



the evolution group plc

ANNUAL REPORT

for the year ended 31 December 2001

Contents

Chairman's Statement	1
Directors' Report	3
Auditors' Report	6
Financial Statements	7
Notes to the Financial Statements	11
Notice of Annual General Meeting	31
Directors and Advisors	Inside Back Cover

Chairman's Statement

Key Financial Information

	31 December 2001 £'000	31 December 2000 £'000
Group turnover	7,580	4,821
Profit on sale of fixed asset investments	7,003	2,471
Other operating income	31	60
Total Income	14,614	7,352
Operating costs and commission payable	(13,729)	(7,381)
Operating profit/(loss) before provisions against fixed asset investments and non-recurring costs	885	(29)
Provision against fixed asset investments	(4,739)	(23,840)
Non-recurring costs	(1,767)	(674)
Goodwill written off	(7,144)	(4,919)
Operating loss	(12,765)	(29,462)

Review of the Year

Investment Banking

The Evolution Group Plc's ("Evolution Group" or the "Group") institutional investment banking business was established during 2001. Following the acquisition of Evolution Capital Limited in March, the scope and scale of this business has radically changed from private equity into the public equity market place. The recruitment of high calibre professionals, the installation of top quality systems and the adoption of best practice process have allowed the business to expand successfully.

Evolution Capital has signed many of the largest institutions in the UK as clients and is successfully publishing leading edge research and beginning to transact significant business on behalf of its institutional client base. The research sector coverage has also grown through the course of the year including IP Exploitation, Emerging Engineering, Alternative and Renewable Energies, Wireless and Electronics, Software and Services, Life Sciences and Nanotechnology.

Evolution Capital also incorporates all the corporate finance and private equity activities within the Group.

I expect Evolution Capital to continue to grow its franchise and earnings capabilities throughout the course of 2002.

Private Client Stockbroking & Fund Management

In the first quarter of 2002, Christows Limited ("Christows") is operating profitably, even in these difficult markets, and is continuing along the growth path the Board determined during 2001. New discretionary funds under management are growing at an unprecedented rate. This has been due to an increased sales and marketing effort, and from the strength of the discretionary service product. Christows has also developed a specialised Independent Financial Advisor ("IFA") discretionary product which has been widely adopted by IFAs and will be an increasingly important area of business as the landscape of regulation continues to change.

In June 2001, the new management team embarked on a significant cost reduction programme and restructuring, which was completed in October 2001. This included a significant reduction in the number of non-revenue earning staff and the elimination of non-core activities. As a result, fixed salary costs were reduced by the year end to month on month levels of 60% of opening levels. The combination of lower operating costs with the current levels of new fund inflows will mean that Christows is particularly well placed to benefit from any upturn in the market.

It is the intention of your Board to grow this business profitably over the course of 2002, not only in terms of discretionary funds under management, but also in terms of geographic coverage.

Chairman's Statement (continued)

Non-recurring costs

Within the year there have been some exceptional costs which the Board does not expect to be repeated during the course of 2002. The Group has taken a £1 million cost for the redundancy programme and further costs of £0.7 million for non-recurring legal fees and restructuring costs.

Due to the significant business developments undertaken and the major change of business focus from the date of the acquisition of Evolution Capital Limited, your Board has reviewed the goodwill arising and assessed the appropriateness of retaining it in the balance sheet. It has therefore been prudent to take the impact of the goodwill arising from the acquisition of Evolution Capital in whole in the last financial year, which has led to a goodwill charge of £7.1 million.

Investment Provisions

It has also been prudent to take a further £4.7 million write-down associated with our existing technology investment portfolio. Many of the investee companies were very early stage and, in these difficult market conditions, many of the failures have been crystallised earlier than some of the potential winners within the portfolio. Although it is prudent to take this write-down, it is the hope of the Board that some success will be derived from the portfolio over the coming year.

Board Changes

There were a number of changes to the Board in 2001 and these have resulted in the formation of a significantly stronger and more focused executive management structure. In addition it is hoped to strengthen the representation of non-executives on your Board during 2002.

Outlook & Strategy

On 29 January 2002, your Board announced that it had made a strategic investment in Inter-Alliance Group PLC ("Inter-Alliance"), the UK's largest national independent financial advisory group. Evolution Group has been involved in a significant amount of effort in aiding the restructuring and refinancing of Inter-Alliance. On 11 April 2002, your Board announced that, after the Placing and Open Offer, Evolution Group now owns approximately 22% of the enlarged issued share capital of Inter-Alliance. The Board believes that the investment in Inter-Alliance will bring real value across Evolution Group during the course of 2002.

Twelve months ago in this report I stated that I would take the necessary steps to realign our costs with the current market conditions and this has been completed. It is important that the Group can now grow and add real shareholder value in what are challenging conditions in equity markets. Your Group now has two operating subsidiaries that are demonstrating significant growth potential. Evolution Group has demonstrated the ability to create substantial value through corporate actions which are beneficial to our group activities.

Our strategic aim is simple - to develop a leading independent investment bank of the highest quality. We will seek to do this by focusing on our core areas of competence; retail portfolio and fund management, equity research, trading, strategic advice and private equity. We will continue the development we have successfully started by increasing the efficiency of our operational base, recruiting high quality professionals and identifying shareholder value enhancing acquisitions which will complement our existing businesses.

Clearly the outlook for capital markets remains challenging and uncertain. The Directors of Evolution Group believe that your Group is uniquely positioned to capitalise on these conditions. We look forward to 2002 with growing confidence.

Critically, the quality and attitude of our people is vital in achieving these new performance levels. I would take this opportunity to thank all our employees for their commitment and continued support.

A C W Snow
Chairman and Chief Executive

22 April 2002

Directors' Report

for the year ended 31 December 2001

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 2001.

Review of business

The Group undertook private client stockbroking and fund management through its Christows business line throughout the period. During the year an institutional investment banking business, Evolution Capital, has been established. A review of the business during the year and the prospects of the Group for the current year are set out in the Chairman's report on pages 1-2.

