, called antigen.
Apoptosis	Programmed cell death, the body's normal method of disposing of damaged, unwanted, or unneeded cells.
Assay	A term for a single experiment.
Biotechnology	Biotechnology is the science that uses living organisms, or parts of it, to produce or change substances, to adapt plants or animals or to create microorganisms with a specific aim.
Biotech crop	A genetically engineered crop.
Bt	Bacillus thuringiensis is an insecticidal bacterium. The toxin genes have been genetically engineered into several crop plants.
Bt-toxin	An insecticidally-active protein produced by Bacillus thuringiensis.
C. elegans	*C. elegans* (Caenorhabditis elegans) is a small (growing to about 1mm in length) nematode. *C. elegans* shares many of the essential characteristics that are central problems of human biology, its genome is completely known and all somatic cells of its transparent body are visible with a microscope. It is an ideal model organism as it is a compromise between complexity and tractability.
Camelid antibody	An antibody produced by a camel.

Cell	The basic unit of any living organism that carries on the biochemical processes of life.
Chromatography	A (bio)chemical technique for separating mixtures of molecules (usually in solution). The molecules interact with a solid matrix depending on their charge, polarity or affinity.
Compound	A chemical substance formed from two or more elements, with a fixed ratio determining the composition.
Corn rootworm	The corn rootworm is an insect *(Diabrotica spp.)* causing harm to plants and responsible for important economical losses. *D. barberi* and *D. virgifera* are two closely related species mainly found on maize. *D. virgifera* has two subspecies: *virgifera* (western corn rootworm) and *zeae* (Mexican Corn rootworm). There are other North American *Diabrotica spp.* with a wider host range, whose larvae feed on roots of many species (including maize) and whose adults feed especially on flowers of Cucurbitaceae, e.g. *Diabrotica balteata* LeConte (banded cucumber beetle) and *Diabrotica undecimpunctata* Mann. (spotted cucumber beetle), whose subspecies *howardi* is also known as the southern corn rootworm.
Diabetes	Diabetes mellitus is a group of diseases characterized by high levels of blood glucose resulting from defects in insulin production, insulin action, or both. Diabetes can cause serious complications. There are two types of diabetes. Type 1 diabetes was previously called insulin-dependent diabetes mellitus (IDDM) or juvenile-onset diabetes. Type 1 diabetes develops when the body's immune system destroys pancreatic beta cells, the only cells in the body that make the hormone insulin that regulates blood glucose. Type 2 diabetes usually begins as insulin resistance, a disorder in which the cells do not use insulin properly. As the need for insulin rises, the pancreas gradually loses its ability to produce insulin.
DMPK	Drug metabolism and pharmacokinetics.
dsRNA	Double stranded RNA (sense and antisense strand).
eADME	Early ADME.
E. Coli	Escherichia coli. Almost any strain of *E. Coli* can be transformed with plasmid DNA. Transformation of *E. Coli* is an essential step in many cloning experiments.
EDC	Early Development Candidate.
Enzyme	A protein that acts as a catalyst, speeding the rate at which a biochemical reaction proceeds but not altering the direction or nature of the reaction.
EPA	Environmental Protection Agency.
EPO	Erythropoietin (EPO) is a hormone produced by the kidney that promotes the formation of red blood cells by the bone marrow.
High-throughput screening	A method for scientific experimentation especially relevant to the fields of biology and chemistry. Through a combination of modern robotics and other specialized laboratory hardware, it allows a researcher to effectively conduct hundreds of scientific experiments at once.
Hypoglycemia	An abnormally low level of glucose in the blood.
Gene	The fundamental physical and functional unit of heredity. A gene is an ordered sequence of nucleotides located in a particular position on a particular chromosome that encodes a specific functional product (*i.e.*, a protein or RNA molecule).
Genome	All the genetic material in the chromosomes of a particular organism; its size is generally given as its total number of base pairs.
Ion channel	A transmembrane protein complex that forms a water-filled channel across the phospholipids bilayer allowing selective ion transport down its electrochemical gradient.

