Evolutec

Evolutec Group plc
Annual Report and Accounts 2005

Evolutec

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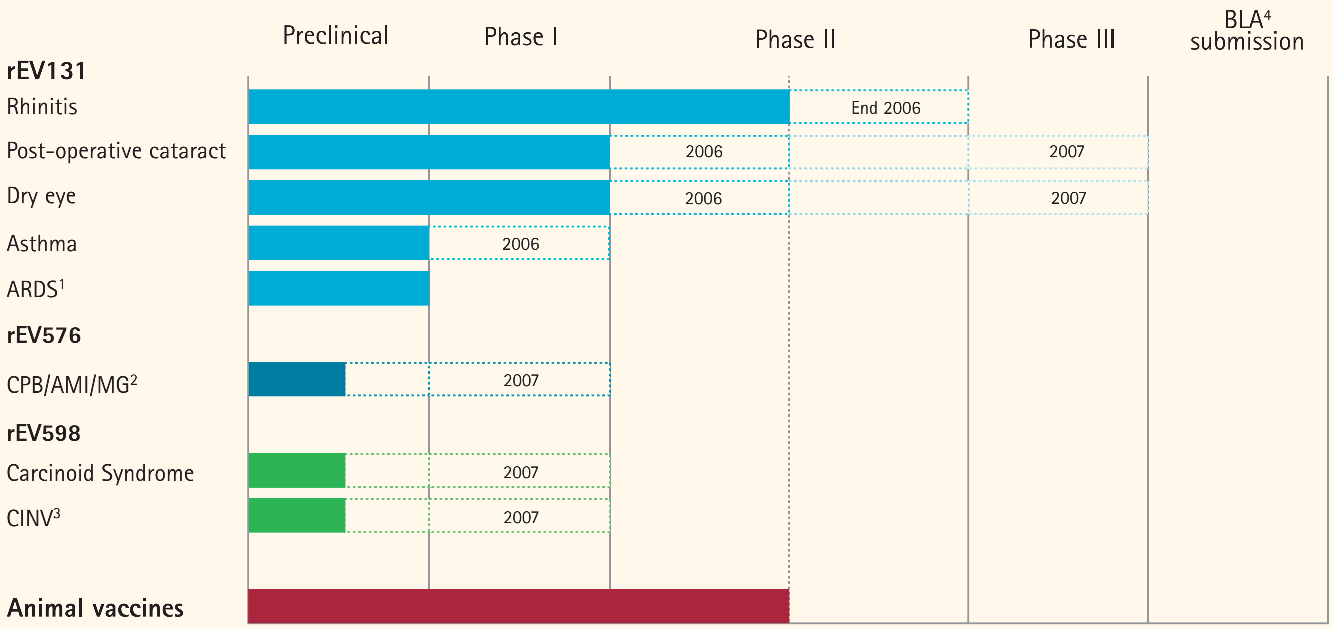
Expanding product development pipeline

Evolutec is building a diverse pipeline of innovative small protein therapeutics for a range of conditions in the allergy, inflammation and autoimmune disease markets. Our strategy is to create a range of options for the commercialisation of these development candidates including partnering for primary care markets and retaining marketing rights in selected territories for specialist clinical indications.

The selection of development candidates is made on the basis of novelty, potential efficacy in indications with unmet medical need and commercial potential.

Product development pipeline



1 Acute respiratory distress syndrome
2 Cardio-pulmonary bypass, acute myocardial infarction, myasthenia gravis
3 Chemotherapy induced nausea and vomiting
4 Biologics license application

Substantial and diverse market opportunities

rEV131

rEV131 – positive Phase IIa rhinitis result shows benefits of Evoutec's technology and approach.

OPHTHALMIC

RESPIRATORY

Dry eye $1.0 billion
Post-cataract $0.5 billion

Allergic rhinitis
$6.6 billion

Asthma $11.1 billion
COPD (chronic bronchitis)
$4.6 billion

rEV576

rEV576 – exciting preclinical results in myasthenia gravis and AMI begin to add diversity

rEV598

rEV598 - mechanism of action suggests potential benefits over existing therapies against chemotherapy induced nausea and vomiting ("CINV")

AUTOIMMUNE DISEASE

Nerve synapses on muscle

Myasthenia gravis 36,000 US cases
No approved therapy

CARDIOVASCULAR

Cardio-pulmonary bypass 500,000 US cases
AMI 1,000,000 US cases

CARCINOID SYNDROME & CINV

Carcinoid syndrome
CINV $1.8 billion

Funding to deliver 3 Phase II results in 2006

Funding to deliver

rEV131

Phase IIb result in allergic rhinitis
Phase II result in post-cataract surgery
Phase II result in dry eye
Phase I result in asthma (2007)

rEV576

Complete preclinical programme

Cash resources

£20 million raised in 2005
£17.6 million at end 2005 versus £3.9 million at end 2004

Chairman's review

THE PAST FINANCIAL YEAR HAS BEEN AN IMPORTANT ONE IN THE DEVELOPMENT OF EVOLUTEC AS THE COMPANY MOVES TOWARDS ITS OBJECTIVE OF BECOMING A DIVERSIFIED BIOPHARMACEUTICAL COMPANY CAPABLE OF THE DISCOVERY, DEVELOPMENT AND COMMERCIALISATION OF IMPORTANT THERAPEUTIC PRODUCTS. EVOLUTEC MADE PROGRESS ON ALL FRONTS AS IT OBTAINED POSITIVE CLINICAL RESULTS WITH ITS LEAD PRODUCT CANDIDATE, rEV131, POSITIVE TRIAL RESULTS IN CATTLE WITH ITS LEAD VACCINE CANDIDATE IN COLLABORATION WITH MERIAL AND EXCITING PRECLINICAL RESULTS WITH rEV576 IN A MYASTHENIA GRAVIS MODEL.

The Company is in a position to make significant progress in the coming year. Evolutec now has the funds to conduct at least three definitive Phase II clinical studies on rEV131 during 2006 in a range of respiratory and ophthalmic indications. Furthermore it can also conduct the work to bring additional molecules into clinical development. This is due to the strong support that we received from our investors during two placings that took place in 2005.

Evolutec has recruited a team of experienced individuals to carry out our plans. The team brings to Evolutec a broad range of expertise in the key areas of discovery, drug development and business development. This is coupled with an experienced executive team to provide the leadership skills that Evolutec requires. The Company has also built up very good relations with a range of contract organisations both in the US and Europe to use in sub-contracting the development work. I would like to thank all the individuals both within Evolutec and our supplier companies who have worked on our projects for their dedicated efforts in the past year.

In addition to the progress in products and people, Evolutec continues to evolve rapidly into a significant biotechnology company. The Company has moved its location to a business park in Reading which we believe is an attractive location to grow and commercialise our business. The Company has made significant strides in complying with the regulatory requirements placed on the Company both as a consequence of its public listing on the AIM Market as well as those imposed by international regulatory agencies in the drug development process. Our objective is to meet the highest regulatory standards wherever possible. In particular, we will be looking to strengthen the Board by the appointment of an additional Non-Executive Director in the coming year.

Looking forward we expect the Company to deliver significant value to its shareholders. In addition to the scientific and clinical progress we will be looking to establish commercial relations with partners in both the biotechnology and pharmaceutical sectors.

David P Bloxham
Chairman
27 February 2006

Chief Executive's review of operations

2005 WAS AN IMPORTANT YEAR FOR EVOLUTEC WITH THE GENERATION OF IMPRESSIVE CLINICAL DATA IN OUR LEAD rEV131 INDICATION, ENCOURAGING RESULTS IN THE ANIMAL VACCINE TRIALS AND PROMISING DATA FROM THE rEV576 PRECLINICAL PROGRAMME. THE COMPANY CONTINUED TO FOCUS INVESTMENT ON rEV131 BUT BEGAN INVESTMENT IN rEV576 TO DIVERSIFY ITS PRODUCT DEVELOPMENT PIPELINE.

MAIN ACHIEVEMENTS

- Impressive clinical data in a Phase IIa rhinitis trial with rEV131
  - Primary endpoint delivered with statistical significance ($p<0.05$)
  - Rapid onset of action
  - Good safety
  - Dose selection
- Good progress with the cGMP manufacture of rEV131
- Demonstration of a desirable rEV131 metabolic profile
- rEV576 showed promising preclinical results in an acute auto-immune model and an acute myocardial infarction model
- Significant reduction in tick infestation levels in Merial vaccine trial
- Recruitment of key personnel in Development, Research and Business Development
- Relocation to Reading
- £20 million raised before expenses through the placing of 13.4 million ordinary shares

rEV131 DEVELOPMENT

The most significant event in 2005 for Evolutec's technology has been the generation of impressive clinical results with rEV131 in seasonal allergic rhinitis (hay fever). The company delivered all of the following objectives in completing a 112 patient Phase IIa study:

1. Proof of concept in the lead clinical indication
2. The selection of the optimum dose for further clinical studies
3. The demonstration of safety via the nasal route of administration

The trial met its primary endpoint, a statistically significant difference ($p<0.05$) in the mean sum of symptom scores at 15 minutes post allergen challenge versus placebo. rEV131 showed a dose dependent drug effect enabling selection of the optimum dose for further work.

There were no significant adverse events during the clinical trial and rEV131 was both comfortable and well-tolerated. These results highlight the potential of rEV131 in the $6 billion allergic rhinitis market. The next step is to conduct a multi-dose Phase IIb study to further define the time of onset of action and the duration of effect which will guide commercial positioning and a partnering deal for rEV131.

