

03

Report & Accounts

for the year ended 31 December 2003



the evolution group plc

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The Group

The Evolution Group plc is a listed financial services group.
Its principal operating businesses are:-

Evolution Beeson Gregory

a specialist small and mid cap investment bank

Christows

a leading private client stockbroker and fund manager

Financial & Operating Highlights

▶ Operating income increased by 159%	Total Group operating income increased by 159% to £40,751,000 (2002: £15,760,000)
▶ Profit before tax over £17m	Profit before tax of £17,899,000 (2002: Loss £23,770,000)
▶ Inaugural dividend payment	Earnings per share 6.7p (2002: Loss 13.7p) Dividend payment 0.25p per share (2002: Nil)
▶ Successful first full year for EVBG	Successful first full year, as a combined business, for Evolution Beeson Gregory, total operating income increased to £32,100,000 (2002: £8,800,000)
▶ 46% increase in funds under management	Christows total funds under management increased to £477m (2002: £327m) an increase of 46%
▶ Group retains 41% of IP2IPO	Group retains a 41% holding in IP2IPO post its flotation on AIM. At the float the Group realised £15,000,000 from part disposal
▶ Official List & FTSE-250	Group moved to the Official List in June 2003 and recently entered the FTSE-250

Chairman's Statement

2003 was a year of strong growth in all of our operating businesses. Additionally, the Group realised significant value from the listing of its former subsidiary, IP2IPO Group Plc (formerly IP2IPO Group Limited ("IP2IPO")). Overall, I am pleased to report a profit before tax of £17.9 million (2002: loss £23.8 million). Total shareholder return rose 88% during 2003, 48% ahead of the FTSE Smallcap Index.

Results

Evolution Beeson Gregory Limited ("EVBG") had a very good first full year as a combined business and our investment banking platform developed significantly during 2003. We continued to gain market share in the small and mid cap sectors in sales and trading and our significantly enhanced market making business performed well and ahead of our expectations. Corporate broking remained a cornerstone of our business with significant transactions completed and funds raised for our clients. Operating income has grown by 264% to £32.1m in 2003 with all divisions showing extremely strong growth. Finally, our research coverage continues to increase in depth and quality as evidenced by our improved ratings in key market surveys such as Extel and Institutional Investor.

Christows Limited ("Christows"), the Group's private client stockbroking and fund management business, had a second profitable year after its restructuring in 2001. It continues to increase its funds under management, reaching £477m as at 31 December 2003 (2002: £327m), an increase of 46%. Strategic funds under management, on which we receive recurring fees, now represent 83% of this total (2002: 77%). This business is developing to plan and has increased its geographical coverage with the opening of a new office in Bath, strengthening its presence in the South and South West of England.

IP2IPO has made a significant transformation during 2003. Following the successful listing on AIM on 15 October 2003, IP2IPO is now a separate and independently functioning operation. The Group has reduced its holding in this company to 40.61% following the sale of 5,460,000 shares upon the flotation. This process realised £15m of cash.

Board changes

The Board is delighted to have announced the appointment of Nicholas Irens as a Non-executive director on 1 January 2004. Nick has a wealth of experience, from both executive and non-executive roles, and is a valuable addition to the Board.

At the time of the announcement of IP2IPO's preliminary results on 18 March 2004, David Norwood, the Chief Executive of IP2IPO, informed the Board of his decision to step down as a Non-executive director of the Company. I would like to take this opportunity on behalf of the Board, employees and shareholders to thank David for his enormous contribution both in the creation and the successful building of the Group.

Employees

The results of our operating businesses are determined largely by the efforts and commitment of our staff who are one of the principal assets of the Group. I would like to thank everyone for their efforts last year which contributed to a successful 2003. As highlighted at the interim stage and in the subsequent shareholder notice, the Group implemented an all employee share incentive plan which has now been successfully launched, through which the majority of employees have taken the opportunity to purchase Evolution shares every month, which are then matched by the Company where individuals remain in the Group for three years. Additionally, throughout the Group, there are other option and share schemes which we use to provide equity participation to incentivise and motivate our key employees.

Dividend

The Board recommends the payment of a dividend of 0.25p per share (2002: Nil). This represents an acknowledgement of our growth in confidence in the income growth and profitability of the Group. It is anticipated that a progressive dividend policy will be pursued as the Group achieves its objectives in 2004.

Outlook

As the first quarter of 2004 comes towards a conclusion, I am pleased to announce that our businesses are all continuing to progress well and your Board is confident of further success in 2004.

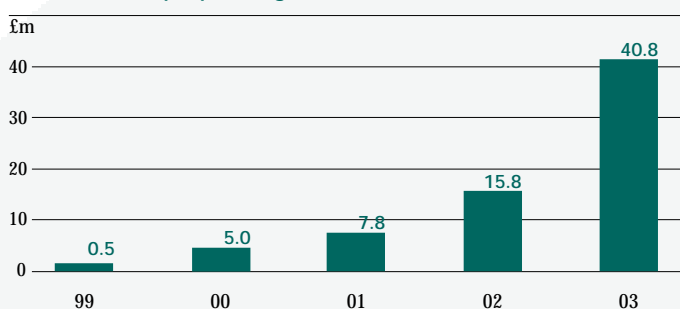
Richard Griffiths Chairman
30 March 2004

Chief Executive's Report

Performance Breakdown

Operating Income	2003		2002	
	£'000	%	£'000	%
EVBG	32,126	79	8,835	56
Christows	8,327	20	6,644	42
Other income	298	1	281	2
	40,751	100	15,760	100
Corporate finance	17,272	42	4,489	28
Sales commissions	9,067	22	5,913	38
Trading	10,994	27	2,196	14
Management fees	2,851	7	2,748	17
Other income	567	2	414	3
	40,751	100	15,760	100

Evolution Group Operating Income



Review of the year

The Group made substantial progress in 2003. All areas of our business have been strong, and there has been a significant increase in revenue generation. Total revenue in 2003 was £40.8m (2002: £15.8m), an increase of 159%.

During 2003, the Group was able to create substantial shareholder value in separating, by way of flotation, our intellectual property subsidiary IP2IPO, and the Group saw a significant realisation from the sale of part of the Group's interest.

The core of the Group's business now consists principally of Institutional Equity broking and Private client stockbroking and fund management, and both businesses have outperformed the respective budgets for 2003. It has always been the Group's strategy to retain separate brands, and both are managed as independent businesses in all respects.



EVBG continues to be the largest operating business within the Group. Total operating income increased by 264% to £32.1m (2002: £8.8m), although conditions in 2003 were mixed. The first half was dominated by the Gulf War and difficult equity markets. EVBG was able to trade profitably through this period, with the reduced cost structure that was introduced in 2002. The appetite for risk increased in the second half of 2003 and EVBG was able to accelerate its income generation and profitability.

Corporate broking

Our corporate broking track record in 2003 has been extremely encouraging, overall income increased by 285% to £17.3m (2002: £4.5m).

During 2003 EVBG advised on 60 transactions. In total, we raised £271m for our clients. Our ability to provide these services successfully for our clients comes from our knowledge and understanding of those client companies and the in-depth research into these companies and their business opportunities. Our retained corporate client list had increased to 107 at the year end. The opportunity is still substantial to

provide integrated advisory services to small and mid-cap UK companies. EVBG continues to be innovative in its thinking to provide equity finance solutions to our customers.

Equity research and Equity distribution

In research, EVBG has continued to increase our sector coverage in 2003, reinforcing EVBG's aim to be a research led equity business with qualified, specialist analysts. At the year end, EVBG had coverage of in excess of 190 stocks across sectors, including: health, pharmaceutical and biotech, general retail, leisure and hotels, media and entertainment, support services, electronics, software, mining, oil and gas, construction/building, materials and infrastructure. The improved research product is evidenced by the continued market share growth in sales and the improved ratings in surveys such as Extel and Institutional Investor.

Sales and distribution have strengthened throughout 2003. EVBG has seen an increase in the flow of secondary sales commissions. New recruits to the team have successfully secured new sales channels into international institutional investors. This new dimension has increased substantially the distribution platform at EVBG.

Market-making and Trading

In 2003, EVBG made significant changes to our trading operation. In April, a new team was recruited to realign entirely the market-making direction, increasing the number of stocks that we make prices in to over 600 by the year end. All our market-making and trading activities across the mid and the small cap traded profitably in 2003 and EVBG saw a significant increase in transaction volumes.

Market-making ensures the operation of an orderly and liquid market and provides a service to retail stockbrokers. EVBG has been able to increase this part of the business by adding further electronic connectivity via the Retail Service Provider ("RSP") mechanism. At the year end, we were members of the London Stock Exchange and Proquote hubs and have begun the process of adding a further two RSP connections.

In summary, 2003 has seen EVBG's businesses develop significantly. I believe that, as we approach the end of the first quarter of 2004, we are confident of further income and profitability growth.

Chief Executive's Report

- continued

CHRISTOWS

In 2003, we set a plan for Christows of growth in scale and attaining profitability. I am pleased to report that both of these achievements were met. Total income increased by over 25% to £8.3 million which, coupled with continued tight management of costs, produced a second consecutive profitable year after the restructuring in 2001.

Transaction based income increased by 39% from 2002 and included an exceptional performance from our contracts for difference team which doubled its income. Our strategy of growing funds under management, particularly those strategic funds upon which recurring management fees are received, also proved successful. Strategic funds under management increased by 59% over the previous period to £398m (2002: £250m) making up 83% of total funds under management at the year end (2002: 77%).

Our growth in funds under management was underpinned by record sales, for the third consecutive year, for our professional intermediary sales team, leading to Christows winning new mandates to increase significantly year end funds under management to approximately £477 million, an increase of 46% over last year. Within our funds

under management we have seen an extension of our offering to a wider potential client base via our OEIC, Multi-Manager Portfolio Service and the successful Private Portfolio Account, where we have seen further growth in the average portfolio size of our bespoke discretionary clients. In addition, we have been successful in recruiting likeminded individuals who can attract new clients to supplement the organic growth from our sales activities, and have been joined by new account executives from a variety of competitors.

During the middle part of the year, we continued our regional development by opening a new branch office in Bath, which we strongly believe will have considerable potential in 2004 and beyond. Finally, as the year came to a close, we completed the process of repatriating our OEICs to the UK from Dublin, which will allow our Fund Management team to utilise the flexibility introduced by the new UCITS legislation to supplement the excellent performance of the funds last year.

Christows begins 2004 with a robust, scaleable platform for growth and a continuation of the trends apparent in the second half of 2003 should contribute to accelerating profitability in the current year.



IP2IPO operated as a subsidiary of the Group until October and during this period concluded its third university partnership, when in May 2003 it entered into a 25 year partnership with King's College London. At this point, it raised £6.25 million through a further round of private financing to develop this relationship. In September 2003, IP2IPO agreed terms of a new 25 year partnership with the University of York's Centre for Novel Agricultural Products ("CNAP") which was conditional upon IP2IPO's admission to AIM.

In October 2003, IP2IPO successfully listed on AIM raising £31.5 million valuing this group at £111.8 million. Since then it has continued to make progress in the development of spin out companies from its on-going university partnerships. At the time of the admission to AIM, the Group realised £15m from the sale of its majority stake, leaving it with 40.61% of IP2IPO at the year end.

IP2IPO now operates as a separate, independently managed business and the Group's interest is monitored through the position of Non-executive director, which I hold on its board.



New Business

In August 2003, trading commenced in Evolution Securities China Limited ("ESCL"). This company has its principal office in London and a branch in Shanghai. It offers investment banking services to both Chinese and UK institutions and is well placed strategically to access the growing Chinese equities market. ESCL combines a deep knowledge of China, its economy and its securities industry with first-class securities analysis, sales support and trade execution. ESCL aims to meet the growing need from professional investors for attractive investment opportunities in China at an acceptable level of risk. ESCL's integration within the Group ensures that its corporate activities are efficient and well supported. ESCL is an appointed representative of Evolution Beeson Gregory Limited.

Official List & New Offices

As outlined in the half year results, the Company completed the move to the Official List on 26 June 2003.

The head office for the Group and its investment banking operations changed to 100 Wood Street in August 2003. The facilities provided in this modern office, in the heart of the City of London, has provided a strong platform for our trading and settlement operations and brought us closer to our clients and institutional investors.

Both of these achievements were completed under tight timetables and cost effectively.

Employees

We continue to recognise the importance of developing a culture where the employees' interests are aligned mutually with those of the Group's shareholders. This is something that we aim to achieve for the key performers in all of our business units. Through the use of the Group's principal share and share option schemes, we are able to manage this by combining staff incentivisation with a high degree of loyalty. The use of such arrangements resulted in a profit and loss impact across the Group during 2003 of £3.0 million, principally in the form of a charge for the cost of options (difference between the market value of each 1p ordinary share and the exercise price at the time of grant). It is our firm belief that these arrangements are extremely effective and that incentivising and retaining our key employees are in the interests of the Group's shareholders.

Alex Snow Chief Executive Officer
30 March 2004

Financial Review

Adjusted operating profit

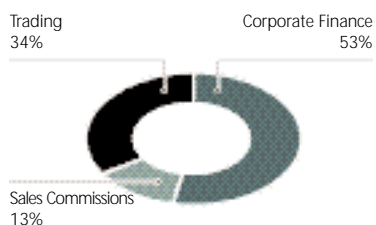
The statutory operating profit for the overall Group is as shown below. The Board believes a truer reflection of the performance of the Group's on-going operating businesses is afforded by the measure "adjusted operating profit". This is calculated so as to exclude items from operating profit that are one-off or non-recurring, are not part of the on-going business profitability or, in the case of the cost of options and amortisation, represent non-cash items.

The following table reconciles these two measures and demonstrates the significant progress made on a combined Group basis in moving from an adjusted operating loss of £2.5 million in 2002 to an adjusted operating profit of £10.6 million in 2003.

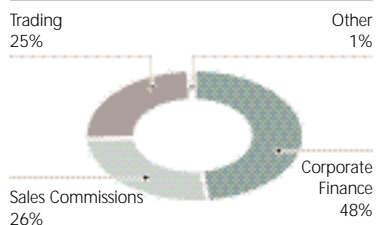
	31 December 2003		31 December 2002	
	£'000	£'000	£'000	£'000
Operating profit / (loss)		1,553		(24,790)
Items not included within adjusted operating profit				
Profit on sale of fixed asset investments	(2,379)		(19)	
Profit on sale of current asset investments	(99)		-	
Provision against fixed asset investments	6,114		9,712	
Adjustment for provisions and profits on investments		3,636		9,693
Non-recurring costs	1,113		1,276	
IP2IPO subsidiary operating loss	599		-	
Non-recurring items		1,712		1,276
Amortisation	567		252	
Share of associated undertakings operating loss	186		-	
Cost of options	2,963		166	
Impairment of goodwill	-		10,865	
Non-cash items		3,716		11,283
Adjusted operating profit / (loss)		10,617		(2,538)

Investment Banking Revenue analysis

2003

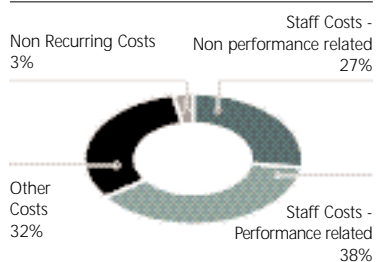


2002

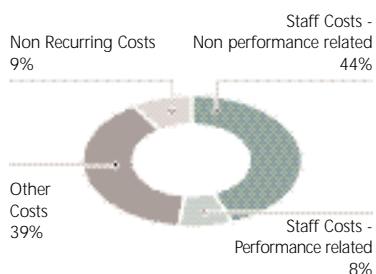


Investment Banking Cost analysis

2003



2002



Looking at the two principal operating businesses individually, it is clear to see the progress made in both EVBG and Christows in 2003 from the previous period.

Investment Banking

Turning first to the Investment banking business of EVBG, there has been significant growth in the scale and profitability of this business turning around an adjusted operating loss of £0.5m in 2002 into an adjusted operating profit of £10.6m in 2003.

	2003 £000's	2002 £000's
Operating income	32,126	8,835
Commissions payable	(433)	(169)
Gross profit	31,693	8,666
Administrative expenses	(22,367)	(10,151)
Profit on sale of current asset investments	99	-
Operating profit / (loss)	9,425	(1,485)
Profit on sale of current asset investments	(99)	-
Non-recurring and exceptional costs	713	953
Cost of options	571	-
Adjusted operating profit / (loss)	10,610	(532)

Non-recurring and exceptional costs relate to costs of redundancy and relocation expenses for new offices.

