

HARBOURVEST PARTNERS (UK) LIMITED
formerly
HANCOCK INTERNATIONAL PRIVATE
EQUITY MANAGEMENT LIMITED
ANNUAL REPORT AND ACCOUNTS
31 DECEMBER 1997



HARBOURVEST PARTNERS (UK) LIMITED
INDEX TO THE ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 1997

Page No.

1	Officers and Advisers
2	Directors' Report
3	Statement of Directors' Responsibilities in Respect of the Accounts
4	Auditors' Report
5	Profit and Loss Account
6	Balance Sheet
7	Cash Flow Statement
8	Notes to the Cash Flow Statement
9 - 13	Notes to the Accounts

HARBOURVEST PARTNERS (UK) LIMITED

OFFICERS AND ADVISERS

DIRECTORS: Edward W. Kane (U.S.A.)
D. Brooks Zug (U.S.A.)

SECRETARY: Martha D. Vorlicek

REGISTERED OFFICE: 1-11 Hay Hill,
Berkeley Square,
London,
W1X 7LF

REGISTERED NUMBER: 2512083

REGISTERED AUDITOR: Ernst & Young,
Rolls House,
7 Rolls Buildings,
Fetter Lane,
London,
EC4A 1NH

BANKERS: National Westminster Bank Plc,
P.O. Box 4ND,
18A Curzon Street,
London,
W1A 4ND

HARBOURVEST PARTNERS (UK) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1997

The directors present their report and audited accounts for the year ended 31 December 1997.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENT

The company has continued to be engaged by Hancock Venture Partners Inc. as its representative in the United Kingdom, Continental Europe and the Pacific Rim countries through a consulting agreement. Acting as a representative, the company performs various advisory and liaison functions for Hancock Venture Partners Inc. With effect from 28 January 1997, the company has provided similar services to HVP Partners LLC following a change of beneficial ownership, and has continued to provide services under run-off arrangements to Hancock Venture Partners Inc. The company changed its name from Hancock International Private Equity Management Limited to HarbourVest Partners (UK) Limited on 2nd October 1997.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounts to £52,383 and has been transferred to reserves.

The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:

Edward W. Kane

D. Brooks Zug

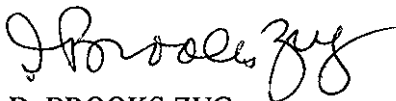
The directors' interests in the share capital of the company were as follows:

	At 31 December 1997 <u>Ordinary Shares</u>	At 1 January 1997 <u>Ordinary Shares</u>
Edward W. Kane (as nominee)	1	1
D. Brooks Zug (as nominee)	1	1

FIXED ASSETS

Additions to fixed assets are shown in note 7 to the accounts.

On behalf of the Board



D. BROOKS ZUG

Director

24 April

1998

HARBOURVEST PARTNERS (UK) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1997

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF

HARBOURVEST PARTNERS (UK) LIMITED

We have audited the accounts on pages 5 to 13, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 9.

Respective Responsibilities of Directors and Auditors

As described on page 3, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

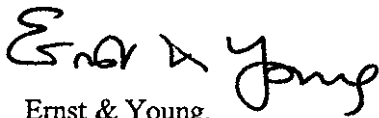
Basis of Opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young,
Chartered Accountants,
Registered Auditor,
London.

24 April 1998

HARBOURVEST PARTNERS (UK) LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

		<u>1997</u>	<u>1996</u>
	<u>Note</u>	<u>£</u>	<u>£</u>
TURNOVER	2	853,026 ✓	912,429 ✓
Operating Costs		<u>775,479</u> ✓	<u>829,481</u> ✓
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	77,547 ✓	82,948 ✓
Taxation	6	<u>25,164</u> ✓	<u>28,417</u> ✓
RETAINED PROFIT FOR THE YEAR		52,383 ✓	54,531 ✓
RETAINED PROFIT BROUGHT FORWARD		<u>195,547</u> ✓	<u>141,016</u> ✓
RETAINED PROFIT CARRIED FORWARD		<u>£247,930</u> ✓	<u>£195,547</u> ✓

All the above amounts relate to continuing activities.

The company has no recognised gains or losses other than those included in the profits above and therefore no separate statement of total recognised gains and losses has been prepared.