The rhinitis trial was undertaken at two centres in San Antonio, Texas, under the direction of Dr Paul Ratner, one of the leading experts in the respiratory field, and was conducted in accordance with the FDA's Guidance for Industry recommendations. The trial comprised four cohorts of 20 patients (16 active, 4 placebo), with the active patients on ascending single doses of rEV131, followed by a fifth cohort of 32 patients (16 active, 16 placebo) at the optimum dose. An antigen challenge of ragweed pollen extract was administered 30 minutes after nasal dosing.

In addition to meeting the primary efficacy and safety objectives, the results showed that rEV131 has an onset of action of 45 minutes or less - quicker than steroid nasal sprays which have an onset of action of approximately 8 hours or longer. It is highly unlikely that a steroid would have given a positive result in a single dose trial of this nature because patients require several doses before symptom relief is noted. Onset of action is one of the key features for a therapy in this market since this converts directly to patient benefit. The data suggests a commercial advantage of rEV131 over the nasal steroids which dominate the market. The main effects of rEV131 were against congestion and mucus production, symptoms that patients find the most troublesome and which are not well addressed by oral anti-histamines. The rapid onset of action and efficacy against congestion and mucus underpin potential commercial advantages of rEV131 and make this an exciting result. Outline results have been accepted for presentation at the American Academy of Asthma Allergy and Immunology meeting in Miami Beach 3rd – 6th March 2006.

A Clinical Review Panel was organised to discuss the rEV131 results with several leading experts in this clinical field. Attendees included Dr. Paul Ratner, President Sylvana Research Associates San Antonio Texas, Dr. Eli Meltzer, Clinical Professor of Pediatrics, University of California, San Diego, and Estelle Simons, Professor, Department of Pediatrics & Child Health and Department of Immunology, University of Manitoba. The group were impressed by the positive results and recommended a development strategy that would, if successful, lead to the approval of the product for clinical use in the USA. They also recommended initiating clinical studies in asthma.

Initial results from metabolism studies of rEV131 indicate that it has a half life of approximately 8 hours. This fits well with a once or twice a day drug. Furthermore the drug is well distributed, without crossing the blood brain barrier and clears the body relatively quickly without showing signs of tissue accumulation. This is a desirable metabolic profile for a therapeutic drug.

In terms of drug substance manufacture, Cambrex successfully completed a large scale engineering run in 2005 and has completed the first manufacturing run of cGMP material. Limited drug substance availability has impacted the preparation of the formulated drug product for clinical studies and the nature of studies we have been able to undertake. The availability of cGMP material now means that drug substance can be taken off the critical path. All future clinical work will be undertaken using cGMP material. Long term safety programmes have been started with rEV131 eye drop and nasal spray product. Appropriate preservatives have been identified for formulation development and the antimicrobial and biological activity of these is under assessment.

As a result, the start of clinical evaluation of rEV131 in the ophthalmic indications was delayed. The clinical plans for the post cataract and dry eye trials are well developed and a positive pre-IND meeting was held with the FDA. The intended IND submissions will be made as soon as possible in 2006 to deliver results in the second half of the year.

In 2005 the generation of impressive clinical data, a positive metabolic profile and the production of cGMP material have taken rEV131 closer to becoming a human therapeutic drug product.

ANIMAL VACCINES

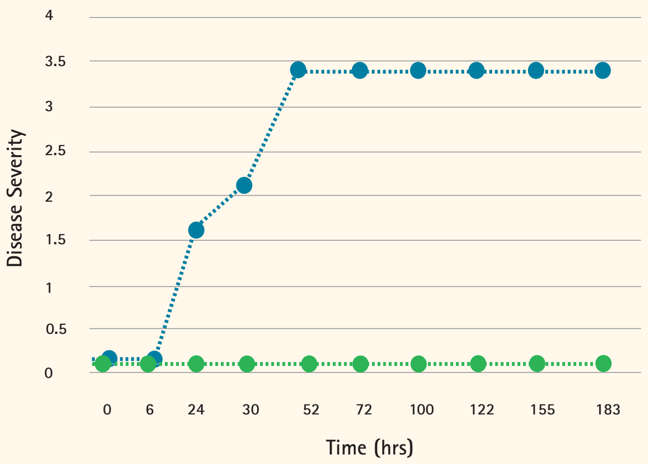
Merial, Evolutec's partner in the animal vaccine arena, completed the cattle trials in Brazil and demonstrated a significant reduction in *Boophilus* tick infestation in cattle with the vaccines. Further reagents have been provided by Evolutec and Merial are evaluating the vaccines against tick-borne diseases. This is an important piece of work for the two parties as it will determine the prospects of the approach for the companion animal market. Evolutec is in discussion with Merial on the terms of the option agreement.

rEV576 A NEW CLASS OF DRUG WITH POTENTIAL IN AUTOIMMUNE DISEASES AND INFLAMMATION

rEV576 has demonstrated promising activity in two different preclinical models. This preclinical development candidate is a complement C5 inhibitor, a new class of drug that targets the complement system. Over-activation of the complement system is implicated in a range of acute and chronic inflammatory conditions including acute cardiovascular conditions and chronic conditions like rheumatoid arthritis and myasthenia gravis. In an acute preclinical model of myasthenia gravis, a single injection of rEV576 completely prevented the onset of symptoms (Fig.1). This result is superior to that published for another complement inhibitor currently in Phase II clinical trials. The results of this study were reported in September at the International Complement Meeting in Heidelberg. Myasthenia gravis is a chronic condition which results in progressive debilitating muscle fatigue, respiratory failure and paralysis. There are 32,000 cases of the disease in the US and 70,000 -100,000 cases worldwide. It is anticipated that this indication would qualify for orphan drug status and the associated marketing and development benefits. Evolutec has submitted an application to the FDA for orphan drug status.

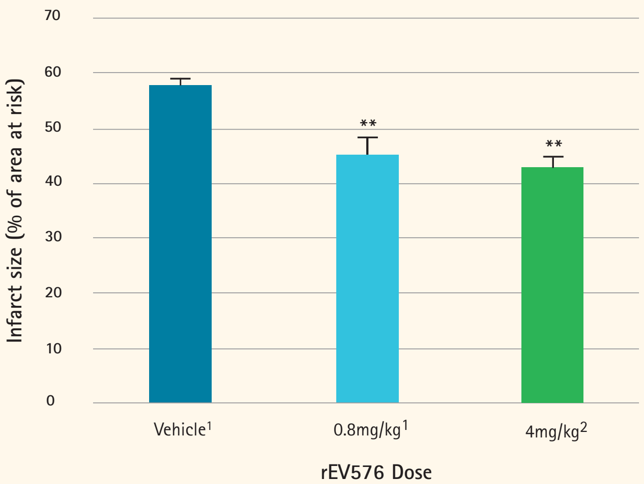
In addition, results were obtained in a preclinical model of acute myocardial infarction (AMI) where rEV576 significantly ($p<0.05$) reduced damaged heart tissue (>25%), even at low doses (Fig.2). In

Fig. 1
rEV576 PRECLINICAL MYASTHENIA GRAVIS MODEL*
Disease severity score following a single dose of rEV576



^{2}n=5
*acetyl-cholinesterase antibody induced model

Fig. 2
rEV576 PRECLINICAL ACUTE MYOCARDIAL INFARCTION MODEL*
Infarct size as a % of the area at risk



*25 minutes of ischemia/occlusion
rEV576 iv. 5min. before reperfusion onset
2hr. reperfusion before staining

**p<0.05
^{1}n=8
^{2}n=7

AMI the heart muscle is damaged following coronary thrombosis and the objective of therapy is to reduce this damage. The approved thrombolytic drugs re-establish blood flow following heart attack but do not address damage to the heart tissue. There are approximately one million cases of acute myocardial infarction per annum in the USA making this a substantial market opportunity with unmet need. rEV576 has a circulating half-life that makes it particularly suitable for acute conditions. There is considerable scientific interest in this molecule and we aim to utilize this in the planning of further preclinical work. The AMI result emphasizes the potential for rEV576 in acute cardiovascular indications such as acute myocardial infarction, stroke and cardiopulmonary bypass.

On the basis of the rEV576 results Evolutec has commenced work on process development associated with the manufacture of this molecule. It is our intention to appoint a contract manufacturer to produce cGMP material enabling progress to the clinic on the successful completion of the pre-clinical programme.

rEV598 – POTENTIAL IN CHEMOTHERAPY INDUCED NAUSEA AND VOMITING

rEV598 binds serotonin and histamine and is targeted at the chemotherapy induced nausea and vomiting (CINV) market. *In vitro* work has previously demonstrated the potential for additive effects with the commercial standard Lanreotide. The CINV market is valued at $1.8 billion and unmet need exists because the existing therapies only partially relieve chronic sickness following chemotherapy. This is because several receptors and messenger molecules are involved in driving the symptoms associated with CINV. rEV598, because it targets serotonin and histamine, the two messenger molecules involved in CINV, has the potential to meet this unmet need. Towards the end of 2005 work was initiated to produce material for these studies in 2006 and plans made to undertake a preclinical study in emesis.

Evolutec now has two preclinical candidates in different therapeutic areas where there is substantial unmet medical need.

PATENTS

The intellectual assets of your company were strengthened in 2005. The over arching vaso-active amine binding protein patent was granted in Europe and China. The screening method patent was granted in Europe and use patents were granted for rhinitis (Australasia) and conjunctivitis (Australasia and New Zealand).

PERSONNEL

Successful recruitment enabled the company to establish a strong middle management structure within the business. Wynne Weston-Davies and John Hamer were joined by Ian Evans and Paul Whyte, directors of Research and Business Development respectively. Ian is a molecular biologist with protein expertise who worked previously for Zeneca and Celltech. He will lead collaborative research programmes. Paul Whyte has a strong track record in business development and previously worked for Avidex and Cancer Research UK. Paul will lead our partnering activities. In addition, new support staff in the finance and development areas joined the business and we now have 11 full time employees in Reading.

