Evolutec

Evolutec Group plc Annual Report and Accounts 2004

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Evolutec

HIGHLIGHTS

Evolutec

Clinical stage biopharmaceutical company focused on allergy, inflammation and auto-immune disease

Commercial strategy for lead compound rEV131 includes:

- Retaining marketing rights in certain territories for ophthalmic indications
- Selecting a partner for respiratory indications

Pipeline of novel compounds sourced from ticks including:

- Two additional compounds rEV598 and rEV576 at preclinical stage

Compounds are small protein therapeutics

Pipeline products

rEV131 IND for proof of principle Phase II study in allergic rhinitis submitted to the FDA on 14 February 2005

Positive preclinical result for rEV131 in post-cataract surgery

Good safety profile of rEV131 – no significant adverse events seen in 92 patients

Agreement announced with Cambrex Bio Science Baltimore, Inc. ("Cambrex") to develop a current Good Manufacturing Practice ("cGMP") manufacturing process for rEV131 for planned Phase III clinical trials and marketing

Financial Highlights

AIM listed – raised £5.1 million (net of expenses) in August 2004

Operating loss for 18 month period ended 31 December 2004 £2.5 million (2003: operating loss of £1.1 million)

Cash and short-term investments of £3.9 million at 31 December 2004 (2003: £0.2 million)

Raised £0.7 million (net of expenses) in a private round in August 2003

CHAIRMAN'S REVIEW

I AM PLEASED TO PRODUCE THE FIRST ANNUAL REPORT OF EVOLUTEC GROUP PLC (THE "COMPANY" OR "EVOLUTEC") FOLLOWING ITS LISTING ON THE ALTERNATIVE INVESTMENT MARKET OF THE LONDON STOCK EXCHANGE ("AIM") ON 2 AUGUST 2004. IT IS A PLEASURE TO THANK BOTH NEW AND EXISTING SHAREHOLDERS FOR THEIR SUPPORT OF THE COMPANY.

The Company raised some £5.1 million net of expenses at listing and this provides adequate finance to support two key Phase II clinical trials in 2005 as well as allowing some continued development of infrastructure.

Evolutec is an emerging biopharmaceutical company focused on the development of biopharmaceutical products for the treatment of disease. The Company expects to develop a portfolio of products in a variety of different clinical indications. Depending on analysis of individual product opportunities the Company intends to retain marketing rights to some products in Europe and the USA, but will rely on partnership to ensure world-wide development and marketing.

Analysis of the development of new therapeutic products shows that the greatest value is delivered to shareholders by companies that retain direct marketing rights, particularly in the USA the world's largest pharmaceutical market. The development of new products to marketing authorisation incurs significant risks predominantly due to lack of desired efficacy or poor tolerance of novel entities. Evolutec has sought to mitigate these risks in a number of ways.

First, and most importantly, Evolutec selects its development candidates from biological sources (currently blood sucking arthropods, ticks) where the function of the novel molecule is closely linked to the evolutionary survival of the species. In the case of ticks, they must avoid detection by mammalian immune systems to take a blood meal in order for the species to survive. Ticks have evolved a system to suppress inflammatory and immune responses (stealth technology), both of which are common components of many human diseases. Evolutec utilises modern recombinant production techniques whereby the individual genes that code the molecules are transferred to bacteria. The bacteria can be used for large scale commercial production of the products overcoming the problem of the limited material available directly from ticks.

Secondly, Evolutec intends to develop a number of different molecules in diverse therapeutic indications to create a portfolio of opportunities. Currently two development candidates (a histacalin and a protein derived from tick cement antigen), are undergoing key trials in human and animal diseases and these results will be reported in 2005. The Company has identified two further molecules (a serocalin and a complement inhibitor) that will be taken into development as soon as resources allow us to make this investment. Evolutec has identified a number of additional recombinant molecules that could produce further development candidates although this will require additional research prior to development. Because Evolutec was one of the first companies to exploit ticks as a source of therapeutic molecules the Company has the advantage that its filed

patents are amongst the first in the area. Therefore we expect to receive grants covering broad claims. In the past reporting period we were delighted that our first patent was granted in the United States and Europe and the Company received notice of grant in respect of a second patent. A strong patent position is an essential asset for an emerging biopharmaceutical company.

The Company has now gained considerable clinical and experimental experience with its lead clinical candidate, rEV131. The safety profile in clinical trials of this molecule is good and bears out the prediction that tick derived proteins would not produce adverse effects because this would negatively impact their survival. In addition, rEV131 has powerful effects on white cell migration into sites of inflammation both in humans and animals. Since white cells are one of the key mediators of inflammation in human defence and disease, again this result was predicted as a component of species survival. The Company is planning two Phase II studies for 2005 involving a total of about 250 patients. The data from these trials will determine the future value of the Company. A positive outcome should enhance the Company valuation and will present the management with a number of options to continue to enhance shareholder value. The Company has held numerous confidential discussions with regard to rEV131 with major pharmaceutical companies and believes that it will be able to enter substantial partnering arrangements for this product once positive clinical data are obtained.

Merial Inc ("Merial") has begun the clinical evaluation of a tick derived cement antigen as an anti-tick vaccine in cattle. Initially these studies are being conducted in South America, probably the most important commercial market for this type of vaccine. It is expected that these trials will also report in 2005. In the event that the result is positive then it is anticipated that trials will be expanded to include companion animals (pets) and to block tick borne diseases. The Company will also be able to exploit the asset to develop vaccines to tick borne diseases in humans (e.g. Lyme disease). Evolutec is pleased to be able to collaborate with Merial in this development programme since it is a leading animal health company with expertise in vaccine development and commercialisation. This is essential for vaccine development which is a specialised business.

Evolutec's business model is based upon tight control of its cost base in order to minimise its need to raise equity capital. The Company operates with a small permanent work-force and subcontracts virtually all its activities to specialist contract research organisations. Because Evolutec accesses these services on a world-wide basis it can obtain competitive prices and this allows clinical development to proceed on a cost effective basis compared to the industry which generally has a higher fixed cost base and incurs substantial discovery costs in research. Our model places great emphasis on the efforts of a small group of Evolutec employees both in terms of their expertise and energy. It is a pleasure to be able to thank all the Evolutec staff for their efforts over the past eighteen months. The Company has built a reward system for them which is closely linked to increasing shareholder value and feels that this closely allies the interests of shareholders and management. Evolutec has been well served by its academic collaborators over the reporting period and is particularly grateful to the efforts of scientists at the Natural Environment Research Council, Oxford, and the Centre National de la Recherche Scientifique, France.

Under AIM rules, the Group is not required to comply with the Combined Code 2003. However, management has taken steps to comply with the Combined Code 2003 in so far as it can be applied practically, given the size of the Group.

2005 will be an important year in the evolution of Evolutec because of the generation of such important clinical data and for the potential opportunities that this will create. Our workforce approaches these tasks with great enthusiasm and a commitment to produce the best return for our shareholders.

David P Bloxham
Chairman
1 March 2005

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

I WAS DELIGHTED TO JOIN EVOLUTEC AS CHIEF EXECUTIVE IN AUGUST 2003 AND WAS DRAWN TO THE COMPANY BY THE OPPORTUNITY TO BUILD A SUBSTANTIAL BIOPHARMACEUTICAL BUSINESS ON THE BASIS OF NOVEL TECHNOLOGY AND AN OUTSOURCED BUSINESS MODEL.

It seemed to me that accessing sufficient funding to prove Evolutec's technology in the clinic would begin this process. The selection of appropriate clinical indications and the flotation of the Company on AIM have created a platform for future growth.

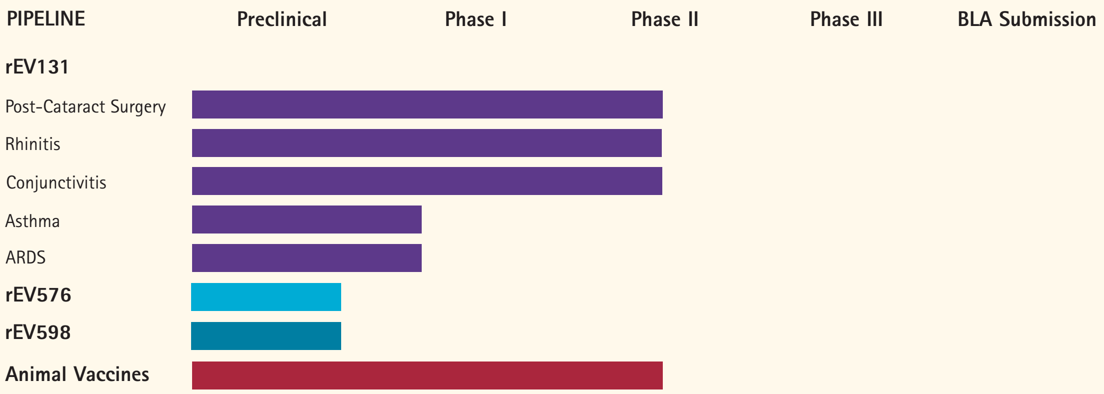
The last eighteen months have seen strong progress in the growth and development of your Company. Within this period we have restructured the Board, completed two fundraisings - including listing on AIM and partnered our animal vaccines. The product pipeline has developed and clinical progress has been made with rEV131 and early preclinical results generated with rEV576 and rEV598. The Group had net cash and short-term investments of £3.9 million as at 31 December 2004. This will fund the Phase II clinical trials in allergic rhinitis and post-operative cataract surgery and enable investment in the manufacturing process of rEV131, required for Phase III clinical trials and commercial production.

STRATEGY

The Company's protein technology offers broad utility and development potential in both major and specialist human therapeutic markets and in animal health markets. While the focus of the Company is in the allergy, inflammation and auto-immune markets the vaccines offer another string to our bow and potential in the animal health market. To exploit its technology Evolutec will seek licensing partners after clinical proof of concept in the major markets e.g. respiratory, but intends to retain territorial marketing rights in the specialist markets e.g. ophthalmology. This will enable Evolutec to generate both licensing and operational revenues. Partnering is a key element of the strategy as Evolutec develops its pipeline. Appropriate partners will be sought to deliver the above goals, to accelerate development and mitigate risk within the portfolio. The potential market for licensing partners is currently viewed as strong because the major pharmaceutical companies need to build their pipeline to meet market expectations.

BUSINESS MODEL

The Evolutec business model is based on a small number of skilled staff who can lead and source preclinical, clinical and manufacturing programmes cost effectively on a global basis. This model enables cost effective drug development and is focused on preclinical and clinical activities. In the future, as the Company grows, this flexible model can be applied to additional products and therapeutic areas. Evolutec has become a publicly listed clinical stage biopharmaceutical company with its immediate product focus on development in the respiratory and ophthalmology arenas. Looking to the future the Company will retain its focus on biopharmaceuticals, seek to diversify and mitigate risk within its portfolio and prime its research pipeline.



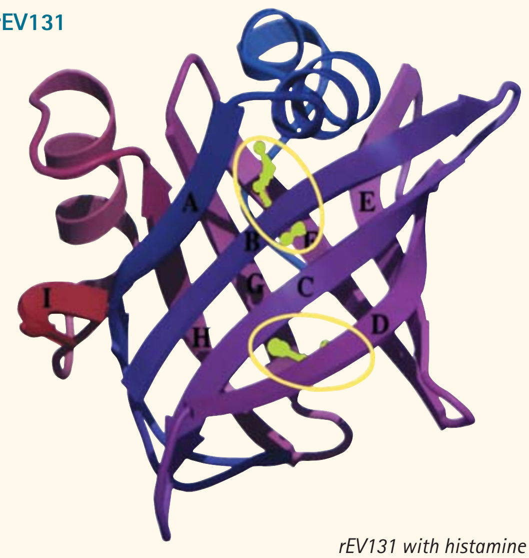
PRODUCT PIPELINE

The three small protein therapeutics in Evolutec's pipeline are sourced from tick saliva. Since mammalian hosts, including humans, suffer few ill effects from the feeding of these tick species this source of molecules conveys the potential advantage of a favourable safety profile. Furthermore, because these proteins have been conserved by evolution, nature has already selected the most efficient mechanism for modulating the immune response system. This "stealth" technology enables the tick to remain undetected by its host and complete its blood meal. rEV131, rEV598 and rEV576 together with the animal vaccines provide Evolutec with an opportunity for multiple therapeutic targets and return on shareholder investment. The Company has a further 12 recombinant proteins which have been isolated from the same source.

The lead development candidate rEV131 is intended to target the anti-inflammatory and anti-allergy markets with a profile similar to that of combining a corticosteroid and an anti-histamine. This would offer patient convenience and potentially address clinical concerns associated with the long-term use of steroids. The most promising areas for clinical evaluation include rhinitis, post-operative cataract surgery, dry eye, asthma, chronic obstructive pulmonary disease ("COPD") and adult respiratory distress syndrome ("ARDS"). Through its binding of histamine the effect of rEV131 is equivalent to a functional antagonist of histamine receptors, of which H1 and H4 are most important to acute and chronic inflammation respectively. However, rEV131 does not directly impact the histamine receptors. rEV598 is a preclinical stage molecule which through its binding of serotonin and histamine offers a potential therapy in carcinoid syndrome and chemotherapy induced nausea and vomiting ("CINV"). rEV576 is a preclinical stage molecule which impacts the complement cascade and from this mechanism of action is considered to have potential in rheumatoid arthritis and stroke.