Results and Dividends

The loss attributable to the members of The Evolution Group Plc for the year ended 31 December 2001 amounted to £10,510,000 (2000: £27,996,000). The directors do not recommend the payment of a dividend (2000: £nil).

Post balance sheet events

Full details of all post balance sheet events are set out in Note 33 to the accounts.

Directors

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

	Date of appointment	Date of resignation
Graeme Dell	8 October 2001	
James Chilcott	29 March 2001	
Richard Griffiths	29 March 2001	
Alex Snow		
Oliver Vaughan		
James Kenny	29 March 2001	5 October 2001
Adrian Graham		6 August 2001
Michael Read	5 February 2001	27 July 2001
John Gunn		15 May 2001
A. Chris Roberts		29 March 2001
Jackie Donnelly		29 March 2001
Michael Phillips		1 February 2001
Duncan Abbot		25 January 2001

Charitable donations

During the year the Group made charitable donations of £2,465 (2000: £nil).

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. Trade creditors at the year end amount to 36.1 days (2000: 70.3) of average suppliers for the year.

Directors' Report (continued)

for the year ended 31 December 2001

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 2001 or date of appointment ⁽ⁱ⁾	31 December 2001
Alex Snow	–	244,102
Richard Griffiths	–	4,453,615
Graeme Dell	–	12,820
James Chilcott	–	4,123,448
Oliver Vaughan	277,777	384,961

Directors' shares under option

Date of grant	Note	At 1 January 2001 ⁽ⁱ⁾	Granted during the year	Exercised during the the year	Earliest exercise date	Expiry Date	Exercise price (p)	Market price at exercise (p)	Cancelled during the year	At 31 December 2001
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
Richard Griffiths										
01.03.01	(3)	–	1,428,767	1,428,767	01.03.01	27.04.10	1.00	69.50	–	–
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
James Chilcott										
01.03.01	(3)	–	1,429,839	1,429,839	01.03.01	27.04.10	1.00	77.50	–	–
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	–

(i) The interests at 1 January 2001 of ordinary shares and shares under option have been restated to reflect the reorganisation of share capital of The Evolution Group Plc that occurred on 26 March 2001. On this date every ten ordinary 1p shares were consolidated into one ordinary share of 10p and then each 10p share in issue was split into a new ordinary share of 1p and a deferred share of 9p.

Summary of performance criteria for directors' options in the above table

1. These options are granted under the 2001 Executive Share Option plan. Under the terms of this plan 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 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 are granted under the 2000 Executive Share Option Plan (Unapproved). 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 are granted under the 2000 Executive Share Option Plan (Unapproved). No performance criteria attached to the exercise of these options has been established.
4. These options were granted outside of any share scheme and there were no performance criteria attached to their exercise.

Directors' Report (continued)

for the year ended 31 December 2001

Substantial shareholdings

Other than the interests of the directors, the Company has not been notified of any interests greater than 3% of the issued share capital as at 15 April 2002.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the auditors' report set out on Page 6, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the 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 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 7 to 30 that:

- the Company and 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.

The maintenance and integrity of The Evolution Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

Grant Thornton resigned as auditors of the Company on 13 September 2001 and were replaced by PricewaterhouseCoopers with effect from the same date.

Pursuant to section 388 (3) (b) Companies Act 1985, special notice will be given of a resolution proposing to re-appoint PricewaterhouseCoopers as the Company's auditors at the 2002 Annual General Meeting and to authorise the Directors to determine the Auditors' remuneration.

BY ORDER OF THE BOARD

N. R. Gordon
Secretary

22 April 2002

Independent auditors' report to the members of The Evolution Group Plc

We have audited the financial statements on pages 7 to 30 which comprise the profit and loss account, the balance sheet, the cash flow statement and 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 11 to 13.

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 on page 5.

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.

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 or 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 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 only the Chairman's Statement and the Directors' Report.

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 the 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 as at 31 December 2001 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 

Chartered Accountants and Registered Auditors
London

22 April 2002

Consolidated Profit and Loss Account

for the year ended 31 December

	Note	2001 £'000	2000 (Restated) £'000
Turnover		7,580	4,821
Commissions payable		(1,386)	(1,493)
Gross Profit		6,194	3,328
Administrative expenses:			
Administrative expenses before impairment of goodwill		(14,110)	(6,562)
Impairment of goodwill		(7,144)	(4,919)
	2	(21,254)	(11,481)
Other operating income		31	60
Profit on sale of fixed asset investments		7,003	2,471
Provision against fixed asset investments	12	(4,739)	(23,840)
Operating loss		(12,765)	(29,462)
Interest receivable and similar income		1,896	2,116
Interest payable and similar charges		(9)	(10)
Loss on ordinary activities before taxation		(10,878)	(27,356)
Tax on loss on ordinary activities	6	369	(640)
Loss on ordinary activities after taxation		(10,509)	(27,996)
Minority interest		(1)	–
Loss for the financial year attributable to the members of The Evolution Group Plc	7	(10,510)	(27,996)
Basic loss per ordinary share	8	(9.92)	(64.01)
Diluted loss per ordinary share	8	(9.05)	(47.82)

All recognised gains and losses are included in the profit and loss account.

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 11 to 30 form an integral part of these financial statements.

Consolidated Balance Sheet

as at 31 December

	Note	2001 £'000	2000 (Restated) £'000
Fixed assets			
Tangible assets	11	1,016	634
Investments	12	4,764	4,913
		5,780	5,547
Current assets			
Debtors	14	3,983	1,786
Investments		–	12
Equity shares	10	64	–
Cash at bank and in hand		35,969	37,371
		40,016	39,169
Creditors: Amounts falling due within one year	15	(2,413)	(3,569)
Net current assets		37,603	35,600
Total assets less current liabilities		43,383	41,147
Provisions for liabilities and charges	16	(414)	–
Net assets		42,969	41,147
Capital and Reserves			
Called up share capital	17	8,153	7,742
Share premium account	18	66,150	54,271
Merger reserve	19	6,031	6,031
Profit and loss account	19	(37,367)	(26,897)
Total shareholders' funds	29	42,967	41,147
Shareholders' funds – Equity		35,996	41,147
Shareholders' funds – Non–equity	30	6,971	–
Minority interests		2	–
Minority interests & shareholders' funds		42,969	41,147

A statement of movement in shareholders' funds is given in note 29.