LOOKING FORWARD

Evolutec remains committed to an outsourced business model and tightly managed cost base. In 2006 projected expenditure will approximately double with three Phase II trials, enhanced investment in the preclinical product development candidates and a modest investment in collaborative research. The bulk of our investment will continue to be around rEV131 where in addition to the previously disclosed clinical studies we also intend to undertake a Phase I asthma study. These activities are intended to diversify and develop the pipeline creating a range of commercial opportunities for Evolutec. The preclinical work in 2006 will drive the selection of appropriate clinical indications and strategies for rEV576 and rEV598.

Partnering is key to the development of Evolutec and its technology. The recent positive nature of the licensing market and the generation of good clinical data has increased interest from prospective partners in rEV131. It is intended that an appropriate partner will be selected to accelerate and diversify the development of rEV131 and access the primary care markets for the company. Equally important is that deal making retains Evolutec's involvement in the development process, builds on our core competencies and above all represents strong share holder value for this first-in-class molecule. It is intended that the rhinitis Phase IIb study aids the commercial positioning of rEV131, enhances the value of the asset and drives a partnering deal over the next 12 to 18 months. The Company intends to retain marketing rights in specialist markets and establish its own top line revenue in addition to partnering revenues in the primary care markets.

I intend Evolutec to become an international biopharmaceutical business which commercialises superior products to deliver unmet patient need. To develop the business the Company intends to recruit staff in the USA and build upon its existing business model. The results and momentum generated in 2005 provide effective endorsement of Evolutec's approach and its technology. They emphasize the potential of molecules sourced from the saliva of ticks and the opportunity to build on the current pipeline of molecules in different therapeutic areas. In 2006 we aim to build on the positive results of 2005 and deliver further value driving clinical results.

Mark Carnegie Brown
Chief Executive Officer
27 February 2006

Financial review

EVOLUTEC REPORTED AN OPERATING LOSS FOR 2005 OF £6.6 MILLION, IN LINE WITH MARKET EXPECTATIONS, AND A NET LOSS OF £5.6 MILLION. EVOLUTEC HAD NET CASH AND SHORT-TERM INVESTMENTS OF £17.6 MILLION AS AT 31 DECEMBER 2005. THESE NUMBERS REFLECT INTEREST RECEIVED OF £0.4 MILLION, A £0.4 MILLION FOREIGN EXCHANGE GAIN ON THE GROUP'S US DOLLAR DENOMINATED DEPOSITS, AND A £0.5 MILLION RESEARCH AND DEVELOPMENT TAX CREDIT.

CAPITAL STRUCTURE

Share capital

The Company issued a total of 13.4 million shares in two separate placings in 2005 bringing the number of 10p ordinary shares in issue at the year end up to 23.6 million. The deferred shares, which arose on a share consolidation during the preparation for the Company's AIM listing in 2004, were cancelled in May 2005.

Liquidity

The Group had net cash and short-term investments of £17.6 million as at 31 December 2005 compared with £3.9 million as at 31 December 2004. The increase in cash and cash equivalents reflects a £9.5 million placing (net) in April 2005 and a £9.2 million placing (net) in November 2005. The net cash outflow before the management of liquid resources and financing of £5.3 million (18 month period to 31 December 2004: £2.1 million) reflects the Group's increased expenditure on research and development for the year.

The Group had no borrowings during the year (18 month period to 31 December 2004: £nil).

Treasury

As at 31 December 2005 the Group had £17.2 million on treasury deposit. The Group's 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.

A material portion of Evolutec's expenditure is US Dollar denominated and a smaller portion is Euro denominated. This means that Evolutec is exposed to exchange rate movements in these currencies. The Group's policy is not to engage in speculative transactions or derivatives trading. The objective is to monitor closely the movement in these exchange rates and to buy foreign currencies as and when appropriate.

A significant portion of the proceeds raised in April were converted into US Dollars at an average rate of $1.91 to cover the cost of budgeted expenditure in US Dollars. The favourable US Dollar exchange rate movement led to a foreign exchange gain of £0.4 million for 2005, of which £0.1 million was realised.

CASH FLOW

The higher net cash outflow from operating activities for 2005 of £5.8 million (18 month period to 31 December 2004: £2.3 million) reflects the increased level of development expenditure on rEV131.

The principal cash inflow items were net interest receipts of £0.4 million, receipt of the research and development tax credit for the 18 month period to 31 December 2004 of £0.2 million, and the realised portion of the foreign exchange gain of £0.1 million.

The principal cash outflows were the expenses relating to the two share issues totalling £1.2 million and capital expenditure of £0.2 million. The capital expenditure was mainly in relation to the purchase of equipment for the cGMP manufacture of rEV131 being undertaken by Cambrex Inc ("Cambrex"), Evolutec's relocation from Oxford to Reading, and additional information technology equipment.

PROFIT AND LOSS

Revenue

Evolutec is a clinical stage biopharmaceutical company and as such has no source of direct revenue. The revenue for the period of £14,000 (18 month period to 31 December 2004: £28,000) relates to payments for materials supplied to Merial in connection with its work in relation to animal vaccines.

Research and development

Higher research and development expenditure of £5.3 million (18 month period to 31 December 2004: £1.0 million) reflects increased development activity with the lead product candidate rEV131. In particular, it includes the cost of the 112 patient Phase IIa allergic rhinitis clinical trial and the development of a cGMP manufacturing process for rEV131 carried out by Cambrex.

Administrative expenses

Administrative expenses of £1.2 million (18 month period to 31 December 2004: £1.5 million) includes the foreign exchange gain of £0.4 million. Before the foreign exchange gain administrative expenses were £1.7 million. On a like-for-like basis, the increase over the prior period primarily reflects the recruitment of additional staff. At the end of 2005, Evolutec had 11 full-time employees compared to six employees at the beginning of the year.

Taxation

The Group's research and development tax credit of £0.5 million (18 month period to 31 December 2004: £0.2 million) is higher due to the increased level of qualifying research and development expenditure.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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 apply to Evolutec until the financial year 2007. However, Evolutec has decided to adopt IFRS for its financial year 2006.

The first financial information to be reported by the Group in accordance with IFRS will be for the six months ending 30 June 2006. However, the requirement to present comparative information means that a balance sheet as at 30 June 2005 and primary statements for the six months to 30 June 2005 and 31 December 2005, prepared in accordance with IFRS, will also be required.

The Group has undertaken a review of the impact of IFRS on its accounting policies and financial statements, summarised below. Furthermore, the Group has already adopted FRS 20 (IFRS 2), Share-Based Payments. The summary is not intended to be a complete list of areas. Further differences may arise as a result of the Group's continued detailed assessment and interpretations of IFRS and any pronouncements issued by the International Accounting Standards Board ("IASB").

Deferred tax – Under IAS 12 Income Taxes, certain temporary timing differences, for example in relation to fixed assets, that previously were not recognised under UK GAAP, will be recognised.

Definition of cash and cash equivalents – The definition of cash and cash equivalents under UK GAAP has been expanded by IFRS to include short-term deposits of several months duration. This adjustment will have no impact overall. The effect of this adjustment will be to re-categorise certain amounts shown as short-term deposits and investments under UK GAAP as cash and cash equivalents.

The overall impact of the adoption of IFRS on Evolutec's financial statements will be limited.

Nicholas Badman
Chief Financial Officer
27 February 2006

Board of Directors

From left to right; Nicholas Badman, David Bloxham, John Burke, Mark Carnegie Brown, Graeme Hart.

NICHOLAS BADMAN (39)

Chief Financial Officer and Company Secretary

Nicholas was appointed Chief Financial Officer in 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 (58)

Non-Executive Chairman NRA

David became Non-Executive Chairman of Evolutec in 2005 having been Chairman since 2003. David is chairman of the nominations committee. David is also a Non-Executive Director of 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.

JOHN BURKE (61)

Non-Executive Director NR**A**

John was previously Chairman of Evolutec Limited and was appointed Non-Executive Director in 2003. John is chairman of the audit committee. He has 39 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 (45)

Chief Executive Officer

Mark was appointed Chief Executive of Evolutec in 2003. Mark has 16 years' experience within ICI and Zeneca including positions in research and development, business development, sales, marketing and general management. 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 (61)

Non-Executive Director N**R**A

Graeme was appointed Non-Executive Director in 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.

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 year ended 31 December 2005.

Principal activity

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

Results and dividends

The turnover of the Group during the year was £14,000 (2004: £28,000). The loss after taxation amounted to £5,605,000 (2004: £2,237,000). The Directors do not recommend the payment of a dividend (2004: nil).

Substantial shareholdings

At 23 February 2006, the Directors had been notified of the following disclosable holdings representing three per cent, or more, of the issued share capital of the Company:

Shareholder having a major interest	Number of shares held	% of issued shares
AXA Framlington Investment Management	3,453,757	14.64
Gartmore Investment Management	2,826,237	11.98
Foreign & Colonial	1,979,216	8.39
Amvescap (including Invesco)	1,801,286	7.64
UBS	1,775,965	7.53
Bluehone Investors	1,248,571	5.29
Charles Stanley	1,214,700	5.15

Directors

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

Executive

Dr M Carnegie Brown (Chief Executive Officer)

N J Badman (Chief Financial Officer)

Non-Executive

Dr D P Bloxham (Non-Executive Chairman)

G M Hart

J V Burke

Re-election

At the forthcoming Annual General Meeting, JV Burke and NJ Badman will retire by rotation and 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 and share option schemes are given in the Directors' Remuneration Report and on page 47.

