

Evolutec Group plc
Interim Report 2007

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Highlights

- Cash and held to maturity investments of £6.2 million at 30 June 2007 (31 December 2006: £8.7 million)
- Loss for the period was £2.1 million (Year to 31 December 2006 : £11.8 million)
- Evolutec is now an investment company under AIM rules
- Cost base of the Company minimised by terminating contracts of all employees
- Reading office closed
- Gordon Hall and Mark Hawtin joined the Board; Mark Carnegie Brown, Nicholas Badman, John Burke and Malcolm Darvell resigned
- The Company is actively seeking a single investment opportunity

Chairman's review of operations

Following the disappointing clinical results with rEV131 at the end of 2006 and the subsequent collapse of the Company's share price, the Company undertook a review of its strategic options and discussed these with its shareholders. It became clear that there was no appetite for the risk involved in continuing the Company as an independent entity and it was decided to look for alternative solutions.

Numis Securities Limited was appointed to assist the Company with the review of its strategic options, merging with another company being the most obvious. After an exhaustive search and the identification of a potential merger partner, these discussions collapsed at the last minute. The Company was then left with a very difficult decision. After further consultation with major institutional shareholders it was felt that the majority opinion was in favour of a return of cash by way of a Member's Voluntary Liquidation. The Board felt that the proposed distribution of net cash by way of liquidation provided shareholders with certainty as to quantum and timing.

Appropriate steps were taken to begin this process and on 6 June the Company sent out a Circular convening an Extraordinary General Meeting (EGM) for 6th July 2007. During this period the Company took all steps to reduce its expenditure to the minimum and to settle all its outstanding debts. This involved ending the contracts of all employees and terminating the lease on the Company's premises in Reading. Effectively the Company became a cash shell with a listing on the Alternative Investment Market (AIM).

After sending the Circular, the Board received written confirmation from Gartmore Investment Limited (Gartmore) that they had increased their holding in Evlutec through market purchases and that they held 23.9 per cent of the issued share capital of Evlutec. Furthermore, Gartmore advised the Board that they would not vote in favour of the Resolutions proposed in the Circular. The Resolutions were special and extraordinary requiring the approval of three-quarters of those shareholders voting in person or by proxy. As another institutional shareholder indicated that it too would vote against the Resolutions, the Board was of the view that the Resolutions would not be passed. This proved to be the case when the EGM was held. Following the EGM, Nicholas Badman, Dr Mark Carnegie Brown, John Burke and Malcolm Darvell resigned as Directors of the Company.

Graeme Hart and I have continued as Directors and in addition Gartmore proposed that Gordon Hall and Mark Hawtin should join the Board to assist the Company with its future. These appointments were subsequently confirmed. It is a pleasure to welcome Gordon and Mark to the Board. They have considerable experience in the healthcare and fund management fields, respectively, and this will be of considerable benefit to the Company in reviewing future opportunities.

Gartmore have proposed that Evlutec continues as a listed entity with a view to considering possible transactions which would involve reversing another business into Evlutec.

The regulatory team at AIM have confirmed that Evolutec will be classed as an investment company under the AIM Rules pending any further transaction. The Board intend that the investment policy of Evolutec will be to seek a single investment, most probably of a UK or European business, in either the technology, healthcare or service related sectors. The Board believes that it will have the necessary experience in order to evaluate any potential acquisitions and any proposed acquisition will be subject to shareholder approval. If no transaction is announced prior to the next annual general meeting of the Company, the Board intends to propose a resolution at such meeting for shareholders to consider in relation to the future strategy of the Company. If any transaction is announced, such a transaction is likely to be a reverse takeover and would be conditional on shareholder approval. Evolutec will continue to remain as a company listed on AIM.

I would like to take this opportunity to thank all the former employees of Evolutec for their continued efforts during this period on behalf of the Company despite the considerable personal and professional difficulties that they faced.

The Board will continue to seek ways to enhance the value of its shares and to return value to shareholders. We have begun the process of looking for reverse opportunities and it is our intention to bring one of these to a fruitful conclusion prior to the next AGM of the Company.

A handwritten signature in black ink, appearing to read 'David P Bloxham', written in a cursive style.

Dr David P Bloxham

Financial Review

Evolutec had cash and cash equivalents of £6.2 million as at 30 June 2007. The operating loss for the six month period was £2.1 million (6 months to 30 June 2006: £5.7 million). The principal expenditure in the period related to closure costs of the operating business and settlement of outstanding obligations relating to the completion of the clinical trials. . All known closure costs have been included in these financial statements.

Balance Sheet

Share Capital

No further equity was issued during the period. Upon the termination of the staff contracts, they all signed Compromise Agreements and these terminated all existing options. The majority of these options were cancelled prior to vesting and the cancellation has been accounted for by reversing employment costs of £0.5 million.

