

Evolutec Group plc  
Interim Report 2008

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## **Highlights**

- Cash of £5.8 million at 30 June 2008 (31 December 2007: £5.8 million)
- Profit for the period was £40,000 (Year to 31 December 2007 : £1.8 million loss)
- Evolutec is now an investment company under AIM rules
- Cost base of the Company continues to be minimised
- The Company is actively seeking a single investment opportunity

## **Chairman's review of operations**

The company has now completed its transformation to an investment company under AIM rules. In the past six months the company finished all the work involved in the assignment of patents to its licensees (Merial and Varleigh). Evolutec has no further obligations under the licensing arrangements for its technology and it remains to be seen whether the activities of the licensees creates any value in the future for the company.

The stated objective of the company now is to seek a single company reverse takeover. Both the Board and our lead investors have been active in identifying companies that might fulfil this objective. To this date we have not been successful although we are actively continuing to review opportunities. The major difficulty at this time is agreeing a valuation of potential reverse companies. This has been exacerbated by the recent challenging market conditions for AIM listed companies particularly in comparison to similar privately held companies. We remain optimistic that it will be possible to identify a suitable company in the time frame permitted by AIM rules; namely, before the next Annual General Meeting that is expected to be convened in April 2009. The commitment of our major shareholders to the strategy that we are pursuing is reflected in the fact that they have continued to acquire shares in the market.

In the meantime, the company remains committed to operating with minimum use of cash. In the period to 30 June 2008, the company had a small pre-tax operating profit of £49k (2007: £2.1million loss). This profit was almost entirely due to the interest received on the company's cash deposits. Cash and cash equivalents remained relatively stable at £5.8 million throughout the period under review. Following this period the company received £160k in recognition of its R&D tax credit claim.

At the Annual General Meeting of the company held on 10 April 2008 new Articles of Association were adopted and these will come into effect on 1 October 2008. A copy of the Articles can be viewed on the company's web site at [www.evolutec.co.uk](http://www.evolutec.co.uk).

In conclusion, the company, its advisors and the leading shareholders are committed to maximising the opportunity presented by its AIM listing and its cash reserve in the interests of all shareholders.

Dr David P Bloxham

8 September 2008

## **Financial Review**

Evolutec had cash and cash equivalents of £5.8 million as at 30 June 2008. The pre-tax operating profit for the six month period was £49k (2007: £2.1 million loss). The principal expenditure in the period related to the management of the company.

### **Balance Sheet**

#### Share Capital

No further equity was issued during the period.

#### Liquidity

The Group had cash and cash equivalents of £5.8 million as at 30 June 2008 as compared to £5.8 million as at the 31 December 2007. The net cash outflow from operating activities was £0.1 million (2007: £2.7 million) reflecting the Group's expenditure for the period.

The Group had no borrowings during the year.

### **Treasury**

As at 30 June 2008 the Group had £5.6 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 £0.1 million (2007: £2.7 million). The principal cash inflow items were net interest receipts of £0.2 million (2007: £0.2 million). There was no capital expenditure and the entire cash outflow represented operating expenditure.

### **Income Statement**

#### Revenue

The Group received revenue of £1k during the period in connection with its collaboration with Merial.

### **Selling and Marketing**

No costs in this area were incurred in the period.

**Interest receivable and interest payable**

Interest receivable in the period was £0.2 million (2007: £0.2 million).

**Taxation**

No significant research and development tax credit is expected in this period and the company does not anticipate making further applications for tax credits in this area. The 2007 claim of £160k was received in July 2008.