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 (2004: 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. The creditor days for 2005 was 39 (2004: 19 days).

Auditors

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 which sets out certain special business resolutions in addition to the resolutions relating to the Company's ordinary business. The following is an explanation of the resolutions relating to the special business which the Company proposes to conduct at the Annual General Meeting:

(i) Authority to allot shares: Resolution 6

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 Companies Act 1985. Resolution 6 will authorise the Directors to allot ordinary shares with a nominal value of £786,363.50 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).

(ii) Disapplication of pre-emption rights: Resolution 7

Resolution 7 will permit the Directors, pursuant to section 95 of the Companies Act 1985, to issue equity securities for cash up to a total nominal value of £235,909.00, which is equal to approximately 10 per cent of the Company's issued share capital, for cash without first offering them pro rata to existing shareholders.

(iii) Cancellation of deferred shares: Resolution 8

Resolution 8 will diminish the Company's authorised but unissued share capital by cancelling all of the deferred shares which have not been taken or agreed to be taken by any person in accordance with section 121(2)(e) of the Companies Act 1985 and the Company's articles of association.

(iv) Amendment to the memorandum of association: Resolution 9

Resolution 9 will amend the Company's memorandum of association to reflect the changes to the Company's authorised share capital pursuant to Resolution 8.

(v) Amendment to the articles of association: Resolution 10

Resolution 10 will amend the Company's articles of association to reflect the changes to the Company's authorised share capital pursuant to Resolution 8.

(vi) Amendment to the articles of association: Resolution 11

Currently, the Company's articles of association provide that a third of directors should retire from office and be put up for re-election at each annual general meeting. However, where the number of directors is not three, or an integral multiple of three, the number nearest to but not exceeding one-third shall retire. To provide greater flexibility resolution 11 will amend the Company's articles of association so that where the number of directors is not three, or an integral multiple of three, the number of directors who shall retire shall be the number (rounded up or down) nearest to one third.

The meeting will be held at 10.30am on 26 April 2006 at 100 Longwater Avenue, Green Park, Reading RG2 6GP.

By order of the Board
Nicholas Badman
Company Secretary
27 February 2006

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.

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.

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's 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 two Executive Directors and three 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 page 19.

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

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 six 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 Group, 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 Group has introduced an appraisal system for evaluating the performance of the Non-Executive Chairman and the Board. The Non-Executive 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 Group on the grounds of cost. The Non-Executive Directors, led by the Senior Non-Executive Director, are responsible for performance evaluation of the Non-Executive 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, as appropriate. There is an induction process for new Directors and training is available for all Directors as appropriate.

Of Evolutec's three 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 Non-Executive Chairman, Chief Executive or Chief Financial Officer has failed to resolve or for which such contact is inappropriate. DP Bloxham and JV Burke have been employees of the Company within the last five years and hold share options granted to them during that employment.

The Non-Executive Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and reviewing the agenda set by the Chief Executive Officer. The Non-Executive Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Non-Executive Chairman ensures clear communication with shareholders. The Non-Executive 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 Non-Executive Chairman on all governance matters.

The division of responsibilities between the Non-Executive Chairman and Chief Executive Officer is clearly established, set out in writing and agreed by the Board. The Non-Executive Chairman was previously Chairman and, prior to that, Chief Executive Officer of Evolutec Limited.

Nominations committee and appointments to the Board

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

The nominations 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 nominations committee, but others may attend at the invitation of the committee.

The nominations 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 year, the nominations committee has met twice. All members of the committee were in attendance at both meetings.

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

Audit committee and auditors

John Burke is chairman of the audit committee which comprises the Non-Executive 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 Group'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.

During the financial period, the audit committee has met three times 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.

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

The audit committee reviews arrangements by which employees of the Group 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 Group 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.

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.

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 26 to 31 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 remuneration 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 six 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 Officer and Chief Financial Officer.
- The Board has prepared a 3 year strategic plan for the business and its development.
- The Group has an executive committee comprising the Chief Executive Officer and Chief Financial Officer that meets every 2 weeks to review the operational performance of the Group.
- 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 2006.

Relations with shareholders

The Group 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 Non-Executive Chairman, Chief Executive Officer 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 road shows and through meetings with shareholders.

The AGM is used to communicate with shareholders and they are encouraged to attend. The Group 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 Group 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 Group 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 Group'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
27 February 2006

Directors' Remuneration Report

As a member of AIM, the Group 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 19 April 2006.

The remuneration committee

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

Policy on employees' remuneration

The Group's policy on the remuneration of employees including Directors, is established by the committee and approved by the Board. The remuneration committee was advised on matters relating to Directors' remuneration by the Non-Executive Chairman and the Chief Executive Officer. No Director participates in discussions relating to the setting of their own remuneration.

The objective of the Group's remuneration policies is that employees 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). Conditions for performance-related bonus and long-term incentives are designed with a view to alignment of employee and shareholder interests. The committee believes that the 2005 performance conditions are demanding and appropriate as well as providing objective valuation measures for shareholders.

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 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. In 2005, the remuneration committee commissioned a report benchmarking the remuneration of the Directors of comparable companies from Deloitte & Touche LLP.

Components of remuneration

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

Annual salary The Committee approves specific increases for Executive Directors. In determining appropriate salary levels for each Executive Director, 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. The committee compares the Company's remuneration packages for its Directors with those for Directors of companies whose activities are comparable with the Group.

Performance-related bonus 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.

The maximum bonus level is 60 per cent of salary for the Chief Executive Officer. 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 paid for the financial year are as detailed in the table on page 29.

Long-term incentive arrangements The Company operates an LTIP and a Performance Share Plan (the "Performance Share Plan") for the

Executive Directors. The Company also operates an Enterprise Management Incentive Scheme (the "EMI Scheme") for all employees of the Company. In addition, the Company 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 Evolutec 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. The Initial Award was made in 2004 on the Company's admission to AIM and 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 were placed in the EMI Scheme. The Discretionary Award is based on the purchase by a participant of ordinary shares in the Company. To the extent participants purchase shares from taxed salary or self-administered personal pension schemes ("SIPPs") up to a maximum market value of £40,000 at the date of purchase per participant per year (the "Annual Purchase"), 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, as applicable. The number of shares that vest will depend on how the performance criteria are satisfied (see [page 33]).

The first awards under the Performance Share Plan were made in 2005. The Performance Share Plan is designed to further align participants' interests with those of shareholders through the award of shares contingent on meeting performance criteria. Shares are not issued until three years from the date of the award and the number of shares that vest depends on how the performance criteria are met. Details of the awards made in 2005 and the associated performance criteria are set out on pages 30 and 31.

The strike price for options granted under the EMI Scheme is either the middle-market quotation for the Company's shares on the date of grant or the price at which shares have been issued as part of a placing or other funding, as applicable. Options granted are not exercisable until three years from the date of grant. The maximum grant of options under the EMI Scheme to any one employee in any particular year shall not exceed that employee's basic salary except in exceptional circumstances as determined by the committee.

Pension benefits The Company has a stakeholder pension arrangement with Prudential plc. Alternatively, employees can elect for Evolutec to make contributions to a defined contribution personal pension scheme of their choice. The assets of the pension 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 and senior employees are paid a car allowance equal to 10% of basic salary.

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 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 the employee's service contract without notice and without paying compensation in respect of that termination. Should an Executive Director be dismissed he or she would receive a sum equal to 12 months' pay and benefits (unless for gross misconduct, or the like, where no payments would be made).

Non-Executive Directors' appointments and remuneration

The remuneration of the Non-Executive Chairman is proposed by the Executive Directors and sanctioned by the Board, in the absence of the Non-Executive Chairman. The service agreement of the Non-Executive Chairman was made on 2 August 2005 for an initial term of 3 years and is terminable by either party on one month's notice. Dr Bloxham's entitlement 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, has been preserved.

The Non-Executive Directors' agreements were made on 17 June 2004 and are terminable on not less than one months notice. Non-Executive Directors receive fees for services as members of the Board and its committees and the Chairman of each Board committee is paid an additional fee for performing that role. The level of fees is proposed by the Executive Directors and sanctioned by the Board. 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 20. 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

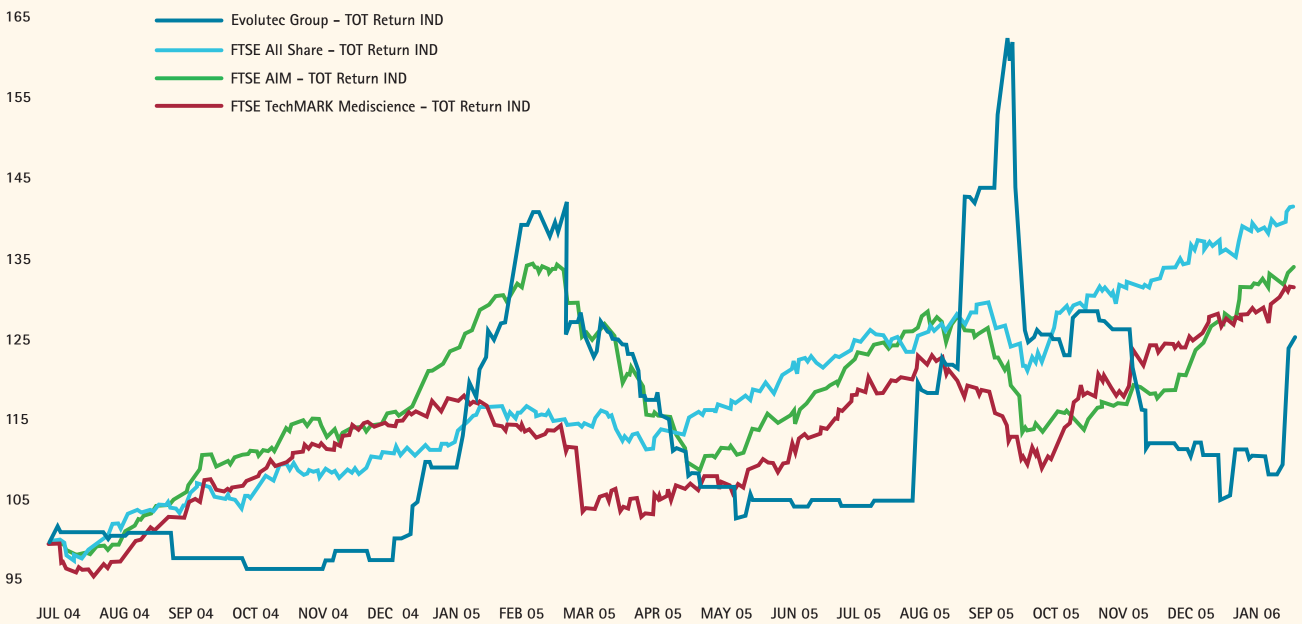
The table below sets out the interests of the Directors in the Company's shares. There have been no changes in the Directors' interests in shares since 31 December 2005.

