

The Evolution Group Plc

(formerly EVC Christows Plc and The eVestment Company Plc)

ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2000

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Directors and Advisers

Directors	A.C.W. Snow (<i>Chairman and Group Chief Executive</i>) R.I. Griffiths (<i>Deputy Chairman</i>) J.E. Chilcott (<i>Research</i>) A. Graham (<i>Finance Director</i>) J. Kenny (<i>Corporate Finance and Private Equity</i>) M.J. Read (<i>Fund Management</i>) O.J. Vaughan (<i>Non-Executive</i>)
Secretary and registered office	N.R. Gordon 223a Kensington High Street London W8 6SG
Auditors	Grant Thornton 31 Carlton Crescent Southampton SO15 2EW
Solicitors	Stringer Saul 17 Hanover Square London W1S 1HU
Nominated advisers and nominated brokers	Peel Hunt plc 62 Threadneedle Street London EC2R 8HP
Principal bankers	National Westminster Bank Plc
Registrars	Melton Registrars Limited Cresta House Alma Street Luton Bedfordshire LU1 2PU
Registered number	3359425

Chairman's Statement

Key Financials

Group turnover (including Christows for 7 months)	£4.82 million
Profit on sale of investments	£2.47 million
Operating loss	£0.03 million
Retained loss post exceptional items and tax	£28.00 million

Review of the Year

This has been an extraordinary period for the Company, during which we have seen violent swings in market sentiment towards the global technology sector. During the year under review the Company raised £54 million in new equity and invested in excess of £27 million in technology and internet related ventures.

Following the peak in the technology boom and in dramatically changing market conditions, it quickly become apparent that the focus and disciplines required to create real and sustainable shareholder value, as a technology investor, had fundamentally changed. The Board took the decision in June 2000 to scale back the Company's investment activities, to preserve shareholders' equity and re-engineer our business model. At that stage, it was decided to develop the Company into a regulated technology focused investment and advisory business. The intention of this strategy was to build a modern consolidated technology investment company and private client asset management business.

The first major step in this development was completed in November 2000 when The eVestment Company plc acquired by way of merger the Christows group ("Christows"), a Member of the London Stock Exchange. Christows has a private client portfolio management service with significant assets under management and also a successful Open Ended Investment Company ("OEIC") based in Dublin, which manages four distinct OEIC products.

Following the merger with Christows and the change of name to EVC Christows PLC, I was appointed Chief Executive of the Group in February 2001, as part of the restructuring of the Group's senior management team. The previous senior management team has now relinquished all executive roles and the new team is in place. I firmly believe that the new management has the necessary skill-sets and experience to implement our growth strategy.

In March 2001, the Board announced the acquisition of Evolution Capital Limited, a well-known and respected research and strategic advisory firm with a strong franchise, focused in several new areas of technology. At that time, it was proposed to change the name of the Company to The Evolution Group PLC. This acquisition was the final stage of a stated strategy that has taken over nine months to realise and provides our group with the skills, disciplines and focused approach to deliver upon the above strategy. I am delighted to welcome Richard Griffiths, James Kenny, and James Chilcott, the founders of Evolution Capital Limited, onto the Board.

Exceptional Items

Your Board has decided to be prudent with respect to the original eVestment portfolio. The provision against investments of £14.17 million indicated in the trading statement issued on 22 December 2000 has now been increased to £23.84 million. The reorganisations arising from the acquisitions of Christows Limited and Capital Exchange Limited have led to a write-off of goodwill of £4.91 million, whilst merger expenses of £0.67 million have also been written-off. Total exceptional items in the year amount to £29.43 million.

Chairman's Statement

continued

Capital Structure

The capital structure of The Evolution Group PLC has, until recently, been very complex given the size of the Company. It was clear that the excessive amounts of warrants and Further Subscription Rights in issue had become a significant overhang in the capital structure of the Group and would continue to be a complication whenever the Company undertook any form of corporate action, and a hindrance to attracting new high calibre staff. At the EGM on 26 March 2001 shareholders approved the early exercises of these dilutive instruments in their entirety, the exercise period closing on 6 April 2001. This was a critical action in developing a clear and presentable shareholding structure, and in that spirit the decision was taken to consolidate the shares. As we continue to build and execute our business model, I believe that it is appropriate to make certain amendments to the Group's share option scheme, including a meaningful expansion of the number of shares available in the option pool. The grant and general use of options will be a key element used to attract, retain and motivate our key people and new hires and, as such, shareholder approval is being sought at the forthcoming Annual General Meeting to give effect to these changes.

Board Changes

There have been some major changes to the composition of your Board over the past 12 months. Michael Read joined us as Chairman of Christows Limited in February 2001 and brings with him a wealth of experience in private client asset management. As mentioned above Richard Griffiths, James Kenny, and James Chilcott have joined from Evolution Capital. Oliver Vaughan has stepped down from Chairman to Non-Executive Director. I currently fulfil the roles of Chief Executive and Chairman. It is the Board's intention to search for a Non-Executive Chairman in line with the Cadbury Report recommendations.

Outlook and Prospects

Market conditions since December have been extremely challenging for our asset management and stockbroking business. We are currently conducting a review of this business and your Board will make the necessary adjustments to align the infrastructure costs with the current market conditions. We are confident that this can become a valuable and profitable business.

The firm belief of your Board is that there are still very high returns to be achieved from the investment in and knowledge acquired from, focused, well-researched private technology companies. There is significant value in such knowledge. It is also our belief that the development of these early stage companies in terms of corporate advisory and corporate finance, potential fundraising efforts and analytical support, is crucial in adding further value. These activities are supported by a strong analytical team with a rigorous process in a fully regulated environment.

The new name for your company reflects a new set of disciplined operating standards, and describes the evolving nature of the group.

I firmly believe that The Evolution Group PLC is now extremely well positioned with a strong balance sheet and the clear capability to deliver on the strategy outlined above. The disciplined bottom-up approach that is now being employed within the Company is crucial to the implementation of our targets. Once again, the quality and attitude of people is the vital factor in achieving success and I would take this opportunity to thank all our employees for their endeavours in what has been a challenging year.

A.C.W. Snow
Chairman

4 May 2001

Directors' Report

The directors present their annual report and the audited accounts for the year ended 31 December 2000.

Principal activities

The Group provides early stage capital to technology and e-commerce businesses, and undertakes fund management, stockbroking and corporate finance activities.

The Group was created from the merger between The eVestment Company plc and Christows Group Limited.

Business review

The loss attributable to shareholders as disclosed in the profit and loss account on page 11 amounts to £27,996,200 (1999: profit £128,100).

The Chairman's review of the period appears on page 3.

Change of name

On 20 November 2000 the Company changed its name from The eVestment Company Plc to EVC Christows Plc. On 26 March 2001 the Company changed its name to The Evolution Group Plc.

Share capital

Changes in share capital are outlined in note 14.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors of the Company during the year and their respective interests in the issued ordinary share capital, all of which were beneficial, were as follows:

	1 January 2000 or date of appointment		31 December 2000	
	Ordinary Shares of 1p each	Warrants/ Options	Ordinary Shares of 1p each	Warrants/ Options
A.C.W. Snow (appointed 21.11.00)	—	—	—	500,000 ⁽³⁾
A. Graham	80,010	320,000 ⁽²⁾	80,010	320,000 ⁽²⁾
J.H. Gunn (appointed 21.11.00, resigned 15.5.01)	40,000	—	7,217,856	—
O.J. Vaughan	250,000	—	277,777	—
A.C. Roberts (resigned 29.3.01)	80,010	320,000 ⁽²⁾	80,010	320,000 ⁽²⁾
J.A. Donnelly (resigned 29.3.01)	—	—	187,500	—
J. Drinkwater (resigned 18.7.00)	—	—	—	—
T.F. Vaughan (resigned 20.11.00)	200,000	100,000 ⁽²⁾	483,333	1,240,000 ⁽²⁾
D.J.L. Abbot (appointed 21.11.00, resigned 1.2.01)	1,000	—	5,660,168	—
M.C. Phillips (appointed 21.11.00, resigned 1.2.01)	—	—	4,439,659	—

M.J. Read was appointed as a director of the Company on 5 February 2001 (see (4) below). R.I. Griffiths, J.E. Chilcott and J. Kenny were appointed as directors of the Company on 29 March 2001.