Revenue analysis

Further analysis of the quality of income achieved within the business shows the balance of revenue between primary revenue and secondary income from sales and trading.

Cost analysis

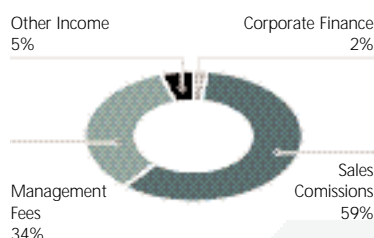
The overall cost/income ratio for the investment banking business is 66% (2002: 104%). A further examination of the cost structure of the investment banking business shows that staff costs are 65% of the total cost base in 2003 with significantly more than half of this being entirely performance related.

Financial Review

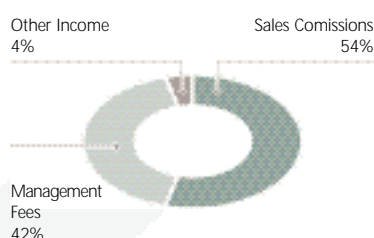
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Private client stockbroking and fund management revenue analysis

2003

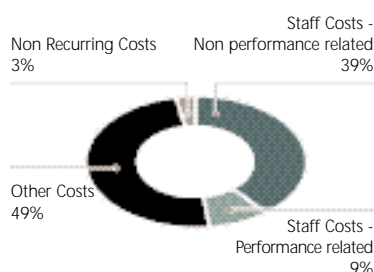


2002

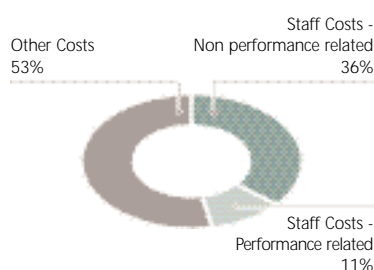


Private client stockbroking and fund management cost analysis

2003



2002



Private client stockbroking and fund management

Turning to Christows, the Group's private client stockbroking and fund manager, 2003 has seen a continuation of the progress made last year with a second consecutive year with an increase in adjusted operating profit from £0.2m in 2002 to £0.4m in 2003. This occurred even taking into account the extreme downturn in the first half of 2003, which saw the business levels in this sector at an unprecedented low level.

	2003 £000's	2002 £000's
Operating income	8,327	6,644
Commissions payable	(2,201)	(1,462)
Gross profit	6,126	5,182
Administrative expenses	(6,008)	(4,970)
Operating profit	118	212
Non-recurring and exceptional costs	174	-
Cost of options	71	-
Adjusted operating profit	363	212

Non-recurring and exceptional costs relate to costs of redundancy and search expenses related to the acquisition of new account executive teams.

Revenue analysis

Christows' sales commissions have increased significantly in 2003 over 2002, in particular due to the doubling of income from the contracts for difference business. The recurring management fees on its strategic funds under management have grown marginally over the whole year, with levels significantly reduced in the first half, as market levels fell, and enhanced in the second half as funds under management grew through sales and performance.

Cost analysis

The overall cost/income ratio for Christows has improved to 69% (2002: 75%). Further examination of the cost structure within Christows shows it remains tightly managed and highly predictable. We have invested in the business in 2003 by opening a further office in Bath and recruiting a number of account executives in the other offices. In addition we continue to invest in the systems and infrastructure to support and further develop this business.

Other activities

The Group's other activities are made up of central group support costs not recovered from the operating businesses, the profits on, and provisions against, legacy fixed asset investments, and the results of the IP2IPO business from the period whilst it was a subsidiary of the Group. In addition, the results of Evolution Securities China Limited are included as they are not material in this, its first period of operation after the business commenced in August 2003.

	2003 £000's	2002 £000's
Operating income	298	281
Commissions payable	(22)	-
Gross profit	276	281
Administrative expenses	(4,345)	(14,105)
Profit on fixed asset investments	2,379	19
Provision on fixed asset investments	(6,114)	(9,712)
Share of associated undertaking operating loss	(186)	-
Operating loss	(7,990)	(23,517)
Items not included within adjusted operating loss		
Profit on sale of fixed asset investments	(2,379)	(19)
Provision against fixed asset investments	6,114	9,712
IP2IPO subsidiary operating loss	599	-
Non-recurring costs	226	323
Amortisation	567	252
Impairment of goodwill	-	10,865
Share of associated undertaking operating loss	186	-
Cost of options	2,321	166
Adjusted operating loss	(356)	(2,218)

Non-recurring costs represent costs for loss of office and the costs in relation to taking the Group to the Official List.

Investment provisions

As outlined at the half year results, the Group has made provisions against the remaining legacy portfolio investments totalling £6.1 million. The Group continues to seek to extract value from this portfolio with profits on sale of investments totalling £2.4 million in 2003. At the year end, the remaining fixed asset investment portfolio has a carrying value of £0.9 million (2002: £6.4 million) and current asset investments held at a carrying value of £0.4m (2002: £0.2m).

Financial Review

- continued

IP2IPO

The Group now retains 40.61% of IP2IPO Group Plc following the deemed disposal of the Group's interest in May, and the deemed disposal and sale of shares in October 2003 at the time of its admission to AIM. This investment is now treated as an associated undertaking within the Group and Company accounts under FRS 9. As a result of the change in status from being a subsidiary in 2002 to being an associate from 15 October 2003, the results of IP2IPO to 15 October 2003 have been treated within continued earnings. In future periods, the Group will recognise its share of operating profit, interest and tax in the profit and loss account and its share of the fair value of net assets in the balance sheet.

The overall impact of the disposals in 2003 is a total gross profit of £16.9 million from which transaction costs and special bonus awards are deducted resulting in a net profit of £15.1 million. Under FRS 3, Reporting Financial Performance, this profit falls within the definition of "exceptional items" and is thus disclosed separately after operating profit.

Balance sheet strength

The Group remains focused on maintaining a strong balance sheet. At the year end it had net assets of £91.9 million (2002: £76.0 million) including cash of £53.7 million (2002: £32.0 million).

Cashflow

The Group generated positive cash inflow of £21.7m in the year (2002: outflow of £4.0m). This has been achieved principally by operating profitability and the disposal of IP2IPO.

Dividend

The Board is proposing an inaugural dividend per share for 2003 of 0.25p. This dividend is payable on 4 June 2004 to shareholders on the register on 7 May 2004.

Graeme Dell Finance Director
30 March 2004

Directors & Advisors

Directors	Richard Griffiths (Chairman) Alex Snow (Chief Executive) Graeme Dell (Finance Director) Sir Malcolm Field (Non-executive) Nicholas Irens (Non-executive) George Loudon (Non-executive) Oliver Vaughan (Non-executive)
Company Secretary	Nigel Gordon
Registered Office	9th Floor 100 Wood Street London EC2V 7AN
Auditors	PricewaterhouseCoopers LLP Southwark Towers 32 London Bridge Street London SE1 9SY
Solicitors	Stringer Saul 17 Hanover Square London W1S 1HU
Broker	Brewin Dolphin Securities Limited 48 St Vincent Street Glasgow G2 5TS
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4BR
Registered number	3359425

The Board

The Evolution Group Plc is the holding company of Evolution Beeson Gregory Limited, Christows Limited and Evolution Securities China Limited. The Group has at its core an extremely strong and dynamic senior management team in its Executive Board members. The whole Group's operating structure, processes, strategic direction and ethos are based around this team. The management of the operating subsidiaries within the Group are also led by members of this team.

1 ▶ Richard Griffiths (37), Chairman, joined the Group upon its acquisition of Evolution Capital in March 2001. Richard was appointed Chairman of the Group on 30 January 2003. He has extensive experience of company management, equity sales and trading and has also been an active investor in small and emerging companies, often in turnaround situations. Richard is Chairman of the Board and chairs its Nominations Committee.

2 ▶ Alex Snow (34), Chief Executive Officer, joined the Group in May 2000 and has led the Group through its development from a small investment company to a fully fledged financial services group by significant acquisitions and resultant restructuring. Alex's previous career experience was with CSFB and BZW in the equity sales, trading and capital markets areas. He is a graduate of St Andrew's University. Alex is in charge of the day to day and strategic management of the Group's activities. He heads the Executive Committees that manage Evolution Beeson Gregory, Christows and Evolution Securities China Limited, and is a Non-executive director on the Board of IP2IPO.

3 ▶ Graeme Dell (37), Finance Director, joined the Group in August 2001 and is responsible for finance, operations and technology throughout the Group. Graeme's previous career experience was with Deutsche Bank as a business manager in its Global Exchange Services business and with Goldman Sachs where he held management positions in finance and operations. He qualified as a Chartered Accountant with Coopers & Lybrand having graduated in Engineering from Hertford College, Oxford University. Graeme is a member of the Executive Committees that manage Evolution Beeson Gregory, Christows and Evolution Securities China Limited.

The Group's Non-executive Board members combine with the Executive team to complete the balance of corporate governance and independence, and provide between them a wealth of experience in strategic and operational management of companies.

4 Sir Malcolm Field (66) is the Senior Non-executive director and Chairman of the Remuneration Committee. He joined the Group upon its merger with Beeson Gregory Group in July 2002. He is currently Chairman of Tube Lines Limited and a policy advisor to the Department for Transport. He was previously Chairman of the Civil Aviation Authority. Prior to this he was Chief Executive at WH Smith from which he retired in 1996 and a Non-executive director of Scottish and Newcastle Breweries Plc, MEPC Plc and the Phoenix Group.

5 David Norwood (36), joined the Group upon its merger with Beeson Gregory Group in July 2002. He joined Beeson Gregory Group when it acquired Index IT Partnership in March 2000, a business he had established to provide consultancy services to technology companies. David's previous career experience was with Bankers Trust as an FX trader, Duncan Lawrie as an investment analyst and Williams de Broe, where he advised quoted and unquoted technology companies. He is a graduate of Modern History from

Keble College, Oxford University. David leads the Intellectual Property Group, IP2IPO, in which the Group has a 40.61% interest, where he is Chief Executive and responsible for its operational management and strategic direction. David resigned from the Group on 18 March 2004.

6 Nicholas Irens (57), joined the Group on 1 January 2004. Nicholas is a chartered accountant with recent and relevant financial experience. He qualified as a Chartered Accountant in 1970 and went on to become the Finance Director of First Leisure Corporation Plc from 1988 to 1992. Most recently he founded Vardon Plc, renamed Cannons Group Plc, in 1992. He was Chairman of this Group between 1998 and 2001 when he stepped down following its sale to Royal Bank Private Equity. Nick currently has a number of Non-executive appointments, which include the Non-executive Chair of Esporta Group Limited, James Hull Associates Limited, Northgate Information Solutions Plc and Westminster Health Care Limited, and Non-executive directorships of Urbium Plc, Leisure and Media VCT Plc and Ministry of Sound Holdings Limited.

7 George Loudon (61) is Chairman of the Audit Committee. He joined the Group upon its merger with Beeson Gregory Group in July 2002. His background is in management consultancy, including McKinsey & Co, and in banking both in Holland and London, where he was Chief Executive of Midland Montagu and on the Board of Midland Bank Plc. Currently he is a Non-executive director of a number of companies such as LogicaCMG plc, Viking River Cruises SA; is Chairman of Helix Associates Limited, Pall Mall Capital and others; and is actively involved with the Multiple Sclerosis International Federation, the arts and conservation.

8 Oliver Vaughan (56), joined the Board upon the incorporation of the Company in April 1997. He has an extensive background investing in and being a director of AIM listed companies. He co-founded Juliana's Holdings Plc in 1968, a holding company with interests in the leisure industry of which he was managing director for 23 years. He saw it through to flotation on the London Stock Exchange in 1983, prior to its acquisition by Wembley Plc in 1989, on whose board he then served for the next two years. Currently he is a Non-executive director of Abingdon Capital Plc and Redstone Plc.

Directors' Report

The directors present their report together with the audited financial statements for The Evolution Group Plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2003.

Principal activities and Review of business

The Company's issued ordinary shares were admitted to the Official List on 26 June 2003.

The Group undertakes institutional investment banking through its subsidiary undertaking Evolution Beeson Gregory Limited and undertakes private client stockbroking and fund management through its subsidiary undertaking Christows Limited.

The Group commenced a specialist Chinese investment banking business in August 2003 within Evolution Securities China Limited ("ESCL"). This company was a new start-up, having been incorporated in July 2003.

The Group also has an interest of 40.61% in IP2IPO Group which specialises in intellectual property commercialisation. This follows the part disposal of the Group's holding in this company during 2003.

A review of the businesses during 2003 and the prospects of the Group for the current year are set out in the Chairman's Statement, Chief Executive's Report and Financial Review on pages 2 to 12.

Results and Dividends

The profit for the year ended 31 December 2003 of The Evolution Group Plc amounted to £16,194,000 (2002: Loss £23,836,000). The Directors recommend the payment of a dividend of 0.25p per ordinary share (2002: £Nil).

Post balance sheet events

Full details of all significant post balance sheet events are set out in note 41 to the accounts.

Directors

The directors of the Company, who served during the year, together with their dates of resignation where appropriate, are shown below:

	Date of appointment	Date of resignation
Richard Griffiths	–	–
Alex Snow	–	–
Graeme Dell	–	–
David Norwood (Non-executive)	–	18 March 2004
Andrew Beeson (Non-executive)	–	30 January 2003
Sir Malcolm Field (Non-executive)	–	–
George Loudon (Non-executive)	–	–
Oliver Vaughan (Non-executive)	–	–

David Norwood's status changed from being an Executive to Non-executive director on 9 September 2003 following his appointment as Chief Executive Officer of IP2IPO Group Plc. He resigned as a Non-executive director of the Group on 18 March 2004.

Subsequent to the year end, Nicholas Irens was appointed a Non-executive director on 1 January 2004.

Chairman

On 30 January 2003, Andrew Beeson resigned as Chairman to the Group and Richard Griffiths was appointed as his successor.

Directors' Interests

The interests of directors in shares and options are disclosed in the Remuneration Report on pages 24 to 29.

Charitable donations

During the year the Group made charitable donations of £7,520 (2002: £2,763). The Group's general policy with respect to charitable donations is to make a small number of donations to causes that are suggested by the Group's employees, particularly where such staff are taking part in fundraising events. The amount donated included payments of: £3,600 to the NSPCC; £1,000 to Macmillan Cancer Relief; £1,000 to Whizzkids; £910 to All Hallows Church, London; and £500 to The Leukaemia Trust.

Purchase of own shares

The Group currently operates one share trust. The Evolution Group Employees' Share Trust administers The Evolution Group Plc share schemes and is managed by the Sanne Trust. The Share Incentive Trust administered the legacy Beeson Gregory Group share schemes and was managed by The Bank of Butterfield until the transfer of all holdings to the Sanne Trust on 25 May 2003.

Under The Evolution Group Employees' Share Trust shares, which have been purchased but not unconditionally allocated to an employee, are included within the balance sheet of the Company at cost. The cost of such shares at 31 December 2003 was £492,000 (2002: £484,000). The nominal value of such shares at 31 December 2003 is £8,600 which represented 0.34% of the called up share capital of the Company (2002: £8,000; 0.33%).

Creditors payment policy

It is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard terms and conditions to individually negotiated contracts. Suppliers are paid according to agreed terms and conditions, provided that the supplier meets those terms and conditions. Average trade creditor days at the year end was 24 days (2002: 25).

Committees

The Group currently operates a Nominations Committee, a Remuneration Committee and an Audit Committee. Details of members, terms of reference and frequency are referred to in the Corporate Governance report on pages 20 to 23.

Directors' Report

- continued

Substantial shareholdings

Other than the interests of the directors, the following shareholders are known to have, or hold on behalf of individual beneficiaries, an interest in the Company greater than 3%:

Shareholder Name	Number of shares held by individual beneficiary	Holding %	Note
Cantor Fitzgerald Europe	12,606,000	5.08	1
HSBC Global Custody Nominee (UK) Limited	9,093,750	3.67	2
Barnard Nominees Limited	9,000,000	3.63	3
Clydesdale Bank (Head Office) Nominees Limited	8,567,500	3.46	4
Bank of New York (OCS) Nominees Limited	7,440,096	3.00	5

Notes

- 1 Notified to the Company on 8 March 2004.
- 2 Based on S212 Notification from the share register on 23 February 2004. In total, HSBC Global Custody Nominee (UK) Limited is known to hold 28,558,988 shares on behalf of beneficiaries, including the amount disclosed above, representing 11.52% of the Company.
- 3 Based on S212 Notification from the share register on 23 February 2004. In total, Barnard Nominees Limited is known to hold a total of 13,406,173 shares on behalf of beneficiaries, including the amount disclosed above, representing 5.41% of the Company.
- 4 Based on S212 Notification from the share register on 23 February 2004. In total, Clydesdale Bank (Head Office) Nominees Limited is known to hold a total of 9,098,578 shares on behalf of beneficiaries, including the amount disclosed above, representing 3.67% of the Company.
- 5 Based on S212 Notification from the share register on 23 February 2004. In total, Bank of New York (OCS) Nominees Limited is known to hold a total of 13,032,436 shares on behalf of beneficiaries, including the amount disclosed above, representing 5.26% of the Company.