The notes on pages 8 to 13 form an integral part of these accounts

HARBOURVEST PARTNERS (UK) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 1997

		<u>1997</u>		<u>1996</u>	
	<u>Note</u>	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
FIXED ASSETS					
Tangible Assets	7		59,807 ✓		62,075 ✓
CURRENT ASSETS					
Debtors	8	172,896 ✓		545,253 ✓	
Cash at Bank and in Hand		<u>126,299</u> ✓		<u>750</u> ✓	
		299,195 ✓		546,003 ✓	
CREDITORS: Amounts falling due within one year					
	9	<u>106,072</u> ✓		<u>407,531</u> ✓	
NET CURRENT ASSETS			<u>193,123</u> ✓		<u>138,472</u> ✓
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>£252,930</u> ✓		<u>£200,547</u> ✓
CAPITAL AND RESERVES					
Called up share capital	10		5,000 ✓		5,000 ✓
Profit and Loss Account			<u>247,930</u> ✓		<u>195,547</u> ✓
EQUITY					
SHAREHOLDERS' FUNDS	11		<u>£252,930</u> ✓		<u>£200,547</u> ✓

Approved by the Board of Directors on 24 April 1998 and signed on their behalf by

Edward W. Kane)
Ed W. Kane)
) Directors
D. Brooks Zug)

D Brooks Zug

The notes on pages 8 to 13 form an integral part of these accounts

HARBOURVEST PARTNERS (UK) LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1997

		<u>1997</u>		<u>1996</u>	
	<u>Note</u>	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Net cash inflow from operating activities	1		218,711		29,167
Returns on investments and servicing of finance					
Interest paid		-		-	
Net cash outflow from returns on investments and servicing of finance			-		-
Taxation					
Corporation Tax paid		28,417	(28,417)	19,561	(19,561)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		21,550		50,333	
Net cash outflow from capital expenditure and financial investment			(21,550)		(50,333)
Increase/(decrease) in cash	2		£168,744		£(40,727)

The notes on pages 8 to 13 form an integral part of these accounts.

HARBORVEST PARTNERS (UK) LIMITED

NOTES TO THE CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1997

1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>£</u>	<u>£</u>
Profit before tax	77,547	82,948
Depreciation charges	23,818	17,298
Decrease/(Increase) in debtors	372,357	(176,889)
(Decrease)/Increase in creditors	(255,011)	105,810
	<u>£218,711 ✓</u>	<u>£29,167 ✓</u>

2. ANALYSIS OF CHANGES IN NET DEBT

	<u>1997</u>	<u>Cash flow</u>	<u>1996</u>	<u>Cash flow</u>	<u>1995</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Cash at bank and in hand	126,299	125,549	750	750	-
Overdrafts	(1,938)	43,195	(45,133)	(41,477)	(3,656)
	<u>£124,361</u>	<u>£168,744 ✓</u>	<u>£(44,383) ✓</u>	<u>£(40,727) ✓</u>	<u>£(3,656) ✓</u>

HARBOURVEST PARTNERS (UK) LIMITED

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1997

1. ACCOUNTING POLICIES

(a) Accounting Convention

These accounts have been prepared under the historical cost convention.

(b) Basis of Preparation

The accounts have been prepared in accordance with applicable accounting standards.

(c) Depreciation

Depreciation is provided on all tangible assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Computer Software	3 years
Computer Hardware	4 years
Motor Vehicle	4 years
Furniture and Fittings	4 years
Leasehold Improvements	Over the term of the lease
Artworks	10 years

(d) Foreign Currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. All exchange differences are taken to the profit and loss account.

(e) Hire Purchase and Leasing Commitments and Operating Leases

Assets held under hire purchase or finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the hire purchase installments or rental obligations is charged to the profit and loss account over the period of the relevant agreement and represents a constant proportion of the balance of capital repayments outstanding.

Costs in respect of operating leases are charged on a straight line basis over the lease term.

(f) Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, and is calculated at the rate at which it is estimated that taxation will be payable.

(g) Pensions

The company operates a defined contribution pension scheme and charges all contributions to the profit and loss account as they fall due.

HARBOURVEST PARTNERS (UK) LIMITED

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1997

2. TURNOVER

Turnover is attributable to the one principal activity, the provision of consulting services in the U.K.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Depreciation of tangible fixed assets	23,818 ✓	17,298 ✓
Auditors' remuneration	3,000 ✓	2,000 ✓
Office and equipment rental	<u>85,224 ✓</u>	<u>49,720 ✓</u>

The amount of £3,000 for auditors' remuneration is entirely in respect of audit services.