Directors' Report

continued

Notes

- (1) On 26 March 2001 there was a reorganisation of the share capital of the Company in which every 10 issued ordinary shares of 1p were consolidated into one small share of 10p, and each such 10p share was then split into an ordinary share of 1p and a deferred share of 9p ("the Share Capital Reorganisation"). All the holdings in the table are shown as if the Share Capital Reorganisation had taken place as at 1 January 2000.
- (2) The warrants held by Messrs A.C. Roberts, A. Graham and T.F. Vaughan were to subscribe for ordinary shares at 2.5p per share at any time before 31 May 2004. Following the Share Capital Reorganisation the terms of the 2.5p Warrants were adjusted so that, for every 10 2.5p Warrants previously held, the holder thereof held one warrant (an "Adjusted 2.5p Warrant") to subscribe for one ordinary share at 2.5p per share at any time prior to 6 April 2001. All the Adjusted 2.5p Warrants held by directors were exercised in full on or before their expiry on 6 April 2001.
- (3) The option granted to A.C.W. Snow was granted pursuant to an agreement with the Company dated 14 December 2000 and gives Mr Snow the right to subscribe for 5,000,000 ordinary shares at 2.5p per share at any time between 14 December 2000 and 13 December 2005. Following the Share Capital Reorganisation the option granted to Mr Snow was adjusted to be an option to subscribe for 500,000 ordinary shares at 25p per share.
- (4) M.J. Read and the Company have entered into a put and call option agreement in respect of Mr Read's shares in Christows Asset Management Limited. Further details of this option agreement are set out in Note 26 to the accounts.

O.J. Vaughan will retire by rotation at the Annual General Meeting and, being eligible, offer himself for re-election.

A.C.W. Snow, R.I. Griffiths, J.E. Chilcott, J. Kenny and M.J. Read have all been appointed as directors since the last annual general meeting of the Group. Accordingly, they are all retiring as directors and offering themselves for re-election.

None of the directors had any material interest in any contracts of significance in relation to the Group's business during the year.

A.C. Roberts, J.A. Donnelly, A. Graham, D.J. Abbot and M.C. Phillips entered into service contracts with the Company during the year ended 31 December 2000. Employment with the Company of the following directors has terminated: D.J.L. Abbot (on 25 January 2001); M.C. Phillips (on 29 January 2001); A.C. Roberts (on 29 March 2001); and J.A. Donnelly (on 29 March 2001). Since 31 December 2000, the Company has entered into service agreements with R.I. Griffiths, J.E. Chilcott and J. Kenny. Christows Asset Management Limited, a company in which the Company has a 51 per cent. interest, has entered into a service agreement with M.J. Read.

Substantial shareholdings

Apart from the interests of the directors, the only interests in excess of 3 per cent. of the issued share capital of which the Company had been notified at 18 May 2001 were (in numbers of shares following the Share Capital Reorganisation referred to above):

	Ordinary Shares of 1p each	Percentage of capital
Barnard Nominees Limited	6,530,072	5.8
Pershing Keen Nominees Limited	5,450,673	4.8
Clydesdale Bank Custodian Nominees Limited	3,772,687	3.3
M.C. Phillips	3,700,086	3.3

Directors' Report

continued

Payment to suppliers

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 and pay suppliers according to agreed terms and conditions, provided that the supplier meets those terms and conditions. The Group does not have a standard or code which deals specifically with the payment of suppliers.

Trade creditors at the year end amount to 46.8 days of average suppliers for the year.

Post balance sheet events

Full details of all post balance sheet events are set out in Note 26 to the Accounts.

Auditors

A resolution will be proposed at the annual general meeting to reappoint Grant Thornton as auditors for the forthcoming year.

Annual General Meeting

Resolutions 9 to 14 in the Notice of Meeting are intended to be passed as special business.

Resolution 9 extends for a maximum period of 15 months the directors' authority to issue shares.

Resolutions 10 and 11 extend for a maximum period of fifteen months disapplication of the statutory pre-emption rights contained in Section 89(1) of the Companies Act 1985 in relation to issues for cash. Resolution 11 permits a further 10,000,000 ordinary shares to be issued.

Resolution 12 sets out the proposed terms under which the Company may purchase its own shares. There is no intention at present to exercise these powers which the Board will only use if it is considered to be in the best interests of the shareholders.

Resolution 13 approves, for the purposes of Section 320 of the Companies Act 1985, the acquisition by the Company of 49 per cent. of the issued share capital of Christows Asset Management Limited following the exercise of the put and call option described in Note 26 to the Accounts.

Resolution 14 deals with the approval of The Evolution Group Plc 2001 Executive Share Option Scheme (the "New Scheme"). The New Scheme is in addition to the existing Executive Share Option Scheme, which was adopted by shareholders in November 2000. The New Scheme contains a limit of 15 per cent. of the issued share capital, which is available for the grant of options under the New Scheme, two thirds of which are classified as Ordinary Options and one third of which are classified as Super Options. The shares available for the grant of options under the New Scheme are in addition to the 15 per cent. of the Company's issued share capital available under the existing Executive Share Option Scheme. The Directors consider that the establishment of the New Scheme is desirable in order to retain and motivate the Group's employees and to recruit new executives. A summary of the draft Rules of the New Scheme is set out in the Appendix to the financial statements.

Copies of the Rules of the New Scheme will be available for inspection at the registered office of the Company and at the offices of Stringer Saul at 17 Hanover Square, London W1S 1HU during usual business hours on weekdays (Saturdays and public holidays excepted) up to the date of the 2001 Annual General Meeting and at the meeting itself.

The directors consider that each resolution is in the best interests of the Company and recommend that shareholders vote in favour.

Directors' Report

continued

Statement of directors' responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

N.R. Gordon

Secretary

4 May 2001

Corporate Governance

The Group has considered the principles and provisions of the Combined Code issued by the Committee on Corporate Governance in June 1998 and applied them to the extent considered appropriate by the Board given the size of the Group.

- The Group is headed by an effective Board which leads and controls the Group.
- There is a clear division of responsibilities in running the Board and running the company's business.
- The Board includes a balance of executive and non-executive directors. The final selection of any director is performed by the full Board and any appointment is approved by the Board and recorded in the minutes.
- The Board receives and reviews on a timely basis financial and operating information appropriate to being able to discharge its duties.
- Directors submit themselves for re-election every three years by rotation in accordance with the Articles of Association.
- The Board is available to discuss current events with its institutional and private shareholders and positively encourages attendance at the Annual General Meeting.
- The Board, through the Chairman's Statement, presents a clear and detailed account of the Group's position and prospects.
- The Board regularly reviews the system of internal financial controls and considers the effectiveness at safeguarding shareholders' investments and the Group's assets.
- The Audit Committee comprises the two non-executive directors, A.C.W. Snow and A. Graham, the finance director. Its duties include monitoring internal control throughout the Group, approving the Group's accounting policies and reviewing the interim and annual financial statements before submission to the Board.

Remuneration Committee

The Remuneration Committee consists of O.J. Vaughan, R.I. Griffiths and A.C.W. Snow. Details of the directors' emoluments are set out in the accounts. However, there is no separate report of the Remuneration Committee. It is the Group's policy that the remuneration of directors should be commensurate with services provided by them to the Group.

Going concern

As part of its regular assessment of the prospects for the Group, the Board reviews a detailed one year plan and further projections. As a result of such considerations the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The directors are responsible for the Group's system of internal control. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. In fulfilling these responsibilities, the Board has reviewed the effectiveness of the system of internal control. The directors have established procedures for planning and budgeting and for monitoring, on a regular basis, the performance of the Group.