The Company has not been notified of any other interests greater than 3% of the issued share capital as at 30 March 2004.

Employees

The average and actual number of employees, including directors, employed by the Group and their remuneration is disclosed in notes 3, 7 and 8.

Employment Policies

The Group encourages employees to participate in its success through performance based bonus arrangements and through its use of share based incentive arrangements amongst its key performers within each of the business units. To further this overall equity participation the Company has introduced an all Employees' Share Ownership Plan, which was approved by shareholders at the EGM on 10 October 2003. Following its introduction in February 2004, it allows every employee to purchase up to £1,500 worth of the Company's shares per annum on a tax efficient basis. These are purchased on a monthly basis and held in trust and are matched by shares issued by the Company.

Employees are kept informed of the Group's progress by half yearly Group results presentations. In addition, there are monthly Executive Committee meetings from which further information is distributed to employees.

It is the Group's policy that no employee, or applicant for employment, receives less favourable treatment (including training and development, recruitment and promotion) by the Group or any other employee, on any grounds, including disability, nor be disadvantaged by conditions, management attitudes, behaviour or requirements that cannot be justified.

Implementation of IFRS

The adoption of the International Financial Reporting Standard ("IFRS") framework for the year to 31 December 2005 is applicable to the Company as a listed entity and will be adopted. It is not anticipated that the accounting treatment for items within the profit and loss account will be materially different under the new regime. There are expected to be differences in the balance sheet treatment of fixed asset investments under IAS 28, Investments In Associates; goodwill under IAS 38, Intangible Assets; and employee share awards under IFRS 2, Share Based Payments. The difference in treatment in these balance sheet items will impact the profit and loss account.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 30 to 31, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the independent auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 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 as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 32 to 72 that:

- the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- all the accounting standards which they consider to be applicable have been followed, and
- the financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure the financial statements comply with the Companies Act 1985.

The directors have general 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.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and pursuant to section 384 (1) of the Companies Act 1985, an ordinary resolution re-appointing them as auditors and authorising the directors to determine their remuneration will be proposed at the 2004 Annual General Meeting. The Audit Committee reviews and approves the appointment of the external auditors.

By order of the Board

Nigel Gordon Secretary
30 March 2004

Corporate Governance

Compliance

The directors are responsible for the corporate governance of the Group. They support the principles of good corporate governance and code of best practice laid down by the Combined Code issued in June 1998. Since the Company's successful application to the Official List on 26 June 2003 it has been in compliance with the provisions set out in Section 1 of the Combined Code on Corporate Governance, issued in June 1998, as endorsed by the Financial Services Authority, save for the adoption by the Board of a formal schedule of matters reserved to it for decision. Throughout 2003, such items were addressed by the Board as a matter of course but these were not detailed in a formal list of reserved matters. This policy was formalised by the Board in February 2004 with the adoption of a formal schedule of matters reserved.

The manner in which the Group has applied the principles of good governance set out in the Combined Code is outlined below.

Directors

The Board comprises three Executive and four Non-executive directors, whose biographies are set out on page 14 to 15. Sir Malcolm Field, the senior Non-executive director, Nick Irens, George Loudon and Oliver Vaughan are independent of management for the purposes of the Combined Code.

The Executive Chairman, Richard Griffiths, is responsible for the conduct of the Board and its oversight of the Group's affairs and strategy. The Chief Executive, Alex Snow, is responsible for the management of the business, the co-ordination of its activities and the development of strategy. In addition, Sir Malcolm Field acts as independent senior Non-executive director. The Board believes that these arrangements facilitate the effective management of the business and provide a strong control environment.

The biographies on pages 14 to 15 demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group. The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the accounts is set out on page 19 and a statement on going concern is set out below.

The Board has a schedule of 12 meetings per annum to discuss matters arising in the Group's ordinary course of business. Additional meetings are arranged as required. The Board is provided with appropriate information on a timely basis to enable it to discharge its duties. The Board has put in place a formal schedule of matters reserved to it for decision, including, inter alia, developing the future direction of the Group's business, approving material transactions and budgets and monitoring the Group's progress. This was presented at the Board meeting in January 2004 and formally adopted on 26 February 2004. All directors receive written reports prior to each Board meeting which enable them to make an informed decision on the corporate and business issues under review.

Beneath the Board there is a structure of delegated authority which sets out the authority levels allocated to the Executive Committees of the Group's three operating subsidiaries: Christows Limited; Evolution Beeson Gregory Limited and Evolution Securities China Limited. The Executive Committees comprise the CEO and Finance Director and members of the senior management teams of the three respective entities.

The terms of the directors' service agreements and letters of appointment are summarised in the Report on Directors' Remuneration. All directors are subject to election by shareholders at the first annual general meeting of shareholders after their appointment. Thereafter, all directors are required to retire by rotation and one third of the Board will seek re-election at each future annual general meeting.

At the forthcoming AGM in May, Nicholas Irens will be subject to election as this will be the first AGM after his appointment. Richard Griffiths and Graeme Dell will retire by rotation and, being eligible, seek re-election. Resolutions proposing their election are set out in the Notice of Annual General Meeting. All directors have access to the services of the Company Secretary and there are procedures in place for taking independent professional advice at the Group's expense if required.

The following committees deal with the specific aspects of the Group's affairs:

Audit Committee

The Audit Committee is comprised of independent Non-executive directors. George Loudon, who acts as Chairman of the Audit Committee, Sir Malcolm Field, Oliver Vaughan and Nicholas Irens. Nicholas Irens joined the Committee upon his appointment to the Board on 1 January 2004. Nicholas is a chartered accountant with recent and relevant financial experience. The Audit Committee met three times during the course of 2003. The Committee's terms of reference include: reviewing the scope and findings of the external audit at interim and final stage; the effectiveness of the Group's internal control procedures; the reporting of results; and the requirement for an internal audit function. The Group's auditors and the Executive directors may attend committee meetings by invitation. The Committee has a discussion with the external auditors at least once a year without Executive directors being present, to ensure that there are no unresolved issues of concern.

Remuneration Committee

The Remuneration Committee is comprised of independent Non-executive directors. The members are Sir Malcolm Field, who acts as Chairman, George Loudon and Oliver Vaughan. In addition David Norwood sat on this committee as a non-independent Non-executive member until his resignation in March 2004. Nicholas Irens joined the Committee upon his appointment to the Board on 1 January 2004. The Remuneration Committee met four times during 2003. The Committee is responsible for agreeing the remuneration of the Executive directors of the Company and for granting share options under the Company's share option schemes. The full Board is responsible for agreeing the remuneration of the Non-executive directors. The Chief Executive and Executive Chairman attend certain parts of meetings of the Remuneration Committee by invitation. Further details of the Group's policies on remuneration, service contracts and share options are given in the Report on Directors' Remuneration.

Nominations Committee

The Nominations Committee is chaired by Richard Griffiths, the Executive Chairman, who is joined by all the Non-executive directors. The Nominations Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. The appointment of Nicholas Irens on 1 January 2004 was considered by the full Board to improve the breadth and depth of experience of its Non-executive directors. The Nominations Committee met twice during 2003. No external advertising or external advice was used in connection with this appointment. The Board considered that the broad knowledge and experience of Nicholas Irens in his past executive positions and current and recent Non-executive positions across a range of industries and company ownership structures would be an important asset to the Board.

Review of Internal controls and Risks

The Group operates an on-going process of internal controls which are designed to manage rather than eliminate entirely the risk of failure to achieve business objectives. Therefore these can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance

- continued

At the time of the Group's application to move from AIM to the Official List of the UK Listing Authority on 29 May 2003 (completed 26 June 2003), the Board carried out a review of its financial and management reporting procedures, internal control systems and risk management. The Board concluded these were sufficient to provide a reasonable basis for it to make proper judgements as to the financial position and prospects of The Evolution Group Plc in accordance with paragraph 2.15 of the Listing Rules of the UK Listing Authority. The Group has continued to maintain these procedures throughout the subsequent period.

The Board is responsible for identifying, evaluating and managing the significant risks faced by the Group. At the Board meeting in March 2004 the Audit Committee reported on a follow up review performed in February and March 2004 which reviewed the ongoing effectiveness of the Group's internal control systems. The review considered all the controls, including financial, operational and compliance controls and risk management. The Group has decided that due to its size and the relatively limited scope of its operations that it has sufficient monitoring, reconciliation and control procedures in place to justify not having an internal audit function. This situation will continue to be monitored by the Board.

The Group has detailed policies and procedures in place in all areas of its operations. Its operations, finance and compliance staff utilise extensive reconciliation and monitoring to ensure control throughout the reporting of its business operations. Trading is monitored by the Executive directors daily. The Board considers monthly management accounts and compares actual performance against budgets and plans and discusses any issues arising therefrom. In addition the Evolution Beeson Gregory Limited and Christows Limited Executive Committees meet monthly to consider all major operational issues, trading developments and ad hoc projects in the respective operating businesses.

Evolution Beeson Gregory Limited and Christows Limited are both authorised and regulated by the Financial Services Authority. Evolution Securities China Limited is an appointed representative of EVBG. The Group therefore has a specialist compliance department. This department is responsible for maintaining a detailed and up to date understanding and interpretation of the rules and regulations that each of the entities is subject to and carrying out regular monitoring that procedures are being implemented in compliance with these rules. The Compliance officers are in regular contact with the Executive directors and report formally to the Board each month and periodically to the Audit Committee.

The Company has complied with the Turnbull Committee's guidance for directors. Identifying, evaluating and managing the Group's significant risks is an ongoing process which is regularly reviewed by the Board, and which has been in place for the year ended 31st December 2003 and up to the date of the approval of these financial statements.

The Committee concludes that the risks identified for the year to 31 December 2003 are adequately managed and mitigated through the robust system of internal controls in place throughout the Group. The report to the Committee in March 2004 also supported the conclusion that the on-going effectiveness of internal controls remains intact.

Going Concern

The financial statements are prepared on a going concern basis as the directors have satisfied themselves that, at the time of approving the financial statements, the Group has adequate resources to continue in operational existence for the foreseeable future.

Auditor independence

The Group has appointed PricewaterhouseCoopers LLP as auditors of the holding company and all subsidiaries since 2001.

During the year the Audit Committee reviewed the cost effectiveness, objectivity and independence of the auditors. The auditors disclosed the level of fees received in respect of the various services provided by their firm in addition to audit during 2003. They confirmed to the Audit Committee that they did not believe that the level of non-audit fees had affected their independence. The Audit Committee's policy is to use the most appropriate advisers for non-audit work taking account of the need to maintain independence.

In addition to their statutory audit responsibilities, the Group will typically use the auditors for other work that they are well placed to undertake in that role. This includes areas such as: regulatory reviews and other ancillary audit work; work in respect of acquisitions and disposals; and tax and VAT compliance.

Several firms are considered for other work, including the auditors in some instances. In such cases due consideration is given to the impact of the assignment on the independence of the auditors and to their qualifications to carry out the role.

Having given consideration to the extra work undertaken by the auditors, and after careful discussion with the responsible partner in the firm and the Executive directors, the Audit Committee is satisfied as to the independence of the statutory auditors.

Relations with Shareholders

The Chairman's Statement, Chief Executive's Review and Financial Review in this report and accounts include a detailed review of the business and future developments as a way of informing shareholders of the Group's performance and progress. There is also regular dialogue with institutional investors, and analysts, principally around the time of the Company's preliminary announcement of results for the year and also when the interim results are announced. The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that all of the directors are available at Annual General Meetings to answer questions. The proxy votes cast on each resolution proposed at general meetings are disclosed at those meetings.

The Board recognises the importance of investor relations and communications with shareholders throughout the year as well as at the time of results. The Group's website at www.evolution-group.com contains information on the Group, its operating subsidiaries and the products and services which it offers as well as share price performance and recent announcements.

Remuneration Report

The Board has delegated to the Remuneration Committee the assessment and recommendation of policy on the remuneration for Executive directors.

The constitution and operation of the Committee comply with the Best Practice Provisions on Directors' Remuneration in the Combined Code of the UK Listing Authority.

This report has been prepared in accordance with the Schedule 7A of the Companies Act 1985, which introduced new statutory requirements for the disclosure of Directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the UK Listing Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. As required by the Remuneration Report Regulations, the directors remuneration report will be submitted to the forthcoming AGM for approval.

Members of the Remuneration Committee

The Remuneration Committee consists of independent Non-executive directors. Sir Malcolm Field was the Chairman of the Remuneration Committee throughout 2003. For the entire period he was joined on the Committee by George Loudon and Oliver Vaughan. David Norwood was appointed to the Remuneration Committee upon his appointment as Non-executive director on 9 September 2003 until his resignation on 18 March 2004. Nicholas Irens joined the Committee from 1 January 2004, the date of his appointment to the Board.

Remuneration Policy

Throughout the Group there is an overriding philosophy on remuneration to attract, retain and incentivise the best staff. This is a people business and they are the key to the ongoing success of the business.

Consistent with this philosophy, the Group's reward structure for the Executive directors is to provide competitive employment packages. Executive directors' rewards comprise a mix of performance-related and non-performance-related remuneration. A high proportion of total remuneration is to be delivered through performance designed not only to incentivise directors, but also to adhere to good corporate governance practice.

During the year the Committee has utilised the services of professional advisors that specialise in matters of executive director remuneration. The Chairman of the Remuneration Committee met with representatives of several institutional shareholders to outline the Group's remuneration policy.

Remuneration packages

The Executive directors reward packages are made up of three elements. Firstly, the fixed component is made up of basic salary and benefits in kind such as medical, life and critical illness and permanent health insurances and car allowance. In 2002 the Board implemented a salary cap throughout the Group of £100,000. This included Executive directors and was kept in place throughout 2003 and is intended to remain in place going forward. Salaries are reviewed on an annual basis at the time of the Group performance appraisal process that takes place at the end of each calendar year.

Secondly, there is an annual performance bonus. The Group has implemented an annual bonus scheme as part of the Group's overall reward structure in common with general practice in the investment banking and stockbroking sectors. The Remuneration Committee has implemented these schemes with regard to the attainment of certain performance goals from the respective business units to ensure an appropriate share of income between staff and shareholders taking into account the market conditions and the stage of development of the business units. The annual performance bonus component of the Executive directors is drawn from these overall bonus schemes. Each director has detailed, demanding and in some cases different operating business and Group performance criteria against which they are measured. These performance goals are set by the Remuneration Committee and performance is determined by them.

Thirdly, the final element of reward for the Executive directors is the long term incentive plan in the form of the award of shares in the Company under the 2002 Executive share incentive scheme. The first of these awards was made by the Remuneration Committee in November 2003 in respect of the services of the CEO, Alex Snow, for the periods 2004 and 2005. The award was conditional upon strict performance criteria that requires a growth in the Group's adjusted earnings per share based upon the "adjusted operating profit" measure of the Group over the two periods of 15% per annum from the level attained in the first half of 2003. This measure has been chosen as it best reflects the Group's target for growth appropriate to the sector and the market conditions in which the Group operates, and is therefore appropriately aligned with shareholders' interests. These awards will be confirmed at the time of the announcement of the results for these two years in April 2005 and 2006 respectively.

Special bonuses and awards

The Remuneration Committee made two further elements of special compensation awards to some of the Executive directors in 2003 in respect of certain special circumstances.

In October 2003 at the time of the admission to AIM of the Group's former subsidiary company, IP2IPO Group Plc, the Group was able to crystallise an amount of £15 million upon the sale of a part of its stake alongside the placing by IP2IPO of new shares to investors. The Remuneration Committee viewed the achievement of this as a significant milestone in the recognition of value for shareholders of the business acquired at the time of the acquisition of Beeson Gregory in July 2002. Therefore a special bonus of 10% of the net cash realised was created and awarded amongst the Executive directors and staff that had made the greatest contribution towards delivering this value to the Group.