Insulin	Insulin is protein hormones produced by the ß cells of the pacreas that stimulates uptake of glucose into fat and muscle cells and with glucagons helps to regulate blood glucose levels. Insulin also functions as a growth factor for many cells.
In planta	Studies performed in crops.
In silico	Studies performed on computer or via computer simulation.
In vitro	Studies performed outside a living organism such as in a laboratory.
In vivo	Studies carried out in living organisms.
IWT	Institute for the Promotion of Innovation by Science and Technology in Flanders / *Instituut voor de aanmoediging van Innovatie door Wetenschap en Technologie in Vlaanderen*.
Kinase	An enzyme that adds the ϒ phosphate group from ATP to a substrate (phosphorylation reaction).
Knockdown	Deactivation of specific genes; used in laboratory organisms to study gene function.
Membrane	Permeability barrier, surrounding cells or organelles, that consists of a phospholipids bilayer, associated membrane proteins, and in some cases cholesterol and glycolipids.
Metabolism	All of the chemical reactions in a living cell.
Metabolic disease	A combination of medical disorders that affect a large number of people in a clustered fashion.
MOA	Mode of action, the way a compound acts on the target.
mRNA	Messenger RNA: the RNA molecule that carries the genetic information from DNA to the ribosome. The order of bases on mRNA specifies the amino acid sequence of a polypeptide chain.
Mutation	Any heritable change in DNA sequence.
Nematode	Nematodes are multicellular, structurally simple organisms. Nematodes possess digestive, nervous, excretory, and reproductive systems, but lack a discrete circulatory or respiratory system. In size they range from 0.3 mm to over 8 meters.
Nematicide	A substance or preparation used to kill nematodes.
Pathway	A sequence of enzymatic or other reactions by which one biological material is converted to another.
Obesity	Increased body weight caused by excessive accumulation of fat.
PBD	Protein binding domain.
PBDi	Protein binding domain interference: a mechanism in which antibodies come to expression in plants and bind to essential proteins, thus interfering with the function of these proteins.
PCR	The polymerase chain reaction is a technique for the in vitro amplification of specific DNA sequences by the simultaneous primer extension of complementary strands of DNA.
Phenotype	The physical characteristics of an organism or the presence of a disease that may or may not be genetic.
Phosphatases	Any of numerous enzymes that catalyze the hydrolysis of esters of phosphoric acid and are important in the absorption and metabolism of carbohydrates, nucleotides, and phospholipids and in the calcification of bone. Usually catalyzes the reverse reaction of a kinase.
Pre-clinical	The phase in the development of new potential drugs before this drug is administrated to patients.
Protein	A large molecule composed of one or more chains of amino acids in a specific order. The order is determined by the base sequence of nucleotides in the gene that codes for the protein. Proteins are required for the structure, function, and regulation of the

	body's cells, tissues, and organs, and each protein has unique functions. Examples are hormones, enzymes, and antibodies.
Rice blast	Rice blast, caused by the fungal pathogen Magnaporthe grisea, is one of the most destructive diseases of rice worldwide and can cause significant reductions in yield.
RNA	A chemical found in the nucleus and cytoplasm of cells. It plays an important role in protein synthesis and other chemical activities of the cell. The structure of RNA is similar to that of DNA. There are several classes of RNA molecules, including messenger RNA, transfer RNA, ribosomal RNA, and other small RNAs, each serving a different purpose.
RNAi	A mechanism in which the presence of small fragments of double-stranded RNA (dsRNA) whose sequence matches a given gene interferes with the expression of that gene.
Row crops	Crop planted in individual rows that are spaced to permit machine traffic during the early parts of the growing season.
rtPCR	The technique to copy RNA into DNA (reverse transcription) followed by the polymerase chain reaction, leading to amplification of specific RNA sequences in cDNA.
Screen	A series of experiments to select the most efficient biological or chemical substance
Small molecule drug	Small, usually foreign molecules that have specific chemical and physical properties to interact with biological targets involved in disease and to have the required ADME-Tox properties to be administrated as a drug.
Target	A biomolecule to be influenced or changed by an action or event, something aimed at.
Trait	Plant characteristic.
WHO	World Health Organization.