Auditors' Report

to the members of The Evolution Group Plc

We have audited the financial statements on pages 11 to 28 which have been prepared in accordance with the accounting policies set out on pages 15 and 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 8, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We are not required to consider whether the Board's statements on internal control cover all risks and controls or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and internal control procedures.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes an 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 circumstances of the Group, 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 Group and the Company at 31 December 2000 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton
Registered Auditors
Chartered Accountants

Southampton

4 May 2001

Consolidated Profit and Loss Account

for the year ended 31 December 2000

	Notes	Year ended		Year ended	
		31 December 2000	31 December 1999	31 December 2000	31 December 1999
		£'000	£'000	£'000	£'000
Turnover					
Continuing operations		368.9		438.5	
Acquisitions		4,451.6		—	
			4,820.5		438.5
Commissions payable	3		(1,492.5)		(53.5)
Gross profit			3,328.0		385.0
Administrative expenses	3		(5,888.8)		(380.8)
Profit on sale of investments	3		2,471.1		146.1
Other operating income	3		60.1		90.1
Operating (loss)/profit					
Continuing operations		(358.6)		240.4	
Acquisitions		329.0		—	
			(29.6)		240.4
Write off of goodwill on reorganisation – continuing	8	(4,919.3)		(73.3)	
Amounts written off investments – continuing	10	(23,839.7)		—	
Merger expenses – continuing		(673.7)		—	
Exceptional items			(29,432.7)		(73.3)
(Loss)/profit on ordinary activities before interest			(29,462.3)		167.1
Interest receivable and similar income			2,116.2		103.3
Interest payable and similar charges			(9.7)		—
(Loss)/profit on ordinary activities before taxation			(27,355.8)		270.4
Taxation	5		(640.4)		(62.3)
(Loss)/profit for the year	6		(27,996.2)		208.1
Dividends			—		(80.0)
Retained (loss)/profit for the year			(27,996.2)		128.1
Basic (loss)/earnings per ordinary share	7		(6.4)		0.2
Diluted (loss)/earnings per ordinary share	7		N/A		0.1

There were no recognised gains or losses other than the loss for the year.

Consolidated Balance Sheet

at 31 December 2000

	Notes	31 December 2000 £'000	31 December 1999 £'000
Fixed assets			
Intangible assets	8	—	200.7
Tangible assets	9	633.7	19.3
Investments	10	4,912.6	2,862.9
		5,546.3	3,082.9
Current assets			
Debtors	11	1,786.2	407.7
Investments		12.1	—
Cash at bank and in hand		37,371.1	938.3
		39,169.4	1,346.0
Creditors			
Amounts falling due within one year	12	(3,909.0)	(834.3)
Net current assets		35,260.4	511.7
Total assets less current liabilities		40,806.7	3,594.6
Creditors			
Amounts falling due after more than one year	13	—	(14.5)
Net assets		40,806.7	3,580.1
Capital and reserves			
Called up share capital	14	7,742.4	1,192.0
Share premium	15	54,270.6	1,628.5
Merger reserve	16	6,030.3	—
Profit and loss account	16	(27,236.6)	759.6
Equity shareholders' funds	24	40,806.7	3,580.1

Approved by the Board on 4 May 2001

A. Graham
Director

Balance Sheet

at 31 December 2000

	Notes	31 December 2000 £'000	31 December 1999 £'000
Fixed assets			
Tangible assets	9	45.9	—
Investments	10	8,035.4	2,479.4
		8,081.3	2,479.4
Current assets			
Debtors	11	236.4	298.9
Cash at bank and in hand		31,727.0	740.0
		31,963.4	1,038.9
Creditors			
Amounts falling due within one year	12	(1,698.1)	(554.0)
Net current assets		30,265.3	484.9
Net assets		38,346.6	2,964.3
Capital and reserves			
Called up share capital	14	7,742.4	1,092.0
Share premium	15	54,270.6	1,628.5
Profit and loss account	16	(23,666.4)	243.8
Equity shareholders' funds	24	38,346.6	2,964.3

Approved by the Board on 4 May 2001

A. Graham
Director

Consolidated Cash Flow Statement

for the year ended 31 December 2000

	Notes	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Net cash (outflow)/inflow from operating activities	21	(1,281.2)	218.6
Returns on investments and servicing of finance			
Interest received		2,116.2	103.2
Interest paid		(9.7)	—
Income from fixed asset investments		0.2	—
Net cash inflow from returns on investments and servicing of finance		2,106.7	103.2
Taxation			
Corporation tax paid		(241.6)	(59.2)
Capital expenditure and financial investment			
Sale of tangible fixed assets		0.5	0.2
Purchase of shares in associate		—	(9.6)
Purchase of tangible fixed assets		(342.8)	(0.5)
Purchase of fixed asset investments		(25,942.2)	(2,849.0)
Sale of fixed asset investments		3,419.2	815.9
Net cash outflow from capital expenditure and financial investments		(22,865.3)	(2,043.0)
Dividends paid		—	(80.0)
Acquisitions and disposals			
Purchase of subsidiaries		(387.3)	—
Net cash acquired with subsidiaries		736.6	—
		349.3	—
Cash outflow before management of liquid resources and financing		(21,932.1)	(1,860.4)
Management of liquid resources			
Decrease in short term deposits		800.3	1,529.7
Financing			
Issues of ordinary share capital		59,062.9	(5.3)
Expenses of share issue		(690.0)	—
Lease repayments		(8.0)	210.0
Net cash inflow from financing		58,364.9	204.7
Increase/(decrease) in cash in the year	22	37,233.1	(126.0)

Notes to the Accounts

1. Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention.

(b) Consolidation

The consolidated financial statements include all subsidiaries at the accounting reference date as stated in Note 10. New subsidiaries are brought into account on the basis of the fair value of the assets of the individual subsidiary, with the exception of Christows Group Limited which was accounted for under merger accounting in accordance with Financial Reporting Standard 6.

The Company has taken advantage of Section 230 Companies Act 1985 to produce a consolidated profit and loss account, and accordingly no separate profit and loss account is presented for the company.

(c) Merger with Christows Group Limited

On 4 September 2000, the Company and Christows Group Limited (“Christows”) announced plans for the merging of their respective businesses. The merger was to be effected by way of offers made by the Company for the whole of the issued share capital of Christows. These offers became unconditional on 20 November 2000. The merger has been accounted for using the merger accounting principles set out in Financial Reporting Standard 6. Accordingly, the financial information for the current period has been presented, and that for the prior year restated, as if Christows had been owned by the Company throughout the current and comparative accounting periods.

(d) Fixed asset investments

Fixed asset investments are included in the financial statements at cost, less provisions for permanent diminution in value. Income from fixed asset investments is recognised on the basis of receipt.

(e) Deferred tax

Deferred tax is provided, using the liability method in respect of timing differences to the extent that, in the directors’ opinion, a liability is expected to arise in the foreseeable future.

(f) Goodwill

Purchased goodwill is capitalised and amortised over its estimated useful economic life.

Goodwill arising on consolidation in the accounts of the ultimate holding company is capitalised and amortised over its estimated useful economic life, except where a subsidiary has been purchased and its business significantly reorganised. In this case the goodwill arising on consolidation is deemed to have become worthless and is written off to the profit and loss account in the year the reorganisation took place.

Goodwill that arose on consolidation in the accounts of a subsidiary company has been written off to the profit and loss account in the consolidated accounts of the ultimate company. This goodwill is not considered to have any value in the context of the enlarged group.

(g) Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets and depreciated over the shorter of the lease terms and their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals applicable to operating leases where substantially all of the benefits and risk of ownership remain with the lessor are charged to the profit and loss account.

(h) Turnover

Turnover represents the net amount receivable for services supplied by the Company in the ordinary course of its business, exclusive of value added tax. The turnover is all generated within the United Kingdom and Eire.