Number	10 pence Ordinary shares owned at 31 December 2005		10 pence Ordinary shares owned at 31 December 2004[1]	
	Number	**Percentage**	Number	Percentage (%)
Dr DP Bloxham	**128,608**	**0.55%**	103,572	1.02%
Dr M Carnegie Brown	**63,214**	**0.27%**	40,000	0.39%
NJ Badman	**68,929**	**0.29%**	35,000	0.34%
JV Burke	**192,414**	**0.82%**	101,343	0.99%
GM Hart	**208,739**	**0.88%**	110,168	1.08%
Total	**661,904**	**2.81%**	**390,083**	**3.82%**

Note
1. The prior year percentage is calculated based on the prior year total number of ordinary shares.

Performance graph

The graph below shows a comparison between the Company's total shareholder return performance compared with the companies in the FTSE Allshare, the FTSE TechMARK Mediscience Index and the FTSE AIM index for the period 2 August 2004, the date of the Company's admission to AIM, to 17 February 2006. 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, £100 invested in the FTSE Allshare Index and £100 invested in the FTSE AIM 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 30 December 2005, the last trading day of 2005, was 141 pence. Between admission on 2 August 2004 and 17 February 2006, the market price of the Company's shares has ranged from 122.5 to 205.0 pence.



DIRECTORS' REMUNERATION (FORMING PART OF THE FINANCIAL STATEMENTS)

	Salary £000	Car allowance £000	Performance related bonus paid in the financial period £000	**Year to 31 December 2005 Total £000**	18 month period to 31 December 2004 Total £000	**Year to 31 December 2005 Total pension £000**	18 month period to 31 December 2004 Total pension £000
Executive							
Dr M Carnegie Brown (CEO)	161,250	14,524	94,500	**270,274**	264,677	**15,333**	17,139
NJ Badman (CFO)	123,625	13,263	72,450	**209,338**	101,068	**12,370**	6,700
Total	284,875	27,787	166,950	**479,612**	365,745	**27,703**	23,839
Non-Executive							
Dr DP Bloxham (Chairman)	71,337	–	16,842*	**88,179**	117,458	**4,564***	3,750
G Hart	26,250	–	–	**26,250**	26,359	**–**	–
JV Burke	26,250	–	–	**26,250**	28,333	**–**	–
Total	123,837	–	16,842	**140,679**	172,150	**4,564**	3,750
Total	408,712	27,787	183,792	**620,291**	537,895	**32,267**	27,589

* Relates to period prior to 2 August 2005.

The total emoluments of the highest-paid Director, excluding pension contributions, for the year to 31 December 2005 amounted to £270,274 (18 month period ended 31 December 2004: £264,677). Pension contributions made during the period for the highest paid Director were £15,333 (18 month period ended 31 December 2004: £17,139). The Company's policy is not to pay an expense allowance to Directors.

DIRECTORS' OPTIONS AND PERFORMANCE RELATED SHARE AWARDS

	At 1 January 2005 Number	Granted in the period Number	Lapsed in the period Number	**At 31 December 2005 Number**	Exercise price £	Date from which exercisable	Expiry date	Performance conditions
Dr DP Bloxham								
Unapproved Scheme	122,537	–	–	**122,537**	2.50	2 Aug 2004	2 Aug 2007	n/a
LTIP Initial Award[1]	60,000	–	–	**60,000**	1.25	20 Jul 2007	20 Jul 2008	2004 – (i), (ii), (iii), (iv)
LTIP Discretionary Award - 2004	80,000	–	–	**80,000**	Nil	20 Jul 2007	20 Jul 2014	2004 – (ii), (iii), (iv)
Total	262,537	–	–	**262,537**				
Dr M Carnegie Brown								
Unapproved Scheme	106,761	–	–	**106,761**	1.40	2 Aug 2004	2 Aug 2007	n/a
LTIP–Initial Award	40,000	–	–	**40,000**	1.25	20 Jul 2007	20 Jul 2008	2004 – (i), (ii), (iii), (iv)
LTIP–Discretionary Award - 2004	160,000	–	–	**160,000**	n/a	20 Jul 2007	20 Jul 2014	2004 – (ii), (iii), (iv)
- 2005	–	79,464	–	**79,464**	n/a	20 Apr 2008[2]	20 Apr 2015[3]	2005
Share Performance Plan	–	80,000	–	**80,000**	n/a	20 Oct 2008	n/a	2005
EMI Scheme	80,000	–	–	**80,000**	1.25	20 Jul 2007	20 Jul 2014	2004 – (i), (ii), (iii), (iv)
Total	386,761	159,464	–	**546,225**				
NJ Badman								
LTIP – Initial Award	12,000	–	–	**12,000**	1.25	20 Jul 2007	20 Jul 2008	2004 – (i), (ii), (iii), (iv)
LTIP – Discretionary Award - 2004	160,000	–	–	**160,000**	n/a	20 Jul 2007	20 Jul 2014	2004 – (ii), (iii), (iv)
- 2005	–	115,359	–	**115,359**	n/a	20 Apr 2008[2]	20 Apr 2015[3]	2005
Share Performance Plan	–	60,000	–	**60,000**	n/a	20 Oct 2008	n/a	2005
EMI Scheme	80,000	–	–	**80,000**	1.25	20 Jul 2007	20 Jul 2014	2004 – (i), (ii), (iii), (iv)
Total	252,000	175,359	–	**427,359**				
JV Burke								
Unapproved Scheme	28,720	–	–	**28,720**	2.50	2 Aug 2004	2 Aug 2007	n/a
Total	28,720	–	–	**28,720**				

Notes
1. Dr DP Bloxham's Initial Award lost its EMI status when he became Non-Executive Chairman on 2 August 2005.
2. This is the vesting date for the first tranche of the 2005 Discretionary Award. The second tranche of the 2005 Discretionary Award vests on 9 November 2008.
3. This is the expiry date for the first tranche of the 2005 Discretionary Award. The expiry date for the second tranche of the 2005 Discretionary Award is 9 November 2015.
4. The price used to determine the number of matching shares under the Discretionary Awards was £1.25 for 2004, £1.40 for the first tranche in 2005 and £1.60 for the second tranche in 2005.

Graeme Hart does not hold any options or performance related shares in the Company.

PERFORMANCE CONDITIONS

2004

Awards are subject to the fulfillment 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.

2005

The performance condition for 2005 awards is based on the absolute total shareholder return ("TSR") of the Company's shares over the vesting period. If the implied annual TSR over the vesting period is greater than 10%, 12% or 14% then 25%, 50% or 100% respectively of the award will vest.

Approved by the Board of Directors
Graeme Hart
Chairman, remuneration committee
27 February 2006

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

United Kingdom Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 group and parent company financial statements (the ''financial statements'') of Evolutec Group plc for the year ended 31 December 2005 which comprise the principal accounting policies, the group profit and loss account, the group and company balance sheets, the group 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 (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors, the Directors' Remuneration Report, the Governance Report, the Chairman's Statement and the Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

OXFORD
27 February 2006

Consolidated profit and loss account

For the year ended 31 December 2005

	Notes	Year ended 31 December 2005 £000	18 month period ended 31 December 2004 £000
Turnover	2	**14**	28
Cost of sales		**(6)**	–
Gross profit		**8**	28
Research and development expenditure		**(5,346)**	(993)
Administrative expenses		**(1,224)**	(1,543)
Total administrative expenses		**(6,570)**	(2,536)
Operating loss on ordinary activities before interest and taxation	3	**(6,562)**	(2,508)
Interest receivable and similar income		**429**	94
Loss on ordinary activities before taxation		**(6,133)**	(2,414)
Tax credit on loss on ordinary activities	5	**528**	177
Loss for the year	16	**(5,605)**	(2,237)
Basic and diluted loss per share – pence	6	**(34.8)**	(33.6)

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 38 to 49 form part of these financial statements.

