



the evolution group plc

Report and Financial Statements
for the year ended 31 December 2002

Evolution Beeson Gregory:
a specialist small and mid cap
investment bank

Christows: a leading private
client stockbroker and
fund manager

IP2IPO: a unique company
whose strategy is to commercialise
intellectual property
created by academic institutions

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Directors and Advisors

Directors	R.I. Griffiths (Appointed Chairman 30 January 2003) A.N.W. Beeson (Non Executive Chairman) (Resigned 30 January 2003) A.C.W. Snow (Chief Executive) G.J. Dell (Finance Director) D. Norwood (Executive) Sir Malcolm Field (Non Executive) O.J. Vaughan (Non Executive) G. Loudon (Non Executive)
Company Secretary	N.R. Gordon
Registered Office	The Registry Royal Mint Court London EC3N 4LB
Auditors	PricewaterhouseCoopers LLP Southwark Towers 32 London Bridge Street London SE1 9SY
Solicitors	Stringer Saul 17 Hanover Square London W1S 1HU
Nominated advisers and brokers	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

Financial Highlights

	1st Half 2002 £'000	2nd Half 2002 ⁽¹⁾ £'000	31 December 2002 £'000	31 December 2001 £'000
Group Turnover	5,117	10,240	15,357	7,580
Commissions payable	(885)	(746)	(1,631)	(1,386)
Gross profit	4,232	9,494	13,726	6,194
Other operating income	5	87	92	31
Operating costs	(6,249)	(10,836)	(17,085)	(12,343)
Operating loss before non-recurring costs, profit on/and provision against fixed asset investments and impairment of goodwill	(2,012)	(1,255)	(3,267)	(6,118)
Profit on sale of fixed asset investments			19	7,003
Provision against fixed asset investments			(9,712)	(4,739)
Non-recurring costs			(1,276)	(1,767)
Impairment of goodwill			(10,865)	(7,144)
Operating loss			(25,101)	(12,765)

⁽¹⁾ The second half of the year includes the results of the Beeson Gregory Group after its acquisition became unconditional in all respects on 11 July 2002.

Chairman's Statement

2002 was a year of extraordinary development and growth for the Group

Evolution Beeson Gregory is now a fully functional independent investment bank

Following my appointment as Chairman of The Evolution Group Plc ("Evolution Group" or the "Group") on 30 January 2003, I am delighted to be reporting the progress that has been made by the Group. 2002 was a year of extraordinary development and growth for the Group. The scale and scope of the business at 31 December 2002 is very different from that of a year earlier.

Alex Snow, the Group's Chief Executive Officer, is responsible for all aspects of the Group's operating businesses and he provides, in his report which follows, a full review of the year's results. Two things are clear from these results. Firstly, there have been significant items that are non-recurring in nature – provisions against fixed asset investments, redundancy and restructuring costs, and the impairment of goodwill – accounting for over £21 million of the overall loss. Secondly, the performance of our operating businesses was significantly stronger in the second half than the first, as a result of the merger with the Beeson Gregory Group in July 2002 and recognition of the related synergies. Therefore as we entered 2003, the Group's operating businesses were all structured appropriately with their costs aligned to the achievement of profitability going forward.

The Group's merger totally changed our investment banking platform. Evolution Beeson Gregory was created and, following a significant restructuring effort, is now a fully functional independent investment bank servicing the small and mid-cap sector. Christows continues its strategy for growth and has returned to profitability in 2002 following significant restructuring in 2001. IP2IPO, the Group's Intellectual Property commercialisation company, has made enormous progress in 2002 with the signing of its second major University partnership with the University of Southampton and the successful spin-out of further companies. I would like to thank my predecessor, Andrew Beeson, on behalf of the Board, for helping to ensure the integration of the two groups went smoothly and wish him well in his future endeavours.

Outlook

2002 was a watershed year for the small and mid-cap sector. The current trend has been for the large integrated investment banks to withdraw from this end of the market. This in turn has created significant opportunities for small, independent, well capitalised companies, such as Evolution Beeson Gregory, who focus exclusively on this area. We constantly strive to maintain and improve our customer service and company coverage to maximise the opportunities going forward. A salary cap, along with a new equity participation scheme for employees, ensures that management's, employees' and shareholders' interests are aligned in creating capital growth in the future. Christows has a similar opportunity in its sector with its focus on client service and innovative product offerings. Finally, IP2IPO looks forward to this year as one in which it gains value from its unique and totally leading edge access to the commercialisation opportunities through its University partnership agreements.

The Board recognises that all of the businesses in which we operate are people businesses, where our primary assets are our people. The last year has been one where our staff have demonstrated real commitment in what have been circumstances of internal restructuring against a background of external market turmoil. I should like to take this opportunity to thank everyone for these efforts that move us toward the achievement of our goals. The Group has a very clear and achievable strategy - revenue maximisation, strict cost management and asset realisation achieved in a timely and proactive fashion.

The Group has traded profitably in the first quarter of 2003 on a consolidated operating basis. The Board looks forward to the future with confidence and conviction.



Richard Griffiths

Chairman

22 April 2003

Christows has returned to profitability in 2002

IP2IPO enjoyed progress by signing second major university partnership

Chief Executive's Report

Review of the year

Investment banking

At the start of 2002, we had just commenced trading as Evolution Capital, a newly established and regulated company with nascent equity sales, trading and research functions. The brand was quickly established and revenues developed over the first few months of the year as we set about providing our institutional clients with the service they wanted. It was clear as we announced last year's results that the sector offering investment banking services to small and mid cap companies was one where change and consolidation were inevitable.

We established our strategy to set about leading this development and identified the established business of Beeson Gregory Group as one where opportunities as a business combination were maximised. The offer by the Group to acquire the entire share capital of Beeson Gregory became unconditional on 11 July 2002 and from that point forward we set about achieving our goals of integrating the two companies to form Evolution Beeson Gregory, rationalising the cost base and growing the revenue line.

The integration process was largely completed by the year end with annualised ongoing costs reduced from a combined level of £15m at completion to £10m currently. A major part of this saving was achieved by reducing the combined headcount from 128 at completion to 84 at 31 December 2002 and introducing caps to salaries, which significantly reduced the average salary levels across the company. At the same time we have reviewed the equity participation available to our key staff and implemented at the beginning of 2003 the Key Performers' Share Incentive Plan. Revenue growth has also been achieved and the combined business produced revenue in the second half of 2002 of £7.5m, which was in excess of our budgets against a background of extraordinarily difficult market conditions.

Evolution Beeson Gregory has continued to grow its portfolio of retained corporate broking and advisory clients over the course of the second half of 2002. In

total, 16 new retained corporate clients were added. Evolution Beeson Gregory had 104 retained corporate clients at the end of the year. The retainer income derived from these corporate clients totals over 25% of the projected overall investment banking annual cost base. As the wholesale withdrawal from the small and mid-cap marketplace continues by the global investment banks, it is expected that the rate of growth of new corporate clients will be maintained.

A key area of synergy arising from the merger resulted from Evolution Capital's secondary market expertise. The combined secondary market sales commission revenue has grown sharply during a period when transaction volumes and transaction value in the small and mid-cap market have reduced sharply. Indeed, official market share data confirms that Evolution Beeson Gregory's market share has risen significantly in the FTSE Fledgling, FTSE small-cap and FTSE 250.

Private client stockbroking and fund management

Christows' overall performance during 2002 was impressive when compared with a year earlier and, against the background market conditions, this is particularly encouraging. The overall result was a retained profit of £0.2m compared with a loss of £2.0m for 2001, a turnaround of £2.2m. Within this overall performance the revenue from all classes of transaction based commissions and management fees have clearly been under pressure as the conditions in the underlying equity markets took their effect. However, we were able to maintain the revenue against the previous year's level by the introduction of new clients bringing significant new discretionary funds under management.

These came principally via our continued drive of sales through the intermediary market of independent financial advisers with new funds of £54m being introduced compared with £44m in 2001 from this source. Sales to this market comprise the very successful Private Portfolio Account and also, since its introduction in November 2002, the Multi-Manager Portfolio Service.

We have continued through the year to focus extremely

hard on cost management. We have worked with our outsourced service providers to reduce the costs of our business at current volume levels and to provide for reduced marginal costs as transaction volumes grow.

Christows continues to attract new discretionary funds under management and the launch of our Multi-Manager Portfolio Service widens our product offering. The concentration of effort continues to offer a traditional private client service, whilst striving to offer new innovative products to our growing client base.

IP2IPO

At the end of 2002, the Group had a majority stake totalling 84% in IP2IPO Group Limited ("IP2IPO"), an Intellectual Property commercialisation company.

IP2IPO has continued through the second half of 2002 to make enormous progress in the creation and development of spin out ventures from its two university partnerships with Oxford University's chemistry department and The University of Southampton.

The three spin-outs completed in the second half of 2002; Glycoform, Capsant Neurotechnologies and Southampton Polypeptides, added to those previously established give IP2IPO significant equity stakes in a total of seven companies at the end of the year, derived from its two partnerships. There is no doubt that IP2IPO offers the Group a strong pipeline of assets spun-out of universities for a significant period of time and these provide both capital appreciation and corporate advisory revenue opportunities to the Group.

IP2IPO has many unique features. The exclusive ownership of long term intellectual property assets from Oxford University's chemistry department and The University of Southampton has enormous, as yet unrealised, value. The embedded value of the existing intellectual property in these two institutions is substantial. In addition, the ongoing spend by third parties develops even more leading edge intellectual property, creating further commercial opportunities.

We are very confident that IP2IPO will deliver substantial value for shareholders.

Non-recurring costs

Within 2002 there were significant exceptional costs that the Board does not expect to be repeated. The most significant of these is the impairment charge of £10.9m

against the goodwill arising on the acquisition of the Beeson Gregory Group. As we detailed in the circular at the time of the Group's share capital reduction process in November 2002, this revaluation principally resulted from the extreme downward movements in investment banking shares that occurred after the transaction was completed, together with a reduction in the valuations ascribed to certain private equity assets within Beeson Gregory's portfolio.

The restructuring costs within the Group totalled £1.3m, consisting of a redundancy programme, professional fees associated with streamlining the Group's legal entities following the merger and costs of arranging the share capital reduction process.