In November 2003, the Remuneration Committee made an award under the 2002 Executive Share Incentive Scheme to the CEO, Alex Snow, in recognition of the conclusion of negotiations securing the establishment of an appropriate service contract. Prior to this Mr Snow's services were the subject of verbal arrangements made at the time of his joining the Group in a non-board capacity in May 2000. The new arrangements are in the form of a formal service agreement that is legally enforceable and contains the appropriate notice clauses and restrictive covenants. The Board considered that the Group's interests were served by the establishment of such a contract as a matter of paramount importance given that securing Mr Snow's ongoing services is believed to be fundamental to the success of the Group. This was previously announced by an RNS announcement dated 14 November 2003.

Proportion of fixed and variable remuneration

In line with the reward structure outlined above, the relative proportions of fixed annual remuneration and performance related pay made for 2003 for the executive directors are as follows:-

	Non-Performance related (%)	Bonus (%)	Performance related Special award (%)	Total (%)
Richard Griffiths	9.3	72.9	17.8	100
Alex Snow	6.9	60.7	32.4	100
Graeme Dell	19.0	58.4	22.6	100

Remuneration Report

- continued

Directors' service contracts

The Combined Code recommends that a one-year notice period or contract terms be set as an objective for Executive directors. The Remuneration Committee's policy is that service contracts should not have a notice period exceeding 12 months and should not contain a liquidated damages clause in the event of termination.

All Executive directors have service contracts with no fixed terms and with notice periods of 12 months or less. The principal terms extant in these contracts are as set out below. The directors' service contracts and letters of engagement for Non-executive directors will be available for inspection at the Company's AGM.

	Contract date	Notice period	Contractual termination payments
Alex Snow	13.11.03	12 months	None
Richard Griffiths	29.03.01	12 months	None
Graeme Dell	03.07.01	3 months	None

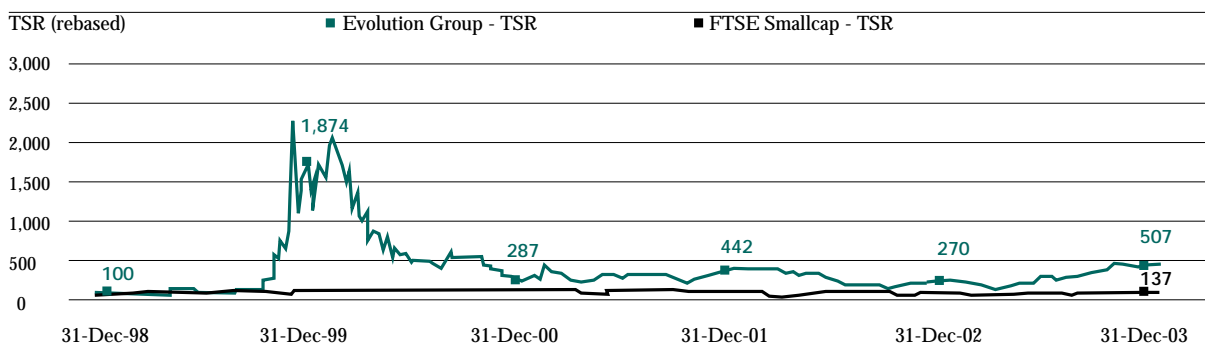
Non-executive directors

Non-executive directors do not hold service contracts. The dates of their appointment are shown on pages 14 to 15. The Non-executive directors are each appointed for an initial term of one year and thereafter reviewed at the time of each AGM. Fees for all Non-executive directors are set by the Chairman and Executive directors. The Non-executive directors are not involved in the discussions to determine their own remuneration.

Non-executive directors do not participate in the Group's annual bonus arrangements or long-term incentive arrangements.

David Norwood was granted share options during his time as an Executive director of the Company and participated in bonuses during 2003 in respect of his services as an Executive director up until 9 September 2003. At this point he took up full time executive responsibilities with IP2IPO and became a Non-executive director of the Company. David resigned as a director of the Company on 18 March 2004.

Performance Graph



The above graph shows the total shareholder return ("TSR") against that of the FTSE Smallcap Index. TSR is calculated assuming dividends are reinvested on receipt.

Over the last five years, The Evolution Group Plc has significantly outperformed the FTSE Smallcap Index to give a total shareholder return for the five year period of 407%, compared to a total shareholder return provided by the FTSE Smallcap Index of 37%.

In the opinion of the directors, the FTSE Smallcap Index is the most appropriate index against which the total shareholder return of the Group should be measured because it is an index of similar-sized companies to the Group.

Auditable information

The report on remuneration from page 24 up to this statement has not been audited. The following information has been audited by the Company's auditors, PricewaterhouseCoopers LLP, as required by Schedule 7A to the Companies Act 1985.

A summary of the total remuneration paid to Executive and Non-executive directors appears in the table below:

	Salary/ fees £'000	Annual performance cash bonus £'000	Benefits in kind £'000	Special Awards £'000	Compensation for loss of office £'000	Total 2003 £'000	Total 2002 £'000	Note
Executive directors								
Richard Griffiths	100	900	15	220	-	1,235	167	(1)
Alex Snow	100	900	2	480	-	1,482	234	(1) (2)
Graeme Dell	100	310	1	120	-	531	209	(1)
Non-executive directors								
David Norwood	86	150	1	480	-	717	86	(1) (5)
George Loudon	20	-	-	-	-	20	8	(3)
Sir Malcolm Field	20	-	-	-	-	20	8	(3)
Oliver Vaughan	20	-	-	-	-	20	12	
Andrew Beeson	5	-	-	-	79	84	41	(4)
Total	451	2,260	19	1,300	79	4,109	765	

Notes to remuneration in above table

- The special award was made in October 2003 at the time of the successful admission to AIM of IP2IPO.
- In addition to emoluments received, share options were granted during the year. For full details of these see the table on Directors' share options on page 28.
- The comparative figures for 2002 are for the period from 11 July 2002 to 31 December 2002, following the acquisition of the Beeson Gregory Group.
- The comparative figure is based on the period from 11 July 2002 to 31 December 2002 whilst the current year is based on the one month to 31 January 2003. The compensation for loss of office payment to Mr A Beeson who resigned on 31 January 2004 was paid in cash in recognition of his past executive services to the Company.
- David Norwood was an Executive director until he became a Non-executive director on 9 September 2003. He resigned from the Board on 18 March 2004. His salary and performance payments were made in recognition of his executive services to the Company.

Benefits in kind represent contributions for private medical insurance and in the case of Mr R Griffiths, the provision of a company car and for Mr A Snow, the provision of a company car allowance.

Directors' pensions

None of the directors receive any pension contributions from the Group either under defined contribution or final salary schemes.

Remuneration Report

- continued

Directors' shares under option

Date of grant	Note	At 1 January 2003	Granted during the year	Exercised during the year	Earliest exercise date	Expiry Date	Exercise price (p)	Market price at exercise date (p)	Cancelled during the year	At 31 December 2002
Richard Griffiths										
11.05.01	(3)	2,025,933	-	-	12.05.03	11.05.11	58.67	-	-	2,025,933
Alex Snow										
14.12.00	(4)	500,000	-	-	14.12.00	13.12.05	25.00	-	-	500,000
11.05.01	(2)	1,065,632	-	-	12.05.04	11.05.11	58.67	-	-	1,065,632
11.05.01	(3)	2,025,933	-	-	12.05.03	11.05.11	58.67	-	-	2,025,933
29.06.01	(1)	1,500,000	-	-	30.06.04	29.06.11	52.30	-	-	1,500,000
14.11.03	(8)	-	2,000,000	-	14.11.03	14.11.13	1.00	-	-	2,000,000
14.11.03	(9)	-	2,000,000	-	15.04.05	14.11.13	1.00	-	-	2,000,000
14.11.03	(9)	-	2,000,000	-	15.04.06	14.11.13	1.00	-	-	2,000,000
Graeme Dell										
06.07.01	(1), (10)	271,002	-	-	07.07.04	06.07.11	55.35	-	271,002	-
31.01.03	(11)	-	500,000	-	01.02.06	31.01.13	41.40	-	-	500,000
31.01.03	(12)	-	500,000	-	01.02.06	31.01.13	1.00	-	-	500,000
Andrew Beeson										
24.11.99	(5)	163,371	-	163,371	24.11.02	24.11.09	28.25	97.00	-	-
24.11.99	(5)	102,129	-	102,129	24.11.02	24.11.09	28.25	97.00	-	-
David Norwood										
19.04.01	(6)	103,617	-	-	19.04.04	18.04.11	-	-	-	103,617
16.03.00	(7)	1,063,982	-	1,063,982	09.08.02	31.01.04	10.03	66.00	-	-

No options lapsed during the year to 31 December 2003.

Save as set out above, no directors nor members of the immediate family of directors, have any options over shares in the Company or any Group company or, during the year to 31 December 2003, was granted or exercised an option over shares in the Company.

The market price for an ordinary share in the Company at 31 December 2003 was £1.015 (2002: £0.54). The highest price throughout the year was £1.025 and the lowest was £0.33.

Summary of schemes for Directors' options in the above tables

- These options were granted under the 2001 Executive Share Option Scheme. Under the terms of this scheme the performance criteria require that the closing bid of The Evolution Group Plc share price as derived from the Daily Official List published by The London Stock Exchange Plc must be not less on average than a specified amount for a period of sixty consecutive days before options can be exercised. If the share price is 90p then 25% of the options may be exercised, 110p a further 25% may be exercised, 130p then a further 25% may be exercised and 150p the remaining 25% may be exercised.
- These options were granted under the 2000 Executive Share Option Scheme (Unapproved Ordinary). A performance criteria has been set making the exercise of the option conditional on the middle market quotation of The Evolution Group Plc share price increasing by an average of 50% above the relevant exercise price over a period of 30 dealing days since the date of the grant.
- These options were granted under the 2000 Executive Share Option Scheme (Unapproved Super). No performance criteria are attached to the exercise of these options.
- These options were granted outside of any share scheme. No performance criteria are attached to the exercise of these options.
- These options were granted under the Beeson Gregory Group Executive Share Incentive Scheme 1996. No performance criteria were attached to the exercise of these options.

- 6 These options were granted under the Beeson Gregory Group Deferred Bonus Plan. No performance criteria are attached to the exercise of these options.
- 7 These options were granted under the Beeson Gregory Group Replacement Options Agreement. No performance criteria were attached to the exercise of these options.
- 8 These options were granted under the 2002 Executive Share Incentive Plan. No performance criteria are attached to the exercise of these options. This award is immediately exercisable but Mr Snow is restricted from selling any shares acquired until the announcement of the interim results for the period to 30 June 2004.
- 9 These options were granted under the 2002 Executive Share Incentive Plan. The options are granted subject to performance criteria in respect of the Group's adjusted earnings per share (based upon the adjusted operating profit figure divided by the weighted average number of shares) for the full years in 2004 and 2005. To fully vest the Group's adjusted earnings per share will need to grow by 15% per annum over the annualised level achieved in the first half of 2003 of 1.34p. This will be confirmed at the time of the announcement of the Group's results for these periods in April 2005 and April 2006 respectively. This measure has been chosen as it best reflects the Group's target for growth appropriate to the sector, market conditions in which the Group operates, and is therefore appropriately aligned with shareholders' interests.
- 10 These options were cancelled during the year.
- 11 These options were granted under the 2001 Executive Share Option Scheme at an exercise price of 41.4p. This award was made in respect of historic performance and partly in recognition of the cancellation of the previous award. No performance criteria are attached to the exercise of these options.
- 12 These options were granted under the 2002 Executive Share Incentive Plan. This award was made in respect of historic performance. No performance criteria are attached to the exercise of these options.

For further details of share schemes across the Group, see note 43 to the financial statements. All the above Beeson Gregory Group schemes are now closed.

Directors' interests in ordinary shares of The Evolution Group Plc

The directors in office at the year end had interests in the ordinary share capital of the Company (all of which were beneficial) as shown below:

	1 January 2003	31 December 2003
Richard Griffiths	5,428,675	5,835,000
Alex Snow	429,102	429,102
Graeme Dell	12,820	47,820
David Norwood	3,803,194	3,070,552
Sir Malcolm Field	11,799	11,799
George Loudon	18,350	18,350
Oliver Vaughan	384,961	399,019

Sir Malcolm Field Chairman of the Remuneration Committee
30 March 2004

Independent Auditors' Report

Independent Auditors' Report to the Members of The Evolution Group Plc

We have audited the financial statements on pages 32 to 72 which comprise the profit and loss account, the balance sheets, the cash flow statement and the related notes which have been prepared under the historical cost convention as modified by the revaluation of certain assets and the accounting policies set out on pages 36 to 39. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been 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 and the Group have not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Chairman's Statement, the Chief Executive's Report, the Financial Review, the outline of the Board, the Directors' Report, the unaudited part of the directors' remuneration report and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998, specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

The maintenance and integrity of The Evolution Group Plc website is the responsibility of the directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report 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 of the state of affairs of the Company and the Group at 31 December 2003 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
United Kingdom
30 March 2004

Consolidated Profit & Loss Account

- for the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Operating income	2	40,751	15,760
Commissions payable		(2,656)	(1,631)
Gross profit		38,095	14,129
Administrative expenses:			
Administrative expenses before impairment of goodwill		(32,720)	(18,361)
Impairment of goodwill		-	(10,865)
	3	(32,720)	(29,226)
Profit on sale of fixed asset investments		2,379	19
Profit on sale of current asset investments		99	-
Provision against fixed asset investments	18	(6,114)	(9,712)
Group operating profit / (loss)		1,739	(24,790)
Share of associated undertakings operating loss		(186)	-
Total operating profit / (loss)		1,553	(24,790)
Profit on part sale of subsidiary	4	15,085	-
Interest receivable and similar income	5	1,156	1,035
Share of associated undertakings interest receivable	5	126	-
Interest payable and similar charges	6	(21)	(15)
Profit / (loss) on ordinary activities before taxation		17,899	(23,770)
Tax on profit / (loss) on ordinary activities	9	(1,851)	(117)
Profit / (loss) on ordinary activities after taxation		16,048	(23,887)
Minority interests – Equity	39	146	51
Profit / (loss) for the financial year		16,194	(23,836)
Dividends	10	(616)	-
Retained profit / (loss) for the financial year		15,578	(23,836)
Basic earnings / (loss) per ordinary share	11	6.7p	(13.7)p
Diluted earnings per share	11	6.3p	-

All recognised gains and losses are included in the profit and loss account.
There is no difference between the result disclosed in the profit and loss account and the result on a historical cost basis.
The notes on pages 36 to 72 form an integral part of these financial statements.

Consolidated Balance Sheet

- as at 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Intangible assets	14	8,990	11,432
Investment in associated undertakings	16	25,525	-
Tangible assets	17	1,509	973
Investments	18	851	27,640
Own shares	19	492	484
		37,367	40,529
Current assets			
Debtors	20	28,171	18,721
Long trading positions	21	7,207	2,664
Investments	22	444	176
Cash at bank and in hand	23	53,705	31,988
		89,527	53,49
Creditors: Amounts falling due within one year	24	(34,734)	(17,706)
Net current assets		54,793	35,843
Total assets less current liabilities		92,160	76,372
Provisions for liabilities and charges	25	(227)	(396)
Net assets		91,933	75,976
Capital and reserves			
Called up share capital	26	2,478	2,404
Shares to be issued	27	-	508
Share premium account	28	25,739	23,892
Merger reserve	29	57,261	57,261
Profit and loss account	30	6,488	(12,053)
Total shareholders' funds	37	91,966	72,012
Shareholders funds – Equity		91,966	72,012
Minority interests – Equity	38	(33)	3,964
Minority interests and shareholders' funds		91,933	75,976

A statement of movement in shareholders' funds is given in note 37.

The notes on pages 36 to 72 form an integral part of these financial statements.

The financial statements on pages 32 to 72 were approved by the Board of Directors on 30 March 2004.

Graeme Dell Finance Director

Alex Snow Chief Executive

Company Balance Sheet

as at 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Investments in subsidiary undertakings	15	94,353	63,846
Investment in associated undertaking	16	17,212	–
Investments	18	–	5,112
Own shares	19	492	–
		112,057	68,958
Current assets			
Debtors	20	8,449	1,574
Investments	22	292	–
Cash at bank and in hand	23	30,989	16,190
		39,730	17,764
Creditors: Amounts falling due within one year	24	(68,098)	(13,924)
Net current assets		(28,368)	3,840
Net assets		83,689	72,798
Capital and reserves			
Called up ordinary share capital	26	2,478	2,404
Shares to be issued	27	–	508
Share premium account	28	25,739	23,892
Merger reserve	29	51,230	51,230
Profit and loss account	30	4,242	(5,236)
Total equity shareholders' funds	37	83,689	72,798

A statement of movement in shareholders' funds is given in note 37.

