Evolutec

Evolutec Group plc
Annual Report and Accounts 2008

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The Report of the Directors on pages 7 to 9 and the Remuneration report on pages 14 to 16 have each been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the responsibility of the Directors' for these reports is owed solely to Evolutec Group PLC.

The Directors submit to the members their Report and Accounts of the Company for the year ended 31 December 2008. Pages 3 to 17, including the Highlights, Chairman's Review, Board of Directors, Report of the Directors, Corporate Governance, Remuneration Report and Statement of Directors' Responsibilities form part of the Report of the Directors.

HIGHLIGHTS

- Proposed acquisition of Nanoco Tech plc
- The profit for the year was £0.10 million before taxation (2007, loss £1.93 million)
- Total interest payments for the year were £301k (2007,£375k)
- At the end of the financial year the company consolidated its cash deposits to a single deposit at HSBC Corporation. This, together with the general reduction in interest rates, is expected to result in a significant reduction in future interest income.
- Net cash and cash equivalents on 31 December were £6.03 million (2007, £5.80 million)
- Based on 25.9 million issued ordinary shares, Evolutec had a cash value of 23.3p per share (2007, 23p per share) at the year end
- The Company is now classified as an investing company under the AIM rules.
- The Company is actively looking for a single investment opportunity and hopes to conclude this process early in 2009.

CHAIRMAN'S REVIEW

Throughout 2008, Evolutec has operated as an investing company under the AIM (Alternative Investment Market) Rules pending any further transaction. As noted in the previous Annual Report, the company has out-licensed all its intellectual property in the biotechnology field.

The principal assets of Evolutec have been its listing on the AIM market of the London Stock Exchange and its cash and cash equivalent reserve. The main activities of the directors throughout 2008 have been focussed on preserving these two assets while seeking a single company investment opportunity. There were no changes in the Board of Directors during the course of the year and the company complied with its regulatory obligations to maintain its listing status. In December, the company announced that it had appointed Zeus Capital Limited as its Nominated Advisor and Broker in anticipation of a reverse transaction.

Operating costs for 2008 were significantly reduced to £205k (2007; £2,369k) and mostly comprised directors' compensation and professional fees. Interest income of £301k (2007; £375k) was sufficient to cover these costs and resulted in a small profit before taxation of £96k (2007; £1,925k loss). The group ended the year with cash and cash equivalents of £6,033k (2007; £5,797k) and total assets of £6,118k (2007; £5,987k).

Given the financial turbulence during the second half of 2008, the company decided to change its investment policy at the end of the year. Previously, the cash deposit had been split between at least two banks, each with a minimum credit rating of F1/A. The objective was to derive maximum interest consistent with flexibility to undertake ongoing activity whilst safeguarding the asset. Under the conditions prevailing at the end of 2008, the Board decided that safeguarding the asset was its sole concern and as a consequence it was decided to invest the entire deposit with HSBC Corporation, the UK's largest bank by market capitalisation. As a consequence of this change interest income fell sharply in the last few months of the year.

It was announced earlier today that the board of Evolutec had reached agreement with Nanoco Tech Plc ("Nanoco") on the terms of a recommended share acquisition by Evolutec of the entire issued and to be issued share capital of Nanoco by means of a court approved scheme of arrangement.

Nanoco is a leading nanotechnology company involved in the development and manufacture of fluorescent semiconducting materials called quantum dots. Nanoco was founded in 2001 in order to progress the development of quantum dot technology that was previously developed at the University of Manchester and Imperial College, London.

Quantum dots are a platform technology with uses in a wide range of applications from life sciences through to optoelectronics dominated by solid state lighting, photovoltaics, and next generation displays. Quantum dot based applications have the ability to potentially offer significant benefits in performance and energy savings compared to those materials currently used in these industry sectors. Given the interest in developing a low carbon economy, worldwide, there should be significant opportunities for Nanoco and the company has demonstrated this potential by establishing its first significant commercialisation collaboration with a major Japanese company.

Further information on the proposed acquisition and action you are required to take is set out in an Admission Document which has been posted to all shareholders today.

I would like to take this opportunity to thank the directors, investors and suppliers of the company for their support during the year. It has taken longer to find a suitable financial transaction than had been initially expected mostly due to averse market conditions. Nevertheless, it is hoped that the opportunity with Nanoco will provide a significant new start for the company.

David P Bloxham
Chairman
25 February 2009

BOARD OF DIRECTORS

DR DAVID BLOXHAM (61)
Non-Executive Chairman NA
David was appointed as Chairman of Evolutec in August 2003, having previously been Chief Executive Officer of Evolutec Limited. David is chairman of the nomination committee. David is also 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.

GRAEME HART (64)
Non-Executive Director RNA
Graeme was appointed Non-Executive Director in August 2003. Graeme is Chairman of the remuneration committee. Graeme is Chairman of Corin Group plc and Neuropharm plc, and Non-Executive Director of Limbs and Things Limited and ClinPhone. 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 later acquired by Compass Group.