Investment Provisions

The Board outlined at the half year results and in November's circular that the valuations of the Group's legacy investments in private equity ventures had been significantly reduced. In total for the full year we have made further provisions during 2002 of £4.5m and at the year end the portfolio has a value of £1.5m. As we have stated, the Group is now no longer actively involved in principal private equity investment and will simply seek to extract some value from exits from this portfolio. Events subsequent to the year end have shown that the value of the Group's investment in Inter-Alliance Group Plc has been reduced and the Board has decided it is prudent to recognise a write off of £4.5m as at the balance sheet date.

Balance sheet strength

The Group continues to maintain its focus on the strength of its balance sheet. As at 31 December 2002, the Group had a cash balance of £32m, had taken all steps to ensure fixed asset investments were fully provided for where appropriate and performed an impairment review of its goodwill balances.



Alex Snow

Chief Executive Officer

22 April 2003

Management Team and Outline of Activities

The Group has changed dramatically over the last 12 months and, having merged with the Beeson Gregory Group in July, it has increased significantly its breadth of operating businesses. We would like to take this opportunity to highlight the make up of its management team and outline the current operating businesses in detail.

Management Team

The Evolution Group is the holding company of Evolution Beeson Gregory, Christows and IP2IPO. 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.

Richard Griffiths (36), 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. In addition he represents the Board in some of the Group's strategic and private equity investments.

Alex Snow (33), 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 and Christows and sits on the Board of IP2IPO.

Graeme Dell (36), 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 and Christows.

David Norwood (35), Director, joined the Group upon its merger with Beeson Gregory Group. 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 Group's Intellectual Property subsidiary, IP2IPO Group where he is Chairman and Chief Executive and responsible for its operational management and strategic direction.

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.

Sir Malcolm Field (65) is the Senior Non Executive Director and Chairman of the Remuneration Committee. He has recently been appointed by the Government on the design and development of Transport Direct, having previously held the role of Chairman of the Civil Aviation Authority. Prior to this he was Chief Executive at WH Smith and a Non Executive Director of Scottish and Newcastle Breweries Plc, MEPC Plc and the Phoenix Group. He was knighted in 1991.

George Loudon (60) is Chairman of the Audit Committee. 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.

Oliver Vaughan (55) is a Non Executive Director. 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.

Outline of Activities



Evolution Beeson Gregory ("EVBG") aims to be the "leading investment bank to small and mid cap companies". This is based upon the belief that it has the strategy and capabilities to achieve this goal, coupled with the fact that the market opportunity exists for this strategy to be a successful and profitable one.

The company's capabilities are strong across the primary and secondary equity market and central to this is the presence of a leading corporate retained client base in the small and mid cap sector. We service these clients by providing the full range of corporate finance, research, market making and sales activities and delivering all of these with a strong client service culture.

Our corporate finance track record in the small and mid cap sector is renowned and undoubtedly a specialism of which we are proud. We get to know our clients' needs and have been able to arrange flotations and secondary share issues, acquisitions, disposals, private fundraisings and public company takeovers and mergers. Operating in parallel with this, our corporate broking and investor relations' capabilities ensure that the regular communication with the market, regulators and shareholders, both existing and potential, is optimised.

The company's sales team services its institutional customer base and is both the medium by which deals originated within corporate finance are brought to the market and is a formidable presence in secondary market trading for our corporate and other stocks. Within this team there is a blend of experienced and dynamic individuals who ensure they understand their institutional clients current positions and future views and match these with those of other institutions or arrange for transactions to be facilitated by the sales traders or market makers.

EVBG's market making operates under the EVO mnemonic and in April 2003 has been significantly increased in scale. We make markets in over 400 small and mid cap stocks, including all of the company's corporate client stocks. Market making ensures the operation of an orderly and liquid market and brings the retail stockbrokers to the market to transact in the stocks of our small and mid cap specialism.

Research is the final cornerstone of EVBG's product offering and we have assembled a team of analysts dedicated to the understanding and interpretation of industry trends who are tasked with the responsibility of translating that into valuable insights for institutional clients on secondary markets and helping to provide corporate support across a wide range of sectors in primary markets. We aim to be proactive, disciplined, act with integrity, produce top quality research and to be honest in our appraisal of companies.

Operating across the company is a sector focus to ensure that we can maximise the impact of our offering to every corporate client and institutional customer. The sector specialisms include, consumer, electronics, life sciences, resources, services and industrials. These cross discipline groups enable knowledge transfer, the generation of innovative solutions and complete the specialist feel that is important to our clients.

Overall we are confident that the investment banking franchise has a solid foundation from which to achieve its strategic goals, and we recognise the need to continue to strive for strong client service to maintain and develop our client base.

Outline of Activities (continued)

CHRISTOWS

Christows is a leading independent firm of stockbrokers and portfolio managers which, from its foundation in 1991 in Exeter, has always set out to provide a traditional stockbroking service whilst developing an innovative product offering. Christows now also operates from London and Bournemouth and has 55 staff across account executive, research, sales and administration staff.

Christows' core bespoke discretionary portfolio management services are delivered by its team of highly qualified account executives. We formulate with each client their investment objectives and then provide a tailor-made solution which aims to meet these. We believe in offering a client direct access to the account executive and encourage regular face to face meetings. These allow us to provide an update on performance, market conditions and keep abreast of the clients circumstances and ongoing objectives. The research department supports the account executives' portfolio decisions by providing rigorous research and strategy output providing economic analysis, sector weighting, individual stock analysis and trade ideas. The company's regular monthly, quarterly and annual summaries of market performance are also available to clients.

Christows' sales team are responsible for introducing a significant proportion of the new client leads to the account executives. The sales team are focused on the intermediary market that is typically Independent Financial Advisors and firms of lawyers and accountants whose clients require the services of a specialist stockbroker. The principal products developed for this market are the Private Portfolio Account and the Multi-Manager Portfolio Service. These allow the intermediary to introduce clients who typically have between £25,000 and £2.5m to invest in Christows discretionary management services whilst participating in future fee income.

The backbone to the business is the intranet system which facilitates the dissemination of all centralised

model portfolios, research recommendations, compliance data and new client account documentation. The intranet system operates alongside the front and back office systems provided by Pershing Securities Limited which offer a proven outsourced solution for the processing of all client transactions. This allows Christows to both concentrate on its core activity of discretionary portfolio management and to accommodate future growth on an easily scaleable basis.

Christows also operates a unitised range of fund products via an Open Ended Investment Company structure, currently through Christows Investments Plc, which is listed in Dublin.

As at 31 December 2002, Christows had a total of £326m client funds under management, on over three quarters of which it receives a recurring fee based commission. Christows' strategy for 2003 is one of controlled growth of the funds under management by organic means through the sales and account executive teams and by the recruitment of like minded account executives who can attract new clients to the company.



IP2IPO's business is the commercialisation of intellectual property ("IP") through the formation of long term university partnerships. The 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.

IP2IPO's first university partnership is with the University of Oxford. The partnership has a 15 year term and entitles IP2IPO to 50% of the University of Oxford's interest in IP developed by the university's chemistry department, one of the world's largest chemistry departments.

In March 2002, IP2IPO entered into partnership with the University of Southampton. This partnership has an

initial term of 25 years and covers the entire university, which has an excellent reputation for research with particular strengths in electronics and computer sciences, opto-electronics, engineering, medicine and biological sciences. Under the partnership, IP2IPO will invest £5m in University of Southampton spin out companies over a 4 year period; and has received a 20% interest in Southampton Asset Management Limited, a company which was formed to hold the University of Southampton's equity stakes in spin out companies created since the start of the partnership.

IP2IPO has external shareholders holding the 15.6% interest not owned by the Group. These shareholders have principally subscribed for these shares through two share placings. The most recent placing occurred in March 2002 when IP2IPO raised £3m, valuing it at £40m immediately after the placing.

By the end of 2002, 7 spin out companies had been formed, and since the year end a further 3 have followed. The current spin out companies are as follows:

Inhibox Limited – a drug discovery company that harnesses the idle time computing power of over 2 million PCs world wide.

Pharminox Limited – a drug development company that focuses on platinum based cancer therapies.

Zyentia Limited – a company based on the pre-eminent protein research of Professor Chris Dobson, FRS. Zyentia's primary objective is to develop novel protein drugs using its proprietary "protein folding" technology platform.

Glycoform Limited – a drug delivery company that uses a proprietary carbohydrate based drug targeting system (LEAPT) developed by 2 Oxford carbohydrate chemists.

VASTox Limited – a company founded by Professor Steve Davies, founder of Oxford Asymmetry. VASTox is a chemistry services company and has developed a range of screening technologies for the pharmaceutical industry.

ACTIVEem Limited – is a spin out from Southampton University's School of Oceanography and utilises novel EM-sounding techniques for the detection of offshore oil

reserves. The company has already generated its first significant revenues and has successfully raised its second round of finance.

Capsant Neurotechnologies Limited – has been formed to discover new treatments for disorders of the central nervous system.

Southampton Polypeptides Limited – focuses on novel methods for the synthetic production of proteins and peptides.

Nanotecture Limited – is a materials science company that has developed a platform technology based on nanoscale, porous lattices. The company's first application is energy storage for batteries and supercapacitors.

HepCGen Limited – has been formed to exploit new methods of diagnosis and treatment for Hepatitis C.

Finance, operations, technology, compliance and resources

Throughout the Group's operating businesses there is a common thread supporting our business activities. All of the Group's products are supported by a team of finance, operations, technology, compliance, HR and administrative professionals. They are dedicated to enabling, verifying, confirming and reporting our business to ensure we meet the very highest standards of control, regulatory compliance and financial reporting. This team operates across the group ensuring efficiency and economies of scale and providing the management team with appropriate and timely management information. We see these areas as fundamental to the development of a successful business that is profitable over the long term and, once again in this area, we recognise that quality client service whether inward facing or to the Group's external contacts, is paramount.

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 2002.

Review of business

The Group acquired the entire share capital of the Beeson Gregory Group, a listed investment banking group, on 11 July 2002. Following this acquisition the Group now provides investment banking services, comprising corporate finance and advisory services to public and private companies, and institutional sales, trading and research services in corporate clients. The Group also operates in intellectual property commercialisation through the IP2IPO Group and has a legacy portfolio of private equity investments from which it aims to extract value in the future.