Notes to the Accounts

continued

1. Accounting policies continued

(i) Depreciation

Depreciation is provided on tangible fixed assets at rates designed to reduce the cost of the asset to residual value evenly over its anticipated useful life as follows:

Leasehold property improvements	Over 5 years
Fixtures and fittings	Over 5 to 10 years
Computer equipment	Over 3 to 5 years
Motor vehicles	Over 5 years

2. Loss on ordinary activities

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Auditors' remuneration - audit fees	40.3	15.5
- non-audit services	66.5	0.6
Depreciation - owned assets	144.5	7.3
- leased assets	11.4	7.8
Profit on disposal of fixed assets	0.2	—
Operating lease rentals	216.0	1.6
Hire of plant and machinery	46.1	—
Provisions for permanent diminution in value of fixed assets	23,839.7	—
Finance charges in respect of finance leases	5.8	2.9

3. Other operating income and charges

	Year ended 31 December 2000			Year ended 31 December 1999		
	Continuing £'000	Acquisitions £'000	Total £'000	Continuing £'000	Acquisitions £'000	Total £'000
Commissions payable	(55.3)	(1,437.2)	(1,492.5)	(53.5)	—	(53.5)
Administrative expenses	(2,595.5)	(3,293.3)	(5,888.8)	(380.8)	—	(380.8)
Profit on sale of investments	1,895.1	576.0	2,471.1	146.1	—	146.1
Other operating income	28.2	31.9	60.1	90.1	—	90.1
	(727.5)	(4,122.6)	(4,850.1)	(198.1)	—	(198.1)

4. Staff costs, employees and directors' remuneration

(i) Directors' remuneration is set out below:

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Emoluments	418.6	12.5
Pension contributions	10.8	—
	429.4	12.5

During the year 1 (1999: 3) directors participated in money purchase pension schemes. The amounts set out above include remuneration in respect of the highest paid director as follows:

Emoluments	128.1	12.5
Pension contributions	10.8	—
	138.9	12.5

Notes to the Accounts

continued

4. Staff costs, employees and directors' remuneration continued

(ii) Staff costs (including directors' emoluments)

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Wages and salaries	3,258.1	207.3
Social security costs	364.1	17.7
Other pension costs	40.4	—
	3,662.6	225.0

Pension contributions are made to individual directors and employees schemes and are not made to a specific company scheme.

(iii) Number of employees

The average number of employees (excluding directors) during the year was as follows:

	Year ended 31 December 2000 Number	Year ended 31 December 1999 Number
Management and office	48	5
Sales and stockbroking	23	—
	71	5

5. Taxation

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Under/(over) provision in prior years	9.5	(0.4)
Corporation tax for the year	630.9	62.7
	640.4	62.3

6. Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the financial year was £23,910,144 (31 December 1999: profit £79,600).

7. (Loss)/earnings per share

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

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	Year ended 31 December 2000			Year ended 31 December 1999		
	Loss £	Weighted average number of shares	Loss per share (pence)	Earnings £	Weighted average number of shares	Earnings per share (pence)
Basic (loss)/earnings per share	(27,996,200)	437,384,198	(6.40)	208,100	101,094,447	0.21
Dilutive effect of securities				—	153,100,286	
Diluted earnings per share				208,100	254,194,733	0.08

The (loss)/earnings per share and numbers of shares shown above are prior to the Share Capital Reorganisation referred to in the Directors' Report.

Notes to the Accounts

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8. Intangible fixed assets

	Group £'000	Goodwill Company £'000
Cost		
At 1 January 2000	427.5	—
Additions	4,718.6	—
Write-off of goodwill	(5,146.1)	—
At 31 December 2000	—	—
Amortisation		
At 1 January 2000	226.8	—
Write-off of goodwill	(226.8)	—
At 31 December 2000	—	—
Written down value		
At 31 December 2000	—	—
At 31 December 1999	200.7	—

9. Tangible fixed assets

(i) Group	Leasehold improvements £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Plant and machinery £'000	Total £'000
Cost						
At 1 January 2000	—	—	61.2	29.0	—	90.2
Additions	58.6	255.8	28.4	—	—	342.8
Acquisition of subsidiary undertaking	118.5	314.3	149.7	33.5	—	616.0
Disposals	—	(22.6)	(6.7)	—	—	(29.3)
At 31 December 2000	177.1	547.5	232.6	62.5	—	1,019.7
Depreciation						
At 1 January 2000	—	—	61.2	9.7	—	70.9
Charge for year	22.3	96.3	25.9	11.4	—	155.9
Acquisition of subsidiary undertaking	20.7	110.8	45.8	11.0	—	188.3
Released on disposal	—	(22.6)	(6.5)	—	—	(29.1)
At 31 December 2000	43.0	184.5	126.4	32.1	—	386.0
Written down value						
At 31 December 2000	134.1	363.0	106.2	30.4	—	633.7
At 31 December 1999	—	—	—	19.3	—	19.3

The motor vehicles are all held under finance leases or hire purchase contracts.

(ii) Company	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2000	—	—	—
Additions	59.7	8.8	68.5
At 31 December 2000	59.7	8.8	68.5
Depreciation			
At 1 January 2000	—	—	—
Charge for year	19.7	2.9	22.6
At 31 December 2000	19.7	2.9	22.6
Written down value			
At 31 December 2000	40.0	5.9	45.9
At 31 December 1999	—	—	—

Notes to the Accounts

continued

10. Fixed asset investments

(i) Group

	Listed £'000	Unlisted £'000	Total £'000
Cost:			
At 1 January 2000	332.2	2,530.7	2,862.9
Additions	2,093.9	25,092.2	27,186.1
Acquired on acquisition	7.3	—	7.3
Reclassification on becoming a subsidiary	—	(203.5)	(203.5)
Disposals	(135.0)	(965.5)	(1,100.5)
Reclassification	134.8	(134.8)	—
At 31 December 2000	2,433.2	26,319.1	28,752.3
Provisions			
At 1 January 2000	—	—	—
Increase in provisions	868.0	22,971.7	23,839.7
At 31 December 2000	868.0	22,971.7	23,839.7
Net Book Value			
At 31 December 2000	1,565.2	3,347.4	4,912.6
At 31 December 1999	332.2	2,530.7	2,862.9
Aggregate market value at 31 December 2000	3,189.2		

Included in unlisted investments at 1 January 2000 is an investment in an associate, Christows Holdings Limited, of £203,500. During the year the Group acquired the remaining issued share capital of the company, as detailed in Note 28. The investment in associate was therefore reclassified as an investment in subsidiary, and was eliminated on consolidation.

Unlisted investments include shares in companies traded on the Alternative Investment Market at 31 December 2000, as well as shares not traded on a recognised stock market on that date.

(ii) Company

	Shares in subsidiary undertakings £'000	Listed £'000	Other investments Unlisted £'000	Total £'000
Cost:				
At 1 January 2000	—	269.0	2,210.4	2,479.4
Additions	4,269.0	1,000.0	25,092.3	30,361.3
Disposals	—	—	(965.6)	(965.6)
Reclassification	—	198.0	(198.0)	—
At 31 December 2000	4,269.0	1,467.0	26,139.1	31,875.1
Provisions				
At 1 January 2000	—	—	—	—
Increase in provisions	—	868.0	22,971.7	23,839.7
At 31 December 2000	—	868.0	22,971.7	23,839.7
Net Book Value				
At 31 December 2000	4,269.0	599.0	3,167.4	8,035.4
At 31 December 1999	—	269.0	2,210.4	2,479.4
Aggregate market value at 31 December 2000	4,269.0	1,349.4		

Notes to the Accounts

continued

10. Fixed asset investments continued

(iii) Subsidiary undertakings included in the consolidated accounts

	Business	Percentage owned	Incorporated in
Held directly by the Company			
EVC Christows Limited (formerly Grosmont Limited)	Dormant	100	UK
Evolution Capital Limited (formerly Capital Exchange Limited)	Corporate finance	100	UK
Christows Group Limited	Financial services	100	UK
Held by other group companies			
Christows Capital Limited	Corporate finance advisor	100	UK
Christows Holdings Limited	Intermediate holding company	100	UK
Christows Limited	Stockbroker and fund manager	100	UK
Christows Administration Limited	Intermediate holding company	100	UK
Christows Investment Management Limited	UK representative of open ended investment company	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.