MARK HAWTIN (46)
Non-Executive Director RN**A**
Mark was a Partner of Marshall Wace LLP, one of Europe's largest hedge funds with $13bn under management, until June 2008. He launched the Eureka Interactive Fund for Marshall Wace in 1999 which became one of the largest global technology hedge funds. While predominately investing in quoted technology, media and telecom companies, the fund also invested in pre IPO and earlier stage unquoted investment. Prior to Marshall Wace, Mark was at Enskilda Securities as the Director responsible for International Equities. He joined GAM in 2008 as an Investment Director.

GORDON HALL (66)
Non-Executive Director RNA
After an early career in teaching, Gordon built up substantial international sales, management and development expertise with Rank Xerox and Abbott Laboratories. He became Chief Executive Officer of Shield Diagnostic Ltd (now Axis Shield) in 1990 and was responsible for listing the company on the London Stock Exchange and growing it into a substantial business. More recently Gordon has been involved with a range of different companies and he is currently a Non-executive Director of IBL plc.

A Audit committee
N Nomination 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 the report of the independent auditor, for the year ended 31 December 2008. The remuneration report can be found on pages 14 to 16 and the corporate governance report can be found on pages 10 to 13.

Principal activity
The principal activity of the Group during the year continued to be the discovery and development of biopharmaceuticals for therapeutic use until these activities were concluded. The Company is now classified as an investing company for the purposes of the AIM Rules.

Key events
Key events during the past year and since the year-end are referred to in the Chairman's review.

Results and dividends
The revenue of the Group during the year was £Nil (2007: £82,000). The profit after taxation amounted to £77,000 (2007: loss of £1,763,000). The Directors do not recommend the payment of a dividend (2007: nil).

Future developments
The likely future developments of the Company are described in the Chairman's review.

Key performance indicators ("KPIs")
The key performance indicators for the Group are as follows:

- Identification of investment opportunity – seeking an actively trading profitable company with a market capitalisation probably in the £30 to 50 million range.
- Cash utilisation – pending investment, surplus cash has been deposited with HSBC Corporation in a deposit account, accessible without notice, at a market rate of interest.

Substantial shareholdings
At 31 December 2008, 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
Gartmore Investment Managers	6,743,999	26.0
Bluehone Investors	3,156,276	12.2
Cantor Fitzgerald	2,870,260	11.1
GAM	2,820,339	10.9
Close Private Asset Management	802,300	3.1

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

Non-Executive
Dr DP Bloxham (Chairman)
Mr GM Hart
Mr M Hawtin
Mr G Hall

Biographical details of the Directors, including those seeking re-election at the forthcoming Annual General Meeting, are set out on page 6.

Re-election
Although the Articles of Association allow Directors to retire by rotation the Board has decided that given Evolutec's special circumstances then it would be best if all Directors offered themselves 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.

Employees
Currently Evolutec has no permanent employees.

Financial risk management
The financial risk management and objectives of the Group and the exposure of the Group to credit liquidity and cash flow risk are set out in Note 17 to the Accounts (Financial instruments related disclosure).

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 2008 were 30 days (2007: 30 days).

Going concern
The Group had cash investments of £6.03 million at 31 December 2008 and this is projected to comfortably exceed its normal outgoings for the next twelve months. The directors have identified a a single investment opportunity and expect to conclude this process by 12 April 2009 (the anniversary of the 2008 AGM). Should a transaction not be completed by this time, the directors intend to consult with the members of the Company to obtain an extension of this deadline. The largest shareholder has indicated that it would support this approach and would not support any proposal to liquidate the company.

Auditor
Grant Thornton UK LLP, have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP will be proposed at the next Annual General Meeting.

Annual General Meeting
Notice of forthcoming Annual General Meeting of the Company together with resolutions relating to the Company's ordinary business will be given to the members separately.

On behalf of the Board

David P Bloxham
Director
25 February 2009

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 on Corporate Governance (the "Combined Code"), which is published by the Financial Reporting Council, 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 Combined Code. However, the Group has taken steps to comply with the Combined Code in so far as it can be applied practically, given the size of the Group.

The principles set out in the Combined 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. The Board sets the Group's values and standards and ensures that the Company's obligations to its shareholders and others are understood and met.

The Board currently consists of four Non-Executive Directors. The Board is of sufficient size that the balance of skills and experience is appropriate for the current 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 6.

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

As part of their role as members of the Board, Non-Executive Directors constructively challenge and help develop proposals on strategy. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

The Board has a schedule of matters specifically reserved to it for decision. The Board controls the business. In particular, the Non-Executive Directors working with shareholders and advisors are responsible for identifying and evaluating investment opportunities.

The Board has six scheduled meetings per annum (approximately every two months), with additional meetings when circumstances and urgent business dictate. In the year under review, there were eight meetings of the Board. All Directors receive an agenda and Board papers in advance of meetings to help them make an effective contribution at the meetings. The Board makes use of appropriate technology as a means of updating and informing its members.

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

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

All Directors are subject to re-election at the first AGM after their appointment and at least every three years thereafter.

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

The Board has engaged Paul D Welch to provide accountancy support to the Company. He is a qualified accountant and provides the Board with appropriate and timely information relating to the finances of the Company.

Graeme Hart is the Senior Independent Director of Evolutec's four Non-Executive Directors. The Senior Independent Director is available to shareholders if they have concerns for which contact through the normal channels has failed to resolve or for which such contact is inappropriate.