The notes on pages 11 to 30 form an integral part of these financial statements.

The financial statements on pages 7 to 30 were approved by the Board of Directors on 22 April 2002.

Graeme Dell
Finance Director

Alex Snow
Chairman and Chief Executive

Company Balance Sheet

as at 31 December

	Note	2001 £'000	2000 (Restated) £'000
Fixed assets			
Tangible assets	11	–	46
Investments	12	–	3,766
Investments in subsidiary undertakings	13	19,806	4,269
		19,806	8,081
Current assets			
Debtors	14	8,724	236
Equity shares	10	64	–
Cash at bank and in hand		30,815	31,727
		39,603	31,963
Creditors: Amounts falling due within one year	15	(14,980)	(1,358)
Net current assets		24,623	30,605
Net assets		44,429	38,686
Capital and Reserves			
Called up ordinary share capital	17	8,153	7,742
Share premium account	18	66,150	54,271
Profit and loss account	19	(29,874)	(23,327)
Total shareholders' funds	29	44,429	38,686
Shareholders' funds – Equity		37,458	38,686
Shareholders' funds – Non-equity	30	6,971	–
Total shareholders' funds		44,429	38,686

A statement of movement in shareholders' funds is given in note 29.

The notes on pages 11 to 30 form an integral part of these financial statements.

The financial statements on pages 7 to 30 were approved by the Board of Directors on 22 April 2002.

Graeme Dell
Finance Director

Alex Snow
Chairman and Chief Executive

Consolidated Cashflow Statement

for the year ended 31 December

	Note	£'000	2001 £'000	2000 (Restated) £'000
Net cash outflow from operating activities	23		(8,698)	(1,281)
Returns on investments and servicing of finance				
Interest received		1,923		2,116
Interest paid		(9)		(10)
Income from fixed asset investments		31		–
Net cash inflow from returns on investments and servicing of finance			1,945	2,106
Taxation				
Corporation tax			(106)	(242)
Capital expenditure and financial investment				
Sale of tangible fixed assets		1		1
Purchase of tangible fixed assets		(704)		(343)
Purchase of fixed asset investments		(14,030)		(25,942)
Sale of fixed asset investments		16,411		3,419
Net cash inflow/(outflow) from capital expenditure and financial investments			1,678	(22,865)
Acquisitions and disposals				
Disposal of subsidiaries	27	(36)		–
Purchase of subsidiaries	26	(187)		(387)
Net cash acquired with subsidiaries	26	2,523		737
			2,300	350
Cash outflow before management of liquid resources and financing			(2,881)	(21,932)
Management of liquid resources				
Decrease in short term deposits			–	800
Financing				
Issues of ordinary share capital		1,537		59,063
Expenses of share issue		(31)		(690)
Lease repayments		(27)		(8)
Net cash inflow from financing			1,479	58,365
(Decrease)/ Increase in cash in the year	24		(1,402)	37,233

Notes to the Financial Statements

For the year ended 31 December 2001

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 financial statements have been prepared in accordance with the accounting policies set out below and the applicable accounting standards of the Accounting Standards Board.

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. 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 from corporate finance advisory services, is recognised in the profit and loss account when the related services are performed and when considered recoverable. Proprietary trading 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 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 and similar equipment	Over 3 to 5 years
Fixtures and fittings and other equipment	Over 5 to 7 years

Goodwill

Goodwill arises under the acquisition method of accounting for business combinations and represents the difference between the cost of acquisition of shares in subsidiary undertakings and the aggregate fair value of the entity's identifiable assets and liabilities at date of acquisition. Goodwill is capitalised as an intangible asset and amortised over its estimated useful economic life.

Impairment

Tangible fixed assets and goodwill are subject to an impairment review in accordance with Financial Reporting Standard ("FRS") 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 accounted for using the equity method of accounting.

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

1. ACCOUNTING POLICIES (continued)

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

The effect of this departure on the financial statements is disclosed in note 12.

Fixed asset investments represent equity investments. Listed and unlisted investments are stated at historical cost less provision for impairment in value. They are regarded as financial fixed assets as they are held for long-term investment purposes.

Basis for fixed asset investment 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 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 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 effect of this departure on the financial statements is disclosed within note 10.

Current asset investments

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

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 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

In the Company's financial statements, investments in subsidiary undertakings are stated at historical cost less provision for any impairment in their value. Details of the principal subsidiary undertakings are given in note 32.

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.

Deferred tax

Deferred tax is provided using the liability method on timing differences between the accounting and tax treatment of income and expense where it is considered probable that a liability to tax will crystallise. The provision is calculated using the rates expected to be applicable when the liability crystallises.

Comparative information

The merger of the Company and Christows Group Limited on 20 November 2000 was accounted for using the merger accounting principles set out in the Financial Reporting Standard (“FRS”) 6 “Acquisitions and Mergers”. Accordingly, the financial statements for the year ended 31 December 2000 reflect the consolidated results, balance sheet and cashflows of The Evolution Group Plc and Christows Group Limited on a combined basis.

Changes in accounting presentation and prior year adjustments

Following a review of accounting presentation, prior year exceptional items have been recategorised to reflect presentation which is more appropriate given the events giving rise to the charge. The impact of this change is to increase the consolidated operating loss by £29,432,000 for the year ended 31 December 2000, whereas the loss for the financial year remains unchanged.

The correct application of Urgent Issues Task Force (“UITF”) Abstract 17 “Employees Share Schemes” has resulted in a restatement of previously published financial information. The impact of the restatement has been to reduce creditors and increase shareholders’ funds by £340,000.