In the prior year the Group undertook institutional investment banking business through Evolution Capital Limited. This business was transferred to Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited) following the acquisition of Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) in July 2002.

The Group undertook private client stockbroking and fund management through its Christows business throughout the year.

A review of the business during 2002 and the prospects of the Group for the current year are set out in the Chairman's Statement and Chief Executive's Report on pages 4 to 7.

Results and Dividends

The loss attributable to the members of The Evolution Group Plc for the year ended 31 December 2002 amounted to £23,836,000 (2001: £10,510,000). The Directors do not recommend the payment of a dividend (2001: £Nil).

Post balance sheet events

Full details of all significant post balance sheet events are set out in note 40 to the accounts.

Directors

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

	Date of appointment	Date of resignation
Richard Griffiths	–	–
Alex Snow	–	–
Graeme Dell	–	–
David Norwood	11 July 2002	–
Andrew Beeson	11 July 2002	30 January 2003
Sir Malcolm Field	11 July 2002	–
George Loudon	11 July 2002	–
Oliver Vaughan	–	–
James Chilcott	–	11 July 2002

Share capital reduction

On 18 December 2002 the Company's application to reduce its share capital and apply its accumulated loss reserves to the Company's share premium account was accepted by the High Court and became effective following the registration of the Court Order at Companies House on 19 December 2002. The effect of this was to reduce issued share capital by £6,971,000 and the share premium account by £42,013,000 and reduce the Company's accumulated losses by £48,984,000. These proposals were accepted by shareholders at the Extraordinary General Meeting of 3 December 2002.

Purchase of own shares

The Group currently operates two share trusts. The Evolution Group Employees' Share Trust administers The Evolution Group Plc share schemes and is managed by the Sanne Trust, whereas the Share Incentive Trust administers the legacy Beeson Gregory Group share schemes managed under The Bank of Butterfield.

Under the Share Incentive Trust shares which have been

purchased but not unconditionally allocated to an employee are included within the balance sheet of the Group at cost. The value of such shares at 31 December 2002 is £484,000 (2001: £Nil). The nominal value of such shares at 31 December 2002 is £8,000 which represents 0.33% of the called up share capital of the Company (2001: £Nil; Nil%).

The directors have decided to transfer all share schemes to The Evolution Group Employees' Share Trust in 2003.

Directors' interests in ordinary shares of The Evolution Group Plc

The directors in office at the year end having interests in the ordinary share capital of the Company are shown below:

	1 January 2002 or date of appointment ⁽¹⁾	31 December 2002
Richard Griffiths	4,453,615	5,428,675
Alex Snow	244,102	429,102
Graeme Dell	12,820	12,820
David Norwood	3,703,194	3,803,194
Andrew Beeson	5,239,200	4,562,000
Sir Malcolm Field	11,799	11,799
George Loudon	–	18,350
Oliver Vaughan	384,961	384,961

⁽¹⁾ The interests at the date of appointment in ordinary shares have been restated to reflect the acquisition of the share capital of Beeson Gregory Group Plc that occurred on 11 July 2002. On this date every one ordinary 5p share in Beeson Gregory Group Plc was exchanged for 1.77 1p shares in The Evolution Group Plc.

Chairman

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

Directors' Report (continued)

Directors' shares under option

Date of grant	Note	At 1 January 2002 ⁽ⁱ⁾	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
Graeme Dell										
06.07.01	(1)	271,002	–	–	07.07.04	06.07.11	55.35	–	–	271,002
Andrew Beeson										
24.11.99	(5)	163,371	–	–	24.11.02	24.11.09	28.25	–	–	163,371
24.11.99	(5)	102,129	–	–	24.11.02	24.11.09	28.25	–	–	102,129
David Norwood										
19.04.01	(6)	103,617	–	–	19.04.04	18.04.11	–	–	–	103,617
16.03.00	(7)	1,063,982	–	–	09.08.02	31.01.04	10.03	–	–	1,063,982

⁽ⁱ⁾ Or date of appointment. The interests at the date of appointment in shares under option have been restated to reflect the acquisition of the share capital of the Beeson Gregory Group Plc that occurred on 11 July 2002. On this date every one ordinary 5p share in Beeson Gregory Group Plc was exchanged for 1.77 1p shares in The Evolution Group Plc.

No options lapsed during the year to 31 December 2002.

Save as set out above, no Directors, nor members of the immediate family of any Directors, have any options over shares in the Company or, during the year to 31 December 2002, exercised an option over shares in the Company.

All of the above are nil cost options.

Shares under option issued to directors in the post balance sheet period

The following options of Graeme Dell were cancelled and re-issued in the post balance sheet period in relation to his services in 2002:

Date of grant	Note	At 1 January 2003	Granted since the year end	Exercised since the year end	Earliest exercise date	Expiry Date	Exercise price (p)	Market price at exercise date (p)	Cancelled since the year end	At 10 April 2003
Graeme Dell										
06.07.01	(1)	271,002	–	–	07.07.04	06.07.11	55.35	–	271,002	–
31.01.03	(9)	–	500,000	–	01.02.06	31.01.13	41.40	–	–	500,000
31.01.03	(8)	–	500,000	–	01.02.06	31.01.13	1.00	–	–	500,000

Options issued to employees in the post balance sheet period have been disclosed in note 40.

Summary of schemes for Directors' options in the above tables

1. 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.
2. 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.
3. These options were granted under the 2000 Executive Share Option Scheme (Unapproved Super). No performance criteria are attached to the exercise of these options.
4. These options were granted outside of any share scheme and there are no performance criteria attached to the exercise of these options.
5. These options were granted under the Beeson Gregory Group Executive Share Incentive Scheme 1996. No performance criteria are 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 are 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.
9. These options were granted under the 2001 Executive Share Option Scheme at an exercise price of 41.4p. No performance criteria are attached to the exercise of these options.

For further details of share schemes across the Group, see note 42 to the financial statements. All the above Beeson Gregory Group schemes are now closed.

Directors' Report (continued)

Charitable donations

During the year the Group made charitable donations of £2,763 (2001: £2,465).

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 creditors days at the year end was 25 days (2001: 36).

Substantial shareholdings

Other than the interests of the directors, the following shareholders are known to have an interest in the Company greater than 3%:

Shareholder Name	Number of shares held	Holding %
Artemis Investment Management Limited	13,027,150	5.42

The Company has not been notified of any other interests greater than 3% of the issued share capital as at 22 April 2003.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the independent auditors' report set out on page 17, 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 18 to 57 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

Following the conversion of our auditors, PricewaterhouseCoopers to a limited liability partnership (LLP), effective from 1 January 2003, PricewaterhouseCoopers resigned as auditors and the Board appointed PricewaterhouseCoopers LLP to fill the casual vacancy created by the resignation.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and pursuant to section 388 (3) (b) of the Companies Act 1985, an ordinary resolution, with special notice, re-appointing them as auditors and authorising the directors to determine their remuneration will be proposed at the 2003 Annual General Meeting. The Audit Committee reviews and approves the appointment of the external auditors.

BY ORDER OF THE BOARD

N.R. Gordon
Secretary
22 April 2003

Independent Auditors' Report

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

We have audited the financial statements on pages 18 to 57 which comprise the profit and loss account, the balance sheet, 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 22 to 25.

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.

Our responsibility is to audit the financial statements 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company 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 and the Management Team and Outline of Activities.

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. 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 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 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
United Kingdom

22 April 2003

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER

	Note	2002 £'000	Acquisitions 2002 £'000	Total 2002 £'000	Total 2001 £'000
Turnover		8,209	7,148	15,357	7,580
Commissions payable		(1,631)	-	(1,631)	(1,386)
Gross profit		6,578	7,148	13,726	6,194
Administrative expenses:					
Administrative expenses before impairment of goodwill		(10,790)	(7,571)	(18,361)	(14,110)
Impairment of goodwill		(10,865)	-	(10,865)	(7,144)
	2	(21,655)	(7,571)	(29,226)	(21,254)
Other operating income	3	2	90	92	31
Profit on sale of fixed asset investments		19	-	19	7,003
Provision against fixed asset investments	15	(9,062)	(650)	(9,712)	(4,739)
Operating loss		(24,118)	(983)	(25,101)	(12,765)
Interest receivable and similar income	4	1,116	230	1,346	1,896
Interest payable and similar charges	5	(12)	(3)	(15)	(9)
Loss on ordinary activities before taxation		(23,014)	(756)	(23,770)	(10,878)
Tax on loss on ordinary activities	8	(117)	-	(117)	369
Loss on ordinary activities after taxation		(23,131)	(756)	(23,887)	(10,509)
Minority interest	37	-	51	51	(1)
Loss for the financial year attributable to the members of The Evolution Group Plc		(23,131)	(705)	(23,836)	(10,510)
Basic loss per ordinary share	10			(13.65)	(9.92)

All income is derived from continuing activities. There is no material difference between the result disclosed in the profit and loss account and the result on an unmodified cost basis.

The notes on pages 22 to 57 form an integral part of these financial statements.

Consolidated Balance Sheet

AS AT 31 DECEMBER

	Note	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	12	11,432	–
Tangible assets	13	973	1,016
Investments	15	27,640	4,764
Own shares	16	484	–
		40,529	5,780
Current assets			
Debtors	17	18,721	3,983
Equity shares	18	2,664	64
Investments	19	176	–
Cash at bank and in hand	20	31,988	35,969
		53,549	40,016
Creditors: Amounts falling due within one year	21	(17,706)	(2,413)
Net current assets		35,843	37,603
Total assets less current liabilities		76,372	43,383
Provisions for liabilities and charges	22	(396)	(414)
Net assets		75,976	42,969
Capital and reserves			
Called up share capital	23	2,404	8,153
Shares to be issued	24	508	–
Share premium account	25	23,892	66,150
Merger reserve	26	57,261	6,031
Profit and loss account	27	(12,053)	(37,367)
Total shareholders' funds	35	72,012	42,967
Shareholders' funds – Equity		72,012	35,996
Shareholders' funds – Non-equity	36	–	6,971
Minority interests – Equity	37	3,964	2
Minority interests & shareholders' funds		75,976	42,969

A statement of movement in shareholders' funds is given in note 35.

The notes on pages 22 to 57 form an integral part of these financial statements.