The Chairman is responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman ensures clear communication with shareholders. The Chairman also facilitates the effective contribution of Non-Executive Directors. Norton Rose LLP provide a company secretarial service to the Board and advises on all governance matters.

The Chairman was previously Executive Chairman and, prior to that, Chief Executive of Evolutec Limited.

Audit committee and auditors
Mark Hawtin is chairman of the audit committee. The other members are Gordon Hall, Graeme Hart and David Bloxham. Although the Combined Code recommends that the Chairman of the Board should not be a member of the committee the Company believes the committee is best able to discharge its functions as currently constituted.

The audit committee is responsible for reviewing the effectiveness of the Group's financial reporting and internal control policies and risk management systems, and for maintaining an appropriate relationship with the Company's auditors. The audit committee has a particular role to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.

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

External training is available to members of the audit committee to encourage 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 the Evolutec website.

In the year under review there were two meetings of the committee. All members attended at least part of each meeting.

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.

Formal meetings of the audit committee constitute the basis of its work. The audit committee chairman meets with the external auditors at least annually to discuss matters relating to its remit and any issues arising from the audit.

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

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

Remuneration committee
Details of the remuneration committee and the committee's report for the financial period can be found in the separate Remuneration Report on pages 14 to 16 of this report and accounts.

The terms of reference of the remuneration committee, explaining its role and the authority delegated to it by the Board, are available on the Evolutec website. 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 failure to achieve the Group's objectives. It should be recognised that such systems can only provide reasonable but not absolute assurance against material misstatement or loss.

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

The Group's established internal procedures include the following:

- A schedule of matters reserved for the Board.
- The Board meets at least 6 times per annum to manage the affairs of the Group. The Group's financial and operating performance is closely monitored at each Board meeting.
- The Board monitors 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.

Shareholder relations
The Company reports formally to shareholders twice a year, around late February/early March (preliminary announcement of annual results) and September (interim statement). The Annual Report is mailed out to shareholders at the time of the preliminary announcement. Separate announcements of all material events are made as necessary.

Regular communications are maintained with institutional shareholders and, in particular, presentations are given to shareholders when the half-year and full-year financial results are announced. Graeme Hart, as Senior Independent Director, is available to meet with shareholders if, and when, required. The whole Board is kept up to date at its regular meetings with the views of shareholders and analysts.

The Group's website (www.evolutec.co.uk) provides an overview of the business including its strategy, products and objectives. All Group announcements are available on the website and new announcements are published without delay. This report and accounts will also be available on the website.

The Annual General Meeting ("AGM") is used to communicate with shareholders and they are encouraged to attend. The Company ensures that all valid proxy appointments received for general meetings are properly recorded and counted. Once a vote has been taken on a resolution the Company will (except where taken on a poll) indicate the levels of proxies lodged, the balance for and against the resolution and the number of abstentions.

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.

Corporate social responsibility
The Board is committed to running the Company in accordance with best practice in corporate governance. This commitment includes recognition by the Company of the importance of taking into account its corporate social responsibility ("CSR") in operating the business. In this context, Evolutec seeks to integrate CSR considerations relating particularly to social, ethical and health, safety and environment ("HS&E") issues in its day-to-day operations. The Board acknowledges its duty to ensure the Group conducts its activities responsibly and with proper regard for all its stakeholders including, shareholders, business partners, suppliers and the local communities. In exercising its CSR, Evolutec seeks to ensure that:

- The Board takes account of the significance of social and ethical issues.
- The business is focused on delivering value to stakeholders.
- Existing legislation, regulations and guidelines are adhered to as a minimum.
- HS&E issues are treated as critical areas of importance for the business.

On behalf of the Board

David Bloxham
Director
25 February 2009

REMUNERATION REPORT

The remuneration committee
The remuneration committee ("the committee") is chaired by Graeme Hart. The other members of the committee are Mark Hawtin and Gordon Hall.

Policy on employee remuneration
The Group's policy on the remuneration of employees is established by the committee and approved by the Board. The committee was advised on matters relating to the Director's remuneration by the Chairman. No Director participates in discussions relating to the setting of their own remuneration.

The Group does not presently employ full time executives. The only employees consist of the Chairman and Non-Executive Directors, who are all employed on a part-time basis

Policies on remuneration take account of the pay structure and employment conditions of an AIM listed company, and recognise that the Company is not actively trading at present.

Components of remuneration
Employee's remuneration currently comprises annual salary in respect of the Chairman and Non-Executive Directors, no incentivisation in the form of share options, share awards or pension contributions is made currently.

Annual salary
The remuneration committee approves the annual salary in respect of the Chairman and the Chairman approves the remuneration of the other Non-Executive directors, having taken advice from the NOMAD.

Other benefits
Long-term incentive arrangements, pension benefits and other benefits are not currently paid by the Company in respect of the Chairman or Non-Executive Directors.

Executive Directors' service contracts and remuneration
Currently there are no Executive Directors; therefore there are no service contracts in existence.

Non-Executive Directors' appointments and remuneration
David Bloxham was appointed Non-Executive Chairman of the Company for an initial term of 3 years on 2 August 2005, on the Company's admission to AIM, having previously been Chief Executive Officer and Executive Chairman of Evolutec Ltd. His service agreement, which is dated 20 July 2005, is terminable by either party on one month's notice. The Chairman's remuneration is proposed by the Executive Directors and sanctioned by the Board, in the absence of the Chairman.