11. Debtors

	Group		Company	
	31 December 2000 £'000	31 December 1999 £'000	31 December 2000 £'000	31 December 1999 £'000
Trade debtors	724.4	18.1	—	—
Other debtors	573.0	98.9	200.4	50.0
ACT recoverable	—	26.2	—	—
Prepayments and accrued income	488.8	264.5	36.0	248.9
	1,786.2	407.7	236.4	298.9

12. Creditors: amounts falling due within one year

	Group		Company	
	31 December 2000 £'000	31 December 1999 £'000	31 December 2000 £'000	31 December 1999 £'000
Trade creditors	595.7	—	165.3	—
Corporation tax	702.5	199.7	278.0	10.0
Amounts owed to group undertakings	—	—	67.5	—
Social security and other taxes	470.5	14.1	338.3	—
Other creditors	1,169.5	315.1	371.7	250.0
Accruals	943.4	300.5	477.3	294.0
Amounts due under finance leases and hire purchase contracts	27.4	4.9	—	—
	3,909.0	834.3	1,698.1	554.0

Notes to the Accounts

continued

13. Creditors: amounts falling due after more than one year

	Group		Company	
	31 December 2000 £'000	31 December 1999 £'000	31 December 2000 £'000	31 December 1999 £'000
Amounts due under finance leases and hire purchase contracts	—	14.5	—	—
Obligations under finance leases and hire purchase contracts are analysed between amounts payable:				
In the next year	27.4	4.9	—	—
Between 2 and 5 years	—	14.5	—	—
	27.4	19.4	—	—

14. Share capital

	Group		Company	
	31 December 2000 £'000	31 December 1999 £'000	31 December 2000 £'000	31 December 1999 £'000
Authorised:				
1,300,000,000 ordinary shares of 1p each	13,000.0	5,000.0	13,000.0	5,000.0
Allotted, issued and fully paid:				
774,240,588 (1999: 119,200,200) ordinary shares of 1p each	7,742.4	1,192.0	7,742.4	1,092.0

The share capital of the group for 1999 has been restated. This is in accordance with merger accounting rules, which require that share capital issued as part of the merger be treated as if it had always been in issue.

The following issues of ordinary shares of 1p each took place during the year, the consideration for each allotment of shares being 2.5p for the “2.5p Warrants” and “Further Subscription Rights”, and 1p for the “1p Warrants” (each as defined below):

- 7,242,665 on 5 January 2000 following the exercise of the same number of 2.5p Warrants;
- 20,000,000 on 5 January 2000 following the exercise of the same number of 1p Warrants;
- 126,000,022 on 11 January 2000 following a placing and open offer of shares at 8p per share;
- 2,400,000 on 11 January 2000 following the exercise of Further Subscription Rights and 1,600,000 of the 2.5p Warrants resulting from such exercise;
- 100,000 on 27 January 2000 following the exercise of Further Subscription Rights;
- 1,000,000 on 1 February 2000 following the exercise of Further Subscription Rights and the 2.5p Warrants resulting from such exercise;
- 125,714,286 on 10 February 2000 following a placing of shares at 35p per share;
- 10,780,827 on 14 February 2000 following the exercise of the same number of 2.5p Warrants;
- 220,000 on 22 February 2000 following the exercise of Further Subscription Rights;
- 6,246,351 on 27 March 2000 following the exercise of the same number of 2.5p Warrants;
- 1,598,202 on 7 April 2000 following the exercise of the same number of 2.5p Warrants;
- 1,588,395 on 26 May 2000 following the exercise of the same number of 2.5p Warrants;
- 7,686,955 on 8 June 2000 following the acquisition of shares in 4 HighTech;
- 1,841,171 on 24 July 2000 following the exercise of the same number of 2.5p Warrants;
- 41,500 on 4 August 2000 following the exercise of the same number of 2.5p Warrants;
- 10,000 on 10 August 2000 following the exercise of the same number of 2.5p Warrants;
- 9,921 on 17 August 2000 following the exercise of the same number of 2.5p Warrants;
- 4,750,000 on 21 August 2000 following the acquisition of shares in Capital Exchange Limited;
- 276,230,829 on 20 November 2000 following the offers for Christows Group Limited;
- 71,579,264 on 4 December 2000 following the offers for Christows Group Limited.

Also in issue at 31 December 2000 were 41,320,968 (1999: 67,800,000) warrants each entitling the holders thereof to subscribe for one ordinary share at 2.5p per share at any time before 31 May 2004 (a “2.5p Warrant”).

Notes to the Accounts

continued

14. Share capital continued

As at 31 December 2000 there were in issue 40,000,000 (1999: 60,000,000) warrants each entitling the holders thereof to subscribe for one ordinary share at 1p per share at any time before 31 May 2004 (a "1p Warrant").

As at 31 December 2000 there were in issue 15,280,000 rights (1999: 16,600,000) ("Further Subscription Rights"), each entitling the holder thereof to subscribe for one ordinary share at 2.5p per share at any time before 31 May 2002, and to be allotted four 2.5p Warrants in respect of each ordinary share subscribed for.

Following the reorganisation of the share capital of the Company on 26 March 2001 in which 10 ordinary shares of 1p each were consolidated into one share of 10p, which was then split into an ordinary share of 1p and a deferred share of 9p, the terms of the 2.5p Warrants were adjusted so that, for every 10 2.5p Warrants previously held, the holder thereof held one warrant (an "Adjusted 2.5p Warrant") to subscribe for one ordinary share at 2.5p per share at any time prior to 6 April 2001; the terms of the 1p Warrants were adjusted so that, for every 10 1p Warrants previously held, the holder thereof held one warrant (an "Adjusted 1p Warrant") to subscribe for one ordinary share at 1p per share at any time prior to 6 April 2001; and the terms of the Further Subscription Rights were adjusted so that, for every 10 Further Subscription Rights previously held, the holder thereof held a right to subscribe for one ordinary share at 17.16p per share and four ordinary shares at 2.5p per share (an "Adjusted Further Subscription Right") to subscribe for one ordinary share at 2.5p per share at any time prior to 6 April 2001.

All the Adjusted 2.5p Warrants, Adjusted 1p Warrants and Adjusted Further Subscription Rights were either exercised in full on or before their expiry on 6 April 2001 or lapsed on that date.

As at 31 December 2000 there were also the following options in issue:

A.C.W. Snow and A. Beaton were granted pursuant to agreements with the Company dated 14 December 2000 options to subscribe for up to 5,000,000 ordinary shares and 3,000,000 ordinary shares respectively at 2.5p per share at any time between 14 December 2000 and 13 December 2005. Following the Share Capital Reorganisation the options granted to Mr Snow and Mr Beaton were adjusted to be options to subscribe for up to 500,000 ordinary shares and 300,000 ordinary shares respectively at 25p per share.

Certain persons, including M.C. Phillips (a former director of the Company), were granted under the unapproved part of the Company's Executive Share Option Scheme adopted on 20 November 2000 to subscribe for a total of up to 17,293,331 ordinary shares at 1p per share at any time before 15 June 2004. These options were to replace the options granted to such persons by Christows Group Limited under the Christows Group Limited unapproved executive share option scheme. Following the Share Capital Reorganisation the options granted to such persons were adjusted to be options to subscribe for up to 1,729,331 ordinary shares at 10p per share.

Since 31 December 2000 and following the acquisition by the Company of the entire issued share capital of Evolution Capital Limited options have been granted under the EVC Christows Evolution Acquisition Scheme ("the Acquisition Scheme") in consideration of the release of options granted under the Evolution Capital Unapproved Executive Share Option Scheme. Options to subscribe for a total of up to 4,287,373 ordinary shares at 1p per share at any time before 26 April 2010 have been granted under the Acquisition Scheme.

15. Share premium account

£'000

Group and Company

At 1 January 2000	1,628.5
Issues of ordinary share capital (net of expenses of issues)	52,642.1
At 31 December 2000	54,270.6

Notes to the Accounts

continued

16. Reserves

	Merger reserve £'000	Profit and Loss Account £'000
Group		
At 1 January 2000	—	759.6
Retained loss for the year	—	(27,996.2)
Merger reserve	6,030.3	—
At 31 December 2000	6,030.3	(27,236.6)
Company		
At 1 January 2000		243.8
Retained loss for the year		(23,910.2)
At 31 December 2000		(23,666.4)

17. Net assets per share

Group

On the basis of net assets of £40,806,700 (1999: £3,580,100) and of 774,240,588 (1999: 109,200,200) ordinary shares in issue at the balance sheet date the net assets per ordinary share amounted to 5.27p (1999: 3.28p).

Company

On the basis of net assets of £38,346,600 (1999: £2,964,300) and of 774,240,588 (1999: 109,200,200) ordinary shares in issue at the balance sheet date the net assets per ordinary share amounted to 4.95p (1999: 2.71p).