The financial statements on pages 18 to 57 were approved by the Board of Directors on 22 April 2003.

Graeme Dell
Finance Director

Alex Snow
Chief Executive

Company Balance Sheet

AS AT 31 DECEMBER

	Note	2002 £'000	2001 £'000
Fixed assets			
Investments in subsidiary undertakings	14	63,846	19,806
Investments	15	5,112	–
		68,958	19,806
Current assets			
Debtors	17	1,574	8,724
Equity shares	18	–	64
Cash at bank and in hand		16,190	30,815
		17,764	39,603
Creditors: Amounts falling due within one year	21	(13,924)	(14,980)
Net current assets		3,840	24,623
Net assets		72,798	44,429
Capital and reserves			
Called up ordinary share capital	23	2,404	8,153
Shares to be issued	24	508	–
Share premium account	25	23,892	66,150
Merger reserve	26	51,230	–
Profit and loss account	27	(5,236)	(29,874)
Total shareholders' funds	35	72,798	44,429
Shareholders' funds – Equity		72,798	37,458
Shareholders' funds – Non-equity	36	–	6,971
Total shareholders' funds		72,798	44,429

A statement of movement in shareholders' funds is given in note 35.

The notes on pages 22 to 57 form an integral part of these financial statements.

The financial statements on pages 18 to 57 were approved by the Board of Directors on 22 April 2003.

Graeme Dell
Finance Director

Alex Snow
Chief Executive

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER

	Note	2002 £'000	2001 £'000
Net cash outflow from operating activities	30	(3,999)	(8,698)
Returns on investments and servicing of finance			
Interest received		1,320	1,923
Interest paid		(14)	(9)
Income from fixed asset investments		-	31
Net cash inflow from returns on investments and servicing of finance		1,306	1,945
Taxation			
Corporation tax paid		(295)	(106)
Capital expenditure and financial investment			
Sale of tangible fixed assets		-	1
Purchase of tangible fixed assets		(262)	(704)
Purchase of fixed asset investments		(11,784)	(14,030)
Sale of fixed asset investments		223	16,411
Net cash (outflow)/inflow from capital expenditure and financial investments		(11,823)	1,678
Acquisitions and disposals			
Disposal of subsidiaries		36	(36)
Purchase of subsidiaries		(3,167)	(187)
Net cash acquired with subsidiaries	34	14,205	2,523
Net cash inflow from acquisitions and disposals		11,074	2,300
Cash outflow before financing		(3,737)	(2,881)
Financing			
Issues of ordinary share capital		32	1,537
Expenses of share issue		(276)	(31)
Lease repayments		-	(27)
Net cash (outflow)/inflow from financing		(244)	1,479
Decrease in cash in the year	31	(3,981)	(1,402)

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets held for trading purposes, the accounting policies set out below and in accordance with the applicable accounting standards of the UK Accounting Standards Board and the pronouncements of its Urgent Issues Task Force (UITF).

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 2002. An undertaking is regarded as a subsidiary undertaking if the Group has control over its operating and financial policies.

Turnover

Turnover, comprising commission and brokerage income derived from stockbroking and fund management services, institutional equity sales commissions and fees and commissions from listed and private equity fundraising, underwriting, issue management and corporate finance advisory services, is recognised in the profit and loss account when the related services are performed and when considered recoverable. Proprietary trading and market making positions are valued on a mark to market basis and the resulting income is included in turnover. All turnover is generated within the United Kingdom and Eire is principally in sterling and is stated exclusive of value added tax.

Depreciation

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 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

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 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 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 effect of this departure on the financial statements is disclosed in note 15.

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.

Fixed asset investment impairment provisions

Provisions for fixed asset investments have been calculated in accordance with British Venture Capital Association Guidelines ("BVCA"). 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. Quoted investments are valued at the bid price but may be discounted further where the holding is significant in relation to the issued share capital.

Equity shares held as current assets

Equity shares held as current trading assets comprise "long" and "short" market making and proprietary trading book positions, which are stated at market value and profits or losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 of the Companies Act 1985, which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation difference be taken to the revaluation reserve.

The directors consider that these requirements would fail to give a true and fair view of the profit or loss for the year of the Group since the marketability of the equity shares enable decisions to be taken continually about whether to hold or sell them and hence the economic measure of profit in any period is properly made by reference to market values.

The difference between the cost of market making positions and the market value is not disclosed as its determination is not practicable.

Current asset investments

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

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

1. ACCOUNTING POLICIES (continued)

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.

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 options vesting date.

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 39.

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 are translated at month end with the resulting gain or loss taken to the profit and loss account.

Derivatives

During the year the Group traded in Contracts For Differences ("CFDs"). These positions are marked to market based on the underlying equity price. The Group no longer trades in CFDs nor did it hold any positions in CFDs at the end of the year. The Group uses forward foreign exchange contracts to hedge future currency exposures once they are certain to crystallise.

Deferred tax

During the year the Group adopted Financial Reporting Standard 19 'Deferred Tax' (FRS 19). This standard addresses the recognition, on a full provision basis, 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.

Change in accounting policy

A change in accounting policy has arisen from the adoption in 2002 of FRS 19 'Deferred Tax'. As explained in the accounting policy note above, deferred tax is now provided on a full provision basis in respect of timing differences that have originated but not reversed at the balance sheet date.

The change in accounting policy has not resulted in a prior year adjustment as no change in the opening balance is required to be recognised under FRS 19.

2. ADMINISTRATIVE EXPENSES

	2002 £'000	2001 £'000
Administrative expenses – staff costs		
Wages and salaries	7,887	5,925
Social security costs	615	772
Other pension costs	234	–
Other staff costs	458	811
Total administrative expenses – staff costs	9,194	7,508
Administrative expenses – other		
Depreciation – owned assets	623	367
Amortisation of goodwill	243	–
Amortisation of investment acquisition expenses	9	–
Loss on disposal of tangible fixed assets	–	92
Write down of tangible fixed assets	167	–
Operating lease charges – cars	37	60
Operating lease charges – leasehold property	494	273
Legal costs	289	1,407
Direct dealing costs	1,975	1,298
Other administrative expenses	5,330	3,105
Total administrative expenses – other	9,167	6,602
Administrative expenses before impairment of goodwill	18,361	14,110
Administrative expenses – impairment of goodwill	10,865	7,144
Administrative expenses – total	29,226	21,254

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

2. ADMINISTRATIVE EXPENSES (continued)

Included within staff costs is an exceptional amount of £953,000 (2001: £1,023,000) relating to restructuring charges incurred during the year.

Included within other administrative expenses is an exceptional amount of £215,000 relating to consultancy fees and £108,000 relating to restructuring costs not expected to recur.

The statutory and regulatory audit fees paid to the main auditors comprised £180,000 (2001: £84,000) in respect of the Group's audit and £200,000 (2001: £10,000) relating to taxation advice. Fees relating to the audit of the Company were £41,500 (2001: £47,000).

Other consultancy fees of £460,000 (2001: £16,000) were paid to the Group's auditors including £400,000 relating to the due diligence carried out prior to the acquisition of Beeson Gregory Group.

3. OTHER OPERATING INCOME

	2002 £'000	2001 £'000
Other operating income	92	31

Other operating income relates primarily to foreign exchange gains and losses arising on the translation of foreign currency balances.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £'000	2001 £'000
Interest receivable from bank	1,056	1,687
Interest receivable from Pershing	290	209
	1,346	1,896

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Interest payable	15	9

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

6. EMPLOYEES

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

	2002	2001
Investment banking	65	16
Stockbroking and fund management	54	77
IP2IPO	4	–
Group activities	6	7
Total average staff numbers	129	100

The actual number of full time employees was 153 at 31 December 2002 (2001: 86).

7. 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 £233,700 (2001: £100,520).

Other pension costs relate to amounts paid or accrued under money purchase pension schemes. One director accrued benefits under money purchase pension schemes during the year (2001: Nil).

	2002 £'000	2001 £'000
Remuneration in respect of Directors:		
Aggregate emoluments	815	1,293
Other pension costs	6	–
Gains made on exercise of share options	–	2,068
Termination payments for the loss of office	–	683
	821	4,044

8. TAXATION

	2002 £'000	2001 £'000
Current tax:		
Corporation tax	34	19
Adjustments in respect of prior years	–	(388)
Current year tax charge	34	(369)
Deferred tax:		
Current year movement	83	–
Tax on loss on ordinary activities	117	(369)

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

8. TAXATION (continued)

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

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

	2002 £'000	2001 £'000
Loss on ordinary activities before tax	(23,770)	(10,878)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	(7,131)	(3,263)
Effects of:		
Expenses not deductible for tax purposes	3,046	3,975
Losses not recognised for deferred tax	4,073	1,665
Utilisation of losses brought forward/ unrecognised deferred tax asset	-	(2,095)
Non taxable income	(6)	(212)
Capital allowances for year in excess of depreciation	52	(51)
Group relief surrendered (not paid)	-	(388)
Current tax charge for the year	34	(369)

There is a potential deferred tax asset at 31 December 2002 of £14,500,000 (2001: £8,000,000), 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.

9. LOSS 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 loss for the financial year was £24,512,000 (2001: £6,587,000).

10. LOSS PER ORDINARY SHARE

The calculation of the basic loss per ordinary share is based on the loss on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December 2002			Year ended 31 December 2001		
	Loss £	Weighted average no.	Loss per share (p)	Loss £	Weighted average no.	Loss per share (p)
Basic loss per share	(23,836,000)	174,598,980	(13.65)	(10,510,000)	105,925,516	(9.92)

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

11. SEGMENTAL ANALYSIS

	2002			2001		
	Turnover	Operating loss	Net assets	Turnover	Operating profit/(loss)	Net assets
	£'000	£'000	£'000	£'000	£'000	£'000
Investment banking	8,722	(1,509)	12,817	1,166	(2,202)	3,112
Stockbroking and fund management	6,357	(74)	2,727	6,414	(3,812)	2,017
IP2IPO	–	(423)	25,314	–	–	–
Investment portfolio	–	(4,504)	1,536	–	2,264	4,764
Group activities	278	(18,591)	33,582	–	(9,015)	33,076
	15,357	(25,101)	75,976	7,580	(12,765)	42,969

The segmental analysis follows the business lines described in the Chief Executive's Report on pages 6 to 7.