Graeme Hart was appointed a Non-Executive Director of the Company on 2 August 2004 under an agreement dated 17 June 2004 for an initial term of 3 years having previously been a Non-Executive Director of Evolutec Ltd. He was given a new contract as a Non-Executive Director on 9 July 2007 for a term of 1 year.

Mark Hawtin and Gordon Hall were appointed Non-Executive Directors for initial terms of 3 years on 9 July 2007. All of these appointments are terminable, on one month's notice.

There was no formal extension of the contracts expiring on 9 July 2008 and they have continued on a month to month basis.

All Non-Executive Directors receive fees for serving as Members of the Board and its Committees. No additional fees are paid in respect of Committee Chairman.

At a meeting of the remuneration committee on 5 September 2008 it was agreed that if a reverse takeover were completed by 31 July 2009, the directors would receive an additional 3 months payment.

All of the Non-Executive appointments are subject to the Directors concerned being elected or re-elected under the relevant provisions in the Company's Articles of Association, and subject to Companies Act provisions, and the appropriate resolutions for retirements by rotation wil be put to the forthcoming AGM. 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 2008.

	10 pence Ordinary shares owned at 31 December 2008		10 pence Ordinary shares owned at 31 December 2007	
	Number	Percentage (%)	Number	Percentage (%)
Dr D P Bloxham	103,572	0.40%	133,608	0.51%
GM Hart	208,739	0.80%	208,739	0.80%
Mark Hawtin	-	-	-	-
Gordon Hall	-	-	-	-

DIRECTORS' REMUNERATION

	Salary £	**Year to 31 December 2008 Total £**	Year to 31 December 2007 Total £	**Year to 31 December 2008 Total pension £**	Year to 31 December 2007 Total pension £
Executive					
Dr M Carnegie Brown (CEO)	-	**-**	328,935	**-**	28,500
NJ Badman (CFO)	-	**-**	190,349	**-**	20,700
Total	-	**-**	519,284	**-**	49,200
Non-Executive					
Dr DP Bloxham	21,333	**21,333**	47,218	**-**	-
GM Hart	10,667	**10,667**	17,359	**-**	-
G Hall	10,667	**10,667**	4,859	**-**	-
M Hawtin	10,667	**10,667**	4,859	**-**	-
JV Burke	-	**-**	15,000	**-**	-
ML Darvell	-	**-**	15,000	**-**	-
Total	53,334	**53,334**	104,295	**-**	-
Total	53,334	**53,334**	623,579	**-**	49,200

The total emoluments of the highest-paid Director, excluding pension contributions, for the year to 31 December 2008 amounted to £21,333 (prior year £328,935). Pension contributions made during the period for the highest paid Director were £Nil (prior year £28,500). The Company's policy is not to pay an expense allowance to Directors.

DIRECTORS' OPTIONS AND PERFORMANCE RELATED SHARE AWARDS

During the course of the 2007 all granted options lapsed.

Graeme Hart, Gordon Hall and Mark Hawtin did not hold any options or performance related shares in the Company.

Approved by the Board of Directors
Graeme Hart
Chairman, remuneration committee
25 February 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required, in accordance with company law and International Financial Reporting Standards as adopted by the European Union to prepare the Annual Report and financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial period.

The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume the Group will continue in business. The Directors confirm that in preparing the financial statements, the Company and the Group have used appropriate accounting policies that have been consistently applied and supported by reasonable and prudent judgements and estimates; that all accounting standards which they consider to be applicable have been followed subject to any explanations and material departures disclosed in the notes to the financial statements; and that they comply with IFRS.

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

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

So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all the steps they should have taken as Directors to make themselves aware of such information and to establish that the auditor is aware of it.

REPORT OF THE INDEPENDENT AUDITOR 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 2008 which comprise the consolidated income statement, the consolidated and parent Company balance sheets, the consolidated and parent Company statements of changes in shareholders' equity, the consolidated and parent Company cash flow statements and notes 1 to 20. 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 auditor's 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 auditor

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's review that is cross referred from the Principal activity and Key events sections of the Report of the Directors.

In addition we report to you if, in our opinion, 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. The other information comprises only the Highlights, the Chairman's review, the Report of the Directors, the Corporate Governance statement and the Directors' Remuneration Report. 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
Oxford

25 February 2009

Consolidated income statement
For the year ended 31 December 2008

Continuing operations	Note	**Year ended 31 December 2008** **£000**	Year ended 31 December 2007 £000
Revenue	2	**-**	82
Cost of sales		**-**	(1)
Gross Profit		**-**	81
Selling and marketing costs		**-**	(160)
Research and development expenditure		**-**	(1,050)
Administrative expenses		**(205)**	(1,159)
Operating loss		**(205)**	(2,288)
Finance income	5	**301**	375
Finance costs	5	**-**	(12)
Profit/(loss) before tax		**96**	(1,925)
Taxation	6	**(19)**	162
Profit/(loss) for the period		**77**	(1,763)
Basic and diluted profit/(loss) per ordinary share from continuing activities	7	**0.3p**	(6.8)p

The notes form part of these financial statements.

