

# **Evolution Capital Investment Limited**

## **Report and Financial Statements For the year ended 31 December 2004**

**Registered Number: 3359805**



**DIRECTORS' REPORT**

**For the year ended 31 December 2004**

The directors present their report together with the audited financial statements for the year ended 31 December 2004.

**Principal activities and review of business**

The Company is a member of the British Venture Capital Association ("BVCA") and invested in private companies. 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.

During the year there was a profit on sale of investments of £538,000 (2003: £506,000). There have been no further provisions to the portfolio (2003: £6,226,000). Following the sales in the year the carrying value of the portfolio is £501,000 (2003: £769,000).

**Results and dividends**

During the year the Company made a profit after taxation of £1,059,000 (2003: loss £5,383,000). The directors do not recommend the payment of a dividend (2003: £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

**DIRECTORS' REPORT (continued)**  
**For the year ended 31 December 2004**

**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  
14 March 2005

**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.

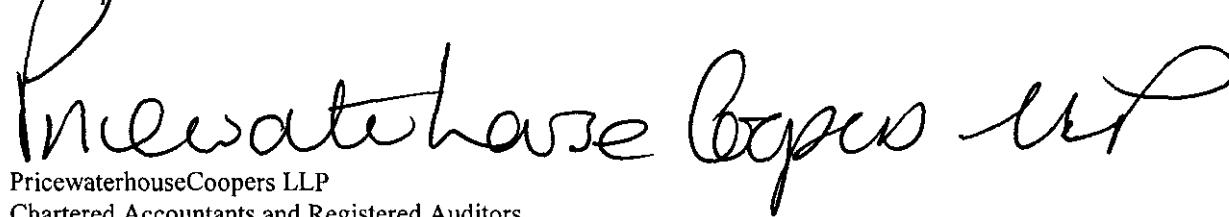
**Basis of audit opinion**

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 2004 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  
14 March 2005

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER**

	Note	2004 £'000	2003 £'000
Administrative expenses		(5)	(9)
Other operating income	3	-	346
Profit on sale of fixed asset investments	4	192	506
Profit on sale of current asset investments	5	346	-
Release of provision / (Provision against fixed asset investments)		525	(6,226)
Operating profit/(loss)		<u>1,058</u>	<u>(5,383)</u>
Profit/(loss) on ordinary activities before taxation	6	<u>1,058</u>	<u>(5,383)</u>
Tax credit on profit on ordinary activities	8	1	-
Profit/(loss) on ordinary activities after taxation		<u>1,059</u>	<u>(5,383)</u>
Profit/(loss) for the financial year		<u>1,059</u>	<u>(5,383)</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 13 form an integral part of these financial statements.

**Evolution Capital Investment Limited**

**BALANCE SHEET  
AS AT 31 DECEMBER**

	Note	2004 £'000	2003 £'000
<b>Fixed assets</b>			
Investments in subsidiary undertakings	9	-	-
Investments	10 & 11	<u>501</u>	<u>769</u>
<b>Current assets</b>			
Debtors	12	<u>1</u>	<u>837</u>
<b>Creditors: Amounts falling due within one year</b>	13	<u>(4,528)</u>	<u>(6,691)</u>
<b>Net current liabilities</b>		<u>(4,527)</u>	<u>(5,854)</u>
<b>Total assets less current liabilities</b>		<u>(4,026)</u>	<u>(5,085)</u>
<b>Net assets</b>		<u>(4,026)</u>	<u>(5,085)</u>
<b>Capital and reserves</b>			
Called up ordinary share capital	14	-	-
Profit and loss account	15	<u>(4,026)</u>	<u>(5,085)</u>
<b>Total equity shareholders' funds</b>	16	<u>(4,026)</u>	<u>(5,085)</u>

A statement of movement in equity shareholders' funds is given in note 16.

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 14 March 2005.



**Graeme Dell**  
Finance Director

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2004**

### **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.*

#### **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.

#### **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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2004**

**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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2004**

**3. OTHER OPERATING INCOME**

	2004 £'000	2003 £'000
Dividend	-	346

In the prior year the company received dividend income of £338,000 from its subsidiary, Beeson Gregory Technology Investments Limited. Following completion of Members' Voluntary Liquidation on 30 July 2004 this subsidiary has been disposed of.

**4. PROFIT ON SALE OF FIXED ASSET INVESTMENTS**

	2004 £'000	2003 £'000
Profit on sale of shares	192	506

**5. PROFIT ON SALE OF CURRENT ASSET INVESTMENTS**

	2004 £'000	2003 £'000
Profit on sale of shares in listed companies	346	-

**6. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION**

	2004 £'000	2003 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Auditors' remuneration – Audit fees	4	3

Average employee numbers during the year were nil (2003: nil).