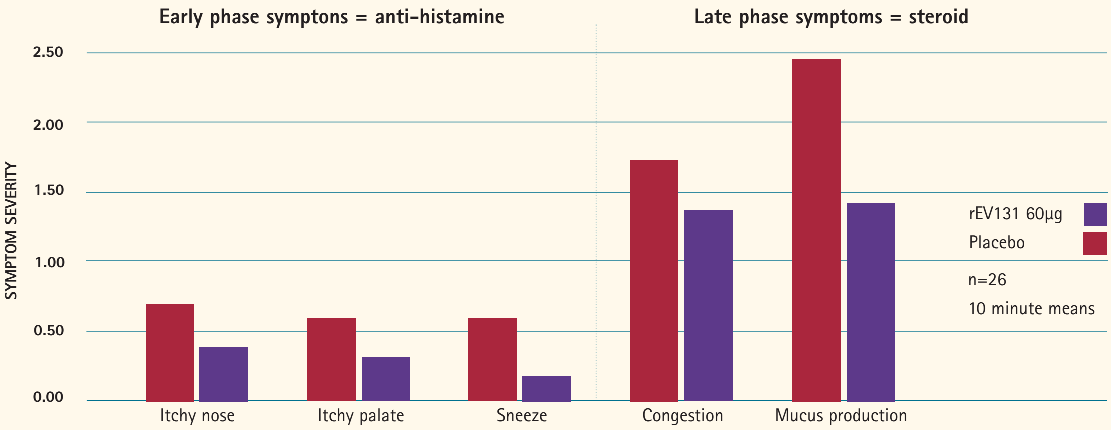
Evolutec has pursued comprehensive patent protection for the novel technology it develops. The Company holds 14 patents covering all the families of molecules in the key pharmaceutical territories. Because Evolutec has been one of the first companies to research this area there are no known freedom to operate issues associated with its intellectual property. Evolutec's broad patent covering the vaso-amines (6617312) has been granted in the US and Europe and its patents covering the use of rEV131 in rhinitis (1207899) and conjunctivitis (1207898) have been granted in Europe. In addition Evolutec's screening patent has been approved for grant in Europe (application number 00985700.4).

rEV131



rEV131 with histamine occupying both binding sites

rEV131 RHINITIS PHASE II RESULTS
Ocular dosing and challenge



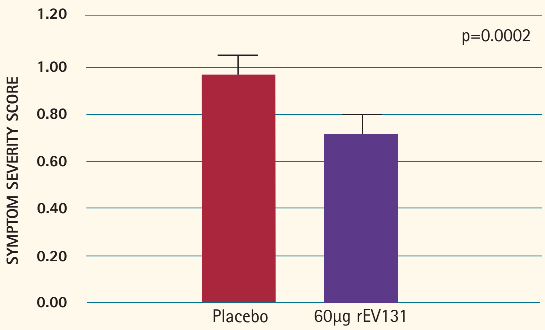
Clinical studies with rEV131, conducted under a US FDA approved Investigational New Drug ("IND"), have shown activity in rhinitis, ocular inflammation and conjunctivitis. Over ninety patients have received ocular dosing with the lead development candidate. Good safety and comfort have been demonstrated without increase in intraocular pressure. There is now substantial evidence to show that rEV131 impacts the movement of both neutrophils and eosinophils suggesting potential breadth of utility. These blood cells are important to the inflammatory process and the potential to limit their influx is a significant feature of potential therapies. Examples of neutrophil mediated diseases include rheumatoid arthritis and COPD and examples of eosinophil mediated diseases include rhinitis and asthma.

In an ocular dosing and challenge regime rEV131 showed an improvement in all the recorded symptoms of rhinitis in the clinic. When data was summed in an overall scoring system, these improvements were statistically significant. The results are compelling because the drug was administered to the eye and rhinitis symptoms are in the nose. Clinical results in ocular inflammation have shown a dose dependant reduction of neutrophils in the tear fluid. Preclinical studies (see page 10), where rEV131 was at least as effective as the corticosteroid prednisolone, have further emphasised the potential of rEV131 in ocular inflammation. This study is considered an effective surrogate for post-operative cataract surgery and represents an important step in Evolutec's development programme in the ophthalmic area. While clinical improvement in the symptoms of conjunctivitis were observed these were not consistent enough across the patients to deliver the trial endpoint. Further studies would be needed to optimise the dose and, possibly, the formulation for this indication.

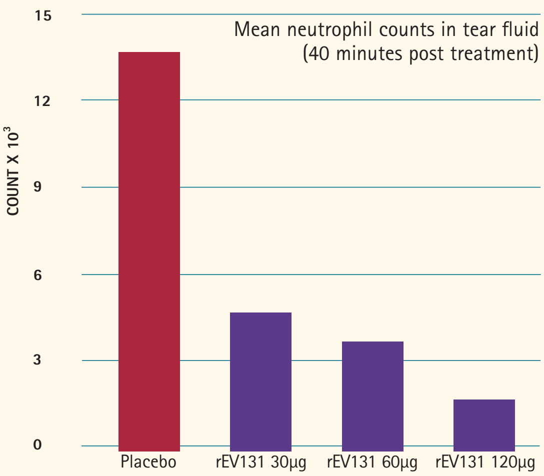
rEV131 RHINITIS PHASE II RESULTS
Ocular dosing and challenge

Summed scores

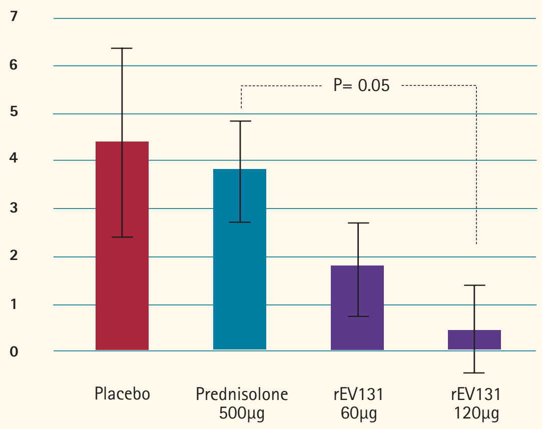
Sum of scores at all time points



rEV131 PHASE II OCULAR INFLAMMATION
Ocular dosing and challenge



rEV131 PRECLINICAL OCULAR INFLAMMATION
Mean total fibrin scores after 24 hours

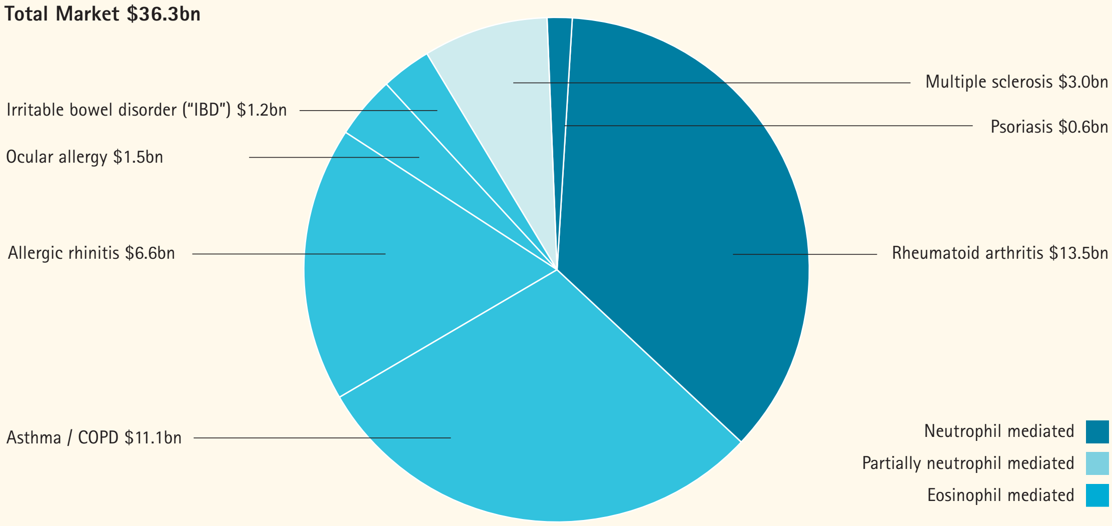


The effect of rEV131 on acute and chronic allergy/inflammation is unusual. This is considered to be an unmet medical need in this market. The effects on eosinophils and neutrophils, as well as the clinical efficacy in rhinitis and ocular inflammation are considered important in proving Evolutec's technology in the short-term and establishing a platform for development in longer term indications. On the basis of the encouraging clinical results in rhinitis and ocular inflammation the two immediate indications chosen are allergic rhinitis and post-operative cataract surgery. Rhinitis is an eosinophil mediated condition and post-operative cataract surgery a neutrophil mediated condition. These indications are not mutually interdependent and mitigate risk since one indication should not affect success in the other. Rhinitis, a severe inflammation of the nasal air passage, is a major market with global sales estimated to be $6.6 billion. The target population for rEV131 is the severe congestion segment represented by steroid sales valued in excess of $2 billion. There are some 1.4 million cataract surgery operations performed per annum in the USA and the market is estimated at $500 million. The overall ophthalmic prescription market is valued at $2.8 billion. The safety profile of rEV131 is in line with that predicted from the origins of the molecule. No abnormalities have been observed in a range of preclinical studies including nasal work undertaken for the rhinitis programme. An additional attractive feature of the molecule is that it has proved to be active when delivered by a range of different routes including inhaled, injected (sub-cutaneous, intravenous, intraperitoneal) and topical.

FUNDING

Evolutec was admitted to AIM in August 2004 and raised £5.1 million net. This success was achieved against a back drop of difficult market conditions. In 2003 the Company completed a private funding round and raised £0.7 million net. The bulk of these proceeds are being invested in rEV131 and will be used to fund clinical studies in rhinitis and post-operative cataract surgery and invest in manufacturing process development. In addition Evolutec intends to progress the preclinical programmes with rEV598 and rEV576 during 2005 and select clinical indications for these development candidates in the next 12-18 months.

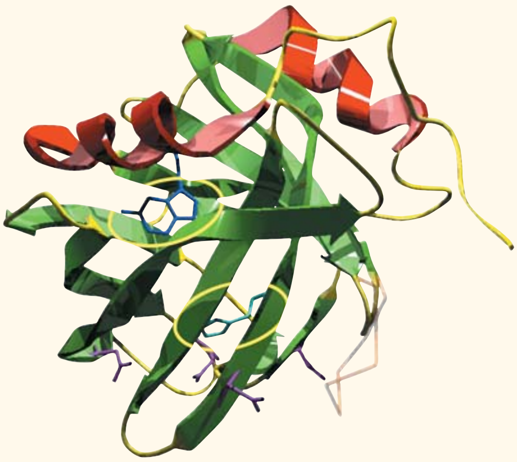
ALLERGY, INFLAMMATORY AND AUTO-IMMUNE FOCUS
Total Market $36.3bn



PARTNERING

In September 2003 the Company partnered its animal vaccines with Merial. This deal was important because it validated Evolutec's technology, provided for potential milestones and enabled the Company to focus on the development of human therapies. Merial's cattle evaluation programme was initially delayed because it took longer than anticipated to demonstrate that the vaccines met Brazilian import requirements. A positive outcome to Merial's evaluation and the resulting milestones will contribute to the cost base of Evolutec going forwards and trigger work in the substantial companion animal market. Positive results would also enable Evolutec to pursue the potential of the same technology in the human vaccine area where preclinical work has shown potential against Borrelia the causal agent of Lyme disease and tick-borne encephalitis.

Management has attended and presented at several bio-partnering conferences to raise Evolutec's profile in Europe and the US. Management has met with a number of pharmaceutical companies in order to position the Company for licensing discussions following the results of its clinical trials in 2005. The USA represents the single most important pharmaceutical market and the home of many major pharmaceutical and biotechnology companies.