The notes on pages 36 to 72 form an integral part of these financial statements.

The financial statements on pages 32 to 72 were approved by the Board of Directors on 30 March 2004.

Graeme Dell Finance Director

Alex Snow Chief Executive

Consolidated Cash Flow Statement

- for the year ended 31 December 2003

	Note	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Net cash inflow / (outflow) from operating activities	33		11,832		(3,688)
Returns on investments and servicing of finance					
Interest received		1,159		1,009	
Interest paid		(13)		(14)	
Income from fixed asset investments		8		-	
Net cash inflow from returns on investments and servicing of finance			1,154		995
Taxation					
Corporation tax paid			(979)		(295)
Capital expenditure and financial investments					
Purchase of investments		(2,649)		(11,784)	
Sale of investments		2,611		223	
Purchase of tangible fixed assets		(1,353)		(262)	
Net cash outflow from capital expenditure and financial investments			(1,391)		(11,823)
Acquisitions and disposals					
Part disposal of subsidiary		15,015		36	
Costs of disposal		(1,616)		-	
Purchase of subsidiaries		-		(3,167)	
Net cash (disposed) / acquired with subsidiaries	36	(8,738)		14,205	
Net cash inflow from acquisitions and disposals			4,661		11,074
Cash inflow / (outflow) before financing			15,277		(3,737)
Financing					
Issue of ordinary share capital		1,413		32	
Issue of shares to minorities		5,252		-	
Expenses of share issue		(225)		(276)	
Net cash inflow / (outflow) from financing			6,440		(244)
Increase / (decrease) in cash in the year	34		21,717		(3,981)

Notes to the Financial statements

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with the applicable Accounting Standards of the UK Accounting Standards Board and pronouncements of its Urgent Issues Task Force, under the historical cost convention, as modified by the inclusion of trading positions at fair values. The movements in the fair value of trading positions are included in the profit and loss account as described below. The Companies Act 1985 requires certain movements in the fair value of trading positions to be taken to the revaluation reserve. In so far as the adopted treatment of trading positions represents a departure from current statutory requirements, the directors consider this necessary for the financial statements to show a true and fair view. The effects of this departure, which is consistent with industry practice, have not been disclosed, since the company does not retain records on an historical cost basis, which would provide reasonable quantification.

Basis of consolidation

The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings made up to 31 December 2003. Interests in associated undertakings are presented in accordance with Financial Reporting Standard 9, Associates and joint ventures. An undertaking is regarded as a subsidiary undertaking if the Group has control over its operating and financial policies.

In accordance with section 230(4) of the Companies Act 1985 Evolution Group Plc has taken advantage of the legal dispensation not to present its own profit and loss account. The amount of the profit after taxation for the financial period dealt with in the financial statements of the Company is disclosed in note 12.

Operating income

In the opinion of the directors, disclosure of turnover is most appropriately represented for the Company by operating income, comprising profits from trading activities including dividend income on such trading positions and related foreign exchange movements, and fees and commissions receivable from corporate finance and asset management activities. Fees and commissions are recognised in the profit and loss account when the related services are performed and when considered recoverable. Operating income also includes interest receivable on segregated client money accounts.

This represents an adaptation of the profit and loss account format laid down in Schedule 4 to the Companies Act 1985 due to the special nature of the Company's business.

All operating income is generated in the United Kingdom and Ireland and is principally in sterling and is stated exclusive of value added tax.

Trading positions

As noted above, proprietary trading and market making positions are stated at market value and profits and losses arising from this valuation are taken to the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less provision for any impairment in their values and are written down to their estimated residual values over their expected useful economic lives as follows:

Leasehold improvements	Over 5 years
Computers, software and similar equipment	Over 3 to 5 years
Fixtures and fittings and other equipment	Over 3 to 5 years

Goodwill

Goodwill arises under the acquisition method of accounting for business combinations and represents the excess of cost over fair value of the Group's share of net assets acquired. In accordance with Financial Reporting Standard 10, goodwill is capitalised as an intangible asset and amortised over its useful economic life. The useful economic life of the goodwill is determined at the time of the acquisition giving rise to it by considering the nature of the acquired business, the economic environment in which it operates and the period of time over which the value of the business is expected to exceed the value of the identifiable net assets.

For acquisitions, goodwill is generally expected to have a maximum useful economic life of twenty years and is subject to regular impairment reviews.

Impairment of tangible fixed assets and goodwill

Tangible fixed assets and goodwill are subject to an impairment review in accordance with Financial Reporting Standard 11 if there are events or changes in circumstances that indicate that the carrying amount of the fixed asset or goodwill may not be fully recoverable. The impairment review comprises a comparison of the carrying amount of the fixed asset or goodwill with its recoverable amount, which is the higher of net realisable value and value in use.

The carrying values of fixed assets and goodwill are written down by the amount of any impairment and this loss is recognised in the profit and loss account in the period in which it occurs.

Fixed asset investments

Fixed asset investments represent equity investments. Listed and unlisted investments are stated at historical cost less provision for impairment in value, and are held for long-term investment purposes.

The Companies Act 1985 requires investments where there is significant influence to be treated as associated undertakings and to be accounted for using the equity method of accounting.

The directors consider that in general the Group's fixed asset investments do not come within the Companies Act 1985 definition of associated undertakings, since The Evolution Group Plc does not exercise significant influence over the operating and financial policies of investees.

The directors consider that as these investments are held as part of the Group's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the Group's interest in these investments. The treatment adopted is in accordance with the accounting for venture capital and investment trusts as set out in Financial Reporting Standard 9, Associates and Joint Ventures.

The Company and Group do not have any other significant interests in fixed asset investments as at 31 December 2003.

Investment in associated undertaking

Following the disposal of shares in IP2IPO in October 2003 this company is treated as an associated undertaking in the Company and carried at cost less impairment. In the Group accounts associates are equity accounted in accordance with Financial Reporting Standard 9.

Notes to the Financial statements

Fixed asset investment impairment provisions

Provisions for fixed asset investments have been calculated in accordance with British Venture Capital Association ("BVCA") guidelines issued in August 2003. Early stage investments are valued at cost less any provision considered necessary due to performance significantly below the expectation on which the investment was based. These provisions are made as a percentage of cost in 25% bands. Later stage investments continue to be valued at cost less provision until a third party valuation or earnings multiple basis becomes more applicable. Listed investments are valued at the bid price but may be discounted further where the holding is significant in relation to the issued share capital.

Current asset investments

Current asset investments are held at the lower of cost and net realisable value.

In the Group's financial statements, investments in associated undertakings are accounted for under the equity method. The consolidated profit and loss account includes the Group's share of this associated undertaking's losses and the Group's share of net assets, excluding goodwill which is written off against reserves, of the associated undertaking is shown in the consolidated balance sheet.

Own shares

Shares in the Company held by the Share Incentive Trust which are not allocated to specific employees are held as fixed assets at cost less a provision for impairment in value if appropriate, in accordance with Abstract 13 issued by the Urgent Issues Task Force of the Accounting Standards Board.

Cash balances held with the Share Incentive Trust to purchase shares in the Company are held at the value advanced and included within cash in the balance sheet.

For the years ending 31 December 2004 onwards, UITF Abstract 13 will be replaced by UITF Abstract 38, Accounting for ESOP Trusts, and the amendments to UITF Abstract 17, Employee Share Schemes, will be adopted to reflect the change in the value attributed to share awards. The consideration paid for own shares will be deducted in arriving at shareholders' funds rather than being shown as the Company's assets. These changes in accounting policy will result in a prior year adjustment on the value attributed to share awards.

Accounting for share options

Share options issued under employee share schemes by the Group are accounted for in accordance with UITF Abstract 17, Employee Share Schemes. The intrinsic value of the options at the date an award is granted is charged to the profit and loss account between the date of grant and the earlier of the options vesting date and the performance period to which the award relates. The credit entry for the charge is taken to profit and loss reserves.

Pension commitments

The Group makes defined contributions to employees' approved personal pension plans, and the costs of these are expensed when they are incurred.

Market and client balances

In accordance with market practice, unsettled bought and sold security transactions with clients, stock exchange member firms and settlement offices are included gross in debtors and creditors respectively.

Operating leases

Rentals applicable to operating leases where substantially all the benefits and risk of ownership remain with the lessor are charged to the profit and loss account on a straight line basis over the lease term.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at historical cost less a provision for any impairment in their value. Details of the principal subsidiary undertakings are given in note 40.

Non credit risk provisions

Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation and it can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligation where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised, however, they are disclosed unless remote.

Client money

Money held on behalf of clients (other than that required to settle outstanding bargains) by the Group, in accordance with the Client Money Rules of The Financial Services Authority, and the corresponding liabilities, are not shown on the face of the balance sheet as the Group is not beneficially entitled thereto.

Foreign currency balances

Foreign currency balances in the balance sheet are translated at the prevailing closing rate with the resulting gain or loss taken to the profit and loss account. Profit and loss transactions are translated at the actual or average rate.

Deferred tax

Deferred tax is accounted for under Financial Reporting Standard 19, Deferred Tax (FRS 19). This standard addresses the recognition of deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computations.

Deferred tax, provided at anticipated tax rates and on a non-discounted basis, is recognised in respect of all timing differences, arising from transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, which have occurred at the balance sheet date. Assets are recognised on this basis only to the extent that it is regarded as more likely than not that they will crystallise in the future.

Dilapidation provision

The Group accrues costs for dilapidations on its head office lease over the period of the property lease. The accrual is based on expected costs to be incurred at the end of the lease period to bring the building back into a suitable state.

2. OPERATING INCOME

	2003 £'000	2002 £'000
Corporate finance	17,272	4,489
Sales commissions	9,067	5,913
Trading	10,994	2,196
Management fees	2,851	2,748
Other income	567	414
	40,751	15,760

Notes to the Financial statements

3. ADMINISTRATIVE EXPENSES

	2003 £'000	2002 £'000
Administrative expenses – staff costs		
Wages and salaries	15,623	7,887
Social security costs	2,323	615
Other pension costs	290	234
Other staff costs	3,012	624
Total administrative expenses – staff costs	21,248	9,360
Administrative expenses – other		
Depreciation – owned assets	774	623
Amortisation of goodwill	567	243
Amortisation of investment acquisition expenses	14	9
Write down of tangible fixed assets	–	167
Operating lease charges – cars	22	37
Operating lease charges – leasehold property	691	494
Legal costs	418	289
Direct dealing costs	1,601	2,086
Other administrative expenses	7,385	5,053
Total administrative expenses – other	11,472	9,001
Administrative expenses before impairment of goodwill	32,720	18,361
Administrative expenses – impairment of goodwill	–	10,865
Administrative expenses – total	32,720	29,226

Included within staff costs is an exceptional amount of £295,000 (2002: £953,000) relating to restructuring charges incurred during the year.

Included within other staff costs is an amount of £2,963,000 (2002: £166,000) relating to the cost of options.

Included within legal costs is an amount of £31,000 (2002: Nil) relating to restructuring costs not expected to recur.

Included within other administrative expenses is an exceptional amount of £787,000 (2002: £108,000) relating to restructuring costs not expected to recur.

The charge of £10,865,000 against goodwill in the prior year followed an impairment review of the value of the investment in Beeson Gregory Group Limited made in 2002.

The fees paid to the main auditors are summarised in the table below:

	2003 £'000	2002 £'000
Audit services		
- statutory audit	175	152
- audit-related regulatory reporting	30	28
Further assurance services		
- transaction services	255	458
- liquidation support	21	42
Tax services		
- compliance services	91	80
- advisory services	26	80
	598	840

The figures shown in the above table include amounts paid to PricewaterhouseCoopers LLP and also PricewaterhouseCoopers in previous years.

Transaction support services includes due diligence related to transactions and accounting consultations and audits in connection with transactions.

Taxation services include compliance services such as tax return preparation and advisory services such as consultation on tax matters, tax advice relating to transactions and other tax planning and advice.

Fees relating to the audit of the Company were £53,000 (2002: £41,500).

4. PROFIT ON PARTIAL DISPOSAL OF SUBSIDIARY

On 15 October 2003, the Group sold 5,460,000 shares in IP2IPO Group Plc (formerly IP2IPO Group Limited) following its admission to AIM. This resulted in the Group's holding falling to 40.61% of the issued share capital of IP2IPO Group and the change in treatment from a subsidiary to an associate. The remaining investment in IP2IPO Group has been treated as an associated undertaking.

	2003 £'000
Gain on part disposal of subsidiary net tangible assets	17,682
Goodwill disposed of (note 14)	(981)
Disposal expenses (fees and charges: £126,000; special bonus award: £1,490,000)	(1,616)
Profit on part disposal of subsidiary	15,085

The gain on this disposal is exempt from tax under substantial shareholdings relief as approved by the Inland Revenue.

For further details refer to note 37.

Notes to the Financial statements

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £'000	2002 £'000
Interest receivable from bank	1,156	1,035
Share of associate's interest receivable	126	-

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000
Interest payable	21	15

Interest is paid on overdrawn balances with clearing or settlement institutions.

7. EMPLOYEES

The average number of employees during the year was as follows:

	2003	2002
Group		
Investment banking	84	65
Stockbroking and fund management	62	54
Group activities	7	6
	153	125

The actual number of full time employees was 163 at 31 December 2003 (2002: 153).

The average number of employees within IP2IPO whilst it was a subsidiary was 6 (2002: 4).

8. DIRECTORS' EMOLUMENTS

The aggregate emoluments of the directors of the Company computed in accordance with Schedule 6 of the Companies Act 1985 are shown below.

The highest paid director had aggregate emoluments of £1,482,000 (2002: £234,000).

Other pension costs relate to amounts paid or accrued under money purchase pension schemes. No director accrued benefits under money purchase pension schemes during the year (2002: 1).

	2003 £'000	2002 £'000
Remuneration in respect of Directors:		
Aggregate emoluments	4,030	815
Other pension costs	-	6
Gains made on exercise of share options	569	-
Termination payments for the loss of office	79	-
	4,678	821

An analysis of all directors' remuneration may be found in the Remuneration Report on pages 24 to 29.

9. TAXATION

	2003 £'000	2002 £'000
Current tax:		
Corporation tax	2,123	34
Adjustments in respect of prior years	(135)	-
Current year tax charge	1,988	34
Deferred tax:		
Current year movement	(137)	83
Tax on profit / (loss) on ordinary activities	1,851	117

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%).

Notes to the Financial statements

9. TAXATION (continued)

Factors affecting the current tax charge for the year are explained below:

	2003 £'000	2002 £'000
Profit / (loss) on ordinary activities before tax	17,899	(23,770)
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	5,370	(7,131)
Effects of:		
Expenses not deductible for tax purposes	640	3,046
Items to be charged under capital items	(3,112)	-
Losses not recognised for deferred tax	-	4,073
Utilisation of losses brought forward/unrecognised deferred tax asset	(669)	-
Non taxable income	(119)	(6)
Capital allowances for year in excess of depreciation	13	52
Adjustments in respect of prior years	(135)	-
Current tax charge for the year	1,988	34

There is a potential deferred tax asset at 31 December 2003 of £12,170,000 (2002: £14,500,000), relating to timing differences arising on capital allowances, provisions against investments and trading losses carried forward. This asset has not been recognised in the accounts due to current uncertainties as to how the Group will utilise the reversal of the underlying timing differences.

The deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying timing differences could be deducted.

There is no tax charge on the profit arising on the part disposal of shares in IP2IPO of £15,085,000 as this is an exempt item under substantial shareholding relief as approved by the Inland Revenue.

10. DIVIDENDS

	2003 £'000	2002 £'000
Final proposed: 0.25p (2002: Nil) per 1p share	616	-

Dividends amounting to £3,453 (2002: Nil) in respect of the Company's shares held by an employee share trust have been waived and accordingly deducted in arriving at the aggregate dividends proposed.

11. EARNINGS PER ORDINARY SHARE

The calculation of the basic earnings per ordinary share is based on the profit on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the year. The calculation of the diluted earnings per share is based on the basic earnings per share adjusted to allow for the issue of shares on the assumed conversion of all dilutive options.