Balance sheets
As at 31 December 2008

	Note	**Group 31 December 2008**	Group 31 December 2007	**Company 31 December 2008**	Company 31 December 2007
ASSETS		**£000**	£000	**£000**	£000
Non-current assets					
Investments	8	**-**	-	**5,791**	5,791
		-	-	**5,791**	5,791
Current assets					
Research and development tax credits		**-**	162	**-**	-
Trade and other receivables	9	**85**	28	**-**	-
Cash and cash equivalents	10	**6,033**	5,797	**-**	-
		6,118	5,987	**-**	-
Total assets		**6,118**	5,987	**5,791**	5,791
EQUITY					
Share capital	11	**27,037**	27,037	27,037	27,037
Other reserves	13	**8,518**	8,518	4,784	4,784
Retained deficit		**(29,525)**	(29,602)	(26,030)	(26,030)
Equity shareholders' funds		**6,030**	5,953	5,791	5,791
LIABILITIES					
Current liabilities					
Trade and other payables	15	**88**	34	**-**	-
Total liabilities		**88**	34	**-**	-
Total equity and liabilities		**6,118**	5,987	**5,791**	5,791

The notes form part of these financial statements.

Approved by the Board of Directors on 25 February 2009

David P Bloxham

Consolidated statements of changes in shareholders' equity

Group	Share capital £000	Share Premium £000	Other reserves £000	Retained deficit £000	**Total £000**
Balance at 1 January 2007	2,595	24,442	9,083	(27,839)	8,281
Net income recognised directly in equity					
Loss for the year	-	-	-	(1,763)	**(1,763)**
Total recognised income and expense for the period	-	-	-	(1,763)	**(1,763)**
Share-based payments credit	-	-	(565)	-	**(565)**
Balance at 31 December 2007	**2,595**	**24,442**	**8,518**	**(29,602)**	**5,953**
Net income recognised directly in equity					
Profit for the year	-	-	-	77	**77**
Total recognised income and expense for the period	-	-	-	77	**77**
Balance at 31 December 2008	**2,595**	**24,442**	**8,518**	**(29,525)**	**6,030**

Company					
Balance at 1 January 2007	2,595	24,442	5,349	(25,386)	7,000
Net income recognised directly in equity					
Impairment charge	-	-	-	(644)	**(644)**
Total recognised income and expense for the period	-	-	-	(644)	**(644)**
Share-based payments credit	-	-	(565)	-	**(565)**
Balance at 31 December 2007	**2,595**	**24,442**	**4,784**	**(26,030)**	**5,791**
Net income recognised directly in equity	-	-	-	-	**-**
Total recognised income and expense for the period	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2008	**2,595**	**24,442**	**4,784**	**(26,030)**	**5,791**

Cash flow statements for the year ended 31 December 2008	**Group Year ended 31 December 2008**	Group Year ended 31 December 2007	**Company Year ended 31 December 2008**	Company Year ended 31 December 2007
	£000	£000	**£000**	£000
Cash flows from operating activities				
Profit/(loss) for the period	**77**	(1,763)	**-**	(644)
Taxation	**19**	(162)	**-**	**-**
Depreciation	**-**	140	**-**	**-**
Interest received	**(301)**	(375)	**-**	**-**
Fair value adjustment on investment in subsidiary	**-**	-	**-**	644
Share options – value of employee services	**-**	(565)	**-**	**-**
(Increase)/Decrease in trade and other receivables	**(57)**	174	**-**	**-**
Decrease/(increase) in trade and other payables	**35**	(1,354)	**-**	**-**
Cash used by operations	**(227)**	(3,905)	**-**	**-**
Taxation received	**162**	645	**-**	**-**
Net cash outflow from operating activities	**(65)**	(3,260)	**-**	**-**
Cash flows from investing activities				
Increase in investment in subsidiary	**-**	-	**-**	(3,147)
Interest received	**301**	375	**-**	-
Net cash generated from/(applied to) investing activities	**301**	375	**-**	(3,147)
Net increase/(decrease) in cash and cash equivalents	**236**	(2,885)	**-**	(3,147)
Cash and cash equivalents at the start of the period	**5,797**	8,682	**-**	3,147
Cash and cash equivalents at the end of the period	**6,033**	5,797	**-**	-

The notes form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2008

1. Accounting policies and basis of preparation

Following the cessation of its research and development-based pharmaceutical business, Evolutec has been classified as an investing company in the terms of the rules of the Alternative Investment Market of the London Stock Exchange (AIM). The Directors believe that the Group has sufficient funds available to continue for the foreseeable future; therefore the financial statements have been prepared on the going concern basis.

The directors have identified a a single investment opportunity and expect to conclude this process by 12 April 2009 (the anniversary of the 2008 AGM). Should a transaction not be completed by this time, the directors intend to consult with the members of the Company to obtain an extension of this deadline. The largest shareholder has indicated that it would support this approach and would not support any proposal to liquidate the company.

Basis of preparation These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations endorsed by the EU and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

New accounting standards At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 January 2009)
Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)
IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
IFRS 8 Operating Segments (effective 1 January 2009)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group in its current form.

Company income statement In accordance with the provisions of Section 230 of the Companies Act 1985, no separate income statement has been presented for the Evolutec Group plc. The results for the Company are also presented under IFRS.

Accounting policies The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Investments Investments are carried at cost less any provision for impairment.