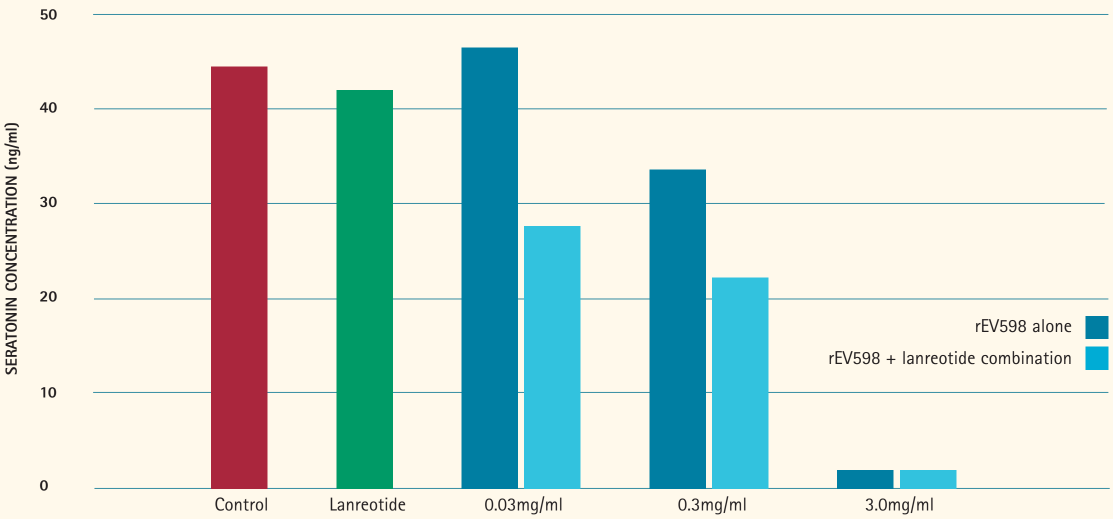


rEV598 showing serotonin occupying the high affinity binding site and histamine the low affinity binding site

PRECLINICAL

The preclinical development candidates rEV598 and rEV576 have also moved forwards. rEV598 has shown promising results in its binding of serotonin in human carcinoid cell culture. It showed a dose dependant reduction in serotonin levels and the potential for additive effects when used in combination with the commercial standard lanreotide.

rEV598 BINDS SEROTONIN AND HISTAMINE
Human Carcinoid Cell Culture



Potential indications for this molecule include CINV and carcinoid syndrome. The latter is considered likely to qualify for orphan drug status and an effective new treatment would attract regulatory benefits and marketing exclusivity – so reducing the cost of clinical studies and accelerating potential timelines. Annual sales of existing therapies into the CINV market are valued at $1.8 billion.

rEV576 acts on the final step of the complement system associated with the production of the membrane attack complex. The complement system is associated with the identification of invading micro-organisms and the marshalling of appropriate defence systems including the attraction of neutrophils and eosinophils. However, in patients with rheumatoid arthritis and certain types of stroke the membrane attack complex is over stimulated and causes damage to joint surfaces and heart muscle. rEV576 has shown activity against neutrophils in preclinical complement models and appears to have a different profile to rEV131. Further preclinical work is planned for 2005.

MANAGEMENT

The Evolutec team has grown and changed over the last 18 months. In April 2004, David Bloxham was appointed as Executive Chairman and Graeme Hart was appointed as a Non-Executive Director. Nicholas Badman joined the Board in July 2004 as Chief Financial Officer. Nicholas has 10 years' experience in corporate finance and investment banking. Nicholas was appointed as Company Secretary on 19 November 2004. The Company wishes to thank David White for his contribution to this area for the last 5 years. In 2005, the operational team was strengthened with the appointment of John Hamer as Development Director. John brings with him a wealth of experience gained in a career with Upjohn, Fisons, Johnson & Johnson and INYX pharma. Evolutec has outgrown its current office space and needs improved connections to airports and the City of London. The Company is moving its operational headquarters to Green Park, Reading, in April 2005.

rEV131 CLINICAL PLANS

Clinical trial plans for allergic rhinitis are developing as intended and Evolutec is in dialogue with the FDA on this matter. Evolutec has sought statistical and development advice in the design of this study and investigated a number of clinical centres. The Company submitted an IND in rhinitis in February 2005 and intends to undertake a 112 patient, dose ranging nasal allergen challenge study. This will be multi-site to ease patient recruitment and based in San Antonio, Texas, under the direction of Dr. Paul Ratner as principal investigator. Paul is a fellow of the American Academy of Allergy and a past president of the Society of Principal Investigators. He has an excellent track record in this field, has worked with many of the pharmaceutical companies active in this area and is enthusiastic about the prospects for rEV131.

The Company also intends to submit an IND in post-operative cataract surgery in the first half of 2005. Again, this will be a substantial multi-site study. Current thinking is that this will be an enriched population, so increasing the chance of demonstrating a drug effect. Dr. Mark Abelson of Ophthalmic Research Associates, Boston, will be the principal investigator. Mark is a leading clinician in the area of ophthalmology and has undertaken previous work for Evolutec.

Cambrex has been selected to manufacture rEV131, Evolutec's lead compound, for Phase III clinical trials and planned marketing. rEV131 has been manufactured to date according to Good Laboratory Practice ("GLP") standards for the Phase II clinical trials planned for 2005 in allergic rhinitis and post-operative cataract surgery. The current GLP process produces good yields of rEV131. The agreement with Cambrex covers process development work, during which Cambrex will develop a robust, scaleable, cGMP process for purified rEV131, with the goal of optimising the process yield. The agreement then provides for Cambrex to scale-up the cGMP process.

In summary, Evolutec's AIM listing has benefited the Company in terms of funding, capability and profile. The assets of the Company have developed as planned and partnering remains key to the ongoing strategy. Progress with the implementation of the business plan and associated clinical programmes is on schedule.

Looking to the future, the delivery of positive clinical results in allergic rhinitis and post-operative cataract surgery with rEV131 is intended to drive further fund raising, partnering and significant growth at Evolutec. Results in the eye suggest that several neutrophil related conditions could be pursued with rEV131 in due course. These include dry eye, contact lens associated marginal neutrophil infiltration and vernal keratoconjunctivitis in the specialist ophthalmic market. Substantial indications which could be considered for the future development of rEV131 with an appropriate partner include COPD and asthma.

Mark Carnegie Brown
Chief Executive Officer
1 March 2005

CAMBREX

Cambrex, Baltimore, USA.

FINANCIAL REVIEW

THE REPORTED RESULTS ARE FOR THE 18 MONTH PERIOD TO 31 DECEMBER REFLECTING THE GROUP'S NEW FINANCIAL YEAR END. THE COMPANY RAISED £5.1 MILLION (NET) AND WAS ADMITTED TO AIM IN AUGUST 2004. THE COMPANY ALSO RAISED £0.7 MILLION (NET) IN A PRIVATE PLACING IN AUGUST 2003.

FINANCIAL AND OPERATING STRATEGY

The Group's financial and operating strategy is to maintain a small number of employees providing core skills and to sub-contract the clinical and preclinical development, research and manufacturing work. As of 1 March 2005, Evolutec had 7 full-time employees. This outsourcing strategy means that Evolutec can be more efficient as it has lower in-house operating costs and is able to leverage world class expertise and services at the most competitive market rates globally.

CAPITAL STRUCTURE

Share capital

The Company had 10.2 million 10p ordinary shares and 48.0 million 10p deferred shares outstanding at 31 December 2004. The deferred shares arose on a share consolidation during the preparation for the AIM listing, carry no voting or equity participation rights and are the subject of a resolution to authorise the Company to buy back these shares at the Company's AGM on 4 May 2005.

Net cash position and funding

The Group had net cash and short-term investments of £3.9 million as at 31 December 2004 compared with £0.2 million at 30 June 2003. The increase in cash and cash equivalents reflects a £0.7 million (net) private placing in August 2003 and a £5.1 million (net) placing upon the Company's admission to AIM in August 2004. The net cash outflow before the management of liquid resources and financing was £2.1 million (June 2003: £1.4 million) reflecting the Group's expenditure for the period.

The Group had no borrowings during the period (June 2003: £nil).

Treasury

As at 31 December 2004 the Group had £3.8 million on treasury deposit. The Group's treasury policy is to split its deposits between at least two banks each with a minimum credit rating of F1/A. The objective is to derive the maximum interest consistent with flexibility to undertake ongoing activity and safeguarding the asset.

The Group does not engage in speculative transactions or derivatives trading in respect of cash balances held.

The Group is exposed to US Dollar and Euro currency exchange rate movements. The Group monitors these exposures on a frequent basis and has taken appropriate steps to mitigate large exposures. Evolutec has benefited from the increase in the value of sterling versus the US dollar in recent months as a significant portion of the development and manufacturing expenditure is US dollar denominated.

CASH FLOW

Net cash outflow from operating activities in the period was £2.3 million (June 2003: £1.6 million). This included a milestone payment of £0.2 million to the Natural Environment Research Council, the originator of certain of the Group's intellectual property and technology.

The other significant cash flow item during the period was the cash expenses relating to the two share issues which totalled £0.6 million. The cash inflow from interest and the research and development tax credit was £0.2 million.

PROFIT & LOSS

Revenue

Evolutec is a clinical stage biopharmaceutical company and as such has no source of direct revenue. The revenue for the period of £28,000 (June 2003: £nil) relates to payments for materials supplied for testing under an option agreement with Merial over rights to the animal vaccine uses of proteins derived from tick cement antigen.

Research and development

Research and development expenditure of £1.0 million (June 2003: £0.7 million) is up on a like for like basis due to the increased level of development activity, including the rhinitis and post-operative cataract surgery development programmes as well as the commencement of work on developing a cGMP manufacturing process with Cambrex.

Administrative expenses

Adminstrative expenses of £1.5 million (June 2003: £0.5 million) are up on a like for like basis primarily due to the recruitment of additional staff and the increased professional fees resulting from the Company's admission to AIM.

Taxation

The Group's research and development tax credit of £0.2 million (June 2003: £0.1 million) is higher on a like for like basis reflecting the increased level of qualifying research and development expenditure.

International Financial Reporting Standards

International Financial Reporting Standards ("IFRS") are mandatory for all fully listed companies within the European Union for years commencing on or after 1 January 2005. As an AIM listed company, this requirement does not currently apply to Evolutec until the financial year ended 31 December 2007 at the earliest.

However, the Group will consider early adoption once there is greater clarity and guidance in relation to the practical application of IFRS and, in particular from the Inland Revenue as to the tax treatment of research and development expenditure under IFRS and subsequent effect on research and development tax credits.

RE-LOCATION TO GREEN PARK

The Group is relocating its operational headquarters to Green Park, a business park close to Reading and Junction 11 of the M4.

The move reflects the Group's strategy to

- expand headcount in key areas
- take advantage of Green Park's excellent communication links via road and rail as well as its proximity to Heathrow Airport; and
- emphasise the increasing importance of the commercial side of Evolutec's business

The Group negotiated attractive terms for the new office facility and the added space provides flexibility for expansion.

Nicholas Badman
Chief Financial Officer
1 March 2005

BOARD OF DIRECTORS

JOHN BURKE (60)
Non-Executive Director ANR

John was previously Chairman of Evolutec Limited and was appointed Non-Executive Director in July 2003. John is Chairman of the audit committee. He has 35 years' experience in the pharmaceutical and chemical industries. He has occupied a wide range of positions involving sales, marketing, general management and main board work. His previous companies include Beecham, GD Searle, Merck Sharpe & Dohme and Glaxo where he was Chairman of Glaxo Pharmaceuticals and main board Director.

DR MARK CARNEGIE BROWN (44)
Chief Executive

Mark was appointed as Chief Executive of Evolutec in August 2003. Mark has 16 years' experience within ICI and Zeneca including positions in research and development, business development, sales, marketing and general management. Whilst in research and development, Mark was involved in the development of triazoles and alkyl esters as novel fungicides. As General Manager of Zeneca UK from 1998 to 2000, Mark led the development and implementation of a new business strategy for its UK agrochemical business and managed the launch of Amistar.

GRAEME HART (60)
Non-Executive Director RNA

Graeme was appointed Non-Executive Director in August 2003. Graeme is Chairman of the remuneration committee. Graeme is Chairman of Corin Group plc and Non-Executive Director of Huntleigh Technology plc, SOC Group plc, Limbs and Things Limited and Thornbury Nursing Services. Graeme is an orthopaedic surgeon who has also built a successful business career. He founded Medic International in 1972 and built this into Health Care Services, a USM listed company which was acquired by Compass Group in 1989.

NICHOLAS BADMAN (38)
Chief Financial Officer and Company Secretary

Nicholas joined Evolutec as a consultant in April 2004 and was appointed Chief Financial Officer in July 2004. Nicholas has 10 years' experience in corporate finance and investment banking with Schroder Salomon Smith Barney and HSBC Investment Bank. Nicholas qualified as a Chartered Accountant with Arthur Andersen in 1994. Prior to that, Nicholas Completed a Short Service Commission in the Royal Horse Artillery.

DR DAVID BLOXHAM (57)
Executive Chairman NRA

David was appointed as Chairman of Evolutec in August 2003. David is Chairman of the nominations committee. David is also a Non-Executive Director of Provalis plc, Cobra Bio-Manufacturing plc and is Chairman of the Babraham Institute. He was Chief Executive Officer of Cobra Therapeutics from 1998 to 2001 and prior to that was Chief Operating Officer of Celltech plc where he was involved with the discovery, development and marketing of a number of drugs.

A Audit committee
N Nominations committee
R Remuneration committee
Bold indicates chairman of that committee

REPORT OF THE DIRECTORS

The Directors are pleased to present their annual report on the affairs of the Group, together with the financial statements and auditors' report, for the eighteen-month period ended 31 December 2004.

Principal activity

The principal activity of the Group during the period continues to be pharmaceutical research and development (see Chief Executive's review of operations and Chief Financial Officer's financial review).

Results and dividends

The turnover of the Group during the period was £28,000 (June 2003: nil). The loss after taxation amounted to £2,237,000 (June 2003: £1,005,000). The Directors do not recommend the payment of a dividend (June 2003: nil).

