



the evolution group plc

INTERIM REPORT
for the 6 months ended 30 June 2002

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Chief Executive's Report

Key financial information

	6 months to 30 June 2002 £'000	6 months to 30 June 2001 £'000	% change
Group Turnover	5,117	3,586	43% increase
Gross Profit	4,232	2,981	42% increase
Administrative expenses	6,249	7,043	11% reduction
Operating loss before provisions against fixed asset investments	(2,012)	(3,105)	35% reduction

Review of the half year ended 30 June 2002

Investment Banking

The Evolution Group Plc's (the "Group") emerging investment banking business, Evolution Capital, has continued its planned growth during the first half. At its core is a rigorous research approach which has been very well recognised and received by our clients. The institutional sales business showed considerable month on month growth throughout the period measured both in number of clients and commission income. The research coverage was extended to cover a broader range of sectors. The overall loss reported in the interim results is primarily a result of the start-up costs associated with the building of Evolution Capital.

Private Client Stockbroking & Fund Management

Following on from the annual report, I am pleased to report that Christows, the Group's private client stockbroking and fund management business has continued to win new mandates and introduce new funds under management. Within Christows' range of products, the Private Portfolio Account product continues to prove extremely popular with the Independent Financial Adviser ("IFA") market, and our IFA sales team reported new sales for the half year up 34% on the same period last year. After a year of restructuring the funds, and a concentration on products paying fees based upon value of funds under management, Christows now has 75% of its total assets yielding fees in this manner. Within this category 84% of these funds are managed upon a fully discretionary basis. These revenue items, coupled with tight management of costs, have produced a profit in each month of the first half, which was an extremely encouraging result given the difficult market conditions.

Investment in Inter-Alliance

During the first half of the year, the Group has made a significant strategic investment in Inter-Alliance Group Plc ("IAL"). Following the successful refinancing in April 2002, IAL has continued to make strong progress, under Keith Carby the newly installed Chairman and CEO. This was demonstrated when IAL acquired the IFA business of HST Financial Plc, confirming its status as the UK's largest IFA. At the same time IAL raised £10 million of new capital from CGNU and Friends Provident, significantly strengthening its balance sheet. The total cash investment in IAL by the Group, before the costs of the transaction, was £9.6 million (representing 18.45 million shares). Your Board remains confident that this strategic investment adds significant value to the Group.

Investment Provisions

The worsening market sentiment toward private equity valuation has led us to examine the valuations on our remaining legacy portfolio. Upon this basis the Board has decided that it is prudent to take a further provision of £2.0 million against the private equity portfolio leaving a balance sheet value for the private equity portfolio of £3.9 million.

Chief Executive's Report (continued)

Merger with Beeson Gregory Group Plc ("BGG")

Timing and terms: Following the initial announcement of the proposed deal on 30 May 2002 (an all share offer of 1.77 Group shares for each BGG share), the formal offer was made on 13 June 2002. The transaction was completed when it was declared unconditional on 11 July 2002 having been resoundingly approved by shareholders of both companies.

Accounting for the transaction: In accordance with the United Kingdom accounting standards the transaction was accounted for using acquisition accounting from 11 July 2002. Accordingly the first period in which BGG will be consolidated is the 6 months to 31 December 2002. A fair value exercise has been undertaken to ensure that all accounting policies and valuation bases of the combined group are in line. The principal material revaluation was to the BGG investment portfolio where a further amount of £6.9 million was provided, reducing its balance sheet value to £0.9 million.

Integration: The principal business of BGG is investment banking and we began the integration of this business with Evolution Capital, the Group's investment banking business, immediately following the completion of the transaction. The two businesses have now been integrated, well ahead of schedule, and rebranded as Evolution Beeson Gregory representing the strengths and origins of the two parts. The integration process has resulted in significant cost savings across the combined business. These savings have been extracted from several areas including executive management, front office and support staff reduction and other duplicate overheads. The total savings amounted to a 30% reduction in annualised headcount costs across investment banking and executive management.

Outlook

Within Evolution Beeson Gregory, the combined investment banking franchise, activity levels have increased significantly since the integration and the new brand is leveraging the strengths of both companies in generating revenue. Your management team recognises the need for significant focus on managing costs and will continue to reduce these further.

Christows has continued to operate profitably for each calendar month in 2002 and, with this robust platform, the executive team will begin to expand our private client and fund management franchise over the course of the year.

IP2IPO, the Group's Intellectual Property subsidiary, which has long term partnerships with Oxford University's chemistry department and the University of Southampton, has had a productive first half. IP2IPO has now successfully spun out 5 companies, in sectors ranging from groundbreaking life sciences and biotechnology to industrial applications within the oil and gas industry. The continued rate of progress is expected to be sustained, and the fundamental nature of the technology and applications are attracting international financing. The Group now owns approximately 85% of the issued share capital of IP2IPO and is committed to developing the value that is being created within these two leading institutions.