The outline of activities on pages 9 to 11 provides greater detail of the operations of the Group. These are briefly described below.

Investment banking refers to the business carried out in Evolution Capital Limited and Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited).

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

IP2IPO refers to the business carried out in the Intellectual Property commercialisation field under the IP2IPO group of companies.

The investment portfolio is analysed as a separate business line to provide the maximum clarity to the ongoing operating businesses, since the results for the year and the prior year contain such material provisions against the legacy private equity portfolio. Following the acquisition of Beeson Gregory Group, the Group has also taken on a further investment portfolio held within Beeson Gregory Technology Investment Limited.

Group activities refer to the central administrative, shared services and holding company functions and include the impact of goodwill impairments taken in current and prior years.

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

12. INTANGIBLE FIXED ASSETS

	Goodwill £'000
Cost	
At 1 January 2002	–
Arising on acquisition	22,540
Impairment	(10,865)
At 31 December 2002	11,675
Amortisation	
At 1 January 2002	–
Charge for the year	243
At 31 December 2002	243
Net book value	
At 31 December 2002	11,432
At 1 January 2002	–

The goodwill of £22,540,000 arose on the acquisition of the Beeson Gregory Group on 11 July 2002. An impairment review of the goodwill arising on acquisition was carried out during the year. The Directors considered that the carrying value of the goodwill was impaired and have written it down by £10,865,000 to reflect the fair value of the Beeson Gregory private equity portfolio and the valuation attached to investment banking and intellectual property company shares. The Directors consider that the goodwill has a useful economic life of 20 years.

13. TANGIBLE FIXED ASSETS

(i) Group

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2002	291	331	1,079	1,701
Acquired with subsidiaries	374	502	1,286	2,162
Additions	28	25	187	240
Write down	(33)	(68)	(238)	(339)
Reclassification	(156)	203	(47)	–
At 31 December 2002	504	993	2,267	3,764
Depreciation				
At 1 January 2002	101	150	434	685
Acquired with subsidiaries	374	404	877	1,655
Charge for the year	25	103	495	623
Write down	(18)	(36)	(118)	(172)
Reclassification	(47)	92	(45)	–
At 31 December 2002	435	713	1,643	2,791
Net book values				
At 31 December 2002	69	280	624	973
At 1 January 2002	190	181	645	1,016

(ii) Company

The Company does not own any tangible fixed assets.

14. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£'000
Company	
Cost	
At 1 January 2002	28,411
Additions	57,822
At 31 December 2002	86,233
Provision for impairment	
At 1 January 2002	8,605
Charge for the year	13,782
At 31 December 2002	22,387
Net book values	
At 31 December 2002	63,846
At 1 January 2002	19,806

Details of significant investments in subsidiaries are given in note 39.

Additions

On 11 July 2002 the Company acquired the Beeson Gregory Group for a total consideration of £56,822,000. For details on the acquisition refer to note 34.

Evolution Capital Limited issued to the Company 500,000 £1 ordinary shares at par on 30 April 2002 and a further 500,000 £1 ordinary shares at par on 31 July 2002 for cash.

Disposals

There have been no disposals of investments in subsidiaries during the year.

Impairment

An impairment review of the value of investment in Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) was carried out during the year. The Directors consider that the carrying value of the investment was impaired and have written it down by £10,865,000 to reflect the fair value of the Beeson Gregory private equity portfolio and the valuation attached to investment banking and intellectual property company shares.

An impairment review of the value of investment in Evolution Capital Limited was carried out during the year. The Directors consider that the carrying value of the investment was impaired and have written it down by £2,917,000 to its net asset value.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

15. FIXED ASSET INVESTMENTS

(i) Group

	Listed investments £'000	Unlisted IP2IPO Portfolio (a) £'000	Other unlisted investments £'000	Total £'000
Cost				
At 1 January 2002	1,332	–	21,742	23,074
Acquired with subsidiaries	75	21,144	338	21,557
Additions	9,943	–	2,614	12,557
Disposals	(75)	–	(17)	(92)
Transfers	(221)	–	(1,699)	(1,920)
Investment in spin out companies	–	445	–	445
At 31 December 2002	11,054	21,589	22,978	55,621
Amortisation of costs				
At 1 January 2002	–	–	–	–
Acquired with subsidiaries	–	25	–	25
Charge for the year	–	9	–	9
At 31 December 2002	–	34	–	34
Provisions				
At 1 January 2002	354	–	17,956	18,310
Provided in the year	5,215	650	3,847	9,712
Disposals	(75)	–	–	(75)
At 31 December 2002	5,494	650	21,803	27,947
Net book values				
At 31 December 2002	5,560	20,905	1,175	27,640
At 1 January 2002	978	–	3,786	4,764

The aggregate market value at 31 December 2002 of listed investments, including Inter-Alliance Group PLC, was £19,121,000 (2001: £1,324,000).

Transfers represent the Group's investments in Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) and IP2IPO Group Limited prior to the acquisition of the Beeson Gregory Group in July 2002. Following the acquisition, the investments were transferred to the Company and held within investments in subsidiaries.

(a) IP2IPO portfolio of investments

The following table summarises the components of the IP2IPO portfolio:

	Oxford University Chemistry Investment £'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 2002	–	–	–	–	–	–
Acquired with subsidiaries	18,334	1,563	75	888	284	21,144
Investment in spin out companies	(528)	528	445	–	–	445
At 31 December 2002	17,806	2,091	520	888	284	21,589
Amortisation of costs						
At 1 January 2002	–	–	–	–	–	–
Acquired with subsidiaries	–	–	–	–	25	25
Charge for the year	–	–	–	–	9	9
At 31 December 2002	–	–	–	–	34	34
Provisions						
At 1 January 2002	–	–	–	–	–	–
Provided in the year	–	–	–	650	–	650
At 31 December 2002	–	–	–	650	–	650
Net book values						
At 31 December 2002	17,806	2,091	520	238	250	20,905
At 31 December 2001	–	–	–	–	–	–

The Group has the right to 50% of The University of Oxford's founding shareholdings in companies spun out of its chemistry department for 15 years up to December 2015, at a price equivalent to that subscribed by external investors. It also has the right to 50% of the royalties due to the University under licences of intellectual property generated by the chemistry department, entered into during the same period. This agreement was signed in December 2000 and the invested amount is only repayable out of the proceeds of the sales of shares in spin-out companies to the Group. The acquisition costs comprising payments to the University and related costs to secure these rights are disclosed separately, and are amortised over the life of the agreement. In accordance with the agreement any amounts outstanding at December 2015 will be waived.

In March 2002, the Group, added a second partnership with the University of Southampton alongside its existing partnership with the University of Oxford. The partnership with the University of Southampton, which has a term of 25 years and which covers the entire University, commits the Group to (i) invest £5 million in seed capital in University of Southampton spin out companies over a 4 year period in return for equity stakes in those companies and (ii) to provide technology commercialisation advice and expertise to the University. As part of the partnership, the Group received a 20% non participating interest in Southampton Asset Management Limited, a company which was set up to

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

15. FIXED ASSET INVESTMENTS (continued)

hold the University of Southampton's equity stakes in spin out companies formed since the commencement of the partnership until 2027. This interest results in the Group receiving a directly owned 20% stake in those companies in which the University of Southampton has invested.

Other university spin outs relate to those investments not included within the original partnerships between the Universities of Oxford and Southampton. They were investments originally made by Beeson Gregory Technology Investments Limited and subsequently transferred to IP2IPO Limited in July 2001.

(b) Significant fixed asset investments

The Group has investments greater than 20% of the issued share capital in the following companies:

Company	Country of incorporation	Type of Share Held	% of issue held	Net Assets '000 ⁽¹⁾	Loss before tax year ended 31 December 2002 ⁽¹⁾ '000
Fixed Asset Investments					
4HighTech.com Inc ⁽²⁾	USA	Common Stock	40	–	–
N'Tera Limited	Ireland	Ordinary shares	1.91	€1,505	€5,904
Preferred ordinary shares			32.33		
Novarc Limited	UK	Ordinary shares	31.30	£293	£461
Pharminox Limited	UK	Ordinary shares	21.90	£573	£178
Capsant Technologies Limited	UK	Ordinary shares	28.00	£308	£43
Southampton Polypeptides Limited	UK	Ordinary shares	36.29	£153	£0

The effect of the departure from the Companies Act 1985 as described in note 1 to the financial statements is to increase the loss before taxation by £1,450,000 (2001: £2,585,000) and increase net assets by £360,000 (2001: £403,000).

(1) Unaudited management information for 12 months to 31 December 2002.

(2) This company is in liquidation and the Group will not recover any funds on its winding up.

(ii) Company

	Listed investments £'000
Cost	
At 1 January 2002	–
Additions	9,635
At 31 December 2002	9,635
Provisions	
At 1 January 2002	–
Provided in the year	(4,523)
At 31 December 2002	(4,523)
Net book values	
At 31 December 2002	5,112
At 1 January 2002	–

The aggregate market value at 31 December 2002 of listed investments, which comprised Inter-Alliance Group PLC, was £18,452,000 (2001: £Nil). The provision charged in the year has arisen as a result of the significant size of interest held and the fall in the share price of the investment subsequent to the year end.

16. OWN SHARES

i) Group

	£'000
Cost:	
At 1 January 2002	–
Acquired with subsidiaries	262
Additions	222
At 31 December 2002	484

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 on the following page:

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

16. OWN SHARES (continued)

The Share Incentive Trust was established in 1996 by Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) to facilitate the granting of options over fully paid shares to certain staff. The Trust held the following shares in The Evolution Group Plc at 31 December 2002:

	2002 Number of shares
Shares allocated to specific employees in respect of options issued and therefore not consolidated in these financial statements	1,692,368
Shares consolidated in these financial statements	799,668
	2,492,036
Market value at £0.54 per share	£1,345,699

Comparatives for the prior year are nil since the Group acquired the Share Incentive Trust as part of the acquisition of the Beeson Gregory Group on 11 July 2002.

Following the acquisition of the share capital of Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) by the Group on 11 July 2002 each existing ordinary 5p shares held by the Trust were exchanged for 1.77 1p shares in The Evolution Group Plc.

ii) Company

The Company does not own any of its own shares.