Adoption of new accounting standards

There have been no significant changes in the accounting policies following the adoption in 2001 of Financial Reporting Standard (“FRS”) 18 “Accounting Policies”.

Accounting for share options

Share options issued under employee share schemes by the Company are accounted for in accordance with Urgent Issues Task Force (“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 expiration date.

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

2. ADMINISTRATIVE EXPENSES

	2001 £'000	2000 £'000
Administrative expenses – staff costs		
Wages and salaries	5,925	2,840
Social security costs	772	364
Other staff costs	811	458
Total administrative expenses – staff costs	7,508	3,662
Administrative expenses – other		
Depreciation – owned assets	367	145
Depreciation – leased assets	–	11
Loss/(Profit) on disposal of fixed assets	92	(1)
Operating lease charges	333	262
Finance charges in respect of finance leases	–	6
Legal costs	1,407	312
Merger expenses	–	674
Direct dealing costs	1,298	679
Advertising and market information	457	115
Printing and stationery	352	220
Travel	225	205
Consultancy	167	52
Other administrative expenses	1,904	220
Total administrative expenses – other	6,602	2,900
Administrative expenses before impairment of goodwill	14,110	6,562
Administrative expenses – impairment of goodwill	7,144	4,919
Administrative expenses – total	21,254	11,481

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

Included within other administrative expenses is an exceptional amount of £744,000 in relation to legal costs, which are not expected to recur.

During the year PricewaterhouseCoopers were appointed the Group's auditors. Prior year comparatives relate to the Group's previous auditors.

The statutory and regulatory audit fees paid to the main auditors comprised £84,000 (2000: £40,000) in respect of the Group's audit and £10,000 (2000: £8,000) relating to other accounting and regulatory work. Fees relating to the audit of the Company were £47,000 (2000: £5,000).

Other consultancy fees of £16,000 (2000: £59,000) were paid to the Group auditors.

An impairment review of the goodwill arising on the acquisition of Evolution Capital Limited (now renamed Capital Exchange Limited) was carried out at the year end. The Directors believed that the carrying value of the goodwill was no longer viable and subsequently agreed to write off the full amount to the profit and loss account. For details of the acquisition refer to note 26.

3. EMPLOYEES

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

	2001	2000
Group Activities	7	7
Investment Banking	16	–
Stockbroking and Fund Management	77	69
Total average staff numbers	100	76

The actual number of full time employees was 86 at 31 December 2001 (2000: 111).

4. PROFIT/(LOSS) ON DISPOSAL OF GROUP UNDERTAKINGS

On 31 December 2001, a wholly owned subsidiary Christows Capital Limited was disposed of for a consideration of £36,000 cash. The company had net assets of £36,000 and therefore nil profit or loss arose on disposal (see note 27).

5. 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 £100,520 (2000: £138,900) and made a gain on exercise of options granted in connection with the acquisition of his stake in Evolution Capital Limited (now renamed Capital Exchange Limited) on 29 March 2001 of £1,091,444 (2000: £nil).

	2001 £'000	2000 £'000
Remuneration in respect of Directors:		
Aggregate emoluments	1,293	429
Gains made on exercise of options	2,068	–
Termination payments for the loss of office	683	–
Total Emoluments	4,044	429

6. TAXATION

	2001 £'000	2000 £'000
Corporation tax for the year	19	631
(Over)/under provision in prior years	(388)	9
	(369)	640

The tax charge is based on a UK corporation tax rate of 30% (2000: 30%). The low effective tax rate is due to the non-deductibility of certain expenditure particularly goodwill and the movement on unrecognised deferred tax assets.

The potential deferred tax asset of £8,000,000 arising principally from timing differences on tax losses, has not been recognised.

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

7. 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 £6,587,000 (2000: loss £23,910,000)

8. 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. The calculation of diluted loss per share is based on the basic loss per share adjusted to allow for the issue of shares on the assumed conversion of all dilutive options.

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

	Year ended 31 December 2001			Year ended 31 December 2000		
	Loss £	Weighted average no.	Loss per share (p)	Loss £	Weighted average no.	Loss per share (p)
Basic loss per share	(10,510,000)	105,925,516	(9.92)	(27,996,000)	43,738,418	(64.01)
Dilutive effect of securities	-	10,247,397	-	-	14,796,115	-
Diluted loss per share	(10,510,000)	116,172,913	(9.05)	(27,996,000)	58,534,533	(47.82)

9. SEGMENTAL ANALYSIS

	Turnover £'000	2001 Operating profit/(loss) £'000	Net assets £'000	Turnover £'000	2000 Operating profit/(loss) £'000	Net assets £'000
Investment banking	1,166	(2,202)	3,112	199	131	291
Stockbroking	6,414	(3,812)	2,017	4,622	(4,961)	5,422
Investment portfolio	-	2,264	4,764	-	(21,368)	4,913
Group activities	-	(9,015)	33,076	-	(3,264)	30,521
	7,580	(12,765)	42,969	4,821	(29,462)	41,147

The segmental analysis follows the business lines described in the Chairman's Statement on pages 1-2. Stockbroking refers to Private Client Stockbroking and Fund Management.

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 built up in the Company prior to the merger with Christows Group Limited and acquisition of Evolution Capital Limited (now renamed Capital Exchange Limited).

Group activities refers 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.

10. EQUITY SHARES

	2001 £'000	2000 £'000
Group and Company		
Equity shares	64	–

The effect of the departure from the Companies Act 1985, as described in note 1 to the financial statements is to decrease profit before taxation by £14,000 (2000: £nil) and decrease the value of equity shares by £14,000 (2000: £nil).

