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Interim Report

for the 6 months ended 30 June 2004



the evolution group plc

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Chairman's Statement

▶ Group operating income increased by 126%

▶ Group profit before tax of £37.1 million

▶ Earnings per share increased to 13.6p

▶ Interim dividend of 0.17p per share declared

▶ The Board is confident of further success in 2004

During the first half of 2004, The Evolution Group Plc ("Evolution" or the "Group") has traded strongly and I am pleased to report operating income has increased 126% to £31.4m (2003: £13.9m) and profit before tax has increased by £38.7m to £37.1m giving the Group a basic earnings per share figure of 13.6p (2003: Loss 0.6p).

Investment Banking

Within Evolution Beeson Gregory, the Group's investment banking business, there has been continued growth from the corporate broking, equity research and distribution and trading divisions.

Corporate broking

Our corporate broking track record for the first half of 2004 has continued to progress strongly. During the period we advised on 19 fundraising transactions raising £239m for our clients. In July and August 2004 we have raised a further £131m from 10 transactions. The total of £370m raised in the eight months to August already significantly exceeds the total funds raised in the 12 months to 31 December 2003 of £271m.

Equity research and distribution

The primary fundraisings outlined above from our corporate activities have been successfully placed with institutional investors demonstrating the strength of our team and their placing power in a difficult and highly competitive market. In addition, our secondary sales commission growth has continued in 2004.

Equity research has made further progress, increasing coverage from 191 stocks at 31 December 2003 to 208 stocks by 30 June 2004. The breadth and quality of the coverage in this area has been recognised through improved institutional rankings for our research analysts.

Trading

Market making and trading activities have had a very profitable first half as we have continued to build this business. Our voice and electronic trading volumes have increased as we cover more stocks and gain connectivity to a greater range of intermediaries.

Chairman's Statement

Private Client Stockbroking & Fund Management

Christows, the Group's private client fund management business, has seen results that build on the progress reported at the year end with a further increase in funds under management and resulting revenue growth.

Total income has increased in line with our growth plans and the operating profit of this business in the first half of 2004 is in excess of the full year in 2003. Our sales team continues to attract more funds under management and this has been a record half year. At 30 June 2004, total funds under management were £588m, up from £356m at the same time last year, an increase of 65%. Strategic funds under management, on which we receive recurring fees have continued to grow and now represent 84% or £493m of this total (2003: 81% or £288m). This is further evidence of the trend in continued growth in sales from our sales team over the last three years.

IP2IPO

During the period, the Group announced the disposal of 9,000,000 shares in IP2IPO Group Plc for gross proceeds of £40.5m in cash, which realised a profit for the Group, after taking into account related expenses of sale, of £22.3m.

This transaction realised significant value for Evolution's shareholders. In reducing the Group's interest in IP2IPO from 40.61% to 18.46%, this transaction has resulted in IP2IPO becoming treated as an investment by Evolution rather than as an associated undertaking in the Group's consolidated balance sheet.

Other items

As previously reported the Group has continued to exit from its legacy investment portfolio. The Group has realised £5.1m in profits from the sale of some of these legacy investments in the 6 months to 30 June 2004.

Board and advisory changes

On 13 July 2004 the Board announced the appointment of Lord MacLaurin of Knebworth, DL as Non-executive director of the Group. We look forward to working closely with him as the business grows in the future. At the same time Sir Malcolm Field and George Loudon announced their resignations from the Board. We are very grateful for their contributions in the two years since the acquisition of the Beeson Gregory Group.

Following these Board changes: Nicholas Irens has been appointed Chairman of the Audit Committee; Oliver Vaughan has been appointed Chairman of the Remuneration Committee; and Lord MacLaurin the Senior Non-executive director. All Non-executive directors will serve on all committees and are considered independent of management for the purposes of the Revised Combined Code on Corporate Governance.

On 21 June 2004 the Board appointed Credit Suisse First Boston as sole financial advisor and broker to the Group.

