

Evolution Capital Investment Limited

Report and Financial Statements For the year ended 31 December 2003



Registered Number: 3359805

Evolution Capital Investment Limited

DIRECTORS' REPORT

For the year ended 31 December 2003

The directors present their report together with the audited financial statements for the year ended 31 December 2003.

Principal activities and review of business

The Company is a member of the 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 there was a profit on sale of investments of £506,000 (2002: £19,000). The portfolio has been provided for in 2003 with provisions of £6,226,000 being taken to the profit and loss account (2002: £4,539,000) against the remaining investments held, reducing the carrying value of the portfolio to £769,000 (2002: £1,201,000).

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 loss after taxation of £5,383,000 (2002: profit £298,000). The directors do not recommend the payment of a dividend (2002: £nil).

Going concern

The Evolution Group Plc the ultimate holding company has provided a letter of support to the Company stating that it will undertake to provide adequate financial support to the Company to enable it to meet all of its liabilities as and when they fall due for a period of at least one year from the date of these financial statements. It is on the strength of this guarantee and commitment of financial support that the directors deem it appropriate to prepare the financial statements on the assumption that the Company is a going concern.

Directors

The directors of the Company, who served during the year, are as shown below:

Alex Snow
Graeme Dell
Richard Griffiths

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.

Secretary

Nigel Gordon

Evolution Capital Investment Limited

DIRECTORS' REPORT (continued) For the year ended 31 December 2003

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 13 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

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and pursuant to section 384 (1) of the Companies Act 1985, a 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
19 March 2004

Evolution Capital Investment Limited

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

We have audited the financial statements on pages 4 to 13 which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention 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.*

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The *other information comprises only the directors' report.*

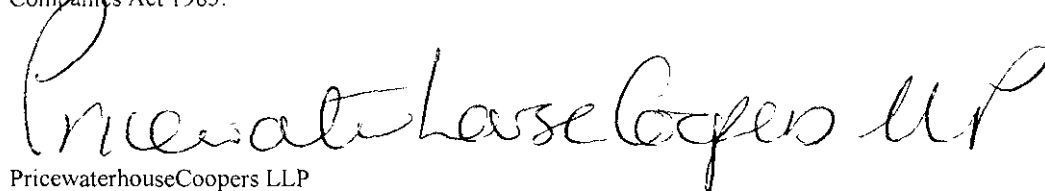
Basis of audit opinion

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 2003 and of its loss 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
19 March 2004

Evolution Capital Investment Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER

	Note	2003 £'000	2002 £'000
Turnover		-	926
Commission payable		-	(168)
Gross profit		-	758
Administrative expenses		(9)	(667)
Other operating income	3	346	4,731
Profit on sale of fixed asset investments		506	19
Provision against fixed asset investments		(6,226)	(4,539)
Operating (loss)/profit		(5,383)	302
Other interest receivable and similar income	5	-	8
Interest payable and similar charges	5	-	(12)
(Loss)/profit on ordinary activities before taxation	4	(5,383)	298
Tax on (loss)/profit on ordinary activities	7	-	-
(Loss)/profit on ordinary activities after taxation		(5,383)	298
(Loss)/profit for the financial year		(5,383)	298

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 13 form an integral part of these financial statements.

Evolution Capital Investment Limited

BALANCE SHEET AS AT 31 DECEMBER

	Note	2003 £'000	2002 £'000
Fixed assets			
Investments in subsidiary undertakings	8	-	-
<i>Investments</i>	9	<u>769</u>	<u>1,201</u>
Current assets			
Debtors	10	<u>837</u>	<u>8</u>
Creditors: Amounts falling due within one year	11	<u>(6,691)</u>	<u>(911)</u>
Net current liabilities		<u>(5,854)</u>	<u>(903)</u>
Total assets less current liabilities		<u>(5,085)</u>	<u>298</u>
Net assets		<u>(5,085)</u>	<u>298</u>
Capital and reserves			
Called up ordinary share capital	12	-	-
Profit and loss account	13	<u>(5,085)</u>	<u>298</u>
Total equity shareholders' funds	14	<u>(5,085)</u>	<u>298</u>

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

The notes on pages 6 to 13 form an integral part of these financial statements.

The financial statements on pages 4 to 13 were approved by the Board of Directors on 19 March 2004.



Graeme Dell
Finance Director

Evolution Capital Investment Limited

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 December 2003**

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention and 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 Company is not required to prepare consolidated financial statements as it is a wholly owned subsidiary and its immediate parent undertaking is established in the European Economic Area.

Going concern

The Evolution Group Plc the ultimate parent company has provided a letter of support to the Company stating that it will undertake to provide adequate financial support to the Company to enable it to meet all of its liabilities as and when they fall due for a period of at least one year from the date of these financial statements. It is on the strength of this guarantee and commitment of financial support that the directors deem it appropriate to prepare the financial statements on the assumption that the Company is a going concern.

Turnover

Turnover in the prior year comprises profits and losses made on proprietary trading. This business was transferred to another group company in July 2002. The Company does not hold any proprietary trading positions.

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.

Investments in subsidiary undertakings

In the Company's financial statements, investments in subsidiary undertakings are stated at historical cost less provision for any impairment in their value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

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.