11. TANGIBLE FIXED ASSETS**(i) Group**

	Motor vehicles £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost					
At 1 January 2001	63	177	198	582	1,020
Additions	–	122	84	552	758
Acquisitions	–	–	53	48	101
Disposals	(63)	(8)	(4)	(103)	(178)
At 31 December 2001	–	291	331	1,079	1,701
Depreciation					
At 1 January 2001	32	43	92	219	386
Charge for the year	5	61	50	251	367
Acquisitions	–	–	10	6	16
Disposals	(37)	(3)	(2)	(42)	(84)
At 31 December 2001	–	101	150	434	685
Net book values					
At 31 December 2001	–	190	181	645	1,016
At 1 January 2001	31	134	106	363	634

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

11. TANGIBLE FIXED ASSETS (continued)

(ii) Company

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2001	9	60	69
Additions	–	24	24
Intra group transfer	(9)	(84)	(93)
At 31 December 2001	–	–	–
Depreciation			
At 1 January 2001	3	20	23
Charge for the year	3	22	25
Intra group transfer	(6)	(42)	(48)
At 31 December 2001	–	–	–
Net book values			
At 31 December 2001	–	–	–
At 1 January 2001	6	40	46

The Company's fixed assets were transferred to a service company within the Group at 30 November 2001 at net book value.

12. FIXED ASSET INVESTMENTS

(i) Group

	Listed investments £'000	Unlisted investments £'000	Total £'000
Cost			
At 1 January 2001	2,426	26,327	28,753
Additions	8,024	6,178	14,202
Disposals	(9,118)	(10,763)	(19,881)
At 31 December 2001	1,332	21,742	23,074
Provisions			
At 1 January 2001	868	22,972	23,840
Charge for the year	354	4,385	4,739
Disposals	(868)	(9,401)	(10,269)
At 31 December 2001	354	17,956	18,310
Net book values			
At 31 December 2001	978	3,786	4,764
At 1 January 2001	1,558	3,355	4,913

The aggregate market value at 31 December 2001 of listed investments was £1,324,000 (2000: £3,189,000).

(ii) Company

	Listed investments £'000	Unlisted investments £'000	Total £'000
Cost			
At 1 January 2001	1,467	26,139	27,606
Additions	7,889	5,523	13,412
Disposals	(9,016)	(10,763)	(19,779)
Intra Group transfers	(340)	(20,899)	(21,239)
At 31 December 2001	-	-	-
Provisions			
At 1 January 2001	868	22,972	23,840
Charge for the year	354	4,385	4,739
Disposals	(868)	(9,401)	(10,269)
Intra Group transfers	(354)	(17,956)	(18,310)
At 31 December 2001	-	-	-
Net book values			
At 31 December 2001	-	-	-
At 1 January 2001	599	3,167	3,766

The aggregate market value at 31 December 2001 of listed investments was £nil (2000: £1,349,000). The Company's fixed asset investments were transferred to another group company at 31 December 2001 at net book value.

(iii) 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 ⁽ⁱ⁾ '000	Profit before tax year ended 31 December 2001 ⁽ⁱ⁾ '000
NTera Limited	Ireland	Ordinary shares	3.1	€4,559	€(6,464)
		Preferred ordinary shares	22.0		
Equology (Holdings) Limited	UK	Ordinary shares	19.4	£217	£(970)
		Preferred ordinary shares	4.8		
4HighTech.com Inc	USA	Common stock	40	US\$385	US\$(495)

⁽ⁱ⁾Unaudited management information for 12 months to 31 December 2001.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

13. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£'000
Cost	
At 1 January 2001	4,269
Additions	13,777
Disposals	(36)
Transfers from Group undertakings	10,401
At 31 December 2001	28,411
Provisions	
At 1 January 2001	–
Impairment	8,605
At 31 December 2001	8,605
Net book value	
At 31 December 2001	19,806
At 1 January 2001	4,269

Additions

Following the merger of Christows Group Limited and the Company in November 2000 certain options issued by Christows Group Limited remained outstanding. The Company agreed under contract with the option holder to purchase the shares on exercise at a fixed price of £5.69 per share, the terms offered to Christows Group shareholders at the time of the merger. On 26 March 2001 the remaining options were exercised and 273,274 shares were purchased in exchange for 2,682,730 ordinary 1p shares in the Company. This transaction completed the merger of the two companies. The share issue has been accounted for consistently with the merger accounting adopted in November 2000.

On 29 March 2001 the Company acquired Evolution Capital Limited (now renamed Capital Exchange Limited) for a total consideration of £10,222,000. For details on the acquisition refer to note 26.

Evolution Capital Limited issued to the Company 1,000,000 £1 ordinary shares at par on 28 June 2001 and issued a further 1,000,000 ordinary shares at par on 15 November 2001.

Disposals

On 31 December 2001 36,000 ordinary £1 shares in Christows Capital Limited were disposed for a total consideration of £36,000. For details on the disposal refer to note 4.

Transfers from Group undertakings

Investments in subsidiaries held by other group companies were transferred to the Company on 30 November 2001.

An impairment review of the value of investment in Evolution Capital Limited (now renamed Capital Exchange Limited) was carried out at the year end. The Directors consider that the carrying value of the investment was impaired and hence have written it down to its net asset value.

14. DEBTORS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Amounts falling due within one year:				
Trade debtors	434	724	–	–
Amounts owed by Group undertakings	–	–	4,842	–
Other debtors	2,854	573	2,244	200
Corporation tax recoverable	50	–	27	–
Prepayments and accrued income	645	489	111	36
	3,983	1,786	7,224	236
Amounts falling due after more than one year:				
Subordinated loan to Evolution Capital Limited	–	–	1,500	–
	3,983	1,786	8,724	236

Terms of subordinated loan

The Company has acknowledged that all claims on Evolution Capital Limited will be met prior to repayment of all or part of the subordinated loan. The loan is repayable in three instalments on the dates which fall 36, 48 and 59 months after the date of the agreement, 14 November 2001. Interest is payable at 4% per annum.