## **INDEPENDENT REVIEW REPORT TO EVOLUTEC GROUP PLC**

### **INTRODUCTION**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises income statement, balance sheet, cashflow statement, statement of changes in equity and selected notes. We have read the other information contained in the half yearly financial report which comprises only the highlights, Chairman's review of operations and Financial Review and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in Note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

### **OUR RESPONSIBILITY**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

## **SCOPE OF REVIEW**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

**GRANT THORNTON UK LLP**  
**AUDITOR**  
**OXFORD**  
**8 September 2008**

## Unaudited condensed consolidated interim income statement

For the six-month period ended 30 June 2008

	Notes	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Year ended 31 December 2007 £000
<b>Revenue</b>	2	1	15	82
Cost of sales		-	(1)	(1)
<b>Gross profit</b>		1	14	81
Selling and marketing costs		-	(158)	(160)
Research and development expenditure		(2)	(1,045)	(1,050)
Administrative expenses		(108)	(1,088)	(1,159)
<b>Operating loss</b>		(109)	(2,277)	(2,288)
Finance income	3	158	196	375
Finance costs	3	-	(13)	(12)
<b>Profit/(Loss) before tax</b>		49	(2,094)	(1,925)
Taxation		(9)	-	162
<b>Profit/(Loss) for the period</b>		40	(2,094)	(1,763)

Basic and diluted profit (loss) per ordinary share	6	0.0p	(8.1)p	(6.8)p
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The notes on pages 11 to 12 form part of these consolidated interim financial statements.

## Unaudited condensed consolidated interim balance sheet

As at 30 June 2008

	Notes	30 June 2008 £000	30 June 2007 £000	31 December 2007 £000
<b>ASSETS</b>				
<b>Current assets</b>				
Research and development tax credits		162	-	162
Trade and other receivables	4	27	100	28
Cash and cash equivalents		5,834	6,164	5,797
		<b>6,023</b>	<b>6,264</b>	<b>5,987</b>
<b>Total assets</b>	2	<b>6,023</b>	<b>6,264</b>	<b>5,987</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the equity holders of the Company</b>				
Share capital		27,037	27,037	27,037
Other reserves		8,518	8,561	8,518
Retained deficit		(29,562)	(29,933)	(29,602)
<b>Equity shareholders' funds</b>		<b>5,993</b>	<b>5,665</b>	<b>5,953</b>
<b>LIABILITIES</b>				
<b>Non current liabilities</b>				
Trade and other payables	5	-	1	-
<b>Current liabilities</b>				
Trade and other payables	5	30	598	34
<b>Total liabilities</b>		<b>30</b>	<b>599</b>	<b>34</b>
<b>Total equity and liabilities</b>		<b>6,023</b>	<b>6,264</b>	<b>5,987</b>

The notes on pages 11 to 12 form part of these consolidated interim financial statements.

## Unaudited condensed consolidated interim cash flow statement

For the six-month period ended 30 June 2008

	Notes	Six months ended 30 June 2008 £000	Six months ended 30 June 2007 £000	Year ended 31 December 2007 £000
<b>Cash flows from operating activities</b>				
Profit (Loss) for the period		40	(2,094)	(1,763)
Taxation		9	-	(162)
Depreciation		-	140	140
Interest received		(158)	(196)	(375)
Share options – value of employee services (reversed)		-	(522)	(565)
Decrease in trade and other receivables		1	103	174
Increase/(decrease) in trade and other payables		(13)	(790)	(1,354)
Cash used by operations		(121)	(3,359)	(3,905)
Taxation credit received		-	645	645
<b>Net cash outflow from operating activities</b>		<b>(121)</b>	<b>(2,714)</b>	<b>(3,260)</b>
<b>Cash flows from investing activities</b>				
Interest received	3	158	196	375
<b>Net cash generated from investing activities</b>		<b>158</b>	<b>196</b>	<b>375</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>37</b>	<b>(2,518)</b>	<b>(2,885)</b>
Cash and cash equivalents at the start of the period		5,797	8,682	8,682
Exchange losses on cash and cash equivalents		-	-	-
<b>Cash and cash equivalents at the end of the period</b>		<b>5,834</b>	<b>6,164</b>	<b>5,797</b>

The notes on pages 11 to 12 form part of these consolidated interim financial statements.