Substantial shareholdings

At 16 February 2005, the Directors had been notified of the following disclosable holdings representing three per cent, or more, of the issued share capital of the Company.

Shareholders having a major interest	Number of shares held	% of issued shares
Isis (Foreign and Colonial)	2,942,805	28.86
3i Group	1,050,000	10.30
Framlington	800,000	7.84
Invesco	787,000	7.72
Artemis	400,000	3.92
Alliance Cornhill	400,000	3.92
Jennifer Watermeyer	332,200	3.26

Directors

The Directors of the Company who served during the period were:

Executive

Dr DP Bloxham (Executive Chairman, appointed 29 April 2004)
Dr M Carnegie Brown (Chief Executive Officer, appointed 29 April 2004)
N J Badman (Chief Financial Officer, appointed 19 July 2004)

Non-Executive

G M Hart (appointed 29 April 2004)
J V Burke (appointed 29 April 2004)

Re-election

At the forthcoming Annual General Meeting, all the Directors will retire by rotation since this is the Company's first Annual General Meeting. All the Directors, being eligible, will be proposed for re-election.

Directors' Interests

Details of the beneficial interests of the Directors and their families in the ordinary shares of the Company, as disclosed in the Register of Directors' Interests, are given in the Directors' Remuneration Report.

Share option schemes

The Directors remain committed to the principle that all employees should be able to participate in the Group's progress through share ownership schemes. Details of the Company's share option schemes are given in the Directors' Remuneration Report and on page 43.

Important events since the year end

On 25 February 2005, Evolutec signed an agreement with Cambrex for the cGMP manufacture of its lead compound rEV131.

Health, safety and the environment

The Company has well-developed health and safety policies and procedures, safeguarding staff, contractors and visitors, and it complies with current legislation and best practice. The Company follows principles to minimise the impact of its activities on the environment by reducing waste and, wherever possible, recycling. Mark Carnegie Brown is the Executive Director responsible for health, safety and the environment.

Charitable contributions

The Group made no charitable or political contributions (June 2003: nil).

Payment of creditors

The Group does not follow a specific payment code but has a policy to pay its suppliers in accordance with the specific terms agreed with each supplier.

Going concern

Evolutec is a research and development based biopharmaceutical business which expects to incur further losses until revenues from royalty income, milestone receipts and product sales exceed expenditure on the product portfolio as well as overheads and administrative costs. As a result, the Directors believe that the Group is likely to need additional sources of finance in due course. Should the additional funding not be raised within the requisite time period Evolutec would not be a going concern.

The Directors consider that it is reasonable for the financial information to be prepared on a going concern basis. However, if Evolutec was unable to continue in operational existence for the forseeable future, adjustments would have to be made to reduce the balance sheet value of assets to their recoverable amounts, and to provide for further liabilities that might arise, and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

Auditors

Following the Company's admission to AIM, new auditors, Grant Thornton UK LLP were appointed as Group auditors, replacing Salvage & Co who resigned on 28 September 2004. A resolution to re-appoint Grant Thornton UK LLP as auditors for the ensuing year will be proposed at the Annual General Meeting in accordance with section 385 of the Companies Act 1985.

Annual General Meeting

Accompanying this report is the notice of Annual General Meeting of the Company together with notes on the proposed resolutions, which sets certain special business resolutions. These relate to the renewal of authority of the Directors to allot relevant securities, the partial disapplication of pre-emption rights and the granting of authority to the Company to purchase its deferred shares. The meeting will be held at 11am on 4 May 2005 at 100 Longwater Avenue, Green Park, Reading RG2 6GP.

By order of the Board
Nicholas Badman
Company Secretary
1 March 2005

CORPORATE GOVERNANCE

The Combined Code

The Company is committed to high standards of corporate governance of its affairs as part of its management of relationships with its shareholders and other stakeholders. The Company seeks to uphold and report on compliance with best practice in corporate governance.

The Combined Code 2003 (the "Code") which is appended to the Listing Rules, sets out principles of good corporate governance for listed companies and requires listed companies to disclose in their annual report how they have applied the principles and complied with the detailed provisions set out. Under the rules of AIM, the Group is not required to comply with the Code. However, the Group has taken steps to comply with the Code in so far as it can be applied practically, given the size of the Group, and the Directors have decided to provide corporate governance disclosures.

The principles set out in the Code cover four areas: the Board, Directors' remuneration, accountability and audit, and relations with shareholders. With the exception of Directors' remuneration (which is dealt with separately in the Directors' Remuneration Report) the following section sets out how the Board has applied such principles and highlights any areas of non-compliance with specific provisions of the Code.

The Board

The Company supports the concept of an effective board leading and controlling the Group.

The Board provides entrepreneurial leadership of the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board approves the Group's strategic aims, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board sets the Group's standards and ensures that the Company's obligations to its shareholders and others are understood and met.

The Board consists of three Executive Directors and two Non-Executive Directors. This provides a balance whereby the Board's decision making cannot be dominated by an individual or small group. The Board is of sufficient size that the balance of skills and experience is appropriate for the requirements of the business. The members of the Board, and the roles of each Director are given in the biographical details of the Directors on pages 16 and 17.

All Directors take decisions objectively in the interests of the Company.

As part of their role as members of the Board, Non-Executive Directors constructively challenge and help develop proposals on strategy.
Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of Executive Directors and have a prime role in appointing, and where necessary removing, Executive Directors, and in succession planning.

The Board meets at least 6 times per annum and has a schedule of matters specifically reserved to it for decision. The Board controls the business but delegates day-to-day responsibility to the executive management. However, there are a number of matters which are required to be or, in the interests of the Company, should only be decided by the Board of Directors as a whole. These include business strategy, financing arrangements, material acquisitions and divestments, approval of the annual budget, major capital expenditure projects, risk management, treasury policies and establishing and monitoring internal controls.

The Company has introduced an appraisal system for evaluating the performance of the Chairman and the Board. The Chairman will act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, seeking changes in the composition of the Board.

The Board accepts that objectivity of the evaluation process would be enhanced by the use of an external third party, but does not consider it appropriate for the Company on the grounds of cost. The Non-Executive Directors, led by the Senior Non-Executive Director, are responsible for performance evaluation of the Chairman, taking into account the views of the Executive Directors.

All Directors are subject to re-election every three years and, on appointment, at the first AGM after appointment.

The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense. Training is available for new Directors and other Directors as necessary.

Of Evolutec's two Non-Executive Directors, GM Hart is the Company's Senior Independent Director. The Senior Independent Director is available to shareholders if they have concerns for which contact through the normal channels of Chairman, Chief Executive or Chief Financial Officer has failed to resolve or for which such contact is inappropriate. JV Burke has been an employee of the Company within the last 5 years and holds share options granted to him during that employment.

The Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman ensures clear communication with shareholders. The Chairman also facilitates the effective contribution of Non-Executive Directors in particular and ensures constructive relations between Executive and Non-Executive Directors. The Company Secretary is responsible for advising the Board through the Chairman on all governance matters.

The division of responsibilities between the Chairman and Chief Executive is clearly established, set out in writing and agreed by the Board.

The Chairman was previously Chief Executive of Evolutec Limited.

Nomination committee and appointments to the Board

The nomination committee comprises the Chairman, D Bloxham, and the Non-Executive Directors. D Bloxham is chairman of the nomination committee.

The nomination committee leads the process for Board appointments and makes recommendations to the Board. No-one other than the committee chairman and members is entitled to be present at a meeting of the nomination committee, but others may attend at the invitation of the committee.

The nomination committee operates within specific terms of reference which are based on guidance issued by the Institute of Chartered Secretaries and Administrators, and are available on request from the Company Secretary. The terms and conditions of appointment of Non-Executive Directors are available for inspection at the Company's registered office during normal business hours and at the AGM.

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. Appointments are made on merit and against objective criteria.

During the financial period, the nomination committee has met twice to approve the appointment of David Bloxham as Chairman, Mark Carnegie-Brown as Chief Executive and Nicholas Badman as Chief Financial Officer. All members of the committee were in attendance at both meetings. The composition of the Board and the nomination, remuneration and audit sub-committees was considered at the time of the Company's admission to AIM. The Company used an external search consultancy in selecting the Chief Financial Officer who joined the Group as a consultant in April 2004 and was appointed Chief Financial Officer in July 2004.

The terms of reference for the nomination committee are available on request from the Company Secretary.

Audit committee and auditors

John Burke is chairman of the audit committee which comprises the Chairman, David Bloxham, and Graeme Hart.

The audit committee is responsible for considering how the Board applies the financial reporting and internal control principles and maintaining an appropriate relationship with the Company's auditors. The audit committee has a particular role to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.

The audit committee endorses the principles set out in the Smith Guidance for audit committees.

External training is available to members of the audit committee to include an understanding of the principles of, and developments in financial reporting and related company law. Training is also available in understanding financial statements, applicable accounting standards and recommended accounting practice.

The terms of reference for the audit committee are available on request from the Company Secretary.

Since the Company's admission to AIM, the audit committee has met twice and all meetings were attended by all members of the committee. No-one other than the audit committee's chairman and members is entitled to be present at a meeting of the audit committee. The audit committee decides if non-members should attend for a particular meeting or for a particular agenda item. The external audit lead partner is invited regularly to attend meetings as well as the Chief Financial Officer. Others may be invited to attend.

The audit committee meets at least annually the external auditors, without management, to discuss matters relating to its remit and any issues arising from the audit.

Although formal meetings of the audit committee constitute the basis of its work, the chairman of the committee keeps in touch on a continuing basis with key individuals involved in the Company's governance, including the Chairman, the Chief Executive, the Chief Financial Officer and the external audit lead partner.

The audit committee reviews arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The audit committee does not consider that an internal audit function is required for the Company due to the small size and nature of the business.

The audit committee has primary responsibility for making a recommendation on the appointment, re-appointment and removal of external auditors. The audit committee reviews the nature and extent of non-audit services supplied by the external auditors to the Group, seeking to balance objectivity and value for money.

Following the Company's admission to AIM, the audit committee recommended that new auditors with listed company experience be appointed to the Group. After a competitive tender process Grant Thornton UK LLP were appointed, replacing Salvage & Co who resigned on 28 September 2004.

The audit committee reviews the nature and extent of non-audit services supplied by the external auditors to the Group although there were none supplied during the financial period. Ernst & Young were appointed as reporting accountants in connection with the Company's admission to AIM.

Remuneration committee

Details of the remuneration committee and the committee's report for the financial period can be found in the separate Directors' Remuneration Report on pages 24 to 27 of this report and accounts.

The terms of reference of the remuneration committee, explaining its role and authority delegated to it by the Board is available on request from the Company Secretary. No-one other than the remumeration committee's chairman and members is entitled to be present at a meeting of the remuneration committee.

Risk management and internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failures to achieve the Group's objectives. It should be recognised that such systems can only provide reasonable but not absolute assurance against material misstatement or loss.

A system to identify, assess and evaluate business risk is embedded within the management process throughout the Group. Strategic risks are reviewed regularly by the Board. Risks relating to the key activities within the Group are assessed continuously.

The Group's established internal procedures include the following:

- A schedule of matters reserved for the Board.
- The Board meets at least 6 times per annum to manage the affairs of the Group. The Group's financial and operating performance is closely monitored at each Board meeting with formal Board reports from the Chief Executive and Chief Financial Officer.
- The Board has prepared a 2 year strategic plan for the business and its development.
- The Company has an executive committee comprising the Chairman, Chief Executive and Chief Financial Officer that meets every 2 weeks to review the operational performance of the Company.
- The Group prepares an annual budget prior to the commencement of the financial year. Revised forecasts are prepared as required. The budget and the revised forecasts are reviewed and approved by the executive committee and the Board.
- The Board and the executive committee monitor actual monthly financial performance of the Group with particular emphasis on significant variances and new risks arising.

Detailed operational procedures have been developed for the Group that embody key controls. The implications of changes in law and regulations are taken into account within these procedures.

The Board confirms that it has conducted a review of the effectiveness of the Group's system of internal controls described above as at January 2005.

Relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Group's strategy and performance, Board membership and quality of management. Most shareholder contact is with the Chairman, Chief Executive and Chief Financial Officer. However, the Senior Non-Executive Director provides an alternate channel of communication should the need arise. The Board keeps in touch with shareholder opinion via attendance at investor roadshows and through meetings with shareholders.

The AGM is used to communicate with shareholders and they are encouraged to attend. The Company counts all proxy votes, and except where a poll is called, will indicate the levels of proxies lodged on each resolution, and the balance for and against the resolution and the number of abstentions, after it has been dealt with by a show of hands. The Company ensures that votes cast are properly received and recorded.

Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the annual report and accounts, and a resolution to approve the Directors' Remuneration Report.

The chairmen of the audit, remuneration and nomination committees are available to answer questions, and all Directors attend the AGM. The Company arranges for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

All shareholders can gain access to the Company's latest investor presentation, as well as to the annual report and other information about the Group through the investor relations section of the Group's website www.evolutec.co.uk.