APPENDIX 1: PRESS RELEASES 2004-2005

Devgen receives IWT grant to develop novel nematicides

Ghent, Belgium, 25 Nov 2004 – Devgen has been awarded a €0.8 million technology grant from the Flemish Government. IWT (The Flemish Institute for the Promotion of Industrial Scientific and Technological Research) to develop a new generation of more effective and environmentally friendly nematicides, to control a broad spectrum of plant pathogenic nematode species.

Devgen and Monsanto announce collaboration to discover new insect control methods

Ghent, Belgium, 13 Sep 2004 – Today, Monsanto Company (NYSE: MON) and Devgen NV announced a research and development collaboration to develop varieties of crop plants with improved resistance against insect pests. "This product-focused collaboration provides our researchers with novel approaches and complementary technologies to develop new ways to control insect pests in corn, cotton and soybean," said Robert T. Fraley, PhD, Monsanto executive vice president and chief technology officer. Pierre Hochuli, Devgen's chairman of the board of directors, observed: "This collaboration with one of the world's leading innovative agricultural technology companies underlines the relevance and significant potential of Devgen's advanced technology for agricultural applications."

Devgen and Pioneer to collaborate on pest resistance research

Ghent, Belgium, 13 Sep 2004, 2004 – Devgen has announced a research collaboration with Pioneer Overseas Corporation, a subsidiary of DuPont, to develop crop varieties with increased resistance to plant pests. Under the agreement, Devgen will use its patented technology to identify genes that could be used to control nematode pests in soybean, corn and other crops. Pioneer will use the genes in its research programs to create products that increase yield and enhance value for customers. Nematodes are a significant pest in soybeans, and will be the primary focus.

Devgen moves into its new facilities

Ghent, Belgium, 1 March, 2004 – Devgen NV announced that it will move into its new research facilities as of March 4th. The new research building is located on the same research park as its former offices. Conceptually, the new facilities are designed in such a way that they fulfill the requirements of a modern research lab, both functionally and in terms of (bio-) safety regulations and security. The new facilities foster communication and interaction and contribute to a stimulating and pleasant working environment. This concept resulted in a building of 6,000m^2 (excl. technical floor and car park) of which 80% is foreseen for laboratories.

APPENDIX 2: APPLICATION FORM

deVGen

Limited Liability Company
Technologiepark 30
9052 Gent, Belgium
Registered with Registry of Legal Person under Company Number RPR 0461.432.562

OFFERING FOR SUBSCRIPTION OF UP TO €30 million in NEW SHARES

APPLICATION FORM (to be completed in duplicate)

The undersigned (first name and last name) .....

residing at ....., ..., street, n° .....

having had the opportunity to read the prospectus, declares to subscribe for the offered shares:

❑ **In the institutional tranche**

Number of shares [4]	At a price below (in €)
.....	.....
.....	.....
.....	.....
.....	.....

❑ **In the retail tranche: open to all investors**

..... shares [5] at the price published in the press on or about 4 June 2005 as follows

The offering price that will be determined through a book building procedure with institutional investors with a variable price range but which will, for retail investors, never exceed the upper end of the initial price range published on or about 23 May 2005, increased with te tax on stock exchange transactions (0.17%), must be debited from my account N° ....., on the payment date expected to be on 9 June 2005.

I would like these offered shares:
❑ to be delivered to me as BEARER shares [6]
❑ to be REGISTERED IN MY NAME in the company share register
❑ to be deposited in my securities account N° ..... with .....

I will accept the allocation which may be applied. In the event of allocation, each form unless submitted by professional intermediaries which are not selling agents, shall be considered to be an independent and separate application unless it is clearly specified thereon that it is a form grouping the application of several persons.

Done in duplicate, at ....., on 2005
The financial institution The subscriber

4 Fill out the number of offered shares requested
5 Fill out the number of offered shares requested
6 The cost for physical delivery is mentioned in section 2.19.3 "Tax on the physical delivery of bearer shares".
❑ *Tick where appropriate*

Copy for the financial intermediary

deVGen

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9052 Gent, Belgium
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