4. STAFF COSTS

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Wages and salaries	492,862 ✓	555,774 ✓
Social Security costs	49,419 ✓	57,113 ✓
Other pension costs	32,422 ✓	27,182 ✓
Other employee benefits	<u>6,343 ✓</u>	<u>7,512 ✓</u>
	<u>£581,046 ✓</u>	<u>£647,581 ✓</u>

Four people were employed by the company during the year (1996 - 4). The directors received no remuneration in respect of services to the company.

5. PENSIONS

The company operates a defined contribution pension scheme and charges all contributions to the profit and loss account as they fall due. No contributions were outstanding at 31 December 1997.

6. TAXATION

	<u>1997</u>	<u>1996</u>
U.K. Corporation Tax at 33%/31% (1996 - 33%)	<u>£25,164</u>	<u>£28,417</u>

HARBOURVEST PARTNERS (UK) LIMITED

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1997

7. TANGIBLE FIXED ASSETS

	<u>Computer Hardware and Software</u>	<u>Motor Vehicles</u>	<u>Furniture and Fittings</u>	<u>Leasehold Improvements</u>	<u>Total</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
COST:					
At 1 January 1997	34,607	29,935	30,836	22,217	117,595
Additions	<u>8,407</u>	<u>-</u>	<u>5,011</u>	<u>8,132</u>	<u>21,550</u>
At 31 December 1997	<u>43,014</u>	<u>29,935</u>	<u>35,847</u>	<u>30,349</u>	<u>139,145</u>
DEPRECIATION:					
At 1 January 1997	18,518	17,462	17,380	2,160	55,520
Charge for Year	<u>8,325</u>	<u>7,484</u>	<u>4,196</u>	<u>3,813</u>	<u>23,818</u>
At 31 December 1997	<u>26,843</u>	<u>24,946</u>	<u>21,576</u>	<u>5,973</u>	<u>79,338</u>
NET BOOK VALUE:					
At 31 December 1997	<u>£16,171</u>	<u>£4,989</u>	<u>£14,271</u>	<u>£24,376</u>	<u>£59,807</u>
At 31 December 1996	<u>£16,089</u>	<u>£12,473</u>	<u>£13,456</u>	<u>£20,057</u>	<u>£62,075</u>

8. DEBTORS

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Amounts owed by parent undertaking	114,218	484,475
Other debtors	37,119	46,650
Prepayments and accrued income	<u>21,559</u>	<u>14,128</u>
	<u>£172,896</u>	<u>£545,253</u>

HARBOURVEST PARTNERS (UK) LIMITED

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1997

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Bank overdraft	1,938	45,133
Trade creditors	-	7,597
Amounts owed to fellow subsidiary undertaking	-	118
Corporation tax	25,164	28,417
Other taxes and social security	6,633	29,470
Accruals	<u>72,337</u>	<u>296,796</u>
	<u>£106,072</u> -	<u>£407,531</u> -

10. CALLED UP SHARE CAPITAL

	<u>Authorised</u>	<u>Allotted, issued and fully paid</u>
Ordinary Shares of £1 each at 31 December 1996 and 1997	<u>£20,000</u> -	<u>£5,000</u> -

11. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<u>Share Capital</u>	<u>Profit & Loss Account</u>	<u>Total Shareholders' Funds</u>
At 1 January 1996	5,000 -	141,016 -	146,016 -
Profit for the year	-	<u>54,531</u> -	<u>54,531</u> -
At 31 December 1996	5,000 -	195,547 -	200,547 -
Profit for the year	-	<u>52,383</u> -	<u>52,383</u> -
At 31 December 1997	<u>5,000</u> -	<u>247,930</u> -	<u>252,930</u> -

12. FUTURE OBLIGATIONS UNDER OPERATING LEASES

The company has the following obligations to make payments within one year from the balance sheet date under an operating lease which expires as stated.

	<u>1997</u>	<u>1996</u>
Leasehold premises		
Expiring within two to five years	<u>£42,500</u> -	<u>£42,500</u> -

HARBOURVEST PARTNERS (UK) LIMITED

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1997

13. RELATED PARTY DISCLOSURE

The company has taken advantage of the exemption given by Financial Reporting Standard 8 ("FRS8") to subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, by not disclosing information on related party transactions with entities that are part of the group, or investees of the group qualifying as related parties.

14. ULTIMATE PARENT COMPANY

Following a change in beneficial ownership during the year, the parent company of the largest and smallest group of which HarbourVest Partners (UK) Limited is a member and for which group accounts are prepared is HVP Partners LLC, in the USA. These group accounts may be obtained from 44th Floor, 1 Financial Center, Boston, Massachusetts, USA.