17. DEBTORS

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts falling due within one year:				
Trade debtors	1,551	434	–	–
Counterparty debtors	15,441	–	–	–
Amounts owed by Group undertakings	–	–	1,046	4,842
Other debtors	447	2,854	28	2,244
Corporation tax recoverable	187	50	–	27
Prepayments and accrued income	1,095	645		111
	18,721	3,983	1,074	7,224
Amounts falling due after more than one year:				
Subordinated loan to Evolution Capital Limited	–	–	–	1,500
Subordinated loan to Christows Limited	–	–	500	–
	18,721	3,983	1,574	8,724

Terms of subordinated loan

The subordinated loan, of £500,000 owed by Christows Limited, was drawn on 9 September 2002, 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 National Westminster Bank Plc base rate.

The subordinated loan to Evolution Capital Limited was repaid in full on 30 December 2002.

18. EQUITY SHARES

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Long positions in market-making and dealing operations at market value	2,664	64	–	64

There were no proprietary trading positions at 31 December 2002 (2001: £64,000).

19. CURRENT ASSET INVESTMENTS

i) Group

	2002 £'000	2001 £'000
Listed investments	176	–

The market value of listed investments at 31 December 2002 was £226,000 (2001: £Nil).

ii) Company

The Company does not own any current asset investments.

20. CASH AT BANK AND IN HAND

Cash at bank includes £303,000 (2001: £Nil) 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 £316,000 held by the Share Incentive Trust (2001: £Nil).

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

21. CREDITORS: amounts falling due within one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Trade creditors	585	641	9	–
Counterparty creditors	11,883	–	–	–
Amounts due to Group undertakings	–	–	13,463	14,393
Taxation payable	16	277	–	256
Other taxation and social security	928	653	21	161
Other creditors	74	297	1	126
Accruals	2,796	545	430	44
Short positions in market making and dealing operations	1,424	–	–	–
	17,706	2,413	13,924	14,980

22. PROVISIONS FOR LIABILITIES AND CHARGES

(i) Group

	Litigation £'000	Dilapidation £'000	Deferred tax £'000	Total £'000
As at 1 January 2002	414	–	–	414
Acquired with subsidiaries	–	50	–	50
Charge to profit and loss account	56	150	–	206
Utilised during the year	(166)	–	–	(166)
Released during the year	(191)	–	–	(191)
Transfer from profit and loss account	–	–	83	83
As at 31 December 2002	113	200	83	396

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

An amount has been provided in respect of dilapidation costs for the current offices of one of the Group's subsidiary undertakings.

There is a deferred tax liability at 31 December 2002 of £83,000, relating entirely to accelerated capital allowances.

(ii) Company

The Company has no provisions for liabilities and charges at year end (2001: £Nil).

23. SHARE CAPITAL

Company	2002 £'000	2001 Restated £'000
Authorised:		
602,913,478 ordinary shares of 1p each	–	6,029
77,454,058 deferred shares of 9p each	–	6,971
400,000,000 ordinary shares of 1p each	4,000	–
	4,000	13,000
Allotted, issued and fully paid:		
118,222,439 ordinary shares of 1p each	–	1,182
77,454,058 deferred shares of 9p each	–	6,971
240,362,721 ordinary shares of 1p each	2,404	–
	2,404	8,153

The authorised share capital of the Company at 31 December 2001 has been restated to reflect the correct split between ordinary shares of 1p each and deferred shares of 9p each following the share capital reorganisation that took place in March 2001.

Share Capital Reorganisation

On 18 December 2002 the Company's application to reduce its share capital and apply its accumulated loss reserves to the Company's share premium account was accepted by the High Court and became effective following the registration of the Court Order at Companies House on 19 December 2002. The effect of this was to reduce the issued share capital by £6,971,000 and the share premium account by £42,013,000 and reduce the Company's accumulated losses by £48,984,000. These proposals were accepted by shareholders at the Extraordinary General Meeting held on 3 December 2002.

As a result of the reorganisation 447,913,478 authorised but un-issued ordinary shares were cancelled thus reducing the Company's authorised share capital to £4,000,000 divided into 400,000,000 ordinary shares of 1p. On the same date 77,454,058 authorised and issued deferred shares of 9p each were cancelled and extinguished.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

23. SHARE CAPITAL (continued)

The following table summarises the movements of authorised share capital during 2002:

Company	£'000
Authorised	
At 1 January 2002 (restated)	
602,913,478 ordinary shares of 1p each	6,029
77,454,058 deferred shares of 9p each	6,971
Increases	
70,000,000 ordinary shares of 1p each on 29 May 2002	700
175,000,000 ordinary shares of 1p each on 1 July 2002	1,750
Cancellation	
447,913,478 ordinary shares of 1p each on 19 December 2002	(4,479)
77,454,058 deferred shares of 9p each on 19 December 2002	(6,971)
At 31 December 2002	
400,000,000 ordinary shares of 1p each	4,000

The following table summarises the movements of allotted, issued and fully paid share capital during 2002:

Company	£'000
Allotted, issued and fully paid	
At 1 January 2002	
118,222,439 ordinary shares of 1p each	1,182
77,454,058 deferred shares of 9p each	6,971
Issues	
121,975,790 ordinary shares of 1p each on acquisition of Beeson Gregory Group (see below)	1,220
164,492 ordinary shares on exercise of options (see below)	2
Cancellation	
77,454,058 deferred shares of 9p each on 19 December 2002	(6,971)
At 31 December 2002	
240,362,721 ordinary shares of 1p each	2,404

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

- (a) 105,886,649 on 11 July 2002 credited as fully paid at 43.22p per share following the acquisition of Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) ("BGG") and the transfer to the Company of 59,823,103 ordinary shares of 5p each in BGG.
- (b) 7,305,694 on 25 July 2002 credited as fully paid at 43.79p per share following the acquisition of BGG and the transfer to the Company of 4,127,535 ordinary shares of 5p each in BGG.
- (c) 5,808,569 on 8 August 2002 credited as fully paid at 43.79p per share following the acquisition of BGG and the transfer to the Company of 3,281,716 ordinary shares of 5p each in BGG.

- (d) 1,846,686 on 5 September 2002 credited as fully paid at 43.79p per share following the acquisition of BGG and the transfer to the Company of 1,043,379 ordinary shares of 5p each in BGG.
- (e) 1,128,192 on 5 September 2002 credited as fully paid at 43.79p per share following the acquisition of BGG and the transfer to the Company of 637,406 ordinary shares of 5p each in BGG.
- (f) 75,992 on 27 November 2002 following the exercise of 45,992 options under the exercise of options under the 2000 Executive Share Option Scheme (Unapproved) at an exercise price of 9.354p and 30,000 options under the BGG Index Scheme at an exercise price of 10.03p.
- (g) 88,500 on 18 December 2002 following the exercise of options under the BGG Executive Share Incentive Scheme 1996 at an exercise price of 28.25p

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.

24. SHARES TO BE ISSUED

Company	2002 £'000	2001 £'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 are payable in two equal tranches in January and July 2003.

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

25. SHARE PREMIUM ACCOUNT

Company	£'000
At 1 January 2002	66,150
Issues of ordinary share capital (net of issue costs)	31
Costs related to issue of shares	(276)
Share capital reduction	(42,013)
At 31 December 2002	23,892

On 19 December 2002 the Company completed a share capital reduction exercise with a resultant fall in the share premium account of £42,013,000. The amount was used to offset accumulated losses in the Company.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

26. MERGER RESERVE

	£'000
Group	
At 1 January 2002	6,031
Acquisition of subsidiary	51,230
At 31 December 2002	57,261
Company	
At 1 January 2002	–
Acquisition of subsidiary	51,230
At 31 December 2002	51,230

The 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.

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

27. PROFIT AND LOSS ACCOUNT RESERVE

	£'000
Group	
At 1 January 2002	(37,367)
Loss for the financial year	(23,836)
Share options	166
Share capital reduction	48,984
At 31 December 2002	(12,053)
Company	
At 1 January 2002	(29,874)
Loss for the financial year	(24,512)
Share options	166
Share capital reduction	48,984
At 31 December 2002	(5,236)

The effect of the share capital reduction that took place in December 2002 on the profit and loss reserve was to reduce accumulated losses by £48,984,000.

28. CAPITAL COMMITMENTS AND CONTINGENCIES

Under the terms of an agreement entered into during the year between two of the Group's subsidiaries, IP2IPO Limited and IP2IPO Management Limited and the University of Southampton and certain of the University of Southampton's subsidiaries, IP2IPO Limited agreed to make £5million available to IP2IPO Management Limited for the purposes of making investments in University of Southampton spin-out companies over a period of four years ending in July 2007. Of this amount at 31 December 2002 £520,000 had been invested in three spin-out companies formed during the year ended 31 December 2002 and the Group had a contingent liability of £145,000 representing amounts to be invested in university spin outs pending the meeting of certain investment milestones.

In 2001 the Group was committed to invest £100,000 in one of its fixed asset investments.

29. LEASE COMMITMENTS

The Group has operating lease commitments in respect of land and buildings of £557,000 (2001: £257,000) and of plant and machinery of £16,000 (2001: £32,000). The leases to which these amounts relate expire as follows:

	Plant and machinery		Land and buildings	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Within one year	6	5	315	–
Within two to five years	10	27	178	181
After five years	–	–	64	76
	16	32	557	257

30. RECONCILIATION OF OPERATING LOSS WITH NET CASH FLOW FROM OPERATING ACTIVITIES

	2002 £'000	2001 £'000
Operating loss	(25,101)	(12,765)
Profit on sale of investments	(19)	(7,003)
Decrease / (increase) in equity shares	1,134	(64)
Write down of tangible fixed assets	167	–
Loss on disposal of tangible fixed assets	–	92
Income from fixed asset investments	–	(31)
Depreciation of tangible fixed assets	623	367
Provisions against fixed asset investments	9,712	4,739
Provisions for share options	166	40
Impairment of intangible fixed assets	10,865	7,144
Amortisation of goodwill	243	–
Amortisation of investment acquisition costs	9	–
Increase in own shares	(222)	–
Increase in provisions for liabilities and charges	15	–
Increase in debtors	(933)	(1,862)
(Decrease) / increase in creditors	(658)	645
Net cash outflow from operating activities	(3,999)	(8,698)

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

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

	2002 £'000	2001 £'000
Decrease in cash in the year	(3,981)	(1,402)
Change in net debt	-	27
Movement in net funds in the year	(3,981)	(1,375)
Net funds at the beginning of the year	35,969	37,344
Net funds at the end of the year	31,988	35,969

32. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2002 £'000	Cash flow £'000	31 December 2002 £'000
Cash at bank	35,969	(3,981)	31,988

33. MAJOR NON-CASH TRANSACTIONS

With the exception of shares issued as part of the consideration for the acquisition of Beeson Gregory Group detailed in note 34 and the share capital reorganisation detailed in note 23, there were no major non-cash transactions during the year.