Balance sheets

As at 31 December 2005

	Notes	Group 31 December 2005 £000	Group 31 December 2004 £000	Company 31 December 2005 £000	Company 31 December 2004 £000
Fixed assets					
Tangible assets	8	**161**	11	**–**	–
Investments	9	**–**	–	**29,186**	10,446
		161	11	**29,186**	10,446
Current assets					
Debtors	10	**1,321**	255	**–**	–
Short-term deposits and investments	11	**17,013**	3,761	**–**	–
Cash		**603**	113	**–**	–
		18,937	4,129	**–**	–
Current liabilities					
Creditors: amounts falling due within one year	12	**(1,915)**	(367)	**–**	–
Net current assets		**17,022**	3,762	**–**	–
Net assets		**17,183**	3,773	**29,186**	10,446
Capital and reserves					
Share capital	15,16	**2,359**	5,824	**2,359**	5,824
Share premium account	16	**22,043**	4,622	**22,043**	4,622
Capital redemption reserve	16	**4,804**	–	**4,804**	–
Other reserves	17	**3,989**	3,734	**(20)**	–
Profit and loss account	16	**(16,012)**	(10,407)	**–**	–
Total shareholders' funds	16	**17,183**	3,773	**29,186**	10,446

Approved by the Board of Directors

Mark Carnegie Brown
Chief Executive Officer
27 February 2006

Nicholas Badman
Chief Financial Officer
27 February 2006

The notes on pages 38 to 49 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2005

	Notes	Year ended 31 December 2005 £000	Eighteen months ended 31 December 2004 £000
Reconciliation of operating loss to operating cash flows			
Operating loss	3	**(6,562)**	(2,508)
Depreciation		**29**	16
Increase in debtors		**(741)**	(69)
Increase in creditors		**1,548**	261
Unrealised foreign exchange (gain)/loss		**(311)**	4
Share-based payment charge		**275**	-
Net cash outflow from operating activities		**(5,762)**	(2,296)
Cash flow statement			
Net cash outflow from operating activities		**(5,762)**	(2,296)
Returns on investments and servicing of finance			
Interest received		**429**	94
Net cash inflow from investments and servicing of finance		**429**	94
Taxation			
Research and development tax credit received		**203**	86
Net cash inflow from taxation		**203**	86
Capital expenditure			
Purchase of tangible fixed assets		**(179)**	(13)
Net cash outflow from capital expenditure		**(179)**	(13)
Net cash outflow before management of liquid resources and financing		**(5,309)**	(2,129)
Management of liquid resources			
Increase in short-term deposits with bank	21	**(12,941)**	(3,590)
Net cash outflow from management of liquid resources		**(12,941)**	(3,590)
Financing			
Issue of shares		**20,000**	6,067
Conversion of warrants		**–**	300
Purchase of own shares		**(20)**	-
Costs of share issues		**(1,240)**	(587)
Net cash inflow from financing		**18,740**	5,780
Increase in cash in the period	21	**490**	61
Reconciliation of net cash flow to movement in net cash			
Increase in cash in the period		**490**	61
Movement in net funds in the period		**490**	61
Net funds at start of the period		**113**	52
Net funds at end of the period		**603**	113

The notes on pages 38 to 49 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2005

1 Principal accounting policies

The financial statements have been prepared under the historical cost convention, and in accordance with United Kingdom Generally Accepted Accounting Principles. A summary of the principal Group accounting policies, which have been applied consistently except as stated, is set out below.

The Group has adopted early Financial Reporting Standard 20 "Share-based payment" (FRS 20). Previously the Group accounted for awards under employee share schemes under UITF Abstract 17, whereby the value of an award was based on its intrinsic value at grant date. However, FRS 20 requires a fair value measurement basis, taking account of the time value of money and the protection offered by options against volatility of the share price or value. No restatement of the prior period is necessary as the effect in respect of the current and prior periods is not considered material.

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. The Directors believe that the Group has sufficient funds for the foreseeable future, therefore the financial statements have been prepared on the going concern basis.

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 2005. Intercompany transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only.

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 installments over their estimated useful lives as follows:

Plant and machinery 3-5 years

Fixtures and fittings 3 years

Office equipment 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.

Share-based payments In accordance with FRS 20, the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model. The expenses charged to the profit and loss account result in a corresponding credit to reserves.

The principal assumptions used to calculate the value of options and performance shares issued are:

Share price volatility	45%
Risk free rate of return	4.5%
Date of exercise	Normally assumed to be the first possible exercise date

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.

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:

	Year ended 31 December 2005	Eighteen months ended 31 December 2004
	£000	£000
North America	**14**	28
Total	**14**	28

A split of the turnover by type is as follows:

	Year ended 31 December 2005	Eighteen months ended 31 December 2004
	£000	£000
Collaborative agreements	**14**	28
Total	**14**	28

3. Group operating loss

Group operating loss is stated after charging/(crediting)	**Year ended 31 December 2005**	Eighteen months ended 31 December 2004
	£000	£000
Operating leases - land and buildings	**65**	56
Depreciation charge for the period:		
- tangible owned fixed assets	**29**	16
Foreign exchange (gain)/loss	**(441)**	4
Auditors' remuneration		
- for audit services	**24**	36
- for other services - taxation	**5**	5

The foreign exchange gain arose on the year end sterling equivalent of the Company's US dollar denominated deposits of the foreign exchange gain. £130,000 (2004 : £nil) was realised during the year when a proportion of the US dollar denominated funds was converted back into pounds sterling.

Of the above auditors' remuneration, £9,000 relates to the Company. During the prior period, the auditors of the group changed. £25,000 of the prior 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:	Year ended 31 December 2005 £000	Eighteen months ended 31 December 2004 £000
Research, development and operations	**4**	1
Administration	**7**	5
	11	6

At 31 December 2005, the group employed a total of 11 permanent staff (31 December 2004 : 6). Staff costs in respect of these employees were:	Year ended 31 December 2005 £000	Eighteen months ended 31 December 2004 £000
Wages and salaries	**1,075**	805
Social security costs	**130**	100
Pension costs	**53**	48
	1,258	953

In respect of Directors' remuneration, the company has taken avantage 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 26 to 31.

5. Taxation

The tax credit represents:	Year ended 31 December 2005	Eighteen months ended 31 December 2004
Research and development tax credits	**528**	177

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% (2004 : 19%) The differences are explained as follows :	Year ended 31 December 2005	Eighteen months ended 31 December 2004
Loss on ordinary activities before taxation	**6,133**	2,414
Loss before tax at 19%	**1,165**	459
Expenses not deductible for tax purposes	**(1)**	(1)
Deferred tax asset not recognised	**(914)**	(317)
Research and development tax credit receivable at 24 per cent of losses compared with 19 per cent tax rate	**252**	36
Under-provision in respect of prior year tax credit	**26**	-
	528	177

No liability to UK corporation tax arose during the period. The Group had losses, as computed for taxation purposes, of approximately £10.8 million at 31 December 2005 (31 December 2004: £6.4 million) 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 year to 31 December 2005 of £528,000 (period ended 31 December 2004: £177,000) represents the tax credit receivable by the Group.

6. Loss per ordinary share

	Year ended 31 December 2005	Eighteen months ended 31 December 2004
Attributable loss (£000)	**(5,605)**	(2,237)
Weighted average number of shares in issue (000)	**16,096**	6,660
Loss per share (basic and diluted) pence	**(34.8)**	(33.6)

The calculation of earnings per share is based on the weighted average number of ordinary shares in issue during the year. The calculation of the weighted average number of shares in the period to 31 December 2004 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 year to 31 December 2005 was £nil (period ended 31 December 2004 : £nil).

8. Tangible fixed assets

	Plant and machinery £000	Office equipment £000	Fixtures and fittings £000	Total £000
Group				
Cost				
At 1 January 2005	16	32	–	48
Additions	68	64	47	179
At 31 December 2005	**84**	**96**	**47**	**227**
Depreciation				
At 1 January 2005	16	21	–	37
Charge for the period	1	17	11	29
At 31 December 2005	**17**	**38**	**11**	**66**
Net book value at 31 December 2005	**67**	**58**	**36**	**161**
Net book value at 31 December 2004	–	11	–	11

Company

The Company had no tangible fixed assets or capital commitments at 31 December 2005.

9. Investments

Group

The group had no investments at 31 December 2005 or 31 December 2004.

	Shares in subsidiary undertaking £000	Loans to subsidiary undertaking £000	Total £000
Company			
Cost			
At 1 January 2005	5,338	5,108	10,446
Additions	–	18,740	18,740
At 31 December 2005	**5,338**	**23,848**	**29,186**
Provisions			
At 1 January 2005	–	–	–
Charge for the year	–	–	–
At 31 December 2005	**–**	**–**	**–**
Net book value at 31 December 2005	**5,338**	**23,848**	**29,186**
Net book value at 31 December 2004	5,338	5,108	10,446

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 2005 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 2005 £000	Group 31 December 2004 £000	**Company 31 December 2005 £000**	Company 31 December 2004 £000
Trade debtors	**17**	–	–	–
Research and development tax credits	**502**	177	–	–
Other debtors	**21**	8	–	–
Prepayments and accrued income	**781**	70	–	–
Total	**1,321**	255	–	–

All the above amounts are due within one year.

11. Short-term deposits and investments

	Group 31 December 2005 £000	Group 31 December 2004 £000	**Company 31 December 2005 £000**	Company 31 December 2004 £000
Short-term deposits with bank	**17,013**	3,761	–	–

12. Creditors: amounts falling due within one year

	Group 31 December 2005 £000	Group 31 December 2004 £000	**Company 31 December 2005 £000**	Company 31 December 2004 £000
Trade creditors	**599**	81	–	–
Taxation and social security payable	**109**	22	–	–
Accruals	**1,207**	264	–	–
Total	**1,915**	367	–	–

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 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 2005				
Sterling	**15,629**	**393**	**–**	**16,022**
US Dollars	**1,594**	**–**	**–**	**1,594**
Total	**17,223**	**393**	**–**	**17,616**
At 31 December 2004				
Sterling	3,565	96	17	3,678
US Dollars	196	-	-	196
Total	3,761	96	17	3,874

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 2005 was between 3.4 and 4.9 per cent which was fixed until maturity between January and May 2006.

The floating rate financial assets comprised bank current accounts where the interest rate is set by the bank.