15. CREDITORS: amounts falling due within one year

	Group		Company	
	2001 £'000	2000 (Restated) £'000	2001 £'000	2000 (Restated) £'000
Trade creditors	641	596	–	165
Amounts due to Group undertakings	–	–	14,393	68
Taxation payable	277	703	256	278
Other taxation and social security	653	471	161	338
Other creditors	297	830	126	32
Accruals	545	942	44	477
Amounts due under finance leases and hire purchase contracts	–	27	–	–
	2,413	3,569	14,980	1,358

16. PROVISIONS FOR LIABILITIES AND CHARGES

	£'000
As at 1 January 2001	–
Charge for the year	414
As at 31 December 2001	414

Amounts have been provided in respect of various pending litigation against Christows Asset Management Limited and Christows Limited, both subsidiary companies of The Evolution Group Plc. The companies have sought legal advice and will continue to vigorously defend themselves against these claims. The amounts provided represent anticipated costs which the directors believe may be incurred in resolving these various legal matters.

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

17. SHARE CAPITAL

	2001 £'000	2000 £'000
Company		
Authorised:		
1,300,000,000 ordinary shares of 1p each	–	13,000
130,000,000 ordinary shares of 1p each	1,300	–
130,000,000 deferred shares of 9p each	11,700	–
	13,000	13,000
Allotted, issued and fully paid:		
774,240,588 ordinary shares of 1p each	–	7,742
118,222,439 ordinary shares of 1p each	1,182	–
77,454,058 deferred shares of 9p each	6,971	–
	8,153	7,742

Share Capital Reorganisation

A reorganisation of the share capital of the Company occurred 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 1p and 2.5p warrants were adjusted whereby one Adjusted warrant of 1p and 2.5p was issued for 10 previously held, and the holder could subscribe for one ordinary share at 1p and 2.5p respectively.

The terms of the Further Subscription Rights were adjusted so that, for every 10 Further Subscription Rights previously held, one Adjusted Further Subscription Right was issued whereby the holder had the right to subscribe for one ordinary share at 17.16p per share and four ordinary shares at 2.5p per share.

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.

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

- (a) 300,000 on 9 January 2001 following the exercise of 300,000 2.5p warrants (following the share capital reorganisation referred to above these shares became 30,000 ordinary shares and 30,000 deferred shares).
- (b) 2,682,730 on 26 March 2001 following the offers for Christows Group Limited.
- (c) 17,451,757 on 29 March 2001 following the acquisition of shares in Evolution Capital Limited.
- (d) 3,588,937 on 2 April 2001 following the exercise of 3,588,937 Adjusted 2.5p Warrants.
- (e) 12,153,156 on 11 April 2001 following the exercise of 513,156 Adjusted 2.5p Warrants, 4,000,000 Adjusted 1p Warrants and 7,640,000 on exercise of 1,528,000 Adjusted Further Subscription Rights.
- (f) 1,428,767 on 7 June 2001 following exercise of the same number of options.
- (g) 128,779 on 19 June 2001 following exercise of the same number of options under the 2000 Executive Share Option Scheme (Unapproved).
- (h) 712,890 on 27 June 2001 following exercise of the same number of options under the 2000 Executive Share Option Scheme (Unapproved).

- (i) 91,985 on 3 August 2001 following exercise of the same number of options under the 2000 Executive Share Option Scheme (Unapproved).
- (j) 150,000 on 3 August 2001 following exercise of 150,000 options.
- (k) 600,000 on 5 October 2001 following exercise of the same number of options.
- (l) 1,429,839 on 7 December 2001 following exercise of the same number of options.
- (m) 349,541 on 20 December 2001 following exercise of the same number of options under the 2000 Executive Share Option Scheme (Unapproved).

As at 31 December 2001 there were also the following options in issue:

Alex Snow and a former employee were granted by the Company, on 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. After the share capital reorganisation of 26 March 2001 these were adjusted to be options to subscribe for up to 500,000 and 300,000 shares respectively at 25p per share.

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, subject to the rights of the deferred shares.

Deferred Shares of 9p

The holder of each deferred share has no right to vote. In addition the holders have no right to receive dividends, however on a return of capital they do have the right to receive the nominal values of the shares once the holders of ordinary shares have each received £1,000,000 per ordinary share, but not to participate thereafter.

18. SHARE PREMIUM ACCOUNT

	£'000
<hr/>	
Company	
At 1 January 2001	54,271
Issues of ordinary share capital (net of issue costs)	11,879
<hr/>	
At 31 December 2001	66,150
<hr/>	

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

19. RESERVES

	Merger reserve £'000	Profit and loss account £'000
Group		
At 1 January 2001 as previously stated	6,031	(27,237)
Prior year adjustment	–	340
At 1 January 2001 as restated	6,031	(26,897)
Loss for the financial year	–	(10,510)
Share options	–	40
At 31 December 2001	6,031	(37,367)
Company		
At 1 January 2001 as previously stated	–	(23,667)
Prior year adjustment	–	340
At 1 January 2001 as restated	–	(23,327)
Loss for the financial year	–	(6,587)
Share options	–	40
At 31 December 2001	–	(29,874)

20. CONTINGENCIES

The Group was committed to invest a further £100,000 in one of its fixed asset investments at 31 December 2001.

21. CAPITAL COMMITMENTS

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

22. LEASE COMMITMENTS

The Group has operating lease commitments in respect of land and buildings of £257,000 (2000: £215,000) and of plant and machinery of £32,000 (2000: £79,000). The leases to which these amounts relate expire as follows:

	Plant and machinery		Land and buildings	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Within one year	5	47	–	25
Within two to five years	27	32	181	155
After five years	–	–	76	35
	32	79	257	215

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

	2001 £'000	2000 (Restated) £'000
Operating loss	(12,765)	(29,462)
Profit on sale of investments	(7,003)	(2,471)
Increase in equity shares	(64)	–
Increase in current asset investments	–	(12)
Loss/(profit) on disposal of fixed assets	92	(1)
Income from fixed asset investments	(31)	–
Depreciation of tangible fixed assets	367	156
Provisions against fixed asset investments	4,739	23,840
Provisions for share options	40	340
Impairment of intangible fixed assets	7,144	4,919
Increase in debtors	(1,862)	(2)
Increase in creditors	645	1,412
Net cash outflow from operating activities	(8,698)	(1,281)