34. ACQUISITION OF SUBSIDIARIES

The Group's offer for 100% of Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) became unconditional in all respects on 11 July 2002 for a total consideration of £56,822,000.

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

	Book value £'000
Beeson Gregory Group	
Assets	
Tangible fixed assets	507
Fixed asset investments	21,532
Own shares	262
Debtors	14,119
Equity shares	2,312
Current asset investments	50
Cash at bank and in hand	14,205
	52,987
Liabilities	
Creditors	(14,640)
Provisions for liabilities and charges	(50)
Minority interest	(4,015)
	34,282
Satisfied by:	
Shares	52,450
Investment in IP2IPO Group Limited shares previously held	1,699
Investment in Beeson Gregory Group shares previously held	221
Deferred consideration	508
Acquisition expenses	1,944
	56,822
Goodwill arising	22,540

There was no material difference between the book value and the fair value of net assets at the date of acquisition.

Deferred consideration relates to amounts payable in shares to certain employees following the acquisition of the Beeson Gregory Group and referred to as "The Enhanced Bonus" in the Offer Document to shareholders on 13 June 2002. Shares are payable in two equal tranches in January and July 2003.

From the date of acquisition to 31 December 2002 the Beeson Gregory Group contributed £983,000 to the Group's operating loss and £756,000 to its loss on ordinary activities before taxation after taking into account exceptional costs of £953,000 relating to costs of redundancy.

The retained loss of the Beeson Gregory Group for the year ended 31 December 2001 was £8,029,000. For the period from 1 January to 11 July 2002 the Beeson Gregory Group made a loss after tax and minority interests of £25,916,000.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

35. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Shareholders' funds at 1 January as previously stated	42,967	40,807	44,429	38,346
Prior year adjustment	-	340	-	340
Shareholders' funds at 1 January as restated	42,967	41,147	44,429	38,686
Loss for the financial year	(23,836)	(10,510)	(24,512)	(6,587)
Issues of ordinary share capital	1,253	12,290	1,253	12,290
Shares to be issued	508	-	508	-
Share options	166	40	166	40
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	29,045	1,820	28,369	5,743
Shareholders' funds at 31 December	72,012	42,967	72,798	44,429

Following the correct application of The Urgent Issues Task Force Abstract 17 “Employee Share Schemes” in 2001 there was a re-statement which resulted in a reduction of creditors and a corresponding increase in shareholders' funds of £340,000.

36. NON-EQUITY SHAREHOLDERS' FUNDS

	£'000
At 1 January 2002	6,971
Share capital reduction	(6,971)
At 31 December 2002	-

The non-equity shareholders' funds arose on the creation of 9p deferred shares during the share reorganisation at 26 March 2001. The deferred shares were cancelled and extinguished as part of the share capital reorganisation completed on 19 December 2002.

37. MINORITY INTEREST

	£'000
At 1 January 2002	2
Disposals	(2)
Acquired with subsidiaries	4,015
Loss attributable to minority interest	(51)
At 31 December 2002	3,964

The Group owns 84.4% of IP2IPO Group Limited, the Group's intellectual property company.

Disposals relate to the purchase by the Group of the minority holding in Christows Asset Management Limited from a former director on 22 May 2002.

38. 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:

	2002 £'000	2001 £'000
On short term deposit	29,652	35,969
On current account	1,717	–
	31,369	35,969

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

Equity shares, current and fixed asset investments are funded by shareholders' funds.

During the year the Group traded in Contracts for Differences (CFDs). These positions are marked to market off the underlying equity price. The Group no longer trades in CFDs nor did it hold any positions in CFDs at the end of the year.

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 19. Equity shares held for trading purposes are carried in the financial statements at fair value, as shown in note 18.

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.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

38. FINANCIAL INSTRUMENTS (continued)

Management of Liquidity Risk

The Group seeks to manage financial 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.

The Group's net currency exposures, converted to sterling at year end rates, were as follows:

	31 December 2002 £'000	31 December 2001 £'000
Euros	35	22
US Dollars	64	–
Other currencies	1	–
	100	22

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

As stated in the Chief Executive's Report on pages 6 to 7 no new or follow-on investments will be made by the Group in respect of private equity fixed asset investments except by IP2IPO. The Board continues to review the performance of existing investments in the Evolution Capital Investment Limited, Beeson Gregory Technology Investments Limited and IP2IPO portfolios, including the provisioning process. Note 15 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 11 (Segmental analysis of operating loss).

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. There were no proprietary trading positions as at 31 December 2002 (2001: £64,000).

	Long Positions £'000	Short Positions £'000	Gross Positions £'000	Net Positions £'000
Highest positions	3,868	(3,385)	7,253	483
Lowest positions	2,371	(1,122)	3,493	1,249
Average positions	3,001	(1,648)	4,649	1,353
Positions at 31 December 2002	2,664	(1,424)	4,088	1,240

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.

39. PRINCIPAL SUBSIDIARY UNDERTAKINGS

Held directly by the Company	Business	Percentage Owned	Country of Incorporation
Evolution Capital Limited	Investment banking	100	UK
Evolution Capital Investment Limited	Investment company: Private Equity Portfolio	100	UK
Evolution Group Services Limited	Shared services	100	UK
Christows Limited	Stockbroking and fund management	100	UK
Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc)	Holding company	100	UK
Held by other group companies			
Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited)	Investment banking	100	UK
IP2IPO Group Limited	Intellectual property exploitation	84.4	UK
Beeson Gregory Technology Investment Limited	Investment company: Private Equity Portfolio	100	UK
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.

40. POST BALANCE SHEET EVENTS

On 31 January 2003, 500,000 options to acquire ordinary shares under The Evolution Group Plc 2001 Executive Share Option Scheme at an exercise price of 41.4p and an award of 500,000 ordinary shares under the The Evolution Group Plc 2002 Executive Share Incentive Plan at an exercise price of the greater of £1 or the nominal value of the shares to be subscribed for, were awarded to Mr Graeme Dell. These awards are subject to certain vesting criteria with an exercise date commencing three years from the date of grant.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

40. POST BALANCE SHEET EVENTS (continued)

Mr Dell agreed to the cancellation of 271,002 options granted to him previously under The Evolution Group Plc 2001 Executive Share Option Scheme.

On 31 January 2003 certain employees were granted awards of ordinary shares under the Key Performers' Share Incentive Plan. These awards total 1,820,000 shares and will be subject to the performance of individuals over the 12 months from issue. If performance, as measured in the Group appraisal process, is considered unsatisfactory, then the award may be reduced by up to 50%. However, once the twelve months has been completed or the next year's award made, then the current year's award is set and cannot be further amended. In following years up to 31 January 2005, up to 200% of the previous year's award may be granted. 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.

On 4 April 2003 the Company granted certain employees total awards of 750,000 ordinary shares under The Evolution Group Plc 2002 Executive Share Incentive Plan at an exercise price of the greater of £1 or the nominal value of the shares to be subscribed for. These awards are the first of three annual, equal tranches, with each award having a vesting period of two years from the date of grant.

On 4 April 2003 options over 3,193,172 shares with exercise prices between 52p and 178.53p, held by employees of Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited), were cancelled by the Company and replaced by options over 1,192,209 shares under The Evolution Group Plc 2001 Executive Share Option Scheme, at a new exercise price of 27p and 350,000 ordinary shares under The Evolution Group Plc 2002 Executive Share Incentive Plan at an exercise price of the greater of £1 or the nominal value of the shares to be subscribed for. These awards may be exercised after three years from the date of grant and expire on the tenth anniversary of the date of grant.

In the first quarter of 2003, two further spin out companies from the University of Southampton were established in which one of the Group's subsidiaries, IP2IPO Management Limited, invested (or, subject to certain milestones being met, committed to invest) £519,000. Another of the Group's subsidiaries, IP2IPO Limited, also acquired a 20% interest in Vastox Limited, a spin out company from the University of Oxford.

41. 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.

The following directors of the Company had investments in spin out companies from the IP2IPO business at the year end:

Director	Company	Number of shares held	% of issued share capital	Cost of holding £'000
David Norwood	Pharminox Limited	265	0.03	10
Andrew Beeson	Zyentia Limited	8	0.08	3
	Pharminox Limited	266	0.3	10
	Inhibox Limited	143	0.1	2
Richard Griffiths	Active EM Limited	419	0.6	40

During the year a director of the Company, Alex Snow purchased a debenture at Twickenham for a term of ten years. The debenture was paid for by the Group to the value of £25,665. 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.

42. SHARE SCHEMES

The following table summarises the options in issue within the Group as at 31 December 2002

Scheme	Exercise price (p) ⁽¹⁾	Status	At 1 January 2002	Rolled over on acquisition	Granted in the year	Exercised in the year	Cancelled in the year	At 31 December 2002
Options over new shares								
EVG 2002 Executive Share Incentive Plan	1.00	Unapproved	-	-	871,451	-	-	871,451
EVG 2001 Executive Share Option Scheme	39.60-62.70	Unapproved Super	4,128,319	-	2,154,302	-	(1,542,500)	4,740,121
EVG 2000 Executive Share Option Scheme	10.00-67.00	Unapproved Ordinary	5,486,860	-	-	-	-	5,486,860
EVG 2000 Executive Share Option Scheme	58.67	Unapproved Super	2,368,332	-	-	-	(476,000)	1,892,332
BGG 1994 Share Option Scheme	18.36	Approved	-	265,500	-	-	-	265,500
BGG 1996 Executive Share Incentive Scheme	8.76-70.62	Approved	-	1,949,266	-	(88,500)	-	1,860,766
BGG 1996 Executive Share Incentive Scheme	8.76-70.62	Unapproved	-	3,183,734	-	-	-	3,183,734
BGG Replacement Option Agreements	10.03	Unapproved	-	2,913,064	-	(30,000)	-	2,883,064
BGG 2000 Discretionary Share Option Scheme	81.26-178.53	Approved	-	240,189	-	-	-	240,189
BGG 2000 Discretionary Share Option Scheme	81.26-178.53	Unapproved	-	602,168	-	-	-	602,168
BGG Merger Share Bonus ⁽²⁾	-	Unapproved	-	-	648,944	-	-	648,944
Other options	25.00	Unapproved	800,000	-	-	-	-	800,000
			12,783,511	9,153,921	3,674,697	(118,500)	(2,018,500)	23,475,129

Notes:

- (1) The exercise price of Beeson Gregory Group Limited (formerly Beeson Gregory Group Plc) shares have been re-stated to reflect The Evolution Group Plc price at a conversion ratio of 1.77 Evolution shares for every one Beeson Gregory Group share following the acquisition of Beeson Gregory Group on 11 July 2002.
- (2) 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.