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	Euros
	£000	£000
At 31 December 2005	**832**	**(19)**
At 31 December 2004	196	-

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 2005 £000	31 December 2004 £000
Group		
Deferred tax asset not recognised in the financial statements		
Losses	**(2,056)**	(1,223)
Excess of tax allowances over depreciation and other short-term timing differences	**(55)**	(7)
Total asset at 19%	**(2,111)**	(1,230)

There was no potential liability to deferred tax at 31 December 2005 or 31 December 2004.

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 2005 (31 December 2004: nil).

15. Share capital

	31 December 2005 £000	31 December 2004 £000
Authorised		
77,000,000 ordinary shares of 10p each	**7,700**	7,700
63,000,000 deferred shares of 10p each	**6,300**	6,300
Allotted, called up and fully paid		
23,590,906 ordinary shares of 10p each	**2,359**	1,020
Nil deferred shares of 10p each	**Nil**	4,804
Total	**2,359**	5,824

Issue of shares in the year
On 20 April 2005, the Company obtained additional equity finance of £10,000,000 via the placing on AIM of 7,142,858 ordinary shares of 10p each for consideration of £1.40 each. The issue costs of £487,000 were offset against the share premium account.

On 9 November 2005, the Company obtained additional equity finance of £10,000,000 via the placing on AIM of 6,250,000 ordinary shares of 10p each for consideration of £1.60 each. The issue costs of £835,000 were offset against the share premium account.

Deferred shares
The deferred shares were acquired for nil consideration in an off-market purchase on 4 May 2005 and were subsequently cancelled. A transfer of £4,804,000 was made to the capital redemption reserve at that date.

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 2005 the following options over shares had been granted to employees and Directors and remained outstanding:

Date of grant	Exercise period from	Exercise period to	At 1 January 2005 Number	Granted in the period Number	**At 31 December 2005 Number**	Exercise price (£)	Value per option (£)
LTIP – Initial award							
20-Jul-04	20-Jul-07	20-Jul-08	52,000	-	**52,000**	1.25	0.44
LTIP – Discretionary award							
20-Jul-04	20-Jul-07	20-Jul-14	400,000	-	**400,000**	Nil	1.25
20-Apr-05	20-Apr-08	20-Apr-15	-	113,573	**113,573**	Nil	1.55
09-Nov-05	09-Nov-08	09-Nov-15	-	81,250	**81,250**	Nil	1.59
Total			400,000	194,823	**594,823**		
Performance share plan							
20-Oct-05	20-Oct-08	n/a	-	140,000	**140,000**	Nil	1.59
EMI Scheme							
20-Jul-04	20-Jul-07	20-Jul-14	220,000	-	**220,000**	1.25	0.44
29-Apr-05	29-Apr-08	29-Apr-15	-	36,000	**36,000**	1.48	0.52
20-Oct-05	20-Oct-08	20-Oct-15	-	76,961	**76,961**	1.60	0.55
25-Oct-05	25-Oct-08	25-Oct-15	-	21,944	**21,944**	1.60	0.56
07-Nov-05	07-Nov-08	07-Nov-15	-	3,698	**3,698**	1.56	0.55
Total			220,000	138,603	**358,603**		
Unapproved scheme							
14-Jun-99	2-Aug-04	2-Aug-07	49,667	-	**49,667**	2.50	*
19-Jul-00	2-Aug-04	2-Aug-07	400	-	**400**	2.50	*
11-Oct-00	2-Aug-04	2-Aug-07	22,133	-	**22,133**	2.50	*
08-May-01	2-Aug-04	2-Aug-07	122,537	-	**122,537**	2.50	*
17-Sep-03	2-Aug-04	2-Aug-07	147,761	-	**147,761**	1.40	0.17
Total			342,498	-	**342,498**		
Consultants' scheme							
14-Jun-99	2-Aug-04	2-Aug-06	49,667	-	**49,667**	2.50	*
19-Jul-00	2-Aug-04	2-Aug-06	5,200	-	**5,200**	2.50	*
11-Oct-00	2-Aug-04	2-Aug-06	22,134	-	**22,134**	2.50	*
16-Mar-01	2-Aug-04	2-Aug-06	800	-	**800**	2.50	*
18-Apr-01	2-Aug-04	2-Aug-06	6,400	-	**6,400**	2.50	*
Total			84,201	-	**84,201**		

*Issued prior to 7 November 2002

The price used to determine the number of matching shares was £1.25, £1.40 and £1.60 for discretionary awards made on 20 July 2004, 20 April 2005 and 9 November 2005 respectively.

No options were exercised or lapsed during the year.

A description of the performance conditions for the option arrangements (except the Consultants' scheme) is set out on pages 30 and 31 of the annual report and accounts. The Consultants' scheme has no performance conditions.

The Group recognised total expenses of £275,000 related to equity-settled shared-based payment transactions in 2005.

16. Reconciliation of movements in shareholders' funds

	Called-up share capital £000	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Profit & loss account £000	Total £000
Group						
Balance at 1 January 2005	5,824	4,622	–	3,734	(10,407)	3,773
Issues of ordinary shares	1,339	18,661	–	–	–	20,000
Expenses of issues of ordinary shares	–	(1,240)	–	–	–	(1,240)
Cancellation of deferred shares	(4,804)	–	4,804	–	–	–
Purchase of own shares	–	–	–	(20)	–	(20)
Loss for the period	–	–	–	–	(5,605)	(5,605)
Fair value of share-based payments	–	–	–	275	–	275
Balance at 31 December 2005	2,359	22,043	4,804	3,989	(16,012)	17,183
Company						
Balance at 1 January 2005	5,824	4,622	–	–	–	10,446
Issues of ordinary shares	1,339	18,661	–	–	–	20,000
Expenses of issues of ordinary shares	–	(1,240)	–	–	–	(1,240)
Cancellation of deferred shares	(4,804)	–	4,804	–	–	–
Purchase of own shares	–	–	–	(20)	–	(20)
Loss for the period	–	–	–	–	–	–
Balance at 31 December 2005	2,359	22,043	4,804	(20)	–	29,186

The expenses of issues of ordinary shares are shown net of VAT recovered on previous share issues of £82,000.

17. Other reserves

	Share-based payments £000	Merger reserve £000	Own shares held by Employee Benefit Trust £000	Total £000
Group				
Balance at 1 January 2005	–	3,734	–	3,734
Fair value of share based payments	275	–	–	275
Purchase of own shares	–	–	(20)	(20)
Balance at 31 December 2005	275	3,734	(20)	3,989
Company				
Balance at 1 January 2005	–	–	–	–
Purchase of own shares	–	–	(20)	(20)
Balance at 31 December 2005	–	–	(20)	(20)

Purchase of own shares

On 20 October 2005, Bailhache Labesse Trustees Limited, the Trustees of the Evolutec Group plc Employee Benefit Trust, purchased 12,222 ordinary shares in Evolutec Group plc.

18. 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 year the Group paid £nil (period ended 31 December 2004: £3,458) 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 2005 was £nil (2004: £nil).

19. Operating lease commitments

At 31 December 2005, the Group had annual commitments of £48,000 (2004 : £nil) in respect of operating leases for land and buildings which will expire within three years.

20. Financial commitments and contingencies

At 31 December 2005, the Group had contingent liabilities of £nil (2004 : £97,500). At 31 December 2005, the Group had no capital commitments (2004 : £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.

21. Analysis of movement in net funds

Analysis of net funds	At 31 December 2004 £000	Cash flows £000	Other non-cash flows £000	At 31 December 2005 £000
Cash	113	490	-	603
Liquid resources	3,761	12,941	311	17,013
Net funds	3,874	13,431	311	17,616

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

Other non-cash flows represents the unrealised foreign exchange gain on the Group's US Dollar denominated treasury deposits (see note 3).

Five-year summary[1]

	Year to 31-Dec 2005 £'000	18 months to 31-Dec 2004 £'000	Year to 30-Jun 2003[1] £'000	Year to 30-Jun 2002[1] £'000	9 months to 30-Jun 2001[1] £'000
Turnover	**14**	28	-	-	500
Cost of sales	**(6)**	-	-	-	-
Operating expenses					
Research and development	**(5,346)**	(993)	(660)	(1,144)	(746)
General and administrative less interest receivable	**(1,224)**	(1,543)	(453)	(653)	(465)
Goodwill amortisation	**-**	-	-	(201)	(603)
Operating loss	**(6,562)**	(2,508)	(1,113)	(1,998)	(1,814)
Loss before taxation	**(6,133)**	(2,414)	(1,094)	(2,078)	(1,260)
Net cash out flow from operating activities	**(5,762)**	(2,296)	(1,605)	(1,277)	(642)
Assets employed					
Fixed assets	**161**	11	14	102	358
Cash and short-term deposits	**17,616**	3,874	227	42	1,187
Other net current liabilities	**(594)**	(112)	(11)	(510)	(91)
Creditors: amounts falling due after more than 1 year	**-**	-	-	(250)	(250)
Net assets	**17,183**	3,773	230	(616)	1,204
Capital employed					
Share capital	**2,359**	5,824	4,826	2,757	2,757
Share premium	**22,043**	4,622	2,034	2,251	2,251
Other reserves	**8,793**	3,734	1,540	1,540	1,440
Profit and loss account	**(16,012)**	(10,407)	(8,170)	(7,164)	(5,244)
Shareholders' funds	**17,183**	3,773	230	(616)	1,204

Note

1. Evolutec Group plc was incorporated on 9 March 2004 and acquired Evolutec Limited on 1 June 2004. The figures for the 9 month period ended 30 June 2001 and the 2 years ended 30 June 2003 have been extracted from the consolidated financial statements of Evolutec Limited.