On behalf of the Board
Nicholas Badman
Director
1 March 2005

DIRECTORS' REMUNERATION REPORT

As a member of AIM, the Company is not obliged to comply with the provisions of the Directors' Remuneration Report Regulations 2002, however, as part of its commitment to best corporate governance practice the Company has approached the preparation of this Directors' Remuneration Report as if it was required to comply with the regulations. Consequently, this Directors' Remuneration Report has been approved by the Board and, in accordance with the Remuneration Report Regulations 2002, will be submitted to shareholders for approval at the Annual General Meeting of the Company on 4 May 2005.

The remuneration committee

The remuneration committee ("the committee") is chaired by Mr Graeme Hart, a Non-Executive Director of the Company, and met twice during the financial period. The two other members of the remuneration committee are Mr John Burke, a Non-Executive Director of the Company and Dr David Bloxham who is Chairman of the Company.

Policy on employee remuneration

The Company's policy on the remuneration of employees, including Executive Directors, is established by the committee and approved by the Board. The overall budget for remuneration of employees and the individual remuneration packages of each Executive Director and senior employee is determined by the committee. No Executive Director or employee participates in discussions relating to the setting of their own remuneration.

The objective of the Company's remuneration policies is that all employees, including Executive Directors, should receive appropriate remuneration given their performance, scale of responsibility, skills and experience. The remuneration committee recognises the vital role of its staff in contributing to the overall success of the Company and the importance of the Company's ability to incentivise and motivate its employees. The Company's remuneration policies have been designed to give employees the opportunity to participate and take a financial interest in the success of the Company.

A proportion of remuneration is performance-related (see details below). Performance conditions for performance-related bonus and long-term incentives are designed with a view to alignment of executive and shareholder interests. The committee believes that the performance conditions are demanding and appropriate, in that they cover a number of key milestones for the Company as well as objective valuation measures for shareholders when compared with comparable companies.

Policies on remuneration take account of the pay structure and employment conditions within the Group and also the industry sector. To determine the elements and level of remuneration appropriate to each employee and Executive Director, the committee considers remuneration levels in comparable biotechnology and pharmaceuticals companies, reviews pay and benefits surveys relating to industry sector or professional specialization and considers individual skills, experience and performance.

Components of remuneration

Employees' remuneration currently comprises annual salary, a performance-related bonus, a long-term incentive in the form of share options, pension contributions and other benefits.

Annual salary The Committee approves the overall budget for employee salary increases and specific increases for Executive Directors and other senior employees. In determining appropriate salary levels for each Executive Director and senior employee, the Committee considers both the nature and the status of the Company's operations and the responsibilities, skills, experience and performance of each Executive Director and senior employee. The Committee compares the Company's remuneration packages for its employees with those for employees of similar seniority in companies whose activities are comparable with the Group and with which it competes for staff.

Performance-related bonus All employees participate in a performance-related bonus scheme. The level of bonus, if any, is based on overall Group performance and, in the case of Executive Directors and senior employees, on individual performance measures against criteria established at the beginning of the financial year.

Maximum bonus levels are 50 per cent of salary for Executive Directors and 30 per cent for senior employees. Bonuses are awarded in cash or shares at the election of the employee. In the case of Executive Directors, any bonus awarded in shares (up to a maximum limit of £40,000 in any financial year) will be eligible for inclusion in the Matching Scheme under the Discretionary Award element of the Company's Long-Term Incentive Plan ("LTIP"). Performance-related bonuses were paid after the admission of the Company's shares to AIM in July 2004 as detailed in the table on page 26.

Long-term incentive arrangements The Company operates an LTIP and an Enterprise Management Incentive Scheme (the "EMI Scheme") for all employees and Executive Directors of the Company. The Company also has an Unapproved Share Option Scheme (the "Unapproved Scheme") and a Consultants Share Option Scheme (the "Consultants' Scheme") under which options were granted to certain employees and consultants of the Company in the period before the Company's admission to AIM.

The LTIP comprises two awards both of which are performance-based: an Initial Award and a Discretionary Award. In 2004, the Initial Award comprised options over ordinary shares in the Company equal in value to the participant's basic annual salary. The first £100,000 in value of options granted under the Initial Award are placed in the EMI Scheme. The Discretionary Award is based on the purchase by the participant of ordinary shares in the Company. To the extent a participant purchased shares at any time during the Company's financial year 2004 from his or her taxed salary (the "Annual Purchase") (up to a maximum market value of £40,000 at the date of purchase per participant), the Company will ensure that matching shares are held in trust for the participant until vesting (the "Matching Award"). The Matching Award will be shares with a market value at the date of grant of up to three times the Annual Purchase grossed up for income tax. The number of shares that vest will depend on how many of performance criteria are satisfied (see page 27).

The strike price for options granted under the EMI Scheme is the middle-market quotation for the Company's shares on the date of grant and any options granted are not excercisable until three years from the date of grant. The maximum grant of options under the EMI Scheme to any one employee shall not exceed that employee's basic salary except in exceptional circumstances as determined by the committee.

Pensions benefits The Company makes contributions to defined contribution personal pension schemes. The assets of these schemes are held separately from those of the Company in independently administered funds. During the period the Company contributed a maximum of 12 per cent of base salary of employees to their schemes. The Company has no obligation beyond the payment of these contributions.

Other benefits The Executive Directors (with the exception of the Chairman) and senior employees are also paid a car allowance equal to 10% of basic salary.

Chairman's service contract and remuneration

The remuneration of the Chairman is determined by the committee, in the absence of the Chairman. The service agreement of the Chairman was made on 19 July 2004 for a fixed period of 12 months. It is intended that Dr Bloxham will become a Non-Executive Chairman of the Company on the anniversary of the Company's admission to AIM on terms to be agreed.

Dr Bloxham is entitled to receive a bonus provided that the performance conditions set by the committee have been met by the third anniversary of the Company's admission to AIM.

Executive Directors' service contracts and remuneration

The service agreements of the Executive Directors were made on 19 July 2004. The Company's policy in entering into service contracts with Executive Directors, including the Chairman, is to enable the recruitment of high-quality executives and to obtain protection from their sudden departure to competitor companies. In addition, service contracts are an important element in maintaining maximum protection for the Group's intellectual property rights and other commercially sensitive information. The service contracts of the Executive Directors are approved by the committee and are one-year rolling contracts. Each service contract may be terminated by either party giving 12 months notice to the other. If an Executive Director is guilty of gross misconduct, serious breach (after due warning) or brings the Company into disrepute then the Company is entitled summarily to terminate his service contract without notice and without paying compensation in respect of that termination. Should an Executive Director be dismissed he would receive a sum equal to 12 months' pay and benefits (unless for gross misconduct, or the like, where no payments would be made).

Under the terms of his service agreement Dr Carnegie Brown was also entitled to receive a bonus calculated with reference to the inflow of funds to the Company as a result of the AIM listing and the conclusion of any licensing deals between 1 August 2003 and 31 January 2005. A bonus of £65,000 was paid on the Company's admission to AIM and there are no further liabilities under this arrangement.

Non-Executive Directors' appointments and remuneration

The Non-Executive Directors' agreements were made on 17 June 2004 and are terminable on not less than one months notice. They receive fees for services as members of the Board and its committees and the Chair of each Board committee is paid an additional fee for performing that role. The level of fees is determined by the Chairman after taking into account appropriate advice.

All of these appointments are subject to the Directors being re-elected under the rotation provisions in the Company's Articles of Association, and subject to Companies Act provisions and there is a reference to retirements by rotation at the forthcoming AGM on page 18. Each Non-Executive Director still serving at the end of his term will have his appointment reviewed by the Board and a further term of office may be agreed.

DIRECTORS' INTERESTS IN SHARES

The table below sets out the interests of the Directors in the Company's shares. There have been no changes in the Directors' interests in shares since 31 December 2004.

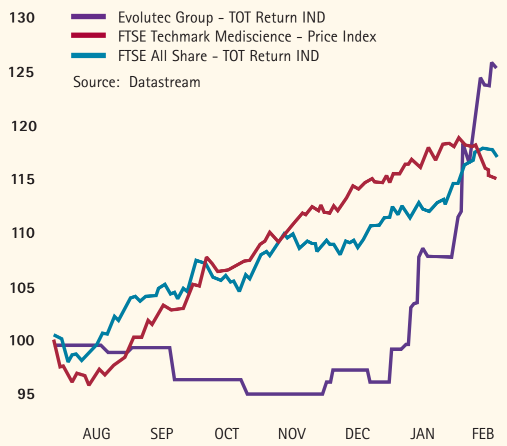
Number	10 pence Ordinary shares owned at 31 December 2004		10 pence Ordinary shares owned at 30 June 2003[1]	
	Number	**Percentage**	Number	Percentage (%)
Dr DP Bloxham	**103,572**	**1.02%**	40,000	0.83%
Dr M Carnegie Brown	**40,000**	**0.39%**	-	-
NJ Badman	**35,000**	**0.34%**	-	-
JV Burke	**101,343**	**0.99%**	34,200	0.71%
GM Hart	**110,168**	**1.08%**	21,168	0.44%
Total	**390,083**	**3.82%**	95,368	1.98%

Note:
1. Numbers re-stated to reflect share re-organisation on 17 June 2004.

Performance graph

The graph on the right shows a comparison between the Company's total shareholder return performance compared with the companies in both the FTSE Allshare and the FTSE TechMARK Mediscience Index for the period 2 August 2004, the date of the Company's admission to AIM, and 31 December 2004. The graph looks at the value of £100 invested in Evolutec at 125 pence per share at its placing on 2 August 2004 with the value of £100 invested in the FTSE TechMARK Mediscience Index and £100 invested in the FTSE Allshare Index. The FTSE TechMARK Mediscience Index has been chosen because it contains a number of companies in Evolutec's business sector.

The market price of the Company's shares at 31 December 2004 was 122.5 pence. Between admission on 2 August 2004 and 23 February 2005, the market price of the Company's shares has ranged from 122.5 to160 pence.



DIRECTORS' REMUNERATION (FORMING PART OF THE FINANCIAL STATEMENTS)

£000	Salary	Car allowance	Performance related bonus paid in the financial period	**18 month period to 31 December 2004 Total**	Year to 30 June 2003 Total	**18 month period to 31 December 2004 Total pension**	Year to 30 June 2003 Total pension
Executive							
Dr DP Bloxham (Chairman)	99,750	-	17,708	**117,458**	136,332	**3,750**	18,667
Dr M Carnegie Brown (CEO)	182,167	17,510	65,000	**264,677**	-	**17,139**	-
NJ Badman (CFO)	75,917	8,202	16,949	**101,068**	-	**6,700**	-
Total	357,834	25,712	99,657	**483,203**	136,332	**27,589**	18,667
Non-Executive							
G Hart	26,359	–	–	**26,359**	–	**–**	–
JV Burke	28,333	–	–	**28,333**	33,333	**–**	–
PA Nuttall	–	–	–	**–**	10,000	**–**	–
Total	54,692	–	–	**54,692**	43,333	**–**	–
Total	**412,526**	**25,712**	**99,657**	**537,895**	**179,665**	**27,589**	**18,667**

The total emoluments of the highest-paid Director, excluding pension contributions, for the 18 month period to 31 December 2004 amounted to £264,677 (prior year £136,332). Pension contributions made during the period for the highest paid Director were £17,139 (prior year £18,667). The Company's policy is not to pay an expense allowance to Directors.

DIRECTORS' OPTIONS

	At 1 June 2003	Granted in the period	Lapsed in the period	At 31 December 2004	Exercise price	Date from which exercisable	Expiry date	Performance conditions
	Number	Number	Number	**Number**	£			
Dr DP Bloxham								
Unapproved Scheme	**122,537**	–	–	**122,537**	2.50	2 Aug 2004	2 Aug 2007	–
LTIP – Discretionary Award	**–**	80,000	–	**80,000**	Nil*	20 Jul 2007	20 Jul 2014	(ii), (iii), (iv)
EMI Scheme	**–**	60,000	–	**60,000**	1.25	20 Jul 2007	20 Jul 2014	(i), (ii), (iii), (iv)
Total	**122,537**	140,000	–	**262,537**				
Dr M Carnegie Brown								
Unapproved Scheme	**106,761**	–	–	**106,761**	1.40	2 Aug 2004	2 Aug 2007	–
LTIP – Initial Award	**–**	40,000	–	**40,000**	1.25	20 Jul 2007	20 Jul 2008	(i), (ii), (iii), (iv)
LTIP – Discretionary Award	**–**	160,000	–	**160,000**	Nil*	20 Jul 2007	20 Jul 2014	(ii), (iii), (iv)
EMI Scheme	**–**	80,000	–	**80,000**	1.25	20 Jul 2007	20 Jul 2014	(i), (ii), (iii), (iv)
Total	**106,761**	280,000	–	**386,761**				
NJ Badman								
LTIP – Initial Award	**–**	12,000	–	**12,000**	1.25	20 Jul 2007	20 Jul 2008	(i), (ii), (iii), (iv)
LTIP – Discretionary Award	**–**	160,000	–	**160,000**	Nil*	20 Jul 2007	20 Jul 2014	(ii), (iii), (iv)
EMI Scheme	**–**	80,000	–	**80,000**	1.25	20 Jul 2007	20 Jul 2014	(i), (ii), (iii), (iv)
Total	**–**	252,000	–	**252,000**				
JV Burke								
Unapproved Scheme	**28,720**	–	–	**28,720**	2.50	2 Aug 2004	2 Aug 2007	–
Total	**28,720**	–	–	**28,720**				

* The price used to determine the number of matching shares was £1.25.