	Year ended 31 December 2003			Year ended 31 December 2002		
	Profit £'000	Weighted average no.	Earnings per share (p)	Loss £'000	Weighted average no.	Loss per share (p)
Basic earnings / (loss) per share	16,194	242,953,440	6.7	(23,836)	174,598,980	(13.7)
Dilutive effect of securities	-	12,380,589	-	-	-	-
Diluted earnings per share	16,194	255,334,029	6.3	-	-	-

In accordance with Financial Reporting Standard 14, Earnings Per Share a diluted loss per share has not been calculated for the prior year, as the dilutive effect of options would result in a more favourable loss per share from the table above.

12. PROFIT FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's profit for the financial year was £7,157,000 (2002: loss £24,512,000).

13. SEGMENTAL ANALYSIS

	Operating income £'000	2003 Profit / (loss) before tax £'000	Net assets £'000	Operating income £'000	2002 Profit / (loss) before tax £'000	Net assets £'000
Group						
Investment banking	32,126	9,584	28,938	8,835	(1,354)	22,291
Stockbroking and fund management	8,327	193	2,478	6,644	243	2,727
Other activities	215	8,616	34,992	281	(22,332)	23,686
IP2IPO	83	(434)	-	-	(327)	27,272
	40,751	17,959	66,408	15,760	(23,770)	75,976
Associates						
IP2IPO	56	(60)	25,525	-	-	-
	40,807	17,899	91,933	15,760	(23,770)	75,976

The segmental analysis follows the business lines described in the Chief Executive's Report and Financial Review on pages 4 to 12.

Investment banking in the current year refers to the business carried out in Evolution Beeson Gregory Limited. The 2002 comparative included investment banking operations in other Group companies prior to the acquisition of Evolution Beeson Gregory Limited in July 2002.

Stockbroking refers to Private Client Stockbroking and Fund Management under the Christows brand.

Notes to the Financial statements

13. SEGMENTAL ANALYSIS (continued)

Other activities refer to the central administrative, shared services and holding company functions, combined with the profits on, and provisions against, the legacy fixed asset investment portfolio. In addition, the results of Evolution Securities China Limited are included as they are not material in this, its first period of operation after the business commenced in August 2003.

IP2IPO refers to the business carried out in the Intellectual Property commercialisation field under the IP2IPO group of companies. This segment was treated as a subsidiary undertaking until 15 October 2003 and thereafter as an associated undertaking with a holding of 40.61%.

The Group's operations are substantially based in the United Kingdom and therefore no geographical analysis has been disclosed.

14. INTANGIBLE FIXED ASSETS

	Goodwill £'000
Cost	
At 1 January 2003	11,675
Part disposal of subsidiary	(1,037)
Transferred to associated undertakings	(963)
At 31 December 2003	9,675
Amortisation	
At 1 January 2003	243
Part disposal of subsidiary	(56)
Transferred to associated undertakings	(57)
Charge for the year	555
At 31 December 2003	685
Net book value	
At 31 December 2003	8,990
At 31 December 2002	11,432

The goodwill arose on the acquisition of the Beeson Gregory Group on 11 July 2002. The directors consider that the goodwill has a useful economic life of 20 years.

An amount of £981,000 represents the goodwill disposed of relating to the deemed and actual disposals of the IP2IPO Group during 2003, acquired as part of the Beeson Gregory Group in 2002 (for further details refer to note 36).

15. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Company	£'000
Cost	
At 1 January 2003	86,233
Additions	498
Transfers from other Group companies	47,570
Reclassification to investment in associated undertaking	(17,212)
At 31 December 2003	117,089
Provision for impairment	
At 1 January 2003	22,387
Charge for the year	-
Transfers from other Group companies	349
At 31 December 2003	22,736
Net book value	
At 31 December 2003	94,353
At 31 December 2002	63,846

Details of significant investments in subsidiaries are given in note 40.

Additions

On 18 August 2003 the Company acquired 75.01% of the issued ordinary shares and 100% of the issued preference shares in Evolution Securities China Limited (a company incorporated in the UK on 18 July 2003) for a total consideration of £498,000.

Transfers

On 18 August 2003 investments in the subsidiary companies: Evolution Beeson Gregory Limited; IP2IPO Group Plc; and Beeson Gregory Investment Management Limited held by another Group subsidiary were transferred at net book value to the Company.

Disposals

The Company disposed of 5,460,000 shares in IP2IPO Group following its admission to AIM on 15 October 2003. As a result of this and the issue of new equity in IP2IPO the Company's shareholding in IP2IPO fell from 84.40% as at 1 January 2003 to 40.61% as at 31 December 2003. This investment was treated as a subsidiary until 15 October 2003 and thereafter as an associated undertaking as is disclosed in note 16.

Notes to the Financial statements

16. INVESTMENT IN ASSOCIATED UNDERTAKINGS

(i) Group	£'000
At 1 January 2003	–
Share of net assets	24,691
Goodwill	894
Share of associated undertaking's losses on ordinary activities	(60)
At 31 December 2003	25,525

The investment in associated undertaking, IP2IPO Group Plc, represents 40.61% of its ordinary 10p shares. IP2IPO's business is the commercialisation of intellectual property ("IP") through the formation of long-term university partnerships. This company has developed a unique business model allowing it to enter into long-dated agreements with universities under which it acquires a significant interest in the IP that they create, and to work with its university partners to commercialise this IP.

The following table shows the share of the Group's profit and loss and net assets as at 31 December 2003:

	£'000
Operating income	56
Loss on ordinary activities before taxation	(60)
Taxation	–
Loss on ordinary activities after taxation	(60)
Fixed assets	9,502
Current assets	15,599
Creditors: amounts falling due within one year	(314)
Creditors: amounts falling due after one year	(156)
Net Assets	24,631

The goodwill associated with IP2IPO is shown below:

	Goodwill £'000
Cost	
At 1 January 2003	–
Transferred from subsidiary undertaking	963
At 31 December 2003	963
Amortisation	
At 1 January 2003	–
Transferred from subsidiary undertaking	(57)
Charge for the year	(12)
At 31 December 2003	(69)
Net book value	
At 31 December 2003	894
At 31 December 2002	–

16. INVESTMENT IN ASSOCIATED UNDERTAKINGS

(ii) Company	£'000
Cost	
At 1 January 2003	-
Transferred from subsidiary undertaking	17,212
At 31 December 2003	17,212
Net book value	
At 31 December 2003	17,212
At 31 December 2002	-

The carrying value in the Company's balance sheet represents the cost of the investment in IP2IPO as at 31 December 2003.

The market value of this investment at 31 December 2003 was £53,632,000.

17. TANGIBLE FIXED ASSETS

(i) Group	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2003	504	993	2,267	3,764
Additions	-	686	651	1,337
Disposed with subsidiaries	-	(19)	(62)	(81)
Reclassification	(28)	28	-	-
At 31 December 2003	476	1,688	2,856	5,020
Depreciation				
At 1 January 2003	435	713	1,643	2,791
Charge for the year	17	224	533	774
Disposed with subsidiaries	-	(9)	(45)	(54)
At 31 December 2003	452	928	2,131	3,511
Net book values				
At 31 December 2003	24	760	725	1,509
At 31 December 2002	69	280	624	973

(ii) Company

The Company does not own any tangible fixed assets.

Notes to the Financial statements

18. FIXED ASSET INVESTMENTS

(i) Group

	Listed investments £'000	AIM listed investments £'000	Unlisted IP2IPO Portfolio (a) £'000	Other unlisted investments £'000	Total £'000
Cost					
At 1 January 2003	1,407	9,647	21,589	22,978	55,621
Additions	–	1,051	1,419	–	2,470
Disposals	(1,407)	(158)	–	(6,132)	(7,697)
Investment in spin out companies	–	–	28	–	28
Transfer to listed investments	–	952	–	(952)	–
Transfer to current asset investments	–	(292)	–	–	(292)
Disposed with subsidiaries	–	–	(23,036)	–	(23,036)
At 31 December 2003	–	11,200	–	15,894	27,094
Amortisation of costs					
At 1 January 2003	–	–	34	–	34
Charge for the year	–	–	14	–	14
Disposed with subsidiaries	–	–	(48)	–	(48)
At 31 December 2003	–	–	–	–	–
Provisions					
At 1 January 2003	1,038	4,456	650	21,803	27,947
Provided in the year	–	6,163	–	63	6,226
Release of provision	–	(112)	–	–	(112)
Disposals	(1,038)	–	–	(6,130)	(7,168)
Transfer to listed investments	–	614	–	(614)	–
Disposed with subsidiaries	–	–	(650)	–	(650)
At 31 December 2003	–	11,121	–	15,122	26,243
Net book values					
At 31 December 2003	–	79	–	772	851
At 31 December 2002	369	5,191	20,905	1,175	27,640

The aggregate market value at 31 December 2003 of listed investments was Enil (2002: £633,000).

The transfer to AIM listed investments represents the movement of unlisted investments to listed following admission to the Official List or AIM in 2003.

AIM listed investments include stocks listed on similar overseas exchanges.

18. FIXED ASSET INVESTMENTS

(a) IP2IPO portfolio of investments

The following table summarises the components of the IP2IPO portfolio up to the partial disposal of this subsidiary on 15 October 2003:

	Oxford University Chemistry Investments £'000	Oxford University Chemistry spin outs £'000	Southampton University spin outs £'000	Other university spin outs £'000	Acquisition costs £'000	Total £'000
Cost						
At 1 January 2003	17,806	2,091	520	888	284	21,589
Additions	-	-	1,282	51	85	1,418
Investment in spin out companies	(550)	578	-	-	-	28
Disposed with subsidiaries	(17,256)	(2,669)	(1,802)	(939)	(369)	(23,035)
At 31 December 2003	-	-	-	-	-	-
Amortisation of costs						
At 1 January 2003	-	-	-	-	34	34
Charge for the year	-	-	-	-	14	14
Disposed with subsidiaries	-	-	-	-	(48)	(48)
At 31 December 2003	-	-	-	-	-	-
Provisions						
At 1 January 2003	-	-	-	650	-	650
Provided in the year	-	-	-	-	-	-
Disposed with subsidiaries	-	-	-	(650)	-	(650)
At 31 December 2003	-	-	-	-	-	-
Net book values						
At 31 December 2003	-	-	-	-	-	-
At 31 December 2002	17,806	2,091	520	238	250	20,905

(b) Significant fixed asset investments

The Group does not hold any investments representing greater than 20% of the issued share capital in any company.

Notes to the Financial statements

18. FIXED ASSET INVESTMENTS (continued)

(ii) Company

	£'000
Cost	
At 1 January 2003	9,635
Intra Group transfers in	450
Intra Group transfers out	(9,635)
Disposal	(158)
Transfer to current asset investments	(292)
At 31 December 2003	-
Provisions	
At 1 January 2003	4,523
Intra Group transfers in	112
Release of provision	(112)
Intra Group transfers out	(4,523)
At 31 December 2003	-
Net book value	
At 31 December 2003	-
At 31 December 2002	5,112

The Company did not hold any fixed asset investments at the end of the year.

19. OWN SHARES

(i) Group

	£'000
Cost	
At 1 January 2003	484
Additions	8
At 31 December 2003	492

Own shares comprise shares in The Evolution Group Plc, held by the Share Incentive Trust, which have not yet been conditionally allocated to specific employees. The number and market value of shares held in the Share Incentive Trust are disclosed below.

The Share Incentive Trust was established in 1996 by Beeson Gregory Group Limited to facilitate the granting of options over fully paid shares to certain staff. The Trust held the following 1p ordinary shares in The Evolution Group Plc at 31 December 2003:

	2003 Number of shares	2002 Number of shares
Shares allocated to specific employees in respect of options issued and therefore not consolidated in these financial statements	520,777	1,692,368
Shares consolidated in these financial statements	860,267	799,668
	1,381,044	2,492,036
Nominal value of 1p ordinary shares	£13,810	£24,920
Market value at £1.015 per share (2002: £0.54)	£1,401,760	£1,345,699

The market value represents the market price for an ordinary 1p share at 31 December 2003.

(ii) Company

	£'000
Cost	
At 1 January 2003	-
transfers	484
Additions	8
At 31 December 2003	492

Transfers represent the transfer in of shares not yet conditionally allocated to employees which were previously consolidated within another Group subsidiary at the prior year end. Following the transfer of trust balances to the Company's trust administrator, these balances are now included within the Company's balance sheet.

The number and market value of shares held in the Share Incentive Trust are disclosed under the Group in the table above.

Notes to the Financial statements

20. DEBTORS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due within one year:				
Trade debtors	3,270	1,551	-	-
Counterparty debtors	22,990	15,441	-	-
Amounts owed by Group undertakings	-	-	7,407	1,046
Amounts owed by associated undertakings	126	-	-	-
Deferred tax	54	-	-	-
Corporation tax recoverable	-	187	-	-
Other debtors	662	447	8	28
Prepayments and accrued income	1,069	1,095	34	-
	28,171	18,721	7,449	1,074
Amounts falling due after more than one year:				
Subordinated loan to Christows Limited	-	-	1,000	500
	28,171	18,721	8,449	1,574

The subordinated loan, of £1,000,000 owed by Christows Limited, was drawn in two equal tranches on 9 September 2002 and 8 April 2003 respectively, and is repayable on the date specified by notice in writing by either party being not less than two years after the date of which the notice is given. The loan is interest bearing at a rate equal to the base rate from time to time.

	Deferred tax asset £'000
As at 1 January 2003	-
Credit to the profit and loss account	54
As at 31 December 2003	54

There is a deferred tax asset at 31 December 2003 of £54,000, relating entirely to accelerated capital allowances.

21. LONG TRADING POSITIONS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Long positions in market-making and dealing operations at market value	6,860	2,664	-	-
Long principal trading positions	347	-	-	-
	7,207	2,664	-	-

The long trading positions represent shares listed on both the Official List and AIM. Short trading positions are disclosed in creditors in note 24.

22. CURRENT ASSET INVESTMENTS

(i) Group

	2003 £'000	2002 £'000
Investments	444	176

The market value of investments on the Official List at 31 December 2003 was £221,000 (2002: £226,000).

(ii) Company

	2003 £'000	2002 £'000
Investments	292	–

The market value of investments on the Official List at 31 December 2003 was £nil (2002: £nil).

23. CASH AT BANK AND IN HAND

Cash at bank includes £1,384,000 (2002: £303,000) received in the course of settlement of client transactions which is held in trust on behalf of clients, but may be utilised to settle outstanding transactions. It also includes cash of £212,000 held by the Share Incentive Trust (2002: £316,000).

24. CREDITORS: amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade creditors	947	585	–	9
Counterparty creditors	15,823	11,883	–	–
Amounts due to Group undertakings	–	–	66,868	13,463
Corporation tax payable	838	16	–	–
Other taxation and social security	769	928	–	21
Other creditors	3	74	1	1
Accruals and deferred income	11,245	2,796	613	430
Short trading positions	4,493	1,424	–	–
Dividends payable	616	–	616	–
	34,734	17,706	68,098	13,924

Notes to the Financial statements

25. PROVISIONS FOR LIABILITIES AND CHARGES

(i) Group

	Litigation £'000	Dilapidation £'000	Deferred tax £'000	Total £'000
As at 1 January 2003	113	200	83	396
Charge to profit and loss account	84	36	(83)	37
Transferred to current liabilities	–	(200)	–	(200)
Utilised during the year	(6)	–	–	(6)
As at 31 December 2003	191	36	–	227

Amounts have been provided in respect of various pending litigation against the Group. The Group has sought legal advice and will continue to defend itself vigorously against these claims. The amounts provided represent anticipated costs which the directors believe may be incurred in resolving these various legal matters.

Amounts provided in the prior year in respect of dilapidation costs for the previous offices of one of the Group's subsidiary undertakings have been transferred to current liabilities. The amount provided in respect of dilapidations in the current year relates to the new offices of one of the Group's subsidiary undertakings.

The deferred tax liability at 31 December 2002 related entirely to accelerated capital allowances.

(ii) Company

The Company has no provisions for liabilities and charges at year end (2002: £Nil).