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

	2001 £'000	2000 £'000
(Decrease)/increase in cash in the year	(1,402)	37,233
Change in net debt	27	(8)
Cash used to decrease liquid resources	–	(800)
Movement in net funds in the year	(1,375)	36,425
Net funds at the beginning of the year	37,344	919
Net funds at the end of the year	35,969	37,344

25. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2001 £'000	Cash flow £'000	31 December 2001 £'000
Cash at bank	37,371	(1,402)	35,969
Leases	(27)	27	–
	37,344	(1,375)	35,969

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

26. ACQUISITION OF SUBSIDIARIES

On 29 March 2001, the entire share capital of Evolution Capital Limited (now renamed Capital Exchange Limited), was acquired by the issue of 17,451,757 ordinary shares of 1p each, whose fair market value was 57.5p per share and a cash consideration paid of £187,226. The fair values of Evolution Capital Limited's identifiable assets and liabilities at the time of acquisition were as follows:

	£'000
Net assets acquired	
Tangible fixed assets	84
Fixed asset investments	494
Debtors	72
Cash at bank and in hand	2,523
Creditors	(95)
Net assets	3,078
Satisfied by:	
Shares allotted	10,035
Cash	187
Total consideration	10,222
Goodwill	7,144

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

From the date of acquisition to 31 December 2001 Evolution Capital Limited contributed £1,522,000 to the Group's loss before interest and £1,461,000 to its loss after interest.

An impairment review of the goodwill arising on the acquisition was carried out at the year end. The Directors believed that the carrying value of the goodwill was no longer viable and subsequently agreed to write off the full amount to the profit and loss account.

27. SALE OF GROUP UNDERTAKINGS DURING THE YEAR

	£'000
Net assets disposed of (cash)	36
Net profit on disposal	–
	36
Settled by net cash received	–

At the year end the proceeds of £36,000 remain outstanding.

For details of the sale of group undertakings see note 4.

28. MAJOR NON-CASH TRANSACTIONS

With the exception of shares issued as part of the consideration for the acquisition of Evolution Capital Limited (now renamed Capital Exchange Limited) and the additional issue of shares for the exchange for shares in Christows Group Limited (see note 13), there were no major non-cash transactions.

29. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Shareholders' funds at 1 January as previously stated	40,807	3,580	38,346	2,964
Prior year adjustment	340	–	340	–
Shareholders' funds at 1 January as restated	41,147	3,580	38,686	2,964
Loss for the financial year	(10,510)	(27,996)	(6,587)	(23,910)
Issues of ordinary share capital	12,290	59,193	12,290	59,292
Share options	40	340	40	340
Merger reserve	–	6,030	–	–
Net increase in shareholders' funds	1,820	37,567	5,743	35,722
Shareholders' funds at 31 December 2001	42,967	41,147	44,429	38,686

30. NON-EQUITY SHAREHOLDERS' FUNDS

	£'000
At 1 January 2001	–
Additions – deferred shares	6,971
At 31 December 2001	6,971

The non-equity shareholders' funds arose on the creation of 9p deferred shares during the share reorganisation at 26 March 2001. For further details refer to note 17.

31. 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 were as follows:

	2001 £'000	2000 £'000
On short term deposit	35,969	36,519
On current account	–	852
	35,969	37,371

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

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

The Group does not enter into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts.

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 fixed asset investments have not been disclosed as there is not a liquid and active market. Equity shares held for trading purposes are carried in the financial statements at fair value, as shown in note 10.

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

31. FINANCIAL INSTRUMENTS (continued)

Risk Management Objectives

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

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 Market Risk

Market risk primarily arises from the Group's equity propriety trading activities and it is managed by a limit structure and active involvement of senior management under the supervision of the Board of Directors.

Income, expenses, assets and liabilities are all denominated in sterling and accordingly the Group is not subject to currency exposures.

32. PRINCIPAL SUBSIDIARY UNDERTAKINGS

	Business	Percentage Owned	Country of Incorporation
Held directly by the Company			
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
Held by other group companies			
Christows Investments (Dublin) Ltd	Manager of open ended investment company	100	Ireland

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.

33. POST BALANCE SHEET EVENTS

On 28 January 2002 the Company acquired 7,051,510 ordinary shares of 1p each in Inter-Alliance Group PLC ("Inter-Alliance") for a consideration of £1,692,362 in cash, which gave it at that date a 14% interest in the ordinary share capital of Inter-Alliance. On the same date the Company entered into a £4,000,000 loan agreement with Inter-Alliance which was secured on a fixed and floating charge over certain properties and assets of Inter-Alliance. The loan was convertible to Inter-Alliance ordinary shares subject to an Extraordinary General Meeting ("EGM") approval.

On 3 April 2002 following the Inter-Alliance EGM the Company acquired a further 3,650,755 ordinary shares in Inter-Alliance as a result of taking up its rights in the open offer, and 1,785,126 shares in the placing. These shares were acquired for a combined consideration of £3,805,117 in cash. At the same time the Company converted its £4,000,000 loan into 5,714,285 Inter-Alliance shares. As a result of these transactions the Company has an interest of 22% in the enlarged ordinary share capital of Inter-Alliance.

In March 2002, the Company introduced a share incentive plan ("the Plan") which provides for employees, including executive directors, of the Group to receive shares in the Company for a nominal cost providing that they continue to remain in employment with the Group for a period of three years and satisfy the performance conditions determined by the Remuneration Committee. The Plan will be operated in conjunction with an employee benefit trust ("Employee Benefit Trust"), which has been established for this

purpose and to encourage the holding of shares by employees of the Group. The trustee of the Employee Benefit Trust is Evolution EBT Limited, a Jersey resident company with no connection with the Group (“the Trustee”). Awards of shares will be made by the Trustee upon the recommendation of the Remuneration Committee and the Plan will be operated by the Trustee. The maximum number of shares, which the Trustee may subscribe for under the Plan shall not exceed 10% of the Company’s issued share capital on that day. The Trustee may acquire shares in the Company by purchase or by subscription in order to satisfy entitlements under the Plan and the costs, save for the nominal exercise price which will be borne by the participant, will generally be borne by the Company or the relevant employing company. No awards have yet been made under the Plan.