The Evolution Group has developed significantly over the course of 2002. The executive management team believes that the cost base appropriately reflects the stage of the market cycle. The current performance of all our subsidiaries, combined with the strength of the Group's balance sheet, gives your Board increasing confidence for the second half of the year.

A C W Snow
Chief Executive Officer

16 September 2002

Consolidated Profit and Loss Account

	Unaudited six months to 30 June 2002 £'000	Unaudited six months to 30 June 2001 (Restated) £'000	Audited 31 December 2001 £'000
Turnover	5,117	3,586	7,580
Commissions payable (Note 2)	(885)	(605)	(1,386)
Gross Profit	4,232	2,981	6,194
Administrative expenses (Note 2)	(6,249)	(7,043)	(21,254)
Other operating income	5	–	31
Profit on sale of fixed asset investments	–	957	7,003
Provision against fixed asset investments	(1,987)	–	(4,739)
Operating loss	(3,999)	(3,105)	(12,765)
Interest receivable and similar income	644	1,056	1,896
Interest payable and similar charges	(11)	–	(9)
Loss on ordinary activities before taxation	(3,366)	(2,049)	(10,878)
Tax on loss on ordinary activities	(26)	(32)	369
Loss on ordinary activities after taxation	(3,392)	(2,081)	(10,509)
Minority interest	–	31	(1)
Loss for the period attributable to the members of The Evolution Group Plc	(3,392)	(2,050)	(10,510)
Basic loss per ordinary share	(2.91)	(1.77)	(9.92)

Consolidated Balance Sheet

	Unaudited 30 June 2002 £'000	Unaudited 30 June 2001 £'000	Audited 31 December 2001 £'000
Fixed assets			
Intangible	–	6,787	–
Tangible assets	901	964	1,016
Investments	14,568	7,525	4,764
	15,469	15,276	5,780
Current assets			
Debtors	4,256	2,279	3,983
Equity shares	–	–	64
Cash at bank and in hand	22,887	36,422	35,969
	27,143	38,701	40,016
Creditors: Amounts falling due within one year	(2,966)	(3,024)	(2,413)
Net current assets	24,177	35,677	37,603
Total assets less current liabilities	39,646	50,953	43,383
Provisions for liabilities and charges	–	–	(414)
Net assets	39,646	50,953	42,969
Capital and Reserves			
Called up share capital	8,157	8,127	8,153
Share premium account	66,150	66,108	66,150
Merger reserve	6,031	6,031	6,031
Profit and loss account	(40,692)	(29,291)	(37,367)
Total shareholders' funds	39,646	50,983	42,967
Shareholders' funds – Equity	32,675	44,012	35,996
Shareholders' funds – Non-equity	6,971	6,971	6,971
Minority interests	–	(30)	2
Minority interests & shareholders' funds	39,646	50,953	42,969

Consolidated Cashflow Statement

	£'000	Unaudited six months to 30 June 2002 £'000	£'000	Unaudited six months to 30 June 2001 £'000
Net cash outflow from operating activities		(1,722)		(4,123)
Returns on investments and servicing of finance				
Interest received	587		1,044	
Interest paid	(11)		–	
Income from fixed asset investments	5		–	
Net cash inflow from returns on investments and servicing of finance		581		1,044
Taxation				
Corporation tax		(269)		(51)
Capital expenditure and financial investment				
Sale of tangible fixed assets	–		1	
Purchase of tangible fixed assets	(139)		(326)	
Purchase of fixed asset investments	(11,791)		(3,495)	
Sale of fixed asset investments	223		2,276	
Net cash outflow from capital expenditure and financial investments		(11,707)		(1,544)
Acquisitions and disposals				
Disposal of subsidiaries	36		–	
Purchase of subsidiaries	–		(187)	
Net cash acquired with subsidiaries	–		2,524	
Cash outflow before management of liquid resources and financing		(13,081)		(2,337)
Financing				
Issues of ordinary share capital	–		1,437	
Expenses of share issue	–		(31)	
Lease repayments	–		(18)	
Net cash inflow from financing		–		1,388
Decrease in cash in the year		(13,081)		(949)

Notes to the Interim Report

1. There has been no change in accounting policies since the last annual report, as at 31 December 2001.
2. The profit and loss account items for commissions payable and administrative expenses for the period ending 30 June 2001 have been adjusted to reflect the reclassification of direct dealing expenses of £594,000 from commissions paid to administrative expenses. This adjustment was to ensure consistency with the last annual report.
3. The results are unaudited and have not been reviewed by the auditors.
4. The interim report was approved by the directors on 16 September 2002.
5. Copies of this interim report will be available for a period of one month from today's date at the registered office address: The Registry, Royal Mint Court, London EC3N 4LB.



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www.evolution-group.com