

Evolution Capital Investment Limited

Report and Financial Statements

For the year ended 31 December 2002



Registered Number: 3359805

Evolution Capital Investment Limited

DIRECTORS' REPORT

For the year ended 31 December 2002

The directors present their report together with the audited financial statements for the year ended 31 December 2002.

Review of business

The Company is a member of British Venture Capital Association ("BVCA") and invests in private companies in sectors where Evolution Beeson Gregory Limited, a fellow group company, has a research speciality.

During the year the Company also carried out proprietary trading in equities. This business was transferred to another group company, Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited), following the acquisition of the Beeson Gregory Group on 11 July 2002, by the parent undertaking The Evolution Group Plc.

During the year a profit on sale of investments of £19,000 arose (2001: £nil). The portfolio has been provided for in 2002 with a provision of £4,539,000 being taken to the profit and loss account (2001: £nil) against the remaining investments held, reducing the carrying value of the portfolio to £1,201,000 (2001: £4,756,000).

During the year the intercompany indebtedness of £4,731,000 between the Company and its ultimate parent company, The Evolution Group Plc was waived in accordance with a Deed of Waiver dated 20 December 2002.

The Company does not intend to make any further investments in private equity companies but will seek to maximise value from the remaining portfolio of assets held.

Results and dividends

During the year the Company made an overall profit after taxation of £298,000 (2001: £nil). The directors do not recommend the payment of a dividend (2001: £nil).

Directors

The directors of the Company, who served during the year, together with their dates of appointment and resignation, are as shown below:

	Date of appointment	Date of resignation
Alex Snow	-	-
Graeme Dell	22 February 2002	-
Richard Griffiths	22 February 2002	-

The directors have no interest in the share capital of the Company.

The directors in office at the year end have interests in the share capital of the parent company, The Evolution Group Plc and are also directors of The Evolution Group Plc. Their interests are disclosed in the accounts of The Evolution Group Plc in accordance with the Companies Act 1985.

DIRECTORS' REPORT (continued)
For the year ended 31 December 2002

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the independent auditors' report set out on Page 3, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the independent auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 4 to 12 that,

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- all the accounting standards which they consider to be applicable have been followed, and
- the financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers to a limited liability partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 27th February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP as auditors.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and pursuant to section 388 (3) (b) of the Companies Act 1985, special notice will be given of a resolution proposing to re-appoint PricewaterhouseCoopers LLP as the Company's auditors at the Annual General Meeting.

BY ORDER OF THE BOARD



Nigel Gordon
Secretary
8 April 2003

Independent auditors' report to the members of Evolution Capital Investment Limited

We have audited the financial statements on pages 4 to 12 which comprise the profit and loss account and balance sheet and the related notes which have been prepared under the historical cost convention as modified by the revaluation of certain assets and the accounting policies set out in the statement of accounting policies on pages 6 to 7.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

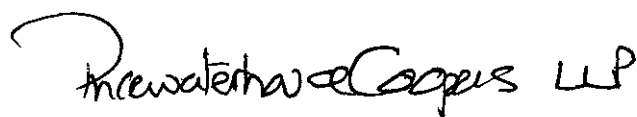
Basis of audit opinion

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
8 April 2003

Evolution Capital Investment Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER

	Note	2002 £'000	2001 £'000
Turnover		926	-
Commission payable		(168)	-
Gross profit		<u>758</u>	<u>-</u>
Other operating income	4	4,731	-
Administrative expenses		(667)	-
Profit on sale of fixed asset investments		19	-
Provision against fixed asset investments		(4,539)	-
Operating profit		<u>302</u>	<u>-</u>
Other interest receivable and similar income	6	8	-
Interest payable and similar charges	6	(12)	-
Profit on ordinary activities before taxation	5	<u>298</u>	<u>-</u>
Tax on profit on ordinary activities	8	-	-
Profit on ordinary activities after taxation		<u>298</u>	<u>-</u>
Profit for the financial year		<u>298</u>	<u>-</u>

All recognised gains and losses are included in the profit and loss account.

All income is derived from continuing activities. There is no difference between the results disclosed in the profit and loss account and the results on a modified historical cost basis.

The notes on pages 6 to 12 form an integral part of these financial statements.