On 15 April 2002 the Company and its subsidiaries, Christows Limited and Christows Asset Management (“CAM”) entered into a Termination Deed with Mr Michael Read. The terms of this deed were to purchase the 49% minority interest held by Mr Read in CAM for £1 and the cancellation of the put and call option agreement dated 1 February 2001 between the Company and Mr Read.

34. RELATED PARTY TRANSACTIONS

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

On 31 December 2001 the Company sold the entire share capital of £36,000, of Christows Capital Limited to a former director of Christows Capital Limited. The consideration received of £36,000 represented an arms length transaction upon the basis that it mitigated the need to incur costs of liquidating the legal entity. An additional contingent consideration of £8,000 is payable by the individuals upon the satisfactory acceptance by the regulators of this transfer of control.

During the year Blackbrook Estates invoiced the Group an amount of £26,500 for the provision of consultancy services provided by Oliver Vaughan. Oliver Vaughan is the owner of Blackbrook Estates and is also a director and shareholder of the Company.

During the year MAR Shopfitters carried out office refurbishment work for the Group. The total amount paid to MAR Shopfitters totalled £147,094. The proprietor of MAR Shopfitters is the husband of the director of a subsidiary, Lynn Russell. The transaction was carried out at an arms length price.

During the year Scheidegg Limited invoiced the Group £12,238 for the provision of management services. John Gunn, a director and shareholder of Scheidegg Limited, resigned as a director and shareholder of the Company on 15 May 2001.

35. EMPLOYEE SHARE SCHEMES

The Company has the following employee share schemes in place.

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 the grant or the nominal value of a share.

Performance criteria

The option exercise may be conditional upon the performance of the Company and /or the participant over such period and measured against such objective criteria as may be determined by the directors.

Notes to the Financial Statements (continued)

For the year ended 31 December 2001

35. EMPLOYEE SHARE SCHEMES (continued)

Exercise of options

An option may not be exercised later than the tenth anniversary after the grant. The earliest date of exercise is generally three years after the grant for Ordinary options and five years after the 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 2001 5,486,860 Ordinary options (2000: 1,729,331) and 2,368,332 Super options (2000: nil) were outstanding with exercise prices between 10p and 67p. The options can be exercised between 16 January 2001 and 30 June 2011.

2000 Executive share option scheme (Approved)

The terms of this scheme are exactly 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 grant) of £30,000 and that executive directors only (together with other employees) are eligible to participate in the scheme.

Options granted

At 31 December 2001 nil Ordinary options (2000: nil) and nil Super options (2000: nil) were outstanding.

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 Company and /or the participant over such period and measured against such objective criteria as may be determined by the directors. Until such time as the Directors determine otherwise the performance criteria is 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.

Exercise of options

An option may not be exercised later than the tenth anniversary after the grant. The earliest date of exercise is generally two years after the grant for Ordinary options and three years after the 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 2001 nil Ordinary options (2000: nil) and 4,128,319 Super options (2000: nil) were outstanding with exercise prices between 52p and 56p. The options can be exercised between 30 June 2004 and 7 August 2011.

Notice of Annual General Meeting

NOTICE is hereby given that the 2002 Annual General Meeting of the Company will be held at the City Media Centre, London Stock Exchange, London, EC2N 1HP on 29 May 2002 at 11 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 2001.
2. To re-elect Mr Richard Griffiths 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 Graeme Dell as a director who is offering himself for re-election in accordance with the Articles of Association of the Company.
4. To reappoint Messrs PricewaterhouseCoopers as auditors of the Company 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 Resolution 6 will be proposed as an ordinary resolution and Resolutions 5, 7 and 8 will be proposed as special resolutions:

5. THAT the authorised share capital be increased beyond its registered capital of £13,000,000 to £13,700,000 by the creation of 70,000,000 ordinary shares of 1p each in the capital of the Company ranking *pari passu* in all respects with the ordinary shares already in existence.
6. 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 £817,775.61 provided that this authority shall expire on the earlier of the conclusion of the annual general meeting of the Company to be held in 2003 and 29 August 2003 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.
7. 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 6 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 £98,781.73 in respect of the issue of options and the exercise of such options pursuant to the Company's 2000 Executive Share Option Scheme;
 - c. the allotment of equity securities up to an aggregate nominal amount of £8,000 upon the exercise of options granted by the Company; and

Notice of Annual General Meeting (continued)

- d. the allotment (other than pursuant to sub-paragraphs (a) to (c) above) of equity securities up to an aggregate nominal amount of £118,222.43 (representing 10 per cent of the nominal value of the issued share capital of the Company at 3 May 2002);

and shall expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2003 or on 29 August 2003 (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.

8. 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;
- (b) the general authority conferred by this resolution shall:
- (i) be limited to a maximum of 11,822,243 Ordinary Shares (representing 10 per cent of the issued share capital of the Company at 3 May 2002);
 - (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 earlier of the conclusion of the annual general meeting of the Company to be held in 2003 and 29 August 2003 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.

By Order of the Board

N. R. Gordon
Secretary

3 May 2002

Registered office
29–30 Cornhill
London
EC3V 3NF

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. A form of proxy is enclosed.
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, P.O. 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 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 3 May 2002 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.
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, 2002 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.

Directors and Advisors

Directors A.C.W. Snow (Chairman and Chief Executive)
R.I. Griffiths (Deputy Chairman)
G.J. Dell (Finance Director)
J.E. Chilcott (Director)
O.J. Vaughan (Non-Executive Director)

Company Secretary N.R. Gordon

Registered Office 29-30 Cornhill
London
EC3V 3NF

Auditors PricewaterhouseCoopers
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

Principal bankers National Westminster Bank Plc
City of London Office
1 Princes Street
London
EC2R 8PA

Registrars Melton Registrars Limited
Cresta House
Alma Street
Luton
Bedfordshire
LU1 2PU

Registered number 3359425



the evolution group plc

www.evolution-group.com