18. Contingent liabilities

Christows Limited, a subsidiary, has been named as a defendant in an action by two ex-Associates for breach of contract. The claim has not been quantified. The company will vigorously contest any action and has received legal advice that it should be able to successfully defend any action brought against it. In the circumstances, the directors do not consider it appropriate to make any provision in this respect.

The Group had no other contingent liabilities at 31 December 2000.

19. Capital commitments

At the year end the Group had no material capital commitments contracted for.

20. Lease commitments

The Group has operating lease commitments in respect of land and buildings of £214,600 (1999: Nil). The leases to which these amounts relate expire as follows:

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
In one year or less	25.2	—
Between one and five years	154.4	—
In five years or more	35.0	—
	214.6	—

Notes to the Accounts

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21. Reconciliation of operating loss with net cash flow from operating activities

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Operating (loss)/profit	(29.6)	240.4
Profit on sale of investments	(2,471.1)	(146.1)
Increase in current asset investments	(12.1)	—
Profit on disposal of fixed assets	(0.2)	0.2
Share of net profit of associated company	—	(75.2)
Fees paid for non cash consideration	—	(36.0)
Income from fixed asset investments	(0.2)	—
Depreciation of tangible fixed assets	155.9	—
Merger expenses	(673.7)	—
Goodwill amortised	—	15.2
(Increase)/decrease in debtors	(1.7)	(237.6)
Increase in creditors	1,751.5	457.7
Net cash (outflow)/inflow from operating activities	(1,281.2)	218.6

22. Reconciliation of net cash flow to movement in net funds

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
(Decrease)/increase in cash in the year	37,233.1	(126.0)
Change in net debt	(8.0)	5.3
Cash used to (decrease)/increase liquid resources	(800.3)	(1,530.1)
Movement in net funds in the year	36,424.8	(1,650.8)
Net funds at the beginning of the year	918.9	2,569.6
Net funds at the end of the year	37,343.7	918.8

23. Analysis of changes in net funds

	At 1 January 2000 £'000	Cash flow £'000	At 31 December 2000 £'000
Cash at bank	198.3	37,172.8	37,371.1
Cash on deposit	800.3	(800.3)	—
Overdrafts	(60.3)	60.3	—
Leases	(19.4)	(8.0)	(27.4)
	918.9	36,424.8	37,343.7

24. Reconciliation of movements in shareholders' funds

	Group		Company	
	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
(Loss)/profit for the financial year	(27,996.2)	128.1	(23,910.2)	79.6
Issues of ordinary share capital	59,192.5	330.0	59,292.5	230.0
Merger reserve	6,030.3	—	—	—
Net increase in shareholders' funds	37,226.6	458.1	35,382.3	309.6
Shareholders' funds at the beginning of the year	3,580.1	3,122.0	2,964.3	2,654.7
Shareholders' funds at the end of the year	40,806.7	3,580.1	38,346.6	2,964.3

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25. Financial instruments

The Group's cash and short term deposits at 31 December 2000 were as follows:

Term	Interest rate	£'000
On short term deposit	See below	36,519.4
On current account	Nil	851.7
		37,371.1

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

The Company uses financial instruments comprising cash and short term deposits and has no borrowings. It does not enter into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts.

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is enhanced by overdraft facilities.

26. Post balance sheet events

On 25 January 2001 Duncan Abbot left the Group and ceased to be a director. He was replaced as chief executive by Alex Snow. On 1 February 2001 Michael Phillips resigned as a director of the Company. On 5 February 2001 Michael Read was appointed as a director of the Company.

The Company formed a new company called Christows Asset Management Limited ("CAM") and it holds 51 per cent. of the issued share capital of CAM. The remaining 49 per cent. of the issued share capital of CAM is held by M.J. Read. On 1 February 2001 the Company entered into a put and call option agreement with Mr Read which, subject to the achievement of certain performance criteria, allows Mr Read to require the Company to acquire his 49 per cent. holding in CAM at any time between 1 July 2004 and 30 June 2006, failing which the Company can require him to sell his holding on the same terms at any time in July 2006. The price payable on exercise of the option, which is subject to a cap of £7,000,000, is calculated by reference to CAM's profits and will be satisfied initially by the issue of up to 50,000,000 ordinary shares of 1p each in the Company with the balance, if any, payable in cash payment subject to a maximum of £1.625 million. Following the Share Capital Reorganisation, the share element of the consideration was adjusted to be a maximum of 5,000,000 ordinary shares. By way of further consideration for the exercise of the put and call option and continuing incentivisation an additional amount will be payable if in a specified two year period the funds managed exceed certain prescribed levels, the amount payable to be calculated on the basis of 1 per cent. of such excess, subject to a cap of £2 million.

On 29 March 2001 the Company completed the acquisition of the entire issued share capital of Evolution Capital Limited, now called Capital Exchange Limited ("Evolution Capital") from certain persons who included O.J. Vaughan (who held 0.6 per cent. of the issued share capital of Evolution Capital). The consideration for the acquisition will be the issue to the vendors of Evolution Capital (including Mr Vaughan) of up to a total of 21,846,314 ordinary shares (being the ordinary shares in the Company following the Share Capital Reorganisation), of which 4,287,373 ordinary shares have been reserved for issue in connection with the "rollover" of options to subscribe for shares in Evolution Capital for options to subscribe for shares in the Company. Therefore, only 17,451,757 shares have so far been allotted to the vendors of Evolution Capital. Following the acquisition by the Company of the entire issued share capital of Evolution Capital options have been granted under the EVC Christows Evolution Acquisition Scheme ("the Acquisition Scheme") in consideration of the release of options granted under the Evolution Capital Unapproved Executive Share Option Scheme. Options to subscribe for a total of up to 4,287,373 ordinary shares at 1p per share at any time before 26 April 2010 have been granted under the Acquisition Scheme, of which R.I. Griffiths has an option to subscribe for up to 1,428,767 ordinary shares, J.E. Chilcott has an option to subscribe for up to 1,429,839 ordinary shares, and a company owned by a trust of which members of J. Kenny's family are discretionary beneficiaries has an option to subscribe for up to 1,428,767 ordinary shares.

Notes to the Accounts

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27. Related party transactions

During the year Tom Vaughan, who resigned as a director of the Company on 20 November 2000, invoiced the Group £12,500 for the provision of office services.

During the year Scheidegg Limited invoiced the Group £25,000 for the provision of management services. John Gunn, a director and shareholder of Scheidegg Limited, is also a director and shareholder of the Company.

On 23 August 2000, the Company entered into a subscription and shareholders agreement with, *inter alia*, John Drinkwater (a former director of the Company). Under that agreement, the Company subscribed £500,000 for shares in Kelso Place Asset Management Limited representing 16.67 per cent. of the issued share capital of that company.

During the year, the Company issued an option under the Company's Executive Share Option Scheme adopted on 20 November 2000 to subscribe for up to 3,495,441 ordinary shares at 1p per share some time before 15 June 2004. The option was to replace an option granted to Mr Phillips by Christows Group Limited under the Christows Group Limited unapproved executive share option scheme. Following the Share Capital Reorganisation, the option granted to Mr Phillips was adjusted to be an option to subscribe for up to 349,544 ordinary shares at 10p per share.

28. Acquisition

On 21 August 2000 the Company acquired the remaining 75.7 per cent. of ordinary shares in Capital Exchange Limited (now incorporated as Evolution Capital Limited) for a consideration of £475,000 satisfied by the issue of 4,750,000 of ordinary shares credited as fully paid at 10p per share. The Company had previously acquired 24.3 per cent. of Capital Exchange Limited in April 2000 for a consideration of £300,000 satisfied in cash. Goodwill arising on the acquisition has been written off to the profit and loss account. The purchase of Capital Exchange Limited has been accounted for by the acquisition method of accounting.

On 16 May 2000 the Christows Group Limited acquired the remaining 77.9 per cent. of ordinary shares in Christows Holdings Limited prior to the merger of the Company and Christows Group Limited described in Note 29 for a consideration satisfied by the issue of ordinary shares in Christows Group Limited at a fair value of £5,222,500. Christows Group Limited had previously acquired 22.1 per cent. of Christows Holdings Limited in previous years. Goodwill arising on the acquisition has been written off to the profit and loss account. The purchase of Christows Holdings Limited has been accounted for by the acquisition method of accounting.