**7. DIRECTORS' EMOLUMENTS**

The Directors did not receive any emoluments in respect of their services to the Company during the year (2003: £nil).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2004**

**8. TAXATION**

	2004 £'000	2003 £'000
Current tax:		
Group relief receivable	(1)	-
Tax on profit on ordinary activities	<u>(1)</u>	<u>-</u>

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:

	2004 £'000	2003 £'000
Profit/(loss) on ordinary activities before tax	1,058	(5,383)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	317	(1,615)
Effects of:		
Items charged under Capital Gains	(318)	1,716
Expenses not deductible for tax purposes	-	2
Non taxable income	-	(104)
Group relief surrendered	-	1
Current tax credit for the year	<u>(1)</u>	<u>-</u>

There is a potential deferred tax asset at 31 December 2004 of £9,097,000 (2003: £10,158,000), 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 2004**

**9. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS**

<b>Company</b>	<b>£</b>
<b>Cost</b>	
At 1 January 2004	100
Liquidation	(100)
At 31 December 2004	-
<b>Provision for impairment</b>	
At 1 January 2004	(100)
Liquidation	100
At 31 December 2004	-
<b>Net book values</b>	
At 31 December 2004	-
At 1 January 2004	-

Following completion of Members' Voluntary liquidation proceedings on 30 July 2004 the Company's investment in Beeson Gregory Technology Investment Ltd has been liquidated.

**10. FIXED ASSET INVESTMENTS**

	<b>AIM Listed Investments £'000</b>	<b>Unlisted Investments £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2004	11,125	23,504	34,629
Additions	-	1	1
Disposals	(12)	(550)	(562)
Reclassification to current assets		(260)	(260)
Intra Group transfers		(530)	(530)
At 31 December 2004	<b>11,113</b>	<b>22,165</b>	<b>33,278</b>
<b>Provisions</b>			
As at 1 January 2004	(11,121)	(22,739)	(33,860)
Disposals	8	550	558
Reclassification to current assets	-	260	260
Intra Group transfers	-	265	265
At 31 December 2004	<b>(11,113)</b>	<b>(21,664)</b>	<b>(32,777)</b>
<b>Net book values</b>			
At 31 December 2004	-	<b>501</b>	<b>501</b>
At 1 January 2004	4	765	769

The intra group transfer in unlisted investments represents the investment in LBM held by the Company. The investment was transferred at net book value to the parent company during the year.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2004**

**11. CURRENT ASSET INVESTMENTS**

	Total £'000
<b>Cost</b>	
At 1 January 2004	-
Reclassifications	260
Disposals	(260)
At 31 December 2004	<u>-</u>
<b>Provisions</b>	
As at 1 January 2004	-
Reclassification	(260)
Disposals	260
At 31 December 2004	<u>-</u>
<b>Net book values</b>	
At 31 December 2004	<u>-</u>
At 1 January 2004	<u>-</u>

The reclassification related to an asset previously held as a fixed asset investment. Upon its listing on AIM this security was transferred to current asset investments and disposed of for a profit as disclosed in note 4.

**12. DEBTORS**

	2004 £'000	2003 £'000
Other debtors	-	240
Amounts due from group undertakings	<u>1</u>	<u>597</u>
	<u>1</u>	<u>837</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2004**

**13. CREDITORS: Amounts falling due within one year**

	2004 £'000	2003 £'000
Amount due to parent undertaking	4,524	6,688
Accruals	4	3
	<u>4,528</u>	<u>6,691</u>

**14. CALLED UP SHARE CAPITAL**

	2004 £	2003 £
Authorised: 1,000 ordinary shares of £1 each	1,000	1,000
Allotted and paid: 2 ordinary shares of £1 each	2	2

**15. RESERVES**

	Profit and loss account £'000
At 1 January 2004	(5,085)
Profit for the financial year	1,059
At 31 December 2004	<u>(4,026)</u>

**16. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS**

	2004 £'000	2003 £'000
Equity shareholders' funds at 1 January	(5,085)	298
Profit/(loss) for the financial year	<u>1,059</u>	<u>(5,383)</u>
Net increase/(decrease) in shareholders' funds	<u>1,059</u>	<u>(5,383)</u>
Equity shareholders' funds at 31 December	<u>(4,026)</u>	<u>(5,085)</u>

**17. CONTINGENT LIABILITY**

There were no contingent liabilities at 31 December 2004 (2003: nil).

**18. CAPITAL COMMITMENTS**

The Company had no capital commitments at 31 December 2004 (2003: nil).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2004**

**19. 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.

**20. 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, 9<sup>th</sup> Floor, 100 Wood Street, London, EC2V 7AN.