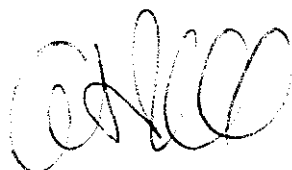
Evolution Capital Investment Limited**BALANCE SHEET
AS AT 31 DECEMBER**

	Note	2002 £'000	2001 £'000
Fixed assets			
Investments	9	<u>1,201</u>	<u>4,756</u>
Current assets			
Debtors	10	<u>8</u>	<u>-</u>
Creditors: Amounts falling due within one year	11	<u>(911)</u>	<u>(4,756)</u>
Net current liabilities		<u>(903)</u>	<u>(4,756)</u>
Total assets less current liabilities		<u>298</u>	<u>-</u>
Net assets		<u>298</u>	<u>-</u>
Capital and reserves			
Called up ordinary share capital	12	-	-
Profit and loss account	13	298	-
Total equity shareholders' funds	14	<u>298</u>	<u>-</u>

A statement of movement in equity shareholders' funds is given in note 14.

The notes on pages 6 to 12 form an integral part of these financial statements.

The financial statements on pages 4 to 12 were approved by the Board of Directors on 8 April 2003.



Graeme Dell
Finance Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets, the accounting policies set out below and in accordance with the applicable accounting standards of the UK Accounting Standards Board and the pronouncements of its Urgent Issue Task Force (UITF).

The accounts for the year continue to be prepared on a going concern basis.

Turnover

Turnover comprises profits and losses made on proprietary trading. Proprietary trading positions are valued on a mark to market basis and the resulting income is included in turnover. All turnover is generated within the United Kingdom is principally in sterling and is stated exclusive of value added tax.

Interest

Interest is paid or received on balances owing to / or held with brokers to settle its trades during the year. At the year end the Company had no broker balances.

Equity shares held as current assets

Equity shares held as current assets are stated at market value and profits or losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 of the Companies Act 1985, which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation difference be taken to the revaluation reserve.

The directors consider that these requirements would fail to give a true and fair view of the profit for the year of the Company since the marketability of the equity shares enable decisions to be taken continually about whether to hold or sell them and hence the economic measure of profit in any period is properly made by reference to market values. The Company does not hold any equity shares at the end of the year.

Fixed Asset Investments

The directors consider that in general the Company's fixed asset investments do not come within the Companies Act 1985 definition of associated undertakings, since the Company does not exercise significant influence over the operating and financial policies of the investees. The Companies Act 1985 requires investments where there is significant influence to be treated as associated undertakings and accounted for using the equity method of accounting.

The directors consider that as these investments are held as part of the Company's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the Company's interest in these investments. The treatment adopted is in accordance with the accounting for venture capital and investment trusts as laid out in Financial Reporting Standard ("FRS") 9 – Associates and Joint Ventures.

Fixed asset investments represent equity investments. Listed and unlisted investments are stated at historical cost less provision for impairment in value. They are regarded as financial fixed assets as they are held for long-term investment purposes.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

1. ACCOUNTING POLICIES (continued)

Basis for fixed asset investment provisions

Provisions for fixed asset investments have been calculated in accordance with British Venture Capital Association ("BVCA") guidelines. Early stage investments are valued at cost less any provision considered necessary due to performance significantly below the expectation on which the investment was based. These provisions are made as a percentage of cost in 25% bands. Later stage investments continue to be valued at cost less provision until a third party valuation or earnings multiple basis becomes more applicable. Quoted investments are valued at the bid price but may be discounted further where the holding is significant in relation to the issued share capital.

Deferred tax

During the year the Company adopted Financial Reporting Standard 19 'Deferred Tax' (FRS 19). This standard addresses the recognition, on a full provision basis, of deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computations.

Deferred tax, provided at anticipated tax rates and on a non-discounted basis, is recognised in respect of all timing differences, arising from transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, which have occurred at the balance sheet date. Assets are recognised on this basis only to the extent that it is regarded as more likely than not that they will crystallise in the future.

Change in accounting policy

A change in accounting policy has arisen from the adoption in 2002 of FRS 19 - Deferred Tax. As explained in the accounting policy note above, deferred tax is now provided on a full provision basis in respect of timing differences that have originated but not reversed at the balance sheet date.

The change in accounting policy has not resulted in a prior year adjustment. The deferred tax balance has not been recognised but would be recovered if there were suitable taxable profits from which the reversal of the underlying differences could be deducted.

2. CASH FLOW STATEMENT

The Company's ultimate holding company has adopted the provisions of Financial Reporting Standard 1 ("FRS 1") revised 1996, Cash Flow Statements. Accordingly the Company, which is a wholly owned subsidiary of The Evolution Group Plc, has elected to utilise the exemption provided in FRS 1 not to produce a cash flow statement.

3. PROFIT AND LOSS ACCOUNT

The Company did not produce a profit and loss account in the prior year as there were no transactions to be recorded. The Company made neither a profit nor loss, nor any other recognised gain or loss in the year to 31 December 2001.

4. OTHER OPERATING INCOME

During the year the intercompany indebtedness of £4,731,000 between the Company and its immediate parent company, The Evolution Group Plc was waived in accordance with a Deed of Waiver dated 20 December 2002.