Dividend

The Board declares an interim dividend of 0.17p per share (2003: Nil). This reflects the Board's continued commitment to a progressive dividend policy as set out in the 2003 Annual Report. This is payable on 3 November 2004 to shareholders on the register at 24 September 2004.

Employees

All of our businesses are people businesses, where our most important assets are our people. I should like to reiterate my thanks to everyone for all of their efforts as we move towards the achievement of our strategic goals.

Outlook

Following an excellent start to the year, the Board remains confident of the future prospects for the Group.

Richard Griffiths Chairman
6 September 2004

Independent review report to The Evolution Group Plc

Introduction

We have been instructed by the Group to review the consolidated financial information, which comprises the profit and loss account, balance sheet and cash flow statement, and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

The maintenance and integrity of The Evolution Group Plc's 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 interim report since it was initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Group for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

PricewaterhouseCoopers LLP

Chartered Accountants
London, United Kingdom
6 September 2004

Consolidated Profit and Loss Account

	Unaudited six months to 30 June 2004 £'000	Unaudited six months to 30 June 2003 (Restated) £'000	Audited twelve months to 31 December 2003 £'000
Operating income	31,374	13,875	40,751
Commissions payable	(1,727)	(754)	(2,656)
Gross profit	29,647	13,121	38,095
Administrative expenses	(21,576)	(10,352)	(32,720)
Profit on sale of fixed asset investments	452	1,301	2,379
Profit on sale of current asset investments	4,681	–	99
Provision against fixed asset investments	–	(6,163)	(6,114)
Group operating profit / (loss)	13,204	(2,093)	1,739
Share of associated undertaking's operating profit/(loss)	184	–	(186)
Total operating profit / (loss)	13,388	(2,093)	1,553
Profit on part sale of subsidiaries	54	–	15,085
Profit on disposal of associate	22,292	–	–
Interest receivable and similar income	1,148	542	1,156
Share of associated undertaking's interest receivable	252	–	126
Interest payable and similar charges	(13)	(2)	(21)
Profit / (loss) on ordinary activities before taxation	37,121	(1,553)	17,899
Tax on profit / (loss) on ordinary activities	(3,273)	(2)	(1,851)
Profit / (loss) on ordinary activities after taxation	33,848	(1,555)	16,048
Minority interests – Equity	65	41	146
Profit / (loss) for the financial period	33,913	(1,514)	16,194
Dividends paid and declared: Interim - 0.17p per share (2003: Interim- Nil; Final - 0.25p per share)	(422)	–	(616)
Retained profit / (loss) for the financial year	33,491	(1,514)	15,578
Basic earnings / (loss) per ordinary share (pence)	13.6	(0.6)	6.7
Diluted earnings per share (pence)	12.5	–	6.3

Consolidated Balance Sheet

	Unaudited 30 June 2004 £'000	Unaudited 30 June 2003 (Restated) £'000	Audited 31 December 2003 (Restated) £'000
Fixed assets			
Intangible assets	8,748	11,140	8,990
Investment in associated undertakings	–	–	25,525
Tangible assets	1,375	719	1,509
Investments	12,640	22,594	851
	22,763	34,453	36,875
Current assets			
Debtors	36,695	44,119	28,171
Long trading positions	17,420	7,575	7,207
Investments	136	77	444
Cash at bank and in hand	89,576	31,259	53,705
	143,827	83,030	89,527
Creditors: Amounts falling due within one year	(39,283)	(38,723)	(34,734)
Net current assets	104,544	44,307	54,793
Total assets less current liabilities	127,307	78,760	91,668
Provisions for liabilities and charges	(529)	(196)	(227)
Net assets	126,778	78,564	91,441
Capital and Reserves			
Called up share capital	2,485	2,454	2,478
Shares to be issued	–	254	–
Share premium account	26,002	24,831	25,739
Merger reserve	51,230	57,261	57,261
Profit and loss account	47,145	(13,957)	5,996
Total shareholders' funds	126,862	70,843	91,474
Shareholders' funds – Equity	126,862	70,843	91,474
Minority interests – Equity	(84)	7,721	(33)
Minority interests & shareholders' funds	126,778	78,564	91,441