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 2008. Inter-company transactions are eliminated on consolidation.

The identifiable assets and liabilities of subsidiary undertakings accounted for under acquisition accounting principles are included in the consolidated balance sheet at their fair values at the date of acquisition. The results and cash flows of such subsidiaries are brought into the Group accounts only from the date of acquisition.

The combination of Evolutec Group plc and Evolutec Limited in 2004 was accounted for under merger accounting principles.

Revenue The Group generates revenue by licensing its technologies. The recognition of such revenue, including up front 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.

Non-refundable access fees, options fees and milestone payments receivable for participation by a third party in development and commercialisation of a product development candidate are recognised when they become contractually binding, provided there are no related commitments of the Group. Where there are related commitments, revenue is recognised on a percentage-of-completion basis in line with the actual levels of expenditure incurred in fulfilling these commitments. All other licence income and contract research fees are recognised over the accounting period to which the relevant services relate. Revenues derived from grants received are recognised in line with the related expenditure. Royalty income is recognised in relation to sales to which the royalty relates.

Operating leases Costs in respect of operating leases are charged to the income statement on a straight-line basis over the terms of the leases.

Share-based payments The Group makes equity-settled share-based payments to its employees and Directors. Equity-settled share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period of the award. At each balance sheet date, Evolutec revises its estimate of the number of options that are expected to become exercisable.

The value of any shares or options granted is charged to the income statement over the period the shares vest, with a corresponding credit to reserves. When share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

The principal assumptions used to calculate the value of options 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

Employee benefits All employee benefit costs, notably holiday pay and contributions to personal defined contribution pension plans, are charged to the income statement on an accruals basis. The Group does not offer any other post-retirement benefits.

Taxation Current tax, including UK corporation tax and research and development tax credits, is provided (or shown) at amounts expected to be paid (or recovered) using the tax rates or laws that have been enacted, or substantially enacted, by the balance sheet date.

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

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

A deferred tax asset is recognised only when, on the basis of all the available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising in subsidiaries, except where the timing of reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequence expected to follow from the manner in which the asset or liability is recovered or settled.

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

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

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that carrying value may not be recoverable. The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each financial year end.

Internally-generated intangible assets – product research and development Development expenditure on new or substantially improved products is capitalised as an intangible asset and amortised through cost of sales over the expected useful life of the product concerned. Capitalisation commences from the point at which the technical feasibility and commercial viability of the product can be demonstrated and the Group is satisfied that it is probable that future economic benefit will result from the product once completed. This is usually at the point of regulatory filing in a major market and approval is highly probable. Capitalisation ceases when the product is ready for launch. Where assets are acquired or constructed in order to provide facilities for research and development over a number of years, they 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.

Expenditure on research and development activities which do not meet the above criteria is charged to the income statement as incurred.

Financial instruments The Group's financial instruments comprise cash and cash equivalents, held-to-maturity financial assets and various receivables and payables, such as trade receivables and trade and other payables, which arise directly from its operations. The Group does not enter into derivative transactions or other forms of hedging arrangements.

Held-to-maturity investments Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Assets in this category are held at amortised cost. Held-to-maturity investments include short-term investments with original maturities of more than 3 months.

Cash and cash equivalents Cash and cash equivalents comprise cash on hand and demand deposits together with other, short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value..

Foreign currencies Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the transaction date. Monetary assets and liabilities in foreign currencies are retranslated into sterling at the rates of exchange ruling at the balance sheet date. Differences arising due to exchange rate fluctuations are taken to the income statement in the period in which they arise.

2. Segmental information

Primary reporting format – business segments
For the year ended 31 December 2008, the Group's single business segment was the research and development of a range of pharmaceutical product candidates. An analysis of revenue by category within the research and development business segment is as follows:

Analysis of revenue by category

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Licensing intellectual property rights	**-**	82

Secondary reporting format – geographical segments

The Group operates in a number of geographical areas. The home country of the Company, and of Evolutec Limited – which is the main operating company – is the United Kingdom. The area of operation is primarily research and development of a range of pharmaceutical product candidates.

Revenue

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
United Kingdom	**-**	67
North America	**-**	15
Total	**-**	82

Total assets

	31 December 2008 £000	31 December 2007 £000
United Kingdom	**6,030**	5,987

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

3. Expenses by nature

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Depreciation charges	**-**	140
Employee benefit expense (Note 4)	**56**	848
Auditors' remuneration:		
- for audit services	**25**	25
- for other services – taxation	**5**	5
- for other services – advice on voluntary liquidation	**-**	50
Operating leases – land and buildings	**-**	181
Exchange differences	**-**	12

Of the auditors' remuneration, £14,500 relates to the Company.

4. Employee benefit expense

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Wages and salaries	**53**	1,178
Social security costs	**3**	138
Share options and conditional shares granted to Directors and employees	**-**	(565)
Pension costs	**-**	97
Total	**56**	848
Number of Full-time Employees		
Research, development and operations	**-**	3
Administration	**-**	3
	-	6

Key Management compensation

	2008 £000	2007 £000
Salary and short-term employee benefits	**53**	943
Pension	**-**	85
Share-based payments	**-**	(589)
	53	439

The key management figures given above include Directors (see note 20).