Graeme Hart does not hold any options in the Company.

Performance conditions Option awards are subject to the fulfilment of 4 performance conditions as shown below.

(i) Share price performance of the Company must match the average of the PWC Bioscience Index (or a relevant comparative index), save that if the share price has doubled from the date of grant this comparison shall not apply.
(ii) The Company must have completed a significant Phase IIb clinical study on one of its lead products that justifies the continuation of development into Phase III.
(iii) The Company must have concluded an out-licensing arrangement with an appropriate pharmaceutical company that enables development and commercialisation of one of its lead therapeutic candidates on a world-wide basis.
(iv) The Company must have at least 12 months' operating cash.

Discretionary Award – Vesting of the discretionary award is based on achievement of conditions (ii), (iii) and (iv) with the number of shares vesting being determined by the number of performance conditions that are met. If any one of (ii), (iii) and (iv) is met, then one third of the discretionary award will vest, if any two of (ii), (iii) and (iv) are met then two thirds of the discretionary award will vest, and if all three conditions are met then the discretionary award will vest in full.

Initial Award and EMI scheme – All four performance targets must be met for the Initial Award and EMI options (which form part of the Initial Award) to vest. The remuneration committee has absolute discretion in determining whether a particular performance criterion has been met.

Approved by the Board of Directors
Graeme Hart
Chairman, remuneration committee
1 March 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by United Kingdom company law to prepare financial statements, for each financial year, which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Group for the financial year.

The Directors confirm that in preparing the financial statements for the Company and the Group they have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed subject to any explanations and material departures disclosed in the notes to the financial statements.

The Directors have responsibility for ensuring that the Company and the Group keep proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and Group, and which enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors have responsibility for maintaining proper accounting records, taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website, and acknowledge that information published on the internet is accessible in countries with different legal requirements relating to the preparation and dissemination of financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EVOLUTEC GROUP PLC

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF EVOLUTEC GROUP PLC

We have audited the financial statements of Evolutec Group plc for the period ended 31 December 2004 which comprise the principal accounting policies, the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with 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.

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 with the Group is not disclosed.

We read other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's review, Chief Executive's review of operations, financial review, Report of the Directors, the corporate governance statement, Directors' Remuneration Report, and the five year summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom 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 Group'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

Fundamental uncertainty – going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the Report of the Directors and Note 1 of the financial statements concerning the uncertainty as to the outcome of the Company successfully generating research collaborative income or raising additional funds as necessary. The financial statements do not include any adjustments (for example to reduce the balance sheet value of assets to their recoverable amounts, to provide for further liabilities that might arise, and to reclassify fixed assets as current assets) that would result from a failure to obtain the necessary funds. In view of the significance of this fundamental uncertainty we consider it should be drawn to your attention but our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Oxford
1 March 2005

The maintenance and integrity of the Evolutec Group plc website is the responsibility of the Directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the eighteen-month period ended 31 December 2004

	Notes	**Eighteen months ended 31 December 2004** £000	Year ended 30 June 2003 £000
Turnover	2	**28**	-
Cost of sales		**–**	-
Gross profit		**28**	-
Research and development expenditure		**(993)**	(660)
Other administrative expenses		**(1,543)**	(453)
Total administrative expenses		**(2,536)**	(1,113)
Operating loss on ordinary activities before interest and taxation	3	**(2,508)**	(1,113)
Interest receivable and similar income		**94**	19
Loss on ordinary activities before taxation		**(2,414)**	(1,094)
Tax credit on loss on ordinary activities	5	**177**	89
Loss for the period	16	**(2,237)**	(1,005)
Basic and diluted loss per share - pence	6	**(33.6)**	(21.6)

Continuing operations

All the activities of the Group are classed as continuing operations.

Statement of recognised gains and losses

There are no recognised gains and losses other than the losses above, and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 34 to 44 form part of these financial statements.

BALANCE SHEETS
As at 31 December 2004

	Notes	Group 31 December 2004	Group 30 June 2003	Company 31 December 2004
		£000	£000	**£000**
Fixed assets				
Tangible assets	8	**11**	14	**–**
Investments	9	**–**	–	**10,446**
		11	14	**10,446**
Current assets				
Debtors	10	**255**	95	**–**
Short-term deposits and investments	11	**3,761**	175	**–**
Cash		**113**	52	**–**
		4,129	322	**–**
Current liabilities				
Creditors: amounts falling due within one year	12	**(367)**	(106)	**–**
Net current assets		**3,762**	216	**–**
Net assets		**3,773**	230	**10,446**
Capital and reserves				
Share capital	15	**5,824**	4,826	**5,824**
Share premium account	16	**4,622**	2,034	**4,622**
Other reserves	16	**3,734**	1,540	**–**
Profit and loss account	16	**(10,407)**	(8,170)	**–**
Total shareholders' funds	16	**3,773**	230	**10,446**

Approved by the Board of Directors

Mark Carnegie Brown
Chief Executive
1 March 2005

Nicholas Badman
Chief Financial Officer
1 March 2005

The notes on pages 34 to 44 form part of these financial statements.

Evolutec Group plc was incorporated on 9 March 2004, therefore no comparative figure is shown for the Company's balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

For the eighteen-month period ended 31 December 2004

	Notes	Eighteen months ended 31 December 2004 £000	Year ended 30 June 2003 £000
Reconciliation of operating loss to operating cash flows			
Operating loss		**(2,508)**	(1,113)
Depreciation	3	**16**	81
Loss on disposal of intangible fixed assets		**–**	7
(Increase)/decrease in debtors		**(69)**	25
Increase/(decrease) in creditors		**261**	(605)
Net cash outflow from operating activities		**(2,300)**	(1,605)
Cash flow statement			
Net cash outflow from operating activities		**(2,300)**	(1,605)
Returns on investments and servicing of finance			
Interest received		**94**	19
Net cash inflow from investments and servicing of finance		**94**	19
Taxation			
Research and development tax credit received		**86**	157
Net cash inflow from taxation		**86**	157
Capital expenditure			
Purchase of tangible fixed assets		**(13)**	-
Net cash outflow from capital expenditure		**(13)**	-
Net cash outflow before management of liquid resources and financing		**(2,133)**	(1,429)
Management of liquid resources			
Increase in short-term deposits with bank		**(3,586)**	(175)
Net cash outflow from management of liquid resources	20	**(3,586)**	(175)
Financing			
Issue of shares		**6,067**	1,318
Conversion of warrants		**300**	-
New loans		**–**	400
Costs of share issue		**(587)**	(104)
Net cash inflow from financing		**5,780**	1,614
Increase in cash in the period	20	**61**	10

Reconciliation of net cash flow to movement in net cash / (debt)		
Increase in cash in the period	**61**	10
Cash outflow from decrease/(inflow from increase) in debt and lease financing	**–**	(400)
Conversion of debt to equity	**–**	750
Movement in net funds in the period	**61**	360
Net cash/(debt) at start of the period	**52**	(308)
Net cash at end of the period	**113**	52

The notes on pages 34 to 44 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the eighteen-month period ended 31 December 2004

1 Principal accounting policies

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards in the United Kingdom. A summary of the principal Group accounting policies, which have been applied consistently, is set out below.

Basis of preparation – going concern assumption Evolutec is a research and development based biopharmaceutical business which expects to incur further losses until revenues from royalty income, milestone receipts and product sales exceed expenditure on the product portfolio as well as overheads and administrative costs. As a result, the Directors believe that the Group is likely to need additional sources of finance in due course. Should the additional funding not be raised within the requisite time period, Evolutec would not be a going concern.

The Directors consider that it is reasonable for the financial information to be prepared on a going concern basis. However, if Evolutec was unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet value of assets to their recoverable amounts, and to provide for further liabilities that might arise, and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

Basis of consolidation The consolidated financial statements of the Group include the accounts of Evolutec Group plc and all its subsidiary undertakings (together, the "Group"), made up to 31 December 2004. Intercompany transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only.

During 2004, the Group carried out a corporate restructuring consisting of the introduction of a new holding company and the subsequent re-organisation of the share capital. On 1 June 2004 Evolutec Group plc acquired the entire issued share capital of Evolutec Limited in exchange for the issue of shares to shareholders on a one-for-one basis. On 17 June 2004, the share capital was reorganised on the basis of one ordinary share (and 9 deferred shares with no rights attaching) for every 10 ordinary shares. The restructuring represented a change in the identity of the holding company rather than an acquisition of the business. Consequently, the restructuring has been accounted for using merger accounting principles as set out in FRS 6 (Acquisitions and Mergers).

Under merger accounting, the results of Evolutec Group plc and Evolutec Limited are combined from the beginning of the financial period in which the merger occurred. Prior to the merger, Evolutec Limited and Evolutec Group plc had accounting reference dates of 30 June and 31 December respectively. These statutory accounts are for the eighteen-month period ended 31 December 2004, with comparative amounts for the year ended 30 June 2003. Further details relating to the merger of Evolutec Limited and Evolutec Group plc are given in Notes 9, 15 and 16.

Profit and loss and balance sheet comparatives are restated on the combined basis and adjustments are made to achieve consistency of accounting policies where necessary.

Evolutec Group plc has applied section 131 of the Companies Act 1985 and recorded the investment in Evolutec Limited at the nominal value of the shares issued.

Turnover The recognition of income received, such as license fees, contract research fees, up front payments and milestone payments is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations with any third party.

Evolutec recognises turnover when persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee fixed and determinable; and collectability is reasonably assured. Amounts received are recognised immediately as turnover where there are no substantial risks, there are no ongoing performance obligations and amounts received are not refundable. Amounts are deferred over an appropriate period where these conditions are not met.

Research and development Research and development expenditure is written off as incurred, except where assets are acquired or constructed in order to provide facilities for research and development over a number of years. These assets are capitalised and depreciated over their useful lives. Expenditure relating to clinical trials is accrued on a percentage of completion basis with reference to fee estimates with third parties.

Credit is taken in the accounting period for research and development tax credits, which will be claimed from the Inland Revenue in respect of qualifying research and development costs incurred in the same accounting period.

Joint arrangements The Group has certain contractual research agreements with other participants. These joint activities do not create an entity carrying on a trade or business of its own and, as such, each is accounted for as a joint arrangement that is not an entity. That is, the Group accounts for its own assets, liabilities and cash flows measured in accordance with the terms of the agreement governing the arrangement.

Tangible fixed assets Tangible fixed assets are stated at historic cost less depreciation. Historic cost comprises the purchase price together with any incidental costs of acquisition. Depreciation is calculated to write off the cost, less residual value, of tangible fixed assets in equal annual instalments over their estimated useful lives as follows:

Plant and machinery	3-5 years	Fixtures and fittings	3 years

Operating leases Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the terms of the leases.

Fixed asset investments Investments in subsidiary and other undertakings are carried at cost less any impairment provision. Such investments are subject to review, and any impairment is charged to the profit and loss account. Impairments in unlisted investments are determined using the Directors' estimates of changes in the underlying investment and market movements.

Deferred taxation Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the exception that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pension costs The Group makes defined contributions to employees' approved personal pension schemes. The assets of these schemes are held separately from those of Evolutec in independently administered funds. The pension cost charge represents contributions payable by Evolutec to the schemes during the period. The Group does not offer any other post-retirement benefits.

Foreign currencies Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the transaction date. Assets and liabilities in foreign currencies are retranslated into sterling at the rate of exchange ruling at the balance sheet date. Differences arising due to exchange rate fluctuations are taken to the profit and loss account in the period in which they arise.

Employee share option schemes In accordance with Urgent Issues Task Force Abstract 17 "Employee Share Schemes", the cost of awards to employees that take the form of shares or rights to shares is recognised as a charge to the profit and loss account. The difference between the market value at the date of grant and any exercise price, is charged to the profit and loss account over the period the shares are vested, with a corresponding credit to reserves.

Financial instruments The Group uses financial instruments, primarily to manage exposures to fluctuations in foreign currency exchange rates and interest rates. Income and expenditure arising on financial instruments is recognized on the accruals basis and credited or charged to the profit and loss account in the financial period to which it relates.

Related party transactions In accordance with FRS 8 (Related Party Disclosures), the Group discloses details of material transactions between the reporting entity and related parties. However, transactions between the Company and other Group companies have not been disclosed, in accordance with the exemption under FRS 8.