Graeme Dell Finance Director
Alex Snow Chief Executive Officer

Consolidated Cash Flow Statement

	£'000	Unaudited six months to 30 June 2004 £'000	£'000	Unaudited six months to 30 June 2003 £'000
Net cash outflow from operating activities		(9,023)		(5,658)
Returns on investments and servicing of finance				
Interest received	1,148		712	
Interest paid	(13)		(2)	
Income from fixed asset investments	20		-	
Net cash inflow from returns on investments and servicing of finance		1,155		710
Taxation				
Corporation tax (paid) / received		(870)		276
Capital expenditure and financial investments				
Purchase of tangible fixed assets	(253)		(126)	
Purchase of investments	-		(1,483)	
Sale of investments	5,445		199	
Net cash inflow / (outflow) from capital expenditure and financial investments		5,192		(1,410)
Acquisitions and disposals				
Disposal of associate		39,690		-
Equity dividends paid		(618)		-
Cash inflow / (outflow) before financing		35,526		(6,082)
Financing				
Issues of ordinary share capital	270		5,578	
Issue of shares to minorities	75		-	
Expenses of share issue	-		(225)	
Net cash inflow from financing		345		5,353
Increase / (decrease) in cash in the period		35,871		(729)

Adjusted Operating Profit

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

	£'000	6 months to 30 June 2004 £'000	£'000	6 months to 30 June 2003 £'000
Operating profit / (loss)		13,388		(2,093)
Items not included within adjusted operating profit / (loss)				
Profit on sale of fixed asset investments	(452)		(1,301)	
Profit on sale of current asset investments	(4,681)		-	
Provision against fixed asset investments	-		6,163	
Adjustment for provisions and profits on investments		(5,133)		4,862
Non-recurring costs	-		323	
Non-recurring items		-		323
Amortisation	262		301	
Share of associated undertaking's operating profit	(184)		-	
Cost of options	1,725		102	
Non-cash items		1,803		403
Adjusted Group operating profit		10,058		3,495

Notes to the Financial statements

1. The interim accounts, which are unaudited, have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts for the year ended 31 December 2003, except with regard to accounting for The Evolution Group Plc equity shares held by the Share Incentive Trust.

2. A change in accounting policy arose from the adoption in 2004 of the Urgent Issues Task Force Abstract 38, 'Accounting for ESOP Trusts' ("UITF 38"). UITF 38 requires The Evolution Group Plc equity shares held in the Share Incentive Trust to be accounted for as a deduction in arriving at shareholders' funds, rather than as assets. The balance sheets for 30 June 2003 and 31 December 2003 have both been restated accordingly, and own shares and shareholders' funds have both been reduced by £492,000. The impact of UITF 38 on the 30 June 2003 and 31 December 2003 profit and loss account was immaterial, and the comparatives have not been restated.

The profit and loss account for the period ended 30 June 2003 has been restated to conform with the 31 December 2003 year end presentation.

3. The interim report was approved by the directors on 6 September 2004.

4. The financial information contained in this interim report does not constitute the Group's statutory accounts within the meaning of Section 240 of the Companies Act 1985 ("the Act"). The figures shown for the full year ended 31 December 2003 represent an abridged version of the audited financial statements of The Evolution Group Plc for that year, which contained an unqualified report under Section 235 of the Act and did not make any statements under Section 237 of the Act, have been delivered to the Registrar of Companies in accordance with Section 242 of the Act.

5. The interim report for the six months to 30 June 2004, including the independent review report by the auditors, will be mailed to the shareholders of the Group. Copies of this interim report will be available for a period of one month from today's date at the registered office address: 9th Floor, 100 Wood Street, London, EC2V 7AN.