## Unaudited condensed consolidated interim statement of changes in shareholders' equity

For the six-month period ended 30 June 2008

	Share Capital	Share Premium	Other reserves	Retained deficit	<b>Total</b>
	£000	£000	£000	£000	<b>£000</b>
<b>Balance at 31 December 2006</b>	2,595	24,442	9,083	(27,839)	<b>8,281</b>
Loss for the period	-	-	-	(2,094)	<b>(2,094)</b>
Fair value of share-based payments	-	-	(522)	-	<b>(522)</b>
<b>Balance at 30 June 2007</b>	2,595	24,442	8,561	(29,933)	<b>5,665</b>
Profit for the period	-	-	-	331	<b>331</b>
Fair value of share-based payments	-	-	(43)	-	<b>(43)</b>
<b>Balance at 31 December 2007</b>	2,595	24,442	8,518	(29,602)	<b>5,953</b>
Profit for the period	-	-	-	40	<b>40</b>
<b>Balance at 30 June 2008</b>	2,595	24,442	8,518	(29,562)	<b>5,993</b>

The notes on pages 11 to 12 form part of these consolidated interim financial statements.

## CONDENSED NOTES TO THE GROUP INTERIM FINANCIAL STATEMENTS

For the six-month period ended 30 June 2008

### 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 2007, 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

Given the current activities of the Group, the directors do not consider the Group to have any genuine segments and therefore none are disclosed.

### 3. Finance income and charges

	<b>Six months ended 30 June 2008 £000</b>	Six months ended 30 June 2007 £000	Year ended 31 December 2007 £000
<b>Interest receivable and other similar income</b>			
Interest on cash, cash equivalents and held-to-maturity assets	<b>158</b>	196	375
<b>Interest payable and other similar charges</b>			
Exchange losses on held-to-maturity assets	-	(13)	(12)

### 4. Trade and other receivables

	<b>Six months ended 30 June 2008 £000</b>	Six months ended 30 June 2007 £000	Year ended 31 December 2007 £000
Trade debtors	-	7	2
Other debtors	<b>6</b>	51	2
Prepayments and accrued income	<b>21</b>	42	24
	<b>27</b>	100	28

<b>5. Trade and other payables</b>	<b>Six months ended 30 June 2008 £000</b>	Six months ended 30 June 2007 £000	Year ended 31 December 2007 £000
Provision for NI on share options	-	1	-
Non-current trade and other liabilities	-	1	-
Trade creditors	<b>6</b>	116	4
Taxation and social security payable	<b>10</b>	330	2
Accruals	<b>14</b>	152	28
Current trade and other liabilities	<b>30</b>	598	34
Total trade and other liabilities	<b>30</b>	599	34

<b>6. Profit (loss) per ordinary share</b>	<b>Six months ended 30 June 2008 £000</b>	Six months ended 30 June 2007 £000	Year ended 31 December 2007 £000
Attributable profit (loss)	<b>40</b>	(2,094)	(1,763)
Weighted average number of shares in issue (000)	<b>25,950</b>	25,950	25,950
Profit (Loss) per share (basic and diluted)	<b>0.0p</b>	(8.1)p	(6.8)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**

### **Evolutec Group plc**

3 More London Riverside  
London  
SE1 2AQ

Registered number 05067291

Information about the Company may be found on the internet at [www.evolutec.co.uk](http://www.evolutec.co.uk)

### **Registrar and transfer office**

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

Tel: +44 (0) 870 1623100

Fax: +44 (0) 20 8658 3430

Email: [SSD@capitaregistrars.com](mailto:SSD@capitaregistrars.com)

[www.capitaregistrars.com](http://www.capitaregistrars.com)

### **Registered auditors**

Grant Thornton UK LLP

1 Westminster Way

Oxford OX2 0PZ

Tel: +44 (0) 1865 799899

Fax: +44 (0) 1865 724420

[www.grantthornton.co.uk](http://www.grantthornton.co.uk)

### **Nominated Financial Adviser and Stockbroker**

Numis Securities Limited

10 Paternoster Square

London EC4m 7LT

Tel: +44 (0) 20 7260 1000

Fax: +44 (0) 20 7260 1002

[www.numiscorp.com](http://www.numiscorp.com)

### **Solicitors**

Norton Rose LLP

3 More Riverside

London SE1 2AQ

Tel: +44 (0) 20 7283 6000

Fax: +44 (0) 20 7283 6500

[www.nortonrose.com](http://www.nortonrose.com)