NOTES TO THE FINANCIAL STATEMENTS

For the eighteen-month period ended 31 Decmber 2004

2. Segmental and geographical analysis

The group operates one primary business, which is the research and development of a range of pharmaceutical products. A geographical analysis of turnover by destination according to the country of registration of the fee-paying parties is as follows:

	Eighteen months ended 31 December 2004	Year ended 30 June 2003
	£000	£000
North America	**28**	-
Total	**28**	-

A split of the turnover by type is as follows:

	Eighteen months ended 31 December 2004	Year ended 30 June 2003
	£000	£000
Collaborative agreements	**28**	-
Total	**28**	-

3. Group operating loss

Group operating loss is stated after charging/(crediting)

	Eighteen months ended 31 December 2004	Year ended 30 June 2003
	£000	£000
Operating leases - land and buildings	**56**	43
Depreciation charge for the period:		
- tangible owned fixed assets	**16**	81
Auditors' remuneration		
- for audit services	**36**	7
- for other services - taxation	**5**	8

Of the above auditors' remuneration, £9,000 relates to Evolutec Limited. During the period, the auditors of the Group changed. £25,000 of the current period charges are in respect of services provided by Grant Thornton UK LLP.

4. Employees and directors

The average number of persons, including Executive Directors, employed by the Group during the period was as follows:

	Eighteen months ended 31 December 2004	Year ended 30 June 2003
Research, development and operations	**1**	1
Administration	**5**	4
	6	5

At 31 December 2004, the group employed a total of 5 permanent staff (30 June 2003 : 4).

Staff costs in respect of these employees were:

	Eighteen months ended 31 December 2004	Year ended 30 June 2003
	£000	£000
Wages and salaries	**805**	341
Social security costs	**100**	38
Pension costs	**48**	33
	953	412

In respect of Directors' remuneration, the Company has taken advantage of the permission in paragraph 1(6) of Schedule 6 to the Companies Act 1985 to omit aggregate information that is capable of being ascertained from the detailed disclosures in the Directors' Remuneration Report on pages 24 to 27, which are described as forming part of these financial statements.

5. Taxation

The tax credit represents:	Eighteen months ended 31 December 2004	Year ended 30 June 2003
	£000	£000
Research and development tax credits	**177**	89

The tax assessed on the loss on ordinary activities for the period is lower than the standard rate of Corporation Tax in the United Kingdom of 19% (2003 : 19%) The differences are explained as follows :	Eighteen months ended 31 December 2004	Year ended 30 June 2003
	£000	£000
Loss on ordinary activities before taxation	**2,414**	1,094
Loss before tax at 19%	**459**	208
Expenses not deductible for tax purposes	**(1)**	(2)
Deferred tax asset not recognised	**(317)**	(138)
Research and development tax credit received at 24% of losses compared with 19% tax rate	**36**	18
Under-provision in respect of prior year tax credit	**–**	3
	177	89

No liability to UK corporation tax arose during the period. The Group had losses, as computed for taxation purposes, of approximately £6.4m at 31 December 2004 (30 June 2003: £4.8m) available to be carried forward to future periods (see Note 14).

In accordance with the provisions of the Finance Act 2000 in respect of research and development allowances, the Group is entitled to claim tax credits for certain research and development expenditure. The amount included in the financial statements in respect of the period to 31 December 2004 of £177,000 (year ended 30 June 2003: £89,000) represents the tax credit receivable by the Group.

6. Loss per ordinary share

	Eighteen months ended 31 December 2004	Year ended 30 June 2003
	£000	£000
Attributable loss	**(2,237)**	(1,005)
Weighted average number of shares in issue (000)	**6,660**	4,654
Loss per share (basic and diluted) pence	**(33.6)**	(21.6)

The calculation of loss per share is based on the weighted average number of ordinary shares in issue during the period. The calculation of the weighted average number of shares has been adjusted to take account of the one for ten share consolidation which took place on 17 June 2004 as part of the preparation for the Company's admission to AIM.

7. Profit and loss account of the parent Company

In accordance with the provisions of Section 230 of the Companies Act 1985, no separate profit and loss account has been presented for Evolutec Group plc. The Company's loss for the period to 31 December 2004 was £Nil.

8. Tangible fixed assets

	Plant and machinery	Office equipment	Total
	£000	£000	£000
Group			
Cost			
At 1 July 2003	213	19	232
Additions	–	13	13
Disposals	(197)	–	(197)
At 31 December 2004	**16**	**32**	**48**
Depreciation			
At 1 July 2003	199	19	218
Charge for the period	14	2	16
Disposals	(197)	–	(197)
At 31 December 2004	**16**	**21**	**37**
Net book value at 31 December 2004	**–**	**11**	**11**
Net book value at 30 June 2003	14	–	14

Company

The Company had no tangible fixed assets or capital commitments at 31 December 2004.

9. Investments

Group	Shares in subsidiary undertaking	Loans to subsidiary undertaking	Total
The group had no investments at 31 December 2004.	£000	£000	£000

Company			
Cost			
At 1 July 2003	–	–	–
Additions	5,338	5,108	10,446
At 31 December 2004	**5,338**	**5,108**	**10,446**
Provisions			
At 1 July 2003	–	–	–
Charge for the period	–	–	–
At 31 December 2004	**–**	**–**	**–**
Net book value at 31 December 2004	**5,338**	**5,108**	**10,446**
Net book value at 30 June 2003	–	–	–

On 1 June 2004, the Company acquired the entire issued share capital of Evolutec Limited persuant to an offer dated 11 May 2004 in consideration of the issue to the shareholders of Evolutec Limited of an aggregate of 53,380,314 ordinary shares of 10p each.

At 31 December 2004 the Company had the following wholly-owned subsidiary undertakings:

Subsidiary undertaking	Nature of business	Country of incorporation and operation
Evolutec Limited	Research and development	England and Wales
Vacs of Life plc	Dormant	England and Wales
Oxford Vacs Limited	Dormant	England and Wales
Bravacs Limited	Dormant	England and Wales
Optevol Limited	Dormant	England and Wales

10. Debtors

	Group 31 December 2004	Group 30 June 2003	Company 31 December 2004
	£000	£000	£000
Research and development tax credits	177	86	–
Other debtors	8	7	–
Prepayments and accrued income	70	2	–
	255	95	–

11. Short-term deposits and investments

	Group 31 December 2004	Group 30 June 2003	Company 31 December 2004
	£000	£000	£000
Short-term deposits with bank	3,761	175	–

12. Creditors: amounts falling due within one year

	Group 31 December 2004	Group 30 June 2003	Company 31 December 2004
	£000	£000	£000
Trade creditors	81	4	–
Taxation and social security payable	22	8	–
Accruals	264	94	–
	367	106	–

13. Financial instruments

The Group's principal financial instrument comprises cash, and this is used to finance the Group's operations. The Group has various other financial instruments such as trade creditors that arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments is undertaken.

The main risk arising from Evolutec's financial instruments is interest rate risk. The policy for managing this risk is summarised below. Evolutec holds no derivative financial instruments to manage the interest rate profile.

With the exception of the analysis of currency exposures, the disclosures below exclude short-term debtors and creditors.

Interest rate risk profile of financial assets
The interest rate profile of the financial assets of the Group is as follows

	Fixed rate financial assets	Floating rate financial assets	Non-interest bearing assets	Total
	£000	£000	£000	£000
At 31 December 2004				
Sterling	**3,565**	**96**	**17**	**3,678**
US Dollars	**196**	**–**	**–**	**196**
Total	**3,761**	**96**	**17**	**3,874**
At 30 June 2003				
Sterling	175	52	-	227
US Dollars	-	-	-	-
Total	175	52	-	227

The fixed rate financial assets comprised short-term deposits with banks which mature within 12 months of the date of inception. The interest on the fixed rate financial assets as at 31 December 2004 was between 2.3 and 5.6 per cent which was fixed until maturity between January and May 2005. The floating rate assets comprised cash deposits. The interest rate varies according to the bank's base rate and the amount in credit. At 31 December 2004 the floating rate deposit attracted interest at 0.5 per cent.

Currency exposures
The Group does not undertake any formal hedging of foreign currency exposures.

The table below shows the Group's currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in sterling.

	Net foreign monetary assets/(liabilities) US Dollars
	£000
At 31 December 2004	**196**
At 30 June 2003	-

Borrowing facilities
There are no undrawn committed facilities.

Fair value of financial assets and financial liabilities
There are no material differences between the book values and fair values of the financial assets and liabilities of the Group.

14. Deferred taxation

	31 December 2004 £000	30 June 2003 £000
Group		
Deferred tax asset not recognised in the financial statements		
Losses	**(1,223)**	(906)
Excess of tax allowances over depreciation and other short term timing differences	**(7)**	(8)
Total asset at 19%	**(1,230)**	(914)

There was no potential liability to deferred tax at 31 December 2004 or 30 June 2003.

Given the uncertainty of the recoverability of the Group's tax losses carried forward, no deferred tax asset in respect of the further available tax losses is recognised. Note 5 gives details of the tax losses available to be carried forward by the Group.

Company
The Company had no actual or potential deferred taxation liability or asset at 31 December 2004 (30 June 2003: Nil).

15. Share capital

	31 December 2004 £000	30 June 2003 £000
Authorised		
77,000,000 ordinary shares of 10p each	**7,700**	-
63,000,000 deferred shares of 10p each	**6,300**	-
Allotted, called up and fully paid		
10,198,048 ordinary shares of 10p each	**1,020**	-
48,042,432 deferred shares of 10p each	**4,804**	-
Total	**5,824**	-

The Company was incorporated on 9 March 2004 and, therefore, had no authorised or issued share capital at 30 June 2003. However, due to the application of merger accounting, the share capital of the Group as at 30 June 2003 is shown at the same amount as the share capital of the Company at 31 December 2004 adjusted for share issues to third parties during the eighteen month period ended 31 December 2004. This amount was £4,826,000 which was equivalent to the share capital of Evolutec Limited at 30 June 2003.

Issue of shares in the period
On 8 August, 2003, Evolutec Limited obtained additional equity finance of £717,543 through the issue of 5,125,304 ordinary shares of 10p each for consideration of 14p each. The costs of the share issue of £45,000 were offset against the share premium account.
On 1 June 2004, the Company acquired the entire issued share capital of Evolutec Limited in a share for share exchange, in which the Company issued 53,380,314 ordinary shares in exchange for the entire issued share capital of Evolutec Limited.
On 17 June 2004, a share consolidation was carried out in which shareholders exchanged ten ordinary shares in the Company for one ordinary share of 10p and nine deferred shares of 10p.
On 19 July 2004, the Company issued 300,000 ordinary shares of 10p each upon the conversion of 300,000 warrants at a price of £1 each.
On 2 August 2004, the Company obtained additional equity finance of £5,700,000 via the placing on AIM of 4,560,000 ordinary shares of 10p each for consideration of £1.25 each. The issue costs of £892,000 were offset against the share premium account.

Rights and restrictions attaching to the ordinary shares
The rights and restrictions attaching to the ordinary shares are set out in the Articles of Association.

Rights and restrictions attaching to the deferred shares
The deferred shares carry no rights to participate in any dividend or other distribution, no rights to a return of capital (unless the ordinary shareholders have been repaid at par plus £1,000 per share) and no rights to attend or vote at general meetings of the Company.

Outstanding options

At 31 December 2004 the following options over shares had been granted to employees and Directors, and remained outstanding.

Option	Date of grant	Exercise period - from	Exercise period - to	Number of shares	Exercise price (£)
LTIP					
Initial Award	20-Jul-04	20-Jul-07	20-Jul-08	52,000	1.25
Discretionary Award	20-Jul-04	20-Jul-07	20-Jul-14	400,000	Nil*
Total				452,000	
EMI Scheme	20-Jul-04	20-Jul-07	20-Jul-14	220,000	1.25
Unapproved scheme	14-Jun-99	2-Aug-04	2-Aug-07	49,667	2.50
	19-Jul-00	2-Aug-04	2-Aug-07	400	2.50
	11-Oct-00	2-Aug-04	2-Aug-07	22,133	2.50
	8-May-01	2-Aug-04	2-Aug-07	122,537	2.50
	17-Sep-03	2-Aug-04	2-Aug-07	147,761	1.40
Total				342,498	
Consultants' scheme					
	14-Jun-99	2-Aug-04	2-Aug-06	49,667	2.50
	19-Jul-00	2-Aug-04	2-Aug-06	5,200	2.50
	11-Oct-00	2-Aug-04	2-Aug-06	22,134	2.50
	16-Mar-01	2-Aug-04	2-Aug-06	800	2.50
	18-Apr-01	2-Aug-04	2-Aug-06	6,400	2.50
Total				84,201	

*The price used to determine the number of matching shares was £1.25.