5. Finance income and finance costs

	2008 £000	2007 £000
Finance income		
Interest on cash and cash equivalents	**301**	375
	301	375
Finance costs		
Exchange loss on cash and cash equivalents	**-**	(5)
Exchange loss on other payables	**-**	(7)
	-	(12)
Net finance credit	**301**	363

6. Tax (charge)/credit on profit/(loss) on ordinary activities

The tax credit represents:

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Current tax charge	**(19)**	-
Research and development tax credits	**-**	162
	(19)	162

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 20 to 21% (2007: 19%). The differences are explained as follows:

	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Profit/(loss) on ordinary activities before taxation	**96**	(1,925)
Tax on profit/(loss) before tax at 20.5%/19%	**20**	(365)
Expenses not deductible for tax purposes	**6**	(34)
Deferred tax asset not recognized	**(7)**	271
Research and development tax credit receivable at 24 per cent of losses compared with 19 per cent. tax rate	**-**	(34)
Taxation – charge/(refund)	**19**	(162)

The Group had losses, as computed for taxation purposes, of approximately £22.1 million at 31 December 2008 (31 December 2007: £22.1 million) available to be carried forward to future periods (see Note 16).

In accordance with the provisions of 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 31 December 2008 of £Nil (year ended 31 December 2007: £162,000) represents the tax credit receivable by the Group.

7. Profit/(loss) per share

Basic profit/(loss) per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Since the group has no share options in existence in 2008 and was loss-making in 2007 there is no dilutive impact.

	Year ended 31 December 2008	Year ended 31 December 2007
Attributable profit/(loss) (£000)	**77**	(1,763)
Weighted average number of shares in issue (000)	**25,950**	25,950
Profit/(loss) per share (basic and diluted)	**0.3p**	(6.8)p

8. Investments

Company	2008 Shares in subsidiary undertakings £000	2008 Loans to subsidiary undertakings £000	2008 Total £000	2007 Shares in subsidiary undertakings £000	2007 Loans to subsidiary undertakings £000	2007 Total £000
Cost						
At 1 January	**5,338**	**26,483**	**31,821**	5,338	23,901	29,239
Additions	**-**	**-**	**-**	-	2,582	2,582
At 31 December 2008	**5,338**	**26,483**	**31,821**	5,338	26,483	31,821
Provisions						
At 1 January	**-**	**(26,030)**	**(26,030)**	(1,485)	(23,901)	(25,386)
Reclassification provision	**-**	**-**	**-**	1,485	(1,485)	-
Impairment charge	**-**	**-**	**-**	-	(644)	(644)
At 31 December 2008	**-**	**(26,030)**	**(26,030)**	-	(26,030)	(26,030)
Net book value at 31 December 2008	**5,338**	**453**	**5,791**	5,338	453	5,791

At 31 December 2008 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

During 2008, two dormant subsidiaries, Vacs of Life plc and Oxford Vacs Limited were dissolved.

9. Trade and other receivables

	Group 31 December 2008	Group 31 December 2007	**Company 31 December 2008**	Company 31 December 2007
	£000	£000	**£000**	£000
Trade receivables	**-**	2	-	-
Other receivables	**8**	2	-	-
Prepayments and accrued income	**77**	24	-	-
Current trade and other receivables	**85**	28	-	-

All the above amounts are due within one year. The directors consider that the carrying value of trade and other receivables approximates fair value.

10. Cash and cash equivalents

	Group 31 December 2008	Group 31 December 2007	**Company 31 December 2008**	Company 31 December 2007
	£000	£000	**£000**	£000
Cash at bank and in hand	**6,033**	183	-	-
Short-term bank deposits	**-**	5,614	-	-
Total	**6,033**	5,797	-	-

11. Share Capital

	Number of ordinary shares	Share capital £000	Share premium £000	Total £000
At 1 January, 31 December 2007 and 31 December 2008	**25,949,996**	2,595	24,442	27,037

The authorised share capital of the Company at 31 December 2008 was £7,700,000 divided into 77,000,000 ordinary shares of 10p each (2007: 77,000,000).

All issued shares are fully paid.

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

Capital management objectives and policies

Evolutec Group Plc's capital management objectives are:

- to ensure the Group's ability to continue as a going concern
- to provide an adequate return to shareholders

by seeking a single investment opportunity in the technology, healthcare or service related sectors.

The Group monitors capital on the basis of the carrying value of the amount of equity.

12. Share-based payments

All of the conditional shares and shares subject to option lapsed in the year to 31 December 2007. A reconciliation of share option scheme movements for the years ended 31 December 2008 and 31 December 2007 is set out below:

	2008 Number	**2008 weighted average exercise price £**	2007 Number	2007 Weighted average exercise price £
Outstanding at 1 January	-	-	2,374,183	0.53
Granted	-	-	-	-
Forfeited/lapsed	-	-	(2,374,183)	0.53
Exercised	-	-	-	-
Outstanding at 31 December	-	-	-	-
Exercisable at 31 December	-	-	-	-