Liquidity

The Group had cash and cash equivalents of £6.2 million as at 30 June 2007 as compared to £8.7 million as at the 31 December 2006. This decrease reflects the expenditure involved in completing the two clinical trials involving rEV131 and terminating the contracts of employees. The net cash outflow from operating activities was £2.7 million (6 months to 30 June 2006: £4.5 million) reflecting the Group's expenditure for the period.

The Group had no borrowings during the year.

Treasury

As at 30 June 2007 the Group had £6.1 million on Treasury deposit. The Group's policy is to split its deposits between two banks each with a minimum credit rating of F1/A. The objective is to derive the maximum interest whilst safeguarding the asset. Given that the cost base of the Group has been reduced substantially it is anticipated that interest from the Treasury deposit should cover its expenditure and therefore the cash asset should be reasonably stable.

Cash Flow

Net cash outflow from operating activities in the period was £2.7 million (six months to 30 June 2006: £4.5 million). The principal cash inflow items were net interest receipts of £0.2 million (six months to 30 June 2006: £0.33 million). There was no capital expenditure and the entire cash outflow represented operating expenditure.

Income Statement

Revenue

The Group received revenue of £15k during the period in connection with its collaboration with Merial.

Selling and Marketing

Costs in this area amounted to £0.2 million and related to costs incurred in licensing discussions for rEV576.

Research and Development

The costs in this area were related to completion costs for the clinical trials with rEV131 in rhinitis and post-cataract inflammation. The Group also had costs related to the termination of its manufacturing agreement for rEV576 carried out by Wacker Biotech GmbH.

Interest receivable and interest payable

Interest receivable in the period was £0.2 million (6 months to 30 June 2006: £0.33 million). The decrease in interest reflects the reduced average cash balance during 2007.

Taxation

No significant research and development tax credit is expected in this period.

INDEPENDENT REVIEW REPORT TO EVOLUTEC GROUP PLC

INTRODUCTION

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007 which comprises the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders equity and the related notes 1 to 6. We have read the other information contained in the interim report which comprises only the Chairman's Review and the Financial Review and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

This report is made solely to the Company in accordance with guidance contained in APB Bulletin 1999/4 "Review of Interim Financial Information". Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusion we have formed.

DIRECTORS' RESPONSIBILITIES

The interim report including the financial information contained therein is the responsibility of, and has been approved by, the directors. They are responsible for preparing the interim report and ensuring that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

REVIEW WORK PERFORMED

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of Interim Financial Information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards of Auditing (UK & Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

GRANT THORNTON UK LLP
CHARTERED ACCOUNTANTS
OXFORD
[Date]

Unaudited consolidated income statement

For the six-month period ended 30 June 2007

	Notes	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Revenue	2	15	14	14
Cost of sales		(1)	(1)	(1)
Gross profit		14	13	13
Selling and marketing costs		(158)	(52)	(189)
Research and development expenditure		(1,045)	(5,087)	(10,509)
Administrative expenses		(1,088)	(1,007)	(2,172)
Operating loss		(2,277)	(6,133)	(12,857)
Finance income	3	196	339	749
Finance costs	3	(13)	(137)	(364)
Loss before tax		(2,094)	(5,931)	(12,472)
Taxation		-	251	645
Loss for the period		(2,094)	(5,680)	(11,827)

Basic and diluted loss per ordinary share 6 **(8.1)p** (24.1)p (49.3)p

The results for the period are derived from discontinued activities.

The notes on pages 11 to 13 form part of these consolidated interim financial statements.

Unaudited consolidated balance sheet

As at 30 June 2007

	Notes	30 June 2007 £000	30 June 2006 £000	31 December 2006 £000
ASSETS				
Non-current assets				
Property, plant and equipment		-	152	140
		-	152	140
Current assets				
Research and development tax credits		-	251	645
Trade and other receivables	4	100	746	203
Held-to-maturity investments		-	2728	-
Cash and cash equivalents		6,164	10,512	8,682
		6,264	14,237	9,530
Total assets	2	6,264	14,389	9,670
EQUITY				
Capital and reserves attributable to the equity holders of the Company				
Share capital		27,037	24,402	27,037
Other reserves		8,561	8,948	9,083
Retained deficit		(29,933)	(21,692)	(27,839)
Equity shareholders' funds		5,665	11,658	8,281
LIABILITIES				
Non current liabilities				
Trade and other payables	5	1	-	34
Current liabilities				
Trade and other payables	5	598	2,731	1,355
Total liabilities		599	2,731	1,389
Total equity and liabilities		6,264	14,389	9,670

The notes on pages 11 to 13 form part of these consolidated interim financial statements.