Shareholder information

Analysis of ordinary shareholdings at 16 February 2006

Number of shareholders 524

	Number of shareholders	Percentage of total holders	Number of ordinary shares	Percentage of ordinary share capital
Shareholding range				
1 – 1,000	122	23.4%	75,851	0.3%
1,001 – 5,000	196	37.4%	531,254	2.3%
5,001 – 50,000	148	28.2%	2,240,071	9.5%
50,001 – 500,000	50	9.5%	10,123,331	42.9%
500,001 and over	8	1.5%	10,620,399	45.0%
Total	524	100.0%	23,590,906	100.0%
Classification of shareholders				
Nominee Companies (including banks and bank nominees)	290	55.3%	21,067,910	89.2%
Individuals (including deceased accounts)	221	42.2%	2,029,260	8.6%
Limited Companies	10	1.9%	250,629	1.1%
Pension funds	1	0.2%	112,500	0.5%
Other institutions	2	0.4%	130,607	0.6%
Total	524	100.0%	23,590,906	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 page 57 stating the accounts concerned and giving instructions on how they should be amalgamated.

Financial calendar

Annual General Meeting: 26 April 2006
Interim results 2006: September 2006
Preliminary results 2006: February 2007

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 Evolutec's website at www.evolutec.co.uk and on the London Stock Exchange's website at www.londonstockexchange.com.

Annual General Meeting

The Company's 2006 Annual General Meeting of shareholders will take place on 26 April 2006 at 10.30 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 second **ANNUAL GENERAL MEETING** of the Company will be held at 100 Longwater Avenue, Green Park, Reading RG2 6GP, on Wednesday 26 April 2006, at 10.30 a.m. for the following purposes:

Ordinary Business

1. To receive, approve and adopt the Company's accounts for the financial period ended 31 December 2005, 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 2005.
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 John Burke as a Director of the Company.
5. Subject to the passing of resolution 11 set out in the notice of this meeting, to reappoint Nicholas Badman as a Director of the Company.

Special Business

To consider and, if thought fit, pass the following resolutions, of which resolutions 6 and 8 will be proposed as ordinary resolutions, and resolutions 7, 9, 10 and 11 will be proposed as special resolutions:

6. That the Directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985, as amended (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £786,363.50 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)), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements, such authority to be in substitution for any and all authorities previously conferred upon the Directors for the purposes of section 80 of the Act.

7. That the Directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985, as amended (the "Act"), subject to the passing of resolution 6 set out in the notice of this meeting, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred by the said resolution 6 as if sub-section 89(1) of the Act did not apply to any such allotments, provided that this power shall be limited to the allotment of equity securities for cash:

   7.1 in connection with or the subject of an offer or invitation, open for a period fixed by the Directors, to holders of ordinary shares and such other equity securities of the Company as the Directors may determine on the register on a date fixed by the Directors in proportion (as nearly as practicable) to their respective holdings of such securities or in accordance with the rights attached thereto (including equity securities) which, in connection with such offer or invitation, are the subject of such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with any legal or practical problems under the laws of, or the requirements of any regulatory body or stock exchange, in any territory or otherwise howsoever; and

   7.2 (otherwise than pursuant to sub-paragraph 7.1 above) up to an aggregate nominal amount of £235,909.00;

   and 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)) save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements, such power to be in substitution for any and all powers previously conferred upon the Directors for the purposes of section 95 of the Act.

8. That the authorised capital of the company be diminished from £14,000,000 divided into 77,000,000 ordinary shares of 10p each and 63,000,000 deferred shares of 10p each (the "Deferred Shares") to £7,700,000 divided into 77,000,000 ordinary shares of 10p each by cancelling all 63,000,000 Deferred Shares which have not been taken or agreed to be taken by any person.

9. That the memorandum of association of the Company be altered by amending the note to paragraph 6 contained therein to reflect the changes to the Company's share capital pursuant to resolution 8 set out in the notice of this meeting.

10. That the articles of association be amended by the deletion of article 3 and the insertion of a new article 3 as follows:
"3 The authorised share capital of the Company is £7,700,000 divided into 77,000,000 ordinary shares of 10p each."

11. That the articles of association be amended by substituting the words "the number nearest to but not exceeding one-third" in article 66 with the words "the number (rounded up or down) nearest to one-third".

By Order of the Board
Nicholas Badman
Company Secretary
Dated: 27 February 2006

Registered office:
250 South Oak Way
Green Park
Reading RG2 6UG

Notes to Members

1. A member who is entitled to attend and vote at the above meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A proxy form for use by members at the meeting accompanies this notice.

2. To be effective, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such authority) must be deposited at the office of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4TU not less than 48 hours before the time for holding the meeting or any adjournment thereof.

3. Completion and return of the proxy form does not preclude a member from attending and voting at the meeting in person.

4. In accordance with the permission in Regulation 41 of the Uncertified Securities Regulations 2001 (SI 2001 No.3755), only those holders of ordinary shares who are registered on the Company's share register at 10.30 a.m. on 24 April 2006 shall be entitled to attend the above meeting and to vote in respect of the number of shares registered in their names at that time. Changes to entries in the share register after 10.30 a.m. on 24 April 2006 shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.

5. A register of the interests of each Director in shares of the Company and copies of the Directors' contracts of service are available for inspection at the registered office of the Company during normal business hours on any week day (Saturday, Sunday and public holidays excepted) up to and including the date of the meeting and then at the place of the meeting fifteen minutes prior to and until the close of the meeting.

6. The proposed amended memorandum and articles of association referred to in resolutions 9, 10 and 11 above are available for inspection at the registered office of the Company during normal business hours on any week day (Saturday, Sunday and public holidays excepted) up to and including the date of the meeting and then at the place of the meeting fifteen minutes prior to and until the close of the meeting.

Evolutec Group plc

(the "Company")

PROXY FORM

I/We, ____

of ____

being (a) member(s) of the above-named Company appoint the Chairman of the meeting or ______________________

____ (see note 1)

as my/our proxy to vote on my/our behalf at the annual general meeting of the Company (the "Meeting") to be held on 26 April 2006, and at any adjournment of such meeting (see notes 2, 3, 4, 5 and 6).

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 (ordinary resolution)	(adopt accounts)	☐	☐	☐
Resolution 2 (ordinary resolution)	(adopt remuneration report)	☐	☐	☐
Resolution 3 (ordinary resolution)	(reappoint auditors)	☐	☐	☐
Resolution 4 (ordinary resolution)	(reappoint John Burke)	☐	☐	☐
Resolution 5 (ordinary resolution)	(reappoint Nicholas Badman)	☐	☐	☐
Resolution 6 (ordinary resolution)	(authorise s80 authority)	☐	☐	☐
Resolution 7 (special resolution)	(disapply pre-emption rights)	☐	☐	☐
Resolution 8 (ordinary resolution)	(cancel deferred shares)	☐	☐	☐
Resolution 9 (special resolution)	(amend memorandum of association)	☐	☐	☐
Resolution 10 (special resolution)	(amend articles of association)	☐	☐	☐
Resolution 11 (special resolution)	(amend articles of association)	☐	☐	☐

Unless otherwise instructed, the proxy may vote as he or she 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 ______________________________ (see note 7)

Notes

1. If you wish to appoint as proxy a person other than the Chairman of the Meeting (who need not be a member), please delete the words "the Chairman of the meeting or" and insert the name of the other person. All alterations made to this proxy form must be initialled by the signatory.

2. To be effective, this proxy form and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4TU not less than 48 hours before the time for holding the Meeting or any adjournment thereof.

3. If you wish your proxy to cast all of your votes for or against a resolution you should insert an "X" in the appropriate box. If you wish your proxy to cast only certain votes for and certain votes against, insert the relevant number of shares in the appropriate box. In the absence of instructions, your proxy may vote or abstain from voting as he or she thinks fit on the specified resolutions and, unless instructed otherwise, may also vote or abstain from voting as he or she thinks fit on any other business (including on a motion to amend a resolution, to propose a new resolution or to adjourn the Meeting) which may properly come before the Meeting.

4. 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.

5. Completion and return of this proxy form will not prevent you from attending in person and voting at the Meeting should you subsequently decide to do so.

6. In accordance with the permission in Regulation 41 of the Uncertified Securities Regulations 2001 (SI 2001 No.3755), only those holders of ordinary shares who are registered on the Company's share register at 10.30 a.m. on 24 April 2006 shall be entitled to attend the Meeting and to vote in respect of the number of shares registered in their names at that time. Changes to entries in the share register after 10.30 a.m. on 24 April 2006 shall be disregarded in determining the rights of any person to attend and/or vote at the Meeting.

7. This proxy form must be signed by the shareholder or his/her attorney. Where the shareholder is a corporation, the signature must be under seal or signed by a duly authorised representative. In the case of joint holders, any one shareholder may sign this proxy form or may vote in person at the Meeting. If more than one joint holder is present at the Meeting either in person or by proxy that one of them whose name stands first in the register of members in respect of the share shall alone be entitled to vote (whether in person or by proxy) in respect of it.

8. A register of the interests of each director in shares of the Company and copies of the directors' contracts of service are available for inspection at the registered office of the Company during normal business hours on any week day (Saturday, Sunday and public holidays excepted) up to and including the date of the Meeting and then at the place of the Meeting fifteen minutes prior to and until the close of the Meeting.

9. The proposed amended memorandum and articles of association referred to in resolutions 9, 10 and 11 are available for inspection at the registered office of the Company during normal business hours on any week day (Saturday, Sunday and public holidays excepted) up to and including the date of the Meeting and then at the place of the Meeting fifteen minutes prior to and until the close of the Meeting

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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The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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

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