Evolution Capital Investment Limited**NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2002****5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration – Audit fees	3	-

	2002 £'000	2001 £'000
Staff costs:		
Wages and salaries	106	-
Social security costs	12	-
Other staff costs	2	-
Total staff costs	<u>120</u>	<u>-</u>

Average employee numbers during the year were 1 (2001: nil). Actual full time employee numbers were 2 at 1 January 2002 and nil at 31 December 2002.

6. INTEREST RECEIVABLE AND PAYABLE

	2002 £'000	2001 £'000
Broker interest received	8	-
Broker interest paid	(12)	-

Interest received and paid relates to interest on broker trading balances held during the year.

7. DIRECTORS' EMOLUMENTS

The Directors did not receive any emoluments in respect of their services to the Company during the year (2001: £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

8. TAXATION

There is no charge in respect of either current or deferred tax during the year (2001: £nil).

During the year the Group changed its accounting policy in respect of group relief. In accordance with the Group's accounting policy, no payment is to be received in relation to group relief surrendered.

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%).

Factors affecting the tax charge for the year are explained below:

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	298	-
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	89	-
Effects of:		
Expenses not deductible for tax purposes	1,361	-
Non taxable income	(1,425)	-
Group relief claimed	(25)	-
Current tax charge for the year	-	-

There is a potential deferred tax asset at 31 December 2002 of £6,800,000, relating entirely to provisions against investments. This has not been recognised in the accounts due to current uncertainties as to how the Group will utilise the reversal of the underlying timing differences.

The deferred tax asset would be recovered if there were future profits from which the reversal of the underlying timing differences could be deducted.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

9. FIXED ASSET INVESTMENTS

	Listed Investments	Unlisted Investments	Total
Cost	£'000	£'000	£'000
At January 2001	1,332	21,734	23,066
Additions	87	2,613	2,700
Disposals	(75)	(17)	(92)
Intra Group transfers	-	(1,699)	(1,699)
At 31 December 2002	1,344	22,631	23,975
Provisions			
As at January 2001	(354)	(17,956)	(18,310)
Charge for the year	(692)	(3,847)	(4,539)
Disposals	75	-	75
At 31 December 2002	(971)	(21,803)	(22,774)
Net book values			
At 31 December 2002	373	828	1,201
At 1 January 2001	978	3,778	4,756

The intra group transfer represents the investment in IP2IPO Limited held by the Company prior to the acquisition of Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) by The Evolution Group Plc (the "Group"). Following the acquisition of Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) by the Group in July 2002, this investment was transferred at net book value to the parent company.

The market value of listed investments at 31 December 2002 was £669,000 (2001: £1,324,000).

The Company has investments greater than 20% of the issued share capital in the following companies:

Company	Country of incorporation	Type of Share Held	% of issue held
NTera Limited	Ireland	Ordinary shares	1.91
		Preferred ordinary shares	32.33
4HighTech.com Inc	US	Common stock	40

10. DEBTORS

	2002 £'000	2001 £'000
Amounts due from group undertakings	8	-

Evolution Capital Investment Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2002**

11. CREDITORS: Amounts falling due within one year

	2002 £'000	2001 £'000
Accruals	3	-
Amount due to group undertakings	908	4,756
	<u>911</u>	<u>4,756</u>

12. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised: 1,000 ordinary shares of £1 each	1,000	1,000
Allotted and paid: 2 ordinary shares of £1 each	2	2

13. RESERVES

	Profit and loss account £'000
At 1 January 2002	-
Profit for the financial year	298
At 31 December 2002	<u>298</u>

14. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Profit for the financial year	298	-
Net addition to equity shareholders' funds	<u>298</u>	-
Opening equity shareholders' funds	-	-
Closing equity shareholder's funds	<u>298</u>	-

15. CONTINGENT LIABILITY

There were no contingent liabilities at 31 December 2002 (2001: £100,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2002

16. CAPITAL COMMITMENTS

The Company had no capital commitments at 31 December 2002 (2001: nil).

17. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under the provisions of Financial Reporting Standard 8 ("FRS 8"), Related Party Disclosures not to disclose transactions with other group companies since the Company is a wholly owned subsidiary of The Evolution Group Plc, the consolidated financial statements of which are publicly available. During the year there have been no transactions with related parties other than group companies.

18. ULTIMATE HOLDING COMPANY

The ultimate holding company and the parent company of the largest group that presents group accounts is The Evolution Group Plc, a company incorporated in Great Britain and registered in England and Wales. The Evolution Group Plc and Evolution Capital Investment Limited statutory accounts are available from the Secretary, The Registry, Royal Mint Court, London, EC3N 4LB.