Unaudited consolidated cash flow statement

For the six-month period ended 30 June 2007

	Notes	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Cash flows from operating activities				
Loss for the period		(2,094)	(5,680)	(11,827)
Taxation		-	(251)	(645)
Depreciation		140	40	87
Interest received		(196)	(339)	(595)
Unrealised foreign exchange losses		-	138	81
Share options – value of employee services (reversed)		(522)	155	290
Decrease in trade and other receivables		103	73	616
Increase/(decrease) in trade and other payables		(790)	816	(526)
Cash used by operations		(3,359)	(5,048)	(12,519)
Taxation credit received		645	502	502
Net cash outflow from operating activities		(2,714)	(4,546)	(12,017)
Cash flows from investing activities				
Purchase of property, plant and equipment.	2	-	(31)	(66)
Interest received	3	196	339	595
Decrease in held-to-maturity investments		-	13,118	15,877
Net cash generated from investing activities		196	13,426	16,406
Cash flows from Financing activities				
Proceeds from issuance of shares		-	-	2,635
Net cash generated from financing activities		-	-	2,635
Net increase/(decrease) in cash and cash equivalents		(2,518)	8,880	7,024
Cash and cash equivalents at the start of the period		8,682	1,739	1,739
Exchange losses on cash and cash equivalents		-	(107)	(81)
Cash and cash equivalents at the end of the period		6,164	10,512	8,682

The notes on pages 11 to 13 form part of these consolidated interim financial statements.

Unaudited consolidated statement of changes in shareholders' equity

For the six-month period ended 30 June 2007

	Share Capital	Share Premium	Other reserves	Retained deficit	Total
	£000	£000	£000	£000	£000
Balance at 31 December 2005	2,359	22,043	8,793	(16,012)	17,183
Loss for the period	-	-	-	(5,680)	(5,680)
Fair value of share-based payments	-	-	155	-	155
Balance at 30 June 2006	2,359	22,043	8,948	(21,692)	11,658
Loss for the period	-	-	-	(6,147)	(6,147)
Issue of ordinary shares	236	2,399	-	-	2,635
Fair value of share-based payments	-	-	135	-	135
Balance at 31 December 2006	2,595	24,442	9,083	(27,839)	8,281
Loss for the period	-	-	-	(2,094)	(2,094)
Fair value of share-based payments	-	-	(522)	-	(522)
Balance at 30 June 2007	2,595	24,442	8,561	(29,933)	5,665

The notes on pages 11 to 13 form part of these consolidated interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the six-month period ended 30 June 2007

1 Accounting policies

These interim financial statements have been prepared in accordance with IAS 34 and in accordance with the recognition measurement principles of IFRS as adopted in the European Union ("EU").

The interim financial information has not been audited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 but has been reviewed by the auditors in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. The Company's statutory accounts for the year ended 31 December 2006, prepared under IFRS as adopted in EU, have been delivered to the Registrar of Companies; the report of the auditors on these accounts was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

2. Segment information

Primary reporting format – business segments

In the six months to 30 June 2007, the Group operated one business segment, which is the research and development of a range of pharmaceutical product candidates.

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Analysis of revenue by category			
Sale of goods	-	-	-
Collaborative agreements	15	14	14
Total	15	14	14

Secondary reporting format - geographical segments

The Group operates in four main geographical areas, even though it is managed on a worldwide basis.

The home country of the Company, and of Evolutec Limited - which is the main operating company - is the United Kingdom. The area of operation is primarily research and development of a range of pharmaceutical product candidates.

Revenue	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
United Kingdom	-	-	-
Rest of Europe	-	-	-
North America	15	14	14
Rest of the World	-	-	-
Total	15	14	14

Total Assets	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
	£000	£000	£000
United Kingdom	6,264	14,389	9,670
Rest of Europe	-	-	-
North America	-	-	-
Rest of the World	-	-	-
Total	6,264	14,389	9,670

Total assets are allocated based on where the assets are located.

Capital Expenditure	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
	£000	£000	£000
United Kingdom	-	31	66
Rest of Europe	-	-	-
North America	-	-	-
Rest of the World	-	-	-
Total	-	31	66

Capital expenditure is allocated based on where the assets are located.

3. Finance income and charges

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
	£000	£000	£000
Interest receivable and other similar income			
Interest on cash, cash equivalents and held-to-maturity assets	196	339	595
Exchange gains on held-to-maturity assets	-	-	154
Total	196	339	749
Interest payable and other similar charges			
Exchange losses on held-to-maturity assets	(13)	(137)	(364)
Total	(13)	(137)	(364)

4. Trade and other receivables

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Trade debtors	7	-	-
Other debtors	51	89	24
Prepayments and accrued income	42	657	179
	100	746	203

5. Trade and other payables

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Provision for NI on share options	1	-	34
Non-current trade and other liabilities	1	-	34
Trade creditors	116	1,130	165
Taxation and social security payable	330	49	136
Accruals	152	1,552	1,054
Current trade and other liabilities	598	2,731	1,355
Total trade and other liabilities	599	2,731	1,389

6. Loss per ordinary share

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Attributable loss	(2,094)	(5,680)	(11,827)
Weighted average number of shares in issue (000)	25,950	23,591	24,011
Loss per share (basic and diluted)	(8.1)p	(24.1)p	(49.3)p

The calculation of earnings per share is based on the weighted average number of ordinary shares in issue during the period.

Addresses and Advisers

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