16. Reconciliation of movements in shareholders' funds

	Called-up share capital	Share premium account	Other reserves	Profit and loss account	Total
	£000	£000	£000	£000	£000
Group					
Balance at 1 July 2003	4,826	2,034	1,540	(8,170)	230
Issue of ordinary shares on 8 August 2003	512	205	-	-	717
Expenses of issue of ordinary shares on 8 August 2003	-	(45)	-	-	(45)
	5,338	2,194	1,540	(8,170)	902
Restatement for pre-AIM listing restructuring	-	(2,194)	2,194	-	-
AIM listing	456	5,244	-	-	5,700
Conversion of warrants	30	270	-	-	300
Costs of share issues - AIM listing and warrants	-	(892)	-	-	(892)
Loss for the period	-	-	-	(2,237)	(2,237)
Balance at 31 December 2004	**5,824**	**4,622**	**3,734**	**(10,407)**	**3,773**
Company					
Balance at 9 March 2004 (date of incorporation)	-	-	-	-	-
Pre-AIM listing restructuring - share for share exchange	5,338	-	-	-	5,338
AIM listing	456	5,244	-	-	5,700
Conversion of warrants	30	270	-	-	300
Costs of share issues - AIM listing and warrants	-	(892)	-	-	(892)
Loss for the period	-	-	-	-	-
Balance at 31 December 2004	**5,824**	**4,622**	**-**	**-**	**10,446**

On 1 June 2004, the Company acquired the entire issued share capital of Evolutec Limited in a share for share exchange. On 17 June 2004, a share consolidation was carried out in which shareholders exchanged ten ordinary shares in the Company for one ordinary share of 10 pence and nine deferred shares of 10 pence (See note 15).

Of the proceeds of £5,700,000 of the AIM issue and the related £892,000 costs of the issue, £350,000 relates to non-cash items.

Other reserves comprise the share premium account (£2,194,000), the merger reserve (£1,440,000) and the warrant reserve (£100,000) of the subsidiary company, Evolutec Limited, that existed prior to the merger.

17. Related party disclosures

Transactions between the Company and other Group companies have not been disclosed in accordance with the exemption in Financial Reporting Standard 8 'Related Party Transactions'.

During the period the Group paid £3,458 (2003: £80,961) for services provided by Cobra Biologics Limited, a wholly owned subsidiary of Cobra Bio-Manufacturing Plc, a company of which Dr D P Bloxham is a Director. The amount outstanding at 31 December 2004 was £Nil (2003: £Nil).

18. Operating lease commitments

At 31 December 2004, the Group had annual commitments of £Nil (2003 : £nil) in respect of operating leases for land and buildings which will expire within one year.

19. Financial commitments and contingencies

At 31 December 2004, the Group had no capital commitments (2003 : £nil).

The Group has agreements that would give rise to commitments relating to deferred consideration, milestone payments and royalty payments. These payments are dependant upon future contingent revenues.

20. Analysis of movement in net funds

	At 30 June 2003 £000	Cash flows £000	**At 31 December 2004 £000**
Analysis of net funds			
Cash	52	61	**113**
Liquid resources	175	3,586	**3,761**
Net funds	227	3,647	**3,874**

Liquid resources comprised short-term deposits with banks which mature within 12 months of the date of deposition.

21. Post balance sheet events

On 25 February 2005 Evolutec signed an agreement with Cambrex for the cGMP manufacture of its lead compound rEV131.

FIVE-YEAR SUMMARY*

	18 months to 31-Dec 2004	Year to 30-Jun 2003	Year to 30-Jun 2002	9 months to 30-Jun 2001	Year to 30-Sep 2000
	£000	£000	£000	£000	£000
Turnover	**28**	-	-	500	-
Operating expenses					
Research and development	**(993)**	(660)	(1,144)	(746)	(650)
General and administrative	**(1,543)**	(453)	(653)	(465)	(554)
Goodwill amortisation	**-**	-	(201)	(603)	(804)
Operating loss	**(2,508)**	(1,113)	(1,998)	(1,814)	(2,008)
Loss before taxation	**(2,414)**	(1,094)	(2,078)	(1,260)	(1,964)
Net cash out flow from operating activities	**(2,300)**	(1,605)	(1,277)	(642)	(1,291)
Assets employed					
Fixed assets	**11**	14	102	358	968
Cash and short-term deposits	**3,874**	227	42	1,187	1,818
Other net current liabilities	**(112)**	(11)	(510)	(91)	(213)
Creditors: amounts falling due after more than 1 year	**-**	-	(250)	(250)	(250)
Net assets	**3,773**	230	(616)	1,204	2,323
Capital employed					
Share capital	**5,824**	4,826	2,757	2,757	2,757
Share premium	**4,622**	2,034	2,251	2,251	2,251
Other reserves	**3,734**	1,540	1,540	1,440	1,440
Profit and loss account	**(10,407)**	(8,170)	(7,164)	(5,244)	(4,125)
Shareholders' funds	**3,773**	230	(616)	1,204	2,323

* Represents the year ended 30 September 2000, the 9 month period ended 30 June 2001, the 2 years ended 30 June 2003 and the 18 month period ended 31 December 2004.

SHAREHOLDER INFORMATION

Analysis of ordinary shareholdings at 16 February 2005

Number of shareholders 232

	Number of shareholders	Percentage of total holders	Number of ordinary shares	Percentage of ordinary share capital
Shareholding range				
1 – 1,000	70	30.2%	38,274	0.4%
1,001 – 5,000	62	26.7%	163,643	1.6%
5,001 – 50,000	74	31.9%	1,222,587	12.0%
50,001 – 500,000	22	9.5%	3,193,739	31.3%
500,001 and over	4	1.7%	5,579,805	54.7%
Total	232	100.0%	10,198,048	100.0%
Classification of shareholders				
Nominee Companies (including banks and bank nominees)	105	45.3%	8,434,475	82.7%
Individuals (including deceased accounts)	117	50.4%	1,641,802	16.1%
Limited Companies	8	3.4%	116,693	1.1%
Other institutions	2	0.9%	5,078	0.1%
Total	232	100.0%	10,198,048	100.0%

Registrar

Administrative enquiries regarding shareholdings in Evolutec Group plc on such matters as change of address or lost share certificates should be made to Capita IRG plc. Correspondence should clearly state the name and address of the shareholder and refer to Evolutec Group plc.

Amalgamation of shareholdings

If a shareholder receives more than one copy of the report and accounts, it may indicate multiple accounts in the shareholders' name are appearing on the share register. Shareholders can write to Capita IRG plc at the address on page 51 stating the accounts concerned and giving instructions on how they should be amalgamated.

Financial calendar

Annual General Meeting: 4 May 2005
Interim results 2005: August 2005
Preliminary results 2005: March 2006

Share price information

Evolutec shares are listed on the Alternative Investment Market of the London Stock Exchange under the symbol EVC. The latest share price information is available on the London Stock Exchange's website at www.londonstockexchange.com.

Annual General Meeting

The Company's 2005 Annual General Meeting of shareholders will take place on 4 May 2005 at 11.00 a.m. at 100 Longwater Avenue, Green Park, Reading RG2 6GP.

Company Number: 5067291

EVOLUTEC GROUP PLC

(the "Company")

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the first **ANNUAL GENERAL MEETING** of the Company will be held at 100 Longwater Avenue, Green Park, Reading RG2 6GP, on Wednesday 4 May 2005, at 11a.m. for the following purposes:

Ordinary Business

1. To receive, approve and adopt the Company's accounts for the financial period ended 31 December 2004, together with the Directors' report and the auditors' report on those accounts.
2. To approve the Directors' Remuneration Report for the financial period ended 31 December 2004.
3. To reappoint Grant Thornton UK LLP as auditors to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting of the Company at which accounts are laid and to authorise the directors to fix their remuneration.
4. To reappoint Nicholas Badman as a Director of the Company.
5. To reappoint David Bloxham as a Director of the Company.
6. To reappoint John Burke as a Director of the Company.
7. To reappoint Mark Carnegie Brown as a Director of the Company.
8. To reappoint Graeme Hart as a Director of the Company.

Special Business

To consider and, if thought fit, pass the following resolutions, of which resolution 9 will be proposed as an ordinary resolution, and resolutions 10 and 11 will be proposed as special resolutions:

9. That notwithstanding and in derogation of any provision to the contrary contained in the Company's articles of association, the Directors from time to time of the Company be generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the "**Act**") to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) of the Company up to an aggregate nominal amount of £339,934.90 provided that this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution (or 15 months from the passing of this resolution (if sooner)) except that after the date when it expires the Directors may use their authority to allot relevant securities in accordance with the terms of any offer or agreement made by the Company before that date. All outstanding general authorities under section 80 of the Act shall be revoked.
10. That the Directors from time to time of the Company be empowered to allot equity securities (as defined in Section 94(2) of the Act) for the purpose of Section 95 of the Act, for cash pursuant to the authority conferred by resolution 9 above as if sub-section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

    10.1 the allotment of equity securities in cash in connection with an offer or issue of such securities to holders of ordinary shares on the register on a date fixed by the Directors in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them on that date but subject to such exclusions and other arrangements as the Directors may consider appropriate in relation to fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

    10.2 the allotment for cash (otherwise than pursuant to paragraph 10.1 above) of equity securities up to an aggregate nominal amount of £50,990.20;

    and shall expire at the conclusion of the next annual general meeting of the Company to be held after the passing of this resolution (or 15 months from the passing of this resolution (if sooner)) save that the Company may make an offer or enter into an agreement before the expiry of such power which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired.

11. That the Company be and is hereby generally and unconditionally authorised, in accordance with section 164 of the Act, to make off-market purchases (within the meaning of section 163 of the Act) of all the issued deferred shares of 10 pence each in the capital of the Company on such terms as is authorised by the Company's articles of association and as those terms are more particularly set out in a memorandum available for inspection at the Company's registered office provided that the authority hereby conferred shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the date following 18 months from the date of the passing of this resolution (unless revoked, varied or extended by the Company in general meeting by special resolution).

By Order of the Board
Nicholas Badman
Company Secretary
Dated: 1 March 2005

Registered office:
The Magdalen Centre
Oxford Science Park
Oxford OX4 4GA

Notes to Members

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.

2. To be effective, the instrument appointing a proxy must be delivered personally or by post to the registered office of the Company not less than 48 hours before the time for holding the meeting. A form of proxy is enclosed.

3. The completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person.

4. The register of Directors' interests kept by the Company under section 325 of the Companies Act 1985 will be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting.

5. The written memorandum relating to the proposed purchase of all the deferred shares referred to in resolution 11 and note 6.3 below will be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting.

6. The following is an explanation of the resolutions relating to special business:

   6.1 The right of the Directors to allot relevant securities in the capital of the Company requires in most cases prior authorisation of the shareholders in general meeting under section 80 of the Act. Resolution 9 will authorise the Directors to allot ordinary shares with a nominal value of £339,934.90 out of the Company's unissued ordinary share capital representing approximately one third of the Company's current issued ordinary share capital. This authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or 15 months from the passing of this resolution (if sooner).

   6.2 Resolution 10 will permit the Directors, pursuant to section 95 of the Act, to issue equity securities for cash up to a total nominal value of £50,990.20, which is equal to approximately 5 per cent of the Company's issued share capital, for cash without first offering them pro rata to existing shareholders.

   6.3 Resolution 11 will give the Directors authority to purchase all of the deferred shares in the Company in accordance with article 3.2 of the Company's articles of association. A memorandum setting out the terms of purchase is available for inspection at the Company's registered office and will also be available on the date of the annual general meeting as mentioned in note 5 above.

EVOLUTEC GROUP PLC

(the "Company")

PROXY FORM

I/We, ...

of..,

being (a) member(s) of the above-named Company appoint..

of...
or, failing him, the Chairman of the meeting as my/our proxy to vote in my/our behalf at the annual general meeting of the Company to be held on 4 May 2005, and at any adjournment of such meeting.

This form is to be used in respect of the resolutions mentioned below, I/We request my/our proxy to vote in the manner indicated with an "X" as follows:

		for	**against**	**vote withheld**
Resolution 1	(adopt accounts)	☐	☐	☐
Resolution 2	(adopt remuneration report)	☐	☐	☐
Resolution 3	(reappoint auditors)	☐	☐	☐
Resolution 4	(reappoint Badman)	☐	☐	☐
Resolution 5	(reappoint Bloxham)	☐	☐	☐
Resolution 6	(reappoint Burke)	☐	☐	☐
Resolution 7	(reappoint Carnegie Brown)	☐	☐	☐
Resolution 8	(reappoint Hart)	☐	☐	☐
Resolution 9	(authorise s80 authority)	☐	☐	☐
Resolution 10	(disapply pre-emption rights)	☐	☐	☐
Resolution 11	(authorise buy-back)	☐	☐	☐

Unless otherwise instructed, the proxy may vote as he thinks fit or abstain from voting in respect of the resolutions specified and also on any other business (including amendments to resolutions) which may properly come before the meeting.

Date ....

Signed ....

Notes

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.
2. Please note the "vote withheld" option is provided to enable you to abstain on any particular resolution. However, a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "for" and "against" a resolution.
3. If the proxy form is returned without an indication as to how the proxy must vote on a particular matter, (or, if further matters are raised at the meeting), the proxy will exercise his discretion as to whether, and if so how, he votes.
4. To be effective, the proxy form and any authority under which it is executed must be deposited at the registered office of the Company not less than 48 hours before the time for holding the meeting.
5. Any alterations made in the form of the proxy should be initialled.
6. In the case of a corporation the proxy should be completed under its common seal or signed by its attorney or by an officer on its behalf.

ADDRESSES AND ADVISERS

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Registered number 05067291

Information about the Company may be found on the internet at www.evolutec.co.uk

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Beckenham
Kent BR3 4TU

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Fax: +44 (0) 20 8658 3430
Email: SSD@capitaregistrars.com

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