The profit after taxation for Christows Holdings Limited (and subsidiaries) for the period from 1 March 2000, the beginning of the subsidiary's financial year to the date of acquisition was £54,700. The profit after taxation for the year ended 29 February 2000 was £333,800.

The loss after taxation for Capital Exchange Limited for the period from 1 May 2000, the beginning of the subsidiary's financial year to the date of acquisition was £98,700. The loss after taxation for the year ended 30 April 2000 was £106,000.

Notes to the Accounts

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28. Acquisition continued

The consolidated assets and liabilities of Christows Holdings Limited and subsidiaries, and those of Capital Exchange Limited acquired were as follows:

	Christows Holdings Limited		Capital Exchange Limited	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Fixed assets				
Intangible assets	155.3	155.3	—	—
Tangible assets	425.0	425.0	2.7	2.7
Investments	7.3	7.3	—	—
Current assets				
Debtors	1,235.8	1,235.8	8.6	8.6
Cash at bank and in hand	584.2	584.2	157.7	157.7
Total assets	2,407.6	2,407.6	169.0	169.0
Creditors				
Bank overdraft	—	—	(5.3)	(5.3)
Trade creditors	(311.6)	(311.6)	(2.9)	(2.9)
Other creditors	(526.9)	(526.9)	(3.2)	(3.2)
Total liabilities	(838.5)	(838.5)	(11.4)	(11.4)
Net assets	1,569.1	1,569.1	157.6	157.6
Purchased goodwill written off		4,235.5		633.3
		<u>5,804.6</u>		<u>790.9</u>
Satisfied by:				
Issue of shares		5,222.5		475.0
Cash		582.1		315.9
		<u>5,804.6</u>		<u>790.9</u>

Notes to the Accounts

continued

29. Business merger

As explained in the accounting policies, on 4 September 2000, the Company and Christows Group Limited (Christows) announced plans for the merger of their respective businesses. The merger was to be effected by way of offers made by the Company for the whole of the issued share capital of Christows. These offers became unconditional on 20 November 2000. The merger has been accounted for using the merger accounting principles set out in Financial Reporting Standard 6. Accordingly, the financial information for the current period has been presented, and that for the prior year restated, as if Christows had been owned by the Company throughout the current and comparative accounting periods.

An analysis of contribution to the profit attributable to shareholders made by the combining groups in the period prior to the merger dated on 20 November 2000, and the principal components of the profit and loss accounts is as follows:

	The Company pre merger £'000	Christows pre merger £'000	Combined post merger £'000	Total £'000
Turnover	156.0	3,931.8	732.7	4,820.5
Commissions	—	(1,282.8)	(209.7)	(1,492.5)
Profit on sale of investments	730.1	1,263.7	477.3	2,471.1
Other income	22.8	6.3	31.0	60.1
Income on operating activities	908.9	3,919.0	1,031.3	5,859.2
Provision for permanent diminution in value of fixed asset investments	(5,467.9)	—	(18,371.8)	(23,839.7)
Write off of goodwill	(633.3)	(4,286.0)	—	(4,919.3)
Management expenses	(1,590.2)	(3,160.2)	(1,138.4)	(5,888.8)
Merger expenses	(576.7)	—	(97.0)	(673.7)
Loss on ordinary activities before interest	(7,359.2)	(3,527.2)	(18,575.9)	(29,462.3)
Interest receivable and similar income	1,729.8	115.7	270.7	2,116.2
Interest payable and similar charges	(9.7)	(4.6)	4.6	(9.7)
Loss on ordinary activities before taxation	(5,639.1)	(3,416.1)	(18,300.6)	(27,355.8)
Taxation	(153.4)	(279.1)	(207.9)	(640.4)
Retained loss for the year	(5,792.5)	(3,695.2)	(18,508.5)	(27,996.2)

The equivalent analysis for the year ended 31 December 1999 is as follows:

	The Company £'000	Christows £'000	Total £'000
Turnover	—	—	—
Commissions	—	438.5	438.5
Profit on sale of investments	64.4	81.7	146.1
Other income	—	90.1	90.1
Income on operating activities	64.4	610.3	674.7
Provision for permanent diminution in value of fixed asset investments	—	—	—
Write-off of goodwill	—	(73.3)	(73.3)
Management expenses	(71.6)	(362.7)	(434.3)
(Loss)/profit on ordinary activities before interest	(7.2)	174.3	167.1
Interest receivable and similar income	96.4	6.8	103.2
Interest payable and similar charges	—	—	—
Profit on ordinary activities before taxation	89.2	181.1	270.3
Taxation	(9.6)	(52.7)	(62.3)
Dividends	—	(80.0)	(80.0)
Retained profit for the year	79.6	48.4	128.0

The consideration for the merger was by way of the issue of 347,810,093 ordinary shares of 1p at fair value of 10p per share. The Company had net assets at the date of the merger of £53,676,200. Christows had net assets at that date of £6,329,000.

Appendix

Summary of the rules of The Evolution Group Plc 2001 Executive Share Option Scheme (the “New Scheme”)

1. Eligibility

Any director of a participating company who is required to devote the whole or substantially the whole of his working time to the service of a participating company and any employee of a participating company may be invited to participate.

2. Options to Acquire Shares

Upon the recommendation of the Remuneration Committee the Board will grant options to subscribe for shares in the capital of the Company.

3. Grant of Options

Options to acquire ordinary shares may be granted at any time subject to compliance with the AIM Rules.

No option may be granted more than ten years following the adoption of the New Scheme. Options granted under the New Scheme are personal to the option holder and may not be transferred except with the consent of the Directors, or on the death of an optionholder.

4. Price

The price for each ordinary share under an option will be determined by the Board or the Remuneration Committee before the grant of the option, provided that it shall not be less than nine-tenths of the average of the closing bid price of such shares, as derived from the London Stock Exchange Daily Official List, over the three dealing days immediately preceding the date of grant.

5. Exercise of Options

In normal circumstances, an Option granted under the New Scheme may not, unless the Board otherwise determines, be exercised earlier than two years or more than ten years after the date of grant. A Super Option granted under the New Scheme may not, unless the Board otherwise determines, be exercised earlier than three years or more than ten years after the date of grant. Options may not be exercised unless the performance condition (see below) has been met. However, early exercise is allowed if an option holder ceases to be employed by reason of death, injury, disability, redundancy or retirement or because the company or business for which he works is transferred out of the Group. If an option holder ceases employment for any other reason his option will normally lapse unless the Directors decide otherwise. Special provisions also allow early exercise in the circumstances of a takeover, reconstruction or winding up of the Company.

6. Performance Condition

The Directors will set an appropriate performance condition. Unless otherwise determined by the Directors, the performance condition will be that the closing bid price of a share 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 per cent. of the Shares in respect of which the Option has been granted may be exercised, 110p then a further 25 per cent. may be exercised, 130p then a further 25 per cent. may be exercised and 150p then the remaining 25 per cent. may be exercised.

7. Variation of Capital

In the event of any increase or variation in the share capital of the Company, the Directors (or the Remuneration Committee) may make such adjustments as they consider appropriate to the number of ordinary shares under option and the price for which they may be subscribed.

8. Limits

The number of ordinary shares which may be issued on the exercise of options granted under the New Scheme may not exceed such number of ordinary shares as represents 15 per cent. of the issued share capital of the Company in issue at the date of grant of the options. 10 per cent. of the issued share capital is available for the grant of Ordinary Options and 5 per cent. of the issued share capital is available for the grant of Super Options.

9. Amendments

The Directors may at any time amend the New Scheme, or the terms of any option granted under it. However, the prior approval of the Company in general meeting will normally be required for amendments to the advantage of option holders except for minor amendments made to benefit the administration of the New Scheme, to take account of a change in legislation, to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders, the Company or any subsidiary, or where the amendment relates solely to a special term (e.g. performance condition) imposed by the Directors. Any amendment that is to the disadvantage of existing holders of options requires the consent of a majority of them.