26. SHARE CAPITAL

Company

	2003 £'000	2002 £'000
Authorised:		
400,000,000 ordinary shares of 1p each	4,000	4,000
Allotted, issued and fully paid:		
247,847,332 ordinary shares of 1p each	2,478	2,404

The following table summarises the movements of allotted, issued and fully paid share capital during 2003:

Company

	£'000
Allotted, issued and fully paid	
At 1 January 2003	
240,362,721 ordinary shares of 1p each	2,404
Issues	
7,484,611 ordinary shares on exercise of options (see below)	74
At 31 December 2003	
247,847,332 ordinary shares of 1p each	2,478

26. SHARE CAPITAL

The following issues of the ordinary shares of 1p took place during the year:

- (a) 643,251 on 15 January 2003 following the issue of 324,472 shares under The Evolution Group Plc Loyalty Bonus (Enhanced) at an exercise price of 70p, the exercise of 128,779 options under The Evolution Group Plc Executive Share Option Scheme 2000 at an exercise price of 10p, the exercise of 40,000 options under the Ex Beeson Gregory Group Plc Replacement Option Agreements at an exercise price of 10.03p, and the exercise of 150,000 options under an individual share option agreement dated 14 December 2000 at an exercise price of 25p.
- (b) 465,238 on 24 January 2003 following the exercise of 442,500 options under the Ex Beeson Gregory Group Plc Executive Share Incentive Scheme 1996 at an exercise price of 28.25p and the issue of 22,738 shares to cover employers' national insurance.
- (c) 282,438 on 17 March 2003 following the exercise of 266,797 options under the Ex Beeson Gregory Group Plc Executive Share Incentive Scheme 1996 at an exercise price of 28.25p and the issue of 15,641 shares to cover employers' national insurance.
- (d) 354,000 on 28 May 2003 following the exercise of options under the Ex Beeson Gregory Group Plc Executive Share Incentive Scheme 1996 at an exercise price of 28.25p.
- (e) 3,260,901 on 27 June 2003 following the exercise of 88,500 options under the Ex Beeson Gregory Group Plc Executive Share Option Scheme 1994 at an exercise price of 18.36p, the exercise of 400,351 options under the Ex Beeson Gregory Group Plc Executive Share Incentive Scheme 1996 at an exercise price of 28.25p, and 2,772,050 options under the Ex Beeson Gregory Group Plc Replacement Option Agreements at an exercise price of 10.03p.
- (f) 265,500 on 5 August 2003 following the exercise of options under the Ex Beeson Gregory Group Plc Executive Scheme 1996 at an exercise price of 28.25p.
- (g) 939,346 on 9 September 2003 following the issue of 401,046 shares under The Evolution Group Plc Loyalty Bonus (Enhanced) at an exercise price of 70p, the exercise of 336,300 options under the Ex Beeson Gregory Group Plc Executive Scheme 1996 at an exercise price of 28.25p, the exercise of 25,000 options under the Evolution Group Plc Executive Share Scheme 2001 at an exercise price of 52.3p, and the exercise of 177,000 options under the Ex Beeson Gregory Group Plc Executive Share Option Scheme 1994 at an exercise price of 18.36p.
- (h) 184,371 on 23 September following the exercise of 159,371 options under the Ex Beeson Gregory Group Plc Executive Scheme 1996 at an exercise price of 70.62p and the exercise of 25,000 options under the Evolution Group Plc Executive Share Scheme 2001 at an exercise price of 39.6p.
- (i) 523,166 on 21 October 2003 following the exercise of 71,014 options under the Ex Beeson Gregory Group Plc Replacement Option Agreements at an exercise price of 10.03p, the exercise of 377,152 options under the Ex Beeson Gregory Group Plc Executive Share Incentive Scheme 1996 at an exercise price of 28.25p and the exercise of 75,000 options under an individual share option agreement dated 14 December 2000 at an exercise price of 25p. These awards were issued under the Block Listing Arrangement agreed with the Listing Authority on 17 October 2003.
- (j) 38,500 on 29 October 2003 following the exercise of 38,500 options under the Ex Beeson Gregory Group Plc Executive Share Incentive Scheme 1996 at an exercise price of 28.25p. This award was issued under the Block Listing Arrangement agreed with the Listing Authority on 17 October 2003.
- (k) 354,000 on 12 November 2003 following the exercise of 354,000 options under the Ex Beeson Gregory Group Plc Executive Share Incentive Scheme 1996 at an exercise price of 28.25p. This award was issued under the Block Listing Arrangement agreed with the Listing Authority on 17 October 2003.
- (l) 173,900 on 20 November 2003 following the exercise of 88,500 options under the Ex Beeson Gregory Group Plc Executive Share Incentive Scheme 1996 at an exercise price of 28.25p, the exercise of 35,400 options under the Ex Beeson Gregory Group Plc Executive Share Incentive Scheme 1996 at an exercise price of 70.62p and the exercise of 50,000 options under the Evolution Group Plc Executive Share Scheme 2001 at an exercise price of 39.6p.

Terms of share capital

Ordinary Shares of 1p

The holder of each share is entitled to one vote on a poll. The holders also have the right to receive dividends and the right to participate on a return of capital.

Notes to the Financial statements

27. SHARES TO BE ISSUED

Company	2003 £'000	2002 £'000
Shares to be issued		
725,518 ordinary shares of 1p each	-	508

Shares to be issued relate to deferred consideration payable in shares to certain employees following the acquisition of the Beeson Gregory Group in July 2002 and referred to as "The Enhanced Bonus" in the Offer Document to shareholders on 13 June 2002. Shares were paid in two tranches in January and September 2003 as disclosed in note 26 (a) and (g).

As announced in the offer document of 13 June 2002, shares to be issued were valued at 70p per share.

28. SHARE PREMIUM ACCOUNT

Company	£'000
At 1 January 2003	23,892
Issues of ordinary share capital	1,847
At 31 December 2003	25,739

29. MERGER RESERVE

Group	£'000
At 1 January and 31 December 2003	57,261
Company	
At 1 January and 31 December 2003	51,230

The merger reserve within the Company arose on the acquisition of the Beeson Gregory Group on 11 July 2002 which was accounted for under acquisition accounting using merger relief under Section 131 of The Companies Act 1985. The adoption of this method resulted in the premium arising on the acquisition being taken to the merger reserve.

In addition to the above, within the Group, an additional merger reserve of £6,031,000 was created on the merger of The Evolution Group Plc and Christows Group Limited which took place in 2000.

30. PROFIT AND LOSS ACCOUNT RESERVE

Group	£'000
At 1 January 2003	(12,053)
Profit for the financial year	15,578
Share options	2,963
At 31 December 2003	6,488
Company	
At 1 January 2003	(5,236)
Profit for the financial year	7,157
Share options	2,321
At 31 December 2003	4,242

31. CAPITAL COMMITMENTS AND CONTINGENCIES

Under the terms of agreements entered into by the Group's associated undertaking, IP2IPO Group Plc, the Group's share of capital commitments in funds made available for investment purposes to universities with which it has entered partnership agreements as at 31 December 2003 are:

- The University of Southampton of £1,366,527 over the remaining portion of the period of four years which commenced in April 2002
- The University of York of £304,575 over the remaining portion of the period of three years which commenced in October 2003
- King's College London of £2,132,025 over the remaining portion of the period of five years which commenced in May 2003.

In 2002, when IP2IPO was treated as a subsidiary undertaking, the Group had capital commitments in funds made available for investment purposes to universities of £4,480,000 and a contingent liability of £145,000 representing amounts to be invested in university spin outs pending the meeting of certain investment milestones.

32. LEASE COMMITMENTS

The Group has operating lease commitments in respect of land and buildings of £722,000 (2002: £557,000) and of plant and machinery of £10,000 (2002: £16,000). The leases to which these amounts relate expire as follows:

	Plant and machinery		Land and buildings	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Within one year	-	6	-	315
Within two to five years	10	10	189	178
After five years	-	-	533	64
	10	16	722	557

Notes to the Financial statements

33. RECONCILIATION OF OPERATING PROFIT WITH NET CASH FLOW FROM OPERATING ACTIVITIES

	2003 £'000	2002 £'000
Operating profit / (loss)	1,553	(24,790)
Depreciation of tangible fixed assets	774	623
Amortisation of goodwill	581	252
Profit on sale of investments	(2,478)	(19)
Provisions against investments	6,114	9,712
Provisions for share options	2,963	166
Income from investments	(8)	-
Share of associated undertaking's operating loss	186	-
Write down of tangible fixed assets	-	167
Impairment of intangible fixed assets	-	10,865
Increase in debtors	(9,460)	(933)
Increase / (decrease) in creditors	15,708	(658)
(Increase) / decrease in trading positions	(4,213)	1,134
Increase in provisions for liabilities and charges	120	15
Increase in own shares	(8)	(222)
Net cash inflow / (outflow) from operating activities	11,832	(3,688)

34. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2003 £'000	2002 £'000
Increase / (decrease) in cash in the year	21,717	(3,981)
Movement in net funds in the year	21,717	(3,981)
Net funds at the beginning of the year	31,988	35,969
Net funds at the end of the year	53,705	31,988

35. ANALYSIS OF MOVEMENTS IN CASH ATTRIBUTABLE TO SUBSIDIARY PRIOR TO PART DISPOSAL

During the year the Group made a part disposal of its holding in IP2IPO Group Plc. This group was responsible for a net operating cash outflow from the Group of £388,000, received £165,000 in respect of net returns on investments and servicing of finance, paid £1,451,000 in respect of investments and capital expenditure and raised cash of £5,025,000 through the issue of ordinary shares.

36. PARTIAL DISPOSAL OF SUBSIDIARY

The Group reduced its stake in IP2IPO Group Plc on 15 October 2003 for a total consideration of £15,015,000. This brought the Group's holding in IP2IPO down to 40.61% from 54.04%. This followed the deemed disposal of the Group's holding from 84.40% to 75.24% on 27 May 2003 following the issue of 3,906,250 shares by IP2IPO in which the Group acquired 625,000 shares at £1.60 per share, giving rise to a profit of £1,020,000, and the deemed disposal on 15 October 2003 of the Group's holding from 75.24% to 54.04% following the issue of 11,450,000 shares by IP2IPO at a price of £2.75 per share in which the Group did not participate, giving rise to a profit of £9,135,000, and the successful flotation of IP2IPO on AIM.

The assets and liabilities at the date of disposal and the total consideration are set out in the following table:

Partial disposal of IP2IPO Group	£'000	£'000
i) Deemed disposal on 27 May 2003		
Gain on part disposal of subsidiary	1,228	
Goodwill disposed of	(208)	
Profit arising on deemed disposal		1,020
ii) Deemed disposal on 15 October 2003		
Profit arising on deemed disposal	9,608	
Goodwill disposed of	(473)	
Profit arising on deemed disposal		9,135
iii) Sale of shares on 15 October 2003		
Group share of IP2IPO net assets before disposal	(32,860)	
Group share of net assets following disposal	24,691	
Goodwill disposed of	(300)	
Sale proceeds	15,015	
Profit arising on disposal		6,546
Total profit on disposals (i, ii, iii)		16,701
Disposal expenses (fees and charges: £126,000; special bonus award to directors and staff: £1,490,000)		(1,616)
		15,085

Net assets of IP2IPO at date of sale of shares

	£'000
Tangible fixed assets	30
Fixed asset investments	22,339
Cash	38,639
Debtors	113
Creditors	(316)
Net assets	60,805

The net cash balances leaving the Group as a result of the part disposal was £8,738,000.

Notes to the Financial statements

37. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Shareholders' funds at 1 January	72,012	42,967	72,798	44,429
Profit / (loss) for the financial year	15,578	(23,836)	7,157	(24,512)
Issues of ordinary share capital	1,921	1,253	1,921	1,253
Shares to be issued	(508)	508	(508)	508
Share options	2,963	166	2,321	166
Share capital reduction – share capital	–	(6,971)	–	(6,971)
Share capital reduction – share premium	–	(42,013)	–	(42,013)
Share capital reduction – profit & loss account reserve	–	48,984	–	48,984
Costs of issue of share capital	–	(276)	–	(276)
Merger reserve	–	51,230	–	51,230
Net increase in shareholders' funds	19,954	29,045	10,891	28,369
Shareholders' funds at 31 December	91,966	72,012	83,689	72,798

38. MINORITY INTEREST

	£'000
At 1 January 2003	3,964
Additions	3
Deemed disposal of IP2IPO in May 2003	3,797
Deemed disposal of IP2IPO in October 2003	20,292
Charge for year on IP2IPO	(110)
Charge for year on ESCL	(36)
Part disposal of IP2IPO from subsidiary to associate	(27,943)
At 31 December 2003	(33)

Additions relate to the establishment of Evolution Securities China Limited in August 2003, a UK registered company specialising in investment banking services in Chinese equities, in which the Group holds a 75.01% stake.

Part disposal of subsidiaries relate to the deemed disposals and sale of IP2IPO following the issue of share capital by IP2IPO in May 2003 and October 2003 (refer to note 37 for further details). The Group retains a 40.61% stake in IP2IPO Group Plc, an intellectual property company.

39. FINANCIAL INSTRUMENTS

In the normal course of business, the Group uses certain financial instruments including cash, equity shares and fixed asset investments and has no borrowings.

The Group's cash and short term deposits (excluding amounts received in the course of settlement of client transactions and held by the Share Incentive Trust) were as follows:

	2003 £'000	2002 £'000
On short term deposit	–	29,652
On current account	52,112	1,717
	52,112	31,369

The notice period for short term deposits is one day.

The interest rate for short term deposits and current accounts is variable dependent on the rates offered by the Group's bankers.

Trading positions, current and fixed asset investments are funded by shareholders' funds.

The Group entered into forward foreign exchange contracts to limit its exposure on foreign currency transactions involving the settlement of foreign securities.

The Group has detailed policies and strategies in respect of these financial instruments, which seek to minimise the associated risks.

The fair value for non-trading current asset investments have been disclosed in note 22. Long trading positions are carried in the financial statements at fair value, as shown in note 21. Short trading positions are carried in the financial statements at fair value and shown within creditors in note 24.

Risk Management Objectives

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, currency and market risks. The management of these risks is vested in the Board of Directors.

Management of Liquidity Risk

The Group seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Management of Currency Risk

The Group takes out spot and forward rate contracts for foreign currency transactions to reduce currency risk exposure.

Notes to the Financial statements

39. FINANCIAL INSTRUMENTS (continued)

The Group's long/(short) currency exposures, converted to sterling at year end rates, were as follows:

	31 December 2003 £'000	31 December 2002 £'000
Euros	17	35
US Dollars	202	64
Other currencies	8	1
	227	100

Currency exposures primarily comprise investment banking trading and counterparty positions, and bank balances. Currency exposure is monitored daily by the Treasury manager, in order to keep it within appropriate limits and minimise risk throughout the year.

Management of Market Risk

The Group is exposed to market risk in respect of its equity investments. These comprise (i) fixed asset investments, (ii) trading positions, which result from proprietary trading and market making activities, and (iii) current asset investments.

(i) Fixed asset investments

The Board continues to review the performance of existing investments in the Evolution Capital Investment Limited portfolio, including the provisioning process. Note 18 summarises fixed asset investments at the year end date and the disposals and provisions made in the year. The impact on the year's results is also disclosed in note 13 (Segmental analysis of profit before tax).

(ii) Trading positions

Management of market risk in respect of trading positions is through a limit structure and active involvement of senior management under the supervision of the Board of Directors.

The following table shows the highest, lowest and average long, short, gross and net positions during the year, together with those at the year end; gross positions are defined as the absolute sum of long and short positions.

	Long Positions £'000	Short Positions £'000	Gross Positions £'000	Net Positions £'000
Highest positions	11,482	(5,146)	16,224	7,313
Lowest positions	2,700	(1,078)	3,849	245
Average positions	6,968	(3,521)	10,488	3,447
Positions at 31 December 2003	7,207	(4,493)	11,700	2,714

These amounts are calculated on a daily basis in line with the Group's monitoring of trading position limits for market making and principal trading.

The net gain included in the profit and loss account derived from trading in equity shares was £11.0 million (2002: £2.2 million)

(iii) Current asset investments

These comprise investments in listed and unlisted companies received in part payment for corporate finance services. Performance is reviewed by management who will also decide when to realise investments.

40. PRINCIPAL SUBSIDIARY UNDERTAKINGS

	Business	Percentage Owned	Country of Incorporation
Held directly by the Company			
Evolution Beeson Gregory Limited	Investment banking	100	UK
Christows Limited	Stockbroking and fund management	100	UK
Evolution Group Services Limited	Shared services	100	UK
Evolution Capital Investment Limited	Investment company: Private Equity Portfolio	100	UK
Evolution Securities China Limited	Investment banking	75	UK
Held by other Group companies			
Christows Investments (Dublin) Limited	Manager of open ended investment company	100	Ireland (Eire)

Shareholdings in the above subsidiaries are of ordinary equity shares. In accordance with S231 (5) of the Companies Act 1985, the above information is solely provided in relation to principal subsidiary undertakings. Full information is included within the Annual Return.