13. Other reserves

	Share-based payments reserve £000	Capital redemption reserve £000	Merger reserve £000	Own shares held by Employee Benefit Trust £000	Total £000
Group					
Balance at 1 January 2007	565	4,804	3,734	(20)	9,083
Share-based payments credit	(565)	-	-	-	(565)
Balance at 31 December 2007	-	4,804	3,734	(20)	8,518
Balance at 31 December 2008	-	4,804	3,734	(20)	8,518
Company					
Balance at 1 January 2007	565	4,804	-	(20)	5,349
Share-based payments credit	(565)	-	-	-	(565)
Balance at 31 December 2007	-	4,804	-	(20)	4,784
Balance at 31 December 2008	-	4,804	-	(20)	4,784

The share-based payments reserve arose from the value of share-based payments to employees which were recognised over the vesting period.
The merger reserve arose as a difference on consolidation under merger accounting principles and is solely in respect of the merger of Evolutec Group plc and Evolutec Limited in a prior period. The reserve represents the difference between the nominal value of shares issued by Evolutec Group plc in consideration for Evolutec Limited shares and the nominal value and share premium and other capital reserves of Evolutec Limited shares at the date of the merger.

The capital redemption reserve arises from the the off-market purchase of deferred shares on 4 May 2005 and their subsequent cancellation.

14. Shareholders' equity

The share premium account is a non-distributable reserve.

The profit/(loss) attributable to shareholders which is dealt with in the accounts of the Company was a profit of £Nil (2007: loss of £0.70 million). In accordance with section 230(4) of the Companies Act 1985 there is no requirement to publish a profit and loss account for the Company.

15. Trade and other payables

	Group 31 December 2008	Group 31 December 2007	**Company 31 December 2008**	Company 31 December 2007
	£000	£000	**£000**	£000
Trade payables	15	4	-	-
Taxation and social security payable	2	2	-	-
Accruals	71	28	-	-
Current trade and other liabilities	**88**	34	-	-

The directors consider the carrying value of trade and other payables approximates fair value.

16. Deferred Tax Asset

	31 December 2008 £000	31 December 2007 £000
Property, plant and equipment	**25**	29
Other accruals	**4,912**	4,445
Total timing differences	**4,937**	4,474

The deferred tax asset has not been recognised.

17. Financial instruments related disclosure

The Group's financial instruments comprise cash and cash equivalents, held-to-maturity financial assets and various receivables and payables, such as trade receivables and trade and other payables, that arise directly from its operations. The Group does not enter into derivative transactions or other forms of hedging arrangements. In addition, it is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken except in accordance with strict and prudent investment criteria, principally that funds are actively managed by reputable independent fund managers and investments are only made in low-risk funds with fixed rates of return.

The main risks arising from the Group's financial instruments are (a) interest rate risk, (b) credit risk, (c) liquidity risk and (d) foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarized below. These policies have remained unchanged throughout the period under review, and since the year end.

Interest rate and credit risk
The Group finances its operations through reserves of cash and liquid resources. The funds are held in sterling denominated bank deposits. The Group's policy was to split its deposits between at least two banks, each with a minimum credit rating of F1/A. The objective was to derive the maximum interest consistent with flexibility to undertake ongoing activity whilst safeguarding the asset. In late 2008, the directors decided to consolidate its cash holdings into one deposit account with HSBC Corporation. This was in order to safeguard further the asset, even at the expense of interest income received.

Liquidity risk
The Board's policy is to ensure that sufficient funds are held on a short-term basis in order to meet operational needs without the use of an overdraft facility. The functional currency of all the Company's subsidiary undertakings is sterling.

Foreign currency risk
The Group's functional currency is sterling and all the Company's assets are held in this currency. The Group has no transactional currency exposures.

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	Total
	£000	£000	£000
At 31 December 2007			
Sterling – cash and cash equivalents (i)	5,614	174	5,788
US Dollars – cash and cash equivalents (i)	-	9	9
Total	5,614	183	5,797
At 31 December 2008			
Sterling – Cash and cash equivalents (i)	**-**	**6,033**	**6,033**
Total	**-**	**6,033**	**6,033**

(i) Cash and cash equivalents include cash in hand, bank deposits repayable on demand and other short-term high liquid investments with original maturity of 3 months or less.

Borrowing facilities
The Group has no borrowing facilities.

Foreign currency exposure
At 31 December 2008 the Group had net monetary assets of £Nil (31 December 2007: £9k) denominated in US Dollars.

18. Operating lease commitments

At 31 December 2008, the Group had annual commitments of £Nil (2007: £Nil) in respect of operating leases for land and buildings. The minimum future payments under these terms of operating leases total £Nil (2007: £Nil).

19. Financial commitments and contingencies

Group At 31 December 2008, the Group had no contingent liabilities (2007: £nil) and no capital commitments (2007: £nil).

Company At 31 December 2008, the Company had no contingent liabilities (2007: £nil) and no capital commitments (2007: £nil).

20. Related party disclosures

Group At 31 December 2008 and 31 December 2007 the Group had no related party transactions other than in respect of compensation payments to key management (including directors) as set out in note 4. The components of that financial information that relates to directors were:-

	2008	2007
	£000	£000
Salary and short-term employee benefits	**53**	676
Pension	**-**	49
Share-based payments	**-**	(416)
	53	309

The salary and short-term employee benefits relating to the highest paid director were £21,000 (2007 : £329,000) and pension contributions were £Nil (2007 : £28,000)

Company The Company provides financing to its operating subsidiary undertakings. Details of intercompany loans can be found in Note 8.

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