Scheme	Exercise price (p) ⁽¹⁾	Status	At 1 January 2002	Rolled over on acquisition	Granted in the year	Exercised in the year	Cancelled in the year	At 31 December 2002
Options over existing shares held by the Share Incentive Trust								
BGG 1996 Executive Share Option Scheme	8.76-70.62	Approved	-	926,610	-	(193,138)	-	733,472
BGG 1996 Executive Share Option Scheme	8.76-70.62	Unapproved	-	18,089	-	-	-	18,089
BGG Deferred Share Bonus Plan	-	Unapproved	-	660,363	-	(56,170)	(59,158)	545,035
BGG Conditional Share Plan	-	Unapproved	-	395,772	-	-	-	395,772
				2,000,834		(249,308)	(59,158)	1,692,368

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

The Evolution Group Plc 2002 Executive Share Incentive Plan

This scheme was approved by the Board on 13 March 2002.

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.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

42. SHARE SCHEMES (continued)

Nature of Plan

The Plan provides for participants to be awarded shares in the Company at their nominal cost. This award of shares is provided via the grant of a call right over such shares. The Plan is operated in conjunction with an employee benefit trust.

Performance criteria

The Plan operates in a standalone form and is also utilised within the Key Performers' Share Incentive Plan ("KPSIP") introduced for employees of Evolution Beeson Gregory Limited (formerly Beeson Gregory Limited) in January 2003 where it forms the method of delivery of such awards made within the KPSIP framework.

Standalone

Under the standalone the basic performance criteria is the continued satisfactory employment by the individual within a group company throughout the period following grant of an award.

KPSIP

The KPSIP provides employees with an initial award and two subsequent awards at the anniversary and second anniversary of the initial awards.

The initial award once made may be clawed back by up to 50% if, during the 12 months following the grant, the individual's performance as measured within the group companies annual appraisal process is below targets set by management. The level of subsequent awards is also directly related to the individual's overall performance rating within the company's annual appraisal process.

Exercise of call rights

A call right 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 date of grant.

Scheme Limits

The overall limit on the Plan is 10% of the issued share capital.

Options granted

At 31 December 2002 call rights over 871,451 shares (2001: Nil) 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 28 April 2005 and 28 April 2012.

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 or the nominal value of a share.

Performance criteria

The option exercise may be conditional upon the performance of the Group 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 of The Evolution Group Plc share price 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 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. 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 Ordinary options is 10% of the issued share capital and for Super options is 5% of the issued share capital.

Options granted

At 31 December 2002 Nil Ordinary options (2001: Nil) and 4,740,121 Super options (2001: 4,128,319) were outstanding with exercise prices between 39.60p and 62.7p. The options can be exercised between 30 June 2004 and 20 November 2012

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 is no performance criteria for Super options.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2002

42. SHARE SCHEMES (continued)

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 date of grant for Ordinary options and five years after the date of grant for Super options.

Scheme Limits

The overall limit on Ordinary options is 10% of the issued share capital and for Super options is 5% of the issued share capital.

Options granted

At 31 December 2002 5,486,860 Ordinary options (2001: 5,486,860) and 1,892,332 Super options (2001: 2,368,332) 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 above a maximum market value (calculated as the strike price at date of grant) of £30,000.

Options granted

At 31 December 2002 Nil Ordinary options (2001: Nil) and Nil Super options (2001: Nil) were outstanding.

The Beeson Gregory Group plc Share Option Scheme 1994 (Approved) (Existing Awards Rolled Over 9 August 2002)

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 have 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 2002 265,500 options were outstanding with an exercise price of 18.36p. The options can be exercised between 9 August 2002 and 12 October 2008.

The Beeson Gregory Group plc Executive Share Incentive Scheme 1996 (Approved and Unapproved) (Existing Awards Rolled Over 9 August 2002)

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 2002 1,860,766 approved options and 3,183,734 unapproved options were outstanding over new shares, with exercise prices between 8.76p and 70.62p. In addition 733,472 approved and 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.

The Beeson Gregory Group plc Discretionary Share Option Scheme 2000 (Approved and Unapproved) (Existing Awards Rolled Over 9 August 2002)

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 2002 240,189 approved options and 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.

Notes to the financial statements

For the year ended 31 December 2002

The Beeson Gregory Group Plc Shares granted under Replacement Option Agreements (Unapproved) (Existing Awards Rolled Over 9 August 2002)

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 2002 2,883,064 unapproved options were outstanding with an exercise price of 10.03p. The options can be exercised between 9 August 2002 and 31 January 2004.

The Beeson Gregory Group Plc Deferred Bonus Plan (Unapproved) (Existing Awards Rolled Over 9 August 2002)

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 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 Conditional Share Plan (Unapproved) (Existing Awards Rolled Over 9 August 2002)

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 2002 395,772 options over existing shares were allocated. The options vest with employees on 27 June 2000 and lapse on 27 December 2003.

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.

At 31 December 2002 648,944 options over existing shares were allocated. The options vest with employees in January 2003 and July 2003.

Other options

As at 31 December 2002 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 (2001: 800,000) 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.

In addition to the schemes above to subscribe for shares in the Company the following options have been issued to subscribe for shares in the Group's majority owned subsidiary, IP2IPO Group Limited:

Scheme	Exercise price (p)	Status	At 1 January 2002	Rolled over on acquisition	Granted in the year	Exercised in the year	Cancelled in the year	At 31 December 2002
IP2IPO Group Scheme	141.00	Unapproved	-	1,436,400	-	-	(567,495)	868,905

The IP2IPO Share Option Agreements (Unapproved)

Individual Share Option Agreements dated 15 January 2002 with an option price of £1.41 per share are in place with four employees. Options under these arrangements vest in three equal tranches over the period 2 August 2002 to 2 August 2004. The options lapse on the day immediately preceding the tenth anniversary of the date of grant.

At 31 December 2002 868,905 unapproved options were outstanding with an exercise price of 141p. The options can be exercised between 2 August 2002 and 14 January 2012.

Notice of Annual General Meeting

NOTICE is hereby given that the 2003 Annual General Meeting of the Company will be held at Tower 42, 25 Old Broad Street, London, EC2N 1HQ on 29 May 2003 at 11.00 am to transact the following business:

Ordinary business

1. To receive and adopt the Directors' report, the Audited Statement of Accounts and Auditors' report for the year ended 31 December 2002.
2. To re-elect Mr Alex Snow as a director who is offering himself for re-election in accordance with the Articles of Association of the Company
3. To re-elect Mr Oliver Vaughan as a director who is offering himself for re-election in accordance with the Articles of Association of the Company
4. To re-elect Mr David Norwood as a director who is offering himself for re-election in accordance with the Articles of Association of the Company
5. To re-elect Sir Malcolm Field as a director who is offering himself for re-election in accordance with the Articles of Association of the Company
6. To re-elect Mr George Loudon as a director who is offering himself for re-election in accordance with the Articles of Association of the Company
7. To reappoint PricewaterhouseCoopers LLP as auditors of the Company and its subsidiaries (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors.

Special business

As special business to consider and, if thought fit, pass the following resolutions, of which Resolution 8 will be proposed as an ordinary resolution and Resolution 9 will be proposed as a special resolution:

8. THAT the directors be and they are hereby generally and unconditionally authorised (in substitution for all previous powers granted thereunder) to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) (the "Act") up to an aggregate nominal amount of £1,100,000 provided that this authority shall expire on the earlier of the conclusion of the annual general meeting of the Company to be held in 2004 and 29 August 2004 and, unless and to the extent that such authority is renewed or extended prior to such date, that the Company may before such expiry make an offer or agreement which would, or might, require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby has not expired.
9. THAT the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") (in substitution for all previous powers granted thereunder) to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by the ordinary resolution at Resolution 8 above as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to:
 - a. the allotment of equity securities where the equity securities respectively attributable to the interests of such shareholders are proportionate (as nearly as maybe) to the respective number of ordinary shares of 1p in the Company ("Ordinary Shares") held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas holders, fractional entitlements or otherwise including (but not limited to) the allotment of equity securities to the renounees of the holders of Ordinary Shares;

Notice of Annual General Meeting

Special business (continued)

- b. the allotment of equity securities up to an aggregate nominal amount of £6,500.00 upon the exercise of options granted by the Company; and
- c. the allotment (other than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £241,471.20 (representing 10 per cent of the nominal value of the issued share capital of the Company at 22 April 2003);

and shall expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2004 or on 29 August 2004 (whichever is the earlier) save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

By Order of the Board

N. R. Gordon

Secretary

22 April 2003

Notes:

1. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and (on a poll) to vote in his or her place. A proxy need not be a member of the Company.
2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such a power of authority must be deposited at the office of the Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR not later than 48 hours before the time appointed for the Meeting. A form of proxy is enclosed.
3. There will be available for inspection at the registered offices of the Company, during usual business hours on any weekday from the date of this Notice until the date of the Meeting, and at the place of the Meeting for 15 minutes prior to and during the Meeting, and particulars for the period up to 22 April 2003 of the transactions of each director and, so far as he can reasonably ascertain, of persons connected to him (within the meaning of Section 346 of the Act) in the share capital of the Company and copies of any service contracts between the Company and any of its directors.
4. The Company, pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 27 May, 2003 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