Basis for fixed asset investment provisions

Provisions for fixed asset investments have been calculated in accordance with British Venture Capital Association ("BVCA") guidelines issued 1 August 2003. 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

Deferred tax is accounted for under 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.

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.

Evolution Capital Investment Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

3. OTHER OPERATING INCOME

	2003 £'000	2002 £'000
Dividend	346	-
Other	-	4,731
Total	<u>346</u>	<u>4,731</u>

During the year the company received dividend income of £338,000 (2002: £nil) from its subsidiary.

4. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £'000	2002 £'000
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration – Audit fees	3	3

	2003 £'000	2002 £'000
Staff costs:		
Wages and salaries	-	106
Social security costs	-	12
Other staff costs	-	2
Total staff costs	<u>-</u>	<u>120</u>

Average employee numbers during the year were nil (2002: 1).

5. INTEREST RECEIVABLE AND PAYABLE

	2003 £'000	2002 £'000
Broker interest received	-	8
Broker interest paid	-	(12)

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

6. DIRECTORS' EMOLUMENTS

The Directors did not receive any emoluments in respect of their services to the Company during the year (2002: £nil).

Evolution Capital Investment Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2003

7. TAXATION

There is no charge in respect of either current or deferred tax during the year (2002: £nil).

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:

	2003 £'000	2002 £'000
(Loss)/profit on ordinary activities before tax	(5,383)	298
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(1,615)	89
Effects of:		
Items charged under Capital Gains	1716	-
Expenses not deductible for tax purposes	2	1,361
Non taxable income	(104)	(1,425)
Group relief surrendered	1	(25)
Current tax charge for the year	-	-

There is a potential deferred tax asset at 31 December 2003 of £10,158,000 (2002: £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.

Evolution Capital Investment Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2003

8. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Company	£
Cost	
At 1 January 2003	-
Transfers from other Group companies	100
At 31 December 2003	<u>100</u>
Provision for impairment	
At 1 January 2003	-
Transfers from other Group companies	100
At 31 December 2003	<u>100</u>
Net book values	
At 31 December 2003	<u>-</u>
At 1 January 2003	<u>-</u>

Held directly by the Company	Business	Percentage Owned	Country of Incorporation
Beeson Gregory Technology Investments Limited	Investment company: Private Equity Portfolio	100	UK

During the year the investment in Beeson Gregory Technology Investments Limited was transferred at net book value to the Company from another group undertaking. Beeson Gregory Technology Investments Limited was put into Members Voluntary Liquidation on 10 December 2003.

Evolution Capital Investment Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2003**

9. FIXED ASSET INVESTMENTS

	Listed Investments	Unlisted Investments	Total
Cost	£'000	£'000	£'000
At January 2003	1,344	22,631	23,975
Additions	1,051	-	1,051
Disposals	(1,407)	(13,932)	(15,339)
Reclassification	502	(502)	-
Intra Group transfers	9,635	15,307	24,942
At 31 December 2003	11,125	23,504	34,629
Provisions			
As at January 2003	(971)	(21,803)	(22,774)
Charge for the year	(6,163)	(63)	(6,226)
Disposals	1,038	13,932	14,970
Reclassification	(502)	502	-
Intra Group transfers	(4,523)	(15,307)	(19,830)
At 31 December 2003	(11,121)	(22,739)	(33,860)
Net book values			
At 31 December 2003	4	765	769
At 1 January 2003	373	828	1,201

The intra group transfer in listed investments represents the investment in Inter-Alliance Group Plc held by the parent company, The Evolution Group Plc. The investment was transferred at net book value to the Company during the year. The intra group transfer of unlisted investments represents the investments held by Beeson Gregory Technology Investments. These investments were transferred at net book value during the year.

The provision charged in the year on listed investments of £6,163,000 is on the investment in Inter-Alliance Group Plc. It has arisen as a result of the significant size of the interest held and the fall in the share price of the investment during the year.

The market value of listed investments at 31 December 2003 was £441,020 (2002: £669,000).

The Company does not have any investments greater than 20% of the issued share capital in any company.

10. DEBTORS

	2003 £'000	2002 £'000
Other Debtors	240	-
Amounts due from group undertakings	597	8
	<u>837</u>	<u>8</u>

Evolution Capital Investment Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2003**

11. CREDITORS: Amounts falling due within one year

	2003 £'000	2002 £'000
Accruals	3	3
Amount due to parent undertaking	6,688	908
	<u>6,691</u>	<u>911</u>

12. CALLED UP SHARE CAPITAL

	2003 £	2002 £
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 2003	298
Loss for the financial year	(5,383)
At 31 December 2003	<u>(5,085)</u>

14. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2003 £'000	2002 £'000
Shareholders' funds at 1 January	298	-
(Loss)/profit for the financial year	(5,383)	298
Net (decrease)/increase in shareholders' funds	<u>(5,383)</u>	<u>298</u>
Closing equity shareholders' funds	<u>5,085</u>	<u>298</u>

15. CONTINGENT LIABILITY

There were no contingent liabilities at 31 December 2003 (2002: nil).

16. CAPITAL COMMITMENTS

The Company had no capital commitments at 31 December 2003 (2002: nil).

Evolution Capital Investment Limited

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2003**

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 controlling party 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, 9th Floor, 100 Wood Street, London, EC2V 7AN.