41. POST BALANCE SHEET EVENTS

On 23 January 2004 certain employees were granted awards of ordinary shares under the Key Performers Share Incentive Plan. These awards total 2,941,500 shares and will be subject to the performance of individuals over the 12 months from issue. Up to 50% of this award, once made may be clawed back dependent upon the individual's performance during the 12 months following the award, as measured within the Group company's annual appraisal process. The level of subsequent awards is also directly related to the individual's overall performance rating within the company's annual appraisal process. In conjunction with the outlined individual performance elements, the basic scheme target is aggregate growth in earnings (based upon the adjusted operating profit) of Evolution Beeson Gregory Limited of 15% per annum over the vesting period of the award. Additionally, the satisfactory employment by the individual within a Group company throughout the period following grant of an award is required. The price to be paid on exercise of these awards is the greater of £1 or the nominal value of shares to be subscribed for. The awards may be exercised after three years from the date of grant.

42. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under the provisions of Financial Reporting Standard 8, Related Party Disclosures, not to disclose transactions or balances between group entities that have been eliminated on consolidation.

During the period from which IP2IPO was treated an associated undertaking to the year end, the Company charged management fees for central administrative services totalling £17,000 inclusive of VAT (2002: £Nil). Amounts owing from this associated undertaking as at 31 December 2003 were £153,000, representing amounts charged for the period up to and from the date it became an associated undertaking.

During 2002, a director of the Company, Alex Snow, purchased a debenture at Twickenham for a term of 10 years. The debenture was paid for by the Group to the value of £26,000. The balance outstanding at 31 December 2003 was £23,000. An agreement is in place that requires the remaining portion of the debenture to be repaid by the director should he leave prior to the end of the ten year term. The debenture is used to facilitate the entertainment of clients.

Notes to the Financial statements

43. EMPLOYEE SHARE SCHEMES

The following table summarises the options in issue within the Group as at 31 December 2003

Options over new shares

Scheme	Exercise price (p)	Status	At 1 January 2003	Granted in the year	Exercised in the year	Cancelled in the year	At 31 December 2003
EVG 2002 Executive Share Incentive Plan	1.00	Unapproved	871,451	9,600,000	–	(1,167,801)	9,303,650
EVG 2001 Executive Share Option Plan	27.00-52.30	Unapproved Super	4,740,121	1,692,209	(100,000)	(1,662,819)	4,669,511
EVG 2000 Executive Share Option Scheme	10.00-67.00	Unapproved Ordinary	5,486,860	–	(128,779)	(869,459)	4,488,622
EVG 2000 Executive Share Option Scheme	58.67	Unapproved Super	1,892,332	–	–	(826,700)	1,065,632
BGG 1994 Share Option Scheme	18.36	Approved	265,500	–	(265,500)	–	–
BGG 1996 Executive Share Incentive Scheme	8.76-70.62	Approved	1,860,766	–	(933,908)	(572,631)	354,227
BGG 1996 Executive Share Incentive Scheme	8.76-70.62	Unapproved	3,183,734	–	(2,184,463)	(436,198)	563,073
BGG Replacement Option Agreements	10.03	Unapproved	2,883,064	–	(2,883,064)	–	–
BGG 2000 Discretionary Share Option Scheme	81.26-178.53	Approved	240,189	–	–	(87,000)	153,189
BGG 2000 Discretionary Share Option Scheme	81.26-178.53	Unapproved	602,168	–	–	(219,353)	382,815
BGG Merger Share Bonus ⁽¹⁾	–	Unapproved	648,944	–	(648,944)	–	–
Other options	25.00	Unapproved	800,000	–	(225,000)	–	575,000
			23,475,129	11,292,209	(7,369,658)	(5,841,961)	21,555,719

Options over existing shares held by the Share Incentive Trust

Scheme	Exercise price (p)	Status	At 1 January 2003	Granted in the year	Exercised in the year	Cancelled in the year	At 31 December 2003
BGG 1996 Executive Share Option Scheme	8.76-70.62	Approved	733,472	–	(587,735)	–	145,737
BGG 1996 Executive Share Option Scheme	8.76-70.62	Unapproved	18,089	–	(18,089)	–	–
BGG Deferred Share Bonus Plan	–	Unapproved	545,035	–	(147,651)	(22,344)	375,040
BGG Conditional Share Plan	–	Unapproved	395,772	–	(354,000)	(41,772)	–
			1,692,368	–	(1,107,475)	(64,116)	520,777

Notes:

⁽¹⁾ The Merger Share Bonus represents a share award to retain certain Beeson Gregory Group staff following the acquisition by The Evolution Group Plc on 11 July 2002, as referred to as "The Enhanced Bonus" in the offer document to shareholders on 13 June 2002.

⁽²⁾ In the above tables EVG refers to The Evolution Group Plc and BGG refers to the Beeson Gregory Group. The Group acquired the BGG share schemes in its acquisition of Beeson Gregory Group on 11 July 2002.

43. EMPLOYEE SHARE SCHEMES

The Evolution Group Plc 2002 Executive Share Incentive Plan

This plan was approved by the Board on 13 March 2002 and by shareholders on 10 October 2003.

Eligibility

Any director of the Company, or a Group company, and any employee of the Company, or a Group company, may be invited to participate in the Plan.

Nature of Plan

The plan provides for participants to be awarded shares in the Company at their nominal cost. Subject to achievement of performance criteria, awards of shares convert into call rights over such shares. The plan is operated in conjunction with an employee benefit trust on two levels.

It is operated as a stand-alone plan and it is also used as the framework for the Key Performers Share Incentive Plan ("KPSIP") introduced for employees of Evolution Beeson Gregory Limited in January 2003 where it forms the method of delivery of such awards made within the KPSIP framework.

Performance criteria

- Stand-alone plan

Under the stand-alone plan the basic performance criteria used prior to the vesting of awards is growth in earnings of 15% per annum over the vesting period of the award. Additionally, the satisfactory employment by the individual within a Group company throughout the period following grant of an award is required.

- KPSIP

Under the KPSIP, employees may be granted an initial award and two subsequent awards at the first and second anniversary of the initial award. Up to 50% of each award, once made may be clawed back dependent upon the individual's performance during the 12 months following the award, as measured within the Group company's annual appraisal process. The level of subsequent awards is also directly related to the individual's overall performance rating within the company's annual appraisal process. In conjunction with the outlined individual performance elements, the basic scheme target is aggregate growth in earnings (based upon the adjusted operating profit) of Evolution Beeson Gregory Limited of 15% per annum over the vesting period of the award. Additionally, the satisfactory employment by the individual within a Group company throughout the period following grant of an award is required.

Call rights

After achievement of the performance criteria and vesting of the award, a call right is granted to the individual exercisable, subject to continued satisfactory employment, within ten years of the date of the original award

Scheme Limits

The number of shares which may be issued to satisfy awards under this plan is limited to 10% of the issued share capital of the Company from time to time.

Options granted

At 31 December 2003, awards and call rights over 9,303,650 shares (2002: 871,451) were outstanding at an exercise price of the greater of £1 or the nominal value of the shares to be subscribed for. The call rights can be exercised between 14 November 2003 and 31 January 2013.

Notes to the Financial statements

43. EMPLOYEE SHARE SCHEMES

The Evolution Group Plc 2001 Executive Share Option Scheme

This scheme was approved by shareholders on 21 June 2001.

Eligibility

Any director who is required to devote the whole or substantially the whole of his working time to the service of the Company, or a Group company, and any employee of the Company, or a Group company, may be invited to participate in either Ordinary or Super options.

Option price

The exercise price shall be determined by the directors but shall not, unless approved by ordinary resolution of the shareholders be less than the greater of nine-tenths of the market value of the share at the date of the grant and the nominal value of a share.

Performance criteria

The option exercise may be conditional upon the performance of the Company and /or the participant over such period and measured against such objective criteria as may be determined by the directors. The initial performance criteria established by the Directors of the Company were that the closing bid price of a share in The Evolution Group Plc as derived from the Daily Official List published by The London Stock Exchange must be not less on average than a specified amount for a period of 60 consecutive days before options can be exercised. If the average share price is 90p, then 25% of the options may be exercised; at 110p a further 25% may be exercised; at 130p then a further 25% may be exercised; and at 150p, the remaining 25% may be exercised. At a meeting of the Board on 21 November 2002, approval was given to the waiving of these initial performance criteria for all new options granted under the scheme by varying the scheme rules.

This recommendation was made by the Remuneration Committee, having made comparisons with the practice of other groups and taken the appropriate legal advice.

Exercise of options

An option may not be exercised later than the tenth anniversary after the date of grant. The earliest date of exercise is generally two years after the date of grant for Ordinary options and three years after the date of grant for Super options.

Scheme Limits

The overall limit on the number of shares which may be issued to satisfy Ordinary options, is 10% of the issued share capital and for Super options, is 5% of the issued share capital of the Company.

Options granted

At 31 December 2003 Nil Ordinary options (2002: Nil) and 4,669,511 Super options (2002: 4,740,121) were outstanding with exercise prices between 27p and 52.3p. The options can be exercised between 30 June 2004 and 4 April 2013.

43. EMPLOYEE SHARE SCHEMES (continued)

The Evolution Group Plc 2000 Executive Share Option Scheme (Unapproved)

This scheme was approved by shareholders on 20 November 2000.

Eligibility

Any director of the Company, or a Group company, and any employee of the Company, or a Group company, may be invited to participate in either Ordinary or Super options.

Option price

The exercise price shall be determined by the directors but shall not be less than the greater of the market value of the share at the date of grant or the nominal value of a share.

Performance criteria

The option exercise on Ordinary options may be conditional upon the performance of the Company and /or the participant over such period and measured against such objective criteria as may be determined by the directors. There are no performance criteria for Super options.

Exercise of options

An option may not be exercised later than the tenth anniversary after the date of grant. The earliest date of exercise is generally three years after the grant for Ordinary options and five years after the date of grant for Super options.

Scheme Limits

The overall limit on the number of shares which may be issued to satisfy Ordinary options, is 10% of the issued share capital and for Super options, is 5% of the issued share capital of the Company.

Options granted

At 31 December 2003 4,488,622 Ordinary options (2002: 5,486,860) and 1,065,632 Super options (2002: 1,892,332) were outstanding with exercise prices between 10p and 67p. The options can be exercised between 16 January 2001 and 30 June 2011.

The Evolution Group Plc 2000 Executive Share Option Scheme (Approved)

The terms of this scheme are exactly the same as the Unapproved 2000 scheme save the restriction that no individual shall be granted options over shares with an aggregate market value (calculated as the strike price at date of grant) exceeding £30,000.

Options granted

At 31 December 2003 Nil Ordinary options (2002: Nil) and Nil Super options (2002: Nil) were outstanding.

Notes to the Financial statements

43. EMPLOYEE SHARE SCHEMES (continued)

The Beeson Gregory Group Share Option Scheme 1994 (Approved) (Closed for new awards)

Eligibility

Any former director or employee of Beeson Gregory Group who was required to devote substantially the whole of their working time to the affairs of the group. The Scheme is closed for new awards.

Option price

Existing options rolled over at acquisition were granted on 12 October 1998 and had a post rollover exercise price of 18.36p.

Performance criteria

There are no performance criteria attached to the exercise of these options.

Exercise of options

Subject to certain specific provisions, an option may only generally be exercised within the period commencing on the third anniversary and ending on the tenth anniversary of the relevant allocation date.

Options granted

At 31 December 2003 Nil (2002: 265,500) options were outstanding.

The Beeson Gregory Group Executive Share Incentive Scheme 1996 (Approved and Unapproved)

(Closed for new awards)

Eligibility

Any former director or employee of Beeson Gregory Group who was required to devote substantially the whole of their working time to the affairs of the group. The Scheme is closed for new awards.

Option price

Existing options rolled over at acquisition were granted between 21 January 1997 and 7 March 2000 and have post rollover exercise prices ranging from 8.76p to 70.62p.

Performance criteria

There are no performance criteria attached to the exercise of these options.

Exercise of options

Subject to certain specific provisions, an option may only generally be exercised within the period commencing on the third anniversary and ending on the tenth anniversary of the relevant allocation date.

Options granted

At 31 December 2003 354,227 (2002: 1,860,766) approved options and 563,073 (2002: 3,183,734) unapproved options were outstanding over new shares, with exercise prices between 8.76p and 70.62p. In addition 145,737 (2002: 733,472) approved and Nil (2002: 18,089) unapproved options over existing shares were outstanding on the same terms as above. The options can be exercised between 9 August 2002 and 7 March 2010.

43. EMPLOYEE SHARE SCHEMES

The Beeson Gregory Group Discretionary Share Option Scheme 2000 (Approved and Unapproved) (Closed for new awards)

Eligibility

Any former director of Beeson Gregory Group who is required under their contract of employment to work for not less than 25 hours per week and other employees of the group. The Scheme is closed for new awards.

Option price

Existing options rolled over at acquisition were granted between 6 July 2000 and 25 June 2001 and have post rollover exercise prices ranging from 81.26p to 178.53p.

Performance criteria

There are no performance criteria attached to the exercise of these options.

Exercise of options

Subject to certain specific provisions, an option may only generally be exercised within the period commencing on the third anniversary and ending on the day prior to the tenth anniversary of the relevant date of grant.

Options granted

At 31 December 2003 153,189 (2002: 240,189) approved options and 382,815 (2002: 602,168) unapproved options were outstanding with exercise prices between 81.26p and 178.53p. The options can be exercised between 9 August 2002 and 25 June 2011.

The Beeson Gregory Group Shares granted under Replacement Option Agreements (Unapproved)

(Closed for new awards)

Eligibility

Former holders of options to subscribe for shares in the capital of Index IT Partnership Limited.

Option price

Existing options rolled over at acquisition were granted on 16 March 2000 and have a post rollover exercise price of 10.03p.

Performance criteria

There are no performance criteria attached to the exercise of these options.

Exercise of options

Options to exercise will lapse on 31 January 2004.

Options granted

At 31 December 2003 Nil (2002: 2,883,064) unapproved options were outstanding.

Notes to the Financial statements

43. EMPLOYEE SHARE SCHEMES (continued)

The Beeson Gregory Group Deferred Bonus Plan (Unapproved) (Closed for new awards)

Eligibility

Any former directors and employees of Beeson Gregory Group. The Plan is closed for new awards.

Option price

Existing awards rolled over at acquisition were granted on 19 April 2001 and have an exercise price of £1 in aggregate.

Performance Criteria

There are no performance criteria attached to the exercise of these options.

Exercise of options

Subject to certain specific provisions, an award may only generally be exercised within the period commencing on the third anniversary and ending on the day prior to the tenth anniversary of the relevant date of grant.

Options granted under the Deferred Bonus Plan may only vest with employees three years after allocation, provided they continue to be employed by the Group, and the cost of acquiring them is included within the bonus charge for the years in respect of which they are granted.

At 31 December 2003 375,040 (2002: 545,035) options over existing shares were allocated. The options can be exercised between 9 August 2002 and 18 April 2011.

The Beeson Gregory Group Merger Share Bonus Scheme (Unapproved)

Awards granted under the Merger Share Bonus Scheme to former Beeson Gregory Group employees vest in two equal tranches on January 2003 and July 2003 following the acquisition of the Beeson Gregory Group on 11 July 2002. The Scheme is closed for new awards

At 31 December 2003 Nil (2002: 648,944) options over existing shares were allocated. The options vested with employees in January 2003 and July 2003.

Other Options

As at 31 December 2003 there were also the following options in issue which were outside any other option scheme:

Alex Snow and a former employee, Andrew Beaton were granted by the Company, on 14 December 2000, options to subscribe for up to 500,000 ordinary shares and 300,000 ordinary shares respectively at 25p per share at any time between 14 December 2000 and 13 December 2005. Andrew Beaton exercised 150,000 options on 15 January 2003 and 75,000 on 8 October 2003.

At 31 December 2003 575,000 (2002: 800,000) options over existing shares were outstanding.

The Beeson Gregory Group Conditional Share Plan (Unapproved)

(Closed for new awards)

Awards were granted to three employees on 27 June 2001 and the Plan is closed for new awards. Awards may be exercised from the second anniversary of the award date to the two year and six month anniversary of the date of grant at an aggregate exercise price of £1.

At 31 December 2003 Nil (2002: 395,772) options over existing shares were allocated.