Note:

This Appendix summarises the main features of the rules of The Evolution Group Plc 2001 Executive Share Option Scheme, but does not form part of it and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the rules. Copies of the draft rules will be available for inspection at the registered office of the Company and at the offices of Stringer Saul, 17 Hanover Square, London W1S 1HU during usual business hours on weekdays (Saturdays and public holidays excepted) up to the date of the 2001 Annual General Meeting and at the meeting itself. The Directors reserve the right up to the time of the meeting to make such amendments and additions as they may consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summary set out in this Appendix.

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of the Company will be held at the offices of Peel Hunt plc, 62 Threadneedle Street, London EC2R 8HP on Thursday, 21 June 2001 at 11.00 a.m. 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 2000.
2. To re-elect O. J. Vaughan as a director.
3. To re-elect A. C. W. Snow as a director.
4. To re-elect R. I. Griffiths as a director.
5. To re-elect J. E. Chilcott as a director.
6. To re-elect J. Kenny as a director.
7. To re-elect M. J. Read as a director.
8. To re-appoint Grant Thornton as auditors and to authorise the directors to determine their remuneration.

Special business

As special business to consider and, if thought fit, pass the following resolutions of which Resolutions 9, 13 and 14 will be proposed as Ordinary Resolutions and Resolutions 10, 11 and 12 will be proposed as Special Resolutions:

9. That the directors be and they are hereby generally and unconditional authorised, in substitution for all previous powers granted to them to the extent not previously utilised, to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) ("the Act") up to an aggregate nominal amount of £166,693.62 provided that this authority shall expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2002 or 21 September 2002, 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 had not expired.
10. 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 Resolution 9 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;
 - (b) the allotment of equity securities up to an aggregate nominal amount of £339,991.91 in respect of the issue of options under an exercise of such options pursuant to the Company's executive share option scheme;
 - (c) the allotment of equity securities up to an aggregate nominal amount of £42,873.73 pursuant to the exercise of options under the EVC Christows Evolution Acquisition scheme; and
 - (d) the allotment of equity securities up to an aggregate nominal amount of £8,000 upon the exercise of options granted by the Company;

Notice of Annual General Meeting

continued

and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2002 or on 21 September 2002 (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.

11. That the directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 9 above as if Section 89(1) of the Act did not apply to any such allotment, such power to be in addition to and exclusive of the power granted by Resolution 10 above and to be exercisable up to the aggregate nominal amount of £100,000, such power to expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2002 or on 21 September 2002 unless renewed or extended prior to such time except that the Company may, before the expiry of any power contained in this resolution, 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 power hereby conferred had not expired.
12. That:
 - (a) the Company be and is hereby generally and unconditionally authorised, pursuant to Section 166 of the Companies Act 1985 to make market purchases (as defined in Section 163 of the Companies Act 1985) of its own shares on such terms and in such manner as the directors of the Company shall determine; and
 - (b) the general authority conferred by this resolution shall:
 - (i) be limited to a maximum of 11,333,063 Ordinary Shares (representing 10 per cent. of the issued ordinary share capital of the Company at 4 May 2001);
 - (ii) not permit payment of a price per Ordinary Share, exclusive of expenses of less than 20p or more than 105 per cent. of the average price at which business was done in the ordinary shares of the Company in the ten business days preceding the purchase;
 - (iii) expire on the conclusion of the Annual General Meeting of the Company to be held in 2002 or 21 September 2002 (whichever is earlier) save that the Company may before the expiry of the power hereby conferred contract to purchase its own ordinary shares which contract requires or might require the purchase of such ordinary shares wholly or partly after such expiry
13. That the entry by the Company into an agreement with M.J. Read being a director of the Company, providing for the possible purchase by the Company of Mr Read's interest in Christows Asset Management Limited on the terms set out in the audited statements of Accounts of the Company for the year ended 31 December 2000, be and it is hereby confirmed, approved and ratified for the purposes of section 320 of the Companies Act 1985 subject to such amendments as the directors of the Company shall consider necessary or appropriate (but not constituting a material charge from the terms set out in the Accounts).
- 14.1 That, The Evolution Group Plc 2001 Executive Share Option Scheme (the "New Scheme"), in the form set out in the draft Rules of the New Scheme produced to the meeting and for the purpose of identification initialled by the Chairman and the main features of which are summarised in the Appendix to the financial statements be and is hereby approved and the directors be and are hereby authorised to do all acts and things which they may consider necessary or desirable to carry the same into effect; and
- 14.2 That, the directors may be counted in the quorum and vote in respect of any matter connected with the New Scheme, notwithstanding that they may be interested in the same (except that no director may be counted in the quorum or vote in respect of any matter solely concerning his own participation in the New Scheme).

By Order of the Board

N.R. Gordon
Secretary

4 May 2001

Notice of Annual General Meeting

continued

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, Melton Registrars Limited, PO Box 30, Third floor, Cresta House, Alma Street, Luton, Bedfordshire LU1 2PU not later than 48 hours before the time appointed for the Meeting. A form of proxy is attached.
3. The Company, pursuant to regulation 34 of The Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 6.00 pm on 20 June 2001 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.
4. There will be available for inspection at the registered office 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 4 May 2001 of the transactions of each director and, so far as he or she can reasonably ascertain, of persons connected to him or her (within the meaning of Section 346 of the Act) in the share capital of the Company.
5. Copies of the draft Rules of The Evolution Group Plc 2001 Executive Share Option Scheme will be available for inspection at the registered office of the Company and at the offices of Stringer Saul, 17 Hanover Square, London W1S 1HU during usual business hours on weekdays (Saturdays and public holidays excepted) up to the date of the 2001 Annual General Meeting and at the meeting itself.

Form of Proxy for Annual General Meeting

I/We _____

of _____

being (a) member(s) of the above named company hereby appoint* _____ whom failing the Chairman of the Meeting, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Peel Hunt plc, 62 Threadneedle Street, London EC2R 8HP on Thursday, 21 June 2001 at 11.00 am – and at any adjournment thereof.

Please indicate with an X in the appropriate space how you wish your votes to be cast.

Ordinary business

Resolution	For	Against
1. Ordinary Resolution – to adopt the Report and Accounts		
2. Ordinary Resolution – to re-elect O. J. Vaughan as a director		
3. Ordinary Resolution – to re-elect A.C.W. Snow as a director		
4. Ordinary Resolution – to re-elect R.J. Griffiths as a director		
5. Ordinary Resolution – to re-elect J.E. Chilcott as a director		
6. Ordinary Resolution – to re-elect J. Kenny as a director		
7. Ordinary Resolution – to re-elect M.J. Read as a director		
8. Ordinary Resolution – to re-appoint Grant Thornton as auditors and to authorise the directors to determine their remuneration		

Special business

Resolution	For	Against
9. Ordinary Resolution – to authorise the directors to allot shares		
10. Special Resolution – to disapply the statutory pre-emption rights		
11. Special Resolution – to further disapply the statutory pre-emption rights		
12. Special Resolution – to approve market purchases of the Company Shares		
13. Ordinary Resolution – to approve the purchase of shares in Christows Asset Management Limited from M.J. Read		
14. Ordinary Resolution – to approve the Evolution Group Plc 2001 Executive Share Option Scheme		

Date _____ Signature(s) or common seal _____

Notes:

1. A proxy need not be a member of the Company.
2. If you do not indicate how you wish your proxy to use your vote on any particular matter, the proxy will exercise his/her discretion as to how he/she votes and as to whether or not he/she abstains from voting.
3. In the case of a corporation this form of proxy must be executed under the seal or under the hand of an officer or attorney duly authorised in writing.
4. Forms of proxy, to be valid, must be signed and must be lodged, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, with the Company's registrars, Melton Registrars Limited not less than 48 hours before the time appointed for holding the Meeting.
5. In the case of joint holders, the signature of any one of them will suffice, but if a holder other than the first-named holder signs, it will help the registrars if the name of the first-named holder is given.
6. Any alteration to this form must be initialled.
7. Completion and return of this form of proxy does not preclude a member from subsequently attending and voting at the Meeting.

Second fold

BUSINESS REPLY SERVICE
Licence No. LOL 395

2



Melton Registrars Limited
PO Box 30
3rd Floor
Cresta House
Alma Street
LUTON
Bedfordshire
LU1 2BR

First fold